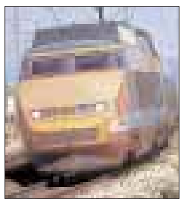

WRONG TRACK

Socialism keeps SNCF stuck in a siding *p22*

BARE CHEEK

The things they ask the world's richest career women to do *p56*

THE EUROPEAN

9-15 OCTOBER 1997 | No. 387 | France Ffr17.00 Germany DM4.50 UK 75p

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Crisis for European telephone companies

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Cover montage: Stefan Bayley. Photographs: Science Photo Library/FSP

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Isn't it
time
your company
kept
better company?

THE EUROPEAN
9-15 OCTOBER 1997 No. 387

Total control freaks

THE role of global policeman is not an enviable one; but nor is the role of global bully an admirable one, especially one who picks on his friends. It is high time some in the United States Congress learned the difference. It was unfortunate, but perhaps necessary, that it took the French oil company Total to kick the sand of the Iranian desert in President Bill Clinton's face to make that message clear.

As a rule of thumb, the free world – which, with no small thanks to American steadfastness, is much the larger part of our planet today – takes no pleasure in seeing Uncle Sam forced to eat humble pie. If it had not been for Marshall Aid there might still not have been enough pie of any variety to go around. But that does not mean that the White House chef still gets to dictate our diet. Yet humble pie is exactly what Washington has swallowed. When Total announced that it had signed a $2 billion deal to develop a natural offshore gas field in Iranian waters, there was a collective sharp intake of breath down at Foggy Bottom, home of the US State Department. They had seen it coming, and just preferred to look the other way.

The problem is that the 1996 Iran-Libya Sanctions Act, passed by Congress and endorsed by the Clinton administration, calls for punitive sanctions against any company which invests more than $40 million in either nation's energy sector in a single year. The argument is, quite simply, that America believes the governments in Tehran and Tripoli to be a source of funding for terrorists. Cutting off their cash flow, the reasoning goes, by extension cuts the supply of arms to the bad guys.

The European Union – with the individual countries that make it up – unreservedly supports American attempts to constrain those who provide support for terrorists. The global policeman has the right to ask for moral and even material support from the law-abiding citizens on his beat. But this is where the metaphor goes too far: the role of global policeman is a self-appointed one. It comes with superpower status. It does not, however, permit the assumption that one nation's domestic laws automatically apply internationally.

To request co-operation is one thing; to demand it with menace and threaten punitive action is something else altogether. It is an arrogance that amounts to insult, albeit unintended, and almost guarantees an antagonistic response. When France's Prime Minister, Lionel Jospin, remarked archly that American law did not, as far as he knew, apply in Paris, he was making the point that a French declaration of sovereignty was not something politicians in an allied democracy should need reminding of. The idea that the United States of America should impose sanctions against a foreign company for its operations in a third country is more likely to evoke anger rather than co-operation. Whatever the moral right of the matter, throwing one's economic weight around is not going to win friends. Nor, as Total, with the full backing of Mr Jospin and the European Commission in Brussels, has proved, is it going to influence people.

The Americans should have got the message in April when they nearly sparked a similar transatlantic trade war by attempting to ban European firms from investing in Cuba. The US might not like Fidel Castro's moribund regime, though it is doubtful that a greater economic blockade would bring it to its knees more quickly, but that is not an excuse for Washington to make foreign policy for its allies without consulting them. The result, happily, was a victory for common sense: a six-month agreement to differ. It runs out on 15 October and European nations have let it be known that if the US continues to be obstinate, they will complain formally to the World Trade Organisation. American businessmen in Europe need not worry yet; for the foreseeable future they will still be able to enjoy one of the perks of working over here: the ability to buy Havana cigars and smuggle them back home.

To request co-operation is one thing; to demand it with menace is another

The Iranian affair has already shown that the answer lies in a healthy dose of pragmatism in the White House. Total has been "let off" the hook in exchange for the promise of more concerted action by European governments to discourage Iran from promoting terrorism. Whatever those vague terms mean – other than as a fig leaf for an American climbdown – they could almost certainly have been achieved simply by asking politely. Nobody in Europe has any sympathy for Iran's covert activities any more than they have pity for Mr Castro's corrupt banana republic, but they do not need or want their companies' international activities to be subject to the legislation of a foreign power, no matter how friendly.

Where will it stop? The US health lobby would like to see a global ban on the sale of cheese made from unpasteurised milk: the sort of legislation that would outlaw real Brie and Camembert and have us all eating the sort of rubbery wedges called "American cheese" that only Homer Simpson famously enjoys. Wise up, Washington. You can lay down laws for your own diet but trying to dictate policy, whether economic or culinary, to the rest of the world shows neither sense nor sensibility.

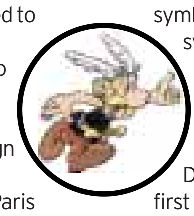
Speaking in Chicago at the dawn of this century, President Theodore Roosevelt laid down a sound guideline for his country's foreign policy even a century later with the advice: "Speak softly and carry a big stick." He might have added that waving it around all the time somewhat spoils the effect.

SEVEN DAYS

That was the week...

Bishop's move
Sweden saw the installation of the first woman bishop of the Lutheran Church, Christina Odenberg. Six months after being elected by Lund diocese, she was installed at Uppsala cathedral. Foreign church leaders were there, including Barbara Harris, the first woman to become an Episcopalian bishop in the US. Sweden's Catholic bishop, Hubertus Brandenburg, was conspicuously absent.

Astérix takes stock
The home village of Astérix (*pictured*), champion of the Gauls, decided to float on the stock exchange before the end of the month to raise money for the campaign against the Disney empire. More visitors, especially foreign ones, have been going to see Mickey Mouse at Disneyland Paris rather than Astérix, the true Gallic hero. On the Paris bourse, the Parc Astérix company will be looking for patriotic shareholders to buy into a national symbol and help build up a more sympathetic image of the Gauls. Death to the mice.



Travelling hopefully
Queen Elizabeth II and the Duke of Edinburgh began their first official foreign visit since the death of Diana, Princess of Wales, determined to show that they too are capable of making spontaneous gestures to win crowd sympathy. They arrived on a difficult mission to Pakistan, then on to India, to mark the 50th anniversary of those states' independence. There may be troubles ahead.

LIfe after debt
Russia and the London Club, the commercial creditor bank grouping, signed an important deal in Moscow to reschedule $24 billion of defaulted Soviet debt. Anatoly Chubais, the Russian finance minister, attended the signing ceremony in Moscow. Deutsche Bank, which chairs the London Club, said that the two sides had also agreed to reschedule $11bn of interest arrears over 20 years. Around $7bn of the interest is to be converted into bonds called global interest notes, to be registered in Luxembourg and traded separately from the defaulted debt.

ASSASSINATION ■ Bungled business in Jordan shows that murder is an ineffective tool

The lethal weapon that can backfire

RONALD PAYNE

ASSASSINATION is by no means as simple to carry out as it is made to look by film directors and thriller writers. They, of course, can ensure that the plot will go through to the brutal end with what is called – laughingly, to anyone who has seen service in the armed forces – military efficiency.

If proof is needed of the inefficacy of murder as a political and diplomatic tool, scan last week's drama in Amman, the capital of Jordan. This was attempted murder, Israeli-style.

In the smarter part of the town, two men of European appearance approached Khaled Meshal, who runs the political office of the Arab terror group, Hamas.

"Mr Meshal?" they said, anxious to identify correctly their victim. One reached into a plastic bag and took from it a device enabling him to squirt lethal poison into his ear. It was the kind of deadly secret service encounter entirely familiar to movie-goers who expect such plots always to succeed.

But the script of this real-life encounter using a technique as old as Hamlet's father went wrong. Meshal survived. A bodyguard pursued and caught the agents before they could switch cars and escape. Perhaps their hearts were not in it. Though bearing Canadian passports, they turned out to be officers of Mossad, the Israeli secret service whose title translates from Hebrew as 'The Institute'. The American equivalent, the CIA, is an agency, the Russians have state organs, and the British SIS is a service, but the Israeli one bears a title that gives it an aura of being an intellectual, rather donnish outfit. It was created, like modern Israel, 50 years ago, with a biblical text: 'By way of deception thou shalt make war.'

Mossad, once highly regarded in Europe as the daring and magically successful institute that seized evil Nazis such as Adolf Eichmann and brought them to justice, had suddenly themselves become the bad guys. And not for the first time. At Lillehammer in Norway they once blundered by killing a harmless Moroccan waiter they took to be a terrorist leader. All the laudable heroics of Mossad officers, who on a daring mission into Uganda freed the passengers of a hijacked Air France airliner in Entebbe, were suddenly forgotten.

Out went the order to kill a Hamas leader

By a strange quirk, orders for the Amman raid came from Israeli Prime Minister Benjamin Netanyahu, whose brother was shot dead in Entebbe. He was the only Israeli military casualty of the Entebbe raid. It was partly because of his relationship with the hero that the present prime minister's political career began. It helped to make him the armchair toughie that he is today. Netanyahu, in a political pickle and faced by his citizens angry at the heavy toll of Jewish life taken on the streets of Jerusalem by suicide bombers, was tempted into assassination. And out went the order to kill a Hamas leader.

It should never be forgotten that when secret services and special forces go in for political murder, the orders are always given by milder men who are the political leaders. Even Harold Wilson, an academic economist who became prime minister of Britain, once told astonished civil servants that it would be well to get rid of an African troublemaker.

In France somebody took such a command literally and Ben Barka, a dissident Moroccan leader, was seized in the Parisian streets of St Germain des Prés on the Left Bank and made to disappear. Such is the temptation of power. Even in the best-regulated democratic states of the European Union, dirty deeds – wet jobs, as the Soviets used to call them – may be ordered in moments of crisis.

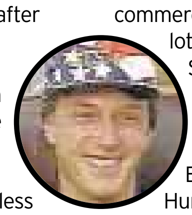
The English monarch Henry II set such a process in train by exclaiming: "Who will rid me of this turbulent priest?" As with Henry after the death of his victim, Thomas à Becket, those who send out the orders often regret the deed once it has been done.

No doubt the Israeli prime minister too would be happy to turn back the clock to the time before the poisoners went to work. For regardless of any higher minded questions of morality, what Israel has done is to launch the inexorable process of the law of unintended consequences.

To secure the return of the incompetent would-be murderers, Netanyahu has been compelled to bargain with Hamas and to free from exile the group's charismatic founding father, Sheikh Ahmed Yassin. The very people Netanyahu intended to hurt most have emerged in their cheering thousands more triumphalist than ever.

WINNERS

Michael Foale, the 40-year-old British-born astronaut (*pictured*), finally made it back to Earth after many adventures and dodgy moments aboard the wobbly Russian space station Mir. On his 145-day stay up there, the Cambridge-educated astrophysicist spent anxious hours in a drifting and powerless machine. The sight of the space shuttle Atlantis was more than welcome.



Mark Jeffries, a former British aerobatics champion who had the commercial good sense to buy up job lots of fighter planes from the Soviet air force as the cold peace broke out, is now selling them off at a handsome profit to east European defence forces. A Hungarian air force flying school managed by Europeans is taking delivery of six Yak-52s at £35,000 ($56,000) a go.

LOSERS

Amy Wesson, the supermodel, is being sued by her agency for $5 million for allegedly breaking her contract. They say that she became addicted to drugs, after complaints that she arrived late and irritable. Wouldn't anybody be, forced to dress in couture clothes?

Ray Burke, Irish foreign minister, resigned after finding himself at the eye of a political storm for the second time this year. Last month he tearfully defended himself over a controversial campaign donation he received in 1989. But when a new controversy blew up over Burke's role in giving 11 Irish passports to a Saudi banker, he bowed out.

Penny Armstrong (*pictured*), mistress of Paolo Gucci, was found guilty of causing suffering to 11 pure-bred Arab horses at Gucci's stud farm and banned from keeping horses for five years. She ran out of money.

MANUEL BARRIOPEDRO

Marriage lines: Spanish lancers of the royal household, fanions flying, form a guard of honour as Princess Cristina, the Infanta of Spain, emerges from the cathedral at Barcelona on the arm of her new husband, Iñaki Urdangarín

...what's to come

Czech Republic in the picture
Panasonic is preparing to open its first factory in central Europe. The Japanese electronics conglomerate is making a $68 million investment in the Czech Republic, the biggest capital injection there by a Japanese firm. The ultimate aim of this penetration is for Panasonic to seize a ten per cent share in the European market for television sets by 2000. Karel Kuhnl, the Czech trade and industry minister, said that Panasonic had been offered an attractive site.

Springtime in Paris
It may seem like autumn, but for the world of fashion it is time for the spring-summer fashion show in Paris, which will spare a moment or two to pay tribute to the late Gianni Versace, murdered last summer. Pierre Balmain plans to introduce his new star designer from Singapore, Andrew Gn, who is expected to be a real tonic in the rag trade. Jacques Fath launches his new artistic director from Russia, Elena Nazaroff. She has already attracted international followers such as Ivana Trump (*pictured*).

Southern discomfort
Trade and yet more of it will be the subject on President Bill Clinton's mind when he sets out on his first presidential visit to Latin America. Starting in Venezuela, he goes on to Brazil and Argentina. The visit was first scheduled for May, but had to be postponed because the president had a bad knee. Talks with political leaders are bound to concentrate on the proposed free trade of the Americas, which in principle should take effect by 2005. A lot of arguments need to be resolved before that happy day comes.

Labour pains
Labour ministers from the member countries of the Organisation for Economic Co-Operation and Development (OECD) arrive in Paris for serious talks. The main subject on the agenda is the Employment Outlook 97, published in July, which should give them all plenty to talk about and to think about. Uncertainty and preconceptions are words that loom large on the menu.

PRESS WATCH

SPAIN
El Mundo

THE days of wine and roses are finally over for Slobodan Milosevic, the president of Yugoslavia. Little by little, political life in Yugoslavia is becoming paralysed by an obvious lack of democracy. Milosevic now knows that his political survival depends on whether he can manage to rescue the country from economic disaster. And he can't do that without getting friendlier with the West.

FRANCE
Libération

THE United States is not an extension of Europe. Only when we understand this can we make sense of the events which took place last Saturday, when thousands of men marched through Washington to promise before God not to be unfaithful to their wives, to behave responsibly towards their children and to love their neighbours as themselves. They even undertook to repent of racial prejudice. Yet the paradise on earth that they promise is lost for ever.

ITALY
La Repubblica

THE possible choice by Boris Yeltsin to run for another mandate as president of Russia by sneaking around constitutional rules would be a bigger joke than his comparing himself with Peter the Great. Over the past few years Kremlin politicking has permitted the development of enormous economic powers, now fighting against each other. And the only person capable of managing the battlefield is Yeltsin.

GERMANY
Die Welt

WELL, the itchy seventh year since reunification is over. The marriage of German with German has been consummated and has shown itself to be a match for life – the doom-mongers have been confounded. The DDR is, if not forgotten, at least a thing of the past. Not even the diehards want to turn back the clock. The day of German unity can now be celebrated as a family festival.

AP/CBC

Cruise holidays go up in smoke

A SAD end to a holiday cruise as fireboat tenders hose down the hot superstructure of the burnt-out cruise liner *Romanica* off the southern coast of Cyprus as she starts moving slowly home to port. More than 600 holidaymakers were rescued from the 10,500-ton liner in an operation involving British helicopters from the island bases and a royal navy vessel.

After the ship caught fire while sailing towards Port Said in Egypt, passengers and crew were transferred to a second Cypriot ship, the *Princessa Victoria*, and carried to the port of Limassol, in southeast Cyprus. An inquiry has been ordered to discover what went wrong aboard the ship, built in Hamburg in 1939. Some Britons on board refused to go ashore until the cruise operators, New Paradise, guaranteed compensation for lost belongings and reimbursement of the full cost of their holidays.

WAR CRIMES ■ The former functionary was 'one of countless officials'

Papon trial puts Vichy in dock

ROMAN ROLLNICK

MAURICE PAPON, now a white-haired 87-year-old charged with war crimes during the Vichy regime in the 1940s, is still the very model of a haughty French *haut fonctionnaire*. He demonstrated this in his confident demeanour when he appeared in the glass booth of a Bordeaux court this week to answer charges of complicity in Nazi crimes against humanity. They arise from the part he played in the deportation of French Jews.

Speaking through his lawyer, the former Paris prefect of police declared that his trial was "a masquerade unworthy of a law-abiding state".

When judgment is finally passed, it will certainly reflect on how French people now feel about the way their countrymen behaved during the occupation. In many cases they collaborated with German occupation forces. Papon himself successfully rode the liberation tides and went on career-building. After 1945 he continued to ascend through the hierarchy. In the early 1960s he became prefect of Paris. He was praised for 'firm policing' in Paris, even in 1961 when an estimated 200 Algerian protesters were mysteriously drowned in the Seine during the Algerian independence war. Later he became budget minister under president Valéry Giscard d'Estaing. All went well until in 1981 the satirical weekly, *Le Canard Enchaîné*, began questioning his war record.

People feel that the case should go ahead

Papers before the court show that he held high office in Bordeaux from 1942-44 with the title of secretary-general in charge of "Jewish affairs" and responsibility for enforcing anti-Semitic legislation. This included identification of Jews, forcing them to wear the yellow Star of David, requisitioning their property, and controlling their movement. Ultimately it involved signing deportation orders of 1,690 Jews from Bordeaux on the first stage of their journey to Auschwitz.

Recent polls show that 72 per cent of people feel the trial should go ahead even though it forces the country to suffer memories of wartime collaboration. To the daily *Libération* he it represents the trial of "one of the countless officials, many of them showered with honours after the war" who were "middlemen between victims and tormentors".

Newspaper pictures show Papon with an array of French leaders, including General de Gaulle in 1944 after the liberation of Bordeaux when Papon began reinventing himself as a member of the Resistance. Papon's postwar honours included a Resistance medal, a military cross for bravery and the Légion d'Honneur.

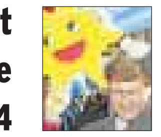
Papon, who sees himself as a "scapegoat", has fought a 16-year legal battle to avoid having to stand trial. In that time he enjoyed help from the late president François Mitterrand. Mitterrand acknowledged his help in 1994 when he explained that it was the Vichy government under Marshal Pétain, and not the French republic, which had been responsible for crimes against French citizens during the war.

Hearings are expected to last until December. Those being called as witnesses include Giscard d'Estaing, former prime minister Raymond Barre, survivors of his deportation orders and members of their families. It is only the third major war crimes trial to be held in France. On both occasions those on trial were found guilty as charged. Klaus Barbie, formerly Gestapo chief in Lyon, and Paul Touvier, a French a low-ranking right-wing militia leader, were both convicted and sentenced to life imprisonment. They remain in prison.

REV

COVER STORY

Leszek Balcerowicz, Poland's free market shock therapist, wants Poles to have another session on his couch – page 14



Italy in crisis. The fate of Romano Prodi's government is in the hands of Rifondazione Communista – page 17

TELECOMS ■ Europe's phone companies are an endangered species in an age of Internet telephony and a marauding American interloper

The party's over for the telecom monopolies

CLAIRE ATKINSON, PAULA HAWKINS AND NICHOLAS MOSS

EVERY seven year old knows the story. Sixty-five million years ago, a mighty cloud of dust kicked up by a meteorite caused a change in climate that wiped out dinosaurs, the greatest creatures on earth. Today, the world's mightiest corporate creatures are the telephone companies and their likeness to the huge, doomed reptiles is striking.

Like the dinosaurs, the telephone companies are primarily characterised by their enormous size and insatiable appetites. Like the dinosaurs, they are dim, their heads often only vaguely aware of their tails. Rapacious feeders, for a century or more the telephone companies have grown ever fatter and more complacent, grazing on hunting grounds where none could challenge them. And, just like the dinosaurs, they are suddenly looking extremely vulnerable to an extraordinary change in climate.

Even the *deus ex machina* is the same, except that the telephone companies are threatened not by a cloud of dust but by the blizzard of swirling digits within the cybernetic 'cloud' of the Internet. Can the telephone companies survive? The question would once have seemed impertinent, if not preposterous. No longer.

With a suddenness that is startling, telephone monopolies are melting down all over the world. In the United States, where the process is most advanced, the monopoly of the Bell System is already ancient history. Now, the pioneering competitors to the Bell System are themselves under pressure from an even leaner and meaner generation of competitors led by WorldCom, the upstart American telephone and Internet company that last week moved to snatch MCI from the jaws of British Telecom.

How formidable is WorldCom? According to those who track the company, WorldCom is the template of the telecommunications operator of tomorrow. George Gilder, a fellow at the Discovery Institute in Seattle, says the traditional telephone companies still enjoy $600 billion of global revenues and more than $1,000bn in capital assets but they are deploying "the wrong pieces, on the wrong board," much of their capital "incarcerated" in "million-tonne cages of copper wire".

The real game, says Gilder, is the Internet, where packet switching can handle voice as easily as it can handle data, and the right medium is fibre-optic cables, each bundle capable by itself of carrying all the world's communications traffic. These happen to be the areas where WorldCom excels.

Even if Gilder is only partially right, the dominant state-owned telephone monopolies in Europe are in big trouble. Belatedly, they are privatising, but remain overstaffed and complacent from many years of monopoly profits. It's a story of goodbye *Jurassic Park*, hello *Star Wars*.

"The dominant European operators are in a defensive retrenchment posture," says David Cantor, telecoms specialist at Weil, Gotshal & Manges in Brussels. "They are focused on protecting the home market while trying to build up a presence overseas, but their strategies are based on voice communication."

This is assuming that European telecommunications operators can be deemed to have a strategy at all. Even privatised, Europe's telephone giants remain cartelised and uncompetitive. Many are the press releases that issue from the companies about their plans to create grand global alliances but, in truth, these are merely consortia of the existing corporate behemoths. So opaque and illogical are their tariffs that it is not uncommon for them to charge more for a call of 40 kilometres than for one to the other side of the world. It is extraordinary but true that it costs more to telephone across the Channel from Dover to Calais than the many thousands of kilometres from the Outer Hebrides to Hawaii. No wonder customers are furious and looking for alternatives.

Derge Ayvazian, executive vice-president of the Yankee Group, thinks the WorldCom approach makes European telecommunications companies obsolete. "I don't think that this is an overstatement. WorldCom has redefined the telecoms business, from voice long-distance to Internet. They can aim at the largest companies in financial services and capture the traffic at the location."

What ought to be stunning the great monolithic European telephone monopolies is the sheer speed at which WorldCom is able to make decisions. Yet in the palatial headquarters offices of the big monopoly telephone companies, the overwhelming impression is of an almost surreal complacency. In Milan this week, at a road show to publicise the Italian government's sell-off of its final tranche of Telecom Italia, chief executive Tomaso Tommasi di Vignano was utterly complacent when asked what implications the WorldCom-MCI deal would have for his company.

"From January next year we will have the biggest US telecoms company as our partner and we should be able to face up to competition," he declared. But an alliance with AT&T, itself the most monolithic and least agile of the traditional American telephone companies, may not be as secure a guarantee for the future as Telecom Italia imagines.

Telecom Italia boasts of plans to invest two per cent of group turnover in the Internet for the next three years, yet, in the view of Italian analysts, this investment is unlikely to make it into a major Internet player.

Contrast this with the hard-charging environment at WorldCom, an upstart new-age telephone company. Formed only in 1983, it bought its way through the 1990s to become the fourth largest US long-distance carrier before merging in September 1996 with MFS Communications, placing itself firmly into the Internet business. It consolidated its Internet position last month with a deal to acquire the network assets of CompuServe and America Online. It is now by far the largest Internet access provider in the world.

WorldCom's guerrilla raid on MCI was one of the most remarkable in corporate history, not least because of suspicions that senior MCI executives were plotting behind BT's back to deliver their company to WorldCom, after having become disenchanted with their putative British owners. For years, BT had been engaging in a tortuous romantic courtship with MCI, the American long-distance company that had pioneered competition with AT&T and gone on to become emblematic of the new wave of brisk competitors that turned the American telephone industry inside out. Today, because of WorldCom, the relationship is in tatters. The story of how this happened is emblematic of the difficulty that the grand old companies of yesterday face in confronting the future.

PHOTOGRAPHS: PETER MULLER/JIM WINSLETT. MONTAGE: STEVE CAPLAN

Barbarian at the gate: MCI's Bert Roberts had cause to celebrate with BT's Iain Vallance and Peter Bonfield but then Bernard Ebbers burst in with his $30 billion offer for MCI

WorldCom's raid on MCI was one of the most remarkable in corporate history

BT, privatised 13 years ago by Margaret Thatcher, is in most respects the very model of a modern European telephone company. It had shed half its workforce, modernised its network, and learned to cope with competition in its domestic market (albeit the competition was limited by law to a single, feeble player for many years). But in trying to acquire MCI, BT showed itself firmly anchored to the old ways of thinking. BT's long love affair with MCI eventually became the centrepiece of the company's ambition to become a global player. Although there were sceptics, who pointed to BT's earlier costly failure to crack the North American telephone equipment market, and an ill-fated effort to break into US cellular telephony, the company was cheered on by analysts and tame journalists when, almost five years ago, it bought 20 per cent of MCI.

A year ago, when it announced its intention to buy the rest, for $24bn, BT's management was proudly boasting that the company was at last in the first division and the compliant British press was hailing it as having finally achieved the status of a world-class player. Naively, BT believed MCI would be the vehicle that would allow it into the US local telephone market, which had become MCI's new objective, after establishing itself as second only to AT&T in long distance. But as BT took its time completing the deal, with its endless regulatory complications, MCI's push to compete with the regional telephone companies was getting off to a poor start.

BT's long love affair with MCI eventually became the centrepiece of its ambition to become a global player

Earlier this year, MCI admitted it was losing money twice as fast on the local call business as it had forecast. BT was taken completely by surprise. In a panic, BT, under heavy pressure from its institutional investors, demanded a renegotiation of the price. MCI reluctantly trimmed $5bn. BT thought it had a done deal but hadn't reckoned on Bernard Ebbers.

Ebbers, a laid-back Canadian, is the chief executive of WorldCom, which is mounting its quest for world telecoms domination from the unlikely backwater of Jackson, Mississippi. Actually, not that unlikely: while most of the world's telecommunications operators headquarter themselves in high-rent districts, Ebbers plays an altogether leaner game. WorldCom is the leader in a new wave of telecoms companies and its boss, famous for wearing cowboy boots to the office in contrast to the crisp Savile Row tailoring of BT's top management, dispenses with much of the corporate paraphernalia that characterises the approach of his competitors. Wall Street's enchantment with his single-minded style has allowed him to embark on a relentless acquisition binge, in the process becoming the biggest Internet services company of them all.

Before fastening its jaws firmly around MCI, WorldCom already owned fibre optic networks in 86 American cities, had swallowed the network service businesses of both America Online and CompuServe, and controlled much of the packet-switched data networks that comprise the backbone of the Internet. Ebbers then stunned Wall Street by announcing a deal to acquire MCI for $30bn, from under the noses of the unfortunate Brits.

Once again, BT was taken entirely by surprise. As analysts called for the heads of Sir Peter Bonfield and Sir Iain Vallance, the hapless knighted businessmen who run BT, the British company's global strategy lay in ruins. The company that once spent millions advertising that it was "good to talk" was shell-shocked into silence. BT has yet to issue a definitive statement of its future intentions, although it has briefed friendly journalists that it has not entirely given up hope of finding some role for itself within the WorldCom-MCI axis.

With the reputations of BT's senior management in ruins, the temptation to *Schadenfreude* is great. But BT's European counterparts should restrain themselves from gloating. Having sharpened its teeth in the ruthlessly competitive North American market, WorldCom is heading for Europe.

The company already owns local fibre networks in London, Paris, Frankfurt, Brussels, Amsterdam and Stockholm; and the link between these local networks will be complete in the second quarter of next year.

By early 1999, WorldCom plans to complete a pan-German network, and then to link it to Zürich, Geneva, Turin and Milan. The jewel in its crown is Gemini, the world's most powerful undersea cable, which it is building in a joint venture with Cable & Wireless. Gemini has the capacity of every previous Atlantic undersea cable – combined.

Can the European telecommunication operators compete? This week, the European Commission issued yet another of its periodic warnings to Europe that it must start to confront the future.

Ironically, the EU has until now been part of the problem, not part of the solution. It has taken Brussels ten years to force through even modest telecoms market opening, against the fierce resistance of many of the member states. Even now, the Commission remains too influenced by the vested interests of the monopoly operators. Some of them are still lobbying desperately for the EU to ban Internet telephony altogether.

It is symptomatic of the mindset of the dirigiste bureaucrats of Brussels that they can even contemplate that such a move could be enforceable. Since the Internet is digital, the proposition that anyone can police the bits – and determine whether they are voice bits or data bits – is preposterous.

But the battle to influence Brussels is

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COVER STORY

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itself part of yesterday's game. The ability of the Commission or any national regulator to stop the onrush of technology is starting to look decidedly limited. As the Internet marches inexorably across the planet, the bell is ringing to signal that the monopolies are out of time.

This week, the French government announced an issue price for the France Telecom monolith, once the most intractable monopoly of them all, which stands on the eve of its first public share offering on 20 October. With almost 200,000 employees, probably double the number it really needs, France Telecom is a quintessentially bloated monopoly.

Days later, Telecom Italia is the next to the auction block, as the Italian government sheds the remainder of its 45 per cent stake, valued at L23,000 billion ($13.3bn). Deutsche Telekom, the mightiest telephone company in Europe, is also already partially floated, with more to come next year. Once, these were the sorts of shares that good brokers would recommend for widows and orphans: almost like bonds, they could be guaranteed to produce a steady if unexciting income, year in and year out.

Internet telephony is the most lethal threat of all to the telephone companies

HULTON DEUTSCH

Hello, Central ... put me through to Pennsylvania 6-5000

But widows and orphans may wish to consider carefully before sinking their trust funds into the privatising European operators. The question now presented is whether they are fit to compete, not only with each other but with the crowd of putative competitors, armed with new technology, that are heading their way.

Still, telecoms analysts in the City of London remain fairly complacent about the prospects for the privatised telephone companies. Andrea Kirkby, head of equity research at RZB, says that while the companies have a huge base of not very profitable business, they generate strong cash flow. She said: "But at the margins, telecoms have a very difficult job and this is going to be telling in the long run."

The question remains: how long a run? On 1 January 1998 Europe's biggest telephone markets will be opened formally to competition. The date is largely symbolic. Every market segment of the telephone operators is already under savage attack. In Europe's cities, fibre-optic rings are being frantically constructed by WorldCom and other upstarts such as Colt telecommunications, offering corporate customers a way to bypass the telephone companies altogether. This is a cream-skimming operation that is potentially deadly to the monopolies, since it attacks their richest corporate revenue streams. Residential customers, once reliable milch cows for the monopolists, are being targeted, too. Callback services which route international calls through private switches are offering a way to save half or more on their calls – a source of some of the richest margins of all for the telephone companies.

The final technical elements are now being put in place to allow voice telephony over the Internet. Over the next two to five years, this is the most lethal threat of all to the telephone companies. It will let anyone with a personal computer bypass the telephone company's lines altogether, except for the local call to their Internet service provider. At a stroke, every telephone call will cost the same as a local telephone call.

As if this were not enough, Northern Telecom of Canada and Britain's United Utilities have announced a technology that can send data over electricity wires at high speed. If this is marketable, it will destroy the phone companies' hegemony of the local loop at a stroke.

For the phone companies, all this adds up to the end of life as they have known it. There is so far little evidence that any of them have credible strategies to cope. Giant joint ventures such as BT's Concert (which may, ironically, fall apart, now that MCI looks like going off in a different direction) and the Global One venture of Deutsche Telekom and France Telecom look like little more than joint marketing arrangements, but dependent for their facilities on their parent companies.

The acquisition strategy pursued by BT has been even less impressive, so far. Having failed to buy MCI, there is talk that BT may try to buy Bell Atlantic, which controls most of the local telephone traffic on the US east coast. But that, too, could spell trouble. Bell Atlantic's area includes the troubled Nynex operation in New York, widely thought to be the worst local telephone operator in the US. Said one former Nynex customer last week: "If BT buys this company, they deserve what they get. We threw them out of the building. Their incompetence was unbelievable."

But a broader question now presents itself. In the dawning world of competitive European telecommunications, will the existing giant telephone companies be the predators or the prey? With their corporate customers in flight, and their margins under pressure, all of them are in desperate need of a route map to the future. So far, there is precious little evidence that any of them really knows in which direction they are pointing.

The advice from the new predator stalking the world is that they must rethink everything. Colin Williams, the British chief executive of WorldCom International, believes operators are going to have to sharply refocus to survive. He says: "They are not necessarily doomed, but the best you can say is that if you take two of these monopolies that have made the transition to competition, AT&T and BT, at least they have survived. But survived is the best you can say."

Regional operating companies, which dominate local telephone services in the US, have survived, too, but only by drastically reducing their costs, and finding new revenues through the introduction of local value-added services such as callback and voicemail. "If you can't attack the overhead, then you're really going to struggle," says Williams.

TECHNOLOGY

WorldCom's world: from Gemini submarine cable to Mae West and Mae East

IN THE Atlantic Ocean, 800 kilometres west of northern Spain, the cable ship *Cable Innovator* is this week steaming westwards at a sedate five knots towards the subterranean mountains and valleys of the mid-Atlantic ridge.

Sliding off her stern is an armour-protected cable called Gemini. At its core are four fibre optic strands, each less than the thickness of a human hair, which together are capable of carrying almost 1,500,000 simultaneous telephone conversations.

But unlike previous Atlantic cables, telephony is not Gemini's major purpose. Gemini is the first Internet submarine cable. When it is put in service next August, the characteristic congestion that plagues US-European Internet connections ought to be a thing of the past. Web pages will load faster, e-mail move more smoothly. And, crucially, Gemini will provide capacity for Internet telephony and Internet faxing. It will make telephone calls between the United States and Europe as cheap as a call from the first arrondissement of Paris to the second.

This may be a giant leap for those who depend on communications, but for WorldCom, it is just one more step in its drive to control the crucial global communications network of the future.

Dave Shirt, operations director of Gemini, in London, says that while the traffic in voice communications is growing at a steady ten per cent a year, the passage of data for Internet-type applications and multimedia services across the world's communications networks, already up 100-fold from 1995, is rocketing. "There is a mass scramble for capacity," says Shirt.

Gemini, which WorldCom is building in a joint venture with Cable & Wireless, which also owns the cable-laying ships, is designed to offer secure, non-stop communication, even if a shark takes a bite out of the cable, or it is inadvertently caught up in a trawler's nets. Gemini is not one cable but two.

When the system is completed, every digital signal will be sent simultaneously down the cable from Cornwall to New Jersey as well as via a twin cable connecting south Wales to Rhode Island. At its destination the Gemini system will sample both signals and forward the best.

Gemini is just one part of WorldCom's drive to dominate the transmission of digital data around the planet. As part of its $1bn investment in European infrastructure this year, WorldCom has also built local fibre systems in London, Paris, Frankfurt, Amsterdam and Stockholm. Next year, its budget may double as it extends its network to link those cities and other key locations in financial centres across Europe. Then it will be able to carry the electronic mail messages and phone calls of its customers in any of those European locations to destinations across America using its own network. This is a lot cheaper than having to pay high fees to rival telecoms carriers to carry its Internet and voice traffic the 'last mile' to provide the connection to its business customers.

In concrete, bomb-proof bunkers around America and Europe is another, less heralded component in WorldCom's strategy for global domination. Mae West, in San Jose, California, Mae East in Vienna, Virginia and Mae New York are among seven metropolitan area exchanges owned by WorldCom where Internet traffic is switched and routed through what the technicians call the 'frame relay cloud'. Mae East, just outside Washington DC, was established in 1992 by MFS Communications, the fast-growing Internet access provider swallowed by WorldCom in December 1996 as part of chief executive Bernard Ebbers' acquisitive binge.

Videophoning: internet telephony will reduce prices

WorldCom's computers now sit at the very heart of the global Internet. Hence, the military-specification security. If Mae East and its counterparts go down, so will much of the Internet itself, and much of the world's electronic mail traffic will go missing in action. In Europe, WorldCom already controls Mae Paris and Mae Frankfurt, and has an indirect share in Linx, located in the London Telehouse, which serves a similar function.

The London Internet Exchange (Linx) was set up in October 1994. Linx lies in a secure room in the Telehouse, a faceless building which stands alone on Coriander Avenue in London's Docklands. Visitors must pass five different levels of security to gain access to the racks of blinking switching boxes. Although WorldCom is not a member of Linx, its UK subsidiary UUNet-Pipex is.

So far, WorldCom hardly has a near monopoly of Internet routing. Of the world's estimated 100 Internet exchange points, around 60 are in America, 30 are in Europe, six are in South America and one is in Israel. But WorldCom does control some of the busiest, hence most powerful, including Mae East and Mae West. The ownership of these crucial points means that WorldCom has a huge stake in the Internet, and the ability to distribute onwards the traffic it transmits via the Gemini cable system.

KOBAL

Mae West: is that a phone in your pocket or are you just glad to see me?

Not everyone is sanguine about WorldCom's influence. After Mae East was established, European Internet providers set up neutral centres to attach national academic establishments to commercial Internet traffic. These facilities were in Paris, Stockholm, Amsterdam and Geneva.

The Telehouse building is owned by an Anglo-Japanese consortium headed by Japanese international telecoms giant KDD, Britain's BT and a number of financial institutions. Linx chairman Keith Mitchell says: "Two little guys can go to the exchange and the big guy can say I'm not going to exchange traffic. If WorldCom decides they don't want to any more, the only way to do it is through someone else."

The old-school philosophers of Internet culture are also concerned. Gordon Cook, an Internet commentator and newsletter publisher, frets that WorldCom is too powerful. "If [WorldCom chief executive Bernard] Ebbers gets away with it, it's the smartest deal. He has got market power, market share and market control."

But it may already be too late to stop the inexorable march of WorldCom, the only telecommunications company to have staked its future so centrally on the Internet. Voice comprises a diminishing share of communications traffic. Forrester Research estimates if Internet traffic continues to grow at the same pace, voice will make up less than one per cent of total traffic by 2004. It's not that we'll be talking less to one another – just that voice can be so tightly compressed using Internet communications protocol that it can be carried alongside data traffic almost as incidental baggage.

While WorldCom has built and bought new networks, the traditional telecoms companies still haven't converted the majority of their networks to do more than cope with the transfer of Internet data and, for the most part, at painfully slow speeds.

Last month Ebbers amalgamated the Internet networks built up by online service providers CompuServe and America Online to his global arsenal. With the purchase of MCI, his facilities will carry more than half the world's Internet traffic. And that's even before he flicks the switch on Gemini.

NICHOLAS MOSS

COMPANIES

Jurassic Park: ten endangered dinosaurs

TOP TEN GLOBAL TELECOMS OPERATORS

Rank	Company	Country	1996 turnover ($ billions)	Employees	Main lines (millions)
1	**NTT**	Japan	71.1	231,000*	61.0
2	**AT&T**	United States	52.2	130,400	n/a
3	**Deutsche Telekom**	Germany	40.6	208,000	44.1
4	**France Telecom**	France	28.9	165,200	32.9
5	**BT**	United Kingdom	24.5	127,500	27.6
6	**GTE**	United States	21.3	102,000	20.0
7	**Telecom Italia**	Italy	19.2	86,000	25.3
8	**BellSouth**	United States	19.0	81,200	22.1
9	**MCI**	United States	18.5	55,300	n/a
10	**Telefónica**	Spain	15.3	92,100	15.4

*1995 data

Source: International Telecommunication Union

AT HOME in Japan, NTT is immensely powerful. But the sclerotic, hugely overmanned and slow-moving operator needs to undergo enormous changes to face the challenges of a liberalising market. It also needs to develop an international personality. The Japanese domestic giant was forbidden by its government from providing international services until recently. But it has failed to identify an international strategy. NTT has made apparent its desire to have more than one partner, though it has been strongly wooed for some time by BT. Their successful joint bid to operate mobile phone services in Singapore is strongest evidence of a possible long-term international relationship.

THE world's oldest phone company still commands the biggest market share in the lucrative international calling business. But the bureaucratic monolith is in a serious mess. It has retreated from international forays to focus on developments in its home market.

Negotiations with the Federal Communications Commission in Washington should eventually allow it to compete with other operators to provide local telecoms services. But arrangements would have to be reciprocal, thus threatening AT&T's international market share. AT&T is reeling from turmoil in the senior ranks of its management.

The New York-based company half appointed a new chief executive but changed its mind, leaving Robert Allen to continue the search for his successor. The sooner the better, as a new leader may invigorate the company's half-hearted international expansion plans. AT&T has a loose alliance with several Asian players in WorldPartners and is aligned with Unisource, a consortium of European operators: SwissCom, Telia of Sweden and PTT Netherlands. But it is selling half its stake, in what is the least coherent or cohesive of the three global super telecoms alliances (behind Concert and Global One) to Telecom Italia. AT&T's one glimmer of hope may come from its expansion into mobile phone services in the United States.

EUROPE's biggest telephone company is working hard to shed its bloated image as the government in Bonn prepares to sell part of its remaining 75 per cent stake to the private sector after a first tranche in November 1996. Its T-Online Internet service boasts 1.75 million subscribers, making it the largest provider in Europe. Outside Germany it has several operations with various partners in eastern Europe. But its most significant venture and the central prong of its international strategy is with the national operator in neighbouring France. Deutsche Telekom and France Telecom both have a ten per cent stake in Sprint, America's third largest long-distance player, and together the three control Global One. Despite coming late to the fight for multinational and international corporate customers, Global One has won some key accounts. Its management is nonetheless stymied by the politics of combining three organisations and licensing restrictions which means it is unable to address customers directly in France or Germany under the guise of Global One. Instead, it has to represent itself as France Telecom or Deutsche Telekom.

THE sale of a first tranche of France Telecom to the public sector looks like a success, with shares this week trading at a premium to the issue price on a grey market ahead of the company's flotation – the biggest in French corporate history – in Paris and New York on 20 October. But there are large question marks over its future. Like Deutsche Telekom, its international direction rests with Global One. Its coffers would however afford it the purchase of another telecoms company. At home, it has been extremely slow to capitalise on the success of the Internet, preferring to reap rich rewards from the public's reliance on the obsolete but expensive Minitel system.

THE first of the European operators to privatise in 1984, BT is leaner and fitter than many of its rivals. But its inability to consummate its affair with US long-distance carrier MCI has left its international strategy in tatters. This has dented the ambitions of its chairman and chief executive, Iain Vallance and Peter Bonfield, to be a global player. BT may even lose Spanish operator Telefónica as a partner now that MCI – which would have been the peg for its Concert global telecoms service for multinational clients and a good link to Latin America – looks likely to abandon it.

BT still holds a 20 per cent stake in MCI but is likely to sell now that it has been outbid by American upstart WorldCom for the purchase of the rest of MCI. That will leave it with a mountain of cash but in desperate need of a partner in the crucial American market. The regional telephone operators are unlikely to be grandiose enough targets. The arrival of Dick Brown, as the new chief at Cable & Wireless means it may yet revive merger talks with its British peer. BT has partnerships with players in most European markets, including Viag Interkom, with engineering group Viag and Norwegian operator Telenor, in Germany and with Générale des Eaux and Mannesmann in Cegetel in France. But it has wasted a lot of time courting, with only limited success, NTT in Japan while it might have been better spent talking to other Asian players.

UNTIL the SBC/PacTel merger bumped it down a rung, GTE was the largest local phone company in America. Something of an oddball on the US landscape, it wasn't formed by the break-up in 1984 of AT&T into the long-distance carrier and the regional Baby Bells. Instead, it carved its niche as a start-up offering a variety of local and interstate long-distance services in a number of states. Along with the other main local providers, it is petitioning for an international licence but is unlikely to see any success for at least a year. In the meantime, the reasonably dynamic Connecticut-based company plans to grow by expanding its customer base in rural and suburban areas and has links with WorldCom across the US. It remains a suitable candidate for takeover.

ALL Italian phone lines lead to Rome. And they are likely to remain that way for a while at the Italian telephone bureaucracy. The Italian government kicked off the sale of its remaining 45 per cent stake of the company in Milan this week. Competition will please most Italians but is unlikely to materialise for a while yet. Despite huge investment by the state holding company IRI in recent years, the monopoly phone operator is notoriously inefficient, high-charging and, in the short term, will need to focus on developing its domestic network. Telecom Italia executives believe the company is well-prepared for business in a liberalised European marketplace but details of its future vision are short-sighted.

Chief executive Tomaso Tommasi di Vignano is confident its tie-up with America's AT&T and Unisource, to be clinched by the end of the year, should see off the competition. Certainly it will no longer need to thrash around for an international role. But it has been a slow innovator, focusing on the traditional realms of fixed lines and mobile telephony, and neglecting fibre-optic developments and the spread of the Internet.

THE Atlanta-based southern belle of the Baby Bells sees its future south of the border. As growing competition threatens to erode the firm's revenues in its catchment area – a territory that stretches from Louisiana to Kentucky to Florida – BellSouth has been buying assets in Latin America. It is also active in mobile telephony operations in Europe.

ONCE dubbed a 'law firm with an antenna on top', litigious-minded MCI broke down the doors of America's old telecoms guard to become the country's second biggest long-distance carrier. In recent months it had been investing heavily in building infrastructure for local telecoms services. Higher than expected costs there led to the initial row with BT over the price it would pay to purchase the 80 per cent of MCI it did not already own and paved the way for WorldCom's swift attack. Bert Roberts' deal with BT had been the basis of MCI's international strategy. Together the two companies would lure the big budgets of multinational clients with the promise of a seamless international telecoms service. Now its international direction will be part of WorldCom chief executive Bernard Ebbers' master plan.

OF THE European operators Telefónica has probably the strongest international strategy. In the 1980s, when the flamboyant Luís Solana was chairman of the Spanish phone monopoly, Telefónica had stated its aspirations to be big in Latin America. It bought a variety of stakes and has prospered from its ties in this booming market. The government sold off its final 21 per cent stake in February.

At home, its customers have suffered as it pursued its international ambitions. It is likely to be still busier on the international front now that WorldCom has stolen a march on the plans for alliance with MCI. Along with its Iberian neighbour, Portugal Telecom, it had been looking for an international partner to tap into the heavy traffic to and from the US.

REV

AGENDA

A WEEK IN THE LIFE OF THE EU

REFERENDUM ■ Premier Rasmussen faces the music on Amsterdam deal

Danes wait to ambush new treaty

EPA

Cheers: Danish joy after rejecting Maastricht in 1992

BIRNA HELGADOTTIR

IF IT could, the Danish government would probably hold the much-dreaded referendum on the Amsterdam treaty tomorrow, while the public mood seems to be going its way. The latest polls indicate that the notoriously Eurosceptic Danish voters are, for the moment at least, inclined to accept the further integration the treaty entails, with 44 per cent in favour and 32 against.

With a snap vote out of the question, the social democratic minority government is going for the second best option, leaving it for as long as possible: 28 May next year. The date, announced by Prime Minister Poul Nyrup Rasmussen at the opening of the Danish parliament on 7 October, was later than most observers had predicted. The government is clearly banking on a long and considered period of debate to get its pro-European message across.

"A Yes in the coming vote will give Denmark a future in Europe," Rasmussen said in his speech to parliament. "A No will put us on the sidelines. The government does not want that to happen." The timing of the referendum will also do something to soothe fraying tempers in Brussels. The Danish government is well aware of growing impatience with a member state some see as more trouble than it is worth.

The late date of the Amsterdam vote means that it will not conflict with the decision on who will be in on the first wave of economic and monetary union, scheduled for early May. There are many in the Commission who still have not forgiven the Danes for their shock rejection of the Maastricht treaty in 1992. A second vote a year later did ratify the treaty, after opt-outs had been negotiated on four issues, including monetary union and defence.

The Danes assure their fellow members that, despite being constitutionally obliged to hold the referendum, they are confident of a positive result and will not keep the rest of Europe waiting.

"We are not the only ones who have to have a referendum and I don't think we'll be the last to ratify," said a Danish source in Brussels. Ireland and Portugal also have to hold referendums on Amsterdam, but as grateful recipients of EU aid their voters are among the most Euro-friendly.

'A Yes vote will give Denmark a future in Europe'

Not everyone in Denmark is so confident that the current positive mood will hold. "Anything could happen in six months: for example, if the media decide to go strong on anti-EU stories," says Hakon Redder, former EU correspondent at business daily *Borsen*. The Danish media are almost as fond of Europhobic scare stories as the British press – this summer a story that hotels were to be forced to change the shape of their fire exit signs on the orders of Brussels received wide coverage.

Rasmussen has already shown considerable political helmsmanship this year, steering his minority government safely past several potential disasters.

He is said to consider the Amsterdam treaty something of a personal triumph, claiming that it contains several articles dear to the hearts of his voters. "We can sell Amsterdam on the three Es: enlargement, employment and environment," said a government official.

The prime minister cleared an important hurdle last month when the social democrats – traditionally divided on Europe – presented a united front at their annual party conference.

But he has an even rockier few months ahead. Not only must he convince voters of the merits of Amsterdam but also of the benefits of the financial austerity package he unveiled in his speech to parliament. The budget contains cuts of nearly $1 billion to offset an unexpectedly high growth of GDP and to prevent the economy from overheating.

Then in March a court case to be heard in Denmark's supreme court will question the legality of Danish EU membership. On top of this, Rasmussen has an election to fight by next autumn, to the backdrop of a dramatically changing political landscape.

According to a recent academic survey, nearly half a million voters in this country of five million have abandoned the social democrats and are currently undecided, while a further 140,000 have turned to the right-wing parties – many of them to the far-right Progressives. The swing to the far right is a combination of anti-EU feeling and growing opposition to Denmark's liberal asylum policy.

Ironically, the fastest way to stop the refugee tide would be to abandon the much-prized Danish opt-out from the third pillar of Maastricht and fall in line with EU justice and immigration laws.

SCANDAL

Jobs for the boys shame fails to shake Brussels bureaucrats

VICTOR SMART

WHAT can break a Brussels bureaucrat's tenacious grip on a job for life? Not laziness or incompetence, certainly. Nor, apparently, a ruling by one of Europe's highest courts that a sought-after post was secured illegally without the boring necessity of open competition.

In a landmark judgment, the European Court of First Instance, an offshoot of the European Union's supreme court, has censured the Committee of the Regions (CoR) for its closed recruitment policy.

Set up as a consultative body in 1994, the the 222-member CoR's mission was to channel the views of mayors and other local politicians from Europe's far-flung regions through to Brussels.

Though comparatively low profile, the body was bound to adhere strictly to the mainstream EU institutions' much-vaunted guidelines for open recruitment contests, which can attract thousands of applicants.

Instead the CoR has systematically excluded outsiders by operating a jobs for the the boys policy. More than half the CoR's 80-strong team owe their jobs to a suspect process of "internal" appointments. It is claimed that one top bureaucrat placed his mistress on the payroll, and that political cronies were rewarded with a fast track into permanent well-paid careers.

None has been dismissed, however, not even the director of personnel, Helmut Mullers, who ran the nepotistic system. Though shunted sideways, he retains his seniority, salary and fat pension rights.

The case was brought by Union Syndicale Fédérale (USF), the 5,000-strong Brussels staff organisation, after a member was denied a chance to compete for a job. In its 25-page judgment, the Luxembourg-based court concluded: "The selection panel committed a manifest error of appraisal and a violation of the principle of equality of treatment."

So far official reaction has been dismal. Despite the court's shaming verdict, not only have none of the incumbents been ousted, but outside candidates are still not to be allowed to compete freely for their jobs. With their entry to the protected Brussels technocracy, the placemen at CoR are now free to make the leap to the hub EU institutions.

Alan Hick, secretary-general of the USF, commented: "These people were recruited for life on the basis of a 20-minute chat. If they start to transfer out, their presence will pollute all sectors of the Brussels structure and erode confidence in the credentials of those who work there."

The CoR has long been tarnished by accusations of nepotism. With its annual budget of £15 million ($24m), it was almost the personal fief of Jacques Blanc, the right-wing president of Languedoc-Roussillon in southern France. During his two years in charge, France had a particularly large representation among its officials. Blanc was appointed in 1994 after doing a deal with his rival, Pascal Maragall, mayor of Barcelona. Maragall took the vice-presidency on the understanding that he would succeed to the top job in 1996. This duly happened. Things could have been different. The court could and should have annulled the recruitments. But instead it has simply declared the system unlawful without giving any redress to those potentially excluded.

The CoR claims that the ruling implies no general censure of its recruitment policy. Spokesman Oliver Allen said: "When you start up an organisation from scratch, as we did, you need to recruit as fast as you can. Open competitions are fine but cumbersome and time-consuming. Our approach brought in people who are experienced and well qualified."

But behind the CoR's decision not to cleanse its ranks is the knowledge that a culture of cronyism is deeply ingrained in every EU institution. "The CoR hasn't done anything that doesn't happen everywhere each day in Brussels," said one senior official.

Pfizer forum
EUROPE

Reference Pricing: Worth the Risks?

BY JIM FURNISS AND JOSEPH ZAMMIT-LUCIA

Two pharmaceutical policy experts examine several countries' experience with reference pricing schemes, and find that they fail to contain pharmaceutical spending, discourage investment in new therapies, and are based on a mistaken theory of interchangeability which assumes that patients are homogeneous.

Reference pricing is a system of fixed reimbursement for pharmaceuticals, in which governments or other third party payers establish a level at which they are willing to reimburse "interchangeable" products. Pharmaceutical companies are free to price their products above this fixed reimbursement level, but the excess cost has to be borne by the patient. In theory, reference pricing limits reimbursement, not prices. However, because patients in many countries are unwilling to pay a premium for technical benefits which they may not understand, wherever reference pricing has been implemented, the reference price becomes the *de facto* market price.

The concept of reference pricing originated in the Netherlands and Germany, and spread to a number of other countries including Sweden, Denmark, Canada and New Zealand. Several other countries have considered or are considering implementing this system. It is therefore appropriate to examine the issues which arise out of the implementation of such a system.

Reference pricing is often presented by its proponents as a way of avoiding paying any premium for products which have no benefit over existing alternatives. This assertion rests crucially on the principle of "interchangeability" among products. But interchangeability is a bureaucratic rather than a medical concept. At some level, products can be considered interchangeable with little effect on patient health – for instance, good quality generics are generally interchangeable with the originator products. However, under reference pricing, the definition of interchangeability is being widened to include different drugs with similar, but not identical, biological activity; and, in some cases, products with distinctly different biological activity. These wide definitions of product interchangeability implicitly assume that individual patients are as interchangeable as the medicines that they are prescribed – yet every physician knows that this is not the case.

Furthermore, very broad definitions of interchangeability discourage companies from investing in the discovery of new drugs. The nature of pharmaceutical research and development is such that advances are made incrementally, in small steps. If incremental advances are dismissed, and new products defined as "interchangeable" under a reference pricing system, the incentive for innovation disappears.

Leaving aside the above issues, is reference pricing actually an effective mechanism for containing the rise in pharmaceutical expenditure? Experience shows that it is not. All countries which have implemented a reference pricing system have learnt two things. First, the impact on pharmaceutical expenditure is less than expected. Secondly, it lasts for a very short period of time. In all cases, governments have been so disappointed with results that further cost containment measures have been implemented within one or two years of the implementation of a reference pricing system. In Sweden, a discernible impact of reference pricing could only be detected for one quarter. In Germany, further measures were introduced within two years of the implementation of a complex reference pricing system. In the Netherlands, additional measures were enacted to block the entry of almost all new medicines to the reimbursement scheme for over three years, and a price control system has now been introduced.

In view of the issues with reference pricing systems and their failure to achieve long term cost containment objectives, what continues to drive governments to be interested in its implementation? In our experience, the proponents of reference pricing systems tend to overestimate the financial benefits which will accrue. In addition, the idea of paying the same price for "interchangeable" medicines is both simple and seductive, ignoring the complexities of clinical impact in individual patients. Furthermore, reference pricing has now been implemented in a number of countries and is gaining the appearance of "the right thing to do".

However, the therapeutic and economic weaknesses in reference pricing schemes are becoming more apparent. It is striking that countries which have a tradition of thorough analysis underpinning government policy (e.g., France and the UK) have examined and rejected reference pricing as a way forward in pharmaceutical policy. Governments currently considering reference pricing should beware the siren sounds coming from its proponents.

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NEWS

ELECTIONS ■ An alliance between the AWS and Balcerowicz's UW would be an obvious partnership, but Polish politicians have a gift for avoiding the obvious

Will Mr Shock Therapy put Poland back on the couch?

ALIK KEPLICZ

JULIAN COMAN

IT was the one headline nobody expected: 'Prime Minister Walesa'. Surely not even a surprising electoral triumph for Solidarity meant that old walrus-face was back in office? Somebody had to be joking.

The clown turned out to be Adam Michnik, editor of *Gazeta Wyborcza*, Poland's best-read newspaper, and a former comrade in arms. To mark the Great Electrician's birthday, Michnik had produced a spoof edition. It did at least provide an amusing counterpoint to the country's wonderment at a real second coming – that of Leszek Balcerowicz, the former free market shock therapist.

It was Balcerowicz who on 1 January 1990, on behalf of Solidarity and to the acclaim of a spellbound West, launched Poland into a capitalist future at a pace which left even the enthusiastic gasping for breath. The then minister of finance let wages plunge, allowed prices to find their market level and pushed privatisation through at breakneck speed. The post-communist economy gulped for air but eventually began to breathe freely. Poland soon enjoyed levels of growth far above its east European peers, although electoral incompetence and division saw the bickering romantics of Solidarity split and lose power to reformed communists in 1993. But by then the country's free-market future was secure.

Balcerowicz turned his energies to promoting the pro-business Solidarity offshoot, the Freedom Union (UW). In the latest election campaign, as its chairman, he has been offering Poles another session on his couch, arguing that the pace of privatisation and welfare reform must be speeded up if the country is to be ready for absorption into the European Union. After poll results rewarded UW with 60 seats and the role of potential kingmaker in the next government, Balcerowicz may well take a place in the next Solidarity-led cabinet. But the arguments about what that cabinet will do and who will be in it are only beginning. The second coming promises to be a stormy affair.

The Poles have been here before. Four years ago, despairing of Solidarity's capacity to sow internal discord where there was once harmony, they put ex-communists into power at the expense of the feuding rebels whose electoral triumph in June 1989 spelled the end of dictatorship. Having buried their differences in order to bring down communism, Solidarity intellectuals had fallen out with Solidarity workers and secular liberals were arguing with Catholics. The pragmatic technocrats from the ancien regime took full advantage.

Having now relented and returned the revamped Solidarity Election Alliance (AWS) as parliament's largest party, voters are watching the new government form amid familiar scenes of acrimony. Nearly three weeks after the election, no one has agreed who will be the new prime minister to replace outgoing Wlodzimierz Cimoszewicz, nor who will serve him. The AWS, led by the uncompromisingly Catholic Marian Krzaklewski, possesses nearly half the seats in parliament and needs a coalition partner to govern. The obvious choice is Balcerowicz's Freedom Union, but Polish politicians have a talent for avoiding the obvious. On discovering that they would probably have to work together, Krzaklewski and Balcerowicz avoided each other with grim determination, only meeting at the beginning of this week.

Kingmaker: the UW led by Balcerowicz (left) won 60 seats; Lech Walesa (right) was miffed at his birthday celebrations

The motives for the mini-cold war were both personal and political. Krzaklewski, a provincial Catholic populist who once suggested that Christ be crowned King of Poland, cordially detests Balcerowicz and distrusts the secular esoteric air that surrounds his gang of Warsaw intellectuals. In addition, having ruled himself out as a candidate for prime minister in expectation of a forthcoming presidential bid, he was initially desperate to keep his prestigious rival out of high-profile office and off the nation's front pages for the next two years.

For his part, the fastidious Balcerowicz exudes a sniffy contempt for the ragbag of nearly 40 improvised groupings which constitute the AWS. "A good government means a good programme and also good people to implement it," he warned after the results became clear. His audience was left to draw the implication that neither could be found among the assorted Catholic fundamentalists, right-wing nationalists and left-wing unionists clamouring for Krzaklewski's ear. The message from both sides has been that an AWS/UW coalition is far from inevitable. There has even been talk of the AWS allying instead with the deeply conservative Peasants Party, a move which would cause ulcers in the Warsaw stockbroker belt. Another idea is a government of experts, led by an academic sufficiently obscure not to overshadow Krzaklewski.

All this has exasperated 'premier' Walesa, particularly as it overshadowed his birthday celebrations. Hoping to knock heads together, Walesa publicly invited both Krzaklewski and Balcerowicz to the lunchtime Warsaw party held in his name. The shock therapist turned up, but Krzaklewski cried, off claiming flu. A few hours later, following a miraculous recovery, he appeared in Gdansk at an evening get-together with the grand old man of Polish anti-communism and received a frosty reception: "I won't let these boys spoil everything," said a miffed Walesa, "and if they don't come to agree they really are little boys."

But the tensions concerned run deeper than playground politics: the Solidarity Election Alliance and the Freedom Union are natural allies only to the extent that they share a loathing for a communist enemy which together their supporters helped vanquish. Take away the Marxist bogeyman which still haunts Poland's dreams and the space for disagreement between Balcerowicz and Krzaklewski is as wide as the gulf in France between free-marketeer Alain Madelin and socialist Prime Minster Lionel Jospin. Their relationship will be the first big test of a new era of Polish politics.

The strategy of 'big bang' liberalisation with which Balcerowicz accelerated the Polish economy past its post-communist peers also claimed its victims. Many of them are natural Krzaklewski supporters in the provinces; inhabitants of the formerly protected if radicalised industrial areas which constitute Solidarity's heartland. Unemployment levels here climb considerably higher than the national (declining) average of 12 per cent. A Solidarity hardcore, who treated fast-track reform as a short-cut to western affluence rather than a long haul to sound economics, feels abandoned by the revolution it helped make.

The deposed government of ex-communists, doomed by democracy to seek a constituency among the country's insecure and beleaguered, dropped the pace of change. But Balcerowicz, who doesn't so much squeeze through windows of opportunity as smash the glass and dive in, wants to use any UW influence in the new government to pick it up again. Poland's reputation as the 'tiger' of eastern Europe has only strengthened his resolve, while the imminent reality of European Union membership and competition reinforces his case that the economy must raise its game still further.

"The previous government did not change the course of reform," says Balcerowicz, "but it has caused a delay and a slow-down. Almost every economist agrees that a radical approach works better. The job is not finished. The next government must institute sound public finance and accelerate structural reforms." That means attacking a trade deficit which reached $7.8 billion in the first half of 1997 alone and speeding up the sale of state-owned industries such as the mines and steelworks which still account for 40 per cent of Poland's employment.

Tackling the first issue would entail a politically unpopular period of austerity for consumers; dealing with the second would mean taking on the unions and lobbies which provide the backbone to Krzaklewski's AWS, leaving the Solidarity leader to pay the electoral price. Polish industry is estimated to be overmanned by up to 30 per cent.

"If further economic reform causes too much pain," says Michal Federowicz, who works with the Adam Smith Institute in Warsaw, "it will be Solidarity and Krzaklewski who pick up the bill."

Little wonder then that Krzaklewski prevaricates. Nor is it surprising that the fiercest coalition negotiations concern which party gets control of the key economic ministries. The sight of Gdansk shipyard workers rampaging through the streets of Warsaw last spring is not one Krzaklewski will care to see repeated during an AWS government.

Whatever the eventual outcome of coalition talks, the Freedom Union believes itself to be in a no-lose situation. Andrzej Potocki, UW member of parliament and chief spokesman for the party, believes "there is a real chance for the UW to seize the agenda. Whether we are inside or outside the new government, it will work to our advantage. The AWS

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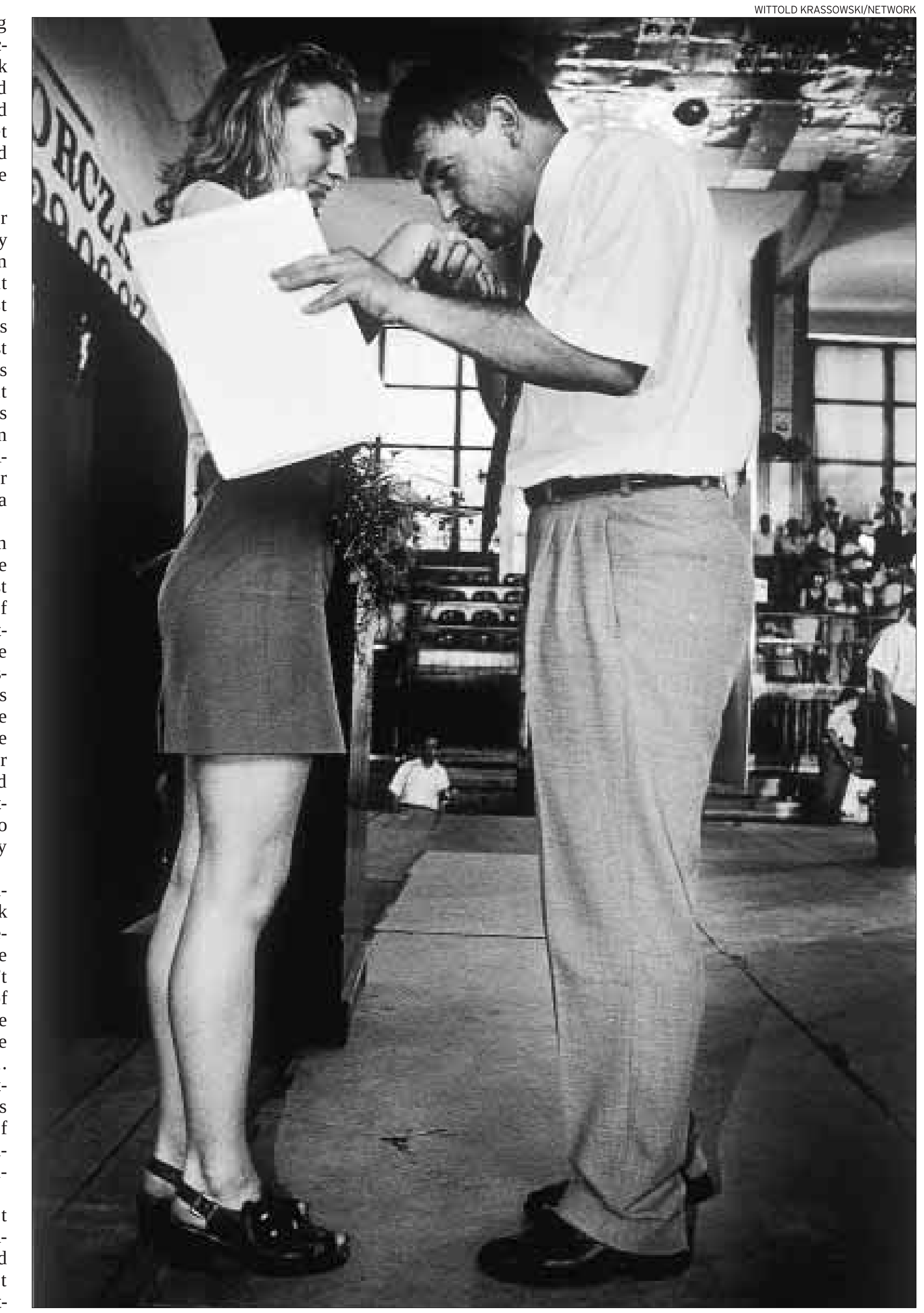
WITTOLD KRASSOWSKI/NETWORK



Courting support: Krzaklewski still needs a coalition partner to govern

MACIEJ KOSYCARZ

No one has agreed who will be prime minister

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NETWORK

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must split eventually. Whatever it is, it is not a coherent party. It has tens of different party leaders but their parties do not really exist. The alliance was just a means of getting back into power".

If the UW does become a partner, according to Potocki, it will naturally assume intellectual leadership: "In government we will be the coherent power that will provide direction on the economy and foreign policy. And the condition for our participation is the presence of Balcerowicz inside the government as, let's say, deputy prime minister."

But Leslaw Paga, a former Solidarity activist imprisoned in the days of martial law and more recently the first head of Warsaw's stock exchange, paints a more complicated picture: "The UW has a very strong group of intellectuals but it is one thing to make an expert judgment and quite another to be able to implement it.

"Right now the overriding question in Poland is how to challenge workers in remaining state industries. The former communists did not have the credibility for obvious reasons. The workers are suspicious of Balcerowicz and the UW after the years of shock therapy. Only the AWS has the trust of these miners and steelworkers. They are the people Solidarity defends, but it also understands the economic necessity for reform. This is an opportunity for Solidarity to grow up in government."

The first sign of that maturity may be the attempt by Krzaklewski to form an autonomous 'Christian Democrat' party out of the loose AWS alliance of unionists and Catholics, making Solidarity the political party finally distinct from Solidarity the civil movement.

If he succeeds, the pattern of Polish politics may finally break free of the mould cast by 40 years of resistance to communism and come to resemble the German model, with Solidarity playing the CDU to the Freedom Union's liberal FDP. This would be the end of the heroic phase in Polish politics, in which friends, enemies and traitors have been defined in relation to the great struggles of the 1970s and 1980s. And it would be no bad thing, says Paga. Rather like Italy after tangentopoli, Poland needs to learn to become an ordinary country.

"The real winners of those struggles are Polish entrepreneurs operating in a market economy. What they are saying now to government is simple: 'Please don't interrupt us. Keep the economy stable. Take us into Europe and help us grow.' They don't want political drama or strife."

No laughing matter: more austerity on the way and plenty of takers for what's on offer (below)

Like Italy, Poland needs to learn to become an ordinary country

WITTOLD KRASSOWSKI/NETWORK

ITALY ■ The prospect of elections hangs in the air as premier seeks deal

Extreme left pushes Prodi to cuts showdown

CHRIS ENDEAN

IF THE Italian left's hard man Fausto Bertinotti ever intended to overthrow the country's first genuine left-wing government since the fall of Fascism, this surely had to be the moment. His Rifondazione Communista party, always until now with Prime Minister Romano Prodi's Ulivo coalition but never of it, was at a crossroads.

There was a reform budget on the table, this time pledged to attack social spending in general and pensions in particular, cuts which Bertinotti had always opposed. The spectre of constitutional reform which could marginalise minor parties like Rifondazione was drawing ever closer. Now, surely, the former trade union leader had to put up or shut up.

Yet still Bertinotti temporised. True, he immediately described concessions by Prodi in his speech to parliament on 7 October as 'totally unacceptable' and pledged that the 35 Rifondazione deputies who ensure the coalition's majority would not vote for the budget. But he left the door to a deal slightly ajar, saying he was still awaiting a 'signal' from the government. "I'm not saying it's take it or leave it, but the government must take into account at least one of our proposals," he said.

But Prodi has to keep the main planks of his package intact. Reforming the welfare state, he said, was "the last and indispensable step on our march towards Europe". The government, he added, "cannot yield on this" – a sentiment which European Commission President Jacques Santer, cheering him on from the sidelines in Lisbon, would thoroughly endorse.

As Prodi went off on 8 October to consult President Oscar Luigi Scalfaro, the only man with authority to dismiss a government, the betting was still on a deal to avoid elections which could be called as early as 30 November. Scalfaro is prepared to go to any lengths he constitutionally can to avoid a return to the chaos of the past, which could undermine Italy's burgeoning recovery, cause financial markets to lose confidence, and put in jeopardy the drive to European economic and monetary union (EMU).

Silvio Berlusconi, leader of the centre-right opposition Forza Italia, did call for Prodi's resignation during the debate. But even he suggested that the opposition would be willing to delay elections in order to get the budget and constitutional reform through.

Bertinotti himself had good reasons to delay taking the decisive step to bring down the government. The one top party activist who failed to come in from the cold when Italian communism went legit, he may hate the idea of a free-market Europe and the reforms necessary for Italy to join the single currency. He may owe it to his hardline supporters to keep the faith.

But even this ultimate maverick might not survive plunging the country into its pre-Ulivo chaos. And, purely pragmatically, opinion polls suggest that forcing new elections would be a quick way of wiping out Rifondazione's parliamentary representation – which is exactly what its long-standing rivals on the left, Massimo d'Alema's Partito Democratico della Sinistra (PDS), would love to see happen.

'Welfare reform is the last step on our march to Europe'

With the fate of Prodi's 500-day government firmly in Rifondazione's hands, the banner hanging over the entrance to the party's Rome headquarters is a bizarre sight. 'Only God can save this government,' it declares. As a man who still likes to read Karl Marx – 'to escape the banality of everyday life' – Bertinotti is few people's idea of a higher authority.

Originally from a comfortable background, Bertinotti began as a radical trade unionist with a far-left socialist grouping, and spent ten years organising textile workers in the northern region of Piedmont before transferring to CGIL, the largest of the three main union confederations, which was controlled by the Communist Party.

He has never been afraid of opposition. "He's always in the minority against everything," said one former militant colleague. "I don't think he's ever signed an agreement in his life. As far as Fausto is concerned, an agreement is valid only when the other negotiator capitulates on every single demand."

But he could not resist signing up, at least in spirit, to Prodi's Ulivo coalition, even if he and his party have been a constant thorn in its flesh. Until now, though, Bertinotti's threats and ultimatums had never been pushed to the limit.

Prodi's last-minute concessions in his budget speech, notably offering to turn state holding company Istituto per la Ricostruzione Industriale (IRI) into a development agency for the south, financed by the privatisation of Italy's telecommunications system, seemed to conjure up an opening for yet another deal. His budget proposal for L25,000 billion ($14bn) of spending cuts is, after all, one of the softest in a decade. It hardly touches Europe's most expensive pension system – in deference to the communists. But Bertinotti, so it appeared, was having none of it, insisting on his demands for a 35-hour week and reductions in cuts to the pension system. "It's the maddest crisis in the world," said Prodi. Few would disagree.

One possibility is that the collapse of the government could merely pave the way for a cross-party administration charged with securing Italy's safe passage into the single currency and bringing constitutional reforms to a successful conclusion. Such a development would give Bertinotti, sitting on the political sidelines, little say in the reform of the welfare state and new electoral laws.

Such a doomsday scenario would encourage a hasty solution to the crisis if it were just about the budget. But there is more to this *crisi di governo* than realpolitik. There are ideological differences between the governing centre-left coalition and Rifondazione which are arguably irreconcilable.

Since leaving the PDS, the largest left-wing force in Italian politics, in 1994, Bertinotti has taken up the flag of a historic battle that has traditionally split the Italian left, and of which the current crisis is just the latest chapter.

Bertinotti outlines the two different visions in his book *The Two Lefts*. The first school of thought takes inspiration from figures like 1950s leader Filippo Turati, Enrico Berlinguer, the father of Eurocommunism, and, today, PDS leader Massimo d'Alema. Its frame of reference is European social democracy and the belief that there is room in the Italian political spectrum for a left that governs. Bertinotti, on the other hand, sees himself as the natural heir to the orthodox 1950s Italian Communist Party (PCI) leader Palmiro Togliatti.

They were all figures who in one way or another kept the left away from the centre of power – *duri e puri* (tough and untouchable). Unlike his predecessors, however, Bertinotti is no Marxist-Leninist. "His support has changed since Rifondazione was set up by communists disillusioned with the old PCI's switch to Social Democracy," says Patrick McCarthy, a political scientist at the Johns Hopkins University in Bologna.

"Bertinotti wants to champion the social classes who have suffered from the monetarist policies of the European Union. Rifondazione is really a protest movement that capitalises on the sense of gloom that has settled over the concept of a united Europe in the 1990s."

The speeches of Bertinotti and Prodi this week demonstrate the deep divisions between Ulivo's attempts to follow in the traditions of social democratic government and the protest movement of Rifondazione. While the premier laid out a programme for Europe based on monetary discipline and welfare reform, the other called for social assistance and curbs on privatisation. "Prodi and Bertinotti spoke to each other with great reciprocal respect, but as two men who bear different political projects and travel different roads," wrote *La Repubblica* in an editorial.

'A pact makes far more sense than day-to-day arguments'

If the two sides are to find common ground, it will not come from the existing relationship in which Rifondazione has supported the government from outside the cabinet – refusing to participate as ministers.

Veteran communist Armando Cossuta, Bertinotti's deputy and the real power in the party organisation, is reputed to favour a new government led by Prodi and built around the current majority in parliament but espousing a common programme with Rifondazione, valid for a year. "A pact makes far more sense than day-to-day negotiations," said one PDS member.

Good sense it might be. Whether such an agreement is at all achievable in the complicated game of bluff and counterbluff which is Italian politics is another question altogether. Prodi and Bertinotti will always be odd bedfellows.

In parliament, one deputy likened the relationship to the famous HG Wells fable in which a frog agrees to carry a scorpion across a river. Halfway across, the scorpion stings the frog. "Now we will both die," says the frog as the pair begin to sink. "Why did you do that?" "Because it's in my nature," is the reply. In the Italian version, Bertinotti delivers the final sting with the words: "At least I had a good time."

Additional reporting by Michele Puccioni

DOMENICO STINELLIS

Grim prospects: Italian premier Romano Prodi faces long and difficult negotiations to save his government

NEWS

THE RIGHT ■ Britain's Tories and Germany's CDU seek new impetus

Winning over the faithful

CHRIS HARRIS / REX

Seeking unity: Conservative Party leader William Hague steps out in Blackpool hand in hand with fiancée Ffion Jenkins

WALTER ELLIS AND TONY PATERSON

IT IS not just the difference in height that makes it difficult for them to see eye to eye. Helmut Kohl and William Hague were not designed for peaceful co-existence. The German chancellor, who next week faces the annual conference of his governing CDU in Leipzig, presents himself as the champion of a united Europe, for whom the introduction of a single European currency is no more than a practical means to a greater political end. At the age of 67, he has been in power for 16 years and, having outlasted all his contemporaries, is determined to make a final push for victory.

Hague, by contrast, is starting out on what he acknowledges will be a long hard road. Thirty years younger than Kohl, he took over as leader of the British Conservatives this summer after his predecessor, John Major, had steered the party to one of its worst defeats this century. His goal, as he told his party conference this week in Blackpool, is a stronger, still independent Britain, free of continental tyranny.

The contrast could hardly be stronger. Deep down, however, at a level neither would care to admit, the two men still have something in common. Both find themselves leading parties that are worn-out and bereft of new ideas. In Germany, the CDU seems to be voted in mainly out of habit, despite the grumblings of the people. As John Major discovered in May, such grumblings can suddenly reach a crescendo, forcing a dramatic change in party fortunes.

Beneath a veneer of unity there is distrust of Kohl's leadership

Hague at least starts with a clean slate. The Tories were all but wiped out before he took over. But though he talked bravely in Blackpool about a new generation shaping a new agenda, there was little – particularly on Europe – that sounded any different from noises made consistently by the party since Margaret Thatcher won power back in 1979.

If it is a truism to say that socialism in Europe has become more centrist over the past ten years, embracing market forces and adapting to the consequences of individual virtue, it is also true that in doing so it rediscovered its dynamism. Conservatism, for its part, remains painfully divided. The CDU, one lumbering leviathan led by another, clings to its leader's vision of a united Europe mainly, one suspects, because there is nothing else in which to repose its faith. Britain's Tories grasp feebly at the torch held aloft by Hague chiefly because the alternative is the darkness of despair.

To the Tories on the other side of the Channel, Kohl's commitment is anathema – as though the Pope were to declare himself in favour of birth control. Whatever ideology the two parties may continue to share, the German's De Gaulle-like determination to build Europe in his image has built a barrier between them as seemingly permanent as the Berlin Wall.

All, though, is not as it seems. Beneath the veneer of CDU unity that will be presented in Leipzig there is growing resentment of Kohl's autocratic and authoritarian leadership style. The opposition SPD has meanwhile gone on the offensive. One hundred billboard sized posters will be displayed prominently in Leipzig during the CDU conference. They show an old photograph of Kohl – sporting an incongruous thatch of hair – and ask the question: 'Do you think you can solve today's problems with yesterday's Chancellor?'

Today's Tories have the same problems, but at a crucially different stage of the electoral cycle. Their get-together underlined that Hague's party is not simply a political group struggling to recover from a defeat but a desperate national institution attempting to prove there is a still a point to its existence.

Five months after Labour's historic landslide, the Conservatives' slide continues. On the eve of the conference, their popularity rating was down to 25 per cent. Party membership has sunk from three million in the 1950s to under 400,000, and the average age of the rank and file is between 62 and 65. Even in their role as the country's official opposition, they find the small, centrist Liberal Democrat Party snapping at their heels.

At least no one underestimates the task ahead. On the opening day, the right-wing *Daily Telegraph* commented: "The Conservatives must understand that they seem repellent to most decent people. To their own activists, as well as the country at large, Tory MPs appear factional, venal, arrogant and selfish. In recent years, they lost the collective capacity to listen to and represent the people in whose name they governed."

This contrite message was echoed by Hague. In his address he said bluntly that his party had come to look "conceited and out of touch".

The problem is that Hague has come to be seen as part of the problem. Coming from a younger generation ought to be an advantage. He was, for example, unabashed about sharing a hotel room in Blackpool with his fiancée Ffion Jenkins. But he does not look young. He is bald and he likes to wear dark suits. Ordinary voters look at him and they see a conveyor-belt Tory leader who somehow got the job too soon.

Hague has come to be seen as part of the Tories' problem

For two decades the Tories brashly prospered outside the right-wing European mainstream. In the 1980s, they trampled the values of the European social model sacred to their Christian Democrat colleagues, and then in the 1990s they derided the others' pieties on European integration. Today, however, Euroscepticism has started to look of questionable value. Having declared confidently that monetary union would not happen to timetable, anti-Europeans now find that big business and the City of London, two natural allies, are convinced the euro will indeed emerge by 1 January 1999.

No one knows how things will go. While more than 60 per cent of Britons oppose the single currency, according to a survey this week, many believe that opinion is 'soft' and could be swayed by a Blair-led pro-euro campaign.

German opinion is similarly unsettled. Kohl may insist there is no alternative – a refrain once employed by Thatcher – but not everyone is convinced. The possibility must now exist that, should a Blair figure arise at last within the SPD who can successfully challenge Kohl in next September's election, the final decisions on European union could be made by social democracy, with both extremes of conservatism watching, impotent, from the margins.

NEWS

SERBIA ■ Notorious hardliner Vojislav Seselj comes within an ace of presidential poll win

The road from bullet to ballot

PICTURES: SRDJAN ILIC

IAN MATHER

IT TOOK an extremely risky gamble by opposition groups to deprive – and then only narrowly – ultra-nationalist leader Vojislav Seselj of a triumphal entry into Serbia's presidential mansion, the *Beli Dvor* (White Palace), setting Serbia on the road to direct confrontation with the West.

A boycott by pro-democracy parties resulted in the turn-out in the presidential elections falling just below 50 per cent, rendering the poll invalid. A similar boycott by 1.8 million Albanians in Kosovo protesting at Serb domination also contributed to stopping Seselj.

Even so, the presidential election result in Serbia was a triumph for Seselj, who came within a whisker of winning. For Yugoslav President Slobodan Milosevic it was a disaster, as was the presidential election in Montenegro on the same day. Milosevic's nominees failed in both.

In Serbia Seselj, labelled by the United States as 'fascist', emerged ahead of Milosevic's nominee Zoran Lilic. In Montenegro, President Momir Bulatovic, Milosevic's choice, failed to beat off a challenge from Milo Djukanovic, who has criticised Milosevic's backward economic policies and promises independence from Belgrade if he wins.

In Serbia, however, Milosevic was thrown a lifeline by the two boycotts and by widespread apathy among Serbia's ten million population. Fresh elections will have to be held, buying Milosevic's Socialist Party machine time to regroup.

However, it may not be enough to rescue Milosevic from total humiliation. Seselj won 49.98 per cent of the votes cast against 46.99 per cent for the wooden apparatchik Lilic, according to unofficial results. Seselj even improved his vote by almost 600,000 on his first-round showing.

Seselj, a notorious former paramilitary leader who now heads the Serbian Radical Party, is regarded by western governments as highly dangerous. He openly espouses a resumption of the campaign for a 'Greater Serbia' comprising most of Bosnia and half of Croatia, and makes it plain that this is to be achieved through armed conflict.

After the 5 October vote he said that with the "victory of Radicals, there will be no possibility of Serbia kneeling before any western power. Serbia will be focusing on its own interests".

With Seselj in power, Serbia would embark on a virulently anti-western course, in sharp contrast to the more moderate policies that Milosevic has been pursuing since the signing of the Dayton peace accords on Bosnia in 1995.

A former ally of Milosevic, who did most to stoke the flames of Serb nationalism in the early 1990s, Seselj is now a sworn enemy of the strongman socialist leader whom he accuses of betraying the Serbs. He openly opposes the Dayton accords, and his speeches are full of derogatory references to Croats and Muslims. During the conflict his infamous paramilitary units scoured the towns and villages earmarked for Serb control, looting and carrying out atrocities against civilians. In last year's local elections, when Seselj won control of a Belgrade city suburb with a relatively high Croat population, he lost little time in expelling Croat families from their apartments and banning their children from attending local Serb schools.

Seselj also has links with Russia's ultranationalist leader Vladimir Zhirinovsky and France's far-right leader Jean-Marie Le Pen. His tenacious election campaign proved that he has appeal to Serbia's underclass. He claims to speak for those not well enough connected to become entrepreneurs, who have taken the brunt of the cost in blood and economic hardship suffered during the wars in Bosnia and Croatia. A populist orator, Seselj keeps up a constant barrage of abuse against his political opponents, accusing them of corruption and incompetence, while promising social justice and an uncompromising fight against crime.

Radical view: Seselj, a former paramilitary leader who believes in a 'Greater Serbia' achieved by force of arms, could still win the Serbian presidency, in spite of protests from ethnic Albanians in Kosovo (above) who boycotted the election on 5 October which was later declared invalid

But US special envoy Robert Gelbard made it plain that Washington would not want to see Seselj elected. "I have no reason to believe that we could work with Seselj. He is anti-democratic. I think he is a fascist and, as far as I am concerned, Seselj represents the worst, backwardness and darkness," he said.

Belgrade's ousted opposition mayor Zoran Djindjic, who led the campaign to boycott the polls on the grounds that they were not 'free and fair' – but with the clear intention of invalidating the poll – has said he will contest new elections. Western governments, alarmed at the possibility of a Radical victory, hope the fragmented opposition will unite around a centrist candidate. But there seems to be little chance of that happening. The democratic opposition, which led giant demonstrations against the regime last winter, shows few signs of ending its bitter recriminations.

A Seselj presidency would be even worse news for Kosovo, where the 90 per cent Albanian majority refused to vote, as they have done in all elections since Milosevic's regime stripped the province of its autonomy in 1989. Tension remains high following two days of rioting, during which Serbian police used batons and tear gas to break up mass demonstrations by Albanians demanding that the Albanian language be taught in state education institutions. A year ago Milosevic, as president of Serbia, agreed to reopen state schools and colleges to Albanians.

Though the agreement has never been implemented, improvements in human rights in Kosovo remain one of the main pressure points on Milosevic for the international community. Progress in resolving the Kosovo conflict is one of the main conditions set by the US and the European Union before Yugoslavia can rejoin the International Monetary Fund and tap international financial support, which is one of Milosevic's principal objectives.

Seselj, however, shows no such concerns, and if he were to win the presidency a crackdown in Kosovo would be inevitable. This would not only result in even more violence but would raise the ominous prospect of armed intervention from Albania.

There was more grief for Milosevic in Montenegro, where neither of the two main candidates won a majority in first round of presidential elections. Bulatovic gained 47 per cent of the votes and Djukanovic 46 per cent. The run-off will be on 19 October.

The position in Serbia itself is confused. The constitution is vague about a timetable for new polls. If the low turnout is confirmed by the final figures, Serbia could face several months without a president, as fresh polls have to be called by the newly appointed parliamentary speaker.

The assembly has not met yet following the legislative elections of 21 September, held simultaneously with the first round of the presidential polls. The Socialists failed to win a majority in the Serbian assembly, gaining just 110 seats in the 250-strong parliament, 16 short of an absolute majority.

Seselj, whose Radicals won 81 seats to become the second largest party, says he is willing to form a parliamentary coalition with other parties, including the Socialists, in order to stabilise the situation. But if he were to gain the Serbian presidency, a deal with the Socialists would make him even more powerful than Milosevic.

Milosevic, Serbia's strong man for the past ten years, was barred by the constitution from running for a third term in Serbia. So he arranged to have himself elected federal president of Yugoslavia (Serbia and Montenegro). But in the presidential elections in Serbia and Montenegro and in the parliamentary elections his plans have gone seriously awry. When a second election eventually takes place, Seselj will probably do as well or better.

SPAIN ■ Government works the oracle with save and spend budget

Virtuous Aznar heads for polls

GILES TREMLETT

LIKE a magician sawing his assistant in half and then putting her back together again, Spain's prime minister José María Aznar has promised to do apparently contradictory things with next year's budget. In 1998, Aznar promises that his conservative government will spend more, save more and also create jobs.

Aznar believes he can achieve that because he is enjoying the fruits of the so-called virtuous circle. Some 16 months after he came to power the economy is in blooming health. Growth is set to rise above 3.4 per cent next year while inflation has been sliced to 1.8 per cent and unemployment continues to fall.

The state is getting richer, and that is what drives the virtuous circle. As the economy booms, so tax income grows and jobs are created. As unemployment drops social security payments fall and more tax income is created. Wealth creates more wealth, at least in the short term. Aznar believes there will be more than enough money both to raise government spending next year by 3.2 per cent and to reduce the budget deficit from three per cent this year to 2.4 per cent in 1998.

The Bank of Spain, one of the chief independent arbiters of the government's prices policy, agrees that a slight rise in inflation is inevitable. But bank president Luis Angel Rojo obviously believes Aznar capable of carrying off his trick. He greeted the 'spend more, save more' budget with an instant interest rate cut, lowering the repo rate from 5.25 to five per cent.

This was another example of the virtuous circle spinning around on itself. Falling interest rates mean lower government debt payments. These make the state treasury richer and leave even more money for government to spend, or to save.

Aznar's budget promises cannot fail to be popular. Both health and education will receive considerably more money next year. Pensions will remain untouched. There are no income tax cuts, but it all sounds suspiciously like an election budget.

Next year Spain is set to join the first group of nations to enter monetary union. Business leaders see this as a blessing. Many voters consider it a sign of their country's increased maturity, an important step in its slow climb towards the top rank of world economies. Aznar, who personally axed $235 million of public spending before approving the latest budget, says he does not want to go to the electorate next year. But the political climate may be either too unstable, or too favourable to the prime minister, for him to hold on any longer.

Aznar leads a minority government. He has already split with one of his supporters, the small Basque Nationalist Party. His position as prime minister depends wholly on the support of Catalan regional premier Jordi Pujol and his Convergence and Union regionalist party.

It is a situation Aznar dislikes. His failure to win an absolute majority at the last election in 1996 was a bitter blow. Pollsters and his own party's overinflated confidence had led him to believe he would be a runaway winner.

The Spanish prime minister may be tempted to ride a wave of monetary union euphoria next year and call snap elections. On the other hand, Pujol may not leave him any choice. The Catalan leader has guaranteed his support only until monetary union membership is achieved. After that any major, or perceived, slight to his region's economic, administrative or cultural aspirations could see Pujol suddenly withdraw his backing.

Many analysts would have liked Aznar to do more than just ride the virtuous cycle with this budget. Spain's economy may look good, they say, but underneath the surface there are lingering problems. It cannot afford its pensions programme. The health service is expensive and inefficient. Spain does not have the sort of flexible labour market needed to allow its companies to compete and adapt to world markets. It also still has, with two million jobless, the EU's worst unemployment rate.

Aznar's outspoken budget adviser José Barrea, known popularly as 'scissor-hands' because of his love of spending cuts, will have whispered these home truths into the prime minister's ear. Aznar has chosen to ignore them, at least for now. His officials accept that change must happen, but fear radical reform would be politically too damaging.

Much good work has been done. Last year's restrictive budget helped cut the deficit from 4.5 per cent to below three per cent. Privatisation, deregulation and the opening up of monopoly industries continue. But Aznar, a cautious former tax inspector, appears to believe he needs a stronger majority before embarking on wholesale reform of Spain's still cumbersome economy.

The virtuous circle, however, will not spin for ever. He may come to regret that he did not take his chances while he could.

BOSNIA ■ Washington balks at keeping troops in Balkans but fears war if peace-keeping force withdraws

Nato muscles in as local elections pose a fresh challenge

THE credibility of Nato is on the line in Bosnia, and as Alliance defence ministers met in Maastricht last week its forces on the ground were snatching control of Bosnian Serb TV transmitters in a resolute display of military muscle.

The propaganda spewing from Bosnian Serb television was but one egregious example of how the country's former warring factions are breaching the conditions of the 1995 Dayton peace treaty. But Bosnian Serbs are not the only culprits. Croats and Muslims have also failed to implement key civil aspects of the peace accords aimed at trying to rebuild a multi-ethnic society in the bloodstained land.

The Stabilisation Force (S-FOR) and officials on the ground are bracing themselves for the next challenge, which will come on 12 October when results from crucial municipal elections are formally announced.

The return of refugees was a key provision of Dayton. If people cannot return to their homes, then Bosnia can never be a multi-ethnic state. The local elections proved the fervent desire of many people to return to the villages from which they were driven during the war. The challenge for the international community is to try to bring that about.

Early results across the country show Muslim refugees winning control in towns where they used to live, but which are now under Serb or Croat military control following the war's 'ethnic cleansing'. Yet under current conditions, refugees cannot even visit their homes except under armed guard by S-FOR.

"If the election results are enforced, it will be a tremendous breakthrough for the return of refugees," says Kris Janowski, Sarajevo-based spokesman for the United Nations High Commissioner for Refugees. "If it is not enforced, we will end up with a frustrated situation and governments-in-exile."

Privately, officials are not optimistic. "This is much more difficult than anything we've done," said one. Another international official, asked how he expects the newly elected city councils to operate, simply shrugged his shoulders and said: "I honestly don't know."

In recent weeks Nato forces have been using their muscle in the Bosnian Serb republic to tilt a power struggle in favour of President Biljana Plavsic, a supporter of the peace agreement who is in conflict with hardline supporters of indicted war criminal Radovan Karadzic.

S-FOR's inability so far to arrest the former Bosnian Serb leader Karadzic continues to place the West's credibility in question. But a major breakthrough was achieved when ten Bosnian Croats charged with war crimes, including top Croat suspect Dario Kordic, surrendered to the International War Crimes Tribunal on 6 October. Most of the 78 people indicted are still at large, however, including Karadzic and Ratko Mladic, former leader of the Bosnian Serb army.

The impetus for the tougher action in Bosnia lies in the June deadline set for troop withdrawal. Nato originally planned a gradual withdrawal from January. But that decision has now been reversed.

The force may even be increased to oversee Bosnian Serb parliamentary elections in November. After that there will be no troop withdrawals before June. Then the dilemma for Nato and other governments will be either to keep troops in Bosnia beyond June and run the danger of establishing a permanent garrison or to leave and risk war.

Washington remains reluctant to keep its troops in Bosnia and Alliance officials now say the most likely option seems to be a troop reduction from 30,000 to 23,000 by withdrawing three battalions, probably one American, one French and one Spanish.

This force would act purely as a deterrent to war, and the Americans would probably withdraw across the border to Hungary. There, with attack helicopters, they would form a highly mobile strategic reserve force ready to intervene if renewed conflict threatened.

IAN MATHER

REUTERS

Blocked airways: Bosnian Serb TV workers sit idle in Pale after a Nato raid

BUSINESS

BZW slims down: British investment bank gives up on global plans - page 28

TRANSPORT ■ Behind the gleaming facade of the TGV is another story: a state-owned company ensnared in desperate financial crisis

France's gravy trains running out of steam

PHOTOGRAPHS: PAUL COOPER

DARIUS SANAI

SNCF, the nationalised rail network, is quintessentially French. Its high-speed TGV trains are a source of national pride, its arterial lines radiating from Paris an affirmation of the authority of the state itself. But the Société Nationale des Chemins de Fer is also losing a fortune and there seems no evidence that the French government has a clue what to do about it.

This week tens of thousands of its workers went on strike to signal their opposition to mild reforms introduced in an attempt to stem the annual Ffr50 billion ($9bn) cost to the state, and to show their determination not to be forgotten as a government-hosted employment conference on a 35-hour-week begins Friday.

What's surprising is that the workers even bothered to strike. Many of them have little to do in any case, and Jean-Claude Gayssot, the communist transport minister, has already indicated his intention not to derail the gravy train with privatisation. The company's president, Louis Gallois, a career bureaucrat, recently assured his 175,000 staff that their jobs were safe – and announced that 2,000 more would be added as part of the socialist government's job creation scheme. Management consultants, meanwhile, estimate the company is 30 per cent overstaffed.

Reforms to the system are likely to continue only superficially, or be abandoned quietly. Earlier this year Ffr134bn of the company's Ffr200bn debt was spun off into a new company controlling the railway's infrastructure; more power was also given to the regions to set their own transport priorities. As a result, projections for the SNCF's losses this year are down to the single figure billions of francs.

But these measures, denounced by union leaders (who called a week-long strike against them in January) as the first step towards privatisation, came in under Alain Juppé's right-wing government. The intentions of France's new socialist rulers were hinted at when Gayssot told the communist newspaper *L' Humanité* that 'reform of the reforms will come after due democratic reflection'. Privately, ministers have ruled out privatisation and redundancies.

That's good news for the rail unions but not for the French taxpayer. As a symbol of the state, SNCF is increasingly apposite. It demonstrates the incapacity of France to impose overdue structural reforms on obsolete industrial structures.

As Hubert Haenel, a Gaullist senator who sits on the company's board, says: "The SNCF has never been in such a critical state. Right now, it's a question of life or death."

While TGV's shrink journey times between capital cities (a new service is due to cover the 300 kilometres between Paris and Brussels in just 85 minutes) the reality of the French rail network is rather more grim. It takes just over two hours to travel by TGV between Paris and Lyon; the journey from Lyon to Bordeaux, a similar distance, takes over seven hours. The old, clanking train leaves just once a day and travels no faster than its predecessors in the 19th century. Miss the lunchtime train between these two major cities and you have to take a connection via Paris-a round trip of more than 1,000km.

Ticket to ride: some of SNCF's 175,000 staff busy themselves at the Gare d'Austerlitz in Paris (above) as a co-worker reads a newspaper (left) ahead of this week's strike

'SNCF has never been in such a critical state. Right now, it's a question of life or death'

Some 20,000km of the 32,000km of track in France are loss-making, and the number of rail passengers has dropped by 15 per cent since 1992 – a rate faster than that in the European Union as a whole. Outside the Paris region, where often dilapidated local services are plagued by muggers, most business and leisure travellers wouldn't dream of catching a train to the next town.

"With skilful marketing, you can make it sound like the whole of France is linked by TGVs," says Gordon Wiseman of the London-based *Railways Gazette*. "But the reality is different. Off the main lines it is impractical to get between centres, whereas in Britain, where the privatised rail service has been much-criticised, the equivalent service can be one train an hour."

Wiseman, a member of the SNCF Society in Britain, points out that a businessman in Le Mans wanting to go to a meeting 130km away in Tours would often have the choice of only two trains a day: "If you overrun by half-an-hour you have to wait another six hours. It's very different from the world of the TGV."

For all their vaunted speed, the TGVs are also less profitable than the company likes to boast. On the Paris-Lille line, passenger numbers are just one-third of the figure projected. Information obtained by *The European* indicates that Paris-Lyon and Paris-Brussels are the only other TGV lines to turn out a profit. Other TGV projects are on hold. A line from Paris to Strasbourg is in doubt, and the proposed 'glamour service' between Paris and Turin was shelved after a study showed it would cost the government several hundred million francs a year on top of the Ffr40bn it would cost to build.

Even SNCF food, notoriously awful in a country proud of its cuisine, is a loss-maker: each time the railway sells a sandwich to a passenger for Ffr35, it loses as much itself.

A total of eight communist and socialist unions, led by the unreconstructed Confédération Générale du Travail (CGT), retain their grip over the majority of the workforce; management receive some 80 local strike warnings a day. Staff on remote lines with limited services still get paid full-time even though they may only stir three times a day as trains pass. Apparatchiks also exist in large numbers, with an overall manager-worker ratio of 1:3, as compared with a French industry average of 1:10.

Gallois, described by insiders as 'intelligent but careful', has declared his intention to increase passenger numbers by five million by 2000; he has reformed the complex ticketing system, which offered up to 300 ticket permutations for the same journey, introduced cut-price fare deals, and so far avoided the kind of confrontation with the unions that ruined the career of Jean Bergougnoux, one of his predecessors who fell foul of the power of the CGT when he tried to raise the retirement age from 50 to 52 in 1995.

But compared with other countries such as Britain, Germany and Japan, which have started the privatisation process of their rail services, the shuffles towards any kind of rationalisation being taken by Gallois are distinctly timid.

Unofficial figures show a slight rise in passenger numbers earlier this year, but it will take more than a few handfuls of lovers travelling on the special 'partner' fares (which were recently extended to include homosexuals) to turn around the fortunes of a company which last year cost French taxpayers a billion francs a week.

"There is little prospect for change under the current system," says an economist with a large Paris-based company with a particular interest in rail transport. "The last government wasn't prepared to take the quantum leap needed to rationalise the system, and the current one certainly won't. There are important decisions to be made: unions need to be confronted, management slashed, accountability introduced, and a culture of listening to the customers should be instilled. But the reforms are piecemeal. There's no medium-term agenda."

Not that there is any shortage of intelligent thinkers within the company: the engineers responsible for the TGV come from a long tradition of French railway design stemming back to André Chapelon, who designed the Golden Arrow locomotive between the wars, and many of its staff are the smartest *polytechniciens*, wooed by high salaries and jobs for life.

But attempts at individuality are stifled, and ingenuity is often lost amid the bureaucracy. One high-ranking SNCF official said his department had been working on a marketing-related project for close to two years and was nearing completion when word came from his superiors that the whole thing be scrapped, without explanation.

After several weeks his inquiries revealed another group of officials, in the same building, had been working on exactly the same project for the past two years. "In some American companies, they play rival teams off against each other deliberately. Here, the difference is nobody had any idea we were working on the same thing."

The government is set to meet the SNCF unions on 20 October to discuss their demands for a 35-hour-week; insiders say they will also seek reassurances that there will be no wholesale reform of the system.

Since the trade union leaders and the government minister will be talking as comrade to comrade, there is little danger of that. What remains to be seen is how long French taxpayers, now being told they have to face austerity measures to meet the entry requirements for European monetary union, will stand for subsidising a train system which looks so impressive in the publicity pictures but gives them so little back in terms of public service.

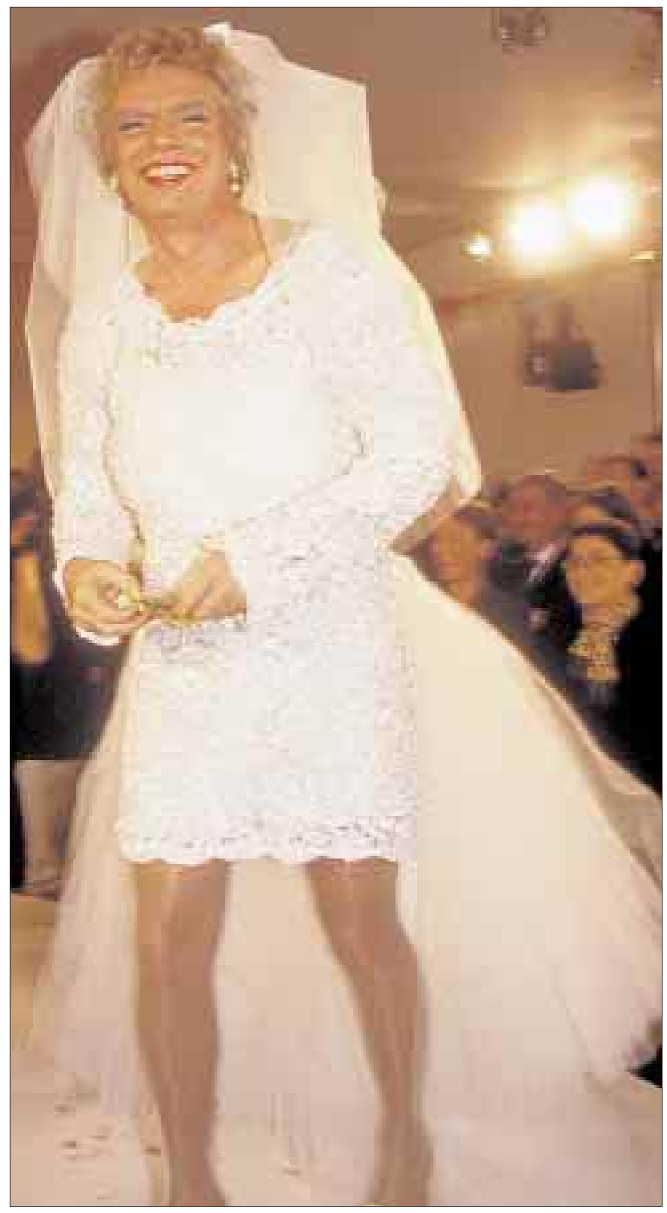
BUSINESS

MARKETING ■ One of Europe's most popular companies may be losing its lustre

Is Virgin bleeding its brand name?

PHOTOGRAPHS: FSP / REX / KATZ / SOLO

Don't show him a camera: Branson's smiling Virgin launches.



Clockwise: the cola, the bride, banking, cosmetics, Eurostar, the airline and vodka

RUPERT WRIGHT

TAKI Theodoracopulos, the Greek playboy, millionaire and writer, likes to be treated well. He travels first class. Last week he tried to fly Virgin Atlantic to New York. After waiting for three hours on the tarmac at Heathrow, without being told the reason for the delay, he decided that enough was enough. "I'm not English. I don't like bloody waiting," he says. "I told them to unload my luggage, I wanted to get off the plane. They blatantly lied to me and told me that all other flights were booked. This was bullshit. I got a seat on Concorde. But I will never book with Virgin again."

On another first-class ticket, this time on a crowded Virgin train, the seats are falling apart, and it's hot. Even though it is evening in Scotland, and the air is cool outside, inside the train is unbearably hot. Every time the guard walks through the carriage a fresh set of passengers complains. Each time he makes a different excuse, or says that the air conditioning is about to cut in. After a while he stops walking through the train. Finally, just outside London, he comes through giving each passenger a small, warm can of cola. Virgin Cola. As if this makes up for 480 kilometres of suffocation.

Welcome to the Virgin travel experience. It is not supposed to be like this. Virgin has an unrivalled level of recognition and brand loyalty. Would you buy a can of cola called Lufthansa? Drink vodka made by SNCF? Bank with Tamla Motown? Probably not, but Richard Branson, Virgin's chief executive, has built a fortune from an eclectic bunch of companies, with no similarities except the Virgin name, which for many people signifies service and quality. "The Virgin name is everything," says Branson.

But exposing Virgin's brand name to the perils of running a former state-owned railway is a risky business. For nearly 20 years Virgin has been synonymous with youth, irreverence and service. Virgin delights customers from its megastore on the Champs-Elysées to low-cost flights around Europe. Branson portrays himself as the consumer's friend, not his enemy. He takes on monopolies, such as state-owned airlines – and wins. The little touches are good: passengers on flights look delighted to receive choc ices during the in-flight movies; the stewardesses are young and at Heathrow there was even a model railway in the upper class lounge, but it had to be removed because it kept breaking down. But Branson's matey image does not prevent the profits from rolling in.

After publishing a student magazine in the 1970s, Branson went into the record business, where he signed up Mike Oldfield, the Sex Pistols, even the Rolling Stones. He built up a group and floated 35 per cent on the stock market in 1983. The city was not impressed. So Branson bought the shares back.

The deal that set him up was the sale of Virgin Records to EMI for £560 million ($896m) in June 1992. The Virgin website says that "it was a sad day for him and all who believed in the importance of independent record companies". But it was not a bad day for Branson's bank manager. Flush with cash, Branson was careful not to blow it. For a buccaneer, he is innately conservative. Instead of using his own money he has licensed his brand name to a disparate group of activities, including banking; hotels and clubs; entertainment stores throughout Europe; vodka; copy shops; a bride's shop; Eurostar; a stake in a London rugby club; and now cosmetics.

In busy Oxford Street, London, Branson launched his latest joint venture at the end of September. Virgin Vie is cosmetics and toiletries, upmarket Body Shop at a premium. The plan is to set up a network of shops, direct mail, and personal sales. The Avon Lady has a rival, and she's a Virgin.

Virgin Vie, formed with two disenchanted former Body Shop employees, Liz and Mark Warom, Branson claims that he has found a gap in the market selling expensive Swiss-style cosmetics more cheaply than the competition. The description of the product is expansive: "Soothe your senses. Picture a fast wide river flowing out to meet the sea under a deep blue cloudless sky. Remember a thoughtful wander along the bank and taste the clean fresh air mingled with ripe fruits. Hear a pebble being tossed into the water and take heart as the circles increase with determination."

To achieve this, apparently, you buy the Faith River Bank Collection (£12), a Set in Stone (£15), and a Faith Light (£12). Or in other words, you take some potpourri, pour it into a pebble, and light a candle in the middle.

In partnership with Branson's ballooning pal Rory McCarthy – a former stockbroker with no experience in retailing – Victory Corporation was floated on the Alternative Investment Market in London two years ago. Institutional investors paid £45m for a stake in Victory. Virgin has a ten per cent share in Victory for free, as well as a 50 per cent stake in the cosmetic company.

Branson has leveraged the Virgin brand with characteristic skill. But this dilution of the Virgin brand name and the franchising of services has led to dissatisfaction among some leading Virgin directors. Trevor Abbot, a former head of the airline, remains a Virgin director but spends most of his time working on Passport, a venture capital group.

Gordon Medcalf, a former director general of the Marketing Society, says that no product is entitled to a free ride: "Virgin needs to be careful that it is not bleeding the brand but building it." Another top advertising executive, who does not want to be named is more blunt: "Virgin is a great brand name, but it's an accident waiting for a wall."

Will Whitehorn, one of the directors of the West Coast Mainline, has no experience running a railway. He is a former public relations man for Virgin. The railway certainly needs some public relations, but it also needs some rolling stock. "We admit that the railway is appalling, but we are working to renew it," says Whitehorn. He says that there have been complaints, but people are sympathetic to what Virgin is doing to upgrade the service. Even though failure may not ruin the brand name, it could have a knock-on effect on the other businesses.

BUSINESS

AUTOMOBILES ■ Fiat's investment of up to $1bn in Russian car manufacturer is the first step in a frantic rush to take a stake in one of the last lucrative markets

Turin comes to Novgorod

CRAIG MELLOW

WANDER the courtyards of Moscow on a weekend afternoon and you hear the sound of men working on their motor cars. Soviet vehicles were not built to last. Only foolish Russian drivers hit the road without a mini-garage worth of tools and spare parts in the boot. The sight of some lost soul under the bonnet while backed-up traffic snakes around him is a Moscow trademark. Since the fall of communism tariffs of more than 70 per cent on imported cars have condemned all but the very rich to the choice of either a Lada or a Volga, both of which require constant maintenance.

This will change with the signing last week of a nearly $1 billion joint venture between Italy's Fiat and Russia's Gaz, the country's second largest car manufacturer. Gaz is best known for its gas-guzzling apparatchik carrier, the Volga. The two companies plan to make 150,000 Fiat cars at a retooled Gaz facility in Nizhni-Novgorod. The cars will sell for around $13,000 each.

The Kremlin attached heavy hype to the Fiat deal, orchestrating the signing on 29 September during a state visit by Italian Prime Minister Romano Prodi. Boris Nemtsov, Russia's first vice-premier, immediately took off for Nizhni-Novgorod, where he promised the folks in his home town their medieval fortress city on the river Volga would become 'a new Detroit'.

"This is a great deal for Gaz,"said Victor Frumkin, an analyst at the United Financial Group in Moscow. Fiat, with money from the European Bank for Reconstruction and Development (EBRD), has pledged to pour $850m over three years into the venture, with more to come. The Russians will contribute a plant they inherited for nothing from Soviet power, and which needs a stem-to-stern overhaul.

"At least the walls and ceiling are already there," says Gualberto Ranieri, vice-president for industrial policy at Fiat Auto. Despite the unequal contributions, Gaz and Fiat each get 40 per cent of the new company. EBRD will control the swing share.

Fiat is not the only auto major willing to accept tough conditions to break into the market. Russia is short on cars, even compared with its former satellites such as Poland and Bulgaria. Car ownership rates in Russia are a mere 80 per 1,000 people, against 130 in Bulgaria and 176 in Poland. Despite the hardships of economic transition, Russians have bought more than three million new cars since 1992, keeping domestic factories working if not profitable. To own as many cars per head as the Polish, they will have to build and buy a further 14 million. Few expect any significant reductions in tariffs. The only way to sell cars is to make them in Russia.

This realisation has prompted a rash of small joint ventures in the past 18 months. Chevrolets, Opels, Renaults, Hyundais and Daewoos all are, or soon will be, assembled in Russia. Ford lately cut the ribbon on a facility in Belarus, which is joined to Russia by a customs union. But the Fiat deal dwarfs all its rivals, at least on paper. In Gaz, Fiat has linked up with the most progressive car maker in Russia. For this status, the plant can partly thank Nemtsov, the rising liberal political star who was Nizhni-Novgorod's governor before vaulting to the Kremlin.

During the mass privatisation programme of 1993-94, Nemtsov foiled a Gaz management plot to grab the plant for themselves, and forced them to accept a progressive new director, Nikolai Pugin. He has whipped the Stalin-built plant, whose hulking front gate still proudly proclaims 'Founded in 1934' into a company which analysts expect to turn profitable once it sheds its Soviet-era social obligations like housing and hospitals.

Gaz is the only post-Soviet auto firm to introduce a promising new model, the Gazelle light truck. The Volga is considered the most competitive of traditional Russian cars, packing a lot of wallop for a sticker price which starts around $8,000. A quirky transmission and atrocious fuel economy cast doubt on the car's long-term viability. But these details have not kept Gaz from riding the Russian stock market's great bull run. Company shares have soared from $12 to $144 over the past two years.

"Some of these snooty investors have begun to realise there is value in a car they might not drive themselves," says James Fenkner, chief of research at Moscow's CentreInvest. Gaz's hand was also sought by Toyota and Peugeot, among others. A management spokesman said the firm chose Fiat because only the Italians offered to build up-to-date models in Russia. Nizhni-Novgorod is slated as the latest outpost of the company's ambitious world car project.

Fiat hopes to gain this distinction for its new Palio and Siena lines, five variants of which can be built on the same chassis. World cars are already for sale in Brazil and Argentina, with plants in Poland, Turkey, Morocco and South Africa coming on line next year. Fiat-Gaz is also supposed to yield first fruits by the end of next year. Unlike some other high-profile assembly projects, Fiat's is geared to a price which is realistic for the Russian pocket book.

The 4-wheel drives that General Motors is making in Tatarstan retail for about $24,000. This is out of range of most Russians, and one reason why the venture has produced a bare fraction of its promised 50,000 annual units. Daewoo Esperos from Rostov-on-Don cost around $18,000. The few Russians who have this kind of money will probably be more interested in the European prestige of Volvo or Saab. Fiat's $12,000 price, by contrast, is only a few thousand above top-of-the-line Ladas, and about equal to the likely cost of Lada's forthcoming 'tenth model' – if it is forthcoming. Lada management has been promising the thing for half a decade.

Lada, or Vaz, as the company is called in Russia, should be Fiat-Gaz's fiercest competitor. The Soviet government built it in the late 1960s to give private citizens their first shot at car ownership. Ironically, it was Fiat engineers who built Vaz. The barracks city thrown up around it was named after Italian communist icon Palmiro Togliatti. Vaz/Lada still dominates the car market, churning out 600,000 vehicles a year to Gaz's 200,000. But its management succeeded where Gaz failed, turning Russia's largest employer into a fiefdom milked for personal convenience and gleefully indifferent to concerns of profit and loss.

Despite its hammerlock on the consumer, Vaz bleeds red ink because of monumental inefficiency. It squanders an average 350 man-hours to build one automobile, more than ten times the industry standard. Vaz is among the largest of Russia's tax debtors. It owes R3,000 billion ($516m) to the treasury. This debt give Kremlin reformers like Nemtsov a sword to brandish over its head.

But Vaz is protected by a powerful governor of its own, Samara's Konstantin Titov. Successive ultimatums to pay up or face bankruptcy have been brushed off. The latest deadline, 1 October, passed without incident.

Vaz has an embryonic joint venture with GM's European arm, Opel, to produce the Astra, a car which will compete worldwide with Fiat's new models. But little can be expected until the management mess is sorted out. This looks unlikely to happen soon. The most potent threat to the Fiat-Gaz marriage looks like an argument between partners. They already speak different languages on the question of adding Russian-made components to what will start as a simple assembly operation. Fiat has tax breaks on the investment until 2001; by then it must be doing more than talking.

Stretch Lada: room for a few comrades in the back who can push when it breaks down

PHOTOGRAPHS: NIKOLAI IGNATIEV NETWORK & REX

Tea break and pasta: Lada workers in Togliatti, on the river Volga, prepare to learn Italian

EAST GERMANY

Trabant factory makes a noise

SACHSENRING, once maker of one of the world's worst motor cars, the Trabant, has been rescued. Last week Sachsenring floated on the German stockmarket. Its shares were oversubscribed nearly 30 times. The company is now valued at around DM200 million ($112m). It is a remarkable turnaround for a firm that was heading for the scrapheap.

"Our expectations have been well and truly exceeded," says Ulf Rittinghaus, chairman of Sachsenring. When Ulf Rittinghaus, a marketeer, and his brother Ernst Wilhelm, an engineer, arrived at the old Trabant works in Zwickau, Saxony, in 1993 they found an industrial museum. Where once more than 11,000 people had worked to provide cars for east Germans, only 284 employees remained. Production of the Trabant had ceased; the car assembly facilities had been sold. The car parts business was losing money. It seemed only a matter of time before the Treuhand, the German privatisation agency, closed the place down.

"My brother Ernst took some persuading that the ruined industrial site could become a marketing strength," says Ulf Rittinghaus. Within four years the brothers have rebuilt the factory, investing DM150m in new plant, machinery and products. They sold off the large stock of Trabant spares to collectors of the cult cars.

The brothers interviewed all the employees and persuaded many of the east German workers to remain with the firm. They offered a flexible working week to cope with variable demand.

Product development has been key to the success. Sachsenring supplies Volkswagen with subframes and suspension struts for the new Golf and Passat, makes doors for Audi and bearings and joints for Opel. A ten-year contract has just been signed with Mercedes-Benz to manufacture revolutionary aluminium truck cabs.

Growth has been spectacular. Sales this year are expected to reach DM270m, rising to DM360m in 1998. Profits are estimated to be DM10m in 1997 and DM27m next year. "We now have an order book for more than a billion deutschmarks," says Ulf Rittinghaus. The brothers are now interested in making their own cars. They have unveiled a fuel-efficient van called the Uni 1., which is more sophisticated and cleaner than the Trabant.

DAVID BRIERLEY

REV

FINANCE

BANKING ■ Fate of the British investment bank sends a warning shot over Europe's ambitions

Barclays loses nerve with BZW sell-off

SAMANTHA FAIRFAX

BILL HARRISON's attention to detail cannot be faulted. Two weeks ago the former BZW chief executive dictated a memo spelling out how the bank's 7,200 staff should answer the phone. Then he personally put in a few secret calls to check the message had hit home.

Unfortunately, his overall strategy has not been regarded as successful. Given a mandate to build a bulge bracket investment bank, he was called into a meeting to discuss the bank's strategy in light of Traveler's decision to buy Salomon Brothers. Harrison was blunt.

"We must get critical mass on a global scale, or pull out," Harrison told Martin Taylor, chief executive of BZW's parent, Barclays Bank.

For Taylor, and the rest of Barclays' board, there was only one choice. At the end of September Harrison was on the way out of Canary Wharf, in London's Docklands, reportedly with a pay-off of up to £5 million ($8m). The corporate finance and equity divisions were to be sold. In a final insult to the BZW bankers, this job has been put in the hands of Goldman Sachs, the American investment bank.

Barclays' decision last week to put a third of BZW's business up for sale effectively ends its global investment banking ambitions. Following the restructuring of NatWest Markets, it signals a retreat by the British from the top tier of global banking.

The move also sends a warning to the remaining European banks with global ambitions that the rise of shareholder power and the concept of shareholder value spreading across the continent threatens to leave American banks with a dominant share of the European equity business.

Or in the words of a leading London banker: "Most European investment banks are finished. BZW is one of the few profitable outfits. Deutsche Morgan Grenfell, the investment banking arm of Deutsche Bank, has spent millions for little return, while some of the Swiss banks are getting a paltry five per cent return on equity. They may keep subsidising them, but for how much longer?"

Less than a year ago the future looked a lot brighter at BZW's Canary Wharf offices. Harrison arrived from Flemings in June 1996 with two years and a £5.8m contract to push BZW into the premier league of global banks, but saw his ambitions dumped after little more than a year. The bank is believed to have invested around £700m ($1.13 billion) building up the business, plus £200m in concentrating the operation in new offices at Canary Wharf.

The money has not been badly spent. The fixed income business, led by the American head of global markets Bob Diamond, is already showing signs of return from the hirings of executives such as Abigail Hoffman, the aggressive head of global origination. The equities business, which was seen as undervalued and under-resourced, had also started to make headway, winning the coveted global co-ordinator slot for the $15bn sale of Telecom Italia.

'They have done a U-turn just as the business is improving'

While rival banks circle to examine the remains of BZW, there is sympathy for the treatment of Harrison's management. "They have done a U-turn just when things were coming together," says a London banker. "They have made a name in telecommunications by winning the mandate for Telecom Italia, and this could have led to a profitable business in an active sector. Why didn't BZW give Bill Harrison his full two years to get the operation up and running?"

The simple answer is that Barclays' shareholders lost their nerve. BZW's return on equity reached 13 per cent in the first half of the year, compared with six per cent in 1996. But despite the improvement it trailed well behind the 34 per cent earned by Barclays' retail division. This is shortsighted of Taylor and his board. There may be rich pickings for British banks at the moment, with even supermarkets such as Sainsbury's making headway into this lucrative business, but competition will get fierce and margins will come down. That leaves Barclays with asset management and a corporate business, which is profitable now, but could be punished in a future recession.

The fat returns in the British retail sector contrast sharply with the thin margins on offer elsewhere in Europe. It has stopped the growing concentration on investment banking by the top tier of European banks. Swiss Bank Corporation (SBC), Deutsche Bank and ABN Amro have spent heavily along with the Swiss-American Credit Suisse First Boston (CSFB) and France's Paribas Group.

Barclays' chief executive Martin Taylor first floated the idea of breaking up BZW to the Barclays' board in January. After poor first half results Taylor asked Harrison for a radical plan to relaunch the business. Harrison pushed for the purchase of an American brokerage to plug BZW's principal weakness, its lack of presence in American equities. Insiders suggest the plan included a bid for Lehman Brothers, the fourth largest US investment bank, valued at $19.8bn after a surge in its share price over the last year.

BZW has set up a fund to keep people at the bank

Paying just a little bit too much for a seat at the top Wall Street table has become commonplace this year. European houses have queued to feast over what remains of the independent investment US banking sector. SBC swooped to take Dillon Reed, a small but prestigious US investment house, from under the nose of ING Group in June. ING has bounced back by paying $600m for New York-based Furman Selz, a boutique investment firm with a strong presence in US equities.

Barclays' board balked at the asking price for the few remaining houses with the final decision over BZW's fate prompted by the takeover of Salomon Brothers by the Traveler's Group. "This confirmed our view of the way the investment banking industry is going," says a Barclays source.

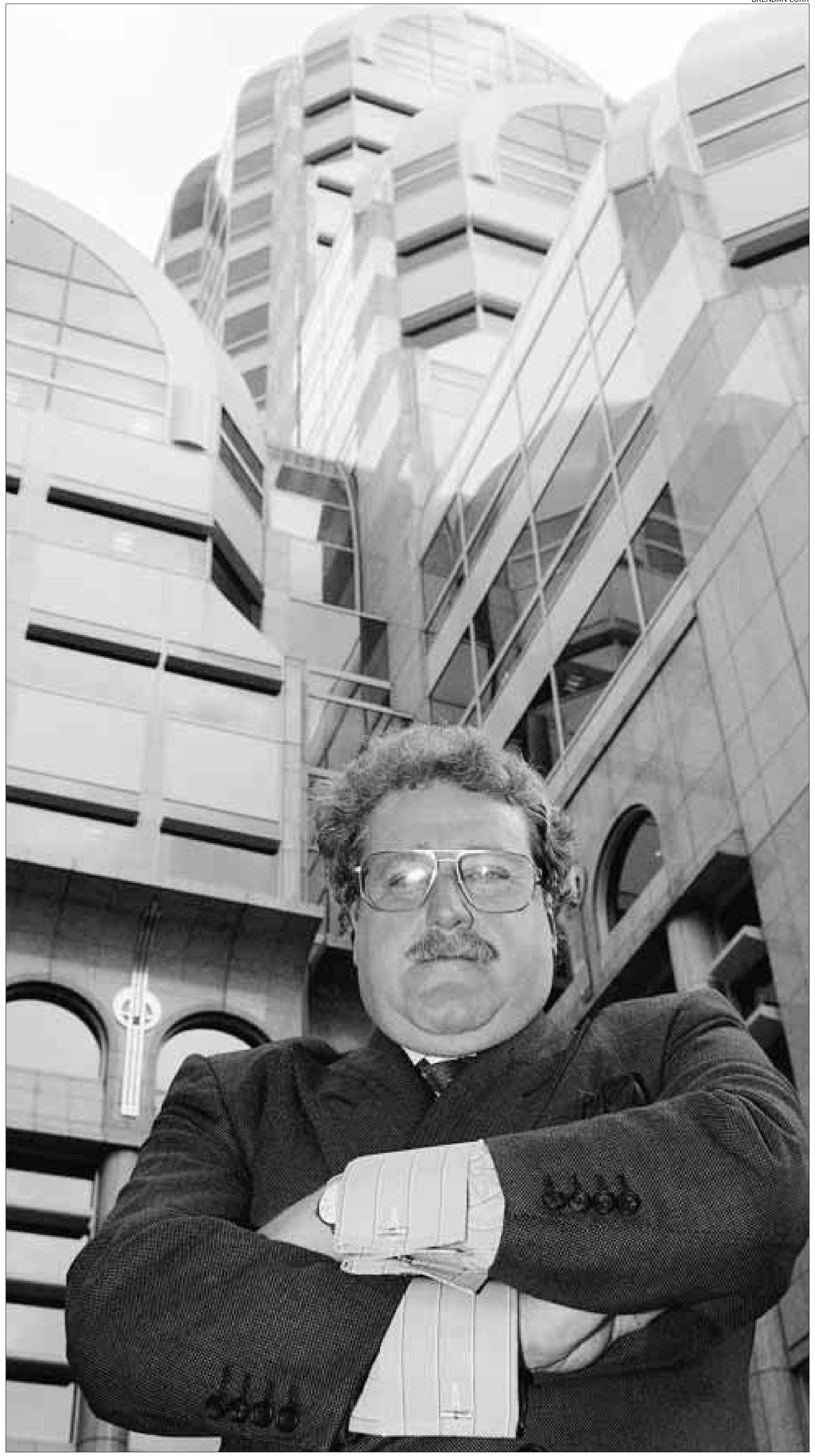
While Barclays insists there was no overt pressure from shareholders to shake up BZW, the speed of last week's announcement suggests otherwise. The bank was forced to announce a sale without a buyer as the newly integrated operation will have to be revalued to separate out the businesses for sale. The bank has already had to mount a £25m defence to keep its senior executives locked into the sale. "The lesson is that you can either be a niche player or a substantial player," says Jonathan Davy, deputy chairman at BZW and former head of the equities business.

The potential suitors highlight the growing transatlantic battle for booming equities business. The American contingent is headed by BZW's original target, Lehman Brothers, which remains the favourite among insiders to take on the BZW assets as it seeks to build up its European equities operation after recovering its position on Wall Street over the past two years. With JP Morgan also in the frame from America, the leading European contender is Germany's Commerzbank. Head of global equities Mehmat Dahlman, who arrived in May from Deutsche Morgan Grenfell in Tokyo, is charged with building Commerzbank's global equities and has already made key hires. Commerzbank insists it is committed to growing organically rather than by acquisition and has already doubled global equities staff from 150 to 300 in three months and plans to add 200 more to its London office. However, one source points to its 1995 acquisition of Jupiter International, a London-based asset manager, as a template for rescuing the BZW rump. Jupiter staff were locked in for the sale with a slice of equity in the business.

Of the other Europeans, CSFB is a potential suitor for BZW as it seeks to strengthen its European franchise and catch up with its Swiss rivals, UBS and SBC. BZW's corporate advisory business would also fit with ING Barings, while the Paribas Group and Bank Brussels Lambert are seen as outsiders.

What is left of BZW will now be called Barclays Capital Group.

BRENDAN CORR



Trading places: BZW's Bill Harrison is set for $8 million pay-off

ECONOMICS ■ Why are there so many forecasters? Because most of them are not of any use to anybody

Ask two economists, get three answers

BRIAN READING

THE collective noun for economic forecasters should be a 'plethora'. There are an awful lot of them. The Treasury publishes a survey each month of rival forecasters' projections for the British economy. In September it covered 47 forecasts (including its own).

Consensus Forecasts does the same for a number of countries. Its September survey included 35 forecasts for Britain, nine of which were not in the Treasury's survey. Together the two covered 56 forecasters and these are but a sample of a bigger universe. Another possibility is a 'cluster' since, as the chart shows, there is little difference between most forecasts.

Although the range from lowest GDP growth forecast for 1998 (1.7 per cent, Dresdner Kleinwort Benson) to the highest (3.6 per cent, Morgan Stanley and Lombard Street Research) is quite wide, 40 of the 56 forecasts were within 0.5 per cent of the 2.5 per cent average. For inflation in 1998, the underlying rate which the government targets, the range is from 2.1 per cent (Liverpool University) to four per cent (James Capel, but with Lombard Street Research next highest at 3.8 per cent).

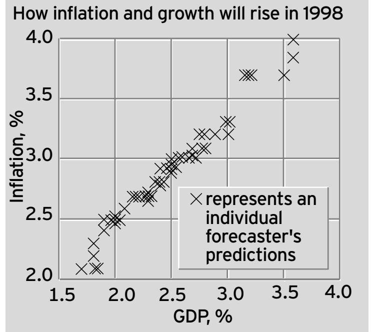
But 44 of the forecasts are within 0.5 per cent of the 2.9 per cent average. Why so many forecasters? The cynical answer is that, like car mechanics, the worse job they do the greater the demand for their services. No forecaster gets it right (or wrong) all the time, although some have a better track record than others. More seriously, most forecasts are produced as a basis for planning and advice.

City forecasters, who are the most numerous, use their forecasts to make predictions about government policy and likely financial market movements. Corporate forecasters are interested in product markets, wages and prices. Governments make forecasts to decide upon policy. Academics hope to influence policy. So while forecasts are similar, the uses differ widely.

Why do forecasts cluster? Again cynically, because most forecasters are risk averse. They fear to stray too far from the census and be wrong. But more realistically, forecasters use the same basic data and have similar econometric forecasting models. Where there are significant differences it is because some, like Lombard Street Research, are more monetarist than others.

'X' MARKS THE SPOT

How inflation and growth will rise in 1998



Finally, the consensus forecast itself has a better track record than many individual forecasters. Econometric forecasting models are, however, basically flawed. They assume relationships between economic variables (such as how much is saved out of income or at what rate of unemployment inflation starts to accelerate) will remain the same in the future as they have been observed to be in the past.

Forecasters face the past as they row their models into the future, believing that they are going they have just come from. But the world changes, and sometimes quite rapidly. Moreover, the past is full of things that had never happened before. Events such as German unification present forecasters with serious problems.

Today some fundamental relationships appear to be changing. The following three propositions, although overstated, suggest where conventional forecasters may err.

Changes in exchange rates are no longer caused by differences in national inflation rates; they cause national inflation rates to converge. Monetary policy no longer operates with a lag of one to two years; it has an almost immediate effect and may even operate with a lead. National inflation will not be a major problem until global inflation takes off.

The first proposition supposes that the purchasing power parity theory has been turned on its head. It is simple to see why. Differences between the inflation rates in the Group of Seven major industrial countries is expected (by the OECD) to be less in 1997 than at any time in the last 50 years. The average is 1.9 per cent, itself the lowest since 1962, the highest 2.7 per cent and the lowest 1.3 per cent.

Moreover, inflation has been extraordinarily stable in the 1990s. For most G7 countries, the 12-month rate of inflation in any month has never been more than one per cent higher than in the same month of the previous year.

Exchange rates, on the other hand, have been highly volatile. Since mid-1995 the yen has fallen 30 per cent against the dollar, the deutschmark has fallen 20 per cent and the pound has risen 30 per cent against the deutschmark. But US consumer prices have risen six per cent since mid-1995, British by five per cent, German by 4.5 per cent and Japanese by two per cent.

Not only are these inflation differentials far smaller than exchange rate movements, they are in the wrong direction. The currencies of countries with stronger economies and faster inflation have risen. In these days of world over-investment, not least in the Pacific, exchange rates changes share out growth and inflation.

In a buyers' market, prices fall in countries whose currencies rise instead of rising in countries whose currencies fall. Hence the volatility of exchange rates and the stability of inflation rates. The second proposition, that monetary policy now works without an appreciable lag, also stems from the changed relationship between real economies and financial markets. Excess broad money growth, as in Britain and America, affects financial markets first.

It stimulates demand primarily by driving up share and real estate prices. But while it takes time for wealth effects to feed through to higher investment and increased consumer spending, the brakes applied by a tightening of monetary policy, in causing exchange rate appreciation, stock market corrections and falling real estate prices, act almost instantaneously.

Indeed the more so when markets, working from forecasts, anticipate policy changes. As long as monetary policy acts almost instantaneously – that is, while there is world excess capacity – market corrections rapidly reduce national inflationary pressures.

No G7 country will suffer a big inflation. It may blip up to four per cent to five per cent but that is all. The problem will come if under-investment follows over-investment leading to a world shortage of capacity. The immediate and powerful effects of applying monetary brakes argue for greater recklessness in allowing rapid growth to continue until inflation accelerates. Alan Greenspan, chairman of the Fed, understands this. The Bank of England monetary committee should take the point and delay raising British interest rates.

The author is a director of Lombard Street Research

PRIVATISATION ■ Centre-right government thwarted by lack of financing

Bulgaria battles EU delays

PAULA HAWKINS

INVESTORS in eastern Europe will not be surprised to hear the news that the Bulgarian privatisation programme has ground to a halt yet again. But they might be surprised to discover that, for once, the cause of the bottleneck is not the Bulgarian government but the European Union.

Bulgaria has been one of the most reluctant countries to privatise, standing by while its neighbours embraced capitalism and encouraged competition. Successive governments talked a good game in public but in private preferred to reward their cronies and failed to restructure loss-making state-owned enterprises. But the Union of Democratic Forces, the new government which swept to power at the beginning of this year, defeating the socialists in a landslide election, promised to change all that.

The initial signs were good. At the meeting of the European Bank for Reconstruction and Development in London in April, Alexander Boshkov, Bulgaria's deputy prime minister, announced an accelerated programme under which 30 priority companies – the cream of industry – were to be sold. He gladdened the hearts of foreign investors and the International Monetary Fund by announcing that global investment banks would be selected to advise on the sales, and that the United States Agency for International Development (USAID) and the European Union Phare programme would pay retainer fees to the investment banks.

USAID was to pay retainer fees to cover the sale of just three companies. By July, a financial adviser – KPMG Barents – had been appointed to advise all three. But six months on after Boshkov's initial announcement, EU Phare has yet to appoint a single adviser or consultant.

"Initially, we were delighted with the response from the investment banking community," says Diana Christozova, a spokeswoman for the Bulgarian privatisation agency. "More than 85 investment banks, consultancies and other agencies applied to advise on the privatisations." Among these were the Netherland's ING Bank and ABN Amro, Austria's Creditanstalt and Bank Austria, Deutsche Morgan Grenfell, Dresdner Kleinwort Benson and Société Générale.

ASHLEY ASHWOOD/FT

Bulgaria means business: Alexander Boshkov, deputy prime minister, is thwarted by Europe's broken promises

The deadline for selecting the advisers was 1 September. When that date passed, officials at EU Phare explained that the deal was because of "breaches of Phare's internal rules".

The privatisation agency was informed that a decision would be given by the end of September. But two weeks later Bulgaria's privatisation authorities are still in the dark. "We've heard nothing from Brussels," says Christozova at the agency. "We're still waiting for their approval and we have not been told why there's been such a long delay." EU Phare was not available for comment.

Bulgaria can ill afford such delays. The country is just beginning to emerge from the throes of a deep economic and financial crisis, and a loss of credibility at this point in its transition would be crucial.

Off its own bat the country has completed two major sales, Sodi Devnya, a chemicals firm, for $160 million to Solvay, a Belgian company, and MDK, a copper smelter to Union Minière, also Belgian. Union Minière paid $80m in cash and is committed to investing another $220m over five years.

The government has appointed Deutsche Morgan Grenfell to sell a stake in the state-owned telecoms company, Bulgarian Telecommunications, which has been mandated to find a strategic investor. Firms such as Deutsche Telekom and France Telecoms are said to be interested.

The government has applied for an upgrade in its B3 rating from Moody's Investor Service and is also trying to obtain a rating from Standard & Poor's so that it can borrow $300m on the euro markets. "If the Bulgarian privatisation programme is seen to falter now, this could be damaging to the country's prospects," says one analyst.

"But looking long term, I don't think there are serious problems on the privatisation programme. The government appears to be very committed."

One sign of its commitment has been its proposals to overhaul the investment climate radically, removing some of the most bureaucratic elements of the investment process.

And those who have written Bulgaria off as a Balkan backwater with little to offer the investment community will be surprised.

"There's a great deal of interest in the Balkans at the moment," says one London-based fund manager. "Investors have been very excited by Romania and Croatia, and now they're looking for new opportunities in the region. Contrary to popular belief, there is quite a lot to buy. I think financial investors are going to be interested in petrochemicals and chemicals firms in particular."

The firms tipped as a good buy include Neftochim, Yambolen and Sviloza, the Varna shipyard, and machine tool and engineering companies Kremikovzi and Stomana.

Unless EU Phare comes forward with its approval, financial investors will just have to wait and see, or invest, elsewhere in the region.

IN BRIEF

A Dresdner Bank board member in Germany said this week he would resign after his home was raided by investigators conducting an inquiry into whether the country's top banks are helping clients avoid tax. The director in question, Hans-Günther Adenauer is the second top banker to give up his position during the investigation. The Dresdner supervisory chairman Wolfgang Röller resigned last month during an inquiry into whether he had directed money to Liechtenstein.

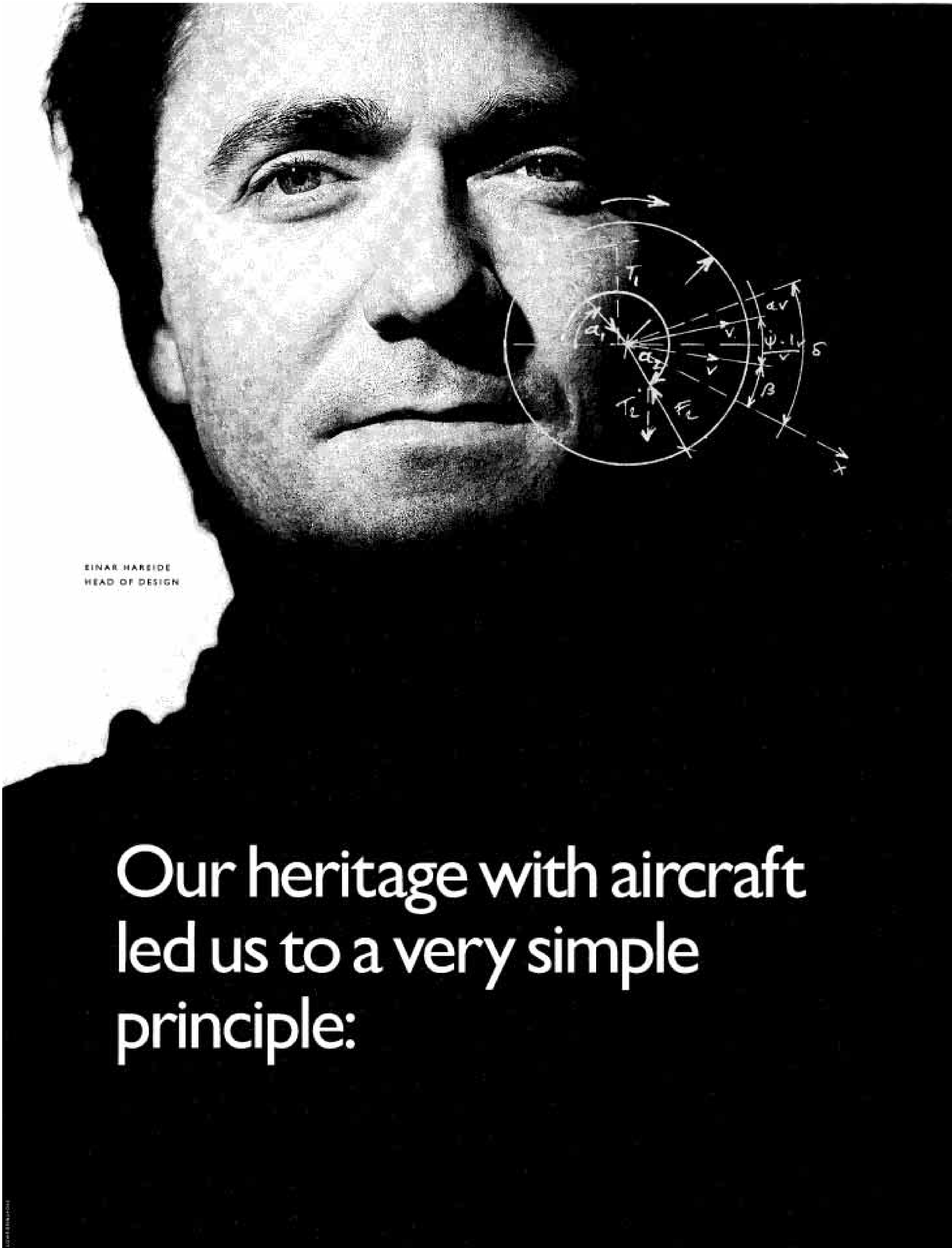
Adenauer has worked at Dresdner for 30 years, 11 of them on the bank's board. The investigations centre on whether the individuals have evaded tax personally and are part of an on-going investigation into the financial community's willingness to aid customers avoid the taxman.

The third largest public bank in Germany is to open a branch in Russia. Commerzbank will invest DM20 million in a new site which will be opened in June next year, according to local reports. The subsidiary will be regarded as a Russian bank, although it will be wholly owned by Commerzbank. Westdeutsche Landesbank Girozentrale, the country's third largest bank already has a venture in the country.

The Spanish bank Banco Bilbao Vizcaya is to acquire a significant stake in the Brazilian Banco de Credito. The purchase of a 51 per cent stake, authorised this week by the governor of the central bank Gustavo Franco, is reported to cost $1.2 billion. The Spanish bank will be involved in the auction to buy Banco Meridional as part of a conditional agreement to gain control of the Latin American Banco de Credito Nacional.

One of Italy's leading insurance companies Toro Assicurazioni is considering raising up to L500 billion ($285m) in equity and debt offerings in order to take a stake in Banca di Roma, the country's second largest bank. The Italian government's 36.4 per cent stake in Banca di Roma is expected to be sold by November and the Turin-based insurance company controlled by car manufacturer Fiat could be in a position to make an offer. The bank claims that it is still to make a decision on the offering, saying that it has the capability to make the purchase by drawing on its own resources.

Banca di Roma had, until last month, conducted talks with Banca Agricola Mantovana which planned to acquire up to seven per cent of the Roma shares for a reported L700 billion. Banca di Roma made L70.8 billion in profit last year but reported a first half loss of L2,790 billion. The Italian government is preparing itself for monetary and economic union and wants to offload its stake in Roma to help reduce its debt.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Our heritage with aircraft led us to a very simple principle:


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There should be no forces outside your control.
Building a performance aircraft is all about the balance of opposing forces.
Velocity competes with inertia. Thrust with gravity. Heat with cold.
The same applies to a performance car.
A suspension system comfortable enough to iron out the roughest road must have a chassis firm enough to cradle you around the corners.
An engine powerful enough to produce exhilarating mid-range torque must have the handling to match.
A vehicle that delivers exceptional performance must have a safety system that gives you the confidence to use it.
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FINANCE

Central Europeans issue innovative bonds with interest

EMERGING market borrowers have advanced their share of the global bond sector during the first nine months of the year buoyed by debut issues from a slew of central European countries and the redemption of Brady bonds by Latin American states.

Total issuance reached $558.3 billion by 30 September compared with $473.2bn for the same period a year earlier, according to Capital Data Services. Overall, the share of emerging market issues climbed from ten per cent in 1996 to 13 per cent in the first nine months of this year.

While the Brady bond redemptions have captured most attention because of their sheer scale – $6.0bn since June – central Europe has been the more innovative region. Russia's inaugural rating provided a benchmark for the region, with its debut eurobond issues swiftly followed by the cities of Moscow and St Petersburg, five banks and three major oil companies.

Last month Nizhni-Novgorod became the first of Russia's regions to tap the international bond markets with a $100m issue led by ING Barings. It will be followed by Sverdlosk, Irkutsk, Samara and Tatarstan before the end of the year.

The confidence in the central European market was also reflected in debut deals by foreign borrowers in some of the region's more esoteric currencies. Sweden's export credit agency followed its first Estonian kroon deal with a $100m deal denominated in Lithuanian litas.

Bulgaria is expected to come to the market with a $300m issue if it secures a desired ratings upgrade from B3 to B1 to reflect the positive impact of the tight monetary policy pursued since July.

Turkiye Garanti Bankasi, the Turkish bank, made a successful debut on the Eurobond markets with a 144a five-year issue that raised $350m. The deal was raised from the initial target of $200m after heavy demand from American and European investors. The issue was lead managed by Merrill Lynch and Union Bank of Switzerland. Market reports suggest that the bank will follow this up with a DM1bn ($569m) ten-year deal. Credit Suisse First Boston and Deutsche Morgan Grenfell are tipped to be leading the issue. These are unprecedented terms for a Turkish bank, and underscore the view that investors are hungry for yield in exciting markets.

DOUG CAMERON

Economic indicators

Inflation in the 15 European Union countries reached 1.7 per cent in August compared with 2.2 per cent a year earlier according to data from Eurostat. The figures are the first calculated under the new European Index of Consumer Prices, a weighted index of member states' inflation indexes. All but four of the 15 states saw inflation rise during the month with Greece, up from 5.2 per cent to 5.6 per cent, again the highest level in the EU. Inflation in Ireland fell to 0.6 per cent from 1.5 per cent a year earlier, the lowest in the EU after the abolition of some local authority charges.

Output in the EU grew by 1.3 per cent in the second quarter compared to GDP growth of 0.5 per cent in America and an average of 0.1 per cent in the G7 group of industrial nations. For the first half GDP in the EU climbed 1.8 per cent compared with the same period last year. Comparative figures for America and Japan were 3.6 per cent and 1.2 per cent respectively.

Denmark's current account surplus fell to a lower-than-expected Dkr1 billion ($149 million) in July from Dkr1.2bn in June. The trade surplus, excluding sales and purchases of offshore items such as ships and oil rigs, rose more than expected to Dkr2.9bn from Dkr2.5bn in June. The government said it wanted to curb public spending.

ECONOMIC DATA

COUNTRY	INDUSTRIAL OUTPUT*			INFLATION†			UNEMPLOYMENT††		
	Latest quarter	Previous quarter	Year ago	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago
Austria	0.3[1]	1.4	1.0	Aug 1.2	1.0	n/a	Aug 4.5	4.5	4.1
Belgium	1.7[4]	1.9	0.7	Sep 1.6	1.9	2.0	Sep 13.9	14.1	14.2
Denmark	3.7[5]	2.4	2.3	Aug 2.5	2.3	2.4	Aug 8.0	8.1	8.9
Finland	6.2	3.4	1.6	Aug 1.6	1.2	0.4	Aug 12.4	12.7	15.9
France	2.2	1.1	−0.4	Aug 1.5	1.0	1.6	Aug 12.5	12.5	12.6
Germany	2.9	1.4	1.1	Aug 2.1	1.9	1.4	Sep 11.7	11.9	10.5
Greece	2.0[3]	n/a	1.4	Sep 4.9	5.6	7.9	Jul 7.0	6.9	6.5
Ireland	7.8[2]	n/a	10.1	Aug 1.0	1.6	n/a	Apr 10.9	11.1	11.9
Italy	1.9[5]	−0.4	0.7	Sep 1.4	1.5	3.4	11.7	12.2[5]	11.7
Luxembourg	5.5[2]	3.8[3]	12.4	Jun 1.1	1.1	1.3	Apr 3.7	3.7	3.2
Netherlands	2.1[5]	3.0	1.8	Aug 2.6	2.4	1.9	Aug 5.7	5.7	6.6
Norway	4.6	1.0	1.6	Aug 2.3	2.2	1.3	Sep 3.0	3.5	3.9
Portugal	3.0[4]	2.3	2.0	Aug 1.9	1.7	3.6	6.5	6.5	7.1
Spain	3.1[5]	2.9	1.9	Aug 1.8	1.6	3.7	Aug 12.4	12.5	13.5
Sweden	2.3[5]	1.8	1.4	Aug 1.5	1.0	0.3	Aug 8.5	9.1	9.0
Switzerland	0.2	−1.0	−0.5	Sep 0.4	0.5	0.6	Aug 5.0	5.1	4.5
UK	3.5	3.4	1.8	Jun 2.9	2.6	2.1	Aug 5.3	5.5	7.5
US	3.3	4.9	6.0	Aug 2.2	2.2	2.9	Sep 4.9	4.9	5.2
Japan	0.1	2.3	3.0	Aug 2.1	1.9	2.0	Aug 3.4	3.4	3.3
Canada	3.9	3.3	1.4	Aug 1.8	1.8	1.4	Aug 9.0	9.0	9.5

*Gross domestic product year on year. † Annual per cent. †† Per cent of workforce. q2 97 except where stated. 1=q4 95. 2=year 96. 3=year 95. 4=q4 96. 5=q1 97

SOURCE: Standard & Poor's MMS

INTEREST AND MONEY MARKET RATES

COUNTRY	OFFICIAL INTEREST RATES				MONEY MARKET RATES 3 months			Benchmark bond			
	Rate	Previous rate	Date of change	Name	This week	Week ago	Year ago	This week	Week ago	Year ago	Name
Austria	2.50	3.00	18.4.96	Discount	3.55	3.50	3.34	5.51	5.56	6.08	Oest Bund
Belgium	3.00	3.20	23.8.96	Central	3.61	3.70	3.13	5.48	5.61	6.09	OLO
Denmark	3.50	3.70	29.8.96	Repo	3.70	3.69	3.72	5.87	6.03	6.82	DGB
Finland	3.25	3.00	15.9.97	Tender	3.45	3.44	3.19	5.48	5.70	6.51	FGB
France	3.10	3.15	30.1.97	Intervention	3.43	3.41	3.56	5.43	5.44	6.04	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.40	3.31	3.11	5.47	5.53	6.04	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	6.13	6.19	5.63	5.81	5.90	6.70	Gilt
Italy	6.25	6.75	27.6.97	Discount	6.59	6.37	8.06	6.16	6.13	8.38	BTP
Luxembourg	3.00	3.20	23.8.96	effective rate*	3.61	3.70	3.13	5.48	5.61	6.09	related to OLO
Netherlands	3.00	2.90	10.7.97	Special Adv.	3.46	3.42	2.86	5.36	5.49	5.85	DSL
Norway	5.50	5.25	16.7.97	Overnight	3.82	3.83	5.11	5.59	5.80	6.73	NGB
Portugal	5.20	5.40	18.8.97	Discount	5.23	5.21	7.00	5.83	5.96	7.69	OT
Spain	5.00	5.25	3.10.97	Repo	5.08	5.13	6.86	5.84	5.89	7.79	Bono
Sweden	4.10	4.35	17.12.96	Repo	4.46	4.46	4.83	5.94	6.12	7.22	SGB
Switzerland	1.00	1.50	27.9.96	Discount	1.53	1.38	1.50	3.41	3.53	3.80	Swap rate
UK	7.00	6.75	7.8.97	Base	7.20	7.22	5.84	6.20	6.41	7.38	Gilt
US	5.00	5.25	31.1.96	Discount	5.66	5.65	5.50	6.00	6.07	6.47	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	0.54	0.59	0.53	1.85	1.96	2.79	JGB
Canada	3.50	3.25	2.10.97	Call Loan	3.59	3.66	3.69	5.52	5.70	6.73	CGB

* Tied to Belgian Franc

SOURCE: Standard & Poor's MMS

EAST EUROPEAN DATA

COUNTRY	INDUSTRIAL OUTPUT*			INFLATION†			UNEMPLOYMENT††		
	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago
Bulgaria	Jun −7.0	16.9	3.5	Jun 0.8	5.7	484.2	Jun 14.2	14.8	10.0
Croatia	Jul 8.3	8.7	6.4	Sep 0.3	0.8	3.8	Jul 21.7	21.6	20.2
Czech Rep	Jul 3.0	7.9	17.4	Aug 0.7	3.5	9.9	Aug 4.5	4.3	3.1
Estonia	Apr 20.3	10.3	n/a	Jun 0.7	2.0	10.8	Apr 4.5	4.5	4.7
Hungary	Jun 6.9	1.9	−0.1	Aug 0.2	−0.1	18.0	Aug 10.4	10.5	10.8
Latvia	Apr 9.5	1.1	9.2	Jun 0.2	0.6	7.5	Jun 7.6	7.7	7.0
Lithuania	Apr 7.6	−10.1	−1.4	May 0.8	0.3	7.7	Jul 5.3	5.3	6.8
Poland	Jul 10.4	19.9	13.1	Jul −0.2	1.5	14.9	Jul 11.4	11.6	14.1
Romania	Jun −3.8	−10.0	5.9	Jun 2.3	4.3	176.9	Jun 6.9	6.8	7.1
Slovakia	Jun 7.7	0.6	−2.3	Jul 0.1	0.3	6.0	Jul 12.8	12.3	12.5
Slovenia	Jun 4.3	−2.9	−11.4	Jun 0.4	1.3	8.8	May 14.1	14.3	13.7
Russia	Jul 3.4	2.5	−5.2	Aug −0.1	0.9	14.8	Jul 9.3	9.5	9.2
Ukraine	Jun −2.4	−1.8	−4.5	Aug 0.0	0.1	11.4	Jul 2.5	2.4	1.0

*Change over same month of previous year in per cent. † Month-to-month change in per cent. †† Rate in per cent. SOURCE: PlanEcon

EUROPEAN CROSS RATES

7 OCTOBER 1997	Aust Sch	Belg Fr	Dan Kr	Ger Dm	Neth Fl	Fin Markka	Fr Fr	Grec Drach	IR Punt	Ital Lira*	Nor Kr	Port Esc	Spain Pts	Swe Kr	Swi Fr	UK £	US $	Jpn Yen	Can $	Eur Ecu
Austria Schilling	–	0.341	1.848	7.038	6.246	2.348	2.093	0.045	18.03	7.154	1.744	0.069	0.083	1.636	8.535	19.99	12.31	0.101	8.963	13.78
Belgium Franc	2.934	–	5.422	20.65	18.32	6.889	6.141	0.131	52.90	20.99	5.115	0.202	0.244	4.798	25.04	58.64	36.11	0.296	26.29	40.43
Denmark Krone	0.541	0.184	–	3.808	3.380	1.271	1.133	0.024	9.758	3.871	0.943	0.037	0.045	0.885	4.618	10.81	6.660	0.055	4.850	7.457
Germany Deutschmark	0.142	0.048	0.263	–	0.888	0.334	0.297	0.006	2.562	1.017	0.248	0.010	0.012	0.232	1.213	2.840	1.749	0.014	1.274	1.958
Netherlands Guilder	0.160	0.055	0.296	1.127	–	0.376	0.335	0.007	2.887	1.145	0.279	0.011	0.013	0.262	1.366	3.200	1.971	0.016	1.435	2.206
Finland Markka	0.426	0.145	0.787	2.997	2.660	–	0.891	0.019	7.679	3.047	0.743	0.029	0.035	0.696	3.634	8.513	5.242	0.043	3.817	5.869
France Franc	0.478	0.163	0.883	3.362	2.984	1.122	–	0.021	8.614	3.418	0.833	0.033	0.040	0.781	4.077	9.549	5.880	0.048	4.282	6.583
Greece Drachma	22.44	7.649	41.47	157.9	140.2	52.69	46.97	–	404.6	160.5	39.12	1.549	1.868	36.70	191.5	448.5	276.2	2.267	201.1	309.2
Ireland Punt	0.055	0.019	0.102	0.390	0.346	0.130	0.116	0.002	–	0.397	0.097	0.004	0.005	0.091	0.473	1.109	0.683	0.006	0.497	0.764
Italy Lira*	139.8	47.65	258.3	983.7	873.1	328.2	292.6	6.229	2521	–	243.7	9.648	11.64	228.6	1193	2794	1721	14.12	1252	1926
Norway Krone	0.574	0.196	1.060	4.036	3.582	1.347	1.201	0.026	10.34	4.103	–	0.040	0.048	0.938	4.895	11.46	7.060	0.058	5.141	7.904
Portugal Escudo	14.49	4.939	26.77	101.9	90.49	34.02	30.33	0.646	261.3	103.6	25.26	–	1.206	23.69	123.6	289.6	178.3	1.464	129.8	199.6
Spain Peseta	12.01	4.094	22.19	84.52	75.01	28.20	25.14	0.535	216.6	85.91	20.94	0.829	–	19.64	102.4	240.1	147.8	1.214	107.6	165.5
Sweden Krona	0.611	0.208	1.130	4.303	3.819	1.436	1.280	0.027	11.03	4.374	1.066	0.042	0.051	–	5.218	12.22	7.526	0.062	5.480	8.426
Switzerland Franc	0.117	0.040	0.217	0.825	0.732	0.275	0.245	0.005	2.113	0.838	0.204	0.008	0.010	0.192	–	2.342	1.442	0.012	1.050	1.615
UK Pound	0.050	0.017	0.092	0.352	0.312	0.117	0.105	0.002	0.902	0.358	0.087	0.003	0.004	0.082	0.427	–	0.616	0.005	0.448	0.689
US Dollar	0.081	0.028	0.150	0.572	0.507	0.191	0.170	0.004	1.465	0.581	0.142	0.006	0.007	0.133	0.693	1.624	–	0.008	0.728	1.120
Japan Yen	9.896	3.373	18.29	69.65	61.81	23.24	20.72	0.441	178.5	70.80	17.25	0.683	0.824	16.18	84.46	197.8	121.8	–	88.69	136.4
Canada Dollar	0.112	0.038	0.206	0.785	0.697	0.262	0.234	0.005	2.012	0.798	0.195	0.008	0.009	0.182	0.952	2.230	1.373	0.011	–	1.54
Europe Ecu	0.073	0.025	0.134	0.511	0.453	0.170	0.152	0.003	1.309	0.519	0.127	0.005	0.006	0.119	0.619	1.451	0.893	0.007	0.650	–

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

SOURCE: BZW

EAST EUROPEAN CURRENCIES

COUNTRY	US$	DM	UK£	Ffr	Ecu
Albania Lek	148.25	84.76	240.75	25.21	165.97
Belarus Rouble	40150.00	22955.89	65201.53	6827.98	44949.93
Bulgaria Lev	1740.00	994.85	2825.67	295.91	1948.02
Croatia Kuna	6.19	3.54	10.05	1.05	6.93
Czech Rep Koruna	32.74	18.72	53.17	5.57	36.66
Estonia Kroon	14.00	8.00	22.73	2.38	15.67
Hungary Forint	194.24	111.05	315.43	33.03	217.46
Latvia Lat	0.58	0.33	0.94	0.10	0.65
Lithuania Litas	4.00	2.29	6.50	0.68	4.48
Macedonia Denar	54.12	30.94	87.89	9.20	60.59
Moldova Leu	4.62	2.64	7.50	0.79	5.17
Poland Zloty	3.41	1.95	5.54	0.58	3.82
Russia Rouble	5867.60	3354.82	9528.68	997.85	6569.07
Romania Leu	7685.00	4393.92	12480.04	1306.92	8603.74
Slovakia Koruna	33.62	19.22	54.60	5.72	37.64
Slovenia Tolar	165.17	94.44	268.23	28.09	184.92
Ukraine Hryvna	1.87	1.07	3.04	0.32	2.09
Yugoslavia New Dinar	4.85	2.77	7.88	0.83	5.43

SOURCE: BZW

MERGER

Swedish bank pushes Nordic consolidation

SE-Banken seeks to insure for its future

SWEDEN's Scandinaviska Enskilda Banken (SE-Banken) has launched a Skr17 billion ($2.26bn) bid for the insurance firm Trygg-Hansa. The offer is the latest in a series of mergers in the Nordic financial services industry. The region has seen more than $10bn worth of deals over the past year and SE-Banken was expected to bid for another bank.

The deal will give SE-Banken control of Trygg-Hansa's pension funds, making the bank the largest private fund manager in Sweden. "SE-Banken has been saying for a while that it wants to expand its asset management side," says Ingemar Persson, an analyst at Aros Securities in Oslo.

Demand for investment and pension funds is rising at a rate of eight to 12 per cent a year, while demand for banking services is growing at two per cent annually.

If the bid succeeds it will certainly be a relief for SE-Banken's management which has pulled out of merger negotiations with Nordbanken, the country's fourth largest bank, twice this year. The company has not yet abandoned all hope of reaching an agreement with Nordbanken, and one of the positive aspects of the Trygg-Hansa bid is the fact that it does not preclude a further merger.

However, analysts are wary about the structure of the deal. "In the short term, success for SE-Banken depends on which offer Trygg-Hansa accepts," says Persson.

Trygg-Hansa's shareholders have been given a choice between selling their shares for Skr244 each in cash, or exchanging five shares in Trygg-Hansa for 13 new SE-Banken shares.

"If the shareholders take the cash, that would be a much more positive result for SE-Banken than a dilution of ownership," says Persson.

PAULA HAWKINS

IN BRIEF

Banque Bruxelles Lambert (BBL) has become the focus of consolidation in the Benelux bank market with Générale de Banque, the banking arm of Belgium's largest holding company, Société Générale de Belgique and ING Group the likely bidders. But ING, which already owns 20 per cent of BBL, says it would be unwilling to see its holding in the bank diluted, which may rule out a deal with Générale de Banque.

The personnel department of the UK Employment Service has won the European Best Practice Benchmarking Award for 1997 in a competition sponsored by *The European*. The government agency beat off competition from second-placed British Telecom to receive the award from the UK-based Benchmarking Centre. The Employment Service compared its recruitment techniques with those of five other organisations: a fast-food chain, a tyre-fitting company, a supermarket shelf-filling operation and a public-sector department as well as another government agency. Judges praised the services's 'effective use of various tools and techniques for effective benchmarking'.

The International Accounting Standards Committee has come under fire from the European Commission for accepting a United States proposal on derivatives accounting as a potential world benchmark. The treatment of derivatives in corporate accounts has grabbed attention after a series of high-profile losses, such as Barings and NatWest Markets. The Commission argues that the proposed rules from the US Securities and Exchange Commission fail to meet the needs of European companies.

Bid fever drives share indices higher

EUROPE's equity markets were dominated by corporate manoeuvres with major takeover bids in several markets. In Paris, the continuing dispute between Promodès and Rallye over Casino, the supermarket chain, pushed the CAC 40 up to a high of 3,094 on Friday 3 October. AGF, the insurance company, put in a friendly takeover offer for the Worms holding company, in an attempt to fight off the hostile takeover by financier François Pinault. In Britain, the market rose strongly but faltered on Tuesday 7 after the publication of a survey suggesting British hostility to EMU. Even British Telecom, which made significant gains in the wake of WorldCom's bid for MCI, fell 11 points, partly because of an appreciation the WorldCom-MCI deal would strike a fatal blow to BT's global ambitions.

In Stockholm, SE-Banken's bid for Trygg-Hansa led to strong gains for financial stocks in all the Nordic countries. In Frankfurt Commerzbank rose on the back of rumours the German bank is front runner to acquire BZW, the investment banking arm of Britain's Barclays.

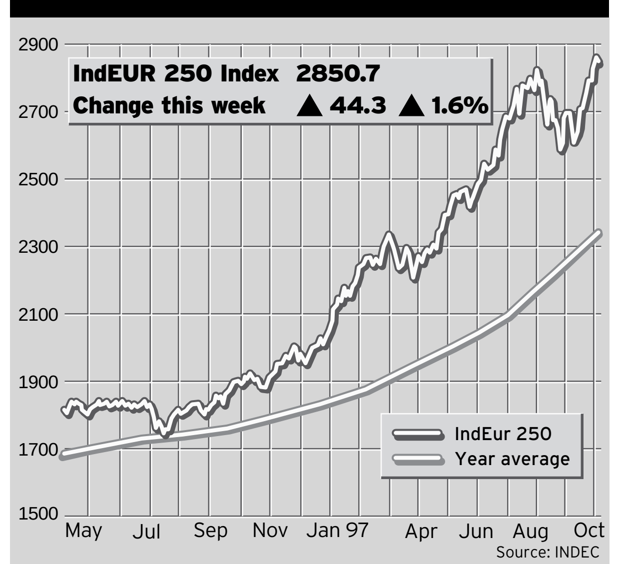
Telecom Italia's shares were up sharply ahead of its forthcoming secondary share issue. But the rest of the Italian market suffered as Prime Minister Romano Prodi failed to settle the 1998 austerity budget with Fausto Bertinotti, leader of the Rifondazione Communista party.

PAULA HAWKINS

SECTOR INDICES

Sector	Index	% change Week ago	% change Year ago	12 month High	12 month Low
Banks	2654.2	1.5	84.3	2680.4	1439.9
Chemicals	2805.4	3.9	29.8	2915.0	2098.1
Drinks & Tobacco	3275.6	0.1	27.4	3584.3	2571.8
Engineering	2653.1	2.4	85.5	2655.3	1430.5
Financial & Conglomerate	2360.9	2.8	58.5	2408.2	1489.1
Food	3975.5	3.6	44.1	4046.5	2672.1
Health & Pharmaceuticals	9296.6	1.6	74.7	9623.1	5321.5
Insurance	1958.9	3.2	67.8	1958.9	1167.7
Leisure	2001.0	1.8	10.9	2001.0	1580.0
Media & Information	3522.0	1.1	25.3	3700.7	2809.8
Metals	3309.7	1.2	24.9	3518.6	2548.1
Motors	1555.5	0.5	68.2	1564.9	924.8
Oil	4474.4	2.7	60.2	4488.8	2726.9
Paper & Packaging	2103.7	1.5	37.3	2122.5	1362.5
Property & Construction	1374.2	3.3	35.1	1374.2	1007.7
Retail	3163.5	0.7	40.9	3257.9	2235.5
Transport	3776.7	0.1	62.3	3787.4	2242.4
Utilities & Telecoms	3355.1	0.8	52.1	3451.6	2195.3

INDEUR 250



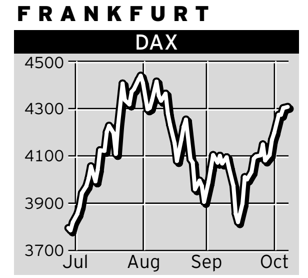
STOCK MARKETS

Market	Index	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	950.6	3.3	61.8	1011.0	577.02
Athens	General	1775.1	0.2	84.3	1779.6	878.0
Brussels	Bel-20	2515.3	3.2	41.5	2622.0	1765.1
Budapest	BTI	7670.1	−0.3	111.0	8483.8	3490.4
Copenhagen	Stock Market	662.2	1.3	50.4	662.8	442.2
Dublin	Ireland SE	3886.1	2.1	44.2	3905.6	2619.2
Frankfurt	Dax	4307.4	3.3	59.4	4438.4	2659.3
Helsinki	Hex	3823.1	2.4	73.1	3832.3	2163.4
London	FTSE 100	5305.5	1.2	31.6	5330.8	3900.4
Madrid	Madrid SE	617.3	−2.8	65.6	640.2	370.9
Milan	Mibtel	15538.0	−2.1	55.5	16059.0	9588.0
Oslo	OBX	731.3	3.1	52.5	731.3	478.9
Paris	CAC-40	3064.4	1.9	42.4	3094.0	2124.8
Prague	Stock Market	540.4	0.8	−2.3	558.9	2004.4
Stockholm	Affarsvariden	3762.5	0.5	51.7	3315.8	2130.7
Vienna	Credit Aktien	471.5	1.8	28.2	474.4	362.9
Warsaw	WIG-20	1710.4	−1.3	11.8	1895.0	1321.0
Zurich	SPI	3732.0	3.0	53.0	3770.1	2391.3
New York	Dow Jones	8100.2	2.0	35.4	8259.3	5921.7
Tokyo	Nikkei	17511.1	−2.1	−17.3	21612.3	17303.7
Hong Kong	Hang Seng	14810.8	−1.6	22.1	16673.3	12055.2
Pan-Europe	IndEUR Blue	3166.3	2.1	66.4	3197.1	2152.0
Pan-Europe	IndEUR 250	2850.7	1.6	56.9	2859.8	2004.4

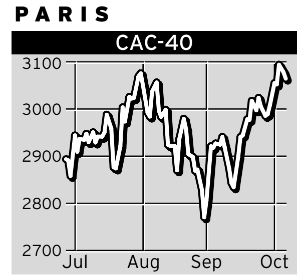
Source: Datastream, Bloomberg, Indec

LONDON

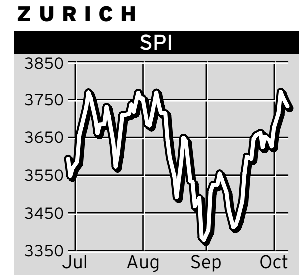
FRANKFURT



PARIS



ZURICH



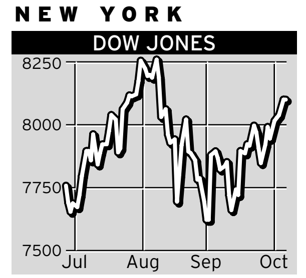
AMSTERDAM

MILAN

MADRID

STOCKHOLM

NEW YORK



TOKYO

Source: Bloomberg

Company results

GREEK telecom operator OTE reported a healthy 16 per cent increase in profits on a 16.5 per cent rise in sales to Dr374 billion. Full-year results are expected to be even stronger when revenues from its mobile network come on stream in December.

REPORTED RESULTS FOR THE SEVEN DAYS ENDING 7 OCTOBER

Date	Company	Country	Sector	Period	Profits (m) Current	Profits (m) Previous
30 Sept	Arbed	Luxembourg	Steel	6 months	Lfr1,790	(249)
30 Sept	Benetton	Italy	Textiles	6 months	L140bn	116
30 Sept	Ifi	Italy	Conglomerate	6 months	L434bn	273
30 Sept	OTE	Greece	Telecoms	6 months	Dr90.9	80.4
30 Sept	Société Générale de Belgique	Belgium	Bank	6 months	Bfr8,090	6,310
30 Sept	Winterthur	Switzerland	Insurance	6 months	Sfr350.5	41
1 Oct	CGIP	France	Conglomerate	6 months	Ffr612	603
1 Oct	Lagardere	France	Defence	6 months	Ffr463	409
1 Oct	Saga Petroleum	Norway	Oil	6 months	Nkr694	1,660
2 Oct	Credit Foncier de France	France	Banking	6 months	Ffr288	402
2 Oct	Havas	France	Media	6 months	Ffr1,240	600
2 Oct	Orkla	Norway	Food	6 months	Nkr1,6101	1,240

THE EUROPEAN 500

The European 500 is a listing of Europe's top 500 companies measured by market capitalisation. Our main index, the IndEUR 250, is a pan-European benchmark index of 250 listed companies in the EU and Efta, weighted by gross domestic product and total market capitalisation of each country. Highlighted companies comprise the IndEUR Blue index of Europe's top 75 firms, measured by market capitalisation. IndEUR is based at 1,000 points on 1 January 1987. The yield figure for individual companies represents the latest total annual dividend as a percentage of the current share price. Sector yields represent the average yield of companies in the sector.

Banks ▲ 1.5% Yield 2.20%

Company	Country	Price	Change	%change	Yield
Abbey National	UK	£ 9.45	−0.07	−0.8%	3.47
ABN-Amro Holdings	Netherlands	Nfl 43.50	+3.20	+7.9%	2.56
Alliance & Leicester	UK	£ 7.03	+0.11	+1.5%	
Allied Irish Banks	Ireland	Ir£ 5.57	+0.10	+1.8%	
Alpha Credit Bank	Greece	Dr 20450	−50	−0.2%	3.63
Argentaria	Spain	Pts 8760	−170	−1.9%	4.02
Banca Commerciale Italiana	Italy	L 4780	−180	−3.6%	3.50
Banca di Roma	Italy	L 1710	−70	−3.9%	1.46
Bancaire (Cie)	France	Fr 744	−12	−1.6%	1.32
Banco Bilbao Vizcaya	Spain	Pts 4630	+35	+0.8%	1.82
Banco Central Hispano	Spain	Pts 6160	−70	−1.1%	1.79
Banco Com Portugues	Portugal	Esc 3975	+175	+4.6%	1.75
Banco de Santander	Spain	Pts 4745	−145	−3.0%	2.24
Banco Esprito Santo	Portugal	Esc 5340	+345	+6.9%	2.46
Banco Popular Espanol	Spain	Pts 9460	−140	−1.5%	2.91
Banco Port Atlantico	Portugal	Esc 2730	+79	+3.0%	4.26
Banesto	Spain	Pts 1475	−45	−3.0%	
Bank Austria	Austria	Sch 625	+20	+3.3%	1.95
Bankinter	Spain	Pts 8590	−10	−0.1%	2.52
Bank of Ireland	Ireland	Ir£ 8.15	+0.43	+5.6%	
Bank of Scotland	UK	£ 5.16	+0.03	+0.6%	1.98
Bankgesellschaft Berlin	Germany	Dm 49.99	+4.74	+10.5%	0.19
Barclays Bank	UK	£ 16.90	+0.17	+1.0%	2.34
Bayerische Hypobank	Germany	Dm 85	+9.50	+12.6%	0.17
Bayerische Veriensbank	Germany	Dm 109.50	+6.70	+6.5%	0.14
BBL	Belgium	Fr 9410	+20	+0.2%	2.01
BHF Bank	Germany	Dm 57.50	+0.20	+0.3%	0.25
BNP	France	Fr 311.50	+12.60	+4.2%	1.74
CCF	France	Fr 361.80	+13.80	+4.0%	1.59
Cetelem	France	Fr 674	−2	−0.3%	1.48
Christiania Bank	Norway	Kr 26.30	+1.80	+7.3%	5.94
CLF Dexia France	France	Fr 578	+16	+2.8%	2.75
Commerzbank	Germany	Dm 67	+3.30	+5.2%	0.20
Creditanstalt	Austria	Sch 667	+19	+2.9%	1.81
Credito Italiano	Italy	L 4425	−245	−5.2%	1.36
CS Holding	Switzerland	Fr 215	+18.50	+9.4%	1.86
Den Danske Bank	Denmark	Kr 720	−13	−1.8%	2.22
Den Norske Bank	Norway	Kr 31.30	+1.60	+5.4%	5.64
Deutsche Bank	Germany	Dm 128.75	+4.35	+3.5%	0.14
Deutsche Pfandbrief	Germany	Dm 107.60	+1.60	+1.5%	1.31
Dresdner Bank	Germany	Dm 82.30	+1.10	+1.4%	0.19
Generale Banque	Belgium	Fr 15025	+225	+1.5%	2.63
Halifax	UK	£ 7.24	−0.05	−0.6%	
HSBC	UK	£ 21.43	−0.57	−2.6%	2.37
IKB Industriebank	Germany	Dm 37.80	+0	+0.0%	0.34
IMI	Italy	L 30511	−131	−0.4%	1.95
Kredietbank	Belgium	Fr 15850	+825	+5.5%	1.68
Lloyds Bank	UK	£ 8.08	−0.26	−3.1%	2.02
Mediobanca	Italy	L 12800	−700	−5.2%	1.55
Merck	Germany	Dm 69	+1.50	+2.2%	1.79
Merita	Finland	Mk 26.70	+1.60	+6.4%	0.74
National Westminster	UK	£ 9.83	+0.51	+5.5%	3.68
Paribas	France	Fr 438.90	−1.10	−0.3%	2.93
Royal Bank of Scotland	UK	£ 6.88	−0.01	−0.1%	3.36
San Paolo Torino	Italy	L 13340	−340	−2.5%	2.08
SBC	Switzerland	Fr 408	+15	+3.8%	3.59
Schroders	UK	£ 20.09	+0.71	+3.7%	1.26
S-E Banken	Sweden	Kr 94.50	+2.50	+2.7%	2.89
Societe Generale	France	Fr 882	+23	+2.7%	1.99
Sparbanken Sverige	Sweden	Kr 194	+11	+6.0%	2.87
Standard Chartered	UK	£ 8.15	−0.34	−4.0%	2.17
Suez (Cie de)	France	Fr 15.85	+0.75	+5.0%	7.50
Svenska Handelsbank	Sweden	Kr 274	+11	+4.2%	1.82
UBS	Switzerland	Fr 1727	+28	+1.6%	1.84
Unidanmark	Denmark	Kr 444	+9	+2.1%	2.27
Worms & CIE	France	Fr 438.80	+12.30	+2.9%	2.16

Chemicals ▲ 3.9% Yield 1.90%

Company	Country	Price	Change	%change	Yield
AGA A	Sweden	Kr 123	−1.50	−1.2%	2.19
Air Liquide	France	Fr 1006	+30	+3.1%	1.38
Akzo	Netherlands	Nfl 370.20	+30.10	+8.9%	2.06
BASF	Germany	Dm 65.40	+1.60	+2.5%	0.26
Bayer	Germany	Dm 73.60	+3.25	+4.6%	0.23
BOC	UK	£ 11.09	+0.02	+0.2%	3.25
Clariant	Switzerland	Fr 1198	+28	+2.4%	0.83
Cookson Group	UK	£ 2.51	−0.01	−0.4%	4.27
Courtaulds	UK	£ 3.36	−0.04	−1.3%	1.65
Degussa	Germany	Dm 97	+0.20	+0.2%	0.13
DSM	Netherlands	Nfl 196.50	+2.10	+1.1%	4.68
Ems-Chemie	Switzerland	Fr 6980	+55	+0.8%	2.14
Gevaert Photo-Prod Cap	Belgium	Fr 2950	+0	+0.0%	1.86
Henkel	Germany	Dm 106	+6.40	+6.4%	1.26
Hoechst	Germany	Dm 79.60	+1.20	+1.5%	0.18
ICI	UK	£ 10.05	+0.02	+0.2%	3.97
Kemira	Finland	Mk 54.40	+3	+5.8%	3
Laporte	France	Fr 7.65	+0.05	+0.7%	3.94
Montedison	Italy	L 1315	+55	+4.4%	1.50
Rhone-Poulenc	France	Fr 270	+34	+14.4%	1.32
Schering	Germany	Dm 187.80	+2.35	+1.3%	0.10
Sidel	France	Fr 391.10	+2.10	+0.5%	1.16
SKW Trostberg	Germany	Dm 64.30	−0.20	−0.3%	1.70
Solvay	Belgium	Fr 2230	+30	+1.4%	2.44

Changes since last week. Prices as at market close on Tuesday 7 October 1997. IndEUR 500 Index and sector movements adjusted for currency fluctuations. Compiled by IndEUR Ltd, fax: +44 (0)171-228 7170. Also available in real-time on CNN International TEXT and on Reuters financial screens. Key in pages IPCD IPCE IPCF IPCG IPCH. For individual RICs consult Reuters

Drinks and Tobacco ▲ 0.1% Yield 3.15%

Company	Country	Price	Change	%change	Yield
Allied Domecq	UK	£ 4.92	+0	+0.0%	6.09
Bass	UK	£ 8.39	+0.02	+0.2%	3.74
Carlsberg A	Denmark	Kr 380	+12	+3.3%	0.89
Grand Metropolitan	UK	£ 5.91	+0.01	+0.2%	3.38
Greenalls	UK	£ 3.75	−0.03	−0.8%	5.17
Guinness	UK	£ 5.83	+0.01	+0.1%	3.46
Heineken	Netherlands	Nfl 347.10	−2	−0.6%	0.98
Imperial Tobacco	UK	£ 3.71	−0.02	−0.5%	
LVMH Moet Hennessy	France	Fr 1252	−9	−0.7%	1.62
Pernod-Ricard	France	Fr 288.10	−7.90	−2.7%	2.87
Scottish & Newcastle	UK	£ 7.24	+0.20	+2.8%	3.72
Seita	France	Fr 185.70	+0.70	+0.4%	3.56
Tabacalera A	Spain	Pts 9900	−570	−5.4%	1.76
Whitbread A	UK	£ 8	−0.05	−0.6%	3.77

Engineering ▲ 2.4% Yield 1.77%

Electrical and Electronic

Company	Country	Price	Change	%change	Yield
Acerinorox	Spain	Pts 27480	−720	−2.6%	1.48
ABB AB	Sweden	Kr 111	+3.50	+3.3%	1.59
ABB BBC	Switzerland	Fr 2193	+51	+2.4%	1.67
Asea Brown Boveri	Germany	Dm 618	−2	−0.3%	3.12
ASMC	Netherlands	Nfl 199.20	−0.90	−0.4%	
Atlas Copco	Sweden	Kr 258	+0	+0.0%	1.44
Barco	Belgium	Fr 7700	+60	+0.8%	0.61
BICC	UK	£ 1.71	+0.04	+2.4%	9.06
Cap Gemini Sogeti	France	Fr 433	+48	+12.5%	0.47
Dassault Systemes	France	Fr 380.80	+0.80	+0.2%	0.45
Electrocomponents	UK	£ 4.96	+0.35	+7.7%	1.95
Electrolux	Sweden	Kr 664	+71	+12.0%	1.90
Ericsson B	Sweden	Kr 371.50	+7	+1.9%	0.68
GEC	UK	£ 4.02	+0.11	+2.8%	4.08
Getronics	Netherlands	Nfl 70.80	+8.50	+13.6%	0.47
Incentive	Sweden	Kr 699	−24	−3.3%	1.43
Legrand	France	Fr 1246	+0	+0.0%	0.65
Nokia	Finland	Mk 522	+27	+5.5%	0.68
Oce-Van Der Grinten	Netherlands	Nfl 255	+3.10	+1.2%	1.15
Philips	Netherlands	Nfl 166.90	−1.50	−0.9%	0.93
Premier Farnell	UK	£ 5.36	+0.05	+0.9%	2.80
Sagem	France	Fr 2895	−5	−0.2%	0.91
Saipem	Italy	L 10210	−190	−1.8%	1.37
SAP	Germany	Dm 485.50	+31	+6.8%	0.05
Schneider	France	Fr 371	−3.50	−0.9%	1.34
Sema	UK	£ 13.65	+0.65	+5.0%	0.55
SGL Carbon	Germany	Dm 264	+4.50	+1.7%	0.84
Siemens	Germany	Dm 120	+0.65	+0.5%	0.13
Technip	France	Fr 754	+0	+0.0%	1.40
Thomson-CSF	France	Fr 190	+0.70	+0.4%	1.47

General

Company	Country	Price	Change	%change	Yield
Alcatel Alsthom	France	Fr 804	+15	+1.9%	1.23
British Aerospace	UK	£ 17.88	+1.25	+7.5%	1.12
BTR	UK	£ 2.43	−0.08	−3.2%	4.77
Dassault Aviation	France	Fr 1330	−45	−3.3%	2.43
FKI	UK	£ 2.10	+0.03	+1.4%	3.11
Linde	Germany	Dm 1281	+49	+4.0%	1.38
Mannesmann	Germany	Dm 849.50	+7.50	+0.9%	1.06
Morgan Crucible	UK	£ 5.31	+0.18	+3.5%	3.53
Orkla	Norway	Kr 625	−3	−0.5%	1.13
Rolls Royce	UK	£ 2.38	−0.17	−6.8%	2.73
Sandvik	Sweden	Kr 2603	−63	−2.4%	1.14
SEB	France	Fr 272	+12	+4.6%	2.41
Siebe	UK	£ 865	−18	−2.0%	1.28
SMH	Switzerland	Fr 13	+0.53	+4.3%	0.47
Smiths Industries	UK	£ 215	+14.75	+7.4%	0.83
TI Group	UK	£ 9.39	+0.26	+2.9%	2.16
VA Technologie	Austria	Sch 6.71	+0.04	+0.6%	2.70
Williams Holdings	UK	£ 3.68	−0.01	−0.3%	5.11

Financial and Conglomerate ▲ 2.8% Yield 2.93%

Company	Country	Price	Change	%change	Yield
3i Group	UK	£ 5.19	−0.01	−0.2%	2.23
Almanij	Belgium	Fr 1675	+65	+4.0%	1.43
AXA	France	Fr 406.60	+8.60	+2.2%	1.85
BAT	UK	£ 5.53	+0.14	+2.7%	2.71
BIC	France	Fr 454	+15	+3.4%	2.44
Caradon	UK	£ 1.99	+0.08	+3.9%	5.85
CGIP	France	Fr 1911	+111	+6.2%	2.13
Cimpor	Portugal	Esc 4850	−14	−0.3%	2.57
Coats Viyella	UK	£ 1.19	−0.02	−1.7%	5.38
Colruyt	Belgium	Fr 19900	+1300	+7.0%	0.64
Eurafrance	France	Fr 2520	+20	+0.8%	2.89
Finaxa	France	Fr 342	+4	+1.2%	1.91
GBL	Belgium	Fr 5870	+90	+1.6%	2.56
Hanson	UK	£ 3.08	+0	+0.0%	8.38
Harrisons & Crossfield	UK	£ 1.25	+0.01	+0.8%	9.11
Inchcape	UK	£ 2.88	+0.02	+0.9%	2.72
ING	Netherlands	Nfl 97.30	+5.90	+6.5%	2.22
Investor A	Sweden	Kr 407	+4	+1.0%	2.46
Largardere Group	France	Fr 189.40	+1.10	+0.6%	1.91
Lonrho	UK	£ 1.15	−0.01	−1.3%	2.96
Mercury Asset Management	UK	£ 13.40	−0.14	−1.0%	4.19
Navigation Mixte	France	Fr 780	+10	+1.3%	5.26
Pargesa Holding	Switzerland	Fr 1880	−20	−1.1%	3.71
Provident Financial	UK	£ 6.78	+0.01	+0.1%	3.10
Rentokil	UK	£ 2.59	+0.02	+0.8%	1.22
Richemont	Switzerland	Fr 1920	+25	+1.3%	0.38
Tomkins	UK	£ 3.38	−0.07	−2.0%	1.12
Veba	Germany	Dm 107.10	+3.85	+3.7%	0.18
Viag	Germany	Dm 824	+33.20	+4.2%	1.45

Food ▲ 3.6% Yield 3.22%

Company	Country	Price	Change	%change	Yield
Associated British Foods	UK	£ 5.45	+0.02	+0.4%	2.19
Bolswessanen	Netherlands	Nfl 37	+2.10	+6.0%	2.47
Booker	UK	£ 3.27	+0.05	+1.4%	9.13
Cadbury Schweppes	UK	£ 6.09	+0.12	+2.0%	3.54
CSM	Netherlands	Nfl 95.10	+2	+2.1%	1.80
Dalgety	UK	£ 2.55	−0.01	−0.4%	4.14
Danisco	Denmark	Kr 387	+4	+1.0%	1.28
Danone	France	Fr 969	+34	+3.6%	1.75
Eridania Beghin-Say	France	Fr 904	−16	−1.7%	3.60
Hillsdown Holdings	UK	£ 1.74	+0.05	+3.0%	7.38
Kerry Group	Ireland	Ir£ 7.58	+0.08	+1.0%	
Nestlé	Switzerland	Fr 2114	+88	+4.3%	1.42
Nestlé Deutschland	Germany	Dm 518	+8	+1.6%	2.12
Northern Foods	UK	£ 2.45	+0.04	+1.7%	4.75
Nutricia	Netherlands	Nfl 60.80	+1	+1.7%	1.11
Parmalat	Italy	L 2810	−150	−5.1%	0.53
Saint Louis	France	Fr 1300	+0	+0.0%	2.92
Sudzucker	Germany	Dm 875	+17	+2.0%	1.95
Tate & Lyle	UK	£ 4.52	+0.14	+3.2%	4.74
Unigate	UK	£ 5.87	+0.21	+3.7%	4.33
Unilever	UK	£ 18.95	+0.82	+4.5%	2.14
Unilever NV	Netherlands	Nf 441	+16.20	+3.8%	1.58
United Biscuits	UK	£ 2.10	+0.06	+2.9%	5.95

Health and Pharmaceuticals ▲ 1.6% Yield 1.09%

Company	Country	Price	Change	%change	Yield
Altana	Germany	Dm 130.50	+0.50	+0.4%	1.14
Ares-serono	Switzerland	Fr 2830	+210	+8.0%	0.18
Astra A	Sweden	Kr 132	−8	−5.7%	1.14
Beiersdorf	Germany	Dm 84	+3.50	+4.3%	0.06
British Biotech	UK	£ 1.40	−0.20	−12.5%	
Christian Dior	France	Fr 802	+1	+0.1%	1.88
Clarins	France	Fr 535	−115	+2.9%	1.34
Elf-Sanofi	France	Fr 553	+2	+0.4%	1.18
Essilor	France	Fr 1643	−4	−0.2%	0.88
Fresenius Midical Care	Germany	Dm 127	+5.95	+4.9%	
Gehe	Germany	Dm 95.30	−0.10	−0.1%	0.13
Glaxo Wellcome	UK	£ 13.97	+0.02	+0.1%	2.60
L'Oreal	France	Fr 2427	+52	+2.2%	0.57
Novartis	Switzerland	Fr 2278	+38	+1.7%	0.86
Novo Nordisk	Denmark	Kr 755	+3	+0.4%	0.49
Pharma Vision	Switzerland	Fr 900	+0	+0.0%	
Pharmacia	Sweden	Kr 256.50	−18.50	−6.7%	0.77
Reckitt & Colman	UK	£ 10.11	+0.63	+6.6%	1.05
Roche Holding	Switzerland	Fr 23250	+990	+4.4%	0.33
Schwarz Pharma	Germany	Dm 127.50	−2.20	−1.7%	1.18
Smith & Nephew	UK	£ 1.88	−0.01	−0.5%	3.95
Smithkline Beecham A	UK	£ 6.08	−0.03	−0.6%	0.81
Synthelabo	France	Fr 695	−7	−1.0%	0.76
UCB Cap	Belgium	Fr 138800	+8800	+6.8%	0.55
Zeneca	UK	£ 20.22	−0.02	−0.1%	2.10

Insurance ▲ 3.2% Yield 1.84%

Company	Country	Price	Change	%change	Yield
Aegon	Netherlands	Nfl 171.20	+11.80	+7.4%	1.75
AGP	France	Fr 239.90	+4.90	+2.1%	2.10
Alleanza	Italy	L 16010	−640	−3.8%	0.93
Allianz	Germany	Dm 452	+25.70	+6.0%	0.04
Allianz Leben	Germany	Dm 1498	+38	+2.6%	0.83
Aachener Munchener Bet	Germany	Dm 1752	+152	+9.5%	0.92
Anglo-Elmr. Versich	Austria	Sch 22000	+0	+0.0%	0.68
Baloise Holding	Switzerland	Fr 2385	+135	+6.0%	1.13
Britannic Assurance	UK	£ 10.05	+0.34	+3.5%	3.53
CKAG Colonia Konzern	Germany	Dm 160.20	+2.20	+1.4%	1.08
Commercial Union	UK	£ 7.99	−0.05	−0.6%	4.73
Deutsche Lloyd Versich	Germany	Dm 4100	+0	+0.0%	0.68
EA-Generali	Austria	Sch 3305	−67	−2.0%	0.50
Fortis	Belgium	Fr 7780	+480	+6.6%	1.23
Fortis Amev	Netherlands	Nfl 90.50	+7.40	+8.9%	3.04
General Accident	UK	£ 11.18	+0.31	+2.9%	3.87
Generali	Italy	L 38300	−700	−1.8%	0.98
Guardian Royal Exchange	UK	£ 3.24	+0.07	+2.2%	3.92
INA	Italy	L 2640	−115	−4.2%	2.46
Legal & General	UK	£ 4.90	+0.06	+1.3%	2.83
Munchener Ruckvers	Germany	Dm 634	+39	+6.6%	0.22
Prudential	UK	£ 6.86	−0.05	−0.7%	3.18
RAS	Italy	L 15070	−320	−2.1%	2.27
Royal Sun Alliance Group	UK	£ 6.11	+0.22	+3.7%	3.91
Royale Belge	Belgium	Fr 10425	+935	+9.9%	2.57
Skandia	Denmark	Kr 323.71	+24.35	+8.1%	
Skandia Group	Sweden	Kr 364	+25	+7.4%	0.73
Sun Life and Provincial	UK	£ 4.18	+0.10	+2.5%	2.05
Swiss Re	Switzerland	Fr 2227	+46	+2.1%	1.34
UAP	France	Fr 156	−3	−1.9%	1.95
Uni Storebrand	Norway	Kr 53.50	+2	+3.9%	0.38
United Assurance GP	UK	£ 4.95	−0.22	−4.3%	4.52
Victoria Holdings	Germany	Dm 1725	+115	+7.1%	0.86
Winterthur	Switzerland	Fr 1556	+135	+9.5%	1.34
Wurtt AG Versich-Beteil	Germany	Dm 1740	+70	+4.2%	0.75
Zurich Insurance	Switzerland	Fr 627	−6	−0.9%	1.13

Leisure ▲ 1.8% Yield 2.59%

Company	Country	Price	Change	%change	Yield
Accor	France	Fr 1111	+15	+1.4%	1.81
Adidas	Germany	Dm 240	+10.10	+4.4%	0.46
Airtours	UK	£ 11.15	+0.64	+6.1%	1.80
Compass Group	UK	£ 6.92	+0.12	+1.8%	1.57
EMI	UK	£ 6	−0.10	−1.6%	0.83
Granada	UK	£ 8.78	+0.04	+0.5%	1.88
Gucci Group	Netherlands	Nfl 92.50	+0.50	+0.5%	0.55
Ladbroke	UK	£ 2.93	+0.19	+6.9%	2.73
PolyGram	Netherlands	Nfl 122.10	+6.80	+5.9%	0.78
The Rank Group	UK	£ 3.52	−0.12	−3.2%	5.93
Thistle Hotels	UK	£ 1.41	+0	+0.4%	1.78
Thorn	UK	£ 1.51	+0.09	+6.3%	10.91

Media and Information ▲ 1.1% Yield 2.24%

Company	Country	Price	Change	%change	Yield
Audiofina	Luxembourg	Fr 1460	+10	+0.7%	1.06
BSkyB	UK	£ 4.64	−0.05	−1.1%	1.61
Canal Plus	France	Fr 1073	+19	+1.8%	1.90
Carlton Communications	UK	£ 5.41	+0.28	+5.6%	2.59
Daily Mail	UK	£ 18.23	−0.15	−0.8%	1.33
De la Rue	UK	£ 4.03	−0.02	−0.5%	7.38
Elsevier	Netherlands	Nfl 28.30	−0.60	−2.1%	2.99
Emap	UK	£ 8.97	+0.10	+1.1%	1.82
Havas	France	Fr 411.20	+8.50	+2.1%	2.05
Pathe	France	Fr 1180	−19	−1.6%	0.85
Pearson	UK	£ 8.23	+0.42	+5.4%	2.82
Reed International	UK	£ 5.21	−0.80	−13.3%	3.22
Reuters	UK	£ 7.67	+0.33	+4.5%	1.93
Springer	Germany	Dm 1500	+5	+0.3%	1.33
TF-1	France	Fr 510	−3	−0.6%	3.14
United Newspapers	UK	£ 7.92	+0.19	+2.5%	3.73
VNU	Netherlands	Nfl 46.40	+0.20	+0.4%	1.14
Wolters Kluwer	Netherlands	Nfl 264	−4.40	−1.6%	0.92
WPP Group	UK	£ 2.90	+0.11	+4.0%	0.73

Metals ▲ 1.2% Yield 2.07%

Company	Country	Price	Change	%change	Yield
Alusuisse Lonza	Switzerland	Fr 1420	+23	+1.6%	1.32
Avesta Sheffield	Sweden	Kr 72	−0.50	−0.7%	1.39
British Steel	UK	£ 1.79	+0.02	+1.1%	6.99
Cyprus Amax Minerals	Germany	Dm 42	−0.50	−1.2%	
Imetal	France	Fr 760	−4	−0.5%	2.11
Johnson Matthey	UK	£ 6.81	+0.04	+0.6%	0.85
Krupp	Germany	Dm 365	−1.50	−0.4%	1.36
Metallgesellschaft	Germany	Dm 40	+1	+2.6%	
Outukumpu	Finland	Mk 95	−1.30	−1.3%	1.01
Preussag	Germany	Dm 515.50	+20.50	+4.1%	2.37
RTZ	UK	£ 9.84	−0.06	−0.6%	1.01
Union Miniere	Belgium	Fr 417.80	+5.80	+1.4%	1.90
Thyssen	Germany	Dm 2950	−35	−1.2%	
Usinor	France	Fr 122.50	+2.60	+2.2%	2.44

Motors ▲ 0.5% Yield 1.63%

Company	Country	Price	Change	%change	Yield
Autoliv	Sweden	Kr 320.50	−1.50	−0.5%	1
BBA Group	UK	£ 4.42	+0.21	+5.0%	2.01
BMW	Germany	Dm 1462	−42.50	−2.8%	1.02
Continental	Germany	Dm 47.80	+2.33	+5.1%	0.12
Daimler-Benz	Germany	Dm 142.55	−3.25	−2.2%	0.08
Fiat	Italy	L 6010	−150	−2.4%	1.66
Ford-Werke	Germany	Dm 860	+10	+1.2%	4.61
GKN	UK	£ 14.17	+0.14	+1.0%	2.35
Lucas Varity	UK	£ 2.33	−0.09	−3.7%	1.18
MAN	Germany	Dm 575	+17.30	+3.1%	2.09
Michelin B	France	Fr 370	+33	+9.8%	0.89
Peugeot	France	Fr 806	+24	+3.1%	0.38
Pirelli Spa	Italy	L 4935	−125	−2.5%	2
Renault	France	Fr 182.20	+6.30	+3.6%	1.89
Scania	Sweden	Kr 234	+4	+1.7%	2.41
Valeo	France	Fr 407.50	+17.90	+4.6%	2.98
Volkswagen	Germany	Dm 1285	+58	+4.7%	0.72
Volvo B	Sweden	Kr 227	+9.50	+4.4%	1.96

Oil ▲ 2.7% Yield 2.04%

Company	Country	Price	Change	%change	Yield
British Petroleum	UK	£ 9.38	+0.02	+0.2%	2.60
Burmah Castrol	UK	£ 11.07	+0.02	+0.2%	2.49
Elf Aquitaine	France	Fr 790	−2	−0.3%	1.75
Enterprise Oil	UK	£ 6.89	+0.14	+2.1%	3.07
Lasmo	UK	£ 2.83	+0.10	+3.7%	0.42
Neste	Finland	Mk 135	−8.80	−6.1%	1.43
Norsk Hydro	Norway	Kr 425	+1.50	+0.4%	1.65
ÖMV	Austria	Sch 1925	+70	+3.8%	1.19
Petrofina	Belgium	Fr 14800	+525	+3.7%	1.99
Petroleos (Cia Esp)	Spain	Pts 4590	−145	−3.1%	2.59
Primagaz	France	Fr 482.30	−8.60	−1.8%	1.75
Repsol	Spain	Pts 6560	+110	+1.7%	2.78
Royal Dutch	Netherlands	Nfl 115.50	+4.10	+3.7%	2.48
RWE-DEA	Germany	Dm 445	+17	+4.0%	3.60
Saga Petroleum	Norway	Kr 152.50	+2.50	+1.7%	2.07
Shell Transp & Trading	UK	£ 4.82	+0.28	+6.2%	3.20
Total B	France	Fr 679	+0	+0.0%	1.52
Transocean Offshore	Norway	Kr 368	+23	+6.7%	0.10

Paper and Packaging ▲ 1.5% Yield 3.34%

Company	Country	Price	Change	%change	Yield
Arjo Wiggins Appleton	UK	£ 1.99	−0.06	−2.9%	4.68
Assi Döman	Sweden	Kr 254	−5	−1.9%	2.10
Bunzl	UK	£ 2.75	+0.12	+4.6%	2.88
FPB Holding	Germany	Dm 313.90	+3.90	+1.3%	5.57
KNP BT	Netherlands	Nfl 53.40	−0.90	−1.7%	1.59
MoDo	Sweden	Kr 273	−12	−4.2%	3.31
Pechiney International	France	Fr 150	+7.50	+5.3%	1.69
Rexam	UK	£ 3.25	−0.23	−6.6%	5.30
SCA	Sweden	Kr 187	−4.50	−2.3%	2.85
Smith (David S)	UK	£ 2.38	+0.03	+1.3%	4.24
Smurfit (Jefferson)	Ireland	Ir£ 2.16	+0.09	+4.2%	
Stora A	Sweden	Kr 127	−3	−2.3%	2.93
UPM-Kymmene	Finland	Mk 149.20	+2.20	+1.5%	2.96

Property and Construction ▲ 3.3% Yield 2.81%

Company	Country	Price	Change	%change	Yield
Blue Circle	UK	£ 3.77	−0.25	−6.2%	4.48
Bouygues	France	Fr 579	+22	+3.9%	2.95
BPB	UK	£ 3.62	+0.16	+4.6%	3.56
British Land	UK	£ 7.01	+0.49	+7.5%	1.63
Cimenteries CBR	Belgium	Fr 3240	+50	+1.6%	2.18
CRH	Ireland	Ir£ 7.17	+0.18	+2.5%	
Hammerson	UK	£ 5.20	+0.47	+9.9%	2.78
Heidelberg Zement	Germany	Dm 157.50	+16.50	+11.7%	0.10
Hochtief	Germany	Dm 79.70	−1	−1.2%	0.15
Holderbank	Switzerland	Fr 1389	+9	+0.7%	1.22
Lafarge Coppée	France	Fr 441.40	+6.60	+1.5%	2.25
Land Securities	UK	£ 10.35	+0.54	+5.5%	3.26
MEPC	UK	£ 5.44	+0.21	+4.0%	4.61
Pilkington	UK	£ 1.57	+0	+0.2%	3.98
Poliet	France	Fr 495.50	+0.50	+0.1%	2.01
Randstad Holdings	Netherlands	Nfl 82.50	+0.70	+0.9%	0.93
Redland	UK	£ 2.46	−0.36	−12.8%	8.45
RMC Group	UK	£ 10.09	+0.24	+2.4%	3.34
Rodamco	Netherlands	Nfl 61.40	+0.50	+0.8%	4.69
Skanska	Sweden	Kr 330	+0	+0.0%	3.05
Slough Estates	UK	£ 3.63	+0.27	+8.0%	3.10
St Gobain	France	Fr 940	+25	+2.7%	1.82
Wienerberger Baustoff	Austria	Sch 2578	−15	−0.6%	1.57
Wolseley	UK	£ 5.14	−0.01	−0.3%	2.58

Retail ▲ 0.7% Yield 2.08%

Company	Country	Price	Change	%change	Yield
Ahold	Netherlands	Nfl 55.40	+1.60	+3.0%	0.78
Argos	UK	£ 6.71	−0.22	−3.2%	2.93
Asda	UK	£ 1.58	+0	+0.0%	2.42
Benetton	Italy	L 27550	−1300	−4.5%	1.79
Bon Marché	France	Fr 1335	+3	+0.2%	1.65
Boots	UK	£ 9.04	+0.24	+2.7%	2.84
Burton Group	UK	£ 1.34	+0	+0.0%	2.61
Capital Shopping	UK	£ 4.29	+0.28	+7.0%	2.45
Carrefour	France	Fr 3660	−37	−1.0%	0.70
Casino	France	Fr 360.90	−0.10	−0.0%	1.25
Castorama Dubois	France	Fr 620	−18	−2.8%	1.76
Comptoires Modernes	France	Fr 2740	−58	−2.1%	0.88
Continente	Spain	Pts 3060	−170	−5.3%	1.30
Delhaize	Belgium	Fr 1835	+35	+1.9%	1.47
Dixons	UK	£ 6.70	+0.23	+3.6%	1.98
Great Universal Stores	UK	£ 7.18	+0.28	+4.1%	3.19
Guilbert	France	Fr 843	+23	+2.8%	1.43
Hagemeyer	Netherlands	Nfl 102.40	+0.90	+0.9%	1.51
Hennes & Mauritz	Sweden	Kr 335	+3.50	+1.1%	0.68
Hermes International	France	Fr 474	+4	+0.9%	0.53
Karstadt	Germany	Dm 630	+18	+2.9%	1.59
Kingfisher	UK	£ 8.48	+0.01	+0.1%	2.81
Marks & Spencer	UK	£ 6.48	+0.14	+2.2%	2.45
Metro	Germany	Dm 87.40	+6.20	+7.6%	0.53
MFI	UK	£ 1.43	−0.05	−3.4%	4.11
Montaigne	France	Fr 2800	−150	−5.1%	0.19
Morrison Supermarkets	UK	£ 2.03	−0.10	−4.5%	1.05
Next	UK	£ 7.40	+0.10	+1.4%	2.58
Pinault Printemps	France	Fr 2843	+60	+2.2%	1.14
Promodes	France	Fr 2225	−91	−3.9%	0.62
Pryca	Spain	Pts 2720	−70	−2.5%	2.40
Safeway	UK	£ 3.78	−0.22	−5.5%	4.72
Sainsbury (J)	UK	£ 4.60	−0.03	−0.6%	3.37
Sears	UK	£ 0.61	+0.02	+2.5%	8.37
Smith (WH)	UK	£ 3.92	+0.23	+6.4%	5
Storehouse	UK	£ 2.49	−0.04	−1.6%	4.04
Tesco	UK	£ 4.62	−0.09	−1.8%	2.83
Vendex International	Netherlands	Nfl 116.60	−1.40	−1.2%	1.79
Vendome	UK	£ 4.47	−0.03	−0.6%	2.91

Services ▲2.87% Yield 1.37%

Company	Country	Price	Change	%change	Yield
Baan	Netherlands	Nfl 150	+6.50	+4.5%	
Berendson (Sophus)	Denmark	Kr 1080	+2.16	+0.2%	0.51
Danka Business Systems	UK	£ 6.98	+0.06	+0.9%	0.48
Hays	UK	£ 7.05	+0.01	+0.1%	1.69
Mice Group	UK	£ 0.09	+0.01	+12.5%	2.21
Securicor	UK	£ 2.78	+0.09	+3.3%	0.70
Sodexho	France	Fr 3009	+58	+2.0%	0.85
Surveillance	Switzerland	Fr 2660	+115	+4.5%	2.53
Waste Management Intl	UK	£ 2.57	−0	−0.1%	

Transport ▲ 0.1% Yield 2.41%

Company	Country	Price	Change	%change	Yield
Associated British Ports	UK	£ 2.82	−0.07	−2.4%	3.48
Autopistas Cesa	Spain	Pts 1955	−40	−2.0%	3.62
BAA	UK	£ 5.85	−0.16	−2.7%	2.71
British Airways	UK	£ 6.63	−0.13	−2.0%	2.87
d/s 1912 A	Denmark	Kr 330000	−8000	−2.4%	0.22
d/s Svendborg A	Denmark	Kr 480000	+0	+0.0%	0.23
KLM	Netherlands	Nfl 74.80	+5.30	+7.6%	1.33
Lufthansa	Germany	Dm 35.75	+0.95	+2.7%	0.13
NFC	UK	£ 1.46	+0	+0.0%	5.98
P & O	UK	£ 6.98	+0.37	+5.6%	5.61
Railtrack	UK	£ 9.42	+0.47	+5.3%	3.01
Stagecoach Holdings	UK	£ 6.68	−0.17	−2.5%	1.67
Swissair	Switzerland	Fr 1968	+23	+1.2%	0.51

Utilities and Telecoms ▲ 0.8% Yield 3.11%

Company	Country	Price	Change	%change	Yield
Aare Tessin	Switzerland	Fr 880	+10	+1.1%	2.02
Aguas de Barcelona	Spain	Pts 6090	−10	−0.2%	1.50
Anglian Water	UK	£ 8.24	+0.02	+0.2%	5.23
Badenwerk	Germany	Dm 540	−10	−1.8%	1.62
Berliner Kraft & Licht	Germany	Dm 40.30	+0.40	+1.0%	0.20
British Gas	UK	£ 2.67	−0.01	−0.4%	5.99
British Energy	UK	£ 2.09	+0	+0.0%	8.21
British Telecom	UK	£ 4.51	+0.42	+10.3%	5.41
Cable & Wireless	UK	£ 5.76	+0.48	+9.1%	2.46
Centrica	UK	£ 0.89	−0.03	−3.2%	
Deutsche Telekom	Germany	Dm 34.90	+0.70	+2.0%	1.72
Eaux (Cie Generale)	France	Fr 734	+36	+5.2%	1.64
Edison	Italy	L 8870	−420	−4.5%	2.22
Electrabel	Belgium	Fr 7660	+20	+0.3%	4.58
Electrafina	Belgium	Fr 3535	+10	+0.3%	2.97
Elektrowatt	Switzerland	Fr 535	+0	+0.0%	1.50
Endesa	Spain	Pts 3085	−100	−3.1%	2.28
Energy Group	UK	£ 6.47	−0.04	−0.6%	1.06
EVN	Austria	Sch 1572	+51	+3.4%	1.56
Fuerzas	Spain	Pts 1225	−30	−2.4%	4.47
Gas Natural	Spain	Pts 7450	−410	−5.2%	0.87
HEW	Germany	Dm 470.10	+0.10	+0.0%	2.13
Hyder	UK	£ 9.58	+0.44	+4.8%	5.74
Iberdrola	Spain	Pts 1795	−40	−2.2%	3.95
Isar Amperwerke	Germany	Dm 585	−14	−2.3%	1.70
Italgas	Italy	L 6200	+105	+1.7%	2.09
KPN	Netherlands	Nfl 76.10	−2.10	−2.7%	3.72
Lyonnais des Eaux	France	Fr 661	−1	−0.2%	1.82
National Grid	UK	£ 2.82	+0	+0.0%	4.96
National Power	UK	£ 5.57	−0.11	−1.9%	5.59
Orange	UK	£ 2.35	+0.15	+6.8%	
OTE-SA Telecom	Greece	Dr 6875	−115	−1.6%	2.62
Portugal Telecom	Portugal	Esc 7527	−278	−3.6%	1.83
Powerfin	Belgium	Fr 5010	+75	+1.5%	2.43
Powergen	UK	£ 7.62	−0.02	−0.3%	4.15
Rexel	France	Fr 1689	−14	−0.8%	1.16
RWE	Germany	Dm 88.20	+2.65	+3.1%	0.17
Scottish Hydro	UK	£ 4.61	−0.11	−2.3%	4.76
Scottish Power	UK	£ 4.82	+0.03	+0.6%	4.79
Severn Trent	UK	£ 9.25	+0.06	+0.7%	4.95
Sevillana de Elec	Spain	Pts 1395	−20	−1.4%	3.61
Southern Electric	UK	£ 4.78	+0.08	+1.7%	5.65
Sydcraft	Sweden	Kr 168	+3	+1.8%	2.39
Tele Danmark	Denmark	Kr 359.15	+5.15	+1.5%	4.58
Telecom Italia	Italy	L 11030	−470	−4.1%	1.18
Telecom It Mobile	Italy	L 6883	+8	+0.1%	0.73
Telefonica de Espana	Spain	Pts 4495	−195	−4.2%	2
Telewest Comms	UK	£ 0.88	+0.05	+6.0%	
Thames Water	UK	£ 8.80	+0.02	+0.2%	4.90
Thuega	Germany	Dm 475	+4.90	+1.0%	2.53
Tractebel	Belgium	Fr 15075	+250	+1.7%	2.57
Union Elec Fenosa	Spain	Pts 1300	+5	+0.4%	4.15
United Utilities	UK	£ 7.55	−0.11	−1.4%	6.11
VEW	Germany	Dm 580	+0	+0.0%	1.62
Vodafone	UK	£ 3.44	+0.13	+3.8%	1.75
Yorkshire Water	UK	£ 4.73	−0.07	−1.5%	4.85

SPECIAL REPORT FRANCHISING/SMALL BUSINESS

Forum: the fair lasts for three days and is an important meeting-place for buyers and sellers of master licences

Success for fresh ideas

More than 40 business activities will be on display at the Valencia franchising fair, Europe's largest

MARCUS GIBSON

WHEN José López Frade set up his Taller de Cuentos, or 'collection of tales', franchise operation in Spain last year, he did not imagine that he would be adding another success to the country's booming franchise industry. But he had a promising idea to develop: that customers at any of his bookshops should be able to walk in and, via high-speed computer printing technology, have their photographs and names incorporated into their own, personalised book.

In his popular children's stories, for example, a young customer would be pictured as the star of the story, very often as a benign cow or mouse, with school-friends and siblings taking the bit parts.

In the event, Frade's idea was hugely popular last Christmas, and in December alone his shops sold 210,000 children's books. He has now followed up the success of the concept in Spain and exported it to Portugal, France, Italy, Argentina and Chile.

Frade will be one of the many Spanish participants at the eighth annual Valencia franchising fair, Europe's largest, which will open on 15 October. The salient feature of the fair is that, unlike what often happens elsewhere, the vast majority of the 270 exhibiting companies will come from within the host country. Franchising now accounts for five per cent of Spain's small business activity, and this figure is forecast to increase to 20 per cent by 2000.

The fair lasts for three days and is an important forum for buyers and sellers of master licences. Research into visitors to last year's fair found that 60 per cent of the franchise-seekers taking part already had their own premises in which to set up a franchising business.

As a result, "it is not an event which is dominated by big-name American franchise chains. This fair is for Spaniards, by Spaniards", as one member of the European Franchise Federation put it. The EFF, which brings together national franchise associations, will be holding its annual conference in Valencia in the same week, and the seventh European Franchise Congress, for which individual franchisees and franchisors come from all over Europe, will also be held there.

More than 40 business activities will be on display at the fair, including cosmetics, food, consulting, graphic arts, jewellery and clothes-dyeing services. A total of 52,000 people are now employed by franchises in Spain, and the Spanish Franchise Association claims that around 450 different franchises are on offer – a range that is exceptional even by north European standards. In the streets and squares of almost every town in Spain, a number of fast-growing franchises have become part of everyday life.

Alta Gestión, for example, a job agency, has 71 branches across the country, and Pressto, a fast clothes-dyeing firm, has 14, with another opening in Mexico next year. The popular baguette shops of Bans & Company vie for custom with a more classically Spanish offering from those in the Paella D'Or chain.

But while fast food and services are, as is usual, the leading sectors in the franchise field, there also is a host of small but imaginative and entrepreneurial concepts being developed in Spain, of which Taller de Cuentos is just one. Adolfo Domínguez, the fashion designer, for instance, who hails from the north-western region of Galicia, has established a franchise network across Spain, much to the delight of his female fans. Both Adolfo Domínguez and Telepizza, the big fast-food franchisor, are now listed on the Spanish stock exchange.

While many fast-food outlets are owned and managed by men, Raquel Martínez, marketing director of the Spanish Franchising Association, says that many thousands of women have joined the ranks of the franchisees in the past two years. "Newer franchises, such as those selling cosmetics, are dominated by women entrepreneurs," she says.

"Around Pts2 million ($14,000) will buy you a shop," she adds, "and many are quite cheap to start up. By 2000, we forecast that total franchise sales in Spain will rise to Pts2 billion."

Life-saver in a perilous sea of job losses

PETER CHAPMAN

FRANCHISING in Europe has a bright future, according to the first continent-wide study of the industry by the European Franchise Federation (EFF). This business method is proving to be an increasingly important means of putting life into stagnant national economies and labour markets.

Franchise activities range from post offices in the Netherlands to milk deliveries in the UK, not to mention the ubiquitous hamburger businesses. The EFF survey calculates that franchising accounts for 1.3 million jobs – with France, which has 355,500, heading the list – and an annual turnover across Europe of Ecu75 billion ($83bn).

"We live in a time of recession and of many people losing their jobs," says Ruth Dünisch of the German franchise association, based in Munich. "Many are looking for new ways to earn a living and are finding the self-employment that franchising offers to be an attractive option."

Germany has the highest number of franchise operations, some 530. "Those offering cost-cutting consultancy services are particularly popular here now," Dünisch comments. "We expect to see growth in computer and Internet services." There has also been growth in the Netherlands. "The turnover of franchises in the Netherlands rose from Ecu8.5bn to Ecu8.9bn between 1995 and 1996," says Andre Brouwer, managing director of the Netherlands franchise association, based in Hilversum. "The number of people employed increased from 85,000 to 100,000."

> **'Many are finding that it offers a new way to earn a living'**

"Swedish franchises employ more than 51,000 people, a healthy contribution to fighting our country's unemployment rate of 12 per cent," adds Stig Sohlberg of the Swedish franchise association in Stockholm. And the survival rate of franchises is more than 50 per cent better, he says, than that of new companies generally. "Also interesting is that franchising has nearly twice as many female owners as the average for all companies here."

The EFF study makes a concerted effort to identify franchise operations active in more than one country. "We have been able to produce the first-ever consolidated picture of the number of franchise networks in Europe," says Manfred Maus, EFF chairman and managing director of OBI, the German-based DIY franchised superstore business.

Franchising has the ability to cross borders, and services and retail are notable growth areas for cross-border franchises. OBI, for example, operates in six other European countries.

There are intriguing possibilities for the new Mercedes Smart Car for inner cities, to be built in a joint venture with the Swiss-based company, SMH, the maker of Swatch watches, which is providing micro-electronic engineering and marketing expertise. "We hear they want to sell it in a franchise system," says Dünisch.

Cross-border franchising is not without problems, however. Having acquired a licence to build a superstore in Italy, OBI was advised that it also had to get a licence to trade, a process which could take some years. "Different languages, price and book-keeping systems, and ways to rent buildings, all make problems," says Jan Bezemer, head of the franchising finance department of ING bank in Amsterdam. "There may also be a difference of opinion over the market's perceived value of the franchisor."

Retailing has proved a tough market to break into because of this, he notes. Some German building suppliers have had to struggle to establish themselves in the Netherlands. "Tandy also left here three to four years ago, and had to close more than 50 shops, mostly franchises."

Franchising has been a valuable channel for transatlantic penetration of the European market. Chem-Dry, for example, the US specialist in carpet and other cleaning services, has gone from no franchised units to 150 in the Netherlands in the past two years. According to the EFF, the turnover of North American franchise operations in the UK is more than $1.65bn, about a fifth of the UK's total franchise turnover.

Bezemer notes that US fast-food specialists such as McDonald's, Wendy's and TGI Friday have found plenty of takers in such countries as the Czech Republic, Hungary and Slovenia. Franchising has a good future in central and eastern Europe, he adds, because it provides the structure and support needed by businesses in areas without a history of entrepreneurship.

French cuisine in a Scottish setting

Pierre Levicky plans to open more cut-price restaurants on the other side of the Channel

WILF ALTMAN

PARIS, Amsterdam, Copenhagen, Barcelona and Oslo can all look forward to a new culinary experience. These are the cities earmarked for new openings of a Pierre Victoire restaurant, one of the chain run by Pierre Levicky, a chef who was born and trained in Lyon and who then pioneered a successful bistro-style business in Edinburgh.

Levicky, who is now 37, worked for five years as head chef in a Scottish restaurant before deciding in 1988 to open his own establishment with quality French food and wine at low prices.

The formula worked so well that two and a half years later he was running three restaurants, all doing brisk business offering three-course lunches for as little as £5.90 ($9.50). Not surprisingly, the restaurants were always full, but the business was getting further into debt.

Levicky put this right, so that after an injection of new finance, he could expand. Today there are more than 110 restaurants in the UK and Ireland, 30 of them company-owned and 80 franchised, with total annual sales of £44 million.

Last year Levicky realised a dream when he opened his first, and biggest, restaurant across the Channel in mainland Europe. The Pierre Victoire in Brussels can seat 350 and is proud of its Scottish theme – from the kilts worn by waiters to the stags' heads on the walls. The bar serves a selection of 45 brands of whisky, while a head chef from Scotland prepares the menus. With a three-course meal for as little as Bfr320 ($8.60), it is one of the cheapest lunches in Belgium.

Dinner is more expensive, with lobster menu prices at Bfr600, but that is still about half the price in other Belgian restaurants.

Further expansion is now planned, as Allan Thomson, the group's Scottish marketing director, explains. "We are looking at sites in Paris, Amsterdam, Barcelona, Copenhagen and Oslo," he says. "Our first target is Paris later this year." Like the Brussels restaurant, the new outlets are expected to present a romantic view of Scotland. The Paris restaurant is likely to be fitted out by Scottish joiners, with Scottish memorabilia decorating the walls and the menu featuring haggis and Scottish pies alongside lobster, salmon and oysters.

The early Pierre Victoire formula was cheap meals and wine in unpretentious surroundings. Since then there have been three variations on the theme. Chez Jules aims to be still more cheap and cheerful, Pierre Lapin specialises in vegetarian food, and Beppe Victoire presents itself as the Italian brother of Pierre Victoire.

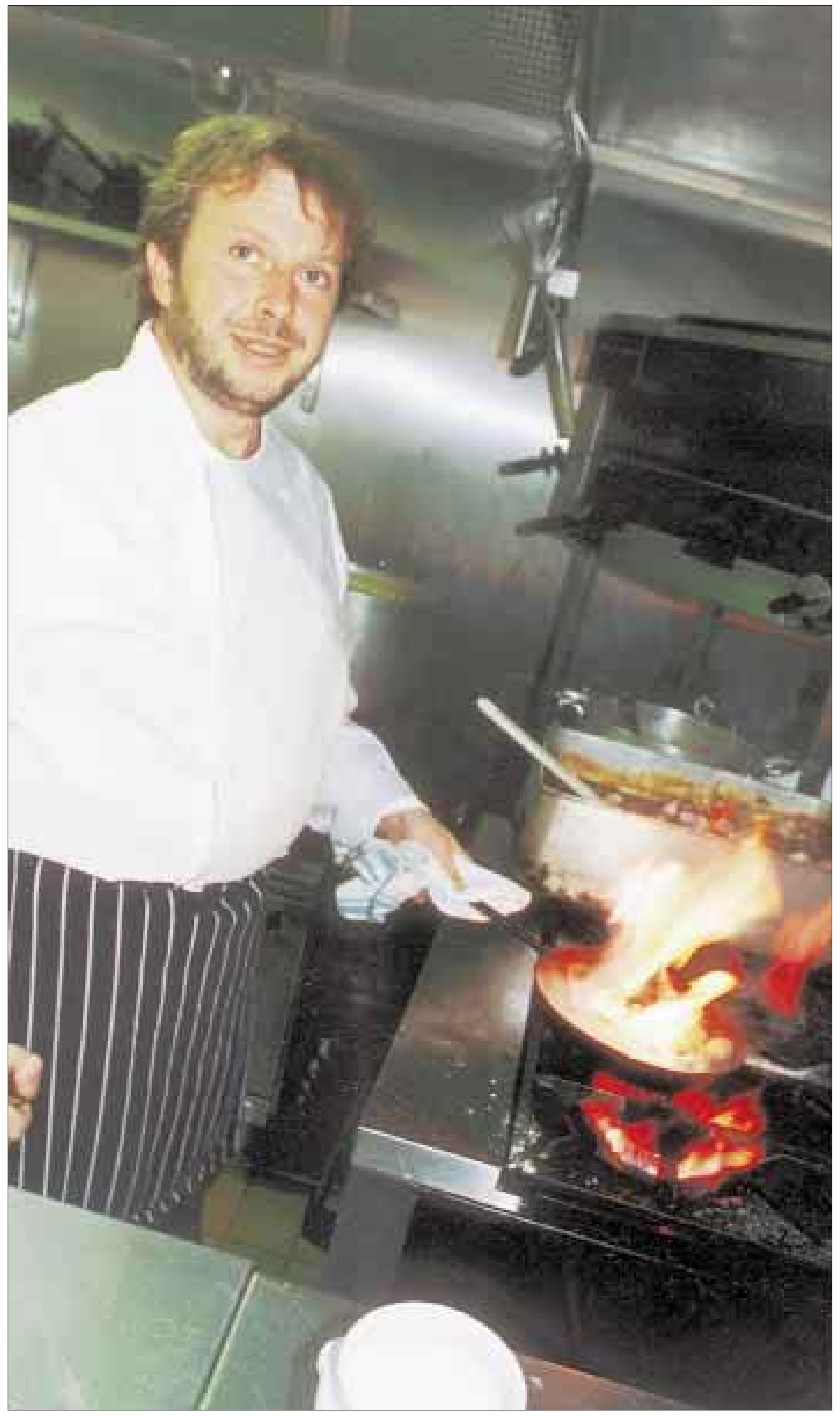
Chez Jules's stated aim is to be "France at its simplest: lots of food, unrefined, earthy but opulent – wine straight from the barrel, chaotic atmosphere, French music". All at less than £12 for first course, main course, salad and wine. At Pierre Lapin, whose first restaurant opened in 1992, vegetarian dishes and a fish dish are offered. A three-course lunch can cost as little as £5.90 and a four-course dinner £9.60.

Beppe Victoire aims to have an atmosphere that recalls Italy. A three-course lunch there costs £4.90 and an à la carte dinner around £15 per head including wine.

All four styles of restaurant have the same simple, white wall finishes, new or refurbished wooden floors, either stained or varnished, and an open-plan kitchen located in the main part of the restaurant so that customers can watch their meals being prepared.

For those interested in becoming franchisees, the franchise investment minimum is £40,000, of which £17,000 is the initial fee. There is a management fee of five per cent of net turnover payable monthly, in addition to £210 plus VAT, also payable in monthly instalments, to cover central accounting services and payroll.

The franchise package includes a training programme which covers not only staff recruitment and time management but how to make money and monitor it, as well as promoting and improving the business.



Open plan: the kitchen is always in the main part of the restaurant so that customers can watch

MBAs a boon to smaller companies in fast-moving world

MICHEL SYRETT

FEW business schools come up with theories and concepts that are of any use to small or medium-sized firms. So it is hardly surprising that graduates from these institutions are generally regarded with suspicion by such companies, and that they tend to see the recruiting of an MBA as an expensive luxury that might well backfire.

The experience of Patrick Dormoy, the French chairman and managing director of Atrium, a small London-based contract-furnishing and interior-design firm, seems typical. Dormoy's wife used to handle the company's finances, but when she died tragically of cancer three years ago he decided to employ an MBA graduate on a trial basis, since he lacked the skills for the job himself.

"It was a total failure", he says. "Before studying for his MBA, the guy had worked only in a large company, and he found it impossible to delegate effectively in a smaller outfit."

But it can be argued, according to Sue Birley, professor of entrepreneurial studies at the Imperial College Management School in London, that small businesses are missing out by ruling out ever employing an MBA. "While it is clearly not sensible for a cornershop to invest in an MBA graduate," she says, "it could benefit a company in a fast-moving industry.

"MBAs are generally well educated in the human consequences of change, and can add a perspective and a range of options that the internal managers may not provide."

It all depends, Birley considers, on when and how the company sets about taking on an MBA. MBA-educated managers do not necessarily want to go back into a large company, and as long as there is the prospect of growth, they are often prepared to join the business. But there must be that prospect of growth, and smaller companies are often less adept at selling the benefits they offer.

Manuel Puchades, who runs a construction business in Barcelona, agrees with Birley's conclusions. "I like recruiting MBAs straight out of college with little work experience", he says, "because I then have a better opportunity to manage their expectations and educate them in the philosophy that exists in a small business. My company has 25 employees, so that any new manager needs to be able to integrate quickly."

Puchades's company, Ediva Promotora de Construcción, now has two MBAs in senior positions, and they have adapted well to its priorities.

His experience is, however, exceptional. Professor Miguel Angel Gallo of IESE, the top Spanish business school based in Madrid and Barcelona, has spent the past four years questioning MBA students about their perceptions of careers in family businesses. He found that they did not regard family businesses as an attractive professional alternative to working in a large publicly-owned company, and he believes that this prejudice extends to small businesses.

To help things along, one or two business schools are making efforts to build bridges between MBAs and smaller firms. IESE organises an elective course on family businesses to teach MBA students more about the specific needs of such companies.

Cranfield School of Management in the UK has also launched a new elective course in its MBA programme, 'Business Check-up', during which teams of students visit smaller companies to carry out audits. This gives MBAs an insight into small firms and careers in them, while giving the company experience of MBAs and their skills. It also provides the company with free consultancy advice.

Dormoy, having failed in his attempt to employ an MBA, found this service invaluable in developing a succession strategy that will enable him to retire in two years knowing that his business is in good hands. "I do not know whether I would re-think the idea of recruiting an MBA as a result," he says, "but it has taught me that MBAs can play a valuable role in the small business if you have clear objectives and a clear idea of how to use them."

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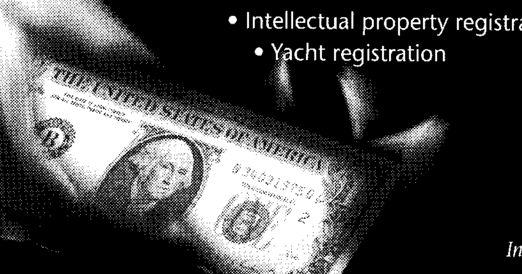

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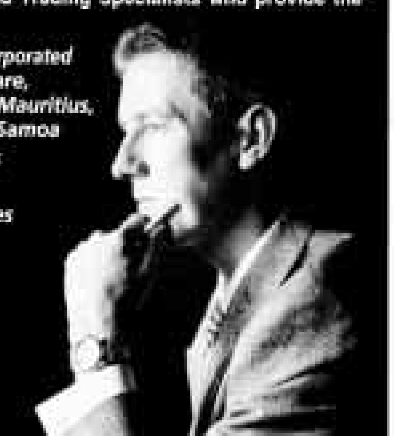

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SPORT

Confusion reigns on World Cup's big night: page 51

MOTOR RACING ■ The end of the Flavio Briatore era will trigger radical changes at one of the sport's big four

Fresh formula to revive Benetton

PHOTOGRAPHS: ALLSPORT

Anything you can do ... but Dave Richards (left) is too much of a diplomat to bad-mouth the outgoing Briatore

Robert Alexander

ALMOST two years ago, in a nightclub on the border between England and Wales, Dave Richards hosted a noisy party to celebrate Subaru winning the world rally championship powered by his Prodrive team.

A few hours earlier, in the private section of a nearby hotel, Richards had talked at length about a future which was far more ambitious than anything rallying was likely to offer. He had a vision of a giant business that embraced all levels of motor sport.

Two years on, these ambitions have, as expected, carried him outside rallying and into an even hotter seat as chief executive at Benetton, the team which put the fun into Formula One. Richards was appointed on the eve of the recent Luxembourg Grand Prix at the Nurburgring, and takes the helm on his own for the first time this weekend at Suzuka, in the penultimate event of the season.

As successor to Flavio Briatore, a flamboyant Italian who did everything in Technicolor as he guided the former unsung Toleman team to their greatest glories, 45-year-old Richards knows he has a hard act to follow, starting in Japan, home of Benetton's main sponsor, Mild Seven.

His challenge is not just that of replacing an established figure and reviving the team's fortunes. He has to do it at a time when there are growing commercial concerns over the future. The Benetton family are anxious to steady their marketing flagship as Formula One advances into a new technical era and when the team are struggling even to attempt to repeat those halcyon days when Michael Schumacher was their No.1 asset.

One win in two seasons since Schumacher left for Ferrari tells its own story. Briatore's legacy may seem rosy, but dig beneath the surface and there are several causes for concern. Not least of these is the drawn-out saga over Giancarlo Fisichella's contract with the team, a matter which eventually went to the high court in London. Fisichella and the young Austrian, Alexander Wurz, will be Benetton's replacements next season for Jean Alesi and Gerhard Berger, twenty-somethings replacing thirty-somethings in one of the most radical generation changes in the history of F1.

Richards, however, is a proven operator, experienced in dealing with both Italians and Japanese, and, as a man with a background in accountancy, someone who knows when a financial bucket has sprung a leak and can remain diplomatic.

Little has been said in explanation of Briatore's abrupt departure. Some say he moved on before he was pushed and that, in his final year in charge, he incurred the wrath of the Benetton family because of too many controversial deals including his role in the Fisichella debacle. Others believe he just got bored with a sport he had known little or nothing about until he was invited to join the team by his old friend Luciano Benetton.

'The passion of Ferrari, the technical strengths of Williams, the marketing skill of McLaren and the image of Benetton'

Unlike Briatore, Richards is a ready-made motor sports buff, but is unlikely to make any revealing comments about his predecessor. He is as much a diplomat as he is a financial controller. Yet he is certain to bring order back to Benetton's often chaotic marketing structure and ensure everyone sticks to budgets and codes of conduct

His involvement in rallying, touring cars and Formula One, not to mention his confidential engineering projects for the mainstream motor industry and his chairmanship of TOCA, the organising body of the British Touring Car Championship, has given Richards an influence in business just as strong as, say, the better-known Tom Walkinshaw, owner of the Arrows Formula One team who also controls Volvo's touring car effort and the Nissan Le Mans 24-Hours team.

All this gives Richards a depth of knowledge that Briatore never had in his early days with Benetton, and enables him to ensure that the team's commercial activities will be controlled by a steady hand. When Rocco Benetton, the 27-year-old younger brother of Alessandro, the Formula One team's chairman, settles into his new role alongside Richards at the team's Enstone base this autumn, he will find he could not have had a better tutor. Richards has been given carte blanche by the Benetton family to run their show. Asked to define his idea of the perfect team, he responded: "The passion of Ferrari, the technical strengths of Williams, the marketing skill of McLaren and the image of Benetton."

Overambitious perhaps but it is such forethought that enabled Richards to graduate from being Ari Vatanen's co-driver when he won the world rally championship in 1981 to become the chairman of Prodrive, running an entrepreneurial motor sports and engineering company which turns over around £50 million.

Richards is a strategist, an organiser and a marketeer and Benetton will want him for all three. "I decided to join Benetton because I wanted a new challenge and the opportunity came at a time when Prodrive is enjoying unparalleled success," he explained.

For months, many Formula One observers had felt that Prodrive were poised to take over Benetton but Richards denied that this would be the case. "I must emphasise that the two companies will remain independent for the time being. I am not taking a team of henchmen across with me to Benetton.I am going by myself and one of the Benetton representatives will be joining our board at Prodrive. If, in the long term, that results in joint ventures in other areas, then all well and good.

"I'm going into Benetton with a mandate to restore self-belief and make the team achieve what it is capable of. I cannot be specific and say I'll do this, this and that. Our strategy will evolve."

TYRE WAR

Gripping stuff at Suzuka

THE most obvious visual symbol of the Japanese Grand Prix is a massive Ferris wheel which looks down over the Suzuka circuit from the adjoining fun park.

It has been there for years and seen it all – the famous Ayrton Senna and Alain Prost collisions, Nigel Mansell's crashes and Michael Schumacher's championship win. But it has never seen anything like the behind-the-scenes dual between tyre rivals Bridgestone and Goodyear.

To many observers, tyres are just black and round, but in motor sport they are a massively lucrative business. Each racing tyre is worth at least £500 ($800) and each driver is allowed 36 for his personal use each weekend, only 28 of which can be used in qualifying, warm-up and the race itself.

The tyres are delivered to the track by highly-skilled teams of engineers and fitters in five transporter trucks. But these statistics only touch the surface.

It is a long-running struggle in a £100m battlefield that has pulled such illustrious Formula One figures as defending world champion Damon Hill, former champions Jackie Stewart and Alain Prost and Brazil's top driver Rubens Barrichello into the fray on Bridgestone's side.

Lining up on the other side are the traditional powers represented by Michael Schumacher, Jacques Villeneuve and Mika Hakkinen.

With drivers like Hill on board, Bridgestone is fighting to realise its plan to boost its world market share to 20 per cent. The company was formed in 1931 by Japanese businessman Shojiro Ishibashi. "Ishi" means stone in Japanese, "bashi" means bridge. Ishibashi turned the words around to give the company a more international-sounding name.

The company entered Formula One this year after a six-year research and development programme. It sensed that Goodyear could be vulnerable after enjoying a virtual monopoly. Since 1991, when Pirelli pulled out of F1 because of the costs involved, Goodyear has supplied the entire grid – until this season. In all, it has reeled off 359 victories.

Although Bridgestone has yet to enjoy a win, its American rival knows it has a fight on its hands, especially at Suzuka. This is the track on which the Japanese have done all their testing and a circuit where they lack nothing in knowledge of all conditions. As a result, their contracted teams, Prost, Arrows, Stewart and Minardi, could have their best chance so far this season.

The Goodyear teams, including the big four of Ferrari, Williams, McLaren and Benetton, have certainly become vulnerable. Hill almost upset their perfect run of victories when he was robbed of Arrows' and Bridgestone's maiden victory at the Hungarian Grand Prix in August by a mechanical failure while leading on the penultimate lap. On Sunday, he or another Bridgestone driver could improve on that, particularly if it is very hot or it rains.

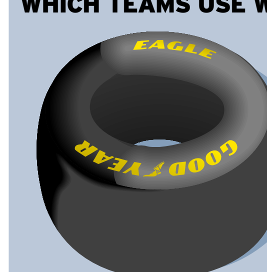
Goodyear remains adamant that its teams will stand up to the challenge. Stuart Grant, the company's worldwide racing manager, said: "This year, we have had to be proactive and produce tyres which are specifically suited to individual tracks and differing climatic conditions. And reactive, too, in that we must continually stay ahead of the game."

Staying ahead is the key. Ron Dennis, managing director of McLaren, has suggested that he might consider switching to Bridgestone. Ferrari are unlikely to follow but Michael Schumacher summed up the mood as the Japanese Grand Prix loomed. "It is a big change for everyone in the sport. It has meant much closer competition," he said.

The battle lines have only just been drawn.

ROBERT ALEXANDER

WHICH TEAMS USE WHICH TYRES IN 1997



Goodyear
Ferrari
Williams Renault
McLaren Mercedes-Benz
Jordan-Peugeot
Benetton Renault
Tyrrell-Ford
Sauber-Petronas

Bridgestone
Arrows-Yamaha
Stewart-Ford
Prost Mugen-Honda
Minardi Hart

SPORT

FOOTBALL ■ Week two of our unique form guide sees no change at the top but plenty of movement

Juve still out in front

TWENTY points is a lot to make up by anyone's standards but if things continue at the same rate, Juventus could be knocked off the top of the table of Europe's strongest teams by Christmas.

Week two of *The European*'s guide to the continent's most in-form sides sees the Italian champions still way out in front on 204.2 points. But the gap has closed by three points following their 3-2 Champions' League defeat by Manchester United.

Real Madrid, who didn't play in Europe last season and so didn't gain any European points, have managed to halve the gap between themselves and eighth-placed Porto by virtue of their recent win over the Portuguese side, also in the Champions' League.

The top 13 spots are unchanged, with Manchester United the first team to move, up one place to 14th. Expect the English champions to progress further as they continue on both the domestic and European fronts. There is a growing threat behind United, with PSV Eindhoven, Liverpool, Feyenoord, Bayern Munich and Sporting Lisbon all breathing down their necks.

THE EUROPEAN TOP 50

For readers who missed the launch in last week's edition, the table, Europe's most comprehensive form guide, has little room for reputation. What it takes to be at the top is consistency, not just over a few weeks but going back 50 games.

Hence, once again, the omission of English league leaders Arsenal, unable just as last season to repeat in Europe their impressive performances at home. Yet they are only nine points adrift of the top 50 so a couple more good domestic wins will push them into the rankings. Likewise Kaiserslautern, top of the Bundesliga. Because they were promoted only this season, their past form is negligible.

Ajax and FC Bruges are the form teams of the moment. The Dutch won their first eight games of the season under new manager Morten Olsen, whose credentials were questioned when he took over from Louis van Gaal. Bruges are also off to a flyer with seven straight wins in Belgium. Biggest climbers of the week were Italy's Udinese, who beat Widzew Lodz in the Uefa Cup and Sampdoria in Serie A.

Bordeaux have dropped out after losing to Aston Villa in extra time of the Uefa Cup. Roda fans, don't despair. The only reason your team isn't still in despite scoring ten goals in the Uefa Cup is because they skipped a Dutch league game. Watch this space!

	Last week	TEAM	Country	Points
1	1	JUVENTUS	Italy	204.2
2	2	INTER MILAN	Italy	184.2
3	3	BARCELONA	Spain	182.5
4	4	BORUSSIA DORTMUND	Germany	180.9
5	5	MONACO	France	170.2
6	6	AJAX	Holland	169.1
7	7	PARIS ST GERMAIN	France	162.7
8	8	FC PORTO	Portugal	158.3
9	9	REAL MADRID	Spain	152.5
10	10	SCHALKE	Germany	150.9
11	11	LAZIO	Italy	146.7
12	12	ATLETICO MADRID	Spain	146.5
13	13	PARMA	Italy	145.2
14	15	MANCHESTER UNITED	England	143.3
15	14	DYNAMO TIBLISI	Georgia	141.4
16	18	FEYENOORD	Holland	140.1
17	16	PSV EINDHOVEN	Holland	139.6
18	19	BAYERN MUNICH	Germany	139.4
19	17	LIVERPOOL	England	137.8
20	21	ROSENBORG TRONDHEIM	Norway	136.2
21	24	AEK ATHENS	Greece	135.5
22	20	SPORTING LISBON	Portugal	134.8
23	23	FC BRUGES	Belgium	134.4
24	25	METZ	France	131.7
25	22	SAMPDORIA	Italy	130.7
26	28	SKONTO RIGA	Latvia	129.8
27	26	GALATASARAY	Turkey	128.5
28	34	UDINESE	Italy	128.2
29	32	VICENZA	Italy	127.2
30	33	AUXERRE	France	127.2
31	27	WIDZEW LODZ	Poland	127.0
32	31	DYNAMO KIEV	Ukraine	126.9
33	36	NEWCASTLE UNITED	England	126.3
34	29	FENERBAHCE	Turkey	126.0
35	35	KARLSRUHE	Germany	125.9
36	30	TRABZONSPOR	Turkey	125.5
37	37	CROATIA ZAGREB	Croatia	125.0
38	40	BESIKTAS	Turkey	125.0
39	39	SPARTAK MOSCOW	Russia	124.8
40	38	OLYMPIAKOS PIRAEUS	Greece	123.5
41	41	BENFICA	Portugal	122.8
42	44	SLAVIA PRAGUE	Czech Republic	122.6
43	42	BRONDBY	Denmark	121.9
44	43	BAYER LEVERKUSEN	Germany	121.4
45	48	ROTOR VOLGOGRAD	Russia	121.3
46	45	DEPORTIVO LA CORUNA	Spain	120.5
47	46	GUIMARAES	Portugal	120.3
48	47	RANGERS	Scotland	120.3
49	52	MTK BUDAPEST	Hungary	120.2
50	51	ANORTHOSIS FAMAGUSTA	Cyprus	120.1

Guide to our Euro league ratings

❶ Clubs have been selected from the 14 strongest premier divisions across Europe – a top tier of eight leagues and a second tier of six, according to the Uefa co-efficient. The table goes back 50 games and will be updated each week.

❷ Clubs score points through a combination of league results and performances in Europe. Points are given for a draw, a home win and an away win. The two-tier handicapping system will reflect the varying levels of the leagues. The stronger the league, the more points for a top performance.

❸ Extra points are acquired for reaching the latter stages of the three European cup competitions. Bonus points are also given if a team from a lower league beats a team from a higher league in any European match.

SPORTING WORLD

TENNIS

Becker as messiah

BORIS BECKER has become coach of Germany's Davis Cup team to revive a squad he once led as a player. Becker replaces Niki Pilic, who stands down after ten years. "When someone as successful as Becker offers his services it is a great stroke of luck," said Jens-Peter Hecht, of the German tennis federation. Carl-Uwe Steeb, a player in Germany's first cup win in 1988, becomes team captain. Pilic led Germany to three Davis Cup triumphs but the team lost to France in last year's quarterfinals. Germany returned to the elite World Group last month.

DRUGS

Charges imminent

TWO swimming coaches are to be charged with administering drugs to minors as part of a criminal investigation into systematic doping by the former East German sports machine. Dieter Lindemann and Volker Frischke also worked for the unified German national team but were recently withdrawn from their duties. Lindemann, once coach of Olympic medallist Franziska van Almsick, and Frischke, ex-coach of European champion Kerstin Kielgass, are both accused of giving steroids to young swimmers in the 1980s. Both deny the allegations. Meanwhile, some of Australia's top athletes have refused to train under new national coach Ekkart Arbeit unless the credentials of the former east German are checked further.

FOOTBALL

Row over replay

A HIGH-RANKING Fifa official has described as 'extremely serious' a decision by German football chiefs to replay a first division match because of a referee's mistake. The German federation's federal court has ordered the 5 August match between Munich 1860 and Karlsruhe, which ended 2-2, to be replayed, ruling that referee Michael Malblanc had blown the final whistle prior to Karlsruhe's second goal. "I would have to say that Fifa would view this very seriously indeed," said David Will, head of Fifa's referees commission. "This strikes at the very laws of the game."

MOTOR RACING

Tyrrell's new man

BRITISH Formula One team Tyrrell has signed Japanese driver Toranosuke Takagi for 1998 to replace Finland's Mika Salo, who is joining Arrows. "Tora is already a star in his own country and we believe he has the potential to become the best Formula One driver Japan has ever produced," said Bob Tyrrell, the team's commercial managing director. Tyrrell has earned just two points this season through Salo and Jos Verstappen of the Netherlands.

ANTI-RACISM

Maradona's boys bid for credibility

ANDREW WARSHAW

WHAT do Diego Maradona, Eric Cantona and George Weah have in common? They have all been banned from football. Maradona was suspended not once, but twice for drug-taking, Cantona was thrown out for kicking a spectator and Weah was sanctioned for headbutting an opponent in the players' tunnel.

Hardly the sort of image required for a starring role in the most politically correct football match of the season. Yet these three individuals will all be wearing the captain's armband at some stage on Sunday evening at a star-studded gathering to mark what the bureaucrats in Brussels tell us is Europe's year against racism.

That such an occasion needs to take place at all when there are more black players in European football than ever before is in itself depressing. Even more alarming is what has been going on behind the scenes in the build-up to the game.

Maradona, Cantona (stepping briefly out of retirement) and Weah will lead some 60 players on to the field at Real Madrid's Santiago Bernabeu stadium, split into three squads for a round-robin tournament. Sadly, two of the players, Cameroon-born goalkeeper Jacques Songo'o and Fernando Hierro, have asked to be placed in different teams, hardly entering into the spirit of the thing. Deportivo La Coruña's Songo'o claims he suffered racial abuse from Hierro during a Spanish league game last Sunday, to which Hierro replied: "I am not a racist." Hugely embarrassing, of course, for the organisers, the International Association of Professional Footballers (AIFP), an unofficial trade union inaugurated by Maradona and run by the sport's rich and famous in order, ultimately, to wrest some power from Fifa, the world governing body.

STEVE LINDSELL

Former times: Cantona's infamous Kung Fu assault led to a lengthy suspension

And that's not all. *The European* has learned that Maradona's association failed to ask permission of the Spanish football federation to stage the game, illegal under Fifa rules. The Spanish are none too pleased. "The whole thing has been carried out in the most terrible manner," said federation spokesman Fernando Garrido.

Then there is the question of who's playing. Or rather who's not. After promising several times to fax a list of players, a spokeswoman suddenly decided that no list would be available until the eve of the match. The obvious inference was that, with Europe's most important World Cup qualifying night of the season taking place 24 hours before the Madrid jamboree, a number of no-shows are likely.

But Maradona, Cantona and Weah *will* be there, and everyone apparently will play for free. Organisers are convinced that Maradona, who failed another dope test in Argentina a month ago, will be well received in Madrid, even though used to play for deadly rivals Barcelona. "All our members are behind him," said an AIFP spokesman. "Just because you take social drugs doesn't mean you are a bad person."

FRANCE 98 ■ A needlessly complex system spoils European football's big night

Who can work out World Cup qualifiers?

DOMINIC O'REILLY

FEW occasions can offer the thrills of the last night of World Cup qualifying. As the goals fly in, places at the world's biggest single-sport tournament are won and lost across Europe.

On 11 October an unprecedented 11 places are up for grabs. Yet, instead of a night of sporting drama, there will be only confusion.

Millions of fans following the 16 matches which will shape Europe's challenge will not know if their country has done enough to go to France until all the results are in. With the kick-off times not synchronised, it will be an anxious wait.

Who does make it will be decided by a system calculable only by those with the time and desire to tot up the results of more than 100 games.

Since there are a total of 15 places up for grabs, compared with 12 last time round, it should be easier than ever to get through. But since the last World Cup a further dozen European countries have been included in international football – five parts of the former Yugoslavia, six erstwhile Soviet republics and the two halves of what was Czechoslovakia.

It brings the total in Europe to 50. Subtract France, who qualify automatically as hosts, and there are are 49 teams chasing 14 places.

The simplest system would be sevengroups of seven, with the top two in each qualifying automatically. With that, everyone would know at a glance what was happening. If there were two teams in a group chasing second place, the cameras could switch back and forth between their matches. It would make for great television but instead we have something far too convoluted to follow.

There are nine groups: five of six teams and four of five. The winner of each goes through automatically, as does the runner-up with the best record.

This is worked out by calculating a country's results against the teams that finished first, third and fourth in their group. The fifth-placed teams are not included because of fears that they might have suffered drubbings that would distort the standings. It would be easier just to look at the overall points total but that would be unfair on the smaller groups.

The other eight runners-up will be drawn out of the hat on 13 October for a home-and-away play-off round. The four aggregate winners of the matches on 29 October and 15 November will go to France. The four losers are out. It will cost them millions of dollars in prize money, sponsorship and television rights, and cause their ranking to slip, making it harder to qualify next time.

With teams such as Italy, Russia and Yugoslavia possibly in the playoffs, getting through will not be easy. Supporters wishing to find out if their team will make it automatically must go through every group and count up

the previous results. Then, follow the final round of matches on teletext and add them to a database as the scores change.

There is the added complication that if group leaders such as England or Austria lose, they will drop into the runners-up slots and their record has to be calculated. Who, apart from the worst anorak, would get any kind of fun out of that?

The most obvious snag of doing away with this system by having fewer, bigger groups is that each team would play more matches. With Europe's club competitions having undergone a similarly dramatic expansion in recent years, there was concern that the international fixture lists would become overcrowded.

This is nonsense: the dates earmarked for play-offs could have been used for the extra group matches.The only obstacle would be that the best players would be exhausted by their commitments to club and country.

The solution would be to reduce the number of teams. To do this, and still give everyone a chance, there could be a pre-qualifying tournament or round, as with club competions.

It would give the top players a rest and end the worst mismatches. When San Marino concede 42 goals and score none in eight World Cup matches, and Liechtenstein lose 11-1 at home to Macedonia, the gap in playing standards is ridiculous.

Pitting Dennis Bergkamp against the collection of bus drivers and travel agents that make up the San Marino team is like Mike Tyson squaring up to Danny de Vito.

These nations could play each other between the end of the qualifying rounds of one competition and the start of the next one. They would have a chance of some rare victories and, while some would still make it through to play the bigger teams, it would stop others from being out of their depth.

There are, however, no plans for change. Instead Uefa, the sport's governing body in Europe, will use the present system for Euro 2000.

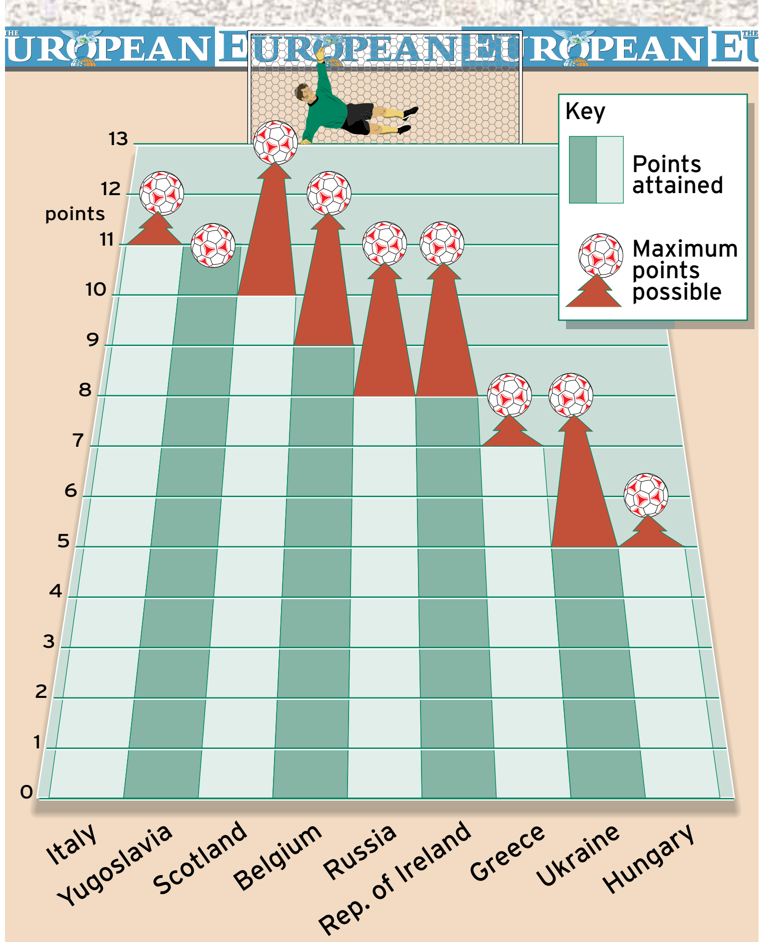
Thomas Kurth, head of Uefa's competitions department, said that the decision was taken as much for political as sporting reasons.

"The bigger footballing powers considered a pre-qualifying round but the smaller ones have equal rights," he said. "What we have now is not ideal but we must keep the family together. For the little countries, much of why they play football is to play a famous side. We cannot deprive them of that."

Noble words but no consolation to those fans who must swap their scarf for a calculator come Saturday night.

SHOOTING FOR THE WORLD CUP GOAL

Teams currently in second place in their groups. Figures show points won in matches against the first, third, and fourth-placed teams, and how many they can win **and stay as runners-up**. For example, if Italy beat England, they will win Group 2 and qualify automatically. If they draw, they stay as runner-up.



WHO NEEDS WHAT

GROUP 1
Greece v Denmark, Slovenia v Croatia
If Greece beat a resurgent Denmark, they will qualify automatically. A draw, and it is the Danes who go to France, with Croatia having the chance to pinch second place. The Croats, woeful or wonderful as the mood takes them, should win in Slovenia.
Prediction: 1. Denmark **2.** Croatia

GROUP 2
Italy v England
Italy need to win. A draw and they are in the play-offs with England qualifying.
1. Italy. **2.** England

GROUP 3
Finland v Hungary
Norway have already qualified, Finland have to beat Hungary at home to take second place. With Ajax's Jari Litmanen in great form, they should do it.
1. Norway **2.** Finland

GROUP 4
Austria v Belarus, Scotland v Latvia, Sweden v Estonia
The most complicated group of them all. Austria can finish no worse than second and will top the group if they win. A draw and Scotland could pinch first place. Even if the Austrians beat Belarus, the Scots will qualify as the best runners-up if they win. Any repeat of the slip-ups against supposedly inferior opposition that has dogged Scotland's World Cup history and Sweden could take second place.
1. Austria **2.** Scotland

GROUP 5
Bulgaria have qualified, with Russia in the play-offs.

GROUP 6
Spain v Faroe Islands, Malta v Yugoslavia
Spain need a point to hold off Yugoslavia. Both are assured of at least a play-off place.
1. Spain **2.** Yugoslavia

GROUP 7
Netherlands v Turkey, Belgium v Wales
Mathematically, the Dutch need a draw but their vastly superior goal difference means qualification is effectively guaranteed. Belgium are through to the play-offs unless they lose, and the Turks win.
1. Netherlands **2.** Belgium

GROUP 8
Republic of Ireland v Romania, Macedonia v Lithuania
Having lost a play-off for Euro 96, the Republic of Ireland will have the chance to go one better unless they lose heavily at home to Romania, who have already qualified, while Lithuania run up a rugby score in Skopje.
1. Romania **2.** Republic of Ireland

GROUP 9
Germany v Albania, Portugal v Northern Ireland, Armenia v Ukraine
Germany need a point to clinch first place. Ukraine have a one-point advantage over Portugal but with an inferior goal difference, need to win to make sure of a play-off spot.
1. Germany **2.** Ukraine

Good week for...

Greg Rusedski's astonishing rise up the rankings continued with victory in the Swiss Open, his 22nd win in 27 matches. The British Nº1, ranked 48 at the start of the year, is now fourth in the world after his victory over Australia's Mark Phillippoussis. It was the third time in a row that the 24-year-old left-hander had won the battle of the world's fastest servers. Rusedski, who reached the final of last month's US Open, reaped the benefit of some much-improved groundstrokes to go with his fearsome serve and now has an excellent chance of qualifying for the season-ending ATP Championships.

Bernhard Langer (*pictured*) is, like Rusedski, on a roll. The 40-year-old played a pivotal part in Europe's victory in the Ryder Cup last month and demonstrated no signs of being drained in winning his home event, the German Open in Berlin. During the tournament, Langer set a European PGA Tour record with his third round score of 60.

Turkish barbers enjoyed a windfall from a first division team's defeat after a rash promise. Eleven of the 35 Dardanelspor directors had promised supporters that if their struggling team lost at home to Kocælispor, they would have their moustaches shaved off. The club went down 2-0 and the directors kept their collective word, exposing upper lips that in some cases had not seen the sun for more than 30 years.

Bad week for...

Russian footballers have been suffering at home and abroad. Sporting Gijón's poor form has seen them nicknamed 'Mir' because, like the battered space station, they have three Russians and everything is going wrong. In Moscow, national coach Vyacheslav Koloskov said the fact that none of his players has been injured in recent World Cup qualifiers shows none of them have been trying hard enough. Koloskov said that when there are no bumps or bruises, there is no fighting spirit. Russia face a play-off for next year's World Cup finals.

Graeme Souness (*pictured*) was sacked as manager of Italian Serie B side Torino. Souness, the former Rangers, Liverpool, Galatasaray and Southampton manager, signed a two-year contract in the summer but paid the price for a disappointing start, with only seven points from the first six games. Souness, who will receive a $1.2 million pay-off, has been linked with Rangers after their elimination from both the Champions League and the Uefa Cup.

Ovidiu and Stela Olteanu suffered a punishment worthy of the Ceausescu regime when the Romanian middle-distance running husband-and-wife were hit with six-month suspensions and undisclosed fines for competing abroad without official permission.

GRAHAM WATSON

Suffering: Scott Sunderland (right) has been dumped by his French team GAN to make way for three riders whose inexperience makes them cheaper

CYCLING ■ A *domestique*'s lot is not a wealthy one

Hard life for losers of the pack

JEREMY WHITTLE

FANS know them as the *domestiques*, the water-carriers and butlers at the heart of every professional cycling team who sacrifice their personal ambition to support the superstars.

Whether sheltering their team leader from the elements, fetching drinks, food or clothing from team cars or pursuing dangerous breakaways over hundreds of kilometres, their selfless efforts are essential.

As Alex Zülle, whose £4.5 million ($7.2m) salary makes him the world's best-paid rider, defends his world time trial title at this week's World Championships in San Sebastián, many weary *domestiques* will be dashing around the resort's hotels in a last-minute effort to secure new contracts.

In a world where riders are only as good as their last race, the turnover of talent is alarmingly high. In 1997 almost 100 new riders joined the top 22 teams. Most suffered on the muddy cobblestones of Flanders, the high passes of the Alps and Pyrenees and in the stifling heat of the French Midi, but only a fraction of them will race among the elite next year.

While the stars pick and choose their programme, and have teams built around them, the *domestiques* must hope for the occasional kind word and the even rarer chance to show their true worth.

With the International Cycling Union (UCI), the sport's governing body, limiting teams to 22 riders as of next season, the scramble for contracts has become even more intense.

Veteran professional Scott Sunderland said riders are pressured into unfavourable contracts. "One rider, three days before the Tour of Spain, was told to sign the contract in front of him – after no negotiation – or fly home and look for something else," said the 30-year-old Australian.

Sunderland is himself facing unemployment.

"I started well this year but had illness and injury problems," he said. "I've been released by GAN at a very late stage having had the impression that the worst I could expect was a salary cut."

In March, GAN, a French insurance company, said they would pull out of cycling sponsorship at the end of 1997.

"Roger Legeay [the team manager] spoke to all of us individually," recalled Sunderland, "asking us not to speak to other teams until he'd done everything he could to find another sponsor. Out of loyalty, I agreed. I had the chance to negotiate with other teams, but wanted to stay with GAN and, because it was never implied that I'd be sacked, I hung on. But I was ill and lost form, so I missed the tours of France and Spain."

Missing those two races dealt Sunderland's prospects a fatal blow. "The other contacts went cold," he said. "But I still thought I'd be staying with GAN. Then at the end of September, when they'd found further sponsorship, they told me they weren't keeping me as they did not have the budget. The worst thing was that Roger did not tell me himself."

'There's no respect. When I give my word, I keep it'

He accepts that if he does continue racing, he is unlikely to find an annual salary comparable to the Ffr500,000 ($84,300) he earned with GAN. "It'll be tough with one of the smaller sponsors," he said. "Most can't pay riders' expenses, so you are lucky to break even."

Sunderland's story is typical of a sport that is becoming more cut-throat every year with team managers playing riders off against one another. One is said to have forced his team to train in minus 10ºC, without weatherproof jackets, to see who was the toughest and most motivated.

"Teams want riders who have UCI points," Sunderland argued. "The more points they have, the higher the team is ranked, and the better its chances of getting into the Tour de France. But it's not a true measure of a rider's worth – how many points he has depends on his programme."

For many of the young hopefuls who fail to make the grade, the propects for life after cycling are bleak. Driving a minicab or running a bar is often the best they can hope for.

"Some of them know nothing other than cycling," said team manager Giancarlo Ferretti. "If, when they turn pro, it doesn't work out they haven't had the education to provide options."

Sunderland still hopes for an offer that will allow him to keep racing, and support his wife and infant son. "There's a lack of respect. When I give my word, I keep it," said Sunderland. "I'd have stayed at GAN for half my salary, so I'm devastated by the position they've left me in."

And the money he would have received from GAN? "They've signed three youngsters for what they would have paid me," said Sunderland.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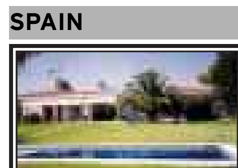

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PORTUGAL ■ Developers who built up the Algarve have become unlikely eco-warriers

Concrete jungle turns green

CLIVE BRANSON

SINCE the end of the last war colonies of villas and hotels have been creeping along the cliff tops of the Algarve, transforming a once isolated region into one of Europe's most popular holiday resorts.

A rash of brutalist building projects during the 1980s provoked an outcry from green campaigners, with the result that developers are beginning to take stock of environmental impact before the area suffers the same ravages as Spain's Costa del Sol.

Four years ago the Portuguese government tightened planning rules, and its laws are now among the strictest in Europe. Building initiatives outside existing urban areas are severely restricted and many planning applications granted in the 1980s are no longer valid.

Lusotar, a branch of André Jordan, which was among the pioneer developers 30 years ago, is one of the first to embrace this new eco-awareness. It has joined forces with the local environmental group in Vilamoura to help redress the insensitivities of the past and is currently campaigning to achieve a listed status for Vilamoura under a programme created after the Earth Summit in Rio de Janeiro.

Not that this new awareness has prevented Lusotar from embarking on a new 850-hectare complex with two 18-hole golf courses, and planned tennis courts, cinemas and bowling greens. However, the development will be lower density and more attention is being paid to landscaping.

The so-called green mentality will be severely challenged now demand from second-home hunters is soaring.

"We have had the best year for sales since the heady days of 1987-89," says Helen Mills of Quinta Propiedad.

So far the Irish, German and British have shown the most enthusiasm, concentrating on most popular areas of the Vale do Lobo and Quinta do Lago. Both are close to the sea and to Faro airport. Quota do Lago borders the Rio Formosa Nature Reserve and only eight per cent of the area is built on. It has four 18-hole golf courses, tennis courts, nightclubs and horse-riding facilities.

One of the most active developers in the western Algarve is the Vigia group. It has five sites with two-bedroom villas at $142,000 and three-bedrooms for $284,000. Its latest project, spread over a 260ha site, will include two 18-hole golf courses, a hotel and 250 residential units.

There is an equally healthy market for more expensive detached villas. La Mission, Loule, which is 14 kilometres from Faro airport, was originally built as a farmhouse. It was extensively altered and extended in 1984 to create a 600sqm property with two reception rooms, three bedrooms, two bathrooms and a separate three-bedroom cottage. The 2.4ha gardens have a swimming pool and tennis court. Hamptons is marketing it for $2.2 million.

Hamptons is also selling the $685,000 Casa Marita, which is in the Quinta do Lago area and overlooks the Formosa A golf course. It has three reception rooms and three bedrooms, all with en suite bathrooms, and the 0.5ha grounds include the obligatory swimming pool.

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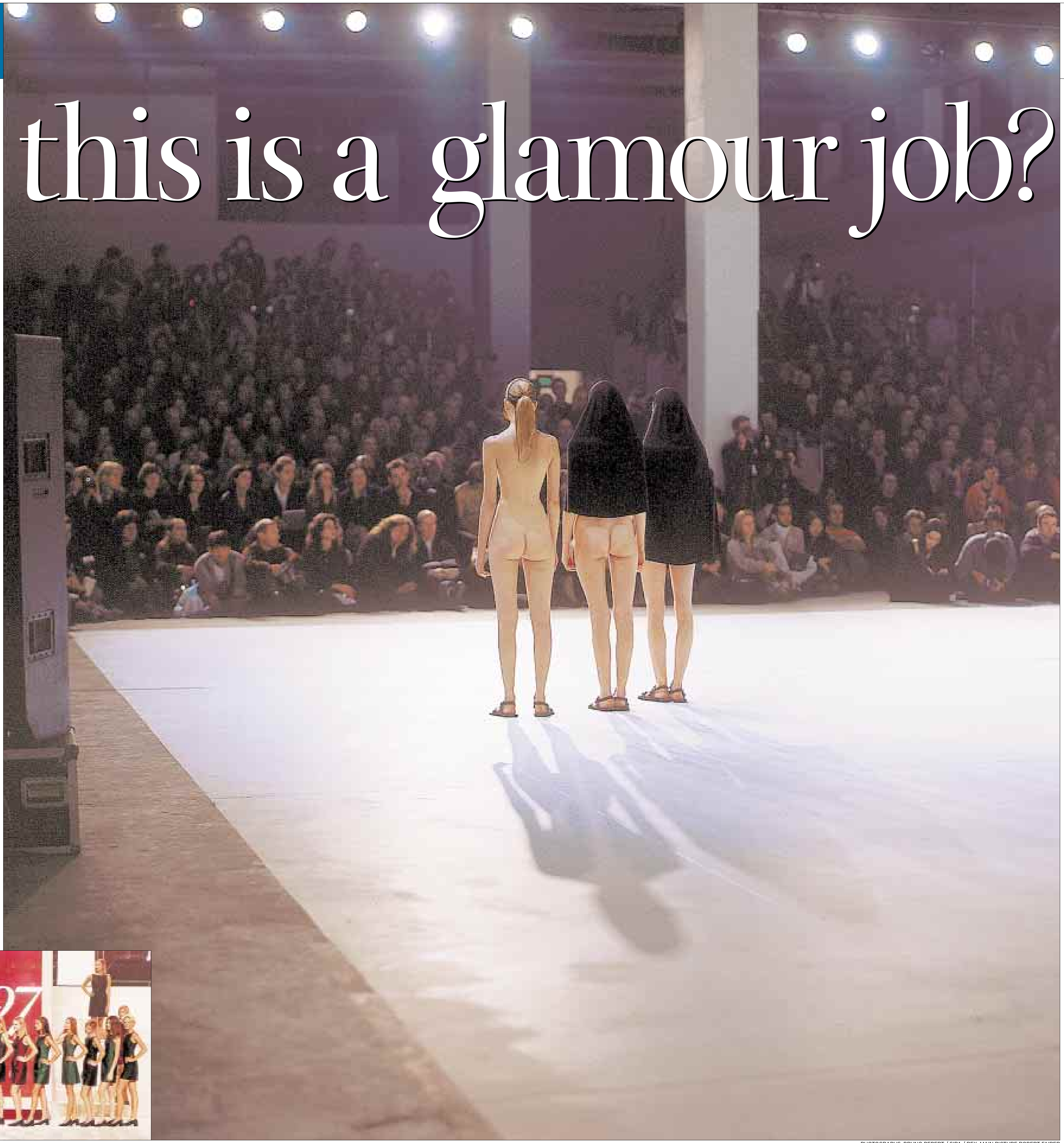
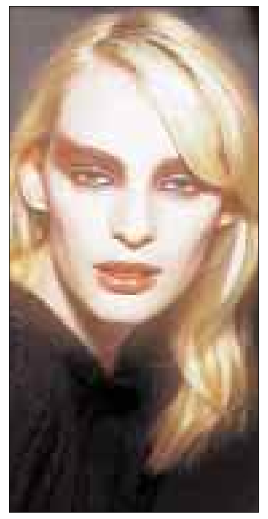


FASHION ■ Extreme youth is the look of the moment from designers, but as the models get younger the reality of catwalk life gets harsher

STEPHANIE THEOBALD AND LANIE GOODMAN

THE models standing on the sunny autumn terrace in Nice have posed in wet T-shirts and strutted through the disco dancing classes. Now an even more exacting task faces them. After their morning's work in the Elite model championships, where 77 young girls from 50 countries are dreaming of a future career of fame and riches, the contestants are trying to solve the riddle of lunch.

For most of the girls – average age 15 – a typical lunch back home is milkshakes and chicken McNuggets. They now stand bewildered before a Philippe Stark table and gaze at the low-calorie sea in front of them – green salad, tomatoes, melon, grapes. You can see the embryonic complexes forming in their minds. Maybe they should have been eating lettuce all along, maybe they would look better if they ate leaves, maybe they should try eating nothing at all.



Wesson: drugs claim

Five days later, the judges – designers John Galliano and Stella McCartney and the celebrity photographer Patrick Demarchelier – have made their decision. The first prize of a two-year contract with Elite, Europe's biggest model agency, goes to a 15-year-old blonde Dutch schoolgirl Yfke Sturm. She will get modelling work worth $150,000, which is not the same as a guarantee for that amount of cash.

Soon she will learn the lesson that agencies, even big and reputable organisations like Elite, will want to run her life and regulate her money. First, she must listen to a piece of counselling.

"In my 16 years in the business I never came across anorexia until three years ago," Marina Musch, head of Elite Amsterdam warns her. "Now when I'm on trips with girls and I see they're eating a lot but never getting fat I always check the toilets afterwards."

But Yfke is only a few hours into her new reign and life still seems a cocktail of excitement. As she scampers off to give giggly interviews to journalists Musch confides to a colleague: "Sometimes I hate this business. We're all making money and we don't care."

An industry that began in the 1920s with debutantes posing in gilded salons for pin money has turned into what fashion writer Michael Gross describes in his book *Models* as 'legalised flesh peddling'. The problem is that a successful model is paid much more than pin money these days. This triggers jealousy in a notoriously insecure business, even though the sums of money quoted often take no account agency fees. Of Kate Moss's recent $3 million deal with Calvin Klein, Storm, her agent, will take around 20 per cent and a further fee from the client. Linda Evangelista's new campaign for Kenar has a budget of $3.3m and the fledgling Karen Ferrari will be paid $1m gross for her campaign with Hugo Boss.

Now that the so-called 'supers' – the Naomi, Cindy, Christie and Linda brigade – are getting older, model agencies are competing in a frantic search for the next stars of the catwalk. The pressure is felt by everyone as agents push their 'properties' to their mental and physical limits. A day in the life of a model may typically consist of ten catwalk shows and dress rehearsals, accusations that they are late/fat/dirty from stressed designers, skirmishes with the paparazzi, long-distance relationships sustained by mobile phone, compulsory round-the-clock charm, and pressure to work topless, and sometimes bottomless.

A decade ago, 18 was seen as a good age to start a modelling career. Now that adolescent-shaped bodies are in demand by designers, agencies are beginning to draft girls in at ever younger ages. Fifteen is now seen as a good time to begin. Girls of this age, even those working top level shows by, for instance, Valentino, Calvin Klein or Dior, can bring in as little as $160 for a show which may have cost $50,000 to put together.

Marylin Inc, the French agency with Helena Christensen and Carla Bruni on its books, set up business in New York where it 'acquired' Amy Wesson, the 19-year-old muse to Valentino, Jil Sander and Miuccia Prada. Company Management, the American agency which lost her to the French newcomers, is accusing Wesson of drug abuse, of being so strung-out on shoots that she couldn't work (she gets up to $15,000 per catwalk show, of which an agency would exact roughly one-third.) The US agency, which signed Wesson when she was 16, intends to sue her for $5m for loss of earnings.

According to Elite's European scout Dominique Caffin, drug accusations can be simply spiteful ruses: "It is very annoying when a prize girl leaves you for somebody else. Some people will do anything to try and stop their career, if you know what I mean." But the veracity of Company Management's accusations remains to be determined in the US courts.

Being a model is glamorous if you are of the school that believes it glamorous to be hated. It seems that everyone loves to hate a model these days. When Amy Wesson bloomed with health on the Dolce & Gabbana catwalk in Milan, you could sense the disappointment among the gossip mongers. Their ill will was rewarded next day when the bewildered looking American fell over at Gucci, which led to the inevitable speculation whether the cause was something less obvious than the impracticality of her shoes.

Bankers take drugs, accountants take drugs but they don't make headlines. It has always been fashionable to wax hyperbolic about cocktails of drugs and alcohol that models supposedly take every night while they enjoy orgies in night clubs. In the early 1970s when Eileen Ford and John Casablancas, head of Elite, began competing to lure the best girls to their respective companies, it became obvious that the foundations of modern fashion were to be based on sex and scandal. Casablancas' agency had just opened for business when two of its models died. One jumped out of a window under the effects of who knows what, and the body of the other – the daughter of a French minister – was found on a roadside. She, according to Michael Gross, was fond of 'very wild games'.

The hollow-eyed demeanour of heroin chic has latterly been the height of fashion. If Amy Wesson was doing heroin, it seems rather harsh to blame her for living out consumerism's fantasy.

Some models are prepared to speak out about what they see as the moral wasteland of certain areas of the fashion business, especially now that younger and younger girls are being signed up. Baby faces and immature bodies were everywhere in Milan this week.

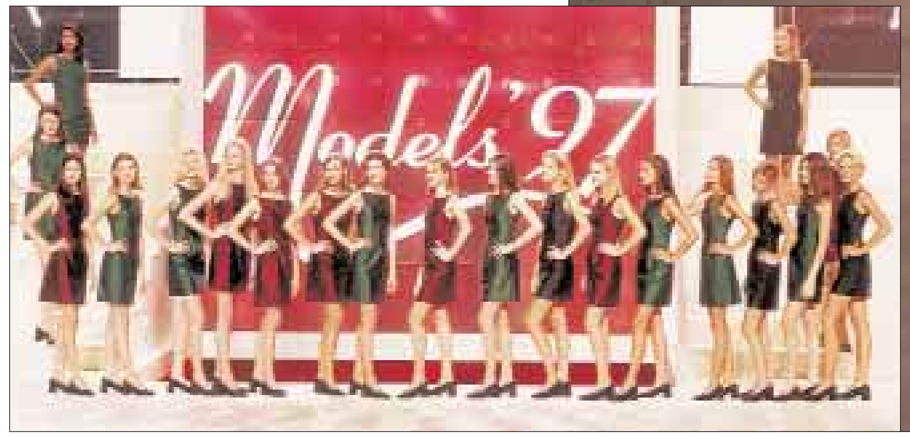
Milla Jovovich, the 21-year-old Russian star of Luc Besson's *The Fifth Element* who started her modelling career on the Milan catwalks at the age of 11, says that playgrounds not photocalls are the place for little girls. "Agents always promise to look after you but they don't. When I started out I had my mother with me all the time. I look around here and I see bookers giving their 13 and 14-year-old charges cigarettes, bottles of beer and worse. These kids should still be sitting on their parents' laps not hugging glasses of vodka."

Top European model agencies like to stress that they are much better 'mothers' than their US counterparts. Young Yfke Sturm will be permitted just $700 spending money a month. The rest will be placed in a bank account under the control of her parents.

But Jovovich adds that Milan is a "dangerous place to be for a young girl". It's a place where heroin is easy to come by and where there are many young models. In Paris you have to be 16 before you can work, but in Milan – or London – young models can get work from 12 upwards. The top three winners of the Elite competition were all 15 years old and last year's winner, 15-year-old Diana Kovalchuk from Ukraine, was originally discovered aged 13 and then pursued by Elite until she agreed to surrender her life to the catwalk.

The East is shaping up as the zone of the moment since the graceful, ethereal looks of the girls there are the current mode with designers. Dominique Caffin spends a lot of time there. She says mothers are desperate to get their daughters out of the East. Once, she was approached in Romania by a woman who thrust a parcel of newspaper into her hands. When Caffin opened it she found it filled with six eggs. The woman registered the look of surprise on the agent's face and thought the eggs weren't enough. "I can give you a chicken as well, but please take my daughter," she said plaintively.

Caffin sighs. "The older it gets, the more teething problems this industry seems to have."



Rear view: models bare all at the Hussein Chalayan show during London fashion week; below left, contestants line-up in the Elite model competition in Nice; below right, winner Yfke Sturm showers in a T-shirt for photographer Demarchelier

PHOTOGRAPHS: BRUNO BEBERT / SIPA / REX; MAIN PICTURE ROBERT FAIRER

Book of the week REVIEWED BY PHILIPPE BOULET-GERCOURT

In defence of the emperor's new clothes

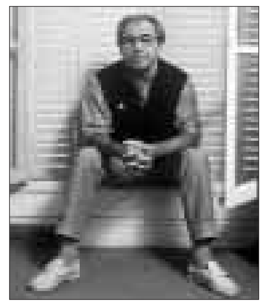
Impostures intellectuelles

By Alan Sokal and Jean Bricmont (Odile Jacob Ffr140)

I HAVE heard it all now. The Americans have denigrated our economy, they laugh at the pretensions of the *Grande Nation*, they crack jokes about the Parisian smog and refuse to import our unpasteurised camembert. And now, to cap it all, they are mocking our intellectuals.

Notice the possessive pronoun. We French are very proprietorial about our intellectuals: brilliant, insolent, political (from a distance), they sum up the French psyche. They are the Airbus of French thought: one of our most formidable exports. For years American campuses have been clamouring for their fix of Derrida, Lacan or Foucault. The postmodernist movement worships at their shrine and when Jacques Derrida visited New York university there was a riot.

But over the past few days, our intelligentsia has been suffering from a collective hangover. A New York physicist, with the aid of a Belgian stooge, has assailed them with a book, the title of which alone is a smack in the face. Their argument: when it comes to using science to back up their demonstrations, our grand gurus of philosophy write what often amounts to nonsense. And to hide this, they dress up their ignorance in incomprehensible jargon.



Baudrillard: lost in space

Alan Sokal is no stranger to this debate. Two years ago, exasperated by the pedantry of American postmodernists, he published a spoof article in the prestigious magazine *Social Text* under the heading 'Transgressing the Boundaries: towards a transformative hermeneutics of quantum gravity'.

The editors did not realise it was a hoax and last year published this collage of deliberately preposterous ideas and abstruse quotations. Now Sokal and his ally Jean Bricmont have returned to the fray, this time examining the texts of French writers who have inspired American postmodernist intellectuals. The result can be summed up in a single word: massacre.

The first bazooka is fired at Jacques Lacan, without doubt one of the most influential psychoanalysts of the century. The problem is he goes over the top. Fascinated by scientific vocabulary, he wallows in topology, torus and 'cross-cuts', all of them precise terms about which he understands very little.

In the words of Sokal and Bricmont, "he confuses irrational and imaginary numbers" and "mocks the world" with his fantastical algebra which he uses to clear a path through the jungle of terminology. Readers hungry to discover his meaning will find it as follows:

In short, it is, according to Sokal and Bricmont, "heavy and pompous" and often imprecise. The sociologist Jean Baudrillard is little better when he writes à propos the Gulf War: "that the space of the event has become multiply-refracted hyperspace; that the space of war has become definitively non-Euclidian". The authors comment dryly: "What is this supposed to mean? Moreover, what is the Euclidian space of war? Finally, let us stress that the concept of multiply-refracted hyperspace doesn't exist in mathematics or physics; it's pure Baudrillardienne invention."

But Sokal reserves his most painful lashes for the champions of cognitive relativism, those who believe the validity of modern science depends on the perceptions of individuals or social groups. Like the philosopher Luce Irigaray when she discovered sexual gender in Einstein's theory of relativism. "The equation $E=MC^2$, is it a sexual equation? Let us hypothesise that it is insofar as it favours the speed of light in ratio with other speeds for which we have vital need. The reason I believe I recognise a sexual gender in the equation is not directly because of its use for nuclear armaments, it is because it favours speed." The irony is that radical feminist interpretations fuelled by such nonsense have found little success in France but have, on the other hand, flourished in the United States.

It is with the greatest difficulty that Sokal and Bricmont restrain themselves from rubbishing not only the more dubious philosophies but the entire oeuvre of our intellectuals. This is the weak point of the book. Scientists themselves, they have cherry-picked the worst excesses from the philosophers' admittedly clumsy forays into science, ignoring the large body of their work which is worthwhile.

When Baudrillard writes of the 'virtuality' of the Gulf War and its smart bombs, his analysis may not be scientifically rigorous but it is inspired by passionate concepts and analogies. In short, the authors could still provoke an amusing debate on the merits of French thought while focusing less on whether the philosophical formulae stand up mathematically, and more on the interpretation behind them. Intellectuals may be lazy or imprecise but their ideas are often fertile.

Our philosophers, unsurprisingly offended by the book, have accused the authors of Francophobia. For in France, intellectuals are not simply thinkers. They are stars. And this book shows that the Americans really do have no respect for anything!

> The authors have picked on the worst excesses of philosophers

$$\frac{\mathbf{S}\text{ (signifier)}}{\mathbf{s}\text{ (the object signified)}} = \mathbf{s}\text{ (utterance) with } \mathbf{S} = (-1)\text{. on a } \mathbf{s} = \sqrt{-1}$$

SCOOTING

■ As traffic slows down and clogs up the cities, the smarter traveller has decided to steer clear of the car. Old faithfuls like the scooter and the bicycle are making a comeback with new models which are fun to ride and good to be seen on around town – as Mariella Frostrup discovers

Two wheels good

I ARRIVED at a TV studio the other day looking slightly dishevelled. My hair was cemented to my skull and my face smeared with grime. My employers looked in horror. I was beginning to wonder if my services as a presenter would still be required. Then they spotted my helmet.

"Do you drive a Vespa?" asked the Armani-suited producer, her eyes wide with envy. "Yes" I replied, the thrill of riding undiminished after three months on the road. Everyone joined in: "Isn't it scary?" "What colour is it?" "Do you drive it everyday?" "Is it easy to park?"

"Yes, black, yes, usually," I replied, baffled by their interest. Anyone would think that the moped had just been invented.

Scooter culture has been slow to catch on in London. Racing around the capital on a two-wheeler was okay for motorcycle couriers but not for white-collar grown-ups. They would rather take their chances in densely packed tube trains or face the frottage on the bus during rush hour. If public transport didn't appeal there was always the car.

Then two things happened. Traffic slowed down so much that it was taking longer to cross the city by car than it had by horse and carriage 100 years ago – and Piaggio relaunched the Vespa.

With a 125cc engine, automatic gears and a smorgasbord of colours, they were an instant hit. I wasn't going to be left out. Colour was a problem. Should I go for fiery orange, cool mint green, dainty pearl or iconic black? Memories of *La Dolce Vita* flooded back and I went for black.

It was while I was watching the Fellini film that I first noticed the Vespa and, years later, clinging to my best friend's back as she negotiated the streets of Rome, I fell in love with it. We saw the sights in an hour, zipping through traffic past the Vatican and Colosseum, the Piazza Del Popolo and the via Venuto.

That night we forged a path through a snake of cars at a standstill all trying to reach a Dire Straits concert on the outskirts of the city. As drivers banged their fists in frustration we sailed past and into the stadium. We may have looked a little windswept but at least we were there.

My moped has changed my life. From my front door in west London to Leicester Square takes 12 minutes; make that 45 in a car. Better still, when I arrive there's free parking on bike ranks instead of $16 or more for a car park.

Then there's the camaraderie on the streets. Initially worried by tales of grumpy cab drivers who would force bikers off the road, I've found the opposite to be true. At traffic lights they like to have a chat. " 'Ere, love, you look a bit chilly, wouldn't you prefer a nice warm cab?" "Certainly not," I smile as I zoom away.

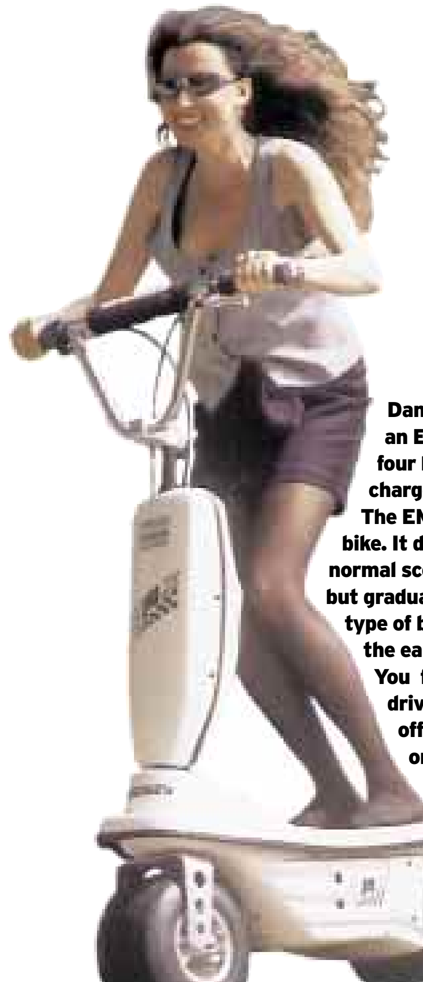
The biggest change has been to my clothing. At first, in midsummer I zipped around town in summer dresses. Then one day in Soho a charming gentleman let the whole street know that my undergarments were on display. "I can see your knickers," he roared. "Lucky you," I yelled back, mortified but determined not to let it show. Minutes later I was in a boutique buying jeans.

With winter approaching the honeymoon period may be over but that doesn't mean I'll be disembarking. No matter how bad things get in the coming months – let it hail, rain or snow – a two-wheel love like this is strong enough to survive anything.

Mariella Frostrup pilots her Vespa through the London traffic (left). Above, The Ultimate Bike has been developed from the Lola on which designer Bruce Beresford reached a speed of 381kmh, making it the fastest bike on Earth. Now a range of on-road models is being developed. Average weight will be 1.6kg, with prices starting at $1,550 for made-to-measure carbon fibre frames.
+44 1362-697481

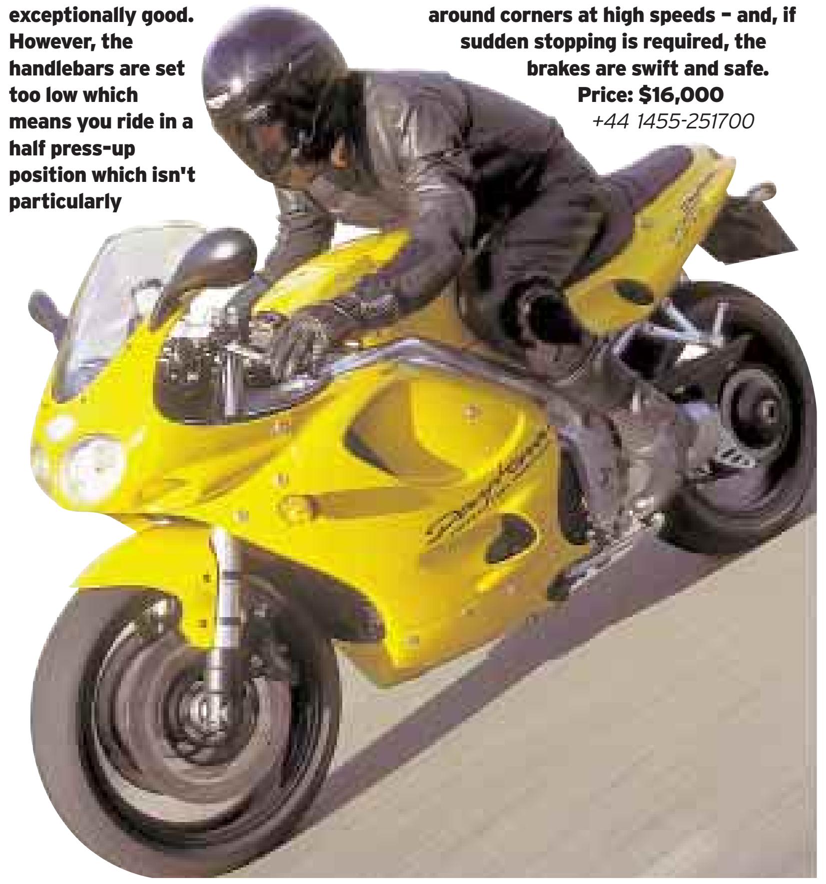
PHOTOGRAPHS: TOM STOCKILL, ANDY BAKER, PAUL COOPER, RUSSELL TURNER AND GOLD & GOOSE

Jerome Pannetier drove the battery-powered Peugeot Scoot'Elec for a week in Paris.
At top speed, the scooter does 45kmh – perfect for getting around the city but on dual carriageways it wasn't fast enough and everyone overtook me. I had to keep an eye on the power needle; the range is about 40km on one battery charge. The scooter has a security device which can only be unlocked by keying in a code.
The best thing about the Scoot'Elec is that it is very silent, almost like travelling on a flying carpet. I don't think it has enough pulling power for young men – it's not fast or noisy enough. Peugeot claims it costs less than three centimes per km, but the four hours it takes to recharge is inconvenient.
Price $3,300
+331 4066 4625



Daniela Bausanno in London rode an EMX battery scooter. Runs four hours on a three-hour charge. Top speed 45kmh.
The EMX is more like a toy than a bike. It doesn't feel as safe as a normal scooter. I felt scared at first, but gradually I got more brave. It's the type of bike that the faster you go the easier it is to balance.
You feel exposed because you drive standing up. It is sold as an off-road vehicle with fat tyres on small wheels, and goes well on grass. Lots of people stared because this is such a novelty vehicle – great fun, when you get confidence.
Price $3,200
+44 181 964 3000

Patrick Foilleret rode the Brompton folding bicycle.
Can be packed and unpacked in four stages, which takes about 30 seconds. Although quite heavy at 13kg, it is easy to carry around on all forms of public transport. The cover and size makes it look like normal luggage. Riding to work enabled me to cut 15 minutes off my normal journey time from station to office. The riding position is comfortable, although the look of the bike in action is a bit comical. The wheels are so small you have to peddle fast to make progress. Price $520-800 depending on gears (up to five) and accessories.
+44 181 7428251

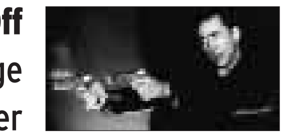


Rory Betts rode the new Triumph T595. Top speed 265kmh.
An exhilarating experience; the seating position is comfortable, allowing the rider to transfer weight easily which makes handling exceptionally good. However, the handlebars are set too low which means you ride in a half press-up position which isn't particularly comfortable. The clutch triggers a lightning engine response – particularly impressive in low gears – which gives you 0-160kmh in six seconds. Wide wheels and deep tread tyres clamp the bike on to the road and allow you to glide around corners at high speeds – and, if sudden stopping is required, the brakes are swift and safe.
Price: $16,000
+44 1455-251700

Continental critique

A discriminating look at what's on and what's worth talking about in Europe this week

TOP FILM IN EUROPE: Face Off
John Travolta and Nicolas Cage swap identities in John Woo's thriller



YOU ARE THE HOST...IN PARIS

Good table guide

POWER LUNCH: Taillevent and Alain Ducasse, of the obvious three-star places, have prestige and the food is the best in Paris (sometimes easier to get in for lunch – now with prix-fixe menus – than for dinner). Nobody will be disappointed if you take them to the old-fashioned Lasserre (the roof opens in summer), or Laurent in the middle of the Champs-Elysées gardens. *Taillevent, 15 rue Lamennais, 1-45 61 12 90; Alain Ducasse, 59 avenue Raymond Poincaré, 1-47 27 12 27; Lasserre, 17 Avenue Franklin-Roosevelt, 1-4359-5343; Laurent, 41 avenue Gabriel, 1-42 25 00 39.*

IN WITH THE IN CROWD: Chez Edgard, the political and media brasserie off the Champs-Elysées, retains a bipartisan appeal. On the left, Lionel Jospin, Elisabeth Guigou, Dominique Strauss-Kahn, Martine Aubry and her father Jacques Delors are all habitués. On the right, Jacques Toubon, François Bayrou, Philippe Douste-Blazy and Nicolas Sarkozy come almost weekly. Monsieur Paul, the owner, insists there are no 'good' and 'bad' tables – but it is better to sit in the glass-partitioned booths on the right. *Chez Edgard, 4 rue Marbeuf, 1-47 20 51 15.*

THE SAVVY LUNCH: Some of the capital's best chefs have followed the trend, and opened inexpensive (Ffr250-a head) bistros . The best these days is Christian Constant's elegant Le Violon d'Ingres on the Left Bank, where he recreates the dishes that earned him two Michelin rosettes when he was the chef at Hôtel de Crillon. Corporate raider François Pinault has been known to plan takeover strategies discreetly here. *Le Violon d'Ingres, 135 rue Saint-Dominique, 1-45 55 15 05*

DINNER A DEUX: Obvious places are La Tour d'Argent (with views of Notre Dame, matchless cellar and good food); or Le Jules Verne on the first floor of the Eiffel Tower – not a tourist trap despite its location. (Booking essential for both, sometimes eight weeks ahead.) A nice alternative is La Maison Blanche, on top of the Théâtre des Champs-Elysées, with its nouvelle cuisine and beautiful view over the Seine and Quai d'Orsay. Or go for a snack of borscht, pirozhki, blinis and vodka at the delightful Caviar Kaspia, a wood-panelled throwback to tzarist Russia in a first-floor apartment on Place de la Madeleine. *La Tour d'Argent, 15 Quai de La Tournelle, 1-43 54 23 31; Le Jules Verne, Tour Eiffel, 1-45 55 61 44; La Maison Blanche, 15 avenue Montaigne, 1-47 23 55 99; Caviar Kaspia, 17 Place de la Madeleine 1-42 65 33 32.*

PAUL COOPER

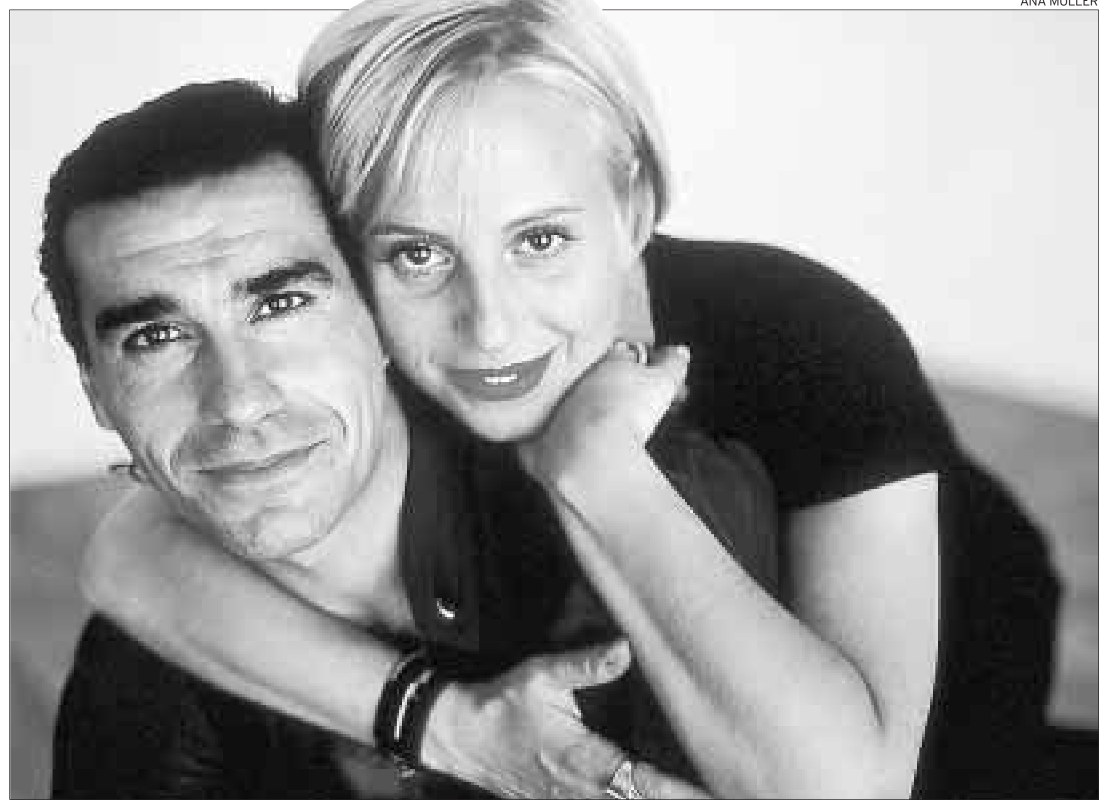
La Tour D'Argent: perfect for dinner à deux

TOUT(E) SEUL(E): Go to the places where customers provide entertainment (and insights into the French psyche). Traditional brasseries are best – current favourites are Le Balzar in the Latin Quarter (fresh fish and tournedos; lots of writers and Sorbonne dons) or the Bofinger near the Bastille, where you'll see the opera-going and singing crowd after 11pm. *Le Balzar, 49 rue des Ecoles, 1-43 54 13 67; Bofinger, 3 rue de la Bastille, 1-42 72 87 82.*

All calls from outside France require the prefix +33

CLEMENCE DE ROCHE

ANA MULLER



First footers: the dancers Antonio Márquez and Aida Gómez who appear in the opening programme in Madrid

Curtain up for a new era at Madrid's Teatro Real

FOR the first time since 1988, Madrid's Teatro Real opens its doors on 11 October in what is undoubtedly the most significant cultural event of the Spanish year as well as a delayed triumph over adversity.

The exclusively Spanish inaugural programme, under the Teatro Real's musical director García Navarro, consists of two works by 20th-century composer Manuel de Falla: the ballet *El sombrero de los tres picos* and his only opera, the Granada-based tragic love story *La vida breve.*, written in 1905. The second week (from 18 October) sees the world premiere of Antón García Abril's *Divinas palabras*, with a libretto by Francisco Nieva and featuring Placido Domingo.

***El sombrero*, an 18th-century picaresque story, will feature soprano Paloma Pérez Íñigo and dancers Antonio Márquez and Aida Gómez, who takes the lead role.**

The theatre's opening season is a mixture of opera, dance, concerts and individual recitals. Forthcoming highlights include the Belgian Théâtre Royal de la Monnaie's version of Britten's *Peter Grimes* in November, the Houston Grand Opera's *Porgy and Bess* by Gershwin in December and London's 1994 Royal Opera House production of Puccini's *Turandot* in February. The close of the 1997-98 season brings matters back to Spain with Léon Minkus's 1929 ballet of Cervantes' epic story, *Don Quijote*. Domingo also brings his famous colleagues Luciano Pavarotti and José Carreras to Madrid for a special Epiphany concert of the Three Tenors. Domingo is impressed with the theatre's acoustics and huge 1,430 sqm stage, describing them as 'fantastic' and 'titanic'.

The death in 1992 of the project's architect and incessant political wranglings are among the reasons for the theatre's failure to open, as originally scheduled, a year ago. It also opens a massive $64 million over budget. The Spanish musical establishment is hoping that this revival in the theatre's fortunes will lead to a parallel revival in Spanish opera itself. As Spanish composer Cristobal Halffter put it last year: "If the Teatro Real doesn't work, we will have to close as a country."

JONATHAN HOLLAND

El sombrero de los tres picos and La vida breve, both by de Falla, 11, 12, 17 Oct. Teatro Real (+34 1-5160660)

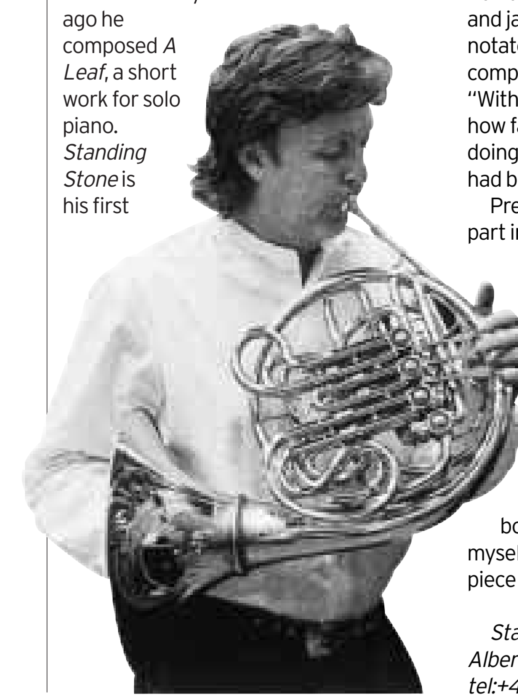
PREMIERE

McCartney comes up classical

THIRTY YEARS ago at the height of Beatlemania Paul McCartney was thinking about what he might be doing when he reached 30 "if the rock 'n' roll thing ran out". Perhaps he might become a "serious composer". This week his ambition to be a serious composer – by which he means a classical composer – comes closer to being realised with the premiere of his first symphony, *Standing Stone*.

McCartney began work on the symphony four years ago when he received a commission from EMI to write a piece in celebration of the record label's centenary this year. Inspiration came from the megalithic stones near his home on Scotland's isolated west coast. "There's something very special, very ancient, very precious and spiritual about them," he says.

McCartney's first excursion into the world of classical music came in 1992 when he collaborated with Carl Davis to write the autobiographical *Liverpool Oratorio*. Two years ago he composed *A Leaf*, a short work for solo piano. *Standing Stone* is his first non-pop work written entirely by himself. "It is," he proudly volunteers, "quite an achievement to have written something this long and complex considering I can't read music." The work will be played by the London Symphony Orchestra conducted by Lawrence Foster.



McCartney spent two years on a theme, a direction and sketching out a skeleton for the work. Then, for the first time in his career, he used a computer.

"That's the secret ingredient this time," he declares. "The computer allowed me to write like I was making a multitrack recording. It allowed me to get a feel for orchestration and to experiment. And it allowed me to make mistakes. If I were to write a song, it would be difficult for me to put a wrong note in. I just wouldn't allow myself to do it. But it was easy in the early days to make mistakes on the computer; for me, that was the value of it".

Later, McCartney's advisers – composers Richard Rodney Bennett and David Matthews, saxophonist John Harle and jazz musician Steve Lodder – helped notate and make sense of his computerised doodles and sketches. "With *Standing Stone* I wanted to see how far I could go, to like what I was doing and be proud that what I'd done had been enough of a stretch for me."

Predictably, melody plays a dominant part in the symphony. "That's just me," admits McCartney. He has included "an authentic Paul McCartney song" deep within the work, though it is not there just to "give some people what they came for; it is there because it has earned its place and because it works . I do want applause for it," he confesses. "I don't particularly want to be booed off stage. I wanted to satisfy myself and at the same time write a piece that people will like."

MICHAEL QUINN

Standing Stone, 14 October, Royal Albert Hall, London tel:+44 171-5893203

Portuguese writers take faith from revolution

AS FEATURED nation at the Frankfurt Book Fair, Portugal is presenting its new, more modern face via a multimedia cybercafe, a sleek high-tech look and the promotion of younger writers such as Rui Zink and Pedro Paxão, who represent a generation which reached maturity after the Salazar dictatorship had fallen.

Popular culture and urban cynicism are taking hold. Paxão has learned from the American 'less-than-zero' writers while Zink, a television star, is witty and sardonic.

The earlier generation of writers who reached an international audience – the maverick poet Fernando Pessoa, Antonio Lobo Antunes and José Saramago – tend towards melancholy and irony. Since the fall of Salazar's regime in 1974 there has been a cultural and literary awakening. It began with a generation of writers who endured suppression under Salazar. Antunes, Saramago and Miguel Torga, whose work began to filter through Europe in the 1980s, have all been considered for the Nobel Prize. They have a depth and dignity not yet matched by the younger, more self-consciously 'modern' generation.

José Cardoso Pires, who has been dubbed the voice of modern Portugal, is equally critical of the old order. His great work *The Dauphin* looks at the decay of the old rural aristocracy as it enters the nightclub world.

Remarkably, a single work of fiction has been credited with toppling the regime in 1974. *The New Portuguese Letters* was written by three women known as 'The Three Marias' because they shared the same name. It exposed the unpleasant reality of women's lives in Portugal. Lidia Jorge, Portugal's premier authoress, has drawn from rebellion, like the three Marias before her. One of her best known novels is written from the view of a wife growing up to despise Portugal's colonial wars in Africa.

The lucky byproduct of colonialism is a handful of authors from Angola, Mozambique and the Cape Verde Islands who are using the Portuguese language in the most innovative way. José Agualusa from Angola and Mia Couto from Mozambique are widely read in Portugal even though they write of Africa. Germano Almeida from the Cape Verde islands is a comic writer whose novel *The Last Will and Testament of Sr. Napurnoceno* is soon to be made into a film.

KATY EMCK

Frankfurt Book Fair, Messegelände, 15-20 October +49 69-75750

Cinema

★★★ Exceptional
★★ Try not to miss
★ Better than average

NEW

BREAKDOWN★★ Kurt Russell stars as an ordinary motorist sucked into nightmare events when his jeep breaks down and his wife (Kathleen Quinlan) disappears in the dusty American southwest: in his first cinema feature film, writer-director Jonathan Mostow keeps the pace zinging along. *(France, Germany)*

THE GAME★ Fans of David Fincher's bleak *Seven* may find his new film less visceral but no less clever: it stars Michael Douglas as a rich, icy San Francisco banker lured by his hip brother (Sean Penn) into signing up for strange experiences provided by a firm pledged to change his life. Unsettling, manipulative stuff. *(UK)*

NIL BY MOUTH★ Actors' debuts as directors can be dire (Johnny Depp's *The Brave*, Michel Piccoli's *Alors voilà*) but also promising, as in Alan Rickman's *The Winter Guest* and this, Gary Oldman's grim, profane study of a ghastly, no-hope working-class London family, said to be inspired by his own: British neorealism. *(UK)*

THE SWEET HEREAFTER★ Atom Egoyan's version of Russell Banks's novel about the aftermath of a fatal British Columbia school bus crash: Ian Holm plays the city lawyer goading locals to sue and trying to connect with his junkie daughter. Time-switches and complications may confuse, but the film is moving and sad. *(France)*

ON RELEASE

CONTACT★ Robert Zemecki, greatly improving on *Forrest Gump*, has turned Carl Sagan's 1985 bestseller about messages from outer space into a sophisticated and mildly spectacular movie, with Jodie Foster as the astronomer getting in touch with the distant star Vega. *(Belgium, France, Germany, Spain, UK)*

PORZUS★★ Hard-hitting account by former TV documentary director Renzo Martinelli of the killing by communist partisans in 1944 of a score of Catholic Resistance fighters, some of whom escaped to tell the tale: a harrowing semi-documentary. *(Italy)*

SECRETOS DEL CORAZON★★ Captivating study of childhood fantasy and inquisitiveness by writer-director Montxo Armendaris, set in 1960s Spain, about two brothers who live in town with their maiden aunts but holiday in their widowed mother's village, trying to uncover secrets (and sex), including the fate of their late father. *(France, Spain)*

TEMPTRESS MOON★★ Gong Li and Leslie Cheung in Chen Kaige's atmospheric account of a rich, decadent, reclusive family in the 1910s and 1920s: a gigolo falls in love with the heiress – and the result is disaster. Slow, but beautifully shot by Australian Christopher Doyle. (*France, Germany, UK)*

RICHARD MAYNE

AUSTRIA

VIENNA: Art and Insanity A look at how madness has influenced artists down the centuries. 350 works from 80 collections worldwide show artists inspired by mental patients and art by patients themselves. The results are vastly different, ranging from Messerschmidt's (1736-1783) grotesque sculptural heads to Salvador Dalí's impressions of patients from the Heidelberg Psychiatric Clinic and Emanuel Navratil's architectural fantasies. Until 8 Dec. *Bank Austria Kunstforum (+43 1-71191/5743)*

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 Quichotte* and *The Odyssey*. Until 2 Nov. *Kunstcentrum (+32 50-33566)*

FINLAND

HELSINKI: Sweeney Todd Stephen Sondheim's incisive musical thriller is a drastic departure from the opera house's usual repertoire. However, the music has its own melodic beauty, worthy of its location. Staffan Aspegren, veteran of productions in Malmö and Gothenburg, directs the gallows humour. 10, 15 Oct. *Finnish National Opera (+358 9-403021)*

FRANCE

LILLE: Festival de LIlle The festival has favoured American music in recent years – this time it focuses on New York. The menu includes jazz and jazz dance, new music, plus photography and the moving image. There are concerts by the Harlem Spiritual Ensemble, accordion maestro Richard Galliano, the Lebeque Sisters and Julia Migenes. 10-26 Oct. *Various venues (+33 3-20 52 74 23)*

SYGMA

Fragrant entertainment: Julia Migenes is in Lille

PARIS: Festival d'Automne American director, artist and actor Robert Wilson has been a popular visitor here since his hugely successful *Einstein on the Beach with Philip Glass* in 1976. This year he brings Marguerite Duras's enigmatic novella *La Maladie de la Mort*. American Lucinda Childs and Michel Piccoli star. Until 26 Oct. *MC93 Bobigny (+33 1-41 60 72 72)*

GERMANY

BERLIN: Models – Images of Women The first European retrospective of photographer Peter Lindbergh. German-born Lindbergh didn't take up photography until he was 27. Now 53, he works for top fashion magazines, such as *Vogue*, and advertising campaigns for leading labels. The show includes 200 images in his grainy, black-and-white signature style, featuring models such as Linda Evangelista and Tatjana Patitz. Until 18 Oct. *Hamburger Bahnhof (+49 30-3978340)*

GREECE

ATHENS: The Orpheus Legend The stylistic contrasts of the two greatest operas on the Orpheus theme, composed 155 years apart, are harnessed in complementary productions. Monteverdi's *Orfeo*, directed by Pier Luigi Pizzi, stars American tenor Gregory Kunde in the title role and Cecilia Gasdia as Euridice. Luca Veggetti has created the new choreography for the visiting Turin Dance Theatre, 10, 12, 14, 16 Oct. A home team stages Gluck's *Orfeo ed Euridice* with Nikos Tschoulos conducting largely Greek casts in Nikos Petropoulos's production. 15-20 Oct. *Megaron Concert Hall (+30 1-7282333)*

THESSALONIKI: Treasures of Mount Athos Exquisite treasures normally locked away in the men-only monastic community of Mount Athos on display for the first and only time. Icons, jewelled crucifixes, chalices and book covers and illuminated manuscripts reveal the sweep of Orthodox-inspired art from the 12th to the 19th century. The show is erratically labelled, but this is a minor fault in such a glittering display. Until 31 Dec. *Museum of Byzantine Culture (+30 1-868571/5)*

ITALY

ROME: Henri Matisse: Eastern Revelations Two trips to Morocco in 1912 profoundly influenced Matisse's creativity. This shows us both the source for his inspiration and works by the artists himself. The exhibition features 200 works, including decorative Islamic, Coptic and Byzantine art, with intense colours and sensuous shapes. Some of Matisse's most famous 'oriental' works are also on display, including *La Japonaise* and *La Conversation*, which was inspired by the Sumerian stone stele in the Louvre, also shown here. Until 20 Jan. *Musei Capitolini (+39 6-67102475)*

VENICE: Venice Biennale Many of the artists seem to be preoccupied with mortality this year. German Katharina Sieverding shows skulls; Briton Rachel Whiteread, winner of the best artist prize, looks at war; and Armenia's Sonia Balassanian's film installation follows man's journey from birth to death. But the recently departed Roy Lichtenstein adds a cheerier note and Taiwan's pavilion is more optimistically devoted to Buddhism. Until 4 Nov. *Giardini di Castello and Corderie dell'Arsenale (+39 41-5218711)*

MONACO

MONTE CARLO: Ouverture Solonnelle The Finnish composer Aulis Sallinen, currently working on his opera *King Lear*, has broken off to concentrate on another royal theme. His latest work commemorates the 700th anniversary of the Grimaldi dynasty and is dedicated to Prince Rainier. It promises a suitably ceremonial flourish with fanfare-like insertions pacing a structure of four thematic motifs reflecting Monagesque tradition. The Monte Carlo Philharmonic Orchestra gives the world premiere, conducted by James DePriest. 12 Oct. *Rainier III Auditorium, Convention Centre (+377 9 350 9300)*

NETHERLANDS

ROTTERDAM: Soaps Does life imitate art or vice versa? You may find the answer in *Soaps*, a new multimedia exhibition about international drama series and how they affect our lives. Brazilian telenovelas, Indonesian sabun operas, Dutch soaps and classics from the UK and US, such as *Peyton Place*, show how the dramas of 'everyday' life serve as a vehicle for social messages of love, loyalty, betrayal and friendship. The show incorporates videos of immortal tear-jerkers, cliffhangers, seduction scenes, plus artworks by five artists invited to give their own interpretation of soaps. Until May. *Museum voor Volkenkunde (+31 10-4112201)*

NORWAY

STAVANGER: Man Ray (1890-1976) The American-born photographer's images, sculptures and films make their first visit to Norway. Man Ray founded a Dadaist group in New York before moving to Paris in the 1920s. He became a leading figure of the avant-garde, inventing solarised images and the rayograph. He was also a prolific producer of Surrealist films. Famous works include *Tomorrow*, a distorted triple exposure of a naked woman giving the impression of movement and sexual tension, and a more relaxed semi-clad Kiki de Montparnasse. Until 30 Oct. *Centre Culturel Franco-Norvegien (+47 51530844)*

RUSSIA

ST PETERSBURG: Danaë The Fate of Rembrandt's Masterpiece One of the Hermitage's great masterpieces goes back on view this week after 12 years' restoration. The painting, described in MacMillan's *Dictionary of Art* as 'arguably the most impressive nude to be found in 17th-century history painting', was feared irreparably damaged when a vandal – a Lithuanian national – slashed the canvas and threw acid over it. Also on display are works which incorporate the Danaë myth, including an ancient Greek vase, plus other paintings, drawings and engravings by Rembrandt's contemporaries, influenced by his work. 14 Oct-18 Oct 1998. *State Hermitage (+7 812-3113465)*

On view once more: Rembrandt's restored *Danaë*

SPAIN

MADRID: Ballet Antonio Gades: Carmen The 60-year-old flamenco dancer/choreographer presents his best-known work *Carmen*, a passionate dance featuring Stella Arauzo in the title role. Until 19 Oct. *Teatro Lope de Vega (+34 1-5484000)*

SWEDEN

STOCKHOLM: Carl Fabergé The last week to see this glittering display of 300 items of gold, silver, crystal and gems. Maria Feodorovna, wife of Alexander III, first received an Easter egg from Fabergé in 1885. The gift set an exquisite precedent, as the Russian goldsmith and jeweller went on to create hundreds of dazzling objects for the imperial family and Europe's nobility. On display are enamelled caskets studded with jewels, picture frames, jewellery and, of course, Easter eggs. Until 19 Oct. *National Museum of Fine Arts (+48 6-6664250)*

SWITZERLAND

LUGANO: Masterworks from the Carmen Thyssen-Bornemisza Collection In just four years Baroness Thyssen has amassed more than 600 artworks, substantially enhancing one of Europe's most impressive private collections. A selection of 120 works is shown here, including examples of Italian Baroque; urban landscapes; Symbolism; Expressionism; and early Avant-Garde. Highlights include Raoul Dufy's garden scene *Le Petit Palmier* (1905) and Childe Hassam's urban promenade *Fifth Avenue* (1891). Until 2 Nov. *Villa Favorita (+41 91-9701161)*

UNITED KINGDOM

EDINBURGH: Fotofeis The UK's leading photo-arts event is acclaimed for its audacity and innovation, and this year Fotofeis continues its tradition of sexual themes. Work from Australia, Europe, Canada and the US is on show in galleries and museums throughout Edinburgh, Aberdeen and Glasgow. The cities also host themed weekends: Edinburgh, *Sexuality and Gender*, 17-19 Oct; Glasgow, *Alienation and Control*, 24-26 Oct; Aberdeen, *True Love*, 31 Oct-2 Nov. 9 Oct-9 Nov. *Various venues (+44 131-5555205)*

LONDON: Adventures in Motion Pictures: Cinderella Anyone who saw the company's all-male *Swan Lake* with its whip-wielding prince in black leather will know not to expect a fairytale with tutus. This time the prince (Adam Cooper) is a Second World War RAF pilot and Cinderella (Sarah Wildor, Cooper's real-life girfriend) is a bespectacled frump. This is classical ballet as you've never seen it before. Until 10 Jan. *Piccadilly Theatre (+44 171-3691734)*

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
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The Continental

REVIEW

Shock, horror! a sensitive film

SOME people are going to be offended by *Lolita*. Some people, in fact, are so determined to be offended by *Lolita* that they would be advised not to go to see Adrian Lyne's film, which is a sensitive and thought-provoking adaptation of Nabokov's classic novel.

Putting the director of *9½ Weeks* in charge of such a hot potato as this might not appear a brilliant idea, but there is nothing of that film's 'video age *Last Tango*' sexploitation here. What links *Lolita* to *9½ Weeks*, *Fatal Attraction* and *Indecent Proposal* is an interest in the darker side of human passion and sexual obsession; what is new is the sensitivity of the director's insights into human nature, and his willingness to make his audience feel uneasy – something that was not really part of those other films, which always had glossy Hollywood escape ladders built into their 'shock value'.

It must be this that has led to the film's 'commercial' censorship in America, where none of the major studios wants to have anything to do with it – even though it was largely funded by Hollywood money. Making a film about paedophilia and incest is bad enough, according to America's self-appointed moral guardians, but trying to make us understand the motives and the suffering of both Humbert (the stepfather) and his flirtatious 12-year-old daughter Lolita is unforgivable.

Stanley Kubrick's first film version of *Lolita*, made in 1962, kept its sexuality firmly buttoned up. It also made James Mason's Humbert an altogether more pathetic figure, who used irony and an Oxbridge accent to wriggle out of any clear view of his own depravity. Everything about this new film is rawer and more explicit. Although we once, fleetingly, see Lo naked, the erotic charge of the film is palpable, and often profoundly disturbing, most notably in a scene where a close-up of Lo reading a kid's comic pulls back to reveal what Humbert is doing to her. At the same time, the portrayal of this relationship never loses its undertow of emotional torment and impending tragedy.

Much of this is thanks to Stephen Schiff's intelligent screenplay, as well as powerful performances by Jeremy Irons as Humbert and Dominique Swain, as Lolita. Swain conveys just the right balance of teenage flirtation and awkward, childlike dreaminess: she becomes, for camera and audience, the centre of the film around which the two men – her self-loathing but helplessly enamoured father-lover and the far more knowingly depraved paedophile Quilty – revolve.

When he began the project, Lyne toyed with the idea of bringing the story up to date. Luckily, he decided against it: late-1940s America is recreated here in all its naivety, complete with long shots that look like animated Edward Hopper canvases. The effect is that of isolating the twisted passion of the central relationship, making it stand out against ice-cream sundaes and themed teepee motels. In a modern setting, *Lolita* would risk becoming another story of a dysfunctional family. As it stands this is a harrowing, over-long, but surprisingly honest moral tale.

LEE MARSHALL

CINEMA ■ The film has provoked a near-hysterical reaction in the US, but director Adrian Lyne and his actors are unrepentant

Tempting Lolita

CRISTINA CARRILLO DE ALBORNEZ

Shock waves: Jeremy Irons and Dominique Swain in Adrian Lyne's new version of *Lolita*. The film has opened in Italy and will be seen in most of Europe in January

ONE night three years ago the telephone shrilled in Jeremy Irons' house. An unusually agitated Glenn Close was on the end of the line trying to talk the actor out of playing Humbert Humbert in the new screen adaptation of *Lolita*. Eventually, Irons recalls, Close read the script and was mollified and he, although apprehensive, accepted the role.

There must have been times since then when he has regretted the decision. Although the film, directed by Adrian Lyne, has been well received by individual critics, it has provoked a reaction bordering on hysteria in America where it has been refused a certificate. In Britain, tabloid newspapers have urged the censors to do the same. "I was very uncertain when I was asked to play the part," says Irons. "Nabokov's novel is a masterpiece but it is profoundly disturbing. It was when Lyne accused me of political correctness that I decided to accept."

Lyne's film is far more faithful to Vladimir Nabokov's tale of an affair between an ineffectual, middle-aged professor and a 12-year-old girl than Stanley Kubrick's version in 1962. Kubrick raised the age of his heroine and depicted Humbert as a hedonistic predator. Lyne's hero, on the other hand, is vulnerable, human and beset by moral qualms about his actions. His seduction makes Lolita aware of her pubescent sexuality and she becomes the temptress, manipulating him with wiles far beyond her years.

"It is funny, heartbreaking and, ultimately, a great love story and people find that hard to accept," says Lyne who, also caused controversy with *Fatal Attraction* and *Indecent Proposal*. "They also have problems with the fact that they end up liking Irons' Humbert and they don't want to. He's not the dirty old man Kubrick created. The power of the novel is that you sympathise with Humbert while being revolted by what he has done."

Any film of *Lolita* would be pointless if it did not shock. Nabokov's novel was banned in France and shunned in the US until 1958, since when it has sold 14 million copies. However, Lyne has adapted it with remarkable style and sensitivity. His misfortune was that it was released at a time when paedophilia is at the forefront of American conscience. "Everyone in Hollywood was very happy about the film five years ago," he says. "Then, while we were making it, the climate changed. There was the horrendous murder of child beauty queen JoBenet Ramsey and suddenly everyone was viewing the movie in those terms. Image is very important in Hollywood and everyone feared to be associated with the subject.

"Sometimes I feel I invented paedophilia because you pick up a paper and read of nothing else. Americans seem to feel that sex is a dirty thing. They like films about heroes, whereas Europeans prefer to explore vulnerability."

In fact, there is no explicit sex in the film. Lolita appears naked only once, fleetingly, and a body double was substituted for the actress, then 14. Several scenes border on the erotic, then draw back at the last minute, the moment neutralised by a sudden childish gesture. We see her crawl on to his lap then pull silly faces, drop her teeth brace into his glass of wine then pucker exaggeratedly for a kiss, or pop her bubblegum provocatively in his face. Many of these ideas were contributed by Dominique Swain who plays Lolita. Now 17, she has also come under fire for accepting the role. "When I went back to school after the filming people were not nice about it, but at the same time they wanted to know details that never took place. It was all very twisted. The important thing to realise is that we are not presenting Humbert as a hero."

Lyne had auditioned 2,500 girls for the part before Swain sent in a home video of herself reading from the novel in her kitchen. "She had a wonderful sense of comedy," he says. "Innocent but naughty." Her mother was on set throughout filming and Swain was taken to a psychiatrist beforehand to check that she was mentally capable of the role. Nonetheless, she says, she often cried on set because of Lyne's perfectionism. The most difficult part was conveying Lolita's sexuality when, at 14, Swain had had no personal experience of adult relations. "I didn't know what I was supposed to be feeling because I'd never felt sexually attracted to anyone. I basically did a lot of panting like they do in the movies."

Irons says that he treated his young co-star like any other professional. Despite his own original doubts, he considers the role the best in his career. "What people forget is that flirtation is part of adolescent development. We need to have a more natural attitude towards sex. The world is becoming such a dirty place that we can no longer see clearly. We see filth where there is none."

'The world is such a dirty place that we can no longer see clearly'

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.

Dividing up the spoils of devolution

IF WE accept that the Scottish parliament heralds a new union for the nations of the UK, we must follow this through to its logical conclusion. A Scottish parliament which cannot access all taxes raised in Scotland, including petroleum revenue tax on our oil and gas resources, does not represent a balanced union. It is unbelievable that there are already rumours that 'subsidies' to Scotland may be cut from Westminster. The government cannot cut the block grant and, at the same time, retain all the oil and gas revenues attributable to Scotland.

At present, the Scottish parliament's proposed main source of income is from a 3p ($0.048) rise in income tax while billions of pounds in oil and gas taxes are siphoned straight out of Scotland. It is intolerable and unworkable. This £450 million from a tiny rise in income tax is a drop in the ocean compared to the revenues from oil, gas, whisky etc. Each parliament in the UK should be given a fair share of all taxes levied on resources within its territorial jurisdiction.

This will become all the more pressing if an English parliament is established. In effect, the Scottish parliament would be subsidising the English parliament with its oil and gas revenues. Scotland has contributed more than £27 billion to Westminster since the oil and gas came on stream. It is cloud-cuckoo-land to suggest that a population of only five million could not partially sustain itself with this kind of revenue while a population of 56 million can.

This misallocation of resources is unfair and will produce unbalanced fiscal constraints on a new Scottish parliament which will inevitably lead to conflict.

William C McLaughlin
Carmichael, Scotland

I WAS jubilant when the people of Scotland voted for their own parliament and the Welsh for an assembly. The sooner they have their independence the better.

We Englishmen have been thoroughly sickened by being hampered by these people. They have exploited our hospitality for too long. Why did Tony Blair's government not ask the English nation to vote for independence?

Peter D Granville-Edmunds
Cheltenham, England

BRYN Thomas (Letters, issue 385) writes that abstaining is part of the democratic process. Quite so. Unfortunately, the powers that be treat abstaining merely as evidence of apathy. What is needed is an extra line on ballot papers to enable voters to make a positive statement that they had no confidence in any candidate.

Richard Clements
Romford, England

WRITING on devolution (Letters, issue 385), Bryn Thomas and Sally Brunskill miss the point. Constant carping about the narrowness of the Yes majority in the Welsh devolution referendum is clear indication of a total misunderstanding of the way in which democracy works. It is of no consequence how many people voted, or how large the majority was for (or against). The rule is that 'silence is consent'.

Ergo, the majority carries with it the silent consent of all those who could not be bothered and/or were undecided one way or the other about the issues and failed to register their votes. They have no further effective say in the process and are obliged to recognise that only the ballot box has a voice and that its democratic voice must prevail. Wales will, as a consequence, have its assembly – like it or lump it.

AW Jeynes
Peterston-super-Ely, Wales

Euro to take on the dollar

BRIAN Reading ('A second reserve can't make the team', issue 393) states that the euro will never rival the dollar in size or power unless Britain puts its clout behind the new currency. He writes: "For the euro to rival the dollar, Europe's financial weight would have to exceed its economic weight. The dollar accounts for almost 60 per cent of world reserves. To rival it, holdings of euros would have to double to 40 per cent." But Reading neglects to point out that 30 per cent of these reserves are held by EU member states .

Once the euro is introduced, the European Central Bank in Frankfurt will, if necessary, be able to intervene with these reserves in the exchange markets. The dollar could face some difficulties once the euro hits the financial markets. In addition, there are many reasons to believe that fund managers will be willing to hold more assets in euros than other currencies.

The euro will be a world currency with or without Britain. If the UK stays out, there will be more euros in the financial markets of those states in the first wave, notably Frankfurt. The free market requires the free movement of capital, but those countries taking part in the single currency will have priority in lending and borrowing euros. Outside, Britain will get only the dregs.

Javier Giner
Palma, Mallorca, Spain

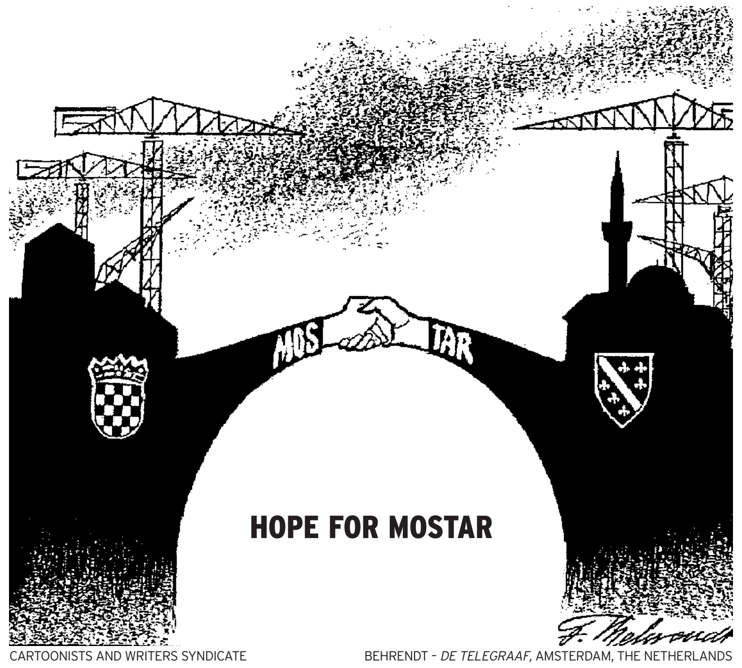
Telling the US what to do

FURTHER to 'Clinton's arrogance' (Letters, issue 385), it is always nice to receive advice about military matters from a continent that has given the world the two greatest orgies of violence in the history of this planet – two world wars.

We are now told that the US should remove the landmines in South Korea protecting 37,000 of our brothers, sons and fathers from a force of more than one million North Koreans. When Europe is willing to send its young men to replace American soldiers I am sure my 'arrogant' president will gladly bring both troops and landmines home.

Gregory Lutz-Hatfield
San Francisco, CA, USA

DRAWN FROM EUROPE



CARTOONISTS AND WRITERS SYNDICATE — BEHRENDT – *DE TELEGRAAF*, AMSTERDAM, THE NETHERLANDS

Eurofighter takes off

THE article about Eurofighter in issue 386 is wrong and misleading. It is quite simply nonsense to suggest that there are 'lingering doubts' about the airworthiness of the aircraft or problems with the Eurofighter's flight control system. And there is no bill for $500 million for 'fixing the computers'.

The seven development aircraft have now flown almost 500 hours between them, with great success, and the planned incremental improvements in the flight control system already give the aircraft excellent handling characteristics, although the development programme will run until 2000.

There was no 'poor performance' at the Paris Air Show. Development aircraft do not indulge in uninhibited display flying. There is no threat from the MiG-29. This is an aircraft of the previous generation. The German Air Force is planning to replace those it inherited from the former East Germany with the Eurofighter.

RAF pilots who have flown the Eurofighter are deeply impressed. Squadron Leader Craig Penrice, of Boscombe Down's Fast Jet Test Squadron, says the aircraft "will give us an operational capability previously only dreamt of".

Eurofighter does indeed insist that the aircraft has excellent export prospects – in Norway, Australia and the United Arab Emirates, to name but three potential customer countries who are already talking very seriously to us.

The European partners in Eurofighter have a success on their hands after years of high-quality effort. It is a pity to see *The European*, of all newspapers, knocking this European success story.

Brian Phillipson
Managing Director
Eurofighter Jagdflugzeug
Hallbergmoos, Germany

Big players, big dishes

I READ your interesting cover story on Europe's satellite TV wars ('Today's news: there are too many channels', issue 386). I am pleased that there is so much to choose from.

My only problem is that to receive CNN, Sky News and BBC World in Athens I would need a dish 2-3 metres in diameter. These are too big and too expensive. Through my 80cm dish I can get only NBC, EuroNews and European Business News. Of these, I watch only NBC. The big channels have done nothing about broadcasting alongside these three on Eutelsat and Hot Bird.

Andreas Stephan
Athens, Greece

Assisi rumblings

THE tremors of the earthquakes in Italy were felt many kilometres away. However, no report has been recorded of the rumblings within the tomb of Saint Francis as a result of his friars being described as 'monks' or his church as an 'abbey'.

Fred Rainer
Ramsgate, England

Emasculated Studs

SPOUSES Trailing Under Duress Successfully (Studs) is a ridiculous name for a male group of no-hopers in Brussels having to endure endless rounds of coffee mornings while their high-flying wives bring home the bacon (issue 386). These Studs are emasculated. The wives must love it.

Miguel Hernandez
Oviedo, Spain

Freedom, not consolidation

AMERICAN anti-trust authorities should consider what implications WorldCom's $30 billion bid for MCI will have on the future of the Internet. There are many powerful players in the US who are desperate to see the Net come under some kind of control. Consolidation will help their crusade.

American legislators are worried that electronic communication on the Net will continue to evolve in an anarchic way and establish real, unfettered freedom of information for its users. But encouraging the Internet to flourish and grow is a far healthier situation than allowing the information revolution to be dominated by a handful of global monopolies.

At the moment, the Internet is where the average person experiences an exhilarating sense of freedom.

Mike Sowden
Groningen, the Netherlands

LIBRARIANS do not stock pornographic magazines, video nasties or material propounding extreme political views. The authorities argue that as librarians exercise their professional judgment over what printed material they handle, a similar group should vet and filter the Internet. They call it 'selection', but it is censorship. 'Tightening the Net' (Letters, issue 386) is not the answer.

The electronic medium allows us to step back from the de facto censorship that occurs in the title-selection process in our public libraries. This is something to be savoured. It is a nonsense to think of rating websites in the same way that we categorise films.

Adam Kurk
Wellington, New Zealand

THE very people who are demanding less government intervention into the lives of private citizens were screaming for the V-chip on television sets and are now campaigning for Internet censorship. If these people are truly concerned with what their children are exposed to while surfing the Net, they need to monitor them. If they are worried about what their children watch on TV, they should monitor that, too. It is the responsibility of parents to babysit their children, not governments.

Many parents are worried that their children could receive explicit e-mail. But transmission of pornography to a minor is already illegal in most countries, so the offenders could be prosecuted using existing statutes. There is no need to create additional legislation.

Jane Olsen
Vancouver, BC, Canada

IF we let anybody start censoring the Internet, that is taking away our right to freedom of speech. If we lose this right, how will we be able to speak out to prevent the loss of other rights?

Who knows what the power-hungry and influential will try to do then.

George M Knowles
Greenville, NC, USA

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