THE EUROPEAN

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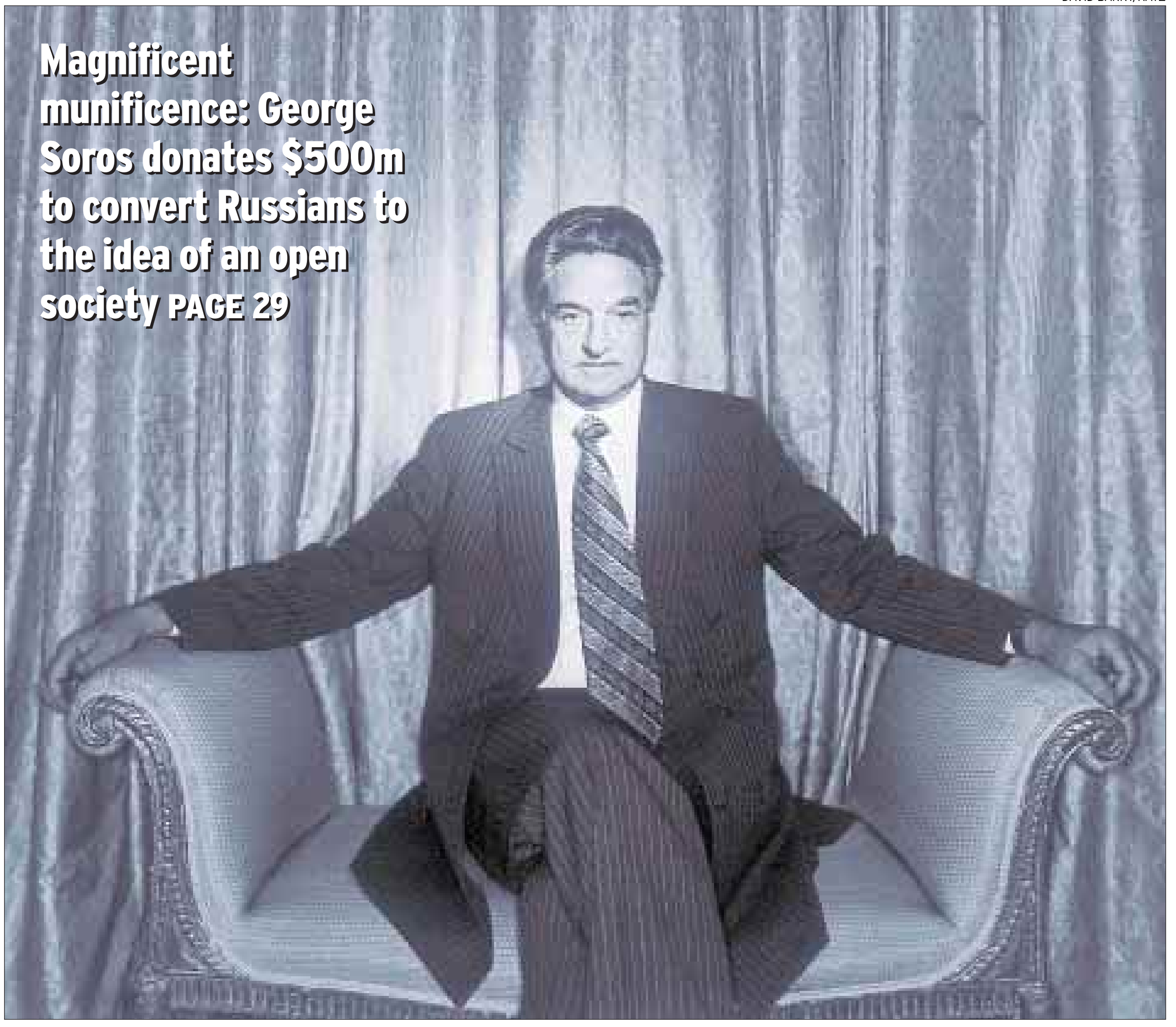

Magnificent munificence: George Soros donates $500m to convert Russians to the idea of an open society PAGE 29

Cover photograph: Nigel Parry/Katz

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the
local
press.

THE EUROPEAN
23-29 OCTOBER 1997 No. 389

Whitehall farce

NO GOVERNMENT can afford to look ridiculous, not even one with a landslide majority. In London this week, as Labour ministers and their spin doctors performed rhetorical tumbles to explain their policy on monetary union, it was starting to look like the Keystone Cops had invaded Whitehall.

Chaos and confusion over economic and monetary union (EMU) were the hallmarks of the Tories' dying years; bored and disgusted voters threw them out. Now patience with the new lot is wearing thin. In exactly ten weeks, Britain assumes the presidency of the European Union, just as the drama of the single currency is scheduled to reach a climax, as exchange rates are fixed and the first wave of entrants is selected. Tony Blair yearns to assume a leadership role in Europe and Europe would surely benefit from a Britain more constructively engaged with the Union. Such vaulting ambition, however, would be more credible if he managed first to take control and articulate publicly his own government's attitude to the euro.

The past ten days have been a shambolic demonstration of the perils of government by spin. It culminated in Gordon Brown's grim-faced performance on Monday at the London Stock Exchange. The Chancellor of the Exchequer had promised never to repeat the obfuscations and prevarications of the previous government. He succeeded in doing precisely that.

In a vain attempt to mask the fact that, like the Tories before, the Labour government speaks with many voices on Europe, Mr Brown says Europe will have to wait until Parliament comes back from its summer recess next week before he can tell us what the government really thinks. It was not a privilege accorded Parliament when he rushed out an announcement making the Bank of England semi-independent a few days after the election. Nor do global markets wait for politicians to come back from their holidays. Mr Brown was clearly playing for time.

What makes the clownish performance of the Blair-Brown government all the more absurd is that fact that it was entirely unnecessary: a perfectly sensible, flexible and attractive policy is there to be adopted and articulated if only the prime minister and chancellor could break free from their spin doctors.

Such a policy must start with an honest declaration of the obvious. Britain will not, cannot and should not join the single currency in the first wave in 1999. To rush in now, as some euro-hotheads in Britain persist in demanding, would be a recipe for economic disaster. Britain is now close to the top of its business cycle, while Germany and France still struggle to climb out of their slumps. It naturally follows that British interest rates are higher. For Britain to converge (ie lower) its interest rates to Franco-German levels any time in the next two years would risk a burst of inflation that would, at a stroke, destroy all the non-inflationary progress Britain has made in the past five years, since its ejection from the exchange rate mechanism in 1992.

The demands of the political cycle reinforce the imperatives of the business cycle. Labour strategists are planning for the next general election in 2001. (No British government goes the full five years unless it is in real trouble, like John Major.) It would be political folly to risk a pre-entry referendum in 2000; if it lost a fight with the Tories in such a referendum, Labour would be fatally wounded in the election to follow. If Labour stopped spinning itself in dizzying circles for a moment it would soon dawn on ministers that to rule out entry in 1999 rules out the euro for the rest of this parliament.

It does not rule out, however, Labour going into the next election as the pro-euro party. The Conservatives will presumably remain opposed. That would give the British people a real choice over Europe – something they did not have in this year's general election. If the euro looks like being a success and Britain's economy is converging, then it will likely champion the euro in the election and the subsequent referendum. But it would be unwise to establish its position much before 2001, for the euro is not a guaranteed success story.

Britain will not, cannot and should not join the single currency in the first wave in 1999

It remains a currency based on shaky political foundations, not sound economic ones. The convergence data, once said to be inviolable, have been blatantly fiddled. Economic deflation and high standards of social protection for workers have produced a lethal cocktail of intractable unemployment, much worse than official figures acknowledge. France and Germany have begun modest, fragile recoveries, but there is every danger that they could be jobless recoveries. If, after several years of growth, European unemployment remains at record levels, there will be plenty of politicians ready to blame the euro for Europe's woes.

There is one overriding truth which Europe refuses to grasp: a single currency makes the supply-side reforms it refuses to countenance even more essential if the euro is not to cause enormous economic dislocation. That fact is Britain's opportunity. *The Wall Street Journal* recently pointed out that without sterling the euro is little more than an enhanced D-Mark zone; with the pound it becomes a world-class currency. So Europe will want sterling to join, even if belatedly. Britain's price should be European support for the micro-economic policies that have transformed the US and the UK. For the moment, that is not a price Europe is prepared to pay. Years of jobless growth could change their minds – another good reason for Britain to wait until the early part of the next decade before deciding to ditch the pound.

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DISPATCHES

ADAM LEBOR'S

Budapest

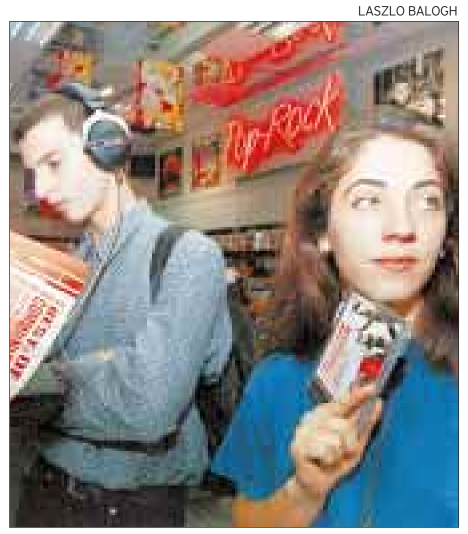
THE past is another country, and nowhere more so than in eastern Europe, where for decades history was rewritten according to the fluctuating dictates of Communist Party ideologues. Now communism is dead; and the changes which have taken place during my six years in 1990s Budapest, as Hungary emerged blinking into the harsh light of democracy and the free market, have been fascinating to observe.

But, unlike many of their neighbours, Hungarians had long prepared for the change. Their "goulash communism" was the most liberal variety in the region, permitting at least some private economic manoeuvre. That far-sighted planning has now paid off handsomely. Hungary's economy is racing ahead of its neighbours, and inflation is down to 18.4 per cent from last year's figure of 24.8 per cent.

Hungary, together with the Czech Republic and Poland, is poised for European Union and Nato membership, while some of its neighbours are trailing. Foreign investment worth around $16 billion has poured into Hungary, more than in any other former eastern bloc country.

But a Hungary in the EU seemed a long way off when I first set up as a foreign correspondent in Budapest in the summer of 1991. The first shoots of westernisation were just beginning to sprout in the ubiquitous shape of the two Ms: the McDonald's on Vaci street, Budapest's premier shopping precinct, and MTV on cable television.

LASZLO BALOGH



Communism is dead: long live Budapest

The centre-right government was hypersensitive to criticism, and my reports sometimes led to public altercations with foreign ministry mouthpieces. Even so, I was once stranded with a colleague in Kiev, and the entourage of the late prime minister, Jozsef Antall, generously gave us a lift home in the premier's private plane. We had the full red carpet treatment, and an old Soviet-style send off from the Ukrainian army band, red stars still on their caps. It was a slice of a now vanished empire, a leftover from history. I still remember the sound of the music in the night air and the snow swirling across the runway as we took off for Budapest.

These were the contradictions of government and media relations as the East came to terms with the new reality. Now the press is free, although many journalists have retained their old-regime mindset and are happy to be spoon-fed tit-bits of information by ministries and PR companies rather than investigate the rampant corruption.

The demand from the large expatriate community for western-standard restaurants and bars has helped transform the Hungarian capital. Where once the opening of a passable Italian restaurant was cause for celebration, Budapest now boasts eating places offering everything from Korean to Kosher. Marks & Spencer has long replaced Marx and Engels and virtually everything available in western capitals is now on sale in Budapest.

Its bars are crowded with stylish young people who would all look quite at home in London, Paris or Rome. But for many of their parents, and especially grandparents, the collapse of communism has left swathes of society bitter and confused, and even hungry. More than a third of the population lives on or below the poverty line. It was heartbreaking to see in my local supermarket old people – for whom the collapse of communism meant mainly the death of the welfare state that fed, clothed and housed them – trail disconsolately from shelf to shelf, gazing at expensive imported food as though it had just arrived from another planet.

But wherever there are losers, there are winners, too. The organised crime gangs have poured into Budapest and are sadly flourishing. While Budapest is certainly still generally safe, at least compared with parts of London or New York, it has a harder edge. Five or six years ago I would never have thought twice about entering any bar I fancied or walking home alone at 4am. It is ironic that I often travelled to Bosnia to cover the Balkan war, but it was in the Hungarian capital that I was on the receiving end of the only personal violence of my six years in eastern Europe.

That was in a nightclub named the Bahnhof, where a skinhead bouncer hit me in the face after abusing a friend of mine he had heard speaking English. When, a year later, we returned to the Bahnhof for a stag night, the bouncers were in no better mood. They beat up the groom. I haven't been back since.

The city suffered its first mafia fatalities this year after a spate of bomb attacks on bars and restaurants that saw sub-machine gun shootouts, and even a rocket-propelled grenade. A casual visitor or even a long-term resident is unlikely to get caught up in these violent battles, but almost every week now there is another report of an exploding Mercedes belonging to some "businessman" or other.

But if that's the main bad news, there is good news, too, as I leave Hungary. The Jewish community, once one of the largest in eastern Europe, has revitalised itself, with a renewed confidence in its heritage that many thought had vanished in the fires of the Holocaust.

Budapest's physical transformation under its far-sighted mayor, Gabor Demszky, has been remarkable. Formerly run-down streets have become pleasant pedestrian precincts, the famous bridges that arch over the Danube twinkle at night with thousands of lights and art nouveau buildings have been carefully restored to their former beauty. The city is once again the busy metropolis it was meant to be.

Now it is the future that is another country for Hungary. It may be difficult to traverse and conquer, certainly, but the signposts are becoming increasingly familiar.

Adam Lebor is The European*'s former correspondent in Hungary*

FLASHPOINTS

PODGORICA
Pro-western Montenegrin prime minister Milo Djukanovic was confirmed as the winner of the republic's second-round presidential vote. The result is a blow to former Serbian president, Slobodan Milosevic, who faces a hostile government within the rump Yugoslavia, of which he is now president. Djukanovic is pledged to win more autonomy for his republic.

WARSAW
Polish President Aleksander Kwasniewski appointed Jerzy Buzek as prime minister to lead the first Solidarity government in four years. Buzek has 14 days to gain parliamentary approval for his cabinet, a coalition of AWS (Solidarity) and UW (Freedom Union) ministers. UW chairman Leszek Balcerowicz, the architect of Polish economic reform, returns to government as vice-premier.

ROME
Senior figures in the Italian government attacked assertions by Confindustria, the employers' federation, that Prime Minister Romano Prodi could face a new crisis within a year. Innocenzo Cipoletta, director-general of the employers' group, claimed that last week's deal with Rifondazione Comunista, the former Communist Party, had failed to make adequate provision for cuts in pension spending.

BUCHAREST
Romania is seeking an extended credit programme over three years from the International Monetary Fund as it seeks to move ahead with a market reform of its economy. Prime Minister Victor Ciorbea held talks with an IMF delegation.

AVEZZANO
Italian police arrested four suspected kidnappers on 20 October after forcing their car off a road during a high-speed chase and shooting one of the suspects when he resisted arrest. They said the four men were wanted in connection with the abduction four months ago of a local textile merchant, Giuseppe Soffiantini, and the murder of a policeman.

HAMILTON
A Scottish butcher appeared in court accused of supplying tainted meat to a birthday party in 1996 after health officials told him his shop was at the centre of an E-coli outbreak. John Barr, 52, denied a charge of culpably, wilfully and recklessly supplying bad meat.

MADRID
Leaders of a Basque separatist party accused of co-operating with the armed separatist group ETA claimed that they did not co-ordinate political strategy with the outlawed group. Jon Idigoras, Juan Carlos Rodriguez and Adolfo Araiz were the first of the 23 Herri Batasuna members to testify in the supreme court trial.

OSLO
Norway's new centre-right coalition government warned that trade and industrial links could suffer where human rights were being systematically abused. Knut Vollebaek, minister of foreign affairs in Christian Democrat Prime Minister Kjell Magne Bondevik's government, said: "We see human rights as something which cannot be subordinated to trade and commerce."

BATH
Professor of biology Jonathan Slack produced headless tadpoles by manipulating genes in frog eggs. The advance ignited a public debate about ethics and cloning, for the research raises the possibility of growing specific organs for human transplantation within the next ten to 15 years.

BELFAST
Protestant Unionists walked out of a session of the Northern Ireland peace talks after a clash with representatives of the government of the Irish Republic. Unionist leader David Trimble objected to reported remarks by Irish Foreign Minister David Andrews on Dublin's constitutional claim to Northern Ireland.

ASKOLD KRUSHELNYCKY'S

Moscow

AS my Aeroflot flight touched down at Moscow's Sheremetyevo airport, all the internal lights went off, plunging the giant Ilyushin plane into a darkness that sent a collective shudder of anxiety through the craft. Someone gave out a comic yelp of terror, but nobody was laughing. The jokes I had been telling my friends about Aeroflot calamities soured. Shortly afterwards, the lighting returned and the plane taxied to a halt. No explanations were given. Most people are used to being kept in the dark here.

Moscow has never been a favourite city of mine and past visits have been fraught with bureaucratic frustrations – just obtaining a visa saps the patience to breaking point. Once past the unsmiling passport control, I used to wonder why I had worked so hard to reach a place where a wide range of people from taxi drivers, hotel managers, and government officials to muggers were bent on ripping off or robbing westerners.

I always knew what was waiting: the rudeness of people coarsened by decades of brutality and official lies, and made selfish by the struggle somehow to survive tolerably; a city whose dauntingly wide boulevards dwarf the human spirit at the same time as provoking a sense of claustrophobia. Long freezing winters. But Moscow has always conjured up powerful emotions for me. From my earliest days, the Russian capital has been associated in my family with grim and awful events. We were referring to it as the "evil empire" long before Ronald Reagan ever coined the phrase.

I was born in London, but my parents were refugees from Ukraine, and the communism that they blamed for bringing misery to their country and annihilating many members of their families was indelibly bound up with Russia, and especially Moscow. Ukrainians routinely called Russians "Moskaliy" – Muscovites – as if to emphasise the terrible responsibility of this one city for the horrors that had befallen the region. The Russians in turn referred disparagingly to Ukrainians as "Malorossy" – Little Russians – junior members of the great Russian family run from Moscow. Many still cannot stomach Ukraine's independence since the disintegration of the Soviet Union.

Apart from a proclivity for occasionally performing Ukrainian dances on restaurant tables and declaring a willingness to die for my drinking buddies, I regard myself as mostly British. Usually I have ended up, like most foreigners, having a splendid time in Moscow and have been charmed by the hospitality and the (often vodka-fuelled) Russian melange of boisterousness and melancholy. Sometimes, though, there has been an element of wariness.

The last time I had been in Moscow was for the Russian parliamentary elections at the end of 1995. A Russian nationalist MP who had previously torn up a blue and yellow Ukrainian flag in the council chamber later accused Ukrainians of bombing his office in the parliament building. Most Russians did not believe the claim. The communists, who openly spoke of "rebuilding" the union by, as a first step, snatching away Ukraine's independence, won the biggest share of votes and remain the largest parliamentary party.

This time, though, I breezed in through passport control and customs after landing in the heart of darkness. By one of those tricks of fate, the Russian driver, Sasha, who took me into the capital from the airport, turned out to have been a victim of Ukrainian prejudice. He picked up on my Ukrainian accent and told me that passing recently through Lviv in western – and very nationalist – Ukraine, the staff at a café pretended they could not understand him when he popped in for a drink. Even though Ukrainian is a different language, all Ukrainians understand Russian. Sasha left Lviv exasperated and thirsty.

DAVID BRAUCHLI

New Moscow: now there's somewhere to shop

Sasha told me to expect changes in Moscow, but I was still astonished. First, by the huge numbers of western luxury cars crowding the streets and the modern petrol stations where two years ago people had to forage for fuel. Even the local shops, which a few years ago displayed dust-laden heaps of something nasty that nobody wanted to buy, now looked colourful and offered respectable goods. The restaurants, bars and clubs that have sprung up were another startling indicator of change. They are the domain of the 'new Russians', the immensely wealthy businessmen – both legitimate and crooked – who throw around half million rouble and hundred dollar notes like confetti as they maniacally drink in life before a rival has them shot or blown up. I went to one restaurant called Botchka (The Barrel), where mobile phones furnished a symphony of bleeps and burps amid the hubbub. The service was light years away from the indifference and rudeness of the past. But when the wine list prices span $27 for a house red to $2,300 for something to impress your pals with, you'd expect attentiveness.

But the most staggering thing is the light everywhere that has banished the old Soviet gloom. Floodlighting picks out not only the historic onion-domed churches in Red Square and the crenellated walls of the Kremlin, but illuminates scores of other exquisite buildings refurbished for this year's 850th anniversary of Moscow's founding and the many new structures erected as Moscow once more becomes a world-class city.

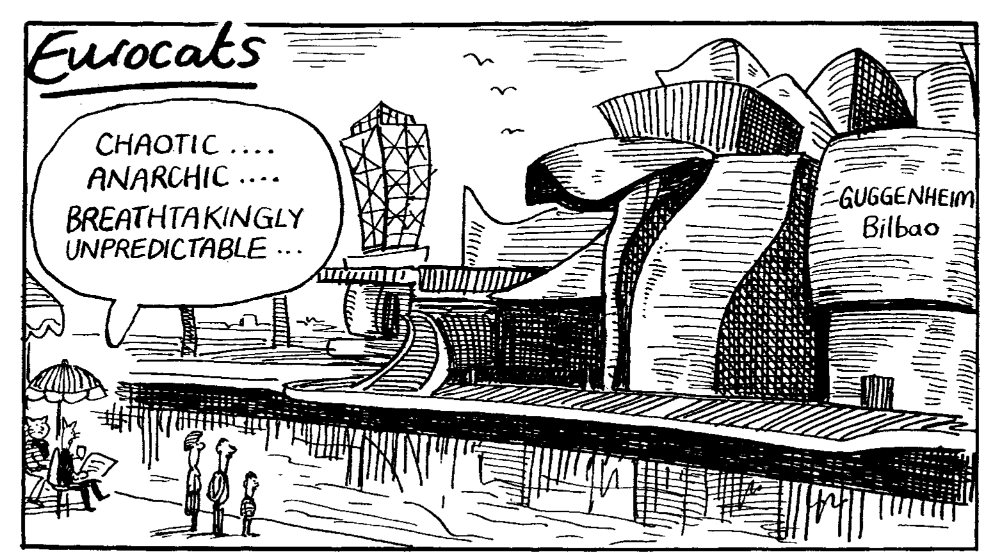
Another observance next month is the 80th anniversary of the Russian revolution and Lenin's imposition of communist dictatorship. A decade ago the 70th anniversary was a grand event. But now countless statues of a scowling Lenin have been removed and some of the museums honouring his life have closed because of lack of interest. A fitting commemoration might be to turn out Lenin's pickled corpse from its Red Square mausoleum, which could be turned into a very nice discotheque or bar. But that would incense the communists, who this month have been trying to derail market-oriented economic reforms by threatening a vote of no confidence in President Boris Yeltsin.

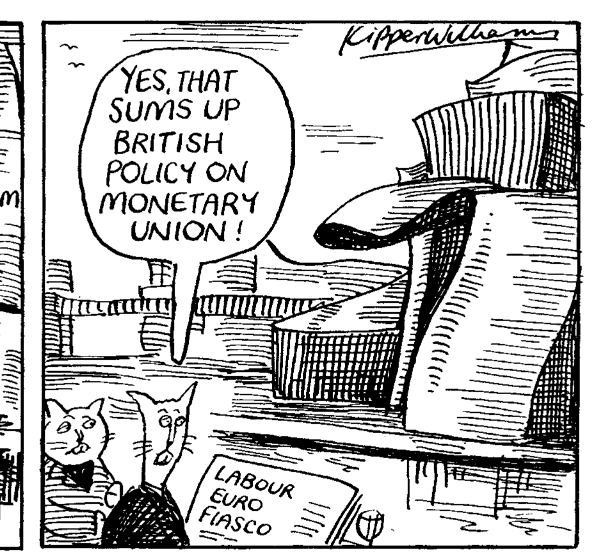
Yeltsin seems to have beaten off the challenge, and the communists know that if the startling changes that have transformed Moscow and some other Russian cities trickle down to smaller towns and villages, then they are a spent force.

There is still rudeness and squalor. The impoverished majority resents the wealthy sporting their riches. The metro stations are filled with beggars and young crippled men in army uniforms, ill-fated veterans of the war in Chechnya. But there is a sense that, for the first time in its history, Russia may be able to break free of autocracy, oppression and imperial ambitions to build a wealthy country within its own fabulously well-resourced borders without trampling over its neighbours.

I feel better about this place than ever before. And I've offered to take Sasha to Lviv to buy him a drink.

Askold Krushelnycky is The European*'s staff correspondent in Moscow*





WINNERS

Gerhard Schröder, Germany's Social Democrat leader, was elected president of the Bundesrat, the upper house of parliament, and married 33-year-old journalist Doris Köpf – his fourth wife – in a secret ceremony, three weeks after an acrimonious divorce from his previous wife of 13 years.

Isabel Allende went to Barcelona to launch her new book, an exotic volume about sex, food and obsession. *Aphrodite*, her first book in four years, marks a departure from novels about the experiences of women in male-dominated societies. Allende said she wrote it after she started having strange, erotic dreams related to food. In one, she wrapped Spanish actor Antonio Banderas in a giant tortilla.

LOSERS

Paavo Lipponen, Finnish prime minister, was grilled in parliament over a scandal that outraged ordinary Finns and sent the popularity of his Social Democratic Party plunging. The source of the controversy is a September decision by a Lipponen protégé, who was then second finance minister, to slash a court-ordered fine imposed on former SDP leader Ulf Sundqvist for losses incurred by a bank he had led.

The Ciller family is in trouble again in Turkey. Former prime minister Tansu Ciller's husband, Ozer, has been charged with altering balance sheets of a management company the family owns in New Hampshire, USA. The family owns a hotel, a mall and several houses there.

PRESS WATCH

FRANCE
Le Figaro

Self-flagellation is a very French speciality. We never stop repenting over sins we have tried to cover up. The anger of Philippe Séguin (over the Papon trial) is salutary. We must end this new French defeatism.

ITALY
La Repubblica

The criticisms of Günter Grass over Germany's attitude to foreigners are exaggerated and damning. But such reproaches from politically committed intellectuals must be welcomed and should be tolerated in a western democracy.

GERMANY
Süddeutsche Zeitung

Realists in the Green party say more eastern European countries are joining Nato. But what is the point of a defence organisation that includes virtually every former enemy except Russia?

COVER STORY

The myth of convergence: fallacies behind all the talk of Britain joining the euro – page 12

BRITAIN ■ Tony Blair promised not to dither over Europe – but he has

Does he know where he's going?

JOHNNY EGGITT/AP

Taut talks: Tony Blair and Helmut Kohl at Chequers, where Blair tried to reassure the German chancellor that Britain would do nothing to undermine the euro

PETER MILLAR

IT was not supposed to be a moment of high drama. Quite the contrary. The spectacle of Gordon Brown, Britain's dour, conservatively-dressed finance minister, styled chancellor of the exchequer in deference to ancient tradition, pulling the switch on a computerised share-trading system was intended as a showcase example of seamless transition to the 21st century, a symbol in software for the modernisation of Britain that has become the buzzword of Tony Blair's New Labour administration.

The fact that it was the tenth anniversary of Black Monday, the most infamous stock market crash since 1929, had been shrugged off, just a trifle nervously, as superstition. Yet as the chancellor tripped the switch, the giant screen erected for the occasion behind him turned scarlet as the sellers seized the market: first blood to the bears. Within 15 minutes the top 100 shares had plummeted in value, taking the index down 119 points. The early editions of London's *Evening Standard* were rushed on to the streets with doom-mongering glee: "Brown Monday" was the inevitable headline.

It was accurate enough: a feared financial meltdown was avoided but government ineptitude had provoked an unnecessary stock market slide nevertheless. Like a partial power failure, the result was a dimming of the nation's financial energy: to brown, if not black. The collapse halted, rallied even, leaving the market a distasteful, if not disgraceful, £10 billion ($16bn) down on the day. Sterling, however, rose – which is just as bad for business as a fall in the stock market. At one point it was up five pfennigs against the German mark. The defeated Conservatives had boasted that they left Labour the healthiest economy in Europe; Blair and Brown had boasted that they were its best stewards. Now it looked like slipping from their hands.

The reason for the confusion, bordering on chaos, was the government's chronic inability to decide its collective attitude to the European single currency and economic and monetary union (EMU). The story behind the headlines is a sorry tale of political dithering, inter-departmental rivalry, top-level confusion and misleading information by various spin doctors – played out against a dark background in which lurked captains of industry, union leaders and the world's most powerful media mogul, Rupert Murdoch.

The story is a sorry tale of political dithering, confusion and misleading information

Within hours of the fracas on the stock market, Tony Blair was sequestered at Chequers, the prime minister's country retreat, with German Chancellor Helmut Kohl. Over five hours of taut talks, Blair tried to reassure Europe's longest-serving leader – a man who has staked his personal and political prestige on making the euro a working reality – that Britain would do nothing to undermine it, even if it would not be part of it, at least to begin with. It cannot have been an easy task to argue that a government which cannot make up its mind about whether the euro is a good or a bad thing is best placed to supervise it, as president of the EU, over the crucial six months during which the vital decision must be taken as to which states will join.

In case Blair needed any further assurance of the angst his indecision is causing across the continent, no sooner had Kohl's substantial bulk departed his doorstep than it was replaced by the equally concerned figure of Finland's prime minister, Paavo Lipponen, urging a clear British commitment to join. But Blair's real problems are within his own government, not with what visiting dignitaries think.

Over the past three weeks, the Blair regime has lurched into the first big test of its ability to govern and come out of it scarred. An administration publicly pledged to strong and open government has played a preposterous, contrary and often contradictory game of hide and seek, like a blushing virgin at a ploughboys' ball.

It all began two weeks ago with what now looks like a deliberate and misguided attempt to talk down the strength of the pound, which is hurting British exporters (business reported Tuesday that export orders are falling fast and imports rising because the pound is close to DM3).

The *Financial Times*, daily organ of the British business community, was drip-fed rumours, hints and innuendo from the Treasury that their lord and master, Gordon Brown, was rapidly coming round to the belief that Britain had to be in the 'euro' zone, perhaps even in the first wave beginning January 1999. There

continued on page 10

CHRONOLOGY

Skirmishes in the currency war

EVER since Britain joined what was then the European Community in 1973, it has remained steadfastly out of step with its partners.

Nothing, though, has caused it so much anxiety as the single European currency, which it sees as the final nail in the coffin of national sovereignty.

EMU's progress has been watched in Britain as though it were an invading army. Previous skirmishes have not been forgotten.

KEY DATES:

1972: Establishment of the 'currency snake', an exchange rate mechanism within which member currencies are permitted to fluctuate.

1973: The UK, with Denmark and Ireland, joins the EC.

1979: The European monetary system (EMS), committing member states to more or less fixed exchange rates, is born. Britain, under Labour prime minister James Callaghan, says it will not join.

1987: The Single European Act, agreed by a reluctant Margaret Thatcher, provides for the creation of the single European market from 1993 and establishes the goal of monetary union.

1989: Thatcher signals her willingness to join the EMS.

1990: At the Dublin summit in June, Thatcher denounces proposals by Jacques Delors, European Commission president, for a single currency and a central bank. Helmut Kohl talks of the steps being taken towards a United States of Europe.

1990: On 5 October, Thatcher surprises the City by announcing that sterling will join the exchange rate mechanism of the EMS. She is forced out of office a month later, to be replaced by John Major.

1991: The Maastricht treaty is agreed, establishing a timetable for a European central bank and a single currency. The new single currency, due to become legal tender on 1 January 1999, is to be known as the Ecu, or European currency unit.

1992: On 16 September, 'Black Wednesday', Britain pulls sterling out of the ERM. The lira is next. Amid extraordinary scenes, Major blames Europe for Britain's ills and vows the UK will not rejoin until the ERM is run "in the interests of all".

1993: On New Year's Day, the European single market is inaugurated.

1994: The European Monetary Institute – a precursor to the European central bank – is established.

1995: Back in Madrid, heads of government agree to call the putative currency the euro.

1997: On 1 May, the Labour Party, under Tony Blair, with Gordon Brown as his chancellor, wins a decisive election victory. John Major's 'wait and see' is echoed by Blair, who nevertheless gives the impression he is more positive and will take sterling in on the crest of a second wave.

THE FUTURE:

1997: Under the Maastricht treaty, EU member states intending to join EMU in the first wave must inform the European Commission of their intentions before the end of the year.

1998: In May, the Commission will publish a full list of intending participants, with details of who gets what from the euro allocation.

1 January 1999: The euro becomes legal tender. Individual business transactions in the new currency begin and it is required of member states that they be equipped for multiple currency transactions that include the euro.

1 January 2000: The euro becomes the main currency for business partners within the euro area, but national currencies remain valid. Following the completion of a complete fiscal year by individual businesses, home currencies will be converted to the euro.

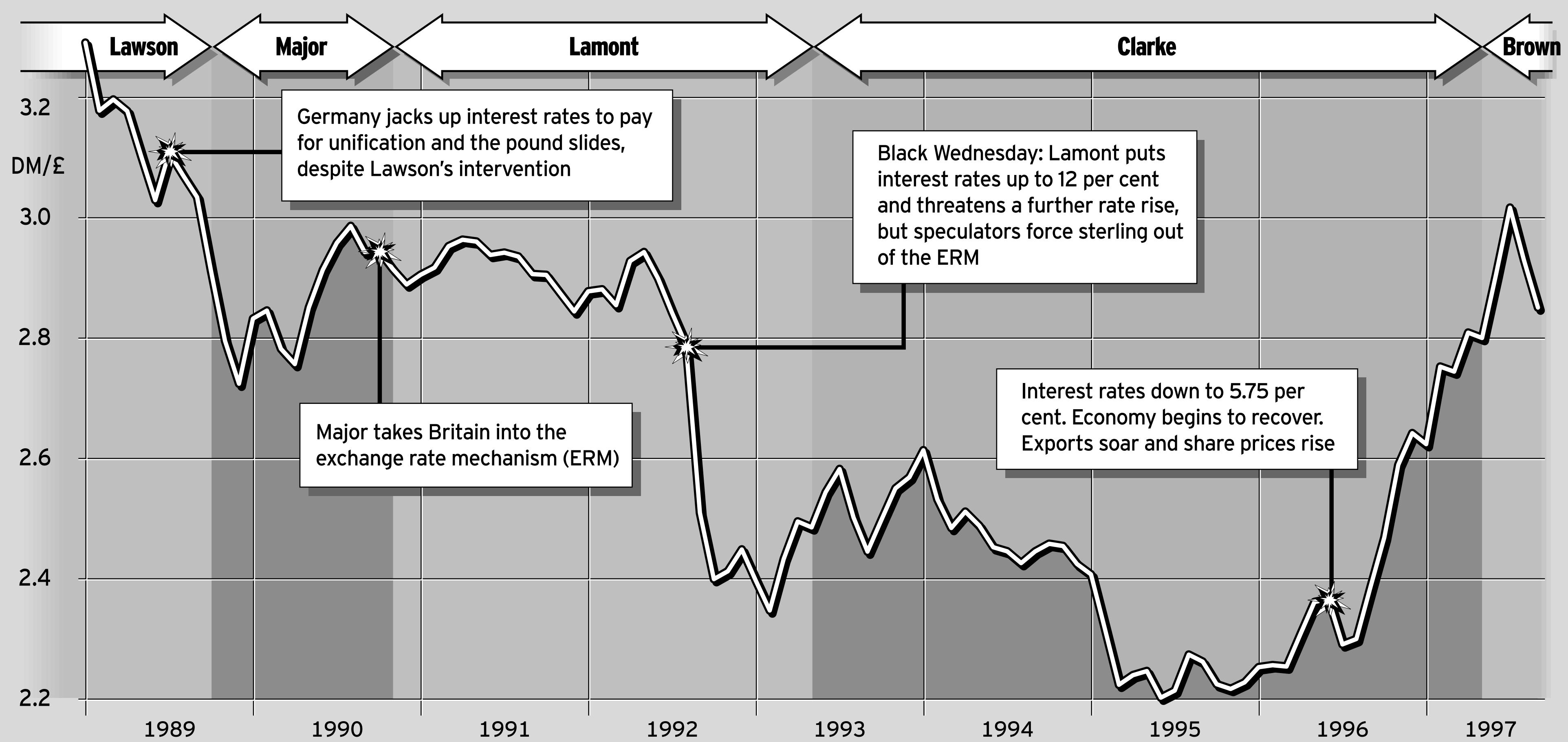
1 July 2002: National currencies cease to be legal tender. From now on, member states operate exclusively via the euro, which becomes the only traded currency.

WALTER ELLIS

COVER STORY

STERLING'S TURBULENT RELATIONSHIP WITH THE DEUTSCHMARK

The Chancellor of the Exchequer is the ancient title for Britain's finance minister. It dates back to the time when the principal function of the job was to look after the king's cash. Acrimonious relations between the British chancellor and the prime minister on the European question have been a key feature of domestic politics in the past ten years



Source: Bloomberg

Nigel Lawson: June 1983 to October 1989
High point: Tax-cutting budget in 1988
Low Point: Feud with Thatcher's economics adviser, Professor Alan Walters Margaret Thatcher used to call Lawson "my brilliant chancellor". Then Walters pointed out that Lawson's shadowing of the deutschmark would lead to economic disaster. Lawson persisted, spending billions to keep the pound strong and raising interest rates in the run-up to his tax-cutting budget in March 1988. Thatcher changed her tune. "You can't buck the market," she said. Lawson hung on for another year as his rows with Walters became more vocal and public before he resigned.

John Major: October 1989 to November 1990
High point: Took sterling into the ERM
Low point: Took sterling into the ERM
John Major was responsible for finally taking Britain into the ERM in October 1990. Major was closer to Walters than Lawson but still favoured ERM membership. Unfortunately, sterling entered at an overvalued rate which his successor, Norman Lamont, tried and failed to sustain, with spectacular results. Major was Lawson's deputy for two years and saw the pound fall sharply after Lawson's resignation despite declaring his preference for a firm exchange rate. Was described as not being "sufficiently intellectual for the job".

Norman Lamont: November 1990 to May 1993
High point: Resignation speech attacking Major
Low point: Black Wednesday
Norman Lamont is forever linked with sterling's humiliating withdrawal from the ERM on 16 September 1992, Black Wednesday. Lamont's confusion, which involved blowing more than £8 billion ($12.8bn) in a doomed attempt to maintain the pound within the ERM, ruined his career. Major's loyalty to his accident-prone lieutenant could not be sustained and he was replaced.

Kenneth Clarke: May 1993 to May 1997
High point: Tried to sustain euro debate
Low point: Nobody listened
Kenneth Clarke stands out as one of the most ebullient holders of the post, with his Hush Puppy shoes and penchant for cigars. He was one of the staunchest defenders of Britain's participation in economic and monetary union. Architect of the 'wait and see' policy, he threatened to resign if the former Conservative government wavered from this stance. However, his pro-European stance and support for a single currency cost him the chance to lead the Conservative Party.

MATT TURNER

With Rupert on their side: squaring the Murdoch press was more important for Blair than keeping the markets sweet

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was talk of a quick referendum on the matter. The 'spin' – in the form of background, unattributable briefings – leaking out of the Treasury to the *FT* and then other papers was much stronger than anything emanating from the prime minister's office in 10 Downing Street. Could there be a difference of opinion brewing? Blair is known to be more cautious about the euro than Brown, and a tiff at the top would at long last break the smugly boring facade of victorious Labour's monolithic unity.

The papers pounced on a Blair-Brown rift. The spin doctors in both camps sought to deny it, not with clear statements or 'on-the-record' briefings but with more innuendo, nods and winks from Downing Street. That only fed speculation that the prime minister and his chancellor were falling out.

Blair and Brown concluded that it was time to go on the record – and to make it clear that there were still 'formidable obstacles' to entering EMU. An interview with Rupert Murdoch's *Times* was hastily arranged (chosen, it seems, as a 'reward' for not playing up a Blair-Brown split). On Saturday morning *The Times* headline claimed Brown had ruled out joining the euro for the lifetime of the present parliament.

Shrewd readers, however, discerned that Brown had not actually said as much explicitly. The paper had been encouraged to say so by Treasury guidance; other papers which called for clarification were reassured that *The Times*'s interpretation was correct. The spin doctors were having their say once more.

One official said the government was 'running its public relations as if it was still in opposition'

Brown's chief press adviser, Charlie Whelan, had accompanied his boss's on-the-record remarks with off-the-record 'steers' given on his mobile phone, operating less like a public official than a racing tipster, from the Red Lion public house close to the Treasury office in London's Whitehall. As one high-placed Downing Street official confided, the government was "running its public relations as if it was still in opposition".

The result was to make things even worse: after stoking up too much pro-euro sentiment in the *FT*, the 'spin' was now too anti-euro. Whelan's message was now that, far from being a euro-convert out of tune with his leader, Brown was ready to rule out British membership of the single currency for the life of this parliament. That would cast the decision forward to after 2001, or more likely after 2002, meaning that Britain would remain outside the euro-zone not just for the transition period of linked exchange rates but also when the first new notes and coins begin to circulate.

It would also make membership of the currency union the issue on which the next general election would be fought, with the Conservative Party taking a strong stance against joining. By then, the Labour government might be the

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COVER STORY

COMMENT

The fallacies behind all the talk of Britain joining the European single currency

BRITAIN will be rail-roaded into the European single currency by much the same momentum which rolled it into the exchange rate mechanism in 1990. There is an obvious flaw: most of the titans of British industry are economic illiterates. But they know where the interests of large multinational companies and their shareholders lie. A seamless Europe with a single currency would allow them to maximise profit by locating wherever costs were lowest. But it is precisely this that dooms the single currency to failure.

As wages, taxes and labour market regulatory regimes vary greatly between European Union countries, some states and regions will prosper from a flood of multinational investment, while others stagnate. With a single monetary policy, little scope for fiscal stimulation and no possibility of changing exchange rates, either workers must move from depressed to prosperous regions or money transfers must flow in the opposite direction.

Germany, the highest cost country in Europe, will stagnate. Spain, one of the lowest, will prosper. Will German workers take lower paid jobs in Spain? Will poor Spanish taxpayers finance transfers to Germany to help pay the German dole bill? Obviously not. But this hardly matters to the captains of industry any more than it mattered to Renault or Opel closing plants in Belgium and Holland.

Another fallacy is the argument that British membership would strengthen economic and monetary union. By now most students of economics should have been taught the theory of an optimal single currency area. To work, it needs to be composed of countries which are structurally similar. The German, Austrian and Benelux economies could successfully share the same currency. The British economy is very different. It is self-sufficient in oil, has a large, liberal and global financial system, a small but highly efficient agricultural sector and a small manufacturing sector, a higher percentage of whose exports are technologically advanced products. Increasing EMU to include Britain could only increase the strains upon it, weakening not strengthening it.

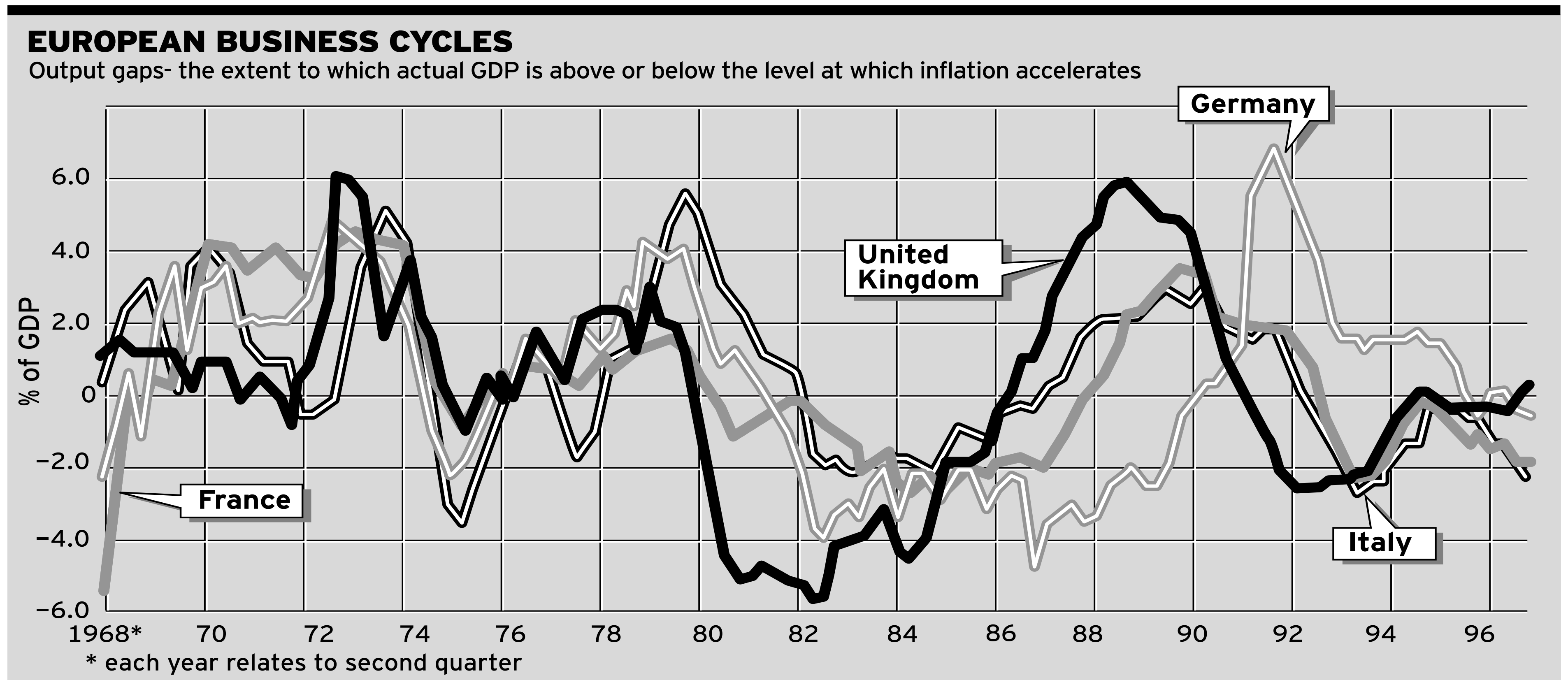
The latest fallacy from the pro-EMU brigade is that Britain's economic cycle is set to become synchronised with continental Europe's by the year 2000. This is said to be supported on Treasury forecasts. In 1990 the Treasury forecast that German unification would pose no serious problems for Britain's ERM membership. Its forecast of cyclical convergence is equally unsound. Any forecasting model designed to predict the business cycle will, if pushed more than 18 months into the future, predict that growth approaches its long-term trend rate. If it did not, it would either explode or implode – forecasting ever-faster or ever-slower growth. Looking three years ahead, such models will always forecast cyclical convergence. But in fact convergence is a rare event.

The last British cycle peaked in 1989 ahead of continental Europe's. Britain's cycle touched bottom in 1992 when Germany was at the peak of its post-unification boom. The British economy is now near the peak of its current cycle, the German recovery is quite advanced, but France has barely begun to recover. Italy is mired in recession. For cycles to converge by 2000 the British economy would have to mark time with steady trend growth waiting for the others to catch up. But if a decision were now announced in favour of Britain's EMU membership by 2000, our high interest rates would start to converge on French and German lower ones. Ours would fall and theirs would rise to meet somewhere in between. Easier monetary policy in Britain would cause our economy to overheat. Tighter monetary policy in France would cause their recovery to stall.

Far from converging, a decision to enter EMU is bound to cause our cycles to diverge. In theory, such divergence could be prevented by fiscal policy. Britain, whose budget deficit is comfortably below the Maastricht three per cent limit, would have to raise taxes and cut public spending. France, whose budget deficit may not make it below three per cent this year, would have to cut taxes and increase spending. Monetary convergence makes fiscal divergence a necessity. But does anyone seriously imagine that Tony Blair would ruin his chances of re-election by crippling rises in taxes or swingeing public spending cuts?

BRIAN READING

The author is a director of Lombard Street Research



continued from page 10

party of cautious euro-optimism. But not yet. Blair's people were surprised: they had not expected the chancellor to go that far. Yet another adjustment had to be made.

The Times, long an unbending opponent of European monetary union, was jubilant. Its tabloid stablemate, *The Sun*, which prides itself on its general hostility to anything 'foreign' (unless American), joined in with a jingoistic hymn of praise for Blair. The markets, however, remained confused. Nobody had yet given a definitive, on-the-record statement of government policy.

Squaring the Murdoch press had become more important for the Blair government than keeping the markets sweet – or informed. The support of the Murdoch media empire was an important factor in winning Blair his landslide election victory in May. The final decision to back him followed an article written by Blair for the Murdoch *Sun* at the start of the election campaign in which he aired sufficiently sceptical attitudes towards Europe for Murdoch to swing his considerable clout behind him.

Murdoch has a deep-seated and enduring antipathy towards Europe in general and the EU in particular. But it is not just his business interests which make him anti-European. He genuinely believes that Brussels is still dominated by the corporatist, big government ideology which Margaret Thatcher fought to eradicate from Britain (with the support of his papers). He fears that if Britain is too involved in Europe, all the gains that were made during the Thatcher years will be reversed. Blair shares some of these fears.

But the national consensus which swept the Blair government into office rested on another stool besides the Murdoch media: Britain's employers, whom he had persuaded out of their instinctive fear of a Labour administration. 'New Labour means business' was a slogan that worked, and much of Britain's businesses want the euro. Some of Britain's industrial chiefs were decidedly unimpressed with Brown's apparent public dismissal of their lobbying. Niall Fitzgerald, chairman of Anglo-Dutch Unilever and head of the Europe committee of the Confederation of British Industry, had called back in July on the government to "declare strong support for UK membership of a successful EMU". Polls show a two-to-one support for adopting the euro among big business leaders (small to medium-size companies are less enthusiastic). This week Marks & Spencer, Britain's most internationally successful high street retailer, announced that its British shops would accept the euro whether Britain was in or out.

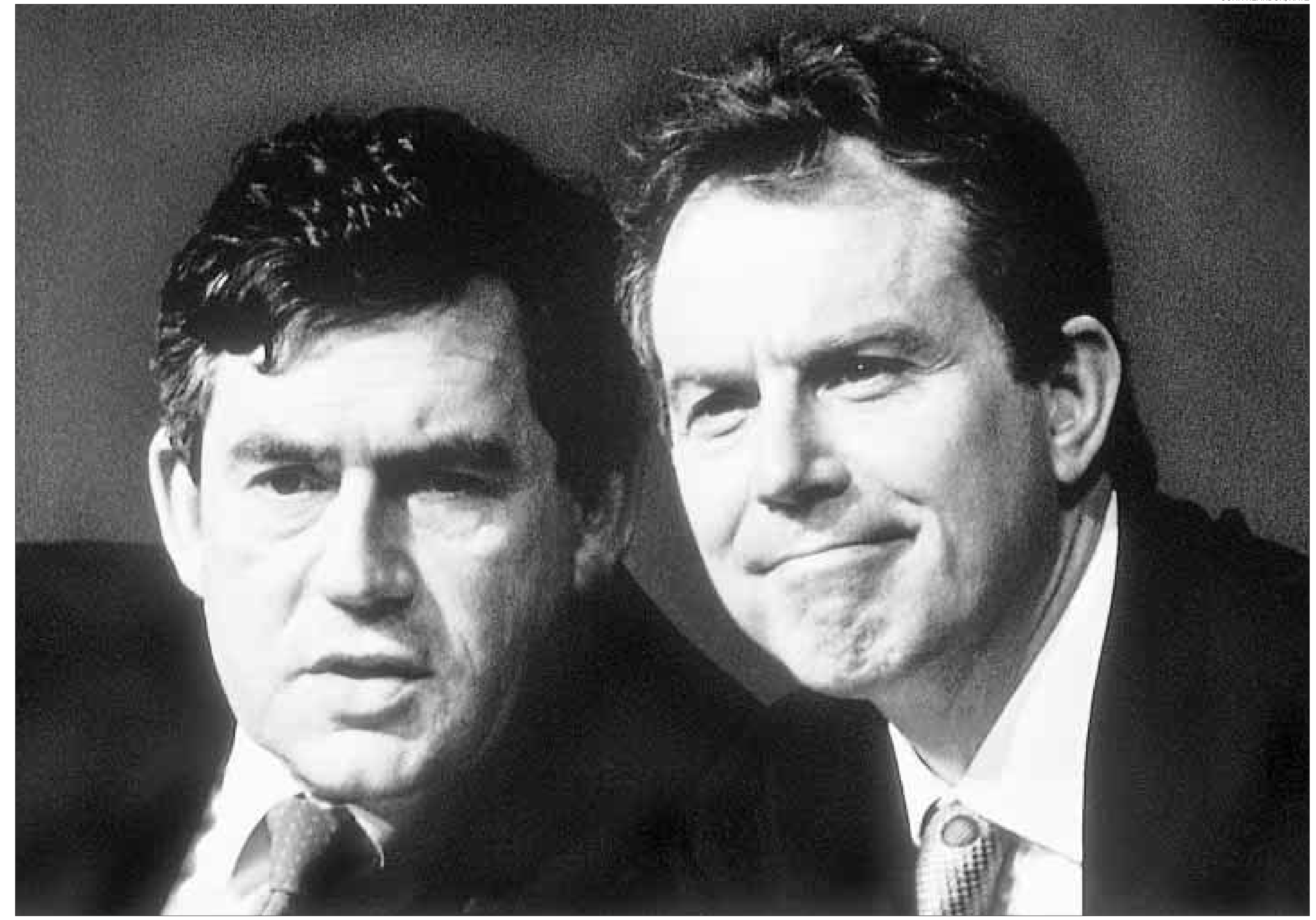
Murdoch has a deep-seated antipathy towards Europe and the EU

There have also been contradictory rumblings from foreign investors that Britain outside the euro zone would be a less attractive prospect. Last week the chief economist of General Motors seemed to suggest that Vauxhall (GM's British subsidiary) might move production out of Britain if it did not join the euro. He quickly denied saying any such thing and the idea was later dismissed by Nick Reilly, Vauxhall's chairman.

Toyota had already been round this course. Last January Hiroshi Okuda, president of the Japanese carmaker, seemed to warn the Conservative government that if Britain stayed out of EMU, his company would prefer to make its new investments on the mainland. That comment, too, was subsequently played down. The test is about to come: Reuters reported this week that Toyota had turned down British government entreaties and decided to build a new $1.6 billion European car plant in northern France. Toyota spin doctors quickly turned this into a parody of Gordon Brown's stance on EMU. "Nothing has been decided," they said cryptically.

The employers' enthusiasm for the euro is shared by union leaders. In Monday's *Times* the general secretary of the Trades Union Congress, John Monks, argued that it would be a "grave error" to stay out of EMU until after the next election. "This is one issue that is too important and too historic for even the most media-conscious government to take on the basis of tomorrow's headlines. I am a friend of this government. I desperately want it to succeed. My loyalty will be there when the going gets tough. But sometimes friends have to give candid advice." Monks' message to Brown was unequivocal: "He still has time to reaffirm the government's commitment to a single currency and set out the process and timetable by which Britain can join." Monks did not explain if he was ready to accept European levels of unemployment as the price of joining the euro.

JOHN REARDON/KATZ



Brown's comments at the opening of the new stock exchange computer transfer system on Monday morning were intended to quell the markets and please everybody. It was back to the old 'wait and see' formula. The clearest line forthcoming was that it would be 'unlikely' that Britain would join in the first wave in 1999 – a proposition that has been self-evident for some time. Nothing else he said, however, cleared up any of the confusion. So the stock exchange plummeted and the spinning continued.

What makes the government's behaviour over the past two weeks all the more absurd is that it is widely expected that Brown will effectively rule out membership of the euro during the lifetime of this parliament when the House of Commons reconvenes next week. What remains uncertain is whether he will also make a commitment in principle to join at a future date in the next parliament should the conditions be right.

There are good, practical reasons for postponing the decision until after another general election (and, presumably, a post-election referendum). Britain's economic cycle is at present out of sync with most of Europe, especially France and Germany (see panel on page 12). Britain could be close to the peak of a five-year upswing; Germany and France are still struggling to break free of a long recession. British interest rates are high, as befits its current position in the business cycle; to reduce them (to bring them into line with France and Germany) would risk reigniting inflation and force the government to increase taxes.

There is also a psychological attachment to sterling that is at least as strong as that of many Germans to the deutschmark. Whereas the German feeling is based on a logical affinity for a currency that is barely 50 years old but which has proved to be the most stable in the nation's modern history, the average Briton's feeling for the oscillating pound is a nostalgia based on sentimental tradition, very much the sort of national feature that the 'modernising' Blair government at least superficially disowns. Blair realises that the British will not be shaken out of their attachment to the pound overnight; and he also needs time to square Murdoch.

The demands of the election cycle are as important a calculation for the Blair government as the business cycle. Public opinion remains strongly opposed to swapping the pound for the euro. The demise of the Tories has taken the fundamentalist edge off the arguments, but Blair's people are by no means certain that he could win a referendum on the matter this side of the next election – and to lose one on such a vital issue just before an election would be to risk political suicide. Better to win another election as the pro-euro party, Blair is being told, wait for the euro to be a success, then clinch the matter in a referendum in the early part of the next decade.

That would be a logical strategy, even if the delay would disappoint the more pro-European wing of the Labour Party and big business. It would also end the confusion. "We are not going to make the same mistakes as Conservatives made over the ERM, where indecisiveness caused speculation and damaged our national interest," Brown boasted last weekend. It was an arrogant conceit.

The fact is that the Blair government has behaved exactly like the discredited Tories. If it does not clear matters up – quickly, openly and without recourse to secret spin – it risks being as diminished by the single currency as the administration it succeeded.

Chalk and cheese: as Brown and Blair (above, left and right) prevaricate, French consumers (below) are already being given the chance to try out the new currency

JACQUES MUNCH

NEWS

Facing another truth: unemployment in France may be double the official level page 17

FRANCE ■ The war crimes trial of Maurice Papon is helping to lift the veil of amnesia from a later peacetime atrocity on Paris streets

JACQUES BRINON

Bridge to the past: last Friday, demonstrators re-enacted events of 17 October 36 years ago when corpses of Algerians were thrown into the Seine river

'It was like unleashing a pack of rabid dogs'

DARIUS SANAI

ON THE night of 17 October 1961, Victor Emanueli, a young Parisian policeman, participated in one of the greatest peacetime atrocities in 20th-century Europe. Along with hundreds of colleagues armed with handguns, machine pistols and clubs, he set upon crowds of unarmed Algerian demonstrators gathered in the city centre.

By the time the evening was through, the police, whipped up into a frenzy by the war across the Mediterranean and a pervading climate of racial tension, had killed at least 200 Algerians, lobbing their corpses into the Seine or dumping them in public parks. Some of the demonstrators' heads were smashed with paving stones; others were strangled with police neckties; more were rounded up in alleys and mown down in a hail of gunfire.

Around 12,000 were herded into requisitioned city buses and sent to detention camps in the biggest mass arrests since World War Two. Hundreds more were taken to the Palais des Sports on the city outskirts, where dozens – the exact figure will never be known – were tortured and killed. The final death toll is thought to have been between 230 and 250, including women and elderly men.

The immigrants had been called out to the streets by the Algerian National Liberation Front (FLN), which was fighting a war of liberation against French forces in Algeria, and a guerrilla war on the French mainland, at the time. Some 40,000 of them, of all ages, had answered the call for a "peaceful mass demonstration" through the centre of the city.

Authorisation for the massacre came from the highest level: the Paris police chief at the time was Maurice Papon, currently on trial in Bordeaux at the age of 87 for allegedly deporting Jews to concentration camps during the war. Papon had told commanders that the police had a "free hand" to do what they wanted. President de Gaulle appointed Papon prefect in 1958 with the simple instruction: "Hold Paris."

At the beginning of October, in a climate where policemen were being attacked and murdered – 60 had been killed in three years – Papon called a night-time curfew on "Muslim French people from Algeria". The demonstration of 17 October was a protest against that curfew. Earlier in the month, Papon had exhorted the police to shoot first if they felt themselves under threat. According to documents quoted by *Le Monde*, he told police: "You will be covered, I give you my word on that. Moreover, when you inform headquarters that a North African has been killed, the chief who will attend the incident will have everything necessary to show that the North African was armed, for at this time there can be no comeback."

Emanueli, who has never before spoken to the press, told *The European* that on that night the entire police force went out of control. "It was a dream. We had dreamed they [the Algerians} would all come out on the streets and open themselves out. The chiefs organised the most violent police units and said, 'go for it, do anything you can to get those bastards'. We didn't need telling. It was like unleashing a pack of rabid dogs.

"The police were totally mad that night. We took over the streets of Paris. We saw them everywhere, all together for the first time, and said: 'Look, it's incredible, they're all coming out. Let's get them'. One colleague tried to stop us smashing the head of a man on the pavement. Someone turned to him and said, 'Shut it or you're next'. And he meant it.

"I'm not a racist but for us it was war. We were totally fired up, you can't imagine what it was like. They had been attacking us and we had no way of fighting back until that night. Then we went wild. It was horrible, but I have no remorse whatsoever. It happened, we did what we did."

President de Gaulle made Papon prefect and gave him the simple instruction: 'Hold Paris'

Emanueli (we have changed his name, at his request) continued to serve in the police until retiring five years ago. Neither he nor his colleagues have ever been investigated or prosecuted.

Although the demonstration was intended to be peaceful, there was little chance of it passing without incident. The FLN had been attacking policemen on the French mainland for years and the tension was palpable. The official version of events talks of "armed Muslim rioters" in the heart of Paris, something which embodied the fears of almost every patriotic Frenchman during the years of the Algerian war.

"You have to remember we had been living in a state of fear," says André Mahé, a former officer and head of Police and Humanism, a campaign group set up in the wake of the horrors of that night. "Policemen had been travelling home in groups, scared of attacks. And the FLN had been perpetrating the attacks."

But the demonstrators were not armed; not a single policeman suffered bullet wounds that night. The few pictures which survive of the event – most photographers had their cameras smashed and their films seized – show men and women of all ages wearing their Sunday best, and survivors talk of thinking they were going out to show France their peaceful determination – perhaps naively, in the climate of the times.

AFP

Climate of fear: policemen guarding arrested Algerians in Paris in October 1961

"We were sent to the Porte de Versailles," said Joseph Gommenginger, another young policeman of the time. "There were busloads of arrested Algerians being unloaded. As they got off, with their hands on their heads, they were beaten indiscriminately with 1.2-metre batons until they collapsed on the ground. There was construction work around the Palais des Sports and policemen found plenty of handy things to beat the Algerians with, like stones and pipes. I didn't see what happened inside."

Gommenginger says he did not participate in the beatings, and spent the rest of the evening ferrying the injured to hospital. Others who tried to help weren't so lucky: one French doctor was set upon by policemen when he tried to tend to a wounded man on the Place de l'Opéra.

Other accounts illustrate the cold-bloodedness of the killings. "At around 11pm we cornered a group of them in a residential area," says Raul Letard, another young policeman who took part. "The residents showed us where they were hiding, and we went up on to the top floors of the houses so we could fire on them more easily. It was horrific, horrific." Letard recalls that on the day after the massacre, "our boss came out of a meeting with Papon, and said the chief wasn't entirely happy with the events of the 17th. He said there had been too many killings inside police stations, which shouldn't be repeated, but that we still had carte blanche on public roads. Can you believe that?"

Incredibly, the massacre went virtually unreported in the French media. Over the following few days state television and most newspapers reported only the official government line that two Algerians had been killed and dozens of policemen wounded as they had tried to restore order after a riot. Even *Le Monde*, founded in the wake of the Second World War, talked of "rioting Muslims". State-owned radio and television continued to repeat the government line for decades. The first television news report on the massacre came as a brief item on government-owned Antenne 2 in 1981. A documentary film about the events of that night, *Octobre à Paris*, crafted the next year from eyewitness reports, was banned as soon as it came out, and to date the film has never been shown on French television. Most television editors still decline to run retrospectives and documentaries on the massacre, claiming a lack of interest.

On the days after the massacre, only a

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handful of publications, including the Communist Party organ *L'Humanité* and the now-defunct *France-Observateur*, dwelt on the police violence. Again, and despite the efforts of a small minority of dedicated journalists, it was decades before most newspapers – led by the left-wing *Libération* in the 1980s – started piecing together and publishing the full version of events. "When a colleague of mine asked journalism students about the massacre in the mid-1980s, he found not a single one knew about it," says Jean-Marc Berlière, a historian who has spent years coaxing eyewitness accounts from policemen.

The official toll for the evening of 17 October 1961 remains two Algerians and a Frenchman killed. To this day, there has never been an official investigation, or any prosecutions, or any widespread public acknowledgement of the event. Until this week. Now, 36 years after the bloody events of that night, France is starting to come to terms with this forgotten chapter in its past. The catalyst has been Papon's trial.

Amid a blaze of publicity, newspapers and magazines have belatedly been "discovering" evidence about the night, which has in reality been available for years. The public, whose alleged lack of interest has long been cited by editors as a reason for not investigating the massacre, is stirring: opinion polls show up to 70 per cent of French people are following the Papon trial and related events. The government has finally agreed to open up police files relating to the night in question. It is more than just a history lesson; a country which, led by 'healers' such as Charles de Gaulle and François Mitterrand, has never examined the minutiae of its recent past, is starting to undergo a catharsis.

"Like a wound that has been covered up but never healed, it is now opening up again," says Berlière, a professor at the University of Dijon. "The collective conscience has been stirred, and the scales are falling from our eyes. People are saying: 'Look what this man did during the war – and he was the Paris police chief afterwards. How can this have happened?'"

Jean-Luc Einaudi, another historian who has spent years compiling evidence and eyewitness reports from policemen and survivors, goes further. "It's a historic moment for our national conscience," he says. Einaudi, who in 1991 published a book on the events, *La Bataille de Paris*, thinks the French nation and its new generation of postwar rulers are starting to see the Papon trial as a watershed. "Papon is a man who embodies many things people may be able to see in themselves, in their pasts, albeit in smaller quantities," he says. "The trial is causing big problems for the French conscience."

Papon's alleged role in the Vichy regime has been well documented, if only because of the efforts of Michel Siltinsky, an escaped Jewish deportee, and the investigative newspaper *Le Canard Enchaîné*, in the late 1970s, some 35 years after the event. But his time as Paris police chief from 1960 until 1967 has never come under scrutiny. That is unlikely to change. President Mitterrand in 1986 passed a general amnesty for all crimes during the conflict between France and Algerian separatists.

Berlière says government censorship at the time, the widespread violence and the previous attacks on policemen have all been stated as reasons why 17 October was allowed to vanish from the national consciousness. But the historian, whose book on the affair, *Memory and Amnesia: The French Police Faces Up to its Past*, is due to be published next year, points out that those reasons do not explain the lack of coverage in the following decades. And, more damningly,

LAURENT REBOURS

AFP

On trial: (top) Maurice Papon under guard outside the Bordeaux courthouse, and (below) Algerian demonstrators in August with pictures of assassinated relatives

'The trial of Papon is causing big problems for the French conscience'

he says events just a few months later, in February 1962, indicated that the French media and body politic could react strongly to police violence despite the state of emergency imposed by De Gaulle.

"When policemen beat nine white French Communist demonstrators to death at Charonne that February, the event was reported by every paper. There were mass demonstrations, mass funerals and a police inquiry and the dead have been commemorated every year since," says Berlière. "Charonne has become a pivotal point in French history, and it has completely washed away recollections of 17 October. It was so widely reported that many Algerian victims' relatives think their family members were killed at Charonne.

"I'm convinced the key to it all is racism," he says. "There were various mitigating factors at the time. Right-wingers took the government line, left-wingers were genuinely concerned that to criticise the police would be to undermine the last defenders of the republic amid fears there could be a coup d'état at any stage. The Socialist police union couldn't criticise its own members. But behind it all was a feeling that 'It's only Algerians'."

The amnesia that washed over the bad memories of Vichy (where collaboration was far more widespread than at first recognised), and then of atrocities in the Algerian war, is only now beginning to lift. "We have to hope that Papon is seen as being tried as an individual and not a scapegoat," says Patrick Jarreau, political commentator at *Le Monde*. He says the death last year of François Mitterrand – whose chequered past, from his collaborationist tendencies during the war to the 50-year cover-up he imposed on them – led to the contradictions inherent in the Fifth Republic being examined. The way has now opened for a new generation to start asking questions which their parents have avoided.

"Many people are probably seeing a history of themselves, to a greater or lesser part, in Papon's story," says Einaudi, who this week gave evidence for the second time at the trial in Bordeaux. "And the younger generation is interested in the unfinished history of France. But the main interest is within the media; there's a very strong general feeling that the record needs to be set straight and this is the moment to do it."

The twin issues of Vichy and Algeria are now at the forefront of French consciousness, with politicians across the political spectrum jostling either to support or deny claims that there is still a pool of unexpurgated guilt about the Second World War.

Philippe Séguin, the leader of the Gaullist RPR party, and Jean-Pierre Chevènement, the Socialist interior minister, both criticised President Jacques Chirac for apologising for the deportation of 70,000 Jews. Séguin claimed that the Papon trial had become a pretext "for two indictments, that of General de Gaulle and Gaullism, and that of France".

Prime Minister Lionel Jospin echoed the opt-out position that has served both right and left so well for years by saying that "the French republic should not be confused with the Vichy regime". The Papon trial concerned one man, not an era, he said.

The question at the heart of it all, now as it was 50 years ago, is whether the Vichy republic served by Papon and many others who went on to prominent government positions after the war, was a sort of French state or a puppet regime from which the French can dissociate themselves. For several decades, this question has been met at the highest levels by the sort of intellectual amnesia that served the French so well when dealing with the 17 October massacre.

It was Mitterrand, a Socialist, who attempted to stop investigations into Papon and René Bousquet, a much higher ranking Vichy official who was eventually shot dead before he could be tried in 1993. It was also Mitterrand who passed the definitive amnesty for everyone involved in the Algerian war in order, in the words of Berlière, "not to rock the boat", and who, in the 1960s, supported the De Gaulle administration when it tried to cover up all trace of the Paris massacre.

Only one deputy, Claudius Petit, a Gaullist and former resistance fighter, persisted in asking questions in parliament that year. His calls for an inquiry were turned down, officially because it would prejudice individual action taken by the victim's relatives.

It is also an amnesia that is not shared by some of the more conscientious officers on duty on the night of the massacre, who have had to live with what they saw without ever seeing anyone held responsible. The perpetrators are most likely living a happy retirement now, and those who sanctioned the killings and the cover-up remained in government and the media for decades. Some of them may still be there.

In a nation whose people profess to be appalled by the nightly massacres currently occurring in Algeria and given wide exposure by television news and the press, the story of the killings in the heart of Paris can never be fully laid to rest until the government finally admits the truth.

Additional reporting by Chloe Beacham

EMPLOYMENT ■ Long delayed in-depth report finally sees the light of day

Jospin forced to face reality on jobs

CHARLES MASTERS

WHEN it comes to their economy the French are getting used to hearing bad news. But even by the standards of the recent past, an overnight doubling of unemployment figures is a little shocking.

The new estimate, which suggests that French unemployment is nearer seven million than the 3.5 million officially recorded, comes from an eminently respectable source – the Commissariat du Plan, a government planning body reporting directly to the prime minister. But it only saw the light of day through a leak to *L'Express* magazine last week, after being shelved by a Gaullist prime minister and sat on by his socialist successor.

'Unemployment: the French case' was commissioned by former prime minister Alain Juppé's centre-right government in April 1996. At that time Juppé and President Jacques Chirac still liked to wax lyrical over the need for greater social cohesion and inclusion.

The report was to investigate the true scale of France's unemployment problem: Juppé and Chirac would then get to grips with it. But what was simple in theory proved complicated in practice. The team in charge of the report, headed by Henri Guaino, were due to deliver for publication in July 1996. But by then the arguments were only just beginning.

The eight experts involved in the study could agree on nothing. One quit the project altogether. Three others were eventually to refuse to sign the finished document. By the time a final version appeared, Juppé had long gone.

The disagreements were political. Guaino had decided that the French governing classes needed shaking up on the question of unemployment. To that end he devised a set of ground-rules destined to expand the definition of joblessness. This was to be the truth behind the official version of French unemployment. His colleagues expressed doubts but Guaino carried on regardless. The result is trenchant to say the least.

REA/KATZ

Two more statistics: young people in Paris look for situations vacant

"In successive waves, the whole structure of employment is in the process of changing towards greater insecurity in all categories," the final report states, and the numbers affected are much greater than officially recorded.

Guaino's seven million figure comprises the three million officially classified as unemployed, plus those who find themselves in a 'precarious position' as a result of employment trends – what has been called 'part-time unemployment', as well as those who slip through the net of official statistics such as the prematurely retired.

'The solid core of stable employment is now crumbling'

The report also suggests there is a 'strong correlation' linking the threat of unemployment and suicide. It notes that since the beginning of the 1990s, suicides among those aged 35-44 have overtaken those in older age groups – 'a radically new phenomenon which underlines the growing vulnerability of the population of working age'.

A growing numbers of French adults – unlike previous generations – are likely to experience unemployment during their working lives. Some 55 per cent of 25-39 year olds have been unemployed at least once in the past ten years,

As an example of the new insecurity, Guaino instances someone with five years' higher education who may find themselves hopping from temporary contract to temporary contract, no longer in the expectation that this will lead to full-time employment. "The solid core of stable employment is now crumbling," he concludes, adding that, "Until now, no one has put the figures together to illustrate the problem."

Guiano's critics still believe that he has not so much illustrated the problem as confused the issue.

"It counts cabbages, carrots and rabbits all together," said one of those who refused to sign the report and did not wish to be named.

"It's clear that the job market in France is in a bad way. But should 'jobs for life' be taken as a model of reference, or should we be accepting the sort of greater flexibility in the workforce implied by the growth in short-term contracts?" he said.

Robert Sallies, who also declined to sign the report, said: "Given the growth of unemployment, is it a good strategy to generate even more despair in society by saying it affects everyone? If you take that path, you can't take precise action to deal with specific problems. The only answers then are macro-economic and macro-social, which so far haven't worked."

But what does Prime Minister Lionel Jospin think of the report for which his predecessor waited so long? Not much, judging by the fact that it was totally ignored in the lead-up to the much vaunted jobs summit on 10 October. Talk of suppression has been dismissed, but it does seem curious that a socialist prime minister should be so disinterested in such a gloomy analysis.

Guiano, who has been forced to acquire a thick skin, is unfazed by the lack of governmental attention.

"You're always disappointed when your work is not used to the full," he said. "I would have preferred it to come out before the jobs conference, but the fundamental problems remain the same. The delay is not dramatic."

In any case, the arguments are probably not over yet. Guaino has issued an open challenge to his detractors, announcing that he is prepared to defend his report line by line, and has no qualms about those who did not sign the document.

"They thought things in France weren't that bad, and that we shouldn't paint everything black," he said. "But when you have two opposed points of view, taking the middle line is not the best solution."

He pointed out that those who put their names to it – Jean-Paul Fitoussi, Robert Castel and Jacques Freyssinet – were highly respected researchersand economists. "I didn't want to submit yet another grey report. But everything is debatable. I'm delighted that it's opened a discussion."

THE FACTS

THE methodology of Henri Guiano's in-depth report on French unemployment may have been questioned, but the figures are undeniably shocking.

'.Unemployment: the French case' starts from the assumption that the three and a half million or so officially unemployed in France represent merely 'the hard core' of the country's reserve army of labour. The total number it arrives at includes those who have prematurely retired; those who have given up looking for work or who are too ill to take a job; and those who frequently pass in and out of employment, or are unwillingly in short-time or part-time jobs.

Using its broader definition the report estimates that 'close to seven million' are unemployed in France. Of that number 250,000 are believed to be too discouraged to declare themselves available for work, while around 500,000 have been encouraged to retire early. In two years, the report says, 25 per cent of households will experience unemployment at least once.

Unsurprisingly, the young are suffering more than most. Two years after finishing their higher education, 30 per cent of former students had failed to find work or were newly unemployed.

More than half of those aged between 25 and 39 had experienced unemployment in the last ten years. The majority of those out of work have been jobless for some time. Around 60 per cent of France's unemployed were found to have been idle for more than a year.

The report also took a swipe at the Socialist government's various makework schemes. State-subsidised jobs in the private sector are categorised as 'precarious'.

NEWS

GYPSIES ■ First it was Canada; now Britain faces a refugee influx from the East

Lured by a perfect vision

PHOTOGRAPHS: CEN/JULIE DENESHA

IAN MATHER

THE Nazis exterminated one million of them. Then communist governments forced their children into special schools to try to eradicate their wanderlust. They failed, and now that communism is dead, eastern Europe's gypsies are on the move again. Or at least they are trying.

First, France and Germany faced an influx of gypsies. Both countries sent most of them back. Then this summer thousands descended on Canada, many with one-way air tickets, forcing the Canadian government to reverse its no-visa policy to stem the flow. Now around 800 have arrived in the British port of Dover. Local facilities for housing and feeding them are overwhelmed. Local opinion is hostile.

The trigger for the exodus was a Czech television documentary series that followed gypsy families to new lives in the West. One on Canada suggested that the Canadian government offered a special programme to give gypsies free housing, cash and help in finding jobs. No such programme exists.

A second programme portrayed Britain almost as a paradise on earth. It focused on the plight of Romany bricklayer Ladislav Scuka, his pregnant wife and three children, as they travelled by bus from their poverty-stricken home in Kosice, Slovakia, and thence by ferry to Dover. The family were shown playing guitars and singing in a bed and breakfast establishment, walking idyllically along a sunny Dover beach and throwing pebbles into the sea.

"We couldn't live in Kosice any longer," Scuka says. "My daughter was refusing to go to kindergarten because they called her 'the gypsy' or 'the nigger'." The family spoke rapturously about their reception in Britain. "We get £140 [$220] a week. We have a hotel paid for. I'll get a work permit in January and I can start working," said Scuka, adding: "Every nation in the world has been compensated in some way for its sufferings. The Romanies have so far been left out. I believe this is our compensation."

The question that western immigration officials are asking is: are the gypsies genuine refugees, in which case they are entitled to asylum? Or are they economic migrants looking for a higher standard of living, in which case they can be sent back home?

One certainty is that the television series, however overblown, would not have had such dramatic consequences were it not for the fact that the gypsy problem is getting worse in eastern Europe. The Romanies make up large minorities in Hungary, Romania, Slovakia and the Czech Republic. Everywhere relations with local people are deteriorating.

From pain to paradise: gypsies living rough in Slovakia have flooded to what has been portrayed in local television documentaries as an idyllic lifestyle in western Europe

Their leaders argue that gypsies are increasingly being used as scapegoats for the ills of eastern Europe's transitional countries. But many live in large family groups, and most are barely literate. Unemployment of more than 70 per cent forces them into petty crime. Early marriage results in uneducated teenage mothers, who dump their children into special schools, from which they are pushed out at the age of 15.

The situation in the Czech Republic and Slovakia is particularly fraught. After the Second World War hundreds of thousands of gypsies from Slovakia were resettled in western Czechoslovakia in the homes of deported Germans. When Czechoslovakia was dissolved in 1993 officials expelled them and sent them by train to Slovakia.

Gypsies in both the Czech and Slovak republics say they are finding it increasingly difficult to live normal lives. "When I was a child under communism, my father [a mechanic] worked his eight-hour day, and would come home and go about his business, meeting his friends for a drink. Now, neither he nor I can do that," said Josef, 37, a businessman from Prague's Zizkov district.

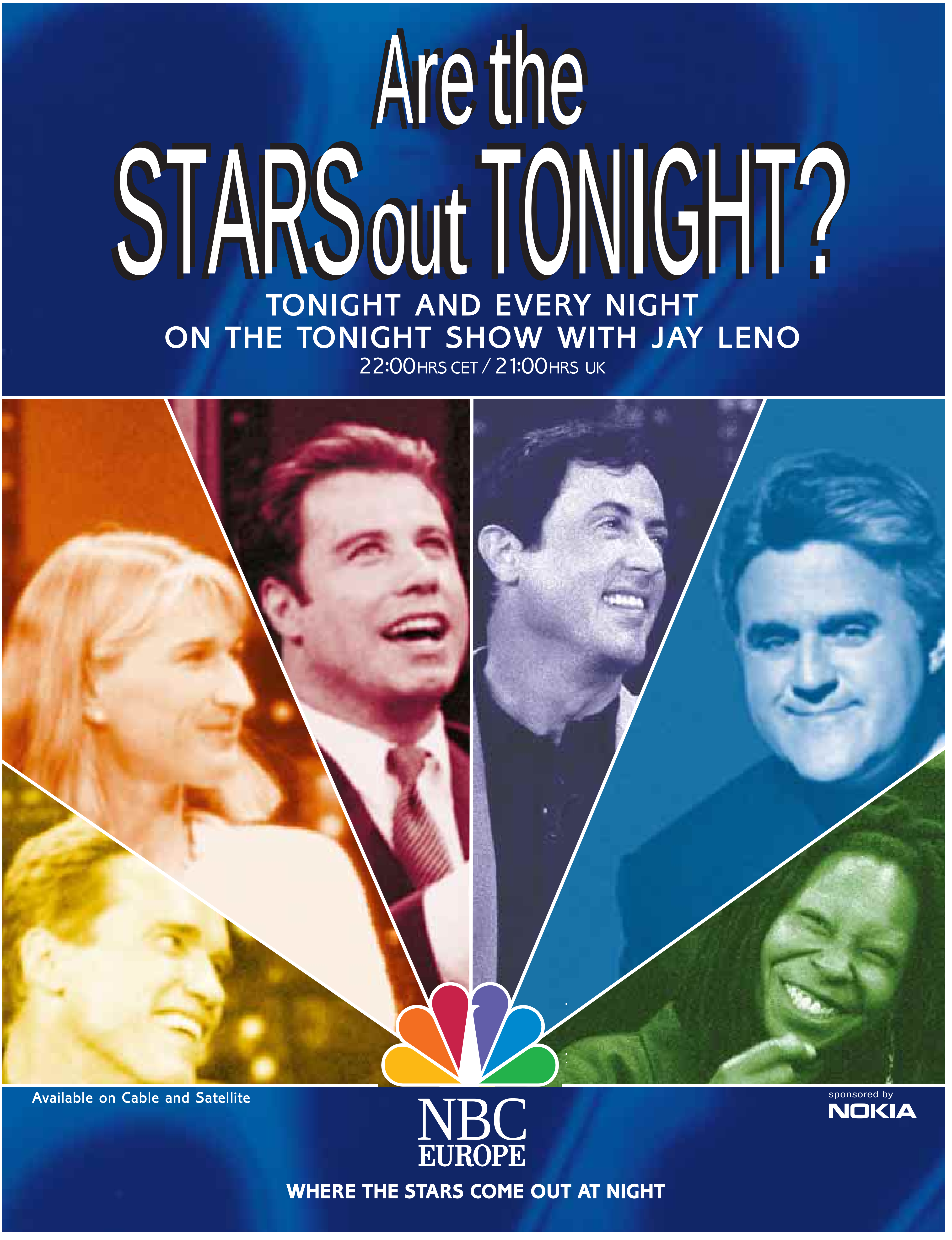
"All the time we live in the fear of losing business or being beaten up, just because of our dark skin and dark hair." Since 1989 gypsies have increasingly been the targets of racist attacks. In the past five years at least 28 Czech or Slovak gypsies have been murdered and 450 seriously injured. Courts often refuse to convict, or impose suspended sentences.

Many politicians play the gypsy card. Leaders of the ultra-right nationalist Slovak National Party (SNS), a member of the ruling coalition government, regularly refer to the Romanies as "stinking" and requiring "special treatment", alleging that the gypsies are genetically backward and socially unadaptable.

During a visit to Slovenia last month by Jean-Marie Le Pen, the French far-right Front National leader, the SNS chairman, Jan Slota, said: "We have been here for 1,250 years and no gypsies nor nomadic barbarians can force us out of this territory, because we are strong enough to sort these people out."

The Slovak government has now warned over the radio that Britain will not grant asylum to Slovak gypsies who have "irresponsibly decided to sell their homes and further assets and to move". A senior official said in the broadcast: "We are as democratic a nation as Britain, although our tradition is not as long. It is not in our interest and it should not be in the interest of those leaving this country, who were born here and have their home here, to look for opportunities abroad."

Additional reporting by Kate Connolly


Are the STARS out TONIGHT?
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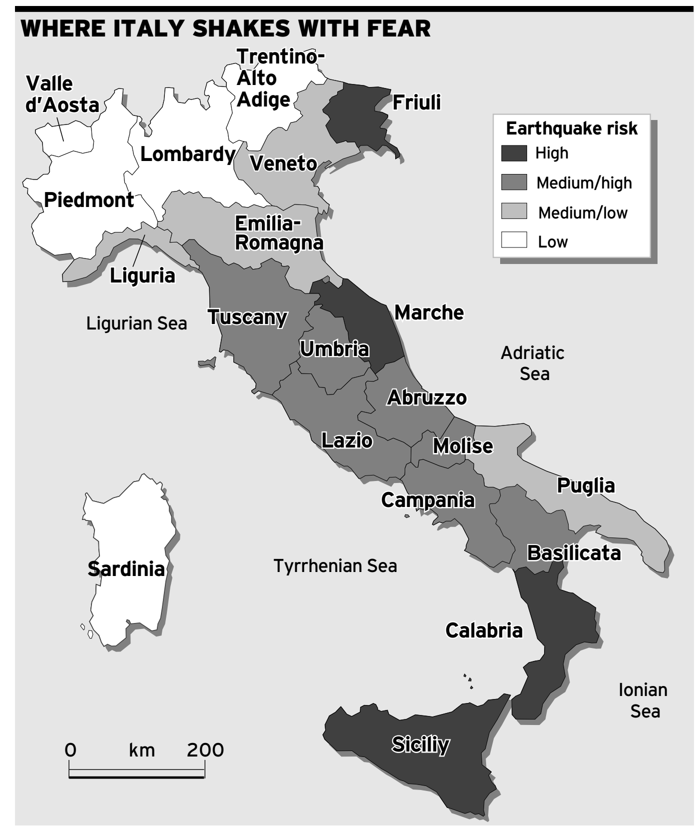
G PICCHIO

It could be worse: this was the result of one of the aftershocks – for which, say scientists, she ought to be grateful



DISASTER ■ Shocked Italians fear earthquakes are the beginning of the end of the world

Take a tranquilliser and just wait

MICHELE PUCCIONI

B*LOOD and swords will rain on them like gifts. There will be fire, earthquakes and flood.*" And a run on tranquillisers.

Nostradamus, the 16th-century astrologer, physician and adviser to Catherine de Medici, predicted that the end of the world would follow three earthquakes on consecutive Fridays. So the quake that rocked Assisi on Friday 26 September, to be followed by almost daily tremors in central Italy, has set many people in the regions of Umbria and Marche shaking – even when the ground on which they are standing is firm.

As the millennium approaches, several of those who suffered or simply witnessed the terror, dislocation and upset of the past few weeks are now convinced that the end of the world is round the corner. Bookshops in Rome and Perugia, capital of the badly affected central region of Umbria, have sold out of every single copy of Nostradamus's prophesies.

These fears are adding to the general turmoil. The fallen bell tower in Foligno, near Assisi, has become an internationally recognised symbol of the earthquake's disruption. The town's medieval centre, usually brimming with tourists, is now totally closed. Its citizens are frightened. "For most people it's an endless earthquake inside," said Mayor Maurizio Salari.

Since the first shock, 52,000 people in the two regions have been forced to flee their collapsed and crumbling homes, taking shelter in tents or caravans. Another 50,000 stay at home during the day but are so afraid of a strong quake shaking them from sleep that they are spending the night under canvas or even in their cars.

Doctors say the distress and despair have deeply affected a people usually renowned for their resilience. The consumption of alcohol and tranquillisers has doubled. "We have to treat frequent cases of hysteria, panic attacks leading to depression, frequent heart problems and insomnia," said Annunziata Di Marca, health manager at the Foligno emergency centre.

Salari says people are struggling to be optimistic: "The worst thing is that for many people it is very difficult to find the strength to look forward, because serious tremors are still taking place each day around here. Almost every time, new houses are damaged and so the list of those displaced has again to be updated. It is impossible to plan rebuilding and repair work and, anyway, we don't know yet how much money the government is planning to make available for reconstruction. People are doing their best but many are really frightened by the prospect of the approaching winter."

> **'We have to treat frequent cases of hysteria and panic'**

Alberto Basili, head of the department of seismology at the National Geophysics Institute in Rome, says that since September the central regions have had more than 4,000 quakes, six of which registered well above five on the Richter scale. "From a strictly scientific point of view, all those six quakes must be considered as moderate, but they have caused a great deal of damage both because they came in rapid succession and because of the chronic lack of preventative measures." Most of the villages affected were medieval, however, so it would have been difficult to bolster their structures to withstand quakes.

Italian specialists have recorded earthquakes ever since Roman times and, on the basis of such a comprehensive record, Basili is not surprised by the number of quakes and aftershocks affecting central Italy. But what does strike him is their high intensity.

"The paradox is that we should be grateful, because if almost all the energy had been released in one massive quake followed by a set of smaller aftershocks – as is usual – Italy would have suffered a situation similar to the quake in 1980, which claimed 3,000 lives.

"So, ironically, people should be happy about this slow and relentless persecution from the earth, even though it is stressful and could take well over a month to stop."

While the population is trying to cope with the situation and to get ready for the approaching cold weather, officials are facing criticism for their response. Erasmo D'Angelis, a senior correspondent for the national daily *Il Manifesto*, said: "This is a ridiculous situation for a country which should be well prepared for earthquakes. There was almost a total absence of pre-arranged emergency areas to provide temporary accommodation for the homeless. There have been scandals such as the collapse of 60 council flats which in theory should have been built to resist much stronger quakes."

But D'Angelis, who witnessed the aftermaths of the tragic quakes in Friuli in 1976 where 989 died and Irpinia in 1980, says there is no comparison between the handling of this autumn's tremors and the poor response to those earlier disasters.

Bonn dances in fury to Günter Grass's political drumbeat

WHEN it comes to playing "conscience of the nation", Günter Grass – Germany's best known fiction writer – is still able to strike where it hurts.

The 70-year-old leftist author of the widely acclaimed 1959 novel *The Tin Drum* returned to the political rostrum this week accusing Chancellor Kohl's government of "closet racism" and Nazi-style complicity in Turkey's battle against Kurdish insurgents.

Presenting Turkish author Yasar Kemal with the Peace Prize of the book publishing industry in Frankfurt, Grass said: "Does not the latent German hatred of foreigners speak through the bureaucratically coded deportation policies of the present interior minister, which finds its echo in the columns of the extreme right?"

Grass then criticised Bonn for supplying arms to Turkey and branded it an "accomplice" in Turkey's "war of extermination" against the Kurds.

In a country still desperate to rid itself of the stigma of the Nazi era, this language hurts. General secretary of Kohl's Christian Democratic Party Peter Hintze responded angrily that Grass had finally "excluded himself from the circle of serious authors" and sunk to an "intellectual low".

The run-in evoked memories of dissident authors facing political opprobrium, both in Germany before the war and in communist East Germany.

Grass's intervention has highlighted the double standards that apply to Bonn's immigration policies and its relations with Turkey; for despite Ankara's appalling human rights record, it is Bonn's biggest trading partner in the eastern Mediterranean.

With justification, Bonn insisted that Germany could hardly be accused of xenophobia, for during the Yugoslav war it took in more than 350,000 war refugees, more than all other European Union countries combined. But following a spate of extreme right-wing anti-foreigner violence in the early 1990s, the government has been tightening up restrictions on would-be asylum-seekers.

Germany's attitude to its two million Turkish 'guest workers' – many of whom were born in Germany or have been living there since the early 1960s is equally tough. Most are denied German citizenship. A few are granted it on strict conditions, after renouncing Turkish statehood.

Bonn also supplies military equipment to Turkey. Officially, the exports are non-offensive items for Nato purposes only. But much of the German public remains sceptical about these conditions. In that sense, Grass was merely acting as its spokesman.

TONY PATERSON

AGENDA

A WEEK IN THE LIFE OF THE EU

REBELLION

Austria set to take on Brussels once again

AUSTRIA, one of the European Union's newest members, is rapidly becoming the *bête noire* of Brussels. This week the European Commission decided to take the Vienna government to the European Court of Justice in Luxembourg over the vexed question of anonymous savings accounts.

The Commission argues that allowing unnamed accounts, which Austria refuses to abolish, is in "flagrant contradiction" of EU anti-money-laundering laws. But in Austria itself the debate over whether the nation benefits from EU membership is taking second place to the argument over a single European currency.

Now far-right Freedom Party leader Jörg Haider has launched a 'euro information' campaign in an effort to make political capital out of opposition to monetary union. His party is encouraging Austrians to sign the official petition demanding a referendum on the introduction of the euro, initiated by the interior ministry in Vienna following an application from Haider last August.

The charismatic Haider has accused the Austrian government of covering up the facts about the effects of the euro on taxation, which he claims will dramatically increase. "We are simply protecting Austrian interests," he said. "The others are trying to trick the public with all kinds of dodges."

But observers believe the Freedom Party is hoping to use popular anxiety about abandoning the strong schilling for the untested euro as part of its campaign to win power in next year's elections. The party's 'EU bureau' will be informing the population of the advantages and disadvantages of the euro.

Haider has also recently renewed his criticism that Austria, one of the smallest EU countries, is also one of the highest contributors, and attacked the negotiators of the accession deal.

Latest surveys show that the number of Austrians against the euro is in fact dropping. These statistics are, however, dismissed by the Freedom Party's Susanne Riess-Passer, Haider's deputy.

"Surveys cannot replace direct democratic decisions," she said. "Austrians should be able to decide themselves about the euro via a referendum, like people in Britain, Denmark and Sweden."

Between 24 November and 1 December Austrians can indeed indicate whether they want a referendum. The petitions will be returned to the interior ministry and, under Austrian law, if 100,000 signatures are collected, the proposal must be debated in parliament.

But there is still no guarantee that a referendum would be held. Previous petitions this year on women's rights and the banning of gene-manipulated food have qualified for debate, but MPs voted not to hold referendums.

MICHAEL LEIDIG

IN BRIEF

THE European Commission has announced that it is taking legal proceedings against 13 states for failing to implement environmental laws aimed at improving nature protection and facilities for waste disposal. It has already begun action against member states that failed to deal with environmental problems caused by nitrate pollution. "Member states will have to do much better," the Commission said, adding that it may levy fines on recalcitrant countries.

VEAL and sheep's brains could be off the menu across Europe by the beginning of next year, for the European Commission has decreed that the cerebral matter of sheep, goats and cows more than one year old should be banned from the food chain from 1 January. EU veterinary experts are now considering whether to extend the ban to younger animals.

A tougher ban would not go down well with many national parliaments, particularly in France, Greece and Spain where brains are served in top restaurants. Indeed, *tête de veau* is a known favourite of French president Jacques Chirac. But there is pressure to curb the consumption of these organs because of evidence that 'mad cow' disease can be passed from cow to calf.

SPECIAL PROMOTIONAL FEATURE

FACTS & FIGURES

Area: 3,203,975 km2
Population: 909,150,000
Capital: New Delhi
Languages: English, Hindi, Telugu, Bengali, Indigenous
Religions: Hindu 80 %, Muslim 11 %, Christian 2 %, Sikh 2 %

INDIA

ECONOMIC SUMMARY

GDP: $ 1,170,000,000,000
Per capita GDP: $ 1,339
Monetary unit: Rupee
Exports: Gems, jewellery, engineering goods, clothing textiles
Imports: Petroleum, machinery, gems, jewellery, chemicals, iron and steel

FINANCE: A BRAVE NEW WORLD


P. Chidambaram
Finance Minister

With the liberalisation initiatives of the early nineties, the Indian banking sector entered what local journalists describe as a "Brave New World". In line with the World Bank's suggestions, interest rates were deregulated and the statutory liquidity ratios were reduced to ten per cent in order to increase the lendable resources of the banking sector. Further, new competition was introduced by licensing new private sector banks and opening up the sector to foreign financial institutions.

The immediate results of this New World were a reduction of prime lending and deposit rates and a boost of investment in the capital markets. Securities subsidiaries, mutual funds and equity participation schemes are now common terms among Indian bankers, and foreign investment has become a common rule more than just a necessity.

Behind this reform were two men, both of them educated in Europe, former Finance Minister Manmohan Singh and present Finance Secretary Montek Singh Ahluwalia. The latter, a former World Bank official, is considered in India as an unmitigated reformer who dislikes everything which smells of licences and controls. Under new Finance Minister Palaniappan Chidambaram, Mr Ahluwalia is facing new challenges. A "committee of wise men", as he likes to call it, has recently charted a road map to gain full convertibility of the Indian rupee by the year 2001. The committee recommended substantial reductions of the government's fiscal deficit and the inflation rate, together with an improvement in the health of the financial sector, in order to increase foreign investment flows into the country and to move to full capital account convertibility. The report is under consideration by the Government.

UNION BANK OF INDIA

After the start of the reforms in India's financial sector, the country moved from a period of social-cum-welfare banking to a prudential banking era. In the social banking era, banks built extensive networks of branches and developed a wide array of products, in order to bring growth to people across the country. Now, customer responsiveness, quality service and competitive prices have become key issues. "This has forced banks to adapt themselves, though not all of them will be equally capable of doing so. India cannot afford to have 27 strong banks and I expect the number of banks to come down through mergers and downsizing to between 6 and 8 players. Right now, we are starting to see which banks count and which banks do not", Union Bank of India's Chairman A.T. Pannir Selvam says.

In positioning itself in this market-driven financial sector, Union Bank of India embarked on a phase of massive restructuring in 1993 and adopted branch specialisation as its key strategy. In the last four years, 113 specialised branches in savings operations, personalised banking, industrial finance and high-tech agriculture finance have been put in place, catering to need-based services that are client-specific. "We want to have as many as 200 specialised branches and double the size of our corporate banking operations in the next three years", Mr Pannir Selvam says.

The liberalisation of the Indian economy has necessitated a revamping of the infrastructure of the Bank's international business to match strides with growing volume and competition. The dedicated overseas branches offer specialised services to importer/exporter clients. Furthermore, the bank has over 50 forex dealing branches spread all over the country. Besides this, the levels of management are being reduced, offering the clients the benefits of faster decision making in a leaner organisation. "Union Bank of India was established 78 years ago with the objective of offering high quality service banking. In order to be the best you need to be able to give very quick responses", Mr Pannir Selvam adds. In 1993 the Bank adopted the concept of New Business Group (NBG). Under this concept the NBG accords approvals to credit requests of established corporate entities, in principle within 48 hours of the receipt of the proposal.

The restructuring and strategic reorientation of the bank has not been without results. Union Bank doubled its size during the three-year period 1993-1996 and the productivity and profitability showed an exponential growth. However, Chairman Pannir Selvam is still striving for more: "The Indian rupee is moving towards full capital account convertibility and I am putting people and systems in place right now that will allow me to benefit from the second phase of deregulation. I am aiming at doubling the business mix once again over the next three years."

ABN AMRO BANK
LAUNCHES CONSUMER BANKING SERVICES

Deregulation and liberalisation of the financial industry have brought interest rates down and, consequently, reduced the cost of funding new ventures. This enables investments in short term debt, as ABN AMRO Bank has foreseen by applying for what will be the first money market mutual fund scheme of a foreign financial institution in India.


Romesh Sobti
Chief Executive
ABN AMRO

The step that will shake the whole financial industry in India will be the full convertibility of the rupee. "Indian firms will have freer access to cheaper offshore funds, which will mean greater competition and thinner margins for Indian banks. State-run banks will continue to have the advantage of low cost funds from their large retail network, but credit lending expertise will come under sharper focus. In the end, they will have to restructure", says Chief Executive of ABN AMRO in India Romesh Sobti.

The Dutch financial institution has a strong network in India, as this national subsidiary is the bank's third contributor to profits in Asia with the highest returns of solvency in the continent.

The presence of consumer banking in India was stepped up when ABN AMRO launched this activity in Madras earlier this year. This is now being extended to other cities, mainly the five where ABN AMRO has branches. The other global Dutch bank, ING, is also considering starting offering consumer banking services. "This country has all the necessary ingredients to develop consumer banking operations: there is a large middle class and much room for the credit card business", explains Mr Sobti.

Currently, most of the revenues of ABN AMRO in India come from corporate banking, treasury and the loan syndication business (especially infrastructure finance), in which the Dutch bank leads the Indian market and trade finance. "Forty per cent of our loan portfolio is formed by export credits and the diamond business has traditionally been one of our strong niche markets in India", Mr Sobti adds. The corporate clients of the Dutch bank in India are the top 200 domestic companies, together with multinationals from Europe and the USA. "We are seeing an increasing interest in India, which is considered a huge market with a strong judicial system, an English-speaking population with cheap labour". ABN AMRO also provides matchmaking services for foreign companies looking to establish joint ventures with Indian firms. "You have to be extremely careful when choosing your partner. You need partners with deep pockets and knowledge of the local market", recommends Mr Sobti. "In any case, do not wait until full deregulation comes. It will be too late", he concludes.

NATIONAL STOCK EXCHANGE OF INDIA

Market mechanisms in India have traditionally been viewed with suspicion by investors. The trading process has historically been characterised by non-transparency, market manipulation, illiquidity and delays in settlement. These concerns are no longer valid given the complete transformation of the market mechanisms at NSE.

India's youngest stock exchange commenced operations in 1994 after the Indian capital markets were shaken up by the securities scam of 1992. After the scam, investors had lost confidence in the capital markets. A committee set up to look into capital market reforms after the scam suggested a totally new exchange, with a new structure and new procedures be set up.

Industrial Development Bank of India (IDBI) was appointed the apex organisation to set up this exchange. A group of banks and financial institutions, including IDBI, Industrial Finance Corporation of India (IFCI), Life Insurance Corporation of India (LIC) and State Bank of India (SBI) came together to promote this new stock exchange, National Stock Exchange of India Ltd. The National Stock Exchange of India Ltd is not owned by the member brokers. It is administered by a team of professionals with Dr RH Patil, Managing Director, at the helm.

NSE's approach to trading has been based on the use of automated order matching and the use of satellite technology. "All members have the same real time information wherever they are in the country, as we have the largest VSAT network in Asia connecting 3,400 computer terminals and 160 cities," says Dr Patil. The rapid evolution at NSE has produced a safe, transparent and fair market place and has also reduced transaction cost by 10 times.

The market share of NSE stands at 55 per cent of all stock market trade in the country. While internationally a single large stock exchange is the norm, India has 23 exchanges, mainly regional, which are trying to adapt their structures to the standards set by NSE. This is especially the case for Bombay Stock Exchange (BSE), which was the premier stock exchange prior to the setting up of NSE. "We are now ready to expand an on-line trading system around the country", says Mr M.G. Damani, President of BSE.

The innovation process did not stop with the introduction of electronic trading. In April 1996, NSE created the first clearing corporation in the country, the National Securities Clearing Corporation Ltd (NSCCL). From June 1996 onward, NSCC has performed the role of clearing in the modern sense of the term, i.e. NSCC is the legal counter-party of both legs of every transaction. NSE worked closely with IDBI and Unit Trust of India (UTI), India's largest mutual fund, to create the National Securities Depository Ltd (NSDL). The NSDL commenced dematerialisation operations in November 1996.

In the future NSE plans to extend trading to more locations. NSE also hopes to launch the trading of futures and options on Nifty (NSE-50), an index which is uniquely suited to the demands of index-based products. Going beyond this, this derivatives exchange will also initiate trading in options on individual stocks, and products based on treasury bills.

INDUSIND BANK

One of the premier deregulations in the financial sector in the nineties was the reintroduction of private sector involvement in the banking sector. Acting upon this opportunity, IndusInd Bank commenced operations in April 1994 and soon emerged as the leader among new private sector banks. The impact of this new entrant was soon to be felt in the industry, maybe not so much in size, but certainly in terms of costs, technology, profitability and innovation. Managing Director, S. Solomon Raj says: "When we created our bank we realised that as a relatively small new player in the market we could not be all things to all people. Our future was in the wholesale market segment, in which we felt we could carve out a niche based on a flat organisation structure and efficient use of technology software and the expertise of our people". IndusInd provides many of the top 2,000 Indian companies with working capital, syndicated loans and external commercial borrowings.

Investment banking services are provided in so-called investment boutiques at the bank's main branches. Next to that, the bank aims to be a big player in treasury management, trading in the capital market, money market and debt instruments. With the objective of emerging as the most international Indian bank, IndusInd has relations with more than 180 foreign banks and has signed a strategic alliance with Belgian bank Kredietbank. "We are interested in emerging markets like India because they grow faster than Europe", explains Bart Pattyn, senior representative in India of Kredietbank, which already makes a third of its revenues outside Belgium.

As a modern customer-focused bank, quality and speed are at the core of IndusInd's strategy. Mr Raj comments: "All our 18 branches are on-line, which is exceptional among Indian banks and significantly reduces transaction times. Because of this and because of our flat organisation structure, we can take fast decisions on our money market activities. Further, our low transaction costs have resulted in competitive pricing for our customers and high profitability for the shareholders". With the bank's yearly boost in deposits, advances and profits, came the recognition: the domestic newspaper Financial Express rated IndusInd as the best bank in India among all domestic and international banks, while it was ranked second after Citibank in the Business Today-KPMG Peat Marwick survey. Mr Raj concludes: "Looking at the future we are aiming at expanding our domestic branch network as well as our international network of corresponding banks. We are also looking at opening offices abroad. This year we will also issue our shares on the stock market in order to strengthen our balance sheet and become globally competitive."


S. Solomon Raj
Managing Director
IndusInd Bank

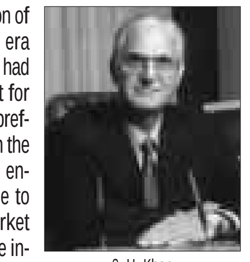
INDUSTRIAL DEVELOPMENT BANK OF INDIA (IDBI)
A PREMIER FINANCIAL INSTITUTION IN THE EMERGING MARKETS

Established in 1964, Industrial Development Bank of India has emerged as the country's largest and one of the world's biggest development financial institutions. With the deregulation of the nineties, IDBI has expanded the range and sophistication of its products while keeping its historical role of industrial development. IDBI wants to position itself as India's premier wholesale bank with a full range of products targeted at large corporate and mid-corporate customers.

Through its innovative policies and operations, nationwide presence and coverage of assistance, IDBI has brought about directional changes in the flow of industrial credit, helped capital formation and supported new entrepreneurs, new technologies and ventures. IDBI has financed large and medium units across a complete range of industries in the country. Major industries in the core sectors like iron and steel, chemicals and chemical products, fertilisers, textiles, cement and electricity generation account for a substantial part of its assistance. Infrastructure financing has been identified as a major thrust area in the bank's financing, accordingly assisting infrastructural projects particularly for power and telecommunications. IDBI adheres to strict prudential norms in its exposure to industry and industrial groups to protect its risks.

IDBI has introduced a number of products and services. Apart from traditional products like project finance, equipment finance, asset credit, equipment leasing, direct discounting of bills and forex loans, it has introduced new products like venture capital, working capital loans and treasury products loans in response to customer needs. IDBI has introduced financial services like merchant banking, forex service and debenture trusteeship. IDBI has also diversified into commercial banking by establishing the IDBI Bank.

IDBI has taken keen interest in developing new institutions to develop the Indian financial markets, these including the important National Stock Exchange, National Securities Depository and StockHolding Corporation of India. In the pre-liberalisation era of the county before 1991, IDBI had several avenues available to it for raising funds at low cost and at preferential rates. However, even in the liberalised and market-driven environment, IDBI has been able to tap the domestic capital market through a variety of innovative instruments.


S. H. Khan
Chairman IDBI

It also has a strong presence on the international financial markets, having raised more than $ 532 million during 1996-97. Thus, 22 per cent of the Bank's outstanding funds have an international origin with a total portfolio of $ 12.2 billion. Standard and Poor's assigned a BB+ rating with positive outlook which reflected the Bank's strong market position as one of India's leading financial institutions with its diversified customer base, consistent profitability and sound capitalisation. This has been possible due to the sound financial health of IDBI, reflected in its healthy financial indicators, which has been showing an upward trend over the years. The return on average assets in 1996-97 was 2.4 per cent and return on average net worth 17 per cent. The capital adequacy continues at a sound level of 14.7 per cent against a stipulation of 8 per cent. These strong indicators are backed by a profit after tax of $ 3.2 billion in 1996-97.

The perspective of the industrial sector and financial system in India is rapidly changing as it adjusts and responds to the changes in the domestic and international economic scenario. IDBI has re-oriented its strategies, systems and procedures to maintain its pre-eminent position in the changing environment. With its vast expertise, dedicated personnel and sound financials, IDBI will continue to promote an internationally competitive industrial structure in India.

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SPECIAL PROMOTIONAL FEATURE

INDIA

EXPORT-IMPORT BANK OF INDIA

THE LINK TO INDIA

Over the past fifteen years, since its inception in 1982, Export-Import Bank of India (EXIM) has evolved into an atypical, innovative export credit agency offering a range of financial products and services aimed at promoting alliances between externally oriented Indian corporates and their potential partners in Europe and other parts of the globe. To help Indian corporates globalise their business is "Exim's current vision" says Exim Bank's Managing Director, Y.B. Desai. In pursuance of this vision, Exim Bank has forged alliances/co-operational arrangements with vendors of information, services, technology, international banks and multilateral agencies such as the European Union and EBRD. Exim's offices in Rome and Budapest serve as links between Indian companies and European companies targeting the Indian market. These offices offer value added services aimed at promoting, facilitating and financing two-way transfer of technology, trade and investment. EXIM is an active partner financial institution under the European Commission Investment Partners Facility which facilitates joint ventures in India between European companies and Indian companies. The Bank is also a correspondent under the European Commission's Bureau de Rapprochement des Entreprises programme. Stressing the importance of identifying the right partner, Desai states: "We have an extensive database of potential partners drawn primarily from our large client base of externally oriented firms spanning diverse sectors."

EXIM's finance and value added services are available to an enterprise across its entire business cycle for the import of technology, product development, production, marketing, pre-shipment, post-shipment and overseas investment. As Desai says: "EXIM makes Indian companies aware of global opportunities and strengthens their capability to operate internationally".
An institution with a clear focus on globalisation, EXIM is a natural partner for firms seeking to do business with India.

GIC ASSET MANAGEMENT COMPANY LIMITED

INVESTMENT MANAGER FOR GIC MUTUAL FUND

The deregulation and liberalisation of the Indian financial markets has created huge opportunities for new players both domestic as well as foreign. The full convertibility of the rupee, expected by the year 2000, should result in a substantial influx of foreign capital into India. "Conditions are perfect for foreign investors to come to India as equity valuation continues to be the cheapest in the region", explains Ashok P. Pradhan, Chief Executive of GIC Asset Management, the Investment Manager for GIC Mutual Fund. US-based Soros Fund Management has a 33 per cent stake in GIC Asset Management.

Apart from these fund flows from FIIs, Indian companies will raise more and more cheaper foreign funds both in debt and equity. "This process will lead to huge opportunities for asset management companies having experience in the domestic and global markets", says Mr Pradhan. In fact, global majors like Merrill Lynch, SBC Warburg, C S First Boston, etc. have tied up with domestic security houses and more partnerships are on the anvil. GIC Asset Management is also studying the possibility of a partnership with foreign investment banks for its fund management business. "We have sound expertise in this business because of the huge assets that we have been managing in the past and the experience of our parent company, GIC, in this field" says Mr Pradhan. GIC is an insurance company. Mr Pradhan expects the mutual fund industry to have an annual growth rate of 20 per cent in the coming years.

Mr Pradhan also sees an increasing interest from foreign investors in India in dedicated funds and plans to launch a new offshore fund to substitute its Mauritius-based India Gateway Fund that was successfully redeemed recently. "We can offer international investors our knowledge of a very unique and efficient local market", adds Mr Pradhan. GIC Asset Management is one of the leaders in the domestic mutual fund market with 10 different schemes and was the first domestic firm to launch an index linked fund. The company, which relies strongly on research for its investments, is also looking to increase its advisory activities, a service already being provided to Henderson Investors of UK.

UNIT TRUST OF INDIA

Unit Trust of India, UTI, was set up in 1964 as an institution conceived to channel the savings of the small investor into industrial development. Today, UTI has grown to become one of the biggest players in India's equity, debt and money markets and is by far the largest domestic fund manager. Its funds collectively hold stocks in more than 1,400 Indian companies, which represents the largest exposure in the Indian corporate sector by a single organisation. Today, UTI manages an aggregate portfolio of over $ 16 billion and services 48 million investor accounts. Over the years, UTI has launched 103 funds of which 73 are still in operation.

Chairman Mr G.P. Gupta explains. "UTI has no ownership capital and is supervised by an independent Board of Trustees. Three asset management committees review the performance of the schemes in terms of marketing, servicing, fund management and adherence to regulatory requirements."Despite increasing competition, UTI's share of the mutual fund industry is still 94 per cent in terms of sales mobilisation and 80 per cent of investible funds. "Asset management is a long term business", explains Mr Gupta. "UTI has built up its brand and expertise over the last 33 years. We have three research groups specialising in equity research, credit quality assessment and business environment research. Our distribution and servicing network comprises over 51 branch offices and about 90,000 agents.

"Besides domestic retail investors, the Trust pioneered offshore fund investment in Indian securities, allowing foreign institutional investors to get Indian exposure without taking the expense and risk in stock picking and/or active fund management. In 1986, the India Fund was launched, with sales of over £ 128 million. Over the years, the fund has given excellent returns of over 23 per cent per annum in rupee terms. Subsequently the India Growth Fund was launched in New York in August 1988. The scheme collected over $ 60 million and is listed on NYSE". Mr Gupta adds: "This year, we launched three new offshore funds which were the first of their kind. The India Access Fund is an index fund which replicates the portfolio of the NSE-50 Index. It has collected $ 70 million. With the Government opening up the Indian debt market to foreign investors, we also launched the first offshore debt fund. The India Debt Fund is a rupee denominated debt fund in the Indian domestic market, listed on the London Stock Exchange. We launched India Information Technology Fund, a specialised fund that enables investors to reap the benefits of this rapidly growing sector. Currently, we are in the process of launching the fourth India specific fund, the India Public Sector Fund. The Fund is designed to invest in selected Indian public sector company stocks which have shown remarkable performance in the recent past."

Mr Gupta says: "Once full convertibility is achieved we will introduce products that provide our investors with access to foreign capital markets. International assets will become components of our portfolios. We will also be able to provide more products to foreign investors. In order to be able to serve them better, a subsidiary has already been set up in London and a representative office in Dubai will commence operations soon."

BANK OF BARODA

Following a successful public offer in December of last year, Bank of Baroda had its first annual meeting since 1969, when the bank was one of the 14 that were nationalised by the Government of India. This was the largest public equity offer by any nationalised bank and also the largest equity offer by any company during the year 1996. After the public offer, the state's equity holding has come down from 100per cent to 66.2per cent and has started a process of reduction of public stakes in Indian companies.


K. Kannan
Chairman and
Managing Director

In the 89 years of its existence, Bank of Baroda has grown from a small commercial bank in the prosperous and banking-savvy Princely State of Baroda in Gujarat, to India's second largest bank today with over 2,500 branches worldwide employing over 45,000 people. Chairman and Managing Director K. Kannan says: "We did not only grow in numbers, but also continued to diversify in many areas permitted under the statute, like housing finance, asset management and credit cards. We now are one of the leading merchant banks in the country. For all the activities, our endeavour has been to continuously devise new products and services to suit the needs of various customer groups. We pride ourselves on customer orientation and rapid responses to market signals".

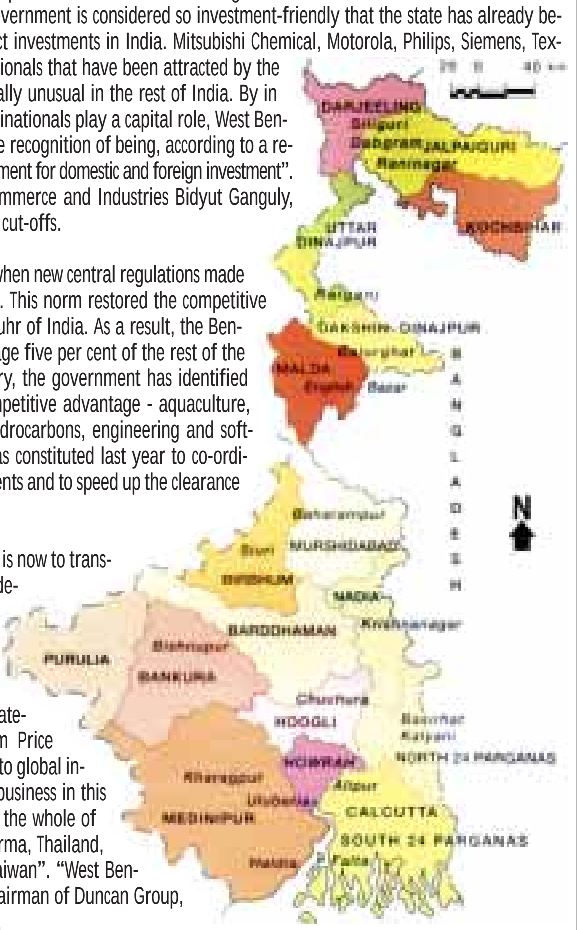
The bank has developed an Environment Management Centre which forms part of the Project Finance Division. This Centre has been undertaking studies of Environment Compliance Status, identification and follow-up of implementation of hazardous waste management projects and related activities and is the first of its kind in India. In order to cater to the needs of the corporate clients, the bank was the first to introduce corporate banking branches that offer "One Stop Banking" in a fully computerised environment. In addition, the bank also has dedicated Industrial Finance Branches, International Business Branches, Capital Market Branches, Small Scale Industries Branches and Agricultural Finance Branches.

Bank of Baroda has always tried to make its presence felt in foreign countries. With 53 overseas offices in all continents except Australia, the bank has the biggest overseas presence amongst the Indian Banks. These branches are engaged in both retail and wholesale business. Their key role is to facilitate Indian trade and to mobilise resources for Indian branches.
Mr Kannan concludes: "India's capacity to attract and manage foreign investment and capital is becoming increasingly important as the Indian economy internationalises and becomes more dependent on capital flows. We see ourselves as a bank with Indian roots and an international scope and quality". Bank of Baroda has nine branches in Europe: eight in the UK and one in Brussels. "This puts us in an excellent position to offer European corporate credit products, capital markets and financial advisory products, treasury products and trade products as well as strategic advice and initial hand-holding upon their entry into India", Mr Kannan adds.

WEST BENGAL:

THE EMERGING EAST

Is it a contradiction to be a communist and welcome private investors in such strategic sectors as infrastructure or hi-tech? Not in West Bengal, where the 20-year-old communist government is considered so investment-friendly that the state has already become one of the highest recipients of foreign direct investments in India. Mitsubishi Chemical, Motorola, Philips, Siemens, Texaco, Itochu and Rolls Royce are some of the multinationals that have been attracted by the political stability of this eastern state, something totally unusual in the rest of India. By in 1994 approving a new industrial policy in which multinationals play a capital role, West Bengal's Marxists have been able to gain for the state the recognition of being, according to a report by Arthur D. Little, "India's most favourable environment for domestic and foreign investment". "We are more pragmatic now", says Minister of Commerce and Industries Bidyut Ganguly, who is proud to explain that this state has no power cut-offs.



Economic growth came back to West Bengal in 1991, when new central regulations made it cheaper to set up heavy industries near the mines. This norm restored the competitive advantage of a state that was once considered the Ruhr of India. As a result, the Bengal economy has been growing faster than the average five per cent of the rest of the country for the last six years. Besides heavy industry, the government has identified other industrial sectors in which the state has a competitive advantage - aquaculture, food processing, leather, floriculture, electronics, hydrocarbons, engineering and software. With this in mind, a single window agency was constituted last year to co-ordinate the efforts of the different government departments and to speed up the clearance processes.

Nevertheless, the main challenge for the government is now to transform the state and its capital into what Mr Ganguly describes as a "gateway to the economies of the Asian Pacific region". Calcutta, the second largest city in India and the only one with an underground metro service, has an active stock exchange and an international airport connected to Europe and Asia. The gateway role has been defined by the consulting firm Price Waterhouse. "Calcutta provides unique opportunities to global investors not only for making profitable offices to do business in this part of the world. There is a market reach spanning the whole of eastern India, China, Nepal, Bhutan, Bangladesh, Burma, Thailand, Vietnam, Indonesia, Singapore, Japan, Korea and Taiwan". "West Bengal is the emerging East", concludes G.P. Goenka, Chairman of Duncan Group, one of the most important industrial groups in India.

INVESTOR'S SNAPSHOTS

WEST BENGAL, INDIA

● Abundant Quality Manpower ● Surplus Electrical Energy ● Best Telecom Network ● Diversified Industrial Base ● Rich Raw Materials ● Upgraded Infrastructure - Civic, Industrial ● Hi-tech State-of-the-art Industrial Enterprise. Transparent Policy for economic activity.

GROWTH OPPORTUNITIES UNLIMITED.

KEY DEVELOPMENT AGENCIES

WBIDC, West Bengal Industrial Development Corporation Ltd.. A leading State Level Agency. Facilitates growth of medium and heavy industries. Offers single-window entrepreneur and investor-friendly services.

WBEIDC, West Bengal Electronics Industry Development Corporation. A Nodal Agency for Electronics Development. "SALTLEC", India's only fully integrated electronics complex. Provides World-class infrastructure and services.

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We welcome investments on mutually advantageous terms at
Calcutta - The City of Joy, West Bengal, India.

TRADE & INDUSTRY

INDIA TRADE PROMOTION ORGANISATION

India Trade Promotion Organisation (ITPO) is the premier trade promotion organisation of the Government of India. "This does not mean that we only aim at increasing exports", says Chairman and Managing Director K.K. Mathur. He continues: "Just as important is to create the right image of Indian products abroad, to show that India is not just a country of handicraft and culture. We produce quality engineering goods, textiles, software and electronics to mention just some examples. By projecting a positive Made in India image, we aim at not only supporting exports but also imports and direct foreign investment." As a nodal agency of the Government, ITPO plays a co-ordinating and supporting role in order to provide expertise to the States and industries and to avoid a duplication of efforts.

Besides, ITPO manages India's only world class exhibition complex, Pragati Maidan, which is used for ITPO exhibitions as well as exhibitions by other agencies. Many of the exhibitions have a truly international character attracting participants from all over the world. Mr Mathur adds: "We also organise India-dedicated trade exhibitions abroad and participate in various global exhibitions. Next to that, we organise buyer/seller meets and contact promotion programmes, promote India in department stores overseas and disseminate information." ITPO explores markets and provides information and support for participation in fairs and trade and investment related services through its head office in Delhi, its regional offices in Bangalore, Mumbai, Calcutta, Kanpur and Chennai and its foreign offices in Frankfurt, Dubai, Moscow, New York and Tokyo. Mr Mathur concludes: "European companies that want more information about India, developments in different sectors, rules and regulations and export-import data will be assisted by our Indian offices or our Frankfurt office."

A BOOMING CAR MARKET FOR

KALYANI


Baba N. Kalyani
Vice Chairman and
Managing Director

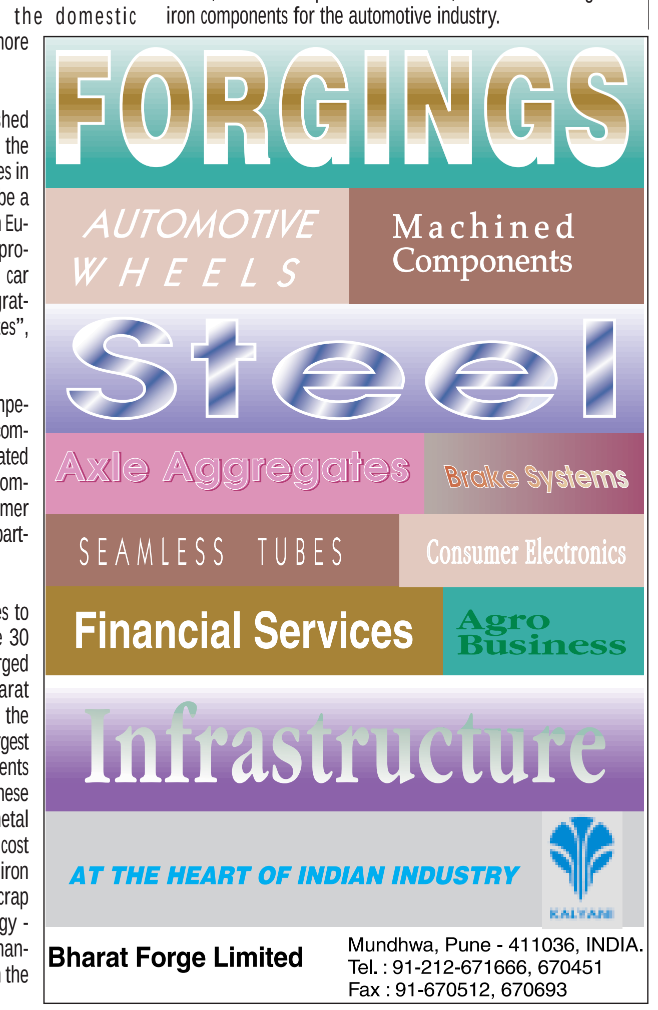
The Indian car market is expected to grow from the present 350,000 cars a year to anything between 500,000 to 800,000 by the year 2000. Since the government opened this market to foreign investors in 1991, Ford and General Motors have restarted production in India. The Koreans and all the big European firms, even Mercedes, are also hitting the Indian roads. In this booming market, the domestic components manufacturers are getting more and more business.

The Kalyani Group, already an established provider of components and aggregates for the automobile and related engineering industries in India, the United States and Japan, aims to be a world class company, increasing its business in Europe and South East Asia. "Most of the steel produced in our plants eventually becomes a car component, so we are a truly vertically integrated group from the iron ore stage to aggregates", says Vice Chairman B.N. Kalyani.

The Kalyani Group has found three core competences, in alloy steel, forgings and automotive components, each one of them treated as a separated business, with its own strategy. Besides, the company is also in financial services and consumer electronics, whose management is left to the partners.

In all three core businesses the group strives to have a number one position in India, while 30 per cent of the exports are targeted for forged components. "Our forging company, Bharat Forge, is already the largest in Asia and by the year 2002 we want to be amongst the three largest merchant manufacturers of forged components in the world", Mr Kalyani adds. To achieve these goals, the company is building a new hot-metal steel plant, which will result in a significant cost reduction, as the new production method uses iron ore instead of the increasingly expensive scrap metal and, consequently, requires less energy - a big constraint in India. "Being a low cost manufacturer is not good enough any more. With the opening up of the automotive sector, our industry has to be globally competitive in terms of quality as well, to meet the expectations of clients like Mercedes, GM, Ford, Dana & Rockwell and Mitsubishi", Mr Kalyani says.

The company realised at a very early stage that technology is essential and has formed joint ventures with three Fortune 500 companies and several technical tie-ups with global multinationals. Next to strengthening its position in its core areas, the company is planning to expand its component business and is looking for partners. Recently, Kalyani announced an agreement with Teksid, the auto component arm of Fiat, for manufacturing cast iron components for the automotive industry.



EXPORT-IMPORT BANK OF INDIA

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REPLY COUPON

In case you want to get in touch with the Export-Import Bank of India. Please return following reply coupon.

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Contact person: ....

Address: ....

....

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SPECIAL PROMOTIONAL FEATURE — INDIA

NEW INDIA ASSURANCE

Continuing its liberalisation process, the Indian Government is preparing the opening up of the general insurance market, a sector which has been under state control since the nationalisation of the industry in the seventies. The four independent insurance companies that currently compete against each other, under the common umbrella of the General Insurance Corporation (GIC), will soon have to face competition from private players. The steady growth of the Indian economy and the consequent increase in demand of quality insurance products will surely attract new domestic and foreign firms, some of which are already opening research offices in Bombay, Delhi and elsewhere. "We will have to invest heavily in automation and improve our service, which we know how to do if we are empowered to make the necessary changes", says D. Sengupta, Chairman and Managing Director of New India Assurance. Through its property, marine and accident divisions, New India Assurance insures households as well as corporations. With a 30 per cent market share and a turnover of approx. $ 600 million, it is India's premier general insurance company. Its network encompasses over 1,100 offices and a qualified workforce of 22,000 people.

The company is already used to fierce international competition because of its activities in foreign countries. Sir Dorob Tata, the founder of the company, envisaged in 1919 the creation of a truly international insurance group and New India Assurance is now present in 23 countries around the world, through its own network, subsidiaries and associate companies. "In Europe, we go back to the twenties when we entered into the underwriting and reinsurance business in the UK. Through our full-branch office in London and our representative offices elsewhere we are in an excellent position to serve the insurance needs of European corporations in India and abroad. We also write UK and International Market insurance and are a player in the reinsurance business especially in London. Furthermore, as one of India's premier investment firms, we are always on the lookout for interesting investment opportunities", concludes Mr Sengupta.

THREE-WAY JOINT VENTURES
MITSUI
CAN PROVIDE THE NECESSARY EXPERTISE IN THE INDIAN MARKET.

Japanese companies are increasingly investing in India, especially in infrastructure development, and Mitsui, one of the world's largest trading companies, is clearly stepping up its efforts in this country. "As the nations of the world adopt free market principles and the global market expands, Mitsui is focusing on expanding its operations in newly emerging markets such as India", explains Tetsuo Ishibashi, chief representative of this Japanese company.

Mitsui India combines its experience of over 100 years of trading in this country with its overall capabilities in project arrangement, execution and management expertise. Currently, the Japanese company is building a 3.2 million-ton per year sintering plant for the Steel Authority of India (SAIL). "The successful implementation of economic liberalisation measures has stimulated demand for capital investment in the manufacturing sector, and Mitsui has received a number of large orders for steel plants, chemical plants and power projects", explains Ishibashi.

Tetsuo Ishibashi
Chief representative

Nowadays, an important business target of Mitsui in India is to join foreign companies that have a technology to transfer to local ones. "Working with local companies here in India, we have noticed that many of them are not performing fully to their potential, mainly because old techniques and methods are being used. For many of them, we see a bright future if they are able to modernise", says Ishibashi. These companies can be excellent partners for foreign companies that want to get a hold on the Indian market. According to Ishibashi, the technological expertise of the foreign companies, combined with the local knowledge and network of the Indian partner, could turn out to be a very profitable combination. "India needs, just to mention one example, advanced technology for construction machines, where European companies are very strong. Mitsui can be an excellent third partner in such a joint venture arrangement, as we have long-standing expertise in India that enables us to select Indian companies with growth potential and we can also bring our share of equity into the venture", he adds. One example is the help that Mitsui is giving to the Japanese auto manufacturer to find Indian suppliers with the high levels of quality required by them.

INFRASTRUCTURE

BUILDING A NEW PRIVATE COUNTRY
RPG GROUP

Infrastructure is the major limiting factor to economic growth in India. As far as power is concerned, in 1991 India's total installed capacity was about 69,065 MW while the total energy demand was more than 120,000 MW. The installed capacity has increased to 84,000 MW in only six years, still significantly lower than the demand.

Delays in policy-related decisions have so far hampered Independent Power Producers (IPP) in adding megawatts. Recognising this fact, central and state governments are now giving priority to this sector in order to fuel the growth of their economies. Because of a power surplus, the less developed states of West Bengal and Orissa are managing to attract many investments, especially in heavy industry.

Calcutta, the capital of West Bengal, is a remarkable example of how private sector participation can help to increase the power capacity. The local electricity generating and distributing company, CESC, is listed in both India and London and is held by the $ 1.5 billion RPG group. CESC is expanding rapidly, taking advantage of the new government incentives available for power generation, which include an attractive after tax assured return on net worth and the removal of restrictions on imports of capital goods. In this respect, the group has teamed up with Siemens for two power generation projects that are to be built in West Bengal and Rajasthan.

RPG also runs Asia's largest and the world's second largest power transmission engineering company. The company erects transmission towers and lines all over the world and is setting up subsidiaries in South America and South East Asia.

Emeritus R. P. Goenka
Chairman
RPG Group

The other promising business for RPG group is telecommunications, a sector which is slowly being liberalised year by year. RPG is already offering paging, e-mail, satellite and cellular services in several regions of the country in different partnerships with Japanese NTT and Americans Sprint and Airtouch. The next step will be the provision of basic telephony services in the state of Tamil Nadu, a rupee 110 bn. (US$ 3 bn.) project for which it has teamed up with NTT, the world's largest telecoms company. "We do not wish this project to fail", Chairman Emeritus R.P. Goenka adds.

The other core activities on which RPG is focusing are plantations, tyres and retail, mainly supermarkets and pharmacies. "After liberalisation, doing business in India changed dramatically and new opportunities were opened in industries like power and telecommunications, which need high investments and managerial dedication, while at the same time other activities became less profitable", says Mr Goenka. In this framework, RPG is going through a process of divesting its non-core activities and stepping up its efforts in new core areas.

AVIATION

India's department of aviation is under pressure from both international airlines that want to expand their services to India as well as from the department of tourism that feels that increased capacity is a prerequisite for increasing the number of foreigners travelling to the country each year. Criticism from international airlines that capacity expansion is not provided for soon enough is countered by the ministry pointing at protective regulations of their counterparts in bi-lateral negotiations that are said to harm the Indian international carrier, Air India. On domestic routes, Indian Airlines, which used to hold a monopoly position until the early nineties, is still the dominant player.

BRITISH AIRWAYS

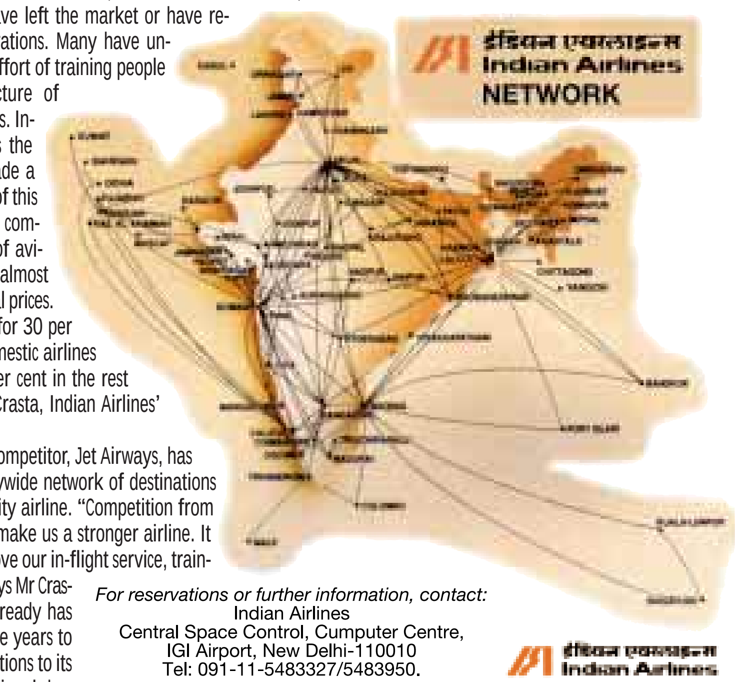
While other airlines are just starting to offer services to and from Madras, British Airways has already moved ahead by also offering connecting flights from and to Bangalore, the other major city in southern India. In fact, British Airways is the international airline with the most operations and destinations in India. "We want to be the undisputed leader for air travel in the next millennium", says Kevin Steele, General Manager for South Asia.

Currently, British Airways has 16 flights from India and is hoping to increase its capacity by at least 10 per cent every year, even though the annual increase in demand is higher than that. "We would like to increase it even more because it is booming here. Our load factor here is higher than in many other areas of the world" adds Steele.

India's rapid economic growth has speeded up the development of the aviation market, with the liberalisation process that the Government started in domestic aviation in 1992 also playing an important role. Total liberalisation has been achieved in domestic air travel, which has allowed several private companies to compete against the two national airlines. The most important of these new private carriers, Jet Airways, has agreements with both KLM and British Airways for through-checking of baggage and passengers and is linked with their frequent flyer programme. The agreements allow both airlines to sell tickets to many destinations in India with easy connections in Mumbai. This is a prime advantage for business travellers, who occupy 60 per cent of the planes of the Dutch carrier and 50 per cent of those of British Airways.

INDIAN AIRLINES

The nineties witnessed the phasing out of Indian Airlines' monopoly in domestic aviation and the entry of around 20 private airlines and air-taxis in the market, now carrying around 35 per cent of domestic airline passengers. These new airlines initially faced restrictions in terms of timing, routes and prices, but are now free to depart within minutes of an Indian Airlines flight at the price of their choice. However, most new airlines face problems and many have left the market or have reduced the size of their operations. Many have underestimated the costs and effort of training people and creating an infrastructure of maintenance and sales offices. Indian Airlines, which still has the most extensive network, made a profit in the first six months of this year for the first time since competition started. "The price of aviation turbine fuel in India is almost four times that of international prices. Consequently, fuel accounts for 30 per cent of the total costs for domestic airlines in India as opposed to 20 per cent in the rest of the world", explains P.J. Crasta, Indian Airlines' deputy managing director.
The most successful private competitor, Jet Airways, has managed to set up a countrywide network of destinations and positions itself as a quality airline. "Competition from airlines like Jet Airlines will make us a stronger airline. It forces us to continue to improve our in-flight service, training and punctuality record", says Mr Crasta. In fact, Indian Airlines already has plans to double its fleet in the years to come and to add new destinations to its 54 domestic and 17 international destinations. Besides, this carrier has signed a MoU with Air France and Air India, so that all three airlines will co-ordinate their flights and establish common marketing and distribution networks. "It is important to establish through checking of people and luggage, as nowadays 20 per cent of our traffic is interline traffic that comes from other flights and there is a trend to increase it", adds Mr Crasta.



For reservations or further information, contact:
Indian Airlines
Central Space Control, Cumputer Centre,
IGI Airport, New Delhi-110010
Tel: 091-11-5483327/5483950.

THE KLM-NORTHWEST ALLIANCE TAKES OFF IN INDIA

From 1st October, the global alliance between KLM and Northwest is taking off in India. The American partner in the alliance has started to operate to India via Amsterdam-Schiphol, which allows both companies to offer daily flights to Mumbai and Delhi from the Dutch airport.

KLM, which was the first foreign airline to come to India 67 years ago, is also eager to offer its passengers destinations in South India, specially in Bangalore and Madras, where there is a big potential for business travelling. "We are very eager to expand capacity with India, where aviation is expected to have growth higher than 7 per cent", explains General Manager for India, Nepal and Bhutan Vincent Knoops. Nowadays, KLM flies to Delhi, Mumbai and Calcutta.

This growth is not only the result of India's economic growth. The liberalisation process that the Government started in domestic aviation in 1992, and which has been completed for cargo transportation, also played an important role. Total liberalisation has also been achieved in domestic air travelling, which has allowed several private companies to compete against the two national airlines. The most important of these new private carriers, Jet Airways, has an agreement with KLM for through-checking baggage and passengers and linking each other's frequent flier programmes. This agreement allows KLM to sell tickets to many destinations in India with easy connections in Mumbai. This is a main advantage for business travellers, who nowadays occupy 60 per cent of the planes. "Business travellers look for the best connections, which we can also provide through our day-time flights from Schiphol, a preferred airport in the centre of Europe", says Knoops.

To and from India KLM has interpreters on board to serve its Indian passengers and will shortly introduce local cabin crews. Many travellers are Indian immigrants living in Canada or the USA, where the alliance with Northwest is especially helpful. "Together with our partner Northwest, we serve 380 destinations in more than 81 countries on 6 continents", adds Knoops.

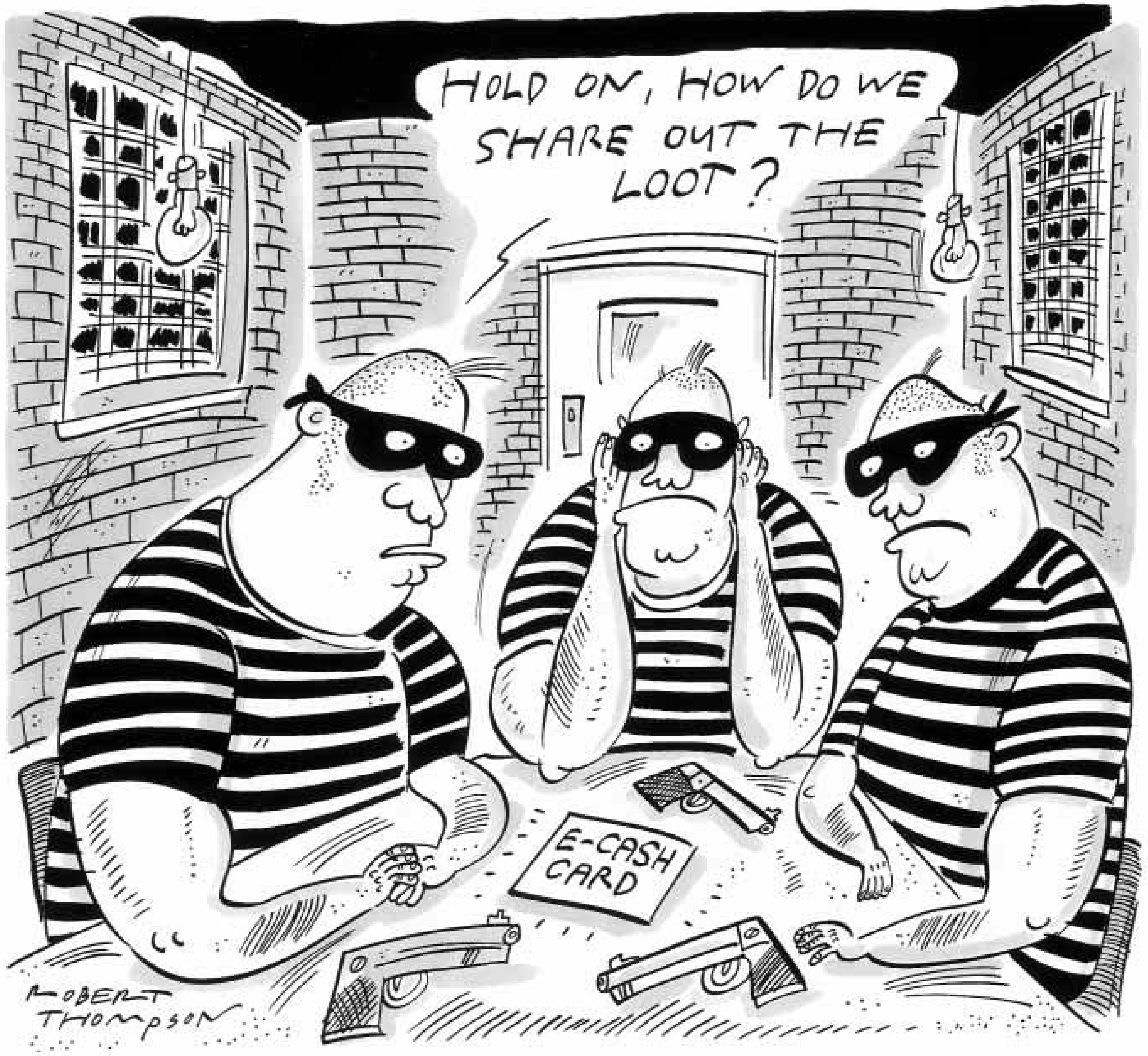
This promotional feature was produced for The European advertising department by Worldnews, which is entirely responsible for the content.

BUSINESS

Battle for the super-rich: Mercedes launches a rival to Rolls-Royce at the Tokyo motor show – page 30

ECONOMICS ■ An electronic euro could offer benefits to governments, banks and the public, but the powers that be are not convinced

The euro: yet to launch but already outdated



SIMON REEVE

WITH all the squabbles over timing and the economic criteria at which nations will qualify to join, it has been easy to overlook a bigger underlying problem with the euro: its arrival offers Europe a chance to embrace the future, but instead, it looks as if we will remain rooted in the past.

The introduction of the euro offers the chance to establish a Europe-wide standard for electronic cash, putting Europe firmly at the centre of the electronic marketplace. However, this opportunity is being wasted, and we'll probably have to continue walking round with our pockets full of loose change and crumpled notes, because of a lack of imagination by politicians and bureaucrats at national and Union levels.

"We could have stolen a march on the entire world and given Europe a way of using money that would have given a massive boost to the economy and saved us billions," said John Stevens, a British MEP and the vice-chairman of the European Parliament's monetary affairs subcommittee. "There was an opportunity to introduce an all-singing, all-dancing system that has been wasted. It is a terrible shame.

"Our position and standing in the world depends on how quickly we become an electronic marketplace," said Stevens, who has written a report for the European Parliament, *EMU and Electronic Money*, a draft of which has been obtained by *The European*.

Stevens accuses both the European Monetary Institute (EMI), forerunner of the European Central Bank, and the European Commission of failing to grasp the importance of electronic money. "They don't seem to understand how beneficial it could have been," he said. "The purpose of our report was to incite people to react, but I think they have rolled up in a ball and gone to sleep."

Stevens' report calls for the European Central Bank to appoint a franchisee to administer a "smart card euro electronic purse". This, says Stevens, would position the bank as "the gatekeeper of the electronic marketplace in Europe".

Europe could have led the world in entering the age of electronic money with a euro which works as both a smart card, which stores money and information in a microchip on a plastic card, and as 'digicash' or 'e-cash' – which can be used for commerce on the Internet. "There are vast economic opportunities and benefits waiting if only Europe could get its act together," said Richard Poynder, the chairman of the Smart Card Club, which is working to encourage the use of electronic money and its harmonisation across the continent.

A euro smart card could have benefits for governments, banks, corporations and the public. Stevens says that from the banks' perspective, if e-cash grows significantly in importance – and research company Datamonitor forecasts that there will be 450 million smart cards in Europe by 2001 – then the central banks' ability to operate monetary policy will be hampered unless they have some form of control over e-cash.

> **'Europe could have stolen a march on the entire world'**

A robust, standardised e-cash system has several attractions for governments – although some raise scary implications for civil liberties. Special software could actually prevent recipients of social security benefits from squandering their money on 'banned' products and services such as alcohol or gambling. "We could ensure they don't spend money on the 'wrong' things," said Poynder. "A young man trying to spend his dole money in a bar would find his card refused by the central computer." Also, with high-security devices built into the cards, there would be a reduction in the level of fraud and theft, since other people can't use your e-money. Significant savings could also be made in the administration of social security payments. With money automatically downloaded on to recipients' smart cards, there would be no need for expensive unemployment offices staffed by tens of thousands of administrative employees.

From the public's point of view, euro smart cards would make the potentially confusing introduction of the euro much easier, because the smart card would be able instantly to calculate the old national currency equivalents.

A single euro smart card would also prevent us from being swamped by a growing number of different electronic cash systems, each competing for our custom and each incompatible with the rest (there are 20 systems already in operation). According to Hans van der Velde, the president of Visa Europe, no single system "has the potential – either technologically or politically – to dominate the market". The nightmare scenario (for our pocket linings) is that we will need a collection of smart cards several times the size of our current wallet-full of credit cards to exist in an e-cash world. If the euro can establish itself as an electronic currency, then we will have one clear standard, with the added reassurance of a central bank guarantee. Better still, a euro smart card could also replace your driving licence, credit cards, store cards and national identity cards.

"The situation is silly because there are so many different systems on the market," said Poynder. "It's a mess and there is precious little European co-ordination." Poynder believes that only the EMI has the power to impose one system on Europe "and they are extremely unlikely" to do so.

A spokeswoman for the EMI in Frankfurt seems to confirm this view. "Discussions are still going on regarding electronic money, but we have still not made any final decision," she said.

Meanwhile, the EMI has issued a report on electronic money, but cautioned that EU central banks believe that it should be the free market which decides which system best serves customer needs: "Therefore, they do not wish to interfere unnecessarily in the development of pre-paid card schemes."

The idea was also dismissed out of hand by spokesmen from the Bank of England and the Bundesbank in Frankfurt. The Bundesbank said: "This is not something we are going to do. We are a little bit sceptical towards pre-paid cards, as we call them. It is up to private banks to introduce them; I can see no situation where a central bank would get involved."

Perhaps this negative attitude explains why nobody has considered abandoning conventional money for the euro and turning to smart cards and e-cash. "I do not think the people of Europe are ready to abandon normal money yet," said a spokesperson for the EMI.

Whether we're ready or not, e-cash and smart cards are already here. "The major banking groups are forging ahead with their own technology and they are not going to stop," said Poynder.

"The European Union has probably lost its chance to take the lead on this. I am afraid that it is now too late to salvage the situation."

BREAKING THE CODE

The Internet needs policing, but by whom?

HENRY L STIMSON, an American secretary of state, once famously remarked that gentlemen do not read one another's mail. Tell that to the police and national security agencies, for whom the traditional method of steaming open envelopes has encountered a serious obstacle.

The problem is that fewer people send confidential information by the post any more. The favoured new method is electronic mail. As the data packets whistle along the Internet, the authorities have become perplexed. Such communications are easy to intercept but can be hard to read. Medium-strength encryption is now available off the shelf to almost any Internet user, and strong codes that can thwart the efforts of the brightest code-breakers are readily available to corporations and, it must be assumed, to organised crime.

The French government this week proposed to Brussels a novel method of ensuring that authorised security agencies can break the codes and read communications suspected of being used by terrorists, criminals and even tax evaders. In a submission to the European Commission, France declared that it intends to establish a government-approved agency that would hold the electronic keys to every code used by businesses and organisations operating in France.

The proposal is the most sweeping so far made in a Europe-wide consultation by the European Union to develop a common policy on encryption. That it should be French is not surprising. While the American government has sought to use arms control regulations to stop encryption technology from being exported, paranoid France has used similar laws to prohibit the use of such tools by anyone within France.

The new French proposal has set off predictable and near-hysterical protests from more extreme members of the Internet community, who persist in believing that their treasured network should be declared a no-go area for police.

That's absurd, but the prospect of encryption controls on restrictive French lines raises legitimate questions, too. A broad group of American software companies, including Microsoft, Netscape and IBM, are all objecting to the proposal on the grounds that it would create an open door for French officials to invade the privacy of those using encryption for perfectly legitimate purposes. They also object to a provision that would require software companies to disclose source codes for products including embedded encryption software imported into France.

The truth is that the availability of rugged do-it-yourself encryption programs such as the American-developed PGP (pretty good privacy) offers ordinary people the ability to protect their communications to a very high standard indeed. Most of the use of this technology is entirely reasonable, offering privacy to ordinary individuals, and security to financial institutions and corporations which need to use electronic communications to transmit commercially confidential and financially sensitive data. The use of codes is hardly esoteric. Internet commerce will depend crucially on the use of encrypted digital signatures, so that buyers and sellers can be assured of the authenticity of communications (and credit card numbers).

Yet somebody, it can be legitimately argued, ought to have the ability to break these codes, where legitimate police and security interests require it.

The EU has so far taken a liberal approach to encryption. Martin Bangemann, the industry commissioner, has said controls that are too strict will penalise the law-abiding more than they will handicap the criminals.

Bangemann thinks it is hardly possible to completely stop crooks from using strong encryption, yet whatever measures are taken must be common across the Union and preferably on a wider scale, too.

The EU has already objected to an American government proposal which would require all electronic communications to be filtered through a special microchip. The keys to open encrypted communication would then be held in escrow, and made available to American law enforcement agencies.

With the Americans and French offering their own plans for controlling encrypted communications and the EU trying to create a harmonised European regime, the Organisation for Economic Co-operation and Development (OECD) has become the latest to join the fray. So far, the 29 members of the OECD have met in Paris but to date have been unable to agree even on the definitions of the problems.

They should be told to keep talking: this problem is too serious to remain unresolved.

CLAIRE ATKINSON

FUND AID

Soros gives $500m to help Russians

NOBODY in history, not even Andrew Carnegie or the Rockefellers, has given away as much money as George Soros, the Hungarian-born financier, who this week pledged $500 million to Russia to improve healthcare, expand education and retrain military personnel for jobs in civilian life.

Since 1994, Soros, aged 67, has donated much of the profit of his Quantum group of investment funds to a variety of charitable foundations round the world. Inspired by philosopher Karl Popper's vision of an 'open society', his level of giving is averaging around $350m every year.

Russia has always exerted a particular pull on Soros. While he has been consistently anti-Soviet, which is not surprising considering he fled Hungary in 1956 after the invasion of the Red Army, he first helped Mikhail Gorbachev in 1987 with his efforts to introduce *glasnost* and *perestroika*. Soros is determined to help Russia develop into a democratic state. This summer he made his first major investment of more than $1 billion to buy a stake in Svyazinvest, a Russian telecom holding company. He said that the appointment of Boris Nemtsov as deputy prime minister had convinced him that economic and democratic reform was happening.

In addition to his investment, he has already donated $259m, the bulk of it directed at education, literacy, information technology, journalism and the arts, and his Moscow-based Open Society Institute has become the largest charitable presence in any country in the world.

Earlier this year, Ted Turner, founder of the CNN television news network, surprised the corporate world when he pledged $1bn to the United Nations over the next ten years (none of the cash has so far been handed over). Soros, however, is dispensing largesse at three times Turner's rate and shows no sign of a slackening in pace. The one-time citizen of Budapest has set up major institutions in central and eastern Europe, as well as South Africa, Haiti, Guatemala and the US, each of them with annual budgets running into millions of dollars.

But it is Russia that remains his central concern. This month, during a tour of Russia, he expressed the fear that crime, corruption and mismanagement had created a "precarious situation". President Boris Yeltsin, he said, needed and deserved western support. Without it, his reform programme would be in danger of collapse.

Despite his philanthropy, he has numerous enemies. In America, the right deplores his liberal line on drugs. Soros is a strong advocate of the medical use of cannabis. In Malaysia he has been denounced as a politically-driven speculator; three months ago, his foundation in Belarus was fined $3m for alleged tax violations after Soros had protested against violations of human rights.

Nobody knows how wealthy the former waiter has become: his 1992 speculative coup against sterling, which was said to have netted him more than $1bn, was the most dramatic event in a career that stretches back many years.

Soros Fund Management is a legend in a world that trades in myth almost as much as money. Soros isn't saying how much money he has got. But his donations are urgently needed at a time when governments are cutting back on aid.

WALTER ELLIS

BUSINESS

MOTORING ■ At the Tokyo Motor Show, Mercedes has unveiled a direct competitor for Rolls-Royce

Bored with the Rolls? Try a Maybach

DAVID BRIERLEY

IF YOU want the back seats in your car to recline like airline seats, as you sip drinks from the bar, call the office from your in-car communications centre, and luxuriate under a glass roof which "is composed of an artful combination of metal and glass in which the influence of modern architecture is clearly visible", and – most crucially – if you have DM300,000 ($175,000) to spare and a chauffeur to install in the front seat, then you'll want to test-drive the new Mercedes-Benz Maybach, the German company's new attempt to woo the super-rich away from Rolls-Royce.

The Maybach was unveiled as a concept car at the Tokyo Motor Show this week, but Mercedes is convinced that the Maybach will go into production and expects to see at least 1,000 cars leave its Stuttgart factory annually. "We are going to Tokyo to see how strong demand is," said Hans-Gerd Bode, a spokesman for the company.

The Maybach – named after a pioneering engineer who designed many of the earliest Daimler and Mercedes motor carriages – is a very large, very sleek and very expensive limousine. It is also the product of intense rivalry between Mercedes-Benz and BMW. Mercedes was infuriated to lose out to its Bavarian rival when Rolls-Royce awarded the contract to supply the next generation of Rolls-Royce engines. Its fury was especially intense because BMW only appeared at the very last moment in the bidding process.

The Maybach is Mercedes' attempt to woo the super-rich

However, Mercedes' failure to net the Rolls-Royce contract led directly to its decision to launch the Maybach. "During negotiations with Rolls-Royce, Mercedes became excited by the possibilities at the top end of the market and has now decided to go it alone," says John Lawson, motor industry analyst at Salomon Brothers.

The reaction at Vickers, which owns Rolls-Royce, has been suitably low-key. Spokeswoman Brig Daniels said: "Imitation is the sincerest form of flattery. Mercedes has seen the success of the Bentley and Rolls-Royce marques and wants some of the action. I can't say we see this as a threat."

On current form, nobody should underestimate the ability of Mercedes-Benz to design first-rate vehicles for a specific market. It has launched new cars in five new segments within two years – the A Class small hatchback, the SLK roadster, the CLK coupé, the M Class off-road vehicle and the Smart car. Apart from the Smart – a joint venture with Swatch's parent SMH, which won't go on sale until March – all have been remarkable successes, widening and deepening the company's markets while boosting earnings. Mercedes-Benz's profits rose from DM2.1 billion in 1995 to DM2.7bn last year, with analysts expecting the figure to reach DM3.2bn this year. Mercedes' annual production is set to rise from 700,000 cars this year to one million in 1999.

At DM300,000, the Maybach will compete in the same price range as the cheapest Rolls-Royces. It is, however, a very different car. The Maybach does not have the traditional leather-and-wood image of the British car. It is a state-of-the-art German vehicle that has evolved from the curvy lines of the current Mercedes range. It's unlikely to appeal to 'old money'. One automotive industry commentator sniffily described its target market as "people of poor taste in Arabic countries and in America". The more conservative Rolls-Royce owner will note with some distaste the Maybach's thin go-faster stripe – yes, you can choose your own colour, but don't go-faster stripes belong on Ford Escorts?

REX

A 1931 Maybach (inset); the name has been revived for Mercedes' new concept car

However, to potential customers with a different aesthetic sense the Maybach may make the current Rolls-Royce range look out of date. The British car is based upon a 17-year-old design, while the Maybach is targeting a specific market with the latest technology. Rolls-Royce is investing heavily in new production facilities and is updating its models, but it cannot move as fast as Mercedes. If Mercedes tries to turn the luxury car sector into a technology-driven market, Rolls-Royce may find it hard to compete with the resources of the German company.

The cost of technical development has given rise to persistent rumours that BMW would like to follow up its engine agreement by buying Rolls-Royce outright. However, Jürg Dinner, BMW spokesman, said: "I can flatly deny that suggestion." BMW claims it has, for the moment, no plans of its own to take on Mercedes-Benz in the super-luxury car segment by adding a 9 series model on top of the current 7 series. But that may change; if the Maybach looks like a winner, BMW would certainly not sit on the sidelines.

The market for super-luxury cars is restricted; Rolls-Royce produces only around 2,000 vehicles annually. John Lawson of Salomon Brothers says: "There is a market segment of decent size currently bigger than the one that Rolls-Royce is able to tap. The Maybach may not take away many sales from Rolls-Royce at all."

Rolls-Royce makes the same point, while at the same time implicitly underlining the claimed superiority of its own marque. "Many of our customers also own either a BMW or a Mercedes," said Robin Peel, a spokesman at Rolls-Royce. "We do not see ourselves as competitors."

BRUSSELS ■ Are Europe's competition watchdogs buckling under the strain?

The toothless trust-busters

JAMES FERGUSSON

KAREL Van Miert, Europe's competition commissioner, has a loud bark. But does he bite? For weeks, Van Miert has been making growling noises in the direction of Bill Gates's mighty Microsoft empire. There were leaks as recently as last week that Van Miert was preparing to move against the Seattle-based software company for its alleged anti-competitive practices.

But before Van Miert got a chance to sink his teeth into Gates's ankles, the American Justice Department got in first. This week, Washington said that it was seeking to fine Microsoft $1 million a day for forcing computer vendors to bundle the Microsoft Internet browser with the Windows 95 operating system. If Gates is on the run, it is with Washington snapping at his heels, not Brussels. So much for Van Miert, putative dragon slayer.

As competition policy moves closer to the top of the Brussels' agenda, Van Miert, a Belgian socialist who took over the European Commission's Directorate General IV from Leon Brittan in 1993, is enjoying a curiously good press. This summer he triumphantly announced that he had forced concessions from American plane makers Boeing and McDonnell Douglas, allowing them to merge only after Boeing agreed to cancel contracts giving it exclusive rights to supply aircraft to several big American airlines.

But cynics said that Van Miert's intervention in the merger was merely a sideshow. Certainly, although Boeing made ritual protests in public, in private the company's executives regard their concessions to Van Miert as essentially for form's sake.

More curious still, for a commissioner who is supposed to be promoting competition, Van Miert has made a bizarre foray into tax policy, declaring that Ireland's 38 per cent corporation tax is too low and is therefore unfair to other member states. Van Miert believes the Commission should penalise Ireland for failing to punish businesses with the kind of taxation that has helped make much of European industry uncompetitive. It did not appear to occur to Van Miert to suggest that other states should lower their own tax rates to compete with the Irish.

As Europe's economic liberals continue to gasp at Van Miert's pronouncements on taxation, the competition commissioner is regarded by some in Brussels as rather a star. Articles portray him as Europe's toughest trust-buster. Whether this analysis will stand the test of the next few months is open to question.

Van Miert has to show that on the tough mergers and competition cases, he's really capable of winning battles that matter. For example, it has taken more than a decade to liberalise Europe's telecoms market and, even in January, when the liberalisation is supposed to be complete, a third of the member states will still be clinging to derogations.

But the immediate risk of a logjam of cases is now a real problem for Van Miert's merger task force. At present, it has a rare reputation for efficiency, both among businesses and legal firms, but that reputation is under threat. In London this week, Jonathan Faull, director of competition policy for Van Miert, candidly admitted that the Commission could no longer cope with the volume of work.

Officially, the task force attempts to give clearance to mergers within three months, but it does not always succeed. The proposed merger of P&O and Stena's cross-channel operation has been pending now for more than a year. The proposed tie-up between British Airways and American Airlines has been awaiting clearance since June 1996.

ERIC HERCHAFT / REPORTERS

Merger mania: Van Miert's task force is struggling to cope with $140bn in cross-border mergers this year alone

ALL TIED UP: MAJOR EU COMPETITION INVESTIGATIONS

COMPANIES	SECTOR	COUNTRY	REMARKS
Stena/P&O	Ferries	UK/Sweden	Year-long investigation into the companies' plans to merge their cross-channel ferry businesses
Veba/Degusa	Chemicals	Germany	Veba's plan to acquire 36.4 per cent of Degusa will give the company a dominant position in certain specialised chemicals
Hoffman La Roche/Corange	Pharmaceuticals	Switzerland/Germany	Planned merger of chemicals businesses being investigated by the EU and US
Agfa-Gevaert/Du Pont	Graphics	Germany	The proposed merger will give the companies a dominant position in four graphic film and printing products
Siemens/Electrowatt	Electronics	Germany/Switzerland	Siemens' takeover will give it a dominant position in building control and fire and security systems
British Airways/American Airlines	Airlines	UK/US	The EU has conducted a year-long investigation into the airlines' transatlantic pact
KLM Royal Dutch Airlines	Airlines	Netherlands	Investigation into alleged predatory pricing against UK's Easyjet

Source: European Commission. This list includes major cases which have reached a second stage and are undergoing full investigations likely to lead to action by the Commission.

It is not fair to blame Brussels for every delay: lawyers for competitors are experts at creating delays when it suits the needs of their clients. But the difficulty in making progress on the tough dossiers does not bode well in the wake of the events of 13 October – a date that has already gone down in banking history as Manic Merger Monday – when there were no fewer than five deals between European corporations, together worth more than $40 billion.

The value of European mergers and acquisitions this year, including proposed deals, has already reached $280bn, compared with $253bn last year; just under half of these have been cross-border deals. Manic Monday was just a foretaste of things to come as Europe's frontiers melt away and the single currency makes companies which have traditionally focused on national markets look out across the Union for growth.

Now, to add irony to the situation, the very accountancy firms that provide so much of the data used to evaluate mergers are themselves engaged in a merger mania of their own. Last weekend, the accountancy giant KPMG announced that it planned to merge with rival Ernst & Young. The deal, which would create the world's largest accountancy firm, came just weeks after the announcement of another merger between Price Waterhouse and Coopers & Lybrand.

If both deals succeed, 97 per cent of the world's major companies will be audited by one of just four companies. This will inevitably lead to conflicts of interest. Pepsi is currently audited by KPMG, while its rival Coca-Cola is a client of Ernst & Young. Van Miert – perhaps along with American and Japanese regulators – is expected to object, but Colin Sharman, head of KPMG and chairman designate of the proposed mega-firm, still puts his chances of winning Commission approval at "better than 50-50".

Van Miert has spoken of the need to "stop clogging the administrative machinery" of his directorate with cases which have little or no impact on the EU market as a whole. This is why, earlier this month, the regulations governing mergers were significantly altered. The Ecu300 million threshold for the turnover involved in any agreement, over which companies were obliged to notify the Commission, has been abolished, while the market share gain from any cross-border deal which will trigger an investigation has been raised to ten per cent, making it easier for smaller companies to merge across borders.

The office at 150 Avenue Cortenberg, headquarters of Van Miert's task force, is unusual in Brussels because the desks are positioned to make it impossible for some passing paparazzo to snatch a photo of any market-sensitive information on screen. Or maybe they're hidden to avoid revealing the more banal truth that DG IV is struggling to cope.

FINANCE

Russia's new privatisation chief takes on one of the most challenging and dangerous jobs in the world - page 34

SHARES ■ Screens go red as London moves to a new order-driven system to keep up with rivals in Europe

Battle of the bourses

FIONA HANSON

Brown and red: as Gordon Brown pressed the button, traders rushed to sell shares

MELANIE BIEN

THE scene resembled the control room for a rocket launch, with three-foot high electronic numbers counting down the last few seconds before lift-off. The podium with the light-sensitive switch stood in the entrance to the London Stock Exchange, packed with exchange officials, bankers, cameras and journalists on 20 October – the last moments before the biggest overhaul of British stockbroking practice since the Big Bang in 1986.

But this was not rocket science; just London finally falling into line with the rest of Europe before it loses its predominant position. It had been in danger of becoming complacent. At 8.30 in the morning, when the Chancellor of the Exchequer, Gordon Brown, finally pushed the button, the computerised screen flickered into life, launching the electronic exchange.

This simple action marks the end of 18 months of planning and preparations, involving up to 6,000 people throughout the City, with traders devoting their weekends to endless trial launches. During these dress rehearsals it emerged that many dealers entered "snake in the grass" bids at ridiculous prices, hoping to catch out any unwary rivals who were prepared to take the best offer.

Brown's button-pushing coincided with the loss of £21 billion in the value of the largest 100 stocks, as the index plummeted 118 points in the first ten minutes of the new trading system. Later, the FTSE recovered but still closed 60.1 points adrift at 5211. The muddle – dubbed 'Brown Monday' in the City – seemed to come from the government's confused message the previous weekend over joining European monetary union, combined with financial traders grappling to get to grips with a new way of transacting market business. The final loss was around the £10bn mark.

Brown breezed through the launch, limiting his inaugural remarks as the 45-second countdown allowed. But as traders rushed to sell their shares, sending the FTSE plummeting, the screen behind him was a sea of red. Blue – the colour used to denote the rising share price of a company – was hardly anywhere to be seen. Although the index calmed later, the first day of trading saw an awful lot of red on the screen.

For a moment, the inauspicious start to the new automated share dealing system, on the tenth anniversary of Black Monday, threatened to be a re-run of the 1987 stock market crash. Market watchers feel that this explains why the new system got off to a jittery start on its first day.

Martin Wheatley, head of market development at the exchange, explained nervously: "Someone sent a basket into the system and everything went red. As the flow stabilises, it will become more balanced." Basket trades are when institutions buy or sell the whole FTSE 100 range of stocks in one go, as they can under the new system. The impact of such a move on the system could be considerable.

The system coped, but it was helped by some dealers preferring to continue to use the old method of trading. Volumes were low, even for a Monday, with 208 million shares traded. The stock exchange said it was "inevitable" that the market would be down as Monday mornings are generally not heavily traded; 58 per cent of all trades didn't go through the order book. Thin trading seemed to be a sign that institutional investors were holding back, waiting to see whether the system worked.

London Stock Exchange chief executive Gavin Casey said the introduction of "order driven" trading was "another vital step in the evolution of the London market. The successful delivery of the order book on the date we set out nine months ago is the result of a tremendous team effort spanning the entire market," he said. "By lowering costs and increasing transparency, speed and efficiency, the order book will make London an even more attractive and competitive place in which to do business." He was also pleased with the final outcome: "The system worked well and was able to cope with whatever was thrown at it," he added.

Big Bang Two – the new electronic trading system, known as Sets – completes the process begun in 1986 when floor trading was abolished in favour of computerised market makers in the UK's original Big Bang. This brought electronic share price information, enabling telephones and computers to replace face-to-face trading. This further step introduces a fully automated way of trading shares but only for FTSE 100 companies. The next stage of the exchange's strategy involves reviewing proposals to move the next 250 companies on the main market to the order book over the next few months.

Sets brings London into line with other exchanges. The main aim is to stay ahead of the competitors, particularly European ones, in the run-up to EMU in 1999.

Peter Oppenheimer, equity market strategist at HSBC James Capel, says that despite its dominance, London could not have gone on much longer without implementing the electronic order book. "It still would have been dominant in Europe for many years because of the sheer size of its market capitalisation," he says. "But the single European currency is a major challenge and London with an electronic system is better able to meet that."

'This is the most significant development since the Big Bang'

The new system sees the market move from a quote-driven to an order-driven system. Cost considerations are a key factor in the shift. Under the quote-driven system, the price was decided by market makers who act as intermediaries between buyers and sellers. Now many of them will be out of a job as only private investors, with small share holdings, will still use them. This should create more transparency in the market and less of a bid-offer spread. Under the traditional system, spreads between buying and selling prices have tended to average about 0.6 per cent, as market makers allowed for the return on their risk capital. Most Continental exchanges, which already use electronic order books, average a much lower 0.15 to 0.2 per cent.

The effects of the new system can also be seen in the speed of bulk selling and the trading suspensions that automatically follow a steep price movement. If a single stock moves ten per cent from its opening level, a circuit breaker suspends trading for ten minutes under the exchange's new rule.

Optimism at the exchange is high. It expects to attract greater investment flows from overseas when the order book is bedded in and volumes and liquidity are established. Volumes are expected to increase by between 40 and 100 per cent. Market watchers believe this is an overly-optimistic prediction. Gordon Brown was unequivocal about the importance of the big day. "This is the most significant development since the Big Bang," he said. "It strengthens London's position as one of the top three equity markets."

London is ahead of Europe in terms of market size, but electronically it has some catching up to do. Paris has used its electronic order book for more than a decade. More pressure is coming from the Deutsche Börse in Frankfurt, which is launching a new electronic trading system on 28 November to replace IBIS, the already advanced electronic system it uses at the moment. The Xetra system, which stands for exchange electronic trading, is intended to offer new standards of liquidity, performance and cost-effectiveness. The new system can be used from any location, linking not only international bourses but the plethora of German regional exchanges, at a low cost.

The system takes the German bourse, always London's biggest European competitor, a step closer to globalisation, giving participants equal, low-cost access to the trading platform, regardless of their geographical location. IBIS was originally set up for settlements, but the exchange feels that a new system is necessary to increase competitiveness in the run-up to EMU. Xetra can execute 60 orders per second, cutting back on the time needed to make a transaction, saving time and money. London's order book will be able to cope with slightly fewer orders – 3,000 a minute, although this is far faster than the rate of 60-70 per minute under the old system.

Frankfurt sees electronic trading as the most cost-effective method, providing more liquidity than is available on the floor.

London's latest move will keep it ahead of continental competitors. But there is an unspoken fear that once the euro appears – particularly if Britain is not involved – the City of London will be fighting with its hands tied.

PRIVATISATION

Europeans enjoy share frenzy

JOHN LEVY

Knees up: French investors jump for joy

CROISSANTS, can-can dancers and accordion players heralded the arrival of France Telecom on the New York Stock Exchange. There was less fanfare in Paris, but then such trimmings are probably considered old hat as far as the French public is concerned. The absence of dancing girls did little to dampen French enthusiasm for the telecom company's share offer.

This week has seen an unprecedented frenzy of activity on the part of Europe's private investors, who queued up to buy shares in France Telecom, Telecom Italia and Empresa Nacional de Electricidad (Endesa), despite a traditional European reluctance to dabble in equity markets.

A record 3.9 million people participated in France Telecom's offer. Their enthusiasm was rewarded as they watched prices soar in initial trading, opening up 18 per cent on the issue price at Ffr215 ($36.16).

Italian investors were offered the sweetener of a three per cent discount on the price of Telecom Italia shares, and they eagerly accepted. Demand for the telecoms company's shares far exceeded demand for any previous retail offers, partly due to a saturation-point advertising campaign and partly because shares were sold at post offices. There were queues around the block, snapping up almost all 700 million shares offered to private buyers on the first day of offer.

Spain's largest ever public offer, the privatisation of Endesa, came to market on 21 October. The institutional reception was cool, due mainly to concerns over Endesa's stormy relationship with Enersis, the Chilean electricity firm, but private investors greeted the offer as rapturously as had the French and Italians. The success of the privatisations is not only a boost for Europe's equity markets, but also for their governments.

PAULA HAWKINS

FINANCE

PRIVATISATION ■ Can Russia's new sell-off tsar deliver cash and still keep the proletariat happy?

Boycko moves in the line of fire

CHARLES PIGGOTT

RUSSIA's previous privatisation minister, Alfred Kokh, was dismissed after allegations of favouring Oneximbank, a leading finance group. He has now been charged by the state prosecutor's office with abuse of office. The head of St Petersburg's privatisation office was not so lucky: Mikhail Manevich was gunned down on Nevsky Prospekt, St Petersburg's elegant main street, as he drove to work.

Sitting in an elegant boardroom in the White House, the building first defended by Boris Yeltsin, then stormed to flush out opposition members of parliament, the country's new privatisation minister, Maxim Boycko, is confident to the point of arrogance. His main aim seems to be to avoid answering questions. Described by former colleagues as a ruthless and charmless technocrat, Boycko has a belief in the West which will bring him into conflict with Moscow's businessmen, and with an opposition-led Duma which distrusts foreign bankers and businessmen.

Boycko plays down the drama, shrugs off fears for his safety, and describes privatisation in Russia as a great success. "In Russia, 1997 was a great leap forward for privatisation," he says. "Values such as the $2 billion raised for the 25 per cent stake in Svyazinvest had never been achieved before."

On his return from the summer vacation, Yeltsin promised to wage war on corruption in state power bodies or vested interests. Analysts say that the president's U-turn on laissez-faire economics could provoke the next round in a war between the government and Russia's business tsars. "The violence will not end until the last piece of property has been divided between the banks," says an analyst in Moscow. "These chances will not come again."

Privatisation is a dirty word in Russia. The people think that the process is corrupt, that it amounts to nothing more than the systematic dishing out of state assets to government cronies. The bankers and industrialists who have secured these assets at knockdown prices blame each other. And, most bizarrely, the government, facing a vote of no confidence in the Duma, says the scandals "have been caused by competition".

Boycko will have to balance the government's endless desire for cash with Yeltsin's concern about upsetting the electorate. Yeltsin has told Boycko to go slow on the larger sales such as oil giant Rosneft until the scandals subside. "We may have to postpone the sale of Rosneft until next year," he said.

Rosneft is Russia's last big oil prize. Its sale had been delayed by a court battle with rival oil company Sidanco over the ownership of Purneftegaz. Rosneft's victory has cleared the way for privatisation. It is expected that there will be a lot of interest in the sale.

Earlier this month Boycko cancelled the sale of Russia's largest privatisation company, Rosgosstrakh, despite a court ruling that the sale was legal. This leaves the Russian government, which has come to rely on privatisation sales to bridge gaps in the budget, in a tricky position. In the first three quarters of this year the government collected just 50 per cent of taxes due.

"It's a make-believe budget for a make-believe economy," says one Moscow banker. But despite a poll by the Social Opinion Fund which claimed last month that only 12 per cent of Russians support privatisation, Boycko says state sell-offs are gaining acceptance. "People are seeing that government arrears are being paid at last and that privatisation can raise trillions of roubles towards the budget," he said.

So far this year, privatisation has contributed R11,000bn ($1.9bn) to Russia's budget. Boycko plans to raise several trillion roubles more by the end of the year, selling stakes in Eastern Oil Company, Tyumen Oil and a further one per cent of Lukoil. Privatisation could raise five times this amount if the government sells a further stake in telecom holding company Svyazinvest and stakes in national airline Aeroflot and Rosneft. Raising this money should be no problem if Russia's stock market stays strong. The boom will continue if foreign investors remain assured that the economy is in safe hands.

Boycko is no stranger to western investors. His previous task, as head of the World Bank-sponsored Russian Privatisation Centre, was to negotiate with western investors without attracting attention. "He was [deputy prime minister Anatoly] Chubais' shadow. He could get away with things that would have been the political death of his mentor," said a former colleague who helped funnel western money to Russia at a time when the government could not be seen to be playing into the hands of foreign governments.

ALEXANDER SIZUKHIN

Gaining currency: Boycko claims that privatisation is becoming more widely accepted in Russia

Until the early 1990s Boycko was unknown outside the Moscow academic scene where he taught at the Moscow State University. But following six months at the prestigious National Bureau of Economic Research in America, closely associated with Harvard University, where he worked with Andrei Shleifer, Boycko returned to Moscow where he was introduced to Chubais in February 1992 and to other leading reformers from the St Petersburg set, including Yegor Gaidar.

Boycko soon became the intellectual powerhouse behind Chubais as his economic adviser. Over the next few years Boycko and Shleifer drafted the seminal texts on Russian privatisation. While Chubais handled the politics of privatisation, Boycko quietly negotiated with foreign donors, shielding Chubais from public opposition to western involvement.

'Boycko was the invisible conduit for foreign money'

"Boycko was the invisible conduit for foreign money at a time when the Russian government did not want to be seen to play into the hands of foreign governments," says one western banker. Boycko, fresh from the National Bureau of Economic Research in Cambridge, Massachusetts, offered the cash-strapped Russian government high-level American contacts.

Most people expect Boycko to try to distance himself from foreign investors. Foreign ownership is still a touchy subject with the opposition. Boycko strongly denies the claims in an as yet unpublished biography by Alexander Streletsky, a former senior security officer, that he was negotiating American citizenship. The book also claims that Boycko's father worked with America's Central Intelligence Authority.

Some of Boycko's former colleagues have been discredited. Shleifer was accused of misappropriating US Aid funds earlier this year. But Boycko's reputation is, as yet, untainted. "He's a technocrat through and through, more closely associated with academia than business," said a former colleague. But Boycko is keen to stress that his future career lies "here, in Russia". A more exciting career move cannot be imagined.

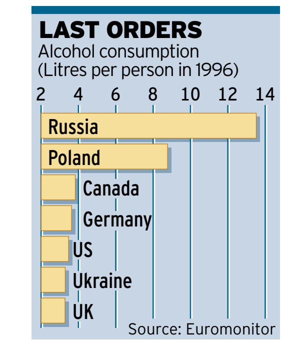
Exotic tipples planned to tempt Russian vodka drinkers

ALL OF the most glamorous bars in Europe will soon be stocking bottles of Brazilian cachaca, alongside Korean soju and Japanese shochu.

That's according to a report published by Euromonitor, a market research firm, which shows that major international drinks firms will have to seek out more exotic products in order to offset sluggish growth in their traditional strongholds, while at the same time capitalising on the enormous potential of the emerging markets.

This should lead to further consolidation in the industry, following Guinness and Grand Metropolitan's proposed merger to form GMG Brands. Speculation will now focus on Britain's Allied Domecq and America's Bacardi-Martini – the most obvious candidates to build up their own global alliances.

The emerging markets offer the best growth potential for spirits manufacturers, since very few local and traditional spirits are registered brands. Out of a total of 21.8 billion litres of spirits sold worldwide, just 5.7 billion are of established brand names, which leaves considerable room for growth.



In addition, the biggest drinkers are to be found in emerging markets. Unsurprisingly, Russians top the worldwide spirits consumption table, putting away an average of 13.5 litres of spirits each every year. The Poles come second with 8.8 litres, followed by the Australians – a poor third at just under four litres who must be sticking to their beer.

But the report also predicts growth in markets which are not renowned for the consumption of vast quantities of spirits. China had the lowest per capita spirits consumption of the 40 countries surveyed by Euromonitor, at just 0.04 litres, but regional sales are forecast to grow some 160 per cent over the next four years against a global average of less than 15 per cent.

Whisky remains the most popular brand, accounting for 30 per cent of sales, despite the inroads made by vodka.

PAULA HAWKINS

Economic indicators

BRITISH export orders weakened during October, reaching their lowest level in six years, says the Confederation of British Industry. The strength of the pound continued to hit exports and was held to blame. Domestic demand was at the slowest rate it has been this year, but manufacturers' business confidence rose.

THE Swedish current account showed a surplus of Skr2.5 billion ($329 million) in August after recording a Skr6.6bn surplus in July. The figures include trading in goods, which was in surplus by Skr7.9bn in August this year.

SPANISH industrial output in August rose 7.4 per cent from the same month last year, as domestic demand picked up and supplemented exports. Consumer goods production also rose by 2.9 per cent on the same month a year ago.

GERMAN business confidence climbed more than expected last month. For the sixth month in a row, it increased in western Germany, signalling that the country's economic upswing has gathered enough pace to continue. The news came despite the fact that the deutschmark has strengthened against the dollar and eroded the competitive advantage of exporters.

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	3.81	3.70	3.32	5.73	5.62	6.05	Oest Bund
Belgium	3.30	3.00	9.10.97	Central	4.25	4.00	3.08	5.81	5.69	6.09	OLO
Denmark	3.75	3.50	9.10.97	Repo	4.05	4.05	3.65	6.17	6.09	6.84	DGB
Finland	3.25	3.00	15.9.97	Tender	3.64	3.60	3.05	5.86	5.78	6.47	FGB
France	3.30	3.10	9.10.97	Intervention	3.66	3.63	3.50	5.72	5.58	5.94	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.66	3.61	3.11	5.68	5.58	5.99	Bund
Germany	3.30	3.00	9.10.97	Repo	n/a	n/a	n/a	n/a	n/a	n/a	
Germany	2.50	3.00	18.4.96	Discount	n/a	n/a	n/a	n/a	n/a	n/a	
Greece	14.50	15.50	13.5.97	Discount	n/a	n/a	n/a	n/a	n/a	n/a	
Ireland	6.75	6.25	02.5.97	Short Term	6.19	3.19	5.69	6.05	6.02	6.82	Gilt
Italy	6.25	6.75	27.6.97	Discount	6.54	6.91	8.13	6.22	6.34	8.40	BTP
Luxembourg	3.30	3.00	9.10.97	effective rate*	4.25	4.00	3.08	5.81	5.69	6.09	related to OLO
Netherlands	3.30	3.00	9.10.97	Special Adv.	3.66	3.64	2.89	5.66	5.60	5.86	DSL
Norway	5.50	5.25	16.7.97	Overnight	4.04	4.03	5.04	5.83	5.75	6.76	NGB
Portugal	5.20	5.40	18.8.97	Discount	5.30	5.29	6.88	6.04	6.04	7.68	OT
Spain	5.00	5.25	3.10.97	Repo	5.15	5.13	6.83	6.00	5.99	7.88	Bono
Sweden	4.10	4.35	17.12.96	Repo	4.63	4.58	4.78	6.37	6.28	7.23	SGB
Switzerland	1.00	1.50	27.9.96	Discount	1.99	1.69	1.69	3.60	3.57	3.88	Swap rate
UK	7.00	6.75	7.8.97	Base	7.31	7.31	5.97	6.49	6.50	7.57	Gilt
US	5.00	5.25	31.1.96	Discount	5.66	5.75	5.41	6.15	6.14	6.51	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	0.53	0.53	0.53	1.83	1.85	2.84	JGB
Canada	3.53	3.50	17.10.97	Call Loan	3.78	3.72	3.53	5.76	5.71	6.52	CGB

* Tied to Belgian Franc SOURCE: Standard & Poor's MMS

EUROPEAN CROSS RATES

21 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	7.036	6.247	2.352	2.099	0.045	18.39	7.211	1.748	0.069	0.083	1.639	8.473	20.45	12.50	0.104	9.005	13.88
Belgium Franc	2.929	–	5.412	20.61	18.29	6.888	6.147	0.132	53.85	21.12	5.118	0.202	0.244	4.799	24.81	59.90	36.60	0.304	26.37	40.64
Denmark Krone	0.541	0.185	–	3.807	3.380	1.273	1.136	0.024	9.949	3.902	0.946	0.037	0.045	0.887	4.585	11.06	6.762	0.056	4.873	7.510
Germany Deutschmark	0.142	0.049	0.263	–	0.888	0.334	0.298	0.006	2.613	1.025	0.248	0.010	0.012	0.233	1.204	2.907	1.776	0.015	1.280	1.972
Netherlands Guilder	0.160	0.055	0.296	1.126	–	0.377	0.336	0.007	2.943	1.154	0.280	0.011	0.013	0.262	1.356	3.274	2.000	0.017	1.441	2.222
Finland Markka	0.425	0.145	0.786	2.991	2.656	–	0.892	0.019	7.817	3.066	0.743	0.029	0.035	0.697	3.602	8.695	5.313	0.044	3.828	5.900
France Franc	0.476	0.163	0.880	3.352	2.976	1.121	–	0.021	8.759	3.435	0.833	0.033	0.040	0.781	4.037	9.743	5.953	0.049	4.290	6.611
Greece Drachma	22.24	7.594	41.10	156.5	138.9	52.31	46.69	–	408.9	160.4	38.87	1.537	1.856	36.45	188.5	454.9	277.9	2.307	200.2	308.7
Ireland Punt	0.054	0.019	0.101	0.383	0.340	0.128	0.114	0.002	–	0.392	0.095	0.004	0.005	0.089	0.461	1.112	0.680	0.006	0.490	0.755
Italy Lira*	138.7	47.35	256.3	975.8	866.3	326.2	291.1	6.235	2550	–	242.4	9.581	11.57	227.3	1175	2836	1733	14.38	1248	1925
Norway Krone	0.572	0.195	1.057	4.026	3.574	1.346	1.201	0.026	10.52	4.126	–	0.040	0.048	0.938	4.848	11.70	7.150	0.059	5.152	7.941
Portugal Escudo	14.47	4.942	26.75	101.8	90.42	34.04	30.38	0.651	266.1	104.3	25.30	–	1.208	23.72	122.6	296.0	180.9	1.501	130.3	200.9
Spain Peseta	11.99	4.093	22.15	84.34	74.88	28.19	25.16	0.539	220.4	86.43	20.95	0.828	–	19.64	101.5	245.1	149.8	1.243	107.9	166.3
Sweden Krona	0.610	0.208	1.128	4.293	3.812	1.435	1.281	0.027	11.22	4.400	1.066	0.042	0.051	–	5.170	12.48	7.625	0.063	5.495	8.468
Switzerland Franc	0.118	0.040	0.218	0.830	0.737	0.278	0.248	0.005	2.170	0.851	0.206	0.008	0.010	0.193	–	2.414	1.475	0.012	1.063	1.638
UK Pound	0.049	0.017	0.090	0.344	0.305	0.115	0.103	0.002	0.899	0.353	0.085	0.003	0.004	0.080	0.414	–	0.611	0.005	0.440	0.679
US Dollar	0.080	0.027	0.148	0.563	0.500	0.188	0.168	0.004	1.471	0.577	0.140	0.006	0.007	0.131	0.678	1.637	–	0.008	0.721	1.111
Japan Yen	9.641	3.292	17.82	67.84	60.23	22.68	20.24	0.433	177.3	69.52	16.85	0.666	0.804	15.80	81.69	197.2	120.5	–	86.81	133.8
Canada Dollar	0.111	0.038	0.205	0.781	0.694	0.261	0.233	0.005	2.042	0.801	0.194	0.008	0.009	0.182	0.941	2.271	1.388	0.012	–	1.54
Europe Ecu	0.072	0.025	0.133	0.507	0.450	0.169	0.151	0.003	1.325	0.520	0.126	0.005	0.006	0.118	0.611	1.474	0.900	0.007	0.649	–

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

ECONOMIC DATA

COUNTRY	INDUSTRIAL OUTPUT*			INFLATION†			UNEMPLOYMENT††		
	Latest quarter	Previous quarter	Year ago	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago
Austria	0.3[1]	1.4	1.0	Sep 1.0	1.2	n/a	Aug 4.5	4.5	4.1
Belgium	1.7[2]	1.9	0.7	Sep 1.6	1.9	2.0	Sep 13.9	14.1	14.2
Denmark	3.7	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	Sep 1.6	1.6	0.5	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	Sep 1.9	2.1	1.4	Sep 11.7	11.9	10.5
Greece	2.0[3]	n/a	1.4	Sep 4.9	5.6	7.9	Aug 6.7	7.0	6.0
Ireland	7.8[4]	n/a	10.1	Sep 1.5	1.0	n/a	Apr 10.9	11.1	11.9
Italy	1.9	−0.4	0.7	Sep 1.4	1.5	3.4	11.7	12.2[5]	11.7
Luxembourg	5.5[4]	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	Sep 2.6	2.6	2.0	Sep 5.6	5.7	6.7
Norway	4.6	1.0	1.6	Sep 2.3	2.3	1.3	Sep 3.0	3.5	3.9
Portugal	3.0[2]	2.3	2.0	Sep 1.8	1.9	3.4	6.5[6]	6.5	7.1
Spain	3.1	2.9	1.9	Sep 2.0	1.8	3.6	Sep 12.7	12.4	3.8
Sweden	2.3[5]	1.8	1.4	Sep 1.9	1.5	0.2	Sep 7.3	8.5	8.3
Switzerland	0.2	−1.0	−0.5	Sep 0.4	0.5	0.6	Sep 4.9	5.0	4.6
UK	3.5	3.4	1.8	Jun 2.9	2.6	2.1	Sep 5.2	5.3	7.4
US	3.3	4.9	6.0	Sep 2.2	2.2	3.0	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	Sep 9.0	9.0	10.0

*Gross domestic product year on year. † Annual per cent. †† Per cent of workforce. SOURCE: Standard & Poor's MMS
q297 except where stated. 1 = q4 95. 2 = q4 96. 3 = year 95. 4 = year 96. 5 = q1 97. 6 = q3 96..

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	Jun14.2	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 1.9	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	176.0	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

EAST EUROPEAN CURRENCIES

COUNTRY	US$	DM	UK£	Ffr	Ecu
Albania Lek	147.18	82.87	240.87	24.72	163.45
Belarus Rouble	40500.00	22803.90	66284.39	6803.04	44977.28
Bulgaria Lev	1766.50	994.64	2891.15	296.73	1961.79
Croatia Kuna	6.241	3.51	10.22	1.05	6.93
Czech Rep Koruna	33.09	18.63	54.16	5.56	36.75
Estonia Kroon	14.21	8.00	23.25	2.38	15.78
Hungary Forint	197.50	111.20	323.24	33.18	219.33
Latvia Lat	0.58	0.33	0.95	0.09	0.64
Lithuania Litas	3.99	2.25	6.55	0.67	4.44
Macedonia Denar	54.63	30.76	89.42	9.18	60.67
Moldova Leu	4.62	2.60	7.56	0.78	5.13
Poland Zloty	3.40	1.92	5.57	0.57	3.78
Russia Rouble	5862.00	3300.65	9594.05	984.68	6510.04
Romania Leu	7717.50	4345.41	12630.86	1296.36	8570.67
Slovakia Koruna	33.77	19.02	55.27	5.67	37.50
Slovenia Tolar	167.64	94.39	274.37	28.16	186.17
Ukraine Hryvna	1.87	1.05	3.06	0.31	2.08
Yugoslavia New Dinar	4.85	2.73	7.94	0.82	5.39

SOURCE: BZW

MARKETS EUROPEAN 500

Telecoms ring up European interest

LONDON was preoccupied with the launch of its electronic order-driven trading system this week, which coincided with government dithering over EMU and the tenth anniversary of the 1987 crash. The FTSE was down 1.4 per cent on the week, closing at 5,225.9 points. The mood was in sharp contrast to last week's merger-induced euphoria.

On the whole, Europe's bourses suffered with falling share prices. Only Budapest and Zürich saw advances on the previous week's trading. But these gains were limited, at three and and 0.5 per cent respectively.

Investors flocked to buy shares in telecoms issues from France and Italy this week. Demand for France Telecom shares was enormous, both from retail and institutional buyers, despite concerns over the company's ability to compete in a liberalised European telecoms market.

Secondary equity placements from German airline Lufthansa and Spanish electricity firm Endesa saw less-than-anticipated demand. In the face of poor interest from financial investors, the Spanish state agency which owns Endesa's shares decided to sell a 25 per cent stake, less than the planned 35 per cent.

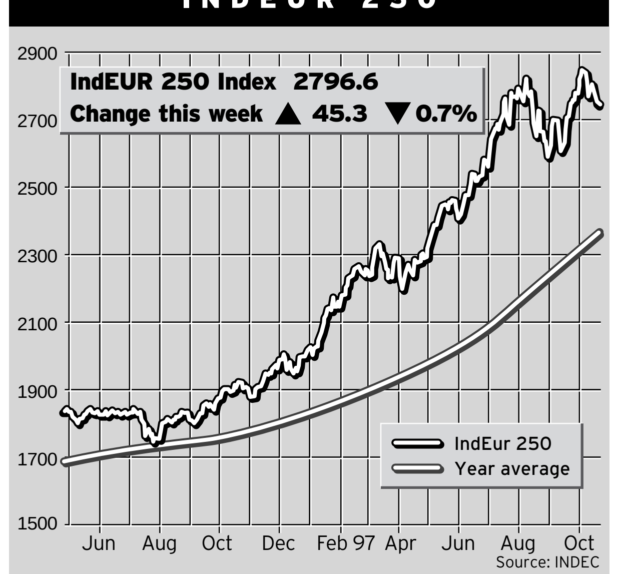
In Scandinavia, markets rose in anticipation of upbeat corporate results, particularly from mobile phone company Ericsson, which is expected to announce a 60 per cent increase in earnings.

PAULA HAWKINS

SECTOR INDICES

Sector	Index	% change Week ago	% change Year ago	12 month High	12 month Low
Banks	2576.5	−0.8	66.2	2680.4	1522.1
Chemicals	2673.9	−1.2	24.8	2915.0	2098.1
Drinks & Tobacco	3308.3	−0.1	21.5	3584.3	2649.1
Engineering	2599.7	−1.3	56.8	2657.0	1613.8
Financial & Conglomerate	2331.6	0.7	38.9	2408.2	1644.8
Food	3989.2	1.9	44.8	4046.5	2672.1
Health & Pharmaceuticals	9098.6	−0.5	39.0	9623.1	6273.3
Insurance	1944.1	−1.2	55.2	1975.0	1231.4
Leisure	1949.0	−4.4	9.4	2037.9	1580.0
Media & Information	3636.3	4.9	8.5	3700.7	3145.2
Metals	3271.9	−0.9	22.2	3518.6	2548.1
Motors	1485.9	−2.2	49.6	1564.9	968.7
Oil	4377.3	−0.2	51.8	4488.8	2726.9
Paper & Packaging	2086.6	−0.7	41.7	2122.5	1362.5
Property & Construction	1319.0	−1.8	27.5	1374.2	1007.7
Retail	3136.3	0.3	35.3	3257.9	2267.5
Transport	3694.0	−2.5	58.8	3810.7	2242.4
Utilities & Telecoms	3333.1	0.2	47.4	3451.6	2249.4

INDEUR 250

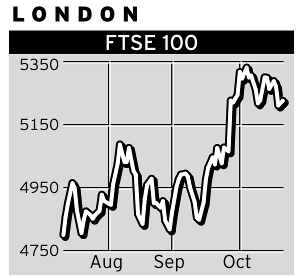


STOCK MARKETS

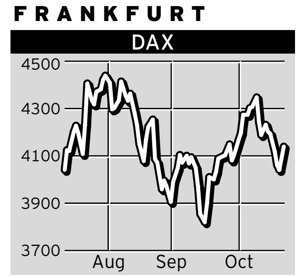
Market	Index	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	922.5	−1.3	55.7	1011.0	577.0
Athens	General	1732.5	−2.7	89.6	1794.1	878.0
Brussels	Bel-20	2381.3	−3.1	30.8	2521.9	1795.0
Budapest	BTI	7969.0	3.0	118.5	8483.8	3490.4
Copenhagen	Stock Market	650.5	−1.3	43.2	662.8	442.2
Dublin	Ireland SE	3870.8	0.2	44.1	3924.1	2619.2
Frankfurt	Dax	4139.5	−1.5	51.7	4438.9	2659.3
Helsinki	Hex	3890.7	2.0	72.6	3890.7	2191.6
London	FTSE 100	5225.9	−1.4	28.3	5330.8	3900.4
Madrid	Madrid SE	594.9	−0.9	55.2	640.2	375.7
Milan	Mibtel	16023.0	−0.1	60.5	16059.0	9588.0
Oslo	OBX	751.1	1.8	53.9	751.1	478.9
Paris	CAC-40	2989.9	−0.5	37.1	3094.0	2124.8
Prague	Stock Market	545.8	−0.1	2.1	629.0	476.7
Stockholm	Affarsvariden	3138.5	−3.3	42.8	3315.8	2130.7
Vienna	Credit Aktien	467.9	0.2	25.1	474.4	362.9
Warsaw	WIG-20	1752.1	−0.8	18.0	1894.9	1320.5
Zurich	SPI	3738.0	0.5	53.9	3770.2	2391.3
New York	Dow Jones	7921.4	−2.2	30.1	8259.3	5972.7
Tokyo	Nikkei	17210.0	−0.6	−19.2	21418.3	17204.7
Hong Kong	Hang Seng	12403.1	−10.4	−0.9	16673.3	12055.2
Pan-Europe	IndEUR Blue	3098.9	−0.3	48.7	3197.0	2152.0
Pan-Europe	IndEUR 250	2796.6	−0.7	45.3	2859.8	2004.4

Source: Datastream, Bloomberg, Indec

LONDON



FRANKFURT



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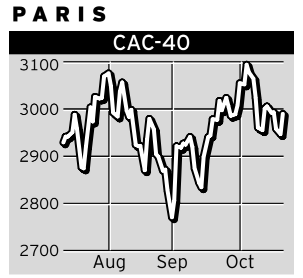
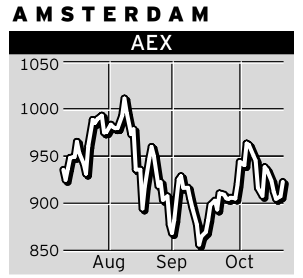


ZURICH

AMSTERDAM



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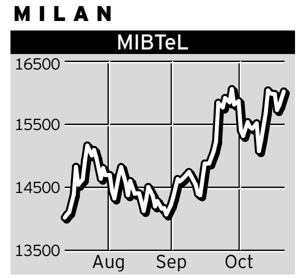

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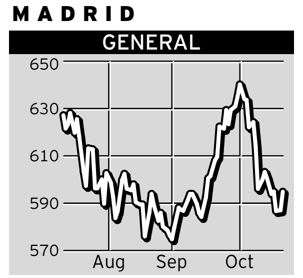
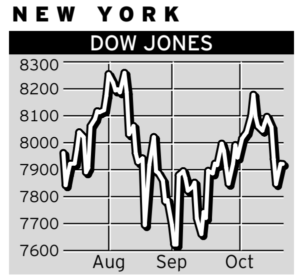


STOCKHOLM

NEW YORK



Source: Bloomberg

TOKYO

Company results

NORSK HYDRO, the Norwegian industrial conglomerate, announced third-quarter profits up 18 per cent on the same period last year. Pre-tax profits stood at Nkr2.27 billion ($377 million), up from Nkr2.26bn. The company – Norway's largest listed firm – raised profits despite weaknesses in its oil and gas and fertiliser divisions. The figures are slightly misleading as the main reason for its improved performance was a Nkr400m one-off write-down in the oil and gas divisions in 1996. Without this, operating profit in oil and gas would have stayed static. Norsk's chief financial officer, Leiv Nergaard, says oil production will rise next year. Norsk plans to produce 500,000 barrels of oil daily by 2005, double the number of barrels produced in 1995.

REPORTED RESULTS FOR THE SEVEN DAYS ENDING 20 OCTOBER

Date	Company	Country	Sector	Period	Profits (m) Current	Profits (m) Previous
15 Oct	Suez Lyonnaise des Eaux	France	Water utility	12 months	Ffr2.0bn	2.0bn
15 Oct	Finmeccanica	Italy	Engineering	6 months	L(2,000bn)	(541)
15 Oct	Iberia	Spain	Airline	9 months	Pts20.7bn	16.6bn
15 Oct	Fininvest	Italy	Media	6 months	L 206bn	427bn
20 Oct	Norsk Hydro	Norway	Conglomerate	9 months	NKr2.7bn	2.3bn
20 Oct	Newcastle United	UK	Football club	6 months	£ 8.1	5.9

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 ▼ 0.8% Yield 2.27%

Company	Country	Price	Change	%change	Yield
Abbey National	UK	£ 9.81	+0.10	+1.1%	3.34
ABN-Amro Holdings	Netherlands	Nfl 40.30	−1.50	−3.6%	2.85
Alliance & Leicester	UK	£ 7.12	−0.09	−1.2%	
Allied Irish Banks	Ireland	Ir£ 5.34	−0.16	−2.9%	
Alpha Credit Bank	Greece	Dr 20640	−560	−2.6%	3.55
Argentaria	Spain	Pts 8450	−110	−1.3%	4.24
Banca Commerciale Italiana	Italy	L 5187	−13	−0.3%	3.18
Banca di Roma	Italy	L 1709	−38	−2.2%	1.47
Bancaire (Cie)	France	Fr 784	+1	+0.1%	1.26
Banco Bilbao Vizcaya	Spain	Pts 4490	+130	+3.0%	1.96
Banco Central Hispano	Spain	Pts 2900	−2900	+0.0%	3.94
Banco Com Portugues	Portugal	Esc 3850	+7	+0.2%	1.84
Banco de Santander	Spain	Pts 4595	+115	+2.6%	2.58
Banco Esprito Santo	Portugal	Esc 5355	+141	+2.7%	2.47
Banco Popular Espanol	Spain	Pts 8630	−120	−1.4%	3.31
Banco Port Atlantico	Portugal	Esc 2707	−43	−1.6%	4.20
Banesto	Spain	Pts 1440	+5	+0.3%	
Bank Austria	Austria	Sch 652	+15	+2.4%	1.86
Bankinter	Spain	Pts 7930	−320	−3.9%	2.79
Bank of Ireland	Ireland	Ir£ 7.84	−0.19	−2.4%	
Bank of Scotland	UK	£ 5.40	+0.05	+0.9%	1.98
Bankgesellschaft Berlin	Germany	Dm 47.80	−1.50	−3.0%	0.20
Barclays Bank	UK	£ 16.21	+0	+0.0%	2.42
Bayerische Hypobank	Germany	Dm 80	−1.60	−2.0%	0.19
Bayerische Veriensbank	Germany	Dm 106.50	−0.60	−0.6%	0.15
BBL	Belgium	Fr 9300	+0	+0.0%	2.03
BHF Bank	Germany	Dm 54.90	−1.10	−2.0%	0.27
BNP	France	Fr 316.80	+0.90	+0.3%	1.77
CCF	France	Fr 366.40	−12.40	−3.3%	1.59
Cetelem	France	Fr 654	−16	−2.4%	1.56
Christiania Bank	Norway	Kr 28.40	+1.10	+4.0%	5.62
CLF Dexia France	France	Fr 595	−25	−4.0%	2.70
Commerzbank	Germany	Dm 64.95	−0.25	−0.4%	0.21
Creditanstalt	Austria	Sch 757	+43.70	+6.1%	1.62
Credito Italiano	Italy	L 4671	−74	−1.6%	1.31
CS Holding	Switzerland	Fr 221	+2.75	+1.3%	1.83
Den Danske Bank	Denmark	Kr 755	+17	+2.3%	2.20
Den Norske Bank	Norway	Kr 33.50	+1.20	+3.7%	5.32
Deutsche Bank	Germany	Dm 124.55	−4.60	−3.6%	0.15
Deutsche Pfandbrief	Germany	Dm 105.45	+2.95	+2.9%	1.36
Dresdner Bank	Germany	Dm 81.60	+0.10	+0.1%	0.19
Generale Banque	Belgium	Fr 14425	−625	−4.2%	2.73
Halifax	UK	£ 7.13	−0.13	−1.7%	
HSBC	UK	£ 18.62	−1.29	−6.5%	2.67
IKB Industriebank	Germany	Dm 36.30	−0.70	−1.9%	0.37
IMI	Italy	L 33016	+1210	+3.8%	1.82
Kredietbank	Belgium	Fr 14750	−425	−2.8%	1.80
Lloyds Bank	UK	£ 7.81	−0.20	−2.4%	2.15
Mediobanca	Italy	L 13667	−113	−0.8%	1.49
Merck	Germany	Dm 71.10	+2.90	+4.3%	1.78
Merita	Finland	Mk 27.50	+0.20	+0.7%	0.74
National Westminster	UK	£ 9.75	+0.40	+4.3%	3.80
Paribas	France	Fr 466	+27.20	+6.2%	2.80
Royal Bank of Scotland	UK	£ 6.97	+0.09	+1.3%	3.31
San Paolo Torino	Italy	L 13792	+192	+1.4%	2.03
SBC	Switzerland	Fr 409	+8.50	+2.1%	3.59
Schroders	UK	£ 19.65	−0.75	−3.7%	1.25
S-E Banken	Sweden	Kr 90.50	−1	−1.1%	3.07
Societe Generale	France	Fr 926	+17	+1.9%	1.93
Sparbanken Sverige	Sweden	Kr 176	−7.50	−4.1%	3.26
Standard Chartered	UK	£ 7.49	−0.70	−8.5%	2.36
Suez (Cie de)	France	Fr 15	−0.85	−5.4%	8.20
Svenska Handelsbank	Sweden	Kr 250.50	−17	−6.4%	2.03
UBS	Switzerland	Fr 1710	−3	−0.2%	1.89
Unidanmark	Denmark	Kr 473	+4	+0.9%	2.17
Worms & CIE	France	Fr 507	+15.50	+3.2%	1.89

Chemicals ▼ 1.2% Yield 1.95%

Company	Country	Price	Change	%change	Yield
AGA A	Sweden	Kr 122	−1.50	−1.2%	2.25
Air Liquide	France	Fr 956	−21	−2.1%	1.47
Akzo	Netherlands	Nfl 353	−13.30	−3.6%	2.12
BASF	Germany	Dm 63.50	+0.80	+1.3%	0.28
Bayer	Germany	Dm 67	−0.75	−1.1%	0.25
BOC	UK	£ 11.24	−0.05	−0.4%	3.28
Clariant	Switzerland	Fr 1185	−3	−0.3%	0.85
Cookson Group	UK	£ 2.50	+0.04	+1.6%	4.34
Courtaulds	UK	£ 3.26	−0.11	−3.3%	1.69
Degussa	Germany	Dm 91	+1.30	+1.4%	0.14
DSM	Netherlands	Nfl 188	−1.50	−0.8%	5.12
Ems-Chemie	Switzerland	Fr 7005	+5	+0.1%	2.14
Gevaert Photo-Prod Cap	Belgium	Fr 2950	+0	+0.0%	1.86
Henkel	Germany	Dm 103.50	−3.90	−3.6%	1.27
Hoechst	Germany	Dm 77.30	+0	+0.0%	0.18
ICI	UK	£ 9.49	−0.10	−1.0%	4.23
Kemira	Finland	Mk 57.50	+0	+0.0%	2.78
Laporte	France	Fr 7.34	−0.31	−4.1%	4.11
Montedison	Italy	L 1415	+65	+4.8%	1.43
Rhone-Poulenc	France	Fr 263.40	−10.80	−3.9%	1.32
Schering	Germany	Dm 177.45	−2.55	−1.4%	0.11
Sidel	France	Fr 367	−38	−9.4%	1.21
SKW Trostberg	Germany	Dm 63	−1	−1.6%	1.78
Solvay	Belgium	Fr 2175	+0	+0.0%	2.57

Changes since last week. Prices as at market close on Tuesday 21 September 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 3.12%

Company	Country	Price	Change	%change	Yield
Allied Domecq	UK	£ 5.14	−0.01	−0.1%	5.79
Bass	UK	£ 8.43	−0.13	−1.5%	3.74
Carlsberg A	Denmark	Kr 375	−2	−0.5%	0.91
Grand Metropolitan	UK	£ 6.17	+0.08	+1.3%	3.16
Greenalls	UK	£ 3.70	−0.10	−2.6%	5.15
Guinness	UK	£ 6.21	+0.15	+2.5%	3.19
Heineken	Netherlands	Nfl 340	−9	−2.6%	1.04
Imperial Tobacco	UK	£ 3.89	+0.02	+0.5%	
LVMH Moet Hennessy	France	Fr 1115	−95	−7.9%	1.77
Pernod-Ricard	France	Fr 294	−3.30	−1.1%	2.91
Scottish & Newcastle	UK	£ 6.97	−0.09	−1.3%	3.85
Seita	France	Fr 190	+9.50	+5.3%	3.47
Tabacalera A	Spain	Pts 10900	+1000	+10.1%	1.69
Whitbread A	UK	£ 7.80	−0.26	−3.2%	3.84

Engineering ▼ 1.3% Yield 1.81%

Electrical and Electronic

Company	Country	Price	Change	%change	Yield
Acerinorox	Spain	Pts 26200	+230	+0.9%	1.54
ABB AB	Sweden	Kr 97.50	−11.50	−10.6%	1.72
ABB BBC	Switzerland	Fr 2120	−115	−5.1%	1.67
Asea Brown Boveri	Germany	Dm 620	+0	+0.0%	3.11
ASMC	Netherlands	Nfl 183.60	−14.50	−7.3%	
Atlas Copco	Sweden	Kr 248	−6	−2.4%	1.54
Barco	Belgium	Fr 7380	−170	−2.3%	0.63
BICC	UK	£ 1.88	+0.03	+1.6%	8.12
Cap Gemini Sogeti	France	Fr 459.60	+21.10	+4.8%	0.44
Dassault Systemes	France	Fr 191	−186.20	+1.3%	0.94
Electrocomponents	UK	£ 4.95	−0.05	−1.0%	1.93
Electrolux	Sweden	Kr 675	+5	+0.7%	1.87
Ericsson B	Sweden	Kr 368	+1	+0.3%	0.70
GEC	UK	£ 4.14	+0.13	+3.2%	3.96
Getronics	Netherlands	Nfl 70.30	−0.40	−0.6%	0.43
Incentive	Sweden	Kr 699	−11	−1.5%	1.44
Legrand	France	Fr 1179	−23	−1.9%	0.71
Nokia	Finland	Mk 514.90	−3.20	−0.6%	0.69
Oce-Van Der Grinten	Netherlands	Nfl 240.70	−12.30	−4.9%	1.41
Philips	Netherlands	Nfl 168.70	+4.60	+2.8%	0.99
Premier Farnell	UK	£ 5.05	−0.09	−1.8%	2.96
Sagem	France	Fr 2880	−20	−0.7%	0.90
Saipem	Italy	L 10504	−201	−1.9%	1.34
SAP	Germany	Dm 479.80	−7.70	−1.6%	0.05
Schneider	France	Fr 376	−1.60	−0.4%	1.35
Sema	UK	£ 13.42	−0.03	−0.2%	0.56
SGL Carbon	Germany	Dm 275	+0.40	+0.1%	0.82
Siemens	Germany	Dm 120.35	−3.25	−2.6%	0.13
Technip	France	Fr 732	−38	−4.9%	1.46
Thomson-CSF	France	Fr			

General

Company	Country	Price	Change	%change	Yield
Alcatel Alsthom	France	Fr 804	−18	−2.2%	1.25
British Aerospace	UK	£ 16.82	−0.21	−1.2%	1.15
BTR	UK	£ 2.38	−0.01	−0.6%	4.97
Dassault Aviation	France	Fr 1250	−65	−4.9%	2.56
FKI	UK	£ 2.07	+0.01	+0.7%	3.11
Linde	Germany	Dm 1158	−42	−3.5%	1.56
Mannesmann	Germany	Dm 819	−6	−0.7%	1.14
Morgan Crucible	UK	£ 5.25	−0.05	−1.0%	3.46
Orkla	Norway	Kr 667	+14	+2.1%	1.07
Rolls Royce	UK	£ 2.36	−0.05	−2.0%	2.86
Sandvik	Sweden	Kr 2470	−62	−2.4%	1.21
SEB	France	Fr 253.50	−5.50	−2.1%	2.62
Siebe	UK	£ 713	−92	−11.4%	1.57
SMH	Switzerland	Fr 12.53	−0.57	−4.4%	0.49
Smiths Industries	UK	£ 209.75	−5	−2.3%	0.86
TI Group	UK	£ 9.10	−0.68	−7.0%	2.47
VA Technologie	Austria	Sch 6.08	−0.78	−11.4%	2.91
Williams Holdings	UK	£ 3.92	+0.10	+2.6%	4.84

Financial and Conglomerate ▲ 0.7% Yield 2.93%

Company	Country	Price	Change	%change	Yield
3i Group	UK	£ 5.13	+0.09	+1.8%	2.26
Almanij	Belgium	Fr 1640	−40	−2.4%	1.43
AXA	France	Fr 409.50	+1.50	+0.4%	1.85
BAT	UK	£ 5.88	+0.39	+7.1%	2.55
BIC	France	Fr 416.90	−19.30	−4.4%	2.65
Caradon	UK	£ 2.03	−0.02	−1.1%	5.78
CGIP	France	Fr 1875	+10	+0.5%	2.13
Cimpor	Portugal	Esc 4795	+76	+1.6%	2.66
Coats Viyella	UK	£ 1.28	+0.09	+7.2%	5.10
Colruyt	Belgium	Fr 19275	−1100	−5.4%	0.68
Eurafrance	France	Fr 2460	+20	+0.8%	2.90
Finaxa	France	Fr 348	+0	+0.0%	1.89
GBL	Belgium	Fr 5680	−120	−2.1%	2.62
Hanson	UK	£ 3.08	+0	+0.0%	8.38
Harrisons & Crossfield	UK	£ 1.34	−0.01	−0.7%	8.56
Inchcape	UK	£ 2.82	−0.06	−2.1%	2.76
ING	Netherlands	Nfl 90.50	−1.90	−2.1%	2.47
Investor A	Sweden	Kr 378	−14	−3.6%	2.66
Largardere Group	France	Fr 175.90	−9.70	−5.2%	2.08
Lonrho	UK	£ 1.13	−0.04	−3.4%	2.99
Mercury Asset Management	UK	£ 13.97	−0.16	−1.2%	4.06
Navigation Mixte	France	Fr 760	+0	+0.0%	5.26
Pargesa Holding	Switzerland	Fr 1870	+20	+1.1%	3.97
Provident Financial	UK	£ 7.10	+0.16	+2.3%	2.90
Rentokil	UK	£ 2.64	−0.03	−1.1%	1.25
Richemont	Switzerland	Fr 1950	−10	−0.5%	0.38
Tomkins	UK	£ 3.35	−0.04	−1.2%	1.14
Veba	Germany	Dm 99.50	−2.60	−2.5%	0.20
Viag	Germany	Dm 873	+32	+3.8%	1.39

Food ▲ 1.9% Yield 3.26%

Company	Country	Price	Change	%change	Yield
Associated British Foods	UK	£ 4.90	−0.46	−8.6%	2.33
Bolswessanen	Netherlands	Nfl 33.90	−1.10	−3.1%	2.68
Booker	UK	£ 3.10	−0.12	−3.7%	9.58
Cadbury Schweppes	UK	£ 6.27	+0.07	+1.1%	3.40
CSM	Netherlands	Nfl 93.40	+0.10	+0.1%	1.84
Dalgety	UK	£ 2.62	−0.07	−2.6%	4.05
Danisco	Denmark	Kr 392.50	+5.50	+1.4%	1.29
Danone	France	Fr 915	−16	−1.7%	1.86
Eridania Beghin-Say	France	Fr 883	+26	+3.0%	3.84
Hillsdown Holdings	UK	£ 1.74	−0.02	−1.4%	7.22
Kerry Group	Ireland	Ir£ 7.60	+0.03	+0.4%	
Nestlé	Switzerland	Fr 2154	+34	+1.6%	1.42
Nestlé Deutschland	Germany	Dm 520	−10	−1.9%	2.12
Northern Foods	UK	£ 2.42	−0.01	−0.4%	4.92
Nutricia	Netherlands	Nfl 57.50	−2.40	−4.0%	1.20
Parmalat	Italy	L 2780	−45	−1.6%	0.54
Saint Louis	France	Fr 1300	+0	+0.0%	2.92
Sudzucker	Germany	Dm 870	−5	−0.6%	1.95
Tate & Lyle	UK	£ 4.85	+0.17	+3.6%	4.45
Unigate	UK	£ 5.98	+0.08	+1.4%	4.24
Unilever	UK	£ 4.80	−14.07	+1.7%	2.06
Unilever NV	Netherlands	Nf 111	−317.40	+3.6%	1.64
United Biscuits	UK	£ 2.09	+0.05	+2.2%	6.05

Health and Pharmaceuticals ▼ 0.5% Yield 1.13%

Company	Country	Price	Change	%change	Yield
Altana	Germany	Dm 128	−6	−4.5%	1.15
Ares-serono	Switzerland	Fr 2675	+20	+0.8%	0.19
Astra A	Sweden	Kr 128	−1	−0.8%	1.20
Beiersdorf	Germany	Dm 81	+0.30	+0.4%	0.06
British Biotech	UK	£ 1.14	−0.04	−3.5%	
Christian Dior	France	Fr 722	−52	−6.7%	2.02
Clarins	France	Fr 503	−16	−3.1%	1.47
Elf-Sanofi	France	Fr 528	−15	−2.8%	1.24
Essilor	France	Fr 1539	−71	−4.4%	0.95
Fresenius Midical Care	Germany	Dm 136	−3	−2.2%	
Gehe	Germany	Dm 92.20	−1.30	−1.4%	0.14
Glaxo Wellcome	UK	£ 13.23	−0.40	−2.9%	2.80
L'Oreal	France	Fr 2259	+9	+0.4%	0.63
Novartis	Switzerland	Fr 2301	+14	+0.6%	0.89
Novo Nordisk	Denmark	Kr 770	−6	−0.8%	0.49
Pharma Vision	Switzerland	Fr 900	+2	+0.2%	
Pharmacia	Sweden	Kr 262	−3.50	−1.3%	0.75
Reckitt & Colman	UK	£ 9.89	−0.24	−2.4%	1.08
Roche Holding	Switzerland	Fr 22900	−75	−0.3%	0.33
Schwarz Pharma	Germany	Dm 127.50	+0.70	+0.6%	1.19
Smith & Nephew	UK	£ 1.87	+0	+0.0%	4.01
Smithkline Beecham A	UK	£ 6.08	−0.14	−2.3%	0.83
Synthelabo	France	Fr 676	+16	+2.4%	0.78
UCB Cap	Belgium	Fr 128100	−3400	−2.6%	0.59
Zeneca	UK	£ 20.30	−0.70	−3.3%	2.16

Insurance ▼ 1.2% Yield 1.83%

Company	Country	Price	Change	%change	Yield
Aegon	Netherlands	Nfl 164.30	−5.20	−3.1%	1.84
AGP	France	Fr 324.70	+89.70	+38.2%	1.57
Alleanza	Italy	L 16040	−710	−4.2%	0.95
Allianz	Germany	Dm 444.50	−7.50	−1.7%	0.04
Allianz Leben	Germany	Dm 1450	+25	+1.8%	0.86
Aachener Munchener Bet	Germany	Dm 1910	+60	+3.2%	0.88
Anglo-Elmr. Versich	Austria	Sch 22000	+0	+0.0%	0.68
Baloise Holding	Switzerland	Fr 2350	−7	−0.3%	1.13
Britannic Assurance	UK	£ 9.83	−0.27	−2.7%	3.55
CKAG Colonia Konzern	Germany	Dm 170	+1	+0.6%	1.05
Commercial Union	UK	£ 9.02	+0.37	+4.3%	4.29
Deutsche Lloyd Versich	Germany	Dm 4100	+0	+0.0%	0.68
EA-Generali	Austria	Sch 3150	+0	+0.0%	0.54
Fortis	Belgium	Fr 7150	−290	−3.9%	1.35
Fortis Amev	Netherlands	Nfl 81.20	−3.80	−4.5%	3.35
General Accident	UK	£ 11.07	−0.48	−4.2%	3.87
Generali	Italy	L 39218	−932	−2.3%	0.96
Guardian Royal Exchange	UK	£ 3.30	−0.13	−3.9%	3.81
INA	Italy	L 2591	−79	−3.0%	2.52
Legal & General	UK	£ 5.09	−0.09	−1.6%	2.73
Munchener Ruckvers	Germany	Dm 572.50	−24.50	−4.1%	0.26
Prudential	UK	£ 6.84	−0.18	−2.5%	3.15
RAS	Italy	L 15520	+105	+0.7%	2.22
Royal Sun Alliance Group	UK	£ 6.30	−0.13	−2.0%	3.79
Royale Belge	Belgium	Fr 9350	−450	−4.6%	2.91
Skandia	Denmark	Kr 327.25	+12.45	+4.0%	
Skandia Group	Sweden	Kr 373.50	+17	+4.8%	0.77
Sun Life and Provincial	UK	£ 4	−0.14	−3.5%	2.13
Swiss Re	Switzerland	Fr 2210	+20	+0.9%	1.36
UAP	France	Fr 163	+2	+1.2%	1.88
Uni Storebrand	Norway	Kr 57	+1	+1.8%	0.37
United Assurance GP	UK	£ 5	+0.22	+4.6%	4.50
Victoria Holdings	Germany	Dm 1835	+18	+1.0%	0.78
Winterthur	Switzerland	Fr 1607	+20	+1.3%	1.32
Wurtt AG Versich-Beteil	Germany	Dm 1740	+90	+5.5%	0.75
Zurich Insurance	Switzerland	Fr 615	−18	−2.8%	1.19

Leisure ▼ 4.4% Yield 2.58%

Company	Country	Price	Change	%change	Yield
Accor	France	Fr 1094	−68	−5.9%	1.90
Adidas	Germany	Dm 244.50	+0.70	+0.3%	0.46
Airtours	UK	£ 12.10	+0.17	+1.4%	1.65
Compass Group	UK	£ 6.85	+0.02	+0.3%	1.59
EMI	UK	£ 5.92	−0.04	−0.7%	0.83
Granada	UK	£ 8.72	−0.38	−4.1%	1.86
Gucci Group	Netherlands	Nfl 82.60	−7.10	−7.9%	0.61
Ladbroke	UK	£ 3.02	+0.08	+2.5%	2.58
PolyGram	Netherlands	Nfl 115.50	−9.50	−7.6%	0.84
The Rank Group	UK	£ 3.35	−0.06	−1.8%	6.25
Thistle Hotels	UK	£ 1.54	+0.01	+1.0%	1.63
Thorn	UK	£ 1.55	+0.01	+0.6%	10.80

Media and Information ▲ 4.9% Yield 2.22%

Company	Country	Price	Change	%change	Yield
Audiofina	Luxembourg	Fr 1380	−20	−1.4%	1.13
BSkyB	UK	£ 4.52	+0	+0.0%	1.66
Canal Plus	France	Fr 1068	−27	−2.5%	1.92
Carlton Communications	UK	£ 5.12	−0.22	−4.1%	2.68
Daily Mail	UK	£ 17.43	−0.12	−0.7%	1.38
De la Rue	UK	£ 4.07	+0	+0.0%	7.39
Elsevier	Netherlands	Nfl 32.90	+4.50	+15.8%	2.62
Emap	UK	£ 8.96	−0.05	−0.6%	1.82
Havas	France	Fr 405.50	−7.50	−1.8%	2.11
Pathe	France	Fr 1110	−2	−0.2%	0.90
Pearson	UK	£ 8.20	−0.02	−0.2%	2.75
Reed International	UK	£ 6.28	+1.08	+20.7%	2.72
Reuters	UK	£ 7.38	+0.01	+0.1%	2.03
Springer	Germany	Dm 1560	+30	+2.0%	1.28
TF-1	France	Fr 525	−13	−2.4%	3.04
United Newspapers	UK	£ 8.01	−0.04	−0.5%	3.74
VNU	Netherlands	Nfl 44.70	−1.80	−3.9%	1.34
Wolters Kluwer	Netherlands	Nfl 261	+3.50	+1.4%	0.96
WPP Group	UK	£ 2.88	+0.10	+3.5%	0.78

Metals ▼ 0.9% Yield 2.14%

Company	Country	Price	Change	%change	Yield
Alusuisse Lonza	Switzerland	Fr 1426	−3	−0.2%	1.33
Avesta Sheffield	Sweden	Kr 70	+0	+0.0%	1.44
British Steel	UK	£ 1.75	−0.07	−4.1%	7.14
Cyprus Amax Minerals	Germany	Dm 42	+1	+2.4%	
Imetal	France	Fr 674	−76	−10.1%	2.27
Johnson Matthey	UK	£ 6.50	−0.26	−3.8%	0.90
Krupp	Germany	Dm 365.50	+5.40	+1.5%	1.38
Metallgesellschaft	Germany	Dm 38.55	−0.55	−1.4%	
Outukumpu	Finland	Mk 90	+1	+1.1%	1.11
Preussag	Germany	Dm 506	−8.50	−1.7%	2.42
RTZ	UK	£ 9.60	−0.25	−2.5%	1.04
Union Miniere	Belgium	Fr 422	+2.40	+0.6%	1.94
Thyssen	Germany	Dm 2925	+35	+1.2%	
Usinor	France	Fr 118	−3.30	−2.7%	2.55

Motors ▼ 2.2% Yield 1.70%

Company	Country	Price	Change	%change	Yield
Autoliv	Sweden	Kr 320	+0	+0.0%	1
BBA Group	UK	£ 4.18	−0.22	−5.0%	2.06
BMW	Germany	Dm 1372	−61	−4.3%	1.11
Continental	Germany	Dm 46.20	−0.20	−0.4%	0.13
Daimler-Benz	Germany	Dm 135	+0.25	+0.2%	0.08
Fiat	Italy	L 6275	+35	+0.6%	1.65
Ford-Werke	Germany	Dm 845	−15	−1.7%	4.61
GKN	UK	£ 14.05	−0.32	−2.2%	2.37
Lucas Varity	UK	£ 2.13	−0.11	−4.7%	1.34
MAN	Germany	Dm 537.50	−0.50	−0.1%	2.29
Michelin B	France	Fr 351	−0.90	−0.3%	0.96
Peugeot	France	Fr 774	−24	−3.0%	0.40
Pirelli Spa	Italy	L 5081	−89	−1.7%	1.99
Renault	France	Fr 172	−1.20	−0.7%	2.12
Scania	Sweden	Kr 220	−10.50	−4.6%	2.51
Valeo	France	Fr 386	−6.60	−1.7%	3.22
Volkswagen	Germany	Dm 1148.50	−46.50	−3.9%	0.79
Volvo B	Sweden	Kr 221.50	−7.50	−3.3%	1.98

Oil ▼ 0.2% Yield 2.11%

Company	Country	Price	Change	%change	Yield
British Petroleum	UK	£ 9.30	+0.04	+0.4%	2.64
Burmah Castrol	UK	£ 11.01	−0.19	−1.7%	2.50
Elf Aquitaine	France	Fr 781	+25	+3.3%	1.88
Enterprise Oil	UK	£ 7.08	+0.11	+1.6%	3
Lasmo	UK	£ 2.76	−0.09	−3.2%	0.43
Neste	Finland	Mk 135	+0	+0.0%	1.50
Norsk Hydro	Norway	Kr 410.50	−6	−1.4%	1.70
ÖMV	Austria	Sch 1900	+15	+0.8%	1.24
Petrofina	Belgium	Fr 14125	−500	−3.4%	2.16
Petroleos (Cia Esp)	Spain	Pts 4520	−60	−1.3%	2.69
Primagaz	France	Fr 452	−21.80	−4.6%	1.86
Repsol	Spain	Pts 6640	−10	−0.2%	2.75
Royal Dutch	Netherlands	Nfl 111.90	−1.30	−1.1%	2.61
RWE-DEA	Germany	Dm 435	+0	+0.0%	3.68
Saga Petroleum	Norway	Kr 148.50	−2.50	−1.7%	2.20
Shell Transp & Trading	UK	£ 4.57	−0.19	−4.0%	3.37
Total B	France	Fr 663	+17	+2.6%	1.64
Transocean Offshore	Norway	Kr 409	+9	+2.3%	0.09

Paper and Packaging ▼ 0.7% Yield 3.39%

Company	Country	Price	Change	%change	Yield
Arjo Wiggins Appleton	UK	£ 1.88	−0.09	−4.6%	4.92
Assi Döman	Sweden	Kr 243	−3	−1.2%	2.21
Bunzl	UK	£ 2.60	−0.06	−2.3%	2.99
FPB Holding	Germany	Dm 313	+3	+1.0%	5.59
KNP BT	Netherlands	Nfl 49	−2	−3.9%	1.74
MoDo	Sweden	Kr 282	−3	−1.1%	3.18
Pechiney International	France	Fr 142	−8.30	−5.5%	1.76
Rexam	UK	£ 3.35	+0	+0.0%	5.21
SCA	Sweden	Kr 180	−6.50	−3.5%	2.89
Smith (David S)	UK	£ 2.46	+0.17	+7.6%	4.13
Smurfit (Jefferson)	Ireland	Ir£ 2	−0.05	−2.2%	
Stora A	Sweden	Kr 124.50	−5	−3.9%	3.02
UPM-Kymmene	Finland	Mk 148.60	−0.40	−0.3%	3.04

Property and Construction ▼ 1.8% Yield 2.74%

Company	Country	Price	Change	%change	Yield
Blue Circle	UK	£ 3.76	−0.22	−5.6%	4.27
Bouygues	France	Fr 602	+0	+0.0%	2.85
BPB	UK	£ 3.43	−0.13	−3.8%	3.73
British Land	UK	£ 6.73	−0.24	−3.4%	1.71
Cimenteries CBR	Belgium	Fr 3250	−75	−2.3%	2.23
CRH	Ireland	Ir£ 7.40	−0.13	−1.7%	
Hammerson	UK	£ 5.10	−0.20	−3.8%	2.74
Heidelberg Zement	Germany	Dm 154.50	−5.20	−3.3%	0.10
Hochtief	Germany	Dm 84.80	+0.80	+1.0%	0.14
Holderbank	Switzerland	Fr 1391	+6	+0.4%	1.22
Lafarge Coppée	France	Fr 409	−7	−1.7%	2.46
Land Securities	UK	£ 10.20	−0.29	−2.8%	3.34
MEPC	UK	£ 5.15	−0.26	−4.7%	4.83
Pilkington	UK	£ 1.63	−0.03	−2.1%	3.83
Poliet	France	Fr 510	+1	+0.2%	1.99
Randstad Holdings	Netherlands	Nfl 81	−0.40	−0.5%	0.96
Redland	UK	£ 3.40	+0.80	+30.8%	6.08
RMC Group	UK	£ 9.50	−0.36	−3.7%	3.45
Rodamco	Netherlands	Nfl 59.50	−0.90	−1.5%	4.73
Skanska	Sweden	Kr 302	−10	−3.2%	3.40
Slough Estates	UK	£ 3.72	+0	+0.1%	3.07
St Gobain	France	Fr 892	−9	−1.0%	1.92
Wienerberger Baustoff	Austria	Sch 2572	+18	+0.7%	1.65
Wolseley	UK	£ 5.15	−0.13	−2.4%	2.42

Retail ▲ 0.3% Yield 2.10%

Company	Country	Price	Change	%change	Yield
Ahold	Netherlands	Nfl 53.20	−0.30	−0.6%	0.84
Argos	UK	£ 6.69	+0.03	+0.5%	3.01
Asda	UK	£ 1.54	−0.05	−3.1%	2.51
Benetton	Italy	L 28500	−450	−1.6%	1.79
Bon Marché	France	Fr 1356	−54	−3.8%	1.64
Boots	UK	£ 8.78	−0.39	−4.3%	2.90
Burton Group	UK	£ 1.33	−0.01	−0.9%	2.63
Capital Shopping	UK	£ 4.49	+0.12	+2.7%	2.32
Carrefour	France	Fr 3465	−85	−2.4%	0.75
Casino	France	Fr 345.70	+3.70	+1.1%	1.30
Castorama Dubois	France	Fr 557	−35	−5.9%	1.96
Comptoires Modernes	France	Fr 2530	−105	−4.0%	0.92
Continente	Spain	Pts 2875	+20	+0.7%	1.41
Delhaize	Belgium	Fr 1760	−35	−1.9%	1.56
Dixons	UK	£ 7	+0.16	+2.3%	1.89
Great Universal Stores	UK	£ 7.34	+0.22	+3.0%	3.12
Guilbert	France	Fr 847	+2	+0.2%	1.42
Hagemeyer	Netherlands	Nfl 96.50	−2.50	−2.5%	1.62
Hennes & Mauritz	Sweden	Kr 312.50	−7.50	−2.3%	0.71
Hermes International	France	Fr 424	−33	−7.2%	0.57
Karstadt	Germany	Dm 604	−6	−1.0%	1.70
Kingfisher	UK	£ 8.42	−0.01	−0.1%	2.87
Marks & Spencer	UK	£ 6.44	+0.03	+0.4%	2.58
Metro	Germany	Dm 78.80	−3.70	−4.5%	0.58
MFI	UK	£ 1.35	−0.06	−4.3%	4.44
Montaigne	France	Fr 2599	−301	−10.4%	0.20
Morrison Supermarkets	UK	£ 1.97	−0.03	−1.3%	1.07
Next	UK	£ 7.40	+0.08	+1.1%	2.58
Pinault Printemps	France	Fr 2730	−109	−3.8%	1.18
Promodes	France	Fr 2040	−47	−2.3%	0.69
Pryca	Spain	Pts 2540	+10	+0.4%	2.64
Safeway	UK	£ 4.02	+0.10	+2.6%	4.45
Sainsbury (J)	UK	£ 4.83	+0.14	+3.0%	3.23
Sears	UK	£ 0.63	+0.02	+3.3%	8.09
Smith (WH)	UK	£ 4.02	−0.03	−0.7%	4.87
Storehouse	UK	£ 2.38	+0.01	+0.4%	4.25
Tesco	UK	£ 4.68	−0.06	−1.3%	2.84
Vendex International	Netherlands	Nfl 111.50	−0.80	−0.7%	1.91
Vendome	UK	£ 4.44	+0.14	+3.3%	2.94

Services ▲ 0.3% Yield 1.29%

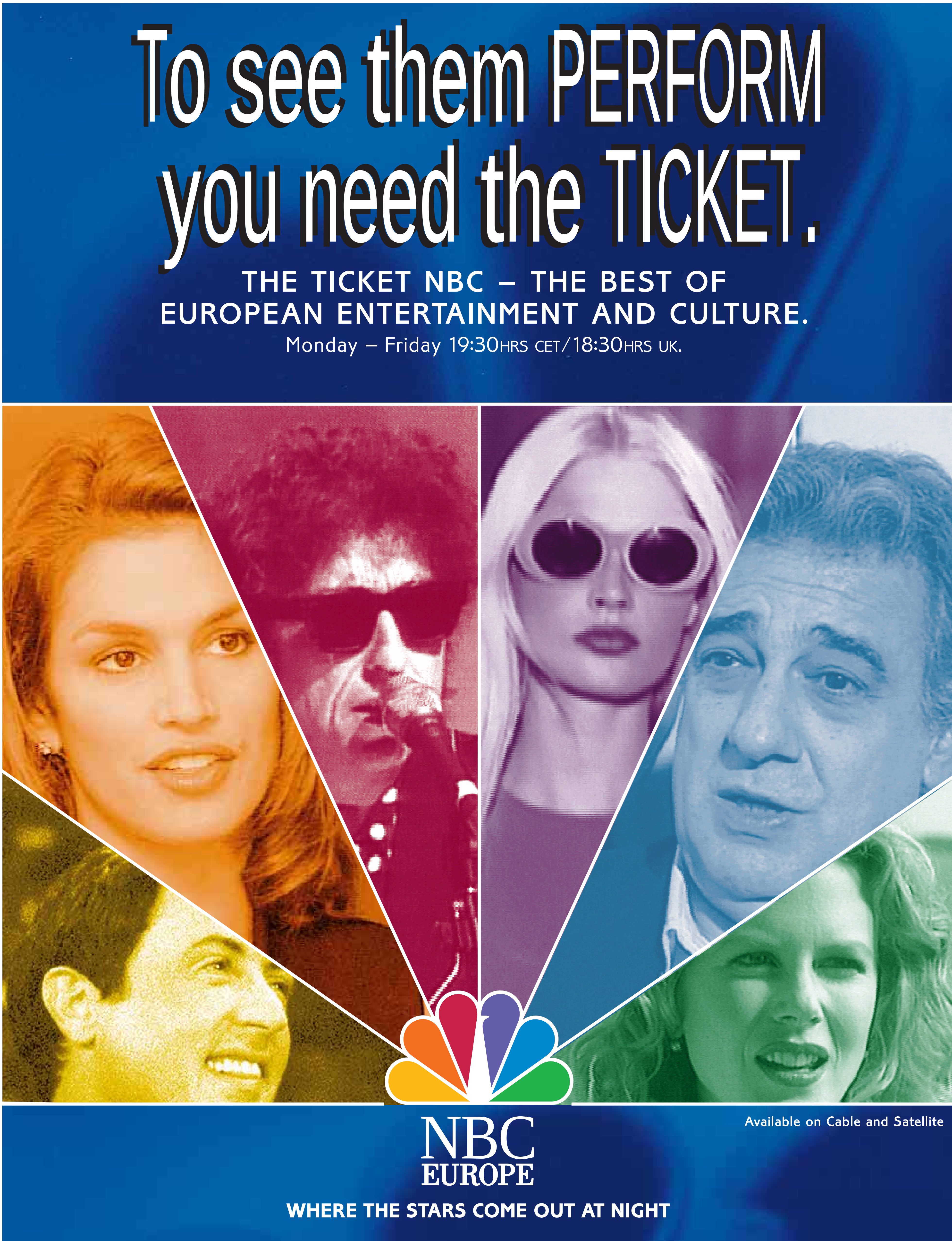
Company	Country	Price	Change	%change	Yield
Baan	Netherlands	Nfl 146.90	+3.70	+2.6%	
Berendson (Sophus)	Denmark	Kr 1090	−10	−0.9%	0.52
Danka Business Systems	UK	£ 6.93	−0.07	−1.0%	0.48
Hays	UK	£ 7.63	+0.24	+3.2%	1.53
Mice Group	UK	£ 0.09	−0	−2.8%	2.14
Securicor	UK	£ 2.90	+0.08	+2.7%	0.67
Sodexho	France	Fr 2945	−75	−2.5%	0.88
Surveillance	Switzerland	Fr 2850	+5	+0.2%	2.32
Waste Management Intl	UK	£ 2.55	−0.06	−2.3%	

Transport ▼ 2.5% Yield 2.38%

Company	Country	Price	Change	%change	Yield
Associated British Ports	UK	£ 2.95	−0.05	−1.7%	3.27
Autopistas Cesa	Spain	Pts 1850	−25	−1.3%	3.90
BAA	UK	£ 5.85	−0.12	−2.0%	2.67
British Airways	UK	£ 6.21	−0.25	−3.9%	3.05
d/s 1912 A	Denmark	Kr 310000	−13000	−4.0%	0.23
d/s Svendborg A	Denmark	Kr 455000	−25019	−5.2%	0.26
KLM	Netherlands	Nfl 70.40	−3.40	−4.6%	1.45
Lufthansa	Germany	Dm 33.35	−0.05	−0.1%	0.13
NFC	UK	£ 1.51	+0.05	+3.4%	5.82
P & O	UK	£ 7.33	−0.14	−1.9%	5.24
Railtrack	UK	£ 9.68	−0.41	−4.0%	2.81
Stagecoach Holdings	UK	£ 7.10	+0.42	+6.3%	1.61
Swissair	Switzerland	Fr 1964	+4	+0.2%	0.51

Utilities and Telecoms ▲ 0.2% Yield 3.13%

Company	Country	Price	Change	%change	Yield
Aare Tessin	Switzerland	Fr 851	−19	−2.2%	2.08
Aguas de Barcelona	Spain	Pts 6020	+180	+3.1%	1.52
Anglian Water	UK	£ 8.18	−0.20	−2.4%	5.27
Badenwerk	Germany	Dm 540	+0	+0.0%	1.61
Berliner Kraft & Licht	Germany	Dm 42.20	−1.70	−3.9%	0.19
British Gas	UK	£ 2.75	+0.12	+4.7%	5.86
British Energy	UK	£ 2.09	+0	+0.0%	8.21
British Telecom	UK	£ 4.80	+0.34	+7.5%	5.26
Cable & Wireless	UK	£ 5.19	−0.38	−6.9%	2.60
Centrica	UK	£ 0.88	−0.01	−1.7%	
Deutsche Telekom	Germany	Dm 33.30	−0.50	−1.5%	1.80
Eaux (Cie Generale)	France	Fr 701	−12	−1.7%	1.74
Edison	Italy	L 9255	+100	+1.1%	2.29
Electrabel	Belgium	Fr 7490	+40	+0.5%	4.74
Electrafina	Belgium	Fr 3430	−115	−3.2%	3.13
Elektrowatt	Switzerland	Fr 538	+2	+0.4%	1.50
Endesa	Spain	Pts 2720	−190	−6.5%	2.61
Energy Group	UK	£ 6.37	−0.11	−1.7%	1.08
EVN	Austria	Sch 1496	+0	+0.0%	1.68
Fuerzas	Spain	Pts 1195	−5	−0.4%	4.72
Gas Natural	Spain	Pts 7200	+0	+0.0%	0.95
HEW	Germany	Dm 475	−5	−1.0%	2.11
Hyder	UK	£ 9.45	+0.08	+0.9%	5.82
Iberdrola	Spain	Pts 1780	−5	−0.3%	4.03
Isar Amperwerke	Germany	Dm 567	−10	−1.7%	1.77
Italgas	Italy	L 6116	−124	−2.0%	2.12
KPN	Netherlands	Nfl 74.60	−1.70	−2.2%	3.99
Lyonnais des Eaux	France	Fr 637	−14	−2.2%	1.93
National Grid	UK	£ 2.94	−0.03	−0.8%	4.80
National Power	UK	£ 5.49	+0.08	+1.5%	5.63
Orange	UK	£ 2.51	+0.02	+0.6%	
OTE-SA Telecom	Greece	Dr 6600	−50	−0.8%	2.71
Portugal Telecom	Portugal	Esc 7573	+34	+0.5%	1.83
Powerfin	Belgium	Fr 5070	−70	−1.4%	2.40
Powergen	UK	£ 7.39	−0.10	−1.3%	4.24
Rexel	France	Fr 1623	−32	−1.9%	1.21
RWE	Germany	Dm 86.90	−2.85	−3.2%	0.18
Scottish Hydro	UK	£ 4.44	−0.15	−3.3%	4.99
Scottish Power	UK	£ 4.65	−0.19	−4.0%	4.88
Severn Trent	UK	£ 9.28	−0.07	−0.7%	4.91
Sevillana de Elec	Spain	Pts 1355	+15	+1.1%	3.74
Southern Electric	UK	£ 4.75	+0.03	+0.6%	5.73
Sydcraft	Sweden	Kr 162	−4	−2.4%	2.42
Tele Danmark	Denmark	Kr 350.65	−2.35	−0.7%	4.90
Telecom Italia	Italy	L 11640	−5	−0.0%	1.15
Telecom It Mobile	Italy	L 7015	−78	−1.1%	0.72
Telefonica de Espana	Spain	Pts 4410	+125	+2.9%	2.04
Telewest Comms	UK	£ 0.79	−0.06	−7.6%	
Thames Water	UK	£ 9.03	+0.17	+1.9%	4.78
Thuega	Germany	Dm 485	+1	+0.2%	2.47
Tractebel	Belgium	Fr 3035	−12090	+0.3%	1.28
Union Elec Fenosa	Spain	Pts 1405	+30	+2.2%	3.91
United Utilities	UK	£ 7.46	+0.09	+1.2%	6.21
VEW	Germany	Dm 555	−20	−3.5%	1.71
Vodafone	UK	£ 3.58	+0.10	+2.9%	1.68
Yorkshire Water	UK	£ 4.88	+0.16	+3.4%	4.73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Islands within reach

You do not have to be a millionaire to be able to buy your own private offshore retreat, but it does help

Pacific paradise: Laucula in the Fiji group is the former home of the publisher Malcolm Forbes, who is buried on it

REPORTS BY CLIVE BRANSON

THE notion of owning an island has a particular attraction. Islands are a romantic and secluded sort of property, and they have appealed over the years to tycoons and entertainment stars. The average person would regard them as being well beyond their means.

But islands are dotted around the world, and though many of them are expensive, not all of them are, according to Farhad Vladi, who has a property agency called Vladi Private Islands which specialises in them. Vladi has sold no fewer than 400 islands over the past 20 years and they come at all prices.

"Luckily you do not have to be a billionaire to fulfil your island dream," he says. "You can find an island in the Bahamas for $100,000, in Canada from $20,000 and Panama for $80,000." The majority are priced at between $100,000 and $300,000.

Vladi was born German but is now a Canadian citizen and runs offices in both Hamburg and Halifax, Nova Scotia. His current list of islands ranges from Scotland and Denmark to North America, Panama and Fiji.

His latest offering is Laucula, a 284-hectare paradise in the Fiji island group. Formerly the home of Malcolm Forbes, the American publisher, who is buried on the island, it has a two-bedroom house, seven thatched bungalows, a village for the 220 islanders and a private airfield. The asking price is $10 million.

Vladi has advice for any potential island buyer. They should, he says, take the following criteria into account:

- The island should not be too far from the mainland or another populated island.
- Ownership of title must be clearly determined.
- Drinking water has to be readily available and the vegetation must be attractive.
- It should be suitable for building.
- The host country should be politically stable.

Another island now on his books is Taborcillo off Panama, a 39.2-hectare property formerly owned by John Wayne, the film star. It is a few minutes by boat from the mainland, but also has its own airstrip. The asking price is $325,000.

In the same region is Josh Cay, off the coast of Honduras, which is close to one of the most beautiful reefs in the world and is 28km from the island of Roatán, which has an airport. The total area is 2.4 hectares, most of it covered with palms and lush vegetation. The asking price is $450,000.

But Vladi also has something entirely different to offer: a small island tucked away in the reeds of Lake Neuendorf in the Spreewald forest, 48km from Berlin. The extensive waterway network allows direct connection to Berlin and Hamburg by boat. The house was built in 1992. The asking price is $336,000.

One of the most popular areas for islands is the Aegean Sea. Halcyon Properties is marketing Ionnas, an island of 3.2 hectares close to Spetses and Spetsopoula, for $925,000. Ionnas is within easy distance by boat of Spetses, Hydra and Poros. On one side the rocks form a natural jetty with water deep enough to moor a sizeable yacht. Pauline Gallagher of Halcyon says: "We estimate costs for building a 450 square metres house, swimming pool and tennis court, and for landscaping the island, strengthening the jetty area and ensuring services at $1.28 million."

'The island should not be too far from the mainland or a populated neighbour'

Halcyon is also marketing an island in the Korinthiakos Kolpos (Gulf of Corinth), 450 metres from the mainland, for $2.9m. The location allows easy access to Athens. The island has no services, but the shallow water between it and the mainland means that connection of electricity and water would cost around $8,050, Gallagher says.

Scottish islands have traditionally been the most popular places for private buyers in the past. They may not have the climate of the Caribbean, but they attract the romantic buyers, particularly from North America.

Eilean Righ (King's Island), off Scotland's west coast, is 250 metres from the mainland and has its own floating jetty and sheltered anchorage. The total area is 105 hectares. There are two houses built around a square with four reception rooms, four bedrooms and one bathroom. There is also a farmhouse with three bedrooms and one bathroom. Knight Frank is marketing the island for $805,000.

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Halcyon: tel +44 1323 891 639

Knight Frank: tel +44 171 629 8171

Sleeping Beauty châteaux waiting for their prince

COURAGEOUS property buyers undaunted by derelict and forlorn houses should contact Marcus Binney and his Save organisation. After decades of running Save Britain's Heritage, Binney has turned to continental Europe and has launched a new crusade, Save Europe's Heritage.

The first product of this new direction is a report on 12 derelict but impressive French châteaux and an army barracks. Binney's intention is to extend his attention further afield to the Czech Republic and Poland.

Save Britain's Heritage was founded in 1975, and since then has published a series of wide-ranging reports on the UK. The publicity they have generated has saved many fine buildings and provided a source of information to people who are prepared to take on restoration.

Binney says: "We have been looking at France for a number of years, and this report will be followed by others on various aspects of the built environment there." Meanwhile, there are research projects under way, sponsored by Andersen Consulting, on an estimated 3,000 Czech country houses which have survived the communist regime, and Binney expects to publish this report in 1998.

"Apart from our own researchers, we aim to build up a network of contacts throughout Europe who will inform us of buildings which are in danger," he says.

France has a better record than other large European countries of looking after its main monuments, according to Save's report. The plight of the châteaux that it illustrates is not an indictment of government policy or indicative of a wide malaise.

The report finds that some of the buildings are in trouble because they were acquired by foreign investors who overstretched themselves. It also praises French initiative in converting châteaux to hotels. Of the 13 properties it describes as being in need of care and attention, 12 are suitable for conversion for residential or commercial activities, it considers.

Nor are they all in isolated parts of France. The château at Beaucamps-le-Jeune, for example, is near Abbeville in northern France. Owned by a British property developer, the building dates from the 16th and 17th centuries and is "a pitiful and painful sight", Save says. It considers Beaucamps to be the most urgent case of those studied in the report and in need of full-scale repairs, adding that it would be a viable proposition for conversion to residential use.

Save describes the 18th-century château at Verderonne (Oise), built in Régence style, as a "Sleeping Beauty waiting for its prince". The corps-de-logis stands on a moated island approached across a stone bridge. It is situated in unspoilt countryside near Paris and, according to Save, is reasonably watertight.

The château at Viller-sous-Saint-Leu, also in the Oise *département*, is in desperate need of repair, says Save. It may seem a hopeless case, but there are examples of properties in a similar urban setting that have been restored. Save points out that the château of Sucy-en-Brie, near Paris, which is overlooked by residential tower-blocks, has been successfully restored.

Among the successes of Save's campaign in Britain are the rescue of the Peninsular Barracks in Winchester and of the Jubilee Hall in Covent Garden, London. Its latest list of properties in danger includes Broadgate House, Pilton, Barnstaple, Devon, an imposing 18th-century stuccoed house which has planning permission for conversion to residential use. The windows are boarded up, but the conservation office of the North Devon District Council says the roof is sound.

Westcroft, in Trowbridge, Wiltshire, dates from 1784 and has several distinguished architectural features, such as the hipped double Roman-tile mansard roof and a fine staircase. Apart from the large house, there is an ashlar stable block with double curved front. Like many houses, it is owned by a property investment company, which has not responded to efforts by the local authority to find out its plans for the site.

The list also includes many smaller properties in Britain, ranging from cottages to disused factories, that are waiting to be rescued by people with the guts to embark on rebuilding.

Save: tel +44 171 228 3336

New use for old walls

When Germany's Treuhand agency first began to sell East Germany's nationalised properties, it put 150 castles on the market. Sixty are still for sale, but the Germans are very particular

CASTLES are attractive to the romantic buyer. Germany alone has a huge number, ranging from fortified strongholds to palatial residences, while its neighbours to the east, such as the Czech Republic, Slovakia, Hungary and Romania, are also dotted with castles. They are a niche market, attractive to those few buyers with the means to take them on.

In Germany, when the government's Treuhand agency took over the selling of assets sequestered by the communist regime in East Germany, it put no fewer than 150 Schlösser on the market. Even today it still has 60 of them to sell. It will help with subsidies for restoration, but many of them are in the Baltic areas where Germans tend not to wish to live.

One spectacular castle now on the market is Schloss Kransberg in the Taunus mountains of western Germany. This dates back to the 13th century, but in more recent times it was lavishly equipped by Hermann Göring, the Nazi leader, to be the Luftwaffe headquarters during the Second World War.

Göring commissioned Albert Speer, the architect favoured by the Nazis, to do the work. But he did not get to use the Schloss much because, as the Germans advanced through France in 1940, the building lost its main purpose, to be a headquarters for the attacks in the west.

Apart from its residential areas, Kransberg still has air-raid shelters and command offices underneath the building. These made it a natural command post for the occupying US forces in Germany, who later made it an officers' rest home.

Kransberg's attraction today is that, while it stands in grounds of 1.8 hectares, it is only 40 km from Frankfurt. Since the war it has been modernised to provide 3,450 square metres of residential accommodation. It is available through Knight Frank, Germany, for $3.7 million.

Schloss Kransberg satisfies the exacting standards demanded by German buyers in that not only has it been modernised but it is close to a large city. Guy Barker of Knight Frank says: "Germans demand the highest standards and will not accept, as buyers of Scottish castles often do, poor plumbing and draughty buildings.

"If an agent asks, say, $3m for a castle, and the buyer believes it will cost the same amount to renovate, then they will usually say: 'You give it to me free'." That is one reason why so many castles in the east have not found buyers.

But the best will sell, and that will no doubt be true of Schloss Osterberg at Unter-Allgau in Bavaria. Built on a rocky outcrop, it has wonderful views of the Bavarian countryside and is in easy reach of both Munich and Lake Constance.

The Schloss has been expensively renovated. It has an upper and lower castle, estate manager's house, cottage, staff accommodation, stables and garaging for 12 cars. The buildings cover 2,500 square metres. The grounds of five hectares are wooded. Knight Frank is marketing the Schloss for $4.2m.

Command post: Schloss Kransberg dates back to the 13th century but was lavishly rebuilt by Albert Speer during the Second World War. Hermann Göring planned to use the castle as headquarters for the Luftwaffe

'Germans will not accept poor plumbing or draughts when they want to buy'

Schloss Maierhofen, which is on the market for $2.55m, also with Knight Frank, is a refurbished Renaissance palace between Nuremberg and Munich. It has 500 square metres of residential accommodation, 200 square metres for offices, two stables, a caretaker's flat and gardens of 17,000 square metres.

Castles in the Czech Republic are also now coming on to the market. An example is Bojkovice in Moravia, which dates from the 1480s. This huge building of 5,049 square metres has been partially renovated and is being used as a hotel and conference centre. It has 35 rooms and five apartments, as well as a 50-room annexe. The asking price through Interprospekt is $15m.

The same agent is marketing Harbuval Palace in Prague. Built in 1570, it is one of the city's most picturesque palaces, adjacent to the gardens of the castle. The 1,920 square metres building has been converted for commercial use, but is now vacant. The asking price is $3.5m.

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Knight Frank, Germany: tel +49 211 4795 118
Interprospekt: tel +42 2 233 6871

High costs fail to deter the renters

DURING the property recession of the early 1990s, which few countries escaped, renting became increasingly popular. To some extent that was due to potential buyers waiting to make their move.

But there has also been a basic change of attitude in many countries, including Britain, with a marked switch from buying to renting.

As a guide to what is available, the International Real Estate Federation (FIABCI) lists the cost of renting a new apartment round the world. At the top is Monaco with $400 per square metre annually. Tokyo is second with $350 a year, followed by London with $310. Paris is the third most expensive city in Europe with a yearly rate of $240.

Brussels follows with $190 a square metre and Dublin with $180, while Milan is only $80. In most cities the cost is considerably less for an older apartment, but that does not apply in Monaco and Tokyo.

In London, a large, four-bedroom, three-bathroom house in the prime area of Brompton Square, SW3, is now being rented on a long let by W A Ellis, the estate agent, for $3,200 a week. It has a paved garden and has been recently refurbished. In Mill Hill, north London, a duplex apartment with two bedrooms, two reception rooms and a communal garden in the former mansion of Sir Stamford Raffles (1781-1826), the founder of Singapore, is offered at $640 a week by Ellis & Co.

As for country houses, John D Wood, the estate agent, has a six-bedroom, two-bathroom house with a gymnasium, studio, barn and stables in Haslemere, Surrey, for rent at $4,800 a month. Hamptons has a four-bedroom farmhouse together with six hectares at Upper Inglesham, Wiltshire, for $3,630 a month.

Further afield, Foxtons, the London estate agency, recently published *Worldwide Apartments*, a guide to luxury serviced suites and apartments aimed at the wealthy traveller and executive. It lists 5,000 apartments in 51 cities in 29 countries.

The Claridge, in the Champs-Elysées in Paris, has a variety of apartments costing between $182 and $592 a day. In Frankfurt the range for a one-bedroom flat in the Appartementhaus Westend is $136-$159 a day.

Ema House, in the centre of Zürich, has apartments costing from $123 to $288 a day; while at the Palazzo Al Velabro in Rome, which overlooks the Palatine Hill and faces on to Piazza Bocca della Verità, they are between $110 and $195 a day.

The Americans have some of the most expensive apartments in the world. At the Pierre on Fifth Avenue, New York, they cost between $575 and $3,600 a day.

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Foxtons: tel +44 171 911 3999
John D Wood: tel +44 1256 398004
Hamptons: tel +44 1672 514877

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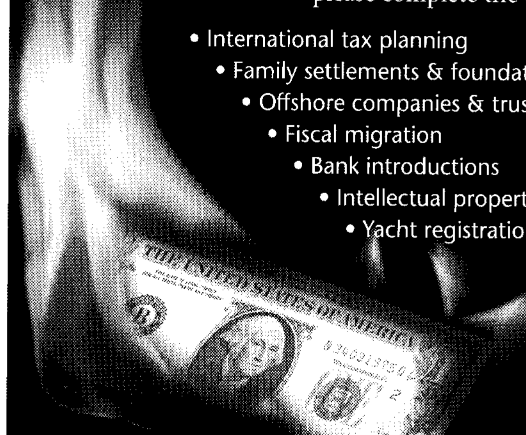

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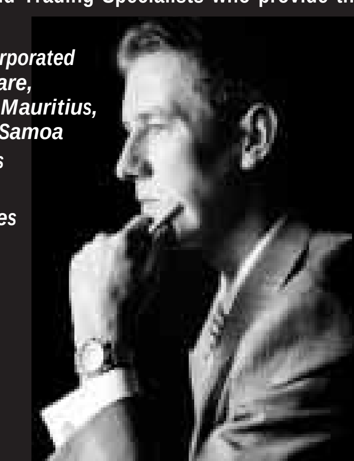

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The independent World Commission on Dams, under the chairmanship of South African Minister of Water Affairs and Forestry Kader Asmal, is to be launched in November 1997, at the initiative of the World Conservation Union (IUCN) and the World Bank. The Commission's mandate is to review the development effectiveness of large dams and to develop standards, criteria and guidelines to advise future decision-making for all major stakeholder groups in the large dams debate.

Send applications and nominations, with resumes to: Interim Secretariat, World Commission on Dams, 1400 16th Street, N.W., Suite 502, Washington, D.C. 20036, USA. Fax: +1 (202) 797-4561 Email: dams@iucnus.org

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SPORT

Who will reign in Spain? Motor racing – page 51

DOPING ■ The prosecutions are mounting. Any association with East Germany's former regime means immediate suspicion and mistrust

The chilling legacy of a tainted past

BONGARTS

Proud to wear the flag: Kristin Otto insists she was 'clean' in her heyday

Clive Freeman

IN AN outlying district of east Berlin, 56-year-old Dr Ekkart Arbeit stands at the door of his drab flat on the 14th floor of a tower block.

"My reputation is being destroyed by wild rumours. I have done no wrong," he says bitterly before venturing hurriedly back inside.

Arbeit, East Germany's chief field and track coach in the late 1980s, is one of the most experienced trainers in the world but is also the latest victim of a burgeoning crisis in German sport following a spate of prosecutions for doping during half of the country's communist past.

As yet, he has faced no charges. But the very fact that he is still in Berlin is a result of the veil of suspicion hanging over him. Earlier this month, Arbeit was appointed coach of Australia's athletics team, an announcement that caused uproar not only Down Under where authorities were criticised for failing properly to investigate Arbeit's background, but throughout Germany. His departure for Australia has been delayed while his appointment is reconsidered.

When I called on him, Arbeit had only recently returned home after being forced underground to escape media pressure. He refused to discuss in detail allegations that he was closely integrated into East Germany's state-backed doping programme during the years from 1982-88 when he was the state's chief javelin and shot-put trainer, and from 1988-89 when he was head track and field coach.

Critics, he said, were spreading lies about him. If there were doping practices in GDR sport, he'd never been involved in them.

Opinion in Australia appears to be split. Some athletes have refused to train under Arbeit. Others, such as Australian long jump legend Ron Clarke, describe his treatment as a "witchhunt" and stress that Arbeit had, after all, been strongly recommended for the job by former British chief coach Frank Dick, who knew of his coaching work in Italy, Greece and Israel after German unification.

Dick, who is now president of the European Athletics Coaches' Association, warned that the Arbeit case was not helping Sydney's reputation as Olympic host in 2000. The uproar, he said, was "seriously damaging to the climate of trust and confidence. It is extremely disappointing that Dr Arbeit's character and ethics are being misrepresented. He is an immense asset for Australian athletics and enjoys the respect of all coaches and athletes with whom he has worked".

Mysteriously, Greek sources have told *The European* that there are no official documents relating to Arbeit's stay in that country. "There is nothing to tell us exactly what he was doing," said one source. "I am not sure how he managed to coach our athletes, if at all, although I am not implying he was here illegally."

For Arbeit, who drives around in an ageing Volkswagen and has been out of a job since February, getting the Australian post was a dream come true. His four-year contract was worth more than DM500,000 ($275,000).

Arbeit had planned to fly to Australia this week to take up his job, and his wife was looking forward to celebrating Christmas with him in Melbourne. But now he has an uneasy wait while a commission investigates his appointment.

The suspicion hanging over Arbeit's appointment is linked to a far greater scandal, first exposed in *The European* in September, over the extent of doping in German Democratic Republic sport during the communist era.

In the past fortnight four prominent former sports trainers have been charged with doping 17 under-age swimmers between 1974 and 1989. Fifty-seven other trainers, doctors and sports functionaries are also under investigation. Most of them, according to reliable German sources, are likely to face prosecution early next year.

East Germany's doping programme involved giving steroids and other drugs both to top athletes and to children, who were told, according to Berlin investigators, to take their 'vitamin pills' and not tell anyone about them, even their parents.

They say files kept at the Kreischa Sports Medicine Centre in Dresden reveal how research was conducted into performance-enhancing drugs during the Cold War years.

The four accused trainers are Dieter Lindemann, 46, a former coach of Olympic medallist Franziska van Almsick, who faces four counts of doping under-age swimmers and causing bodily harm; Volker Frischke, 53, coach of European champion Kerstin Kielgass, charged on eight counts; Rolf Glaser, 57, who has been working as a trainer with the Austrian national swim team in recent years; and Dieter Krause, 50, who is no longer active in sport, and is accused on three counts.

GERMANY'S DOPING SHAME

How we exposed one of European sport's great scandals. Only now is the full impact being felt across Germany

All four trainers were employed by the former 'Stasi' secret service club, SC Dynamo. Lindemann and Frischke became national trainers with the German Sports Federation (DSB) after German unity. Now they have been fired.

Rüdiger Tretow, the new president of the DSB, says Frischke and Lindemann were dismissed for making "false statements" at the time they were hired.

A 60-strong police squad known as 'ZERV' (Zentrale Ermittlungstelle Regierungs und Vereinigungs Kriminalitaet) has spent the past four years investigating the scandal. Back in 1990, Manfred Hoeppner, the deputy director and chief physician of the Kreischa Centre, sold incriminating documents to the German magazine, *Stern*. A year later, professor Werner Franke, a Heidelberg molecular biologist and world authority on drug misuse in sport, wrote a book called *Doping*, based on information and research he and his wife, Brigitte Berendonk, a former West German Olympic discus thrower, had carried out in the East. Franke claimed the East German programme was "one of the largest pharmacological experiments in history", and that it was not only approved by the top levels of the GDR government but also officially mandated in 1974 by a nine-page central committee order.

Years later, as more and more charges are laid, not a single East German competitor or coach is above suspicion. Even Kristin Otto, the Leipzig-born wonder girl of East German swimming, has found herself at the centre of a bitter row.

As more and more charges are laid, not a single coach or competitor is above suspicion

Otto, who won six gold medals at the Seoul Olympics in 1988, is now 31 and retired from active sport. But she has faced constant accusations – all vehemently denied – that her successes may have had more to do with performance-enhancing drugs than with natural ability.

Otto's name allegedly was among a number of swimmers whose bodies had high levels of male hormones when drug-tested prior to the 1989 European championships in Bonn. Otto, now working as a sports commentator, has admitted on German television that she took pills but said she had no reason to believe they contained any banned substance. However, two other top swimmers, Jörg Hoffman and Karen König, have admitted taking drugs while competing for the former communist state.

Such is the sensitivity and upheaval that has been aroused by the whole issue of doping that an invitation to Otto to receive a plaque at a gathering in the eastern German town of Zwickau on 23 October for her services to sport has been withdrawn with, it has to be said, Otto's consent. In a letter to the organisers, Otto said that the undignified campaign against her made it impossible for her receive the award.

Those who protest that the German authorities are over-reacting in a bid to sweep away the tarnished past of the eastern side of the country should consider one unsavoury case being investigated by Berlin police.

Jörg Sievers, a talented teenage swimmer from Magdeburg, was found dead in 1973 at the bottom of a swimming pool where he trained with teammates. His father claims those at the Magdeburg club at the time may have been responsible. A Leipzig sports doctor, Eberhard Köhler, whose name has been linked with the case, is one of those being investigated by ZERV investigators. Köhler worked in Magdeburg at the time but denies any wrongdoing.

An isolated case? Perhaps, but taken with scores of others of an equally mysterious nature, it is no surprise that the Berlin police investigation into systematic doping has taken four years to bring about prosecutions.

Some of those allegedly involved probably thought they could get away with it. A German television station recently claimed that the boss of East German sport at the time of the 1980 Moscow Olympics, Manfred Ewald, contacted his counterpart in the then Soviet Union seeking reassurances that testing for anabolic steroids would be relaxed for his athletes.

The programme alleged that Ewald asked that no records be kept of the exchange because "one never knows what can happen in the future".

SPORTING WORLD

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SWEDISH yacht *EF Language*, skippered by American Paul Cayard, won the first leg of the Whitbread Round the World race. The crew completed the voyage to Cape Town from Southampton, England, in 30 days, 16 hours, 54 minutes and 26 seconds – more than three days faster than the record set by the maxi *UBS* in 1985. Cayard said the hardest conditions had been south of Madeira when vicious squalls alternated with flat calms. "At one stage we spun through 360 degrees, completely out of control," he said. The second leg to New Zealand starts on 8 November.

ATHLETICS

Walk-away threat

THE former Olympic gold medallist for the 20-km walk, Daniel Plaza, says he will retire if a two-year ban imposed on him for drug abuse is not withdrawn. "October 1999 is a long way away," he said, referring to the time he could legally return. Plaza tested positive for anabolic steroids at the Spanish national championships in June 1996 but the ban was not announced until now. He has consistently denied the charge. Plaza became Spain's first ever Olympic athletics champion at the Barcelona Games of 1992, parading proudly round the track in both Spanish and Catalan flags .

FOOTBALL

Hooligan summit

POLICE chiefs from across Europe will visit Britain early next year to discuss co-operation between forces to stop hooligans wrecking the World Cup finals in France. The meeting has been organised as part of Britain's forthcoming presidency of the European Union. "What is crucially important is that we intensify the intelligence-sharing with the French authorities," said the British Home Secretary, Jack Straw. "We will do everything we can to disrupt the activities of those who have no interest in seeing football, but simply in committing mayhem."

FOOTBALL

Witschge surprise

THE Ajax Amsterdam midfielder, Richard Witschge, has vowed never to play for the Netherlands again after he was dropped from the team for the World Cup qualifying match against Turkey on 11 October. The Dutch national team coach, Guus Hiddink, said Witschge's announcement, made in a television interview, had taken him by surprise. "It is a shame he doesn't want to continue. I am not sure how to respond to him – I'll have to give it some thought," Hiddink said. A goalless home draw against the visiting Turks assured the Dutch of a place in the finals .

SPORT

CLIVE BRUNSKILL/ALLSPORT

Living legend: but Boris Becker is keen to develop new stars to play in the Grand Slam Cup and world championship

TENNIS ■ Germany has no new stars but still has two huge events

Sponsors and fans stay loyal

BILL SCOTT

WHEN German tennis was the envy of the world, it was fitting that the country should create the two most prestigious and richest European tournaments outside of the Grand Slams.

But as Boris Becker's star wanes, Michael Stich eases into anonymity and Steffi Graf recovers from yet another interminable injury, Germany could be forgiven for ending its love affair with tennis. In fact, the reverse seems to be the case.

In a recent survey of 1,000 Germans aged 14, tennis ranked behind only football – and ahead of Formula One – in popularity. "It seems to confirm there is still a tennis boom," said Peter Olsson, marketing director of the Grand Slam Cup, one of the country's two end-of-season blockbusters. "Tennis is still considered something extremely attractive for sponsors."

The International Tennis Federation (ITF), which runs the Grand Slam Cup in Munich, and the ATP Tour, which puts on the end-of-season world championship in Hannover, remain optimistic that both their big-money events will not only survive but thrive – despite the fact that they take place in the last third of the year. The Grand Slam Cup pays out a staggering $6 million to 16 players for a six-day event, while the world championship comprises the best eight men in the world.

Bill Babcock, director of men's tennis at the ITF, says that even if Germany fails to produce new champions in the next few years, the Grand Slam Cup will stay where it is. "Both our event and the world championship were born when German tennis was on a high. But if our contract partners are still willing to make the same offer to the players, we have a duty to support that," he said.

"You can't say that just because Germany may not have a top player it shouldn't have these events. If you say that, you'd have to say the same about Wimbledon and Roland Garros."

Not surprisingly, organisers of the ATP Tour world championship starting on 11 November are more than happy about the future of *their* tournament. Michael Duff, head of the ATP Tour's International division, said: "Ticket sales are up on 1996, even though Becker will not be playing. We are committed until 1999. The tournament is usually a battle for number one in the world, so it sells."

Maybe so, but Becker, the man who sparked the German tennis boom, is concerned that his country could soon hit the end of its reign as the sport's financial golden goose. "We must find someone new to carry the game," he said. "We need world-class players to take the sport in Germany past the year 2000."

As Davis Cup manager and head of the junior team, Becker is striving to ensure a steady supply of top-class players to carry on his tradition. "People in Germany have been spoiled for the past ten to 12 years," he said. "It is unusual for a country with little tennis history to have had the number one players in both men and women. But that is over, and people must start getting used to it."

ICE HOCKEY ■ Stockholm's elite team must now find other ways to stop the player drain

Club flotation is frozen out by Sweden's amateur ethos

JANET RAE BROOKS

THE forced cancellation of the planned flotation of Swedish ice hockey club Djurgården has highlighted the increasingly difficult battle faced by Sweden's elite teams to survive economically in a country imbued with an amateur, sport-for-all philosophy.

Djurgården withdrew its planned flotation after failing to win approval from officials for its commercial restructuring. The Stockholm club was to have become Europe's first listed ice hockey team, and Sweden's first listed sports team, on 22 October.

"Whether we like it or not, we are facing the situation where more and more money is coming into elite sport," said Djurgården chief executive Peter Gudmundson. If this reality was not recognised, he said, Sweden would lose its best players and become a second-ranked nation in sport.

Djurgården was forced to cancel the listing after losing the support of the Swedish Ice Hockey Association (SIHA), which feared expulsion from Sweden's central governing sports body if it backed Djurgården. The Swedish Sports Confederation ruled that Djurgården's plan to transfer commercial operations to a separate company breached rules requiring clubs to be non-profit making. Djurgården planned to lend players and coaches back to the amateur team for Swedish elite league matches.

The SIHA approved Djurgården's arrangements in May, and again twice earlier this month. SIHA officials said they still backed the Djurgården flotation in principle but not in the way the club had proposed. The association said it would meet with the sports confederation's juridical committee to try to iron out disagreements.

Earlier, the confederation said Djurgården would be barred from competing in the Swedish league after 27 October unless commercial activities were transferred back to the parent amateur club. However, the confederation later conceded that it lacked the authority to expel teams, handing responsibility to the SIHA.

Djurgården goaltender Tommy Söderström threatened to boycott the national team because of the SIHA's actions. "I want to show by my actions and not just by words how badly and unjustly I consider the association has behaved towards Djurgården," he said.

Djurgården's chief aim had been to help keep its best players from being poached by wealthy foreign clubs. SIHA chairman Richard Fagerlund agreed that keeping elite players in Sweden was a priority, but said this could not be achieved simply by creating companies. Unlike Djurgården, many of the league's 11 other teams are based in small towns where raising share capital would be hard. "The national sports federation has to safeguard all clubs in Sweden," said Fagerlund. Some 2,000 individuals had pledged Skr45.7 million ($6m) for Djurgården shares. The money will be returned with interest next week.

The confederation has set up a committee to examine if its rules should be changed to allow teams to float, but its report is not due until the group's next general meeting in 1999.

The Djurgården board is to consider whether to seek compensation from the SIHA or the confederation.

MOTOR RACING ■ Once again, the season has reached a thrilling climax

PHOTOGRAPHS: EMPICS / SUTTON

Head-to-head: but Jerez is far more than just a race between Schumacher (left) and Villeneuve. It means huge investment for the sponsors and suppliers

DRIVERS' CHAMPIONSHIP

Schumacher, M	79
Villeneuve	78
Frentzen	41
Alesi	36
Coulthard	30
Berger	24
Irvine	22
Fisichella	20
Hakkinen	17
Panis	16
Herbert	15
Schumacher, R	13
Hill	7
Barrichello	6
Wurz	4
Trulli	3
Salo	2
Diniz	2
Nakano	2
Larini	1

CONSTRUCTORS

Williams-Renault	120
Ferrari	100
Benetton-Renault	63
McLaren-Mercedes	47
Jordan-Peugeot	33
Prost-Mugen Honda	21
Sauber-Petronas	15
Arrows-Yamaha	9
Stewart-Ford	6
Tyrrell-Ford	2

Gearing up for the final showdown

ROBERT ALEXANDER

THREE years ago, Michael Schumacher returned from suspension to win the European Grand Prix for Benetton and then, with a one-point lead, moved on to Australia to take the world drivers' championship in sensational fashion in the final race of the season.

It was Benetton's first title, brought them global attention and turned team chief Flavio Briatore into an overnight celebrity.

Their title sponsors, Japan Tobacco's Mild Seven cigarette brand, enjoyed an immediate boost in image and swiftly confirmed a multi-year contract which kept them connected to Benetton's youthful and competitive approach.

This weekend, at the same remote Andalusia circuit at Jerez south of Seville, Schumacher will be hoping for a similar outcome, but without the controversy which accompanied his collision with Damon Hill in Adelaide in 1994.

This time, Schumacher's rival one point behind in the Williams-Renault is not Hill but Jacques Villeneuve, while Schumacher himself is not racing for Benetton, but for Ferrari.

It is a similar scenario to 1994, with the same tension but with different players and teams in a contest being billed across Europe as a smash-and-grab showdown for glory.

In truth, it is far more than that.

The stakes are so high that they have a value beyond that of being just another sporting title. Ferrari have not won the drivers' championship for 18 years, Schumacher is bidding for his third in four years and Villeneuve for his and Canada's first in only his second year in Formula One. But the race is also about the fierce rivalry between the teams' respective engine and fuel suppliers, their factory staff and their sponsors and marketing organisations.

The prize is rich – an instant worldwide marketing opportunity that is worth anywhere from $100 million to $200m.

For the winner, there will be enormous television, radio and written media coverage. That, in turn, will mean exposure for the teams and their backers. For Ferrari, this means Marlboro, Shell, Fiat and Asprey among others, while for Williams it signals commercial openings of unlimited opportunity for Rothmans, Renault and Castrol.

With just one point separating the two men as they prepare for their final race, every word uttered by either team is given high-profile publicity. At the last race, the Japanese Grand Prix, the Rothmans marketing team already had a pre-planned television schedule organised for Villeneuve should he have won the race and the championship. His disappointment in not doing so was magnified many times over by the Rothmans staff when they had to cancel studios and hotel rooms.

Few marketing men are prepared to talk openly about the value of a world championship to image and exposure, but all of them know that this weekend's race will focus the attention for an estimated 500 million television viewers on Sunday afternoon – and that the lasting image will be of the man on top of the podium and the makes of his favourite drink, car, fuel and lubricants written all over his overalls.

The pulling power of Formula One is extraordinary. Last year, 41 billion viewers in 202 countries watched the championship unfold, and this year the analysts are predicting another increase.

"It is impossible to put a value on it, but the worldwide exposure for a company associated with the drivers' champion must be worth a total that runs to a figure with least six noughts," said Olaf Schwaier, the motorsports marketing co-ordinator for Castrol. And that, he said, was leaning towards caution. "It may be more. How can we guess? A win gives enormous television exposure and that in turn gives worldwide brand exposure. The enduring interest in Jacques, if he wins, and in Formula One, also rubs off on the sponsors for a long period. We are already experiencing some of that thanks to Williams having won the constructors' championship again."

It is not possible to put a value on being world champion

Like all the big-hitting companies involved, Castrol – an Anglo-Scottish lubricants specialist with a burgeoning business in Latin America – will almost certainly launch a worldwide advertising campaign built around a Villeneuve success. That will help them in joint ventures and franchises internationally, hoisting Castrol's name into a much sharper level of image-awareness than at any time since they were associated with the hugely successful years of Jaguar cars at the Le Mans 24 Hours race and at Daytona. So, for Castrol alone, a Villeneuve victory will be big business.

Yet this will pale into insignificance if Schumacher, as expected, secures a form of motor racing immortality by winning his third driver's crown, so ending Ferrari's 18 years in the wilderness. The pressure on the 28-year-old German driver and his team is so great that they are wisely advised not even to contemplate victory or, for that matter, defeat. Marlboro, the team's title sponsors, last year ended a long 20-year relationship with McLaren to devote all their Formula One attention and funds to Ferrari. Shell, searching for a way of regaining sales in the important German and central European markets, also switched to Ferrari when Schumacher left Benetton to join the Italian team in 1996.

The budgets involved, as widely reported, are staggering: it has been estimated that Ferrari's costs this year in attempting to end a generation of failure have escalated beyond $140m. Schumacher alone reportedly costs them $25m a season, money the team will consider well spent if they can satisfy the cravings of a nation.

At no time would a Ferrari victory taste sweeter: the famous Italian marque is celebrating its 50th anniversary this year and a drivers' championship title would be the perfect way of marking the occasion.

Marlboro and Shell are also ravenous for success to end Williams' era of supremacy and give the world's billboards a splash of red-and-yellow.

The stakes, then, are unfathomable, so much so that they could tempt, almost subconsciously, the two Ferrari drivers, Schumacher and Eddie Irvine, to contest parts of the track too fiercely and produce an outcome as acrimonious and tempestuous as that in 1994.

Villeneuve may not have Schumacher's natural skills but has won 11 races in his first two F1 seasons after switching from IndyCar. He also has the best car but it remains to be seen how much he has been affected by events in Japan when he lost two points and slipped behind his great German rival.

Both drivers have pledged themselves to sportsmanship and a desire for a clean finish, but the record of recent years shows that even such intentions can be overwhelmed in the heat of the moment. Adelaide '94 was the most obvious example of tough tactics, but it was no less acceptable than the two championships which were settled at Suzuka by collisions involving Alain Prost and Ayrton Senna in 1989 and 1990.

In grand prix racing, the end can justify the means. It is to be hoped that Jerez '97 goes down in the record books as a title tussle decided by purely sporting methods – a straight race to the podium and the championship.

SPORT

SHAUN BOTTERILL

The previous showdown: Vladislav Radomir (No. 19) is shadowed by Alessandro del Piero at Euro 96. Italy won 2-1 but have always struggled against the men from Moscow

FOOTBALL ■ Will it be Russia or Italy who miss the World Cup party?

Last chance to qualify

DOMINIC O'REILLY

WHEN a country's football team are in a mess, Russia are probably the last opponents they would want to face.

The Germans are remorseless, Yugoslavs can embarrass anyone with their skills, and Scandinavian players are as tough as modern-day Vikings. But with Russia, it is impossible to predict which team will take the field: the one whose players won't pass to one another, or the one so fired up with love for Mother Russia that they play like men possessed.

That is the danger facing Italy in the forthcoming World Cup playoff matches in Moscow on 29 October and in Naples on 15 November which will decide if the Italians miss out on the finals for the first time in 40 years.

The Russians should have qualified automatically, having had the better of the group winners Bulgaria in their two head-to-head matches, but draws with Cyprus and Israel cost them dear. These setbacks caused questions to be asked in the Duma, the Russian parliament, with President Boris Yeltsin urged to intervene and save the country from further shame.

With their pride still hurt, the Russian team will be in a mood to silence their critics. What better way of doing that than defeating one of Europe's greatest footballing powers? Constantin Kleschev, chief football writer for Russian daily *Sport Express*, believes that whatever happens, his country's team will not suffer.

"Win, and they will be heroes. Lose? There will be no shame in being beaten by Italy," he said. "The players remember that at Euro 96 they outplayed the Italians for almost an hour. It was only when they tired that they lost."

This time, Russia should be fitter since the play-offs coincide with the middle of their domestic league programme. And, in an echo of the Cold War, they will benefit from espionage. Five of the national team play their club football in Italy and Omari Tetradze of Roma has kept a diary listing the strengths and weaknesses of the local players.

'Win, and be heroes. Lose? There will be no shame'

It is a level of preparation that has been lacking in previous campaigns. Russia qualified for the last World Cup and for Euro 96 but were a squabbling rabble at both. Four years ago, seven top players refused to play for the then national coach Valentin Sych. At Euro 96, his autocratic successor Oleg Romantsev sent one player home and dropped two more after arguments over money.

The present coach Boris Ignatiev has united the team but, in true Russian style, this brought its own problems. He was accused of being just too damn nice until, possibly in a bid to shed this goody-goody image, Ignatiev accused the players of not trying hard enough because none was ever injured. "No stretchers equals no commitment," was his motto.

Whether true or not, the criticism worked as the Russians hammered Bulgaria 4-2 in their last qualifying match with an enthusiam and energy that would have left a whirling dervish longing for the final whistle.

The Russian Football Union will be hoping that the display can be repeated against the Italians. After a troubled few years when allegations of corruption and incompetence were rife, and probably fairly accurate, the Russian league is finally sorting itself out. Clubs now have to produce audited accounts, and the union has set up a marketing agency to promote Russian football. World Cup qualification would provide a huge boost.

For once, it is their opponents who are coming apart at the seams. Pessimists are reminding themselves that the Soviet Union were the only nation to win more matches than they lost against Italy and such is the confusion that, in a newspaper poll, 17 per cent of voters blame previous national coach Arrigo Sacchi for the recent disaster against England.

In truth, it was merely another sign of Italian football's decline. Its league, once unquestionably the best in the world, is being overshadowed by the Spanish and English championships and, last season, Italian clubs failed to win a European trophy for only the second time in a decade. Giuseppe Pistilli, deputy editor of *Corriere dello Sport*, said there has been a change in attitudes. "Here, muscles are being prized over inventiveness," he said. "You could see this in the way England's midfield outplayed ours – it was they who were playing *all' italiana* not us."

Gianni Mura, chief football writer for *La Repubblica*, called on Italian coach Cesare Maldini to rely less on gamesmanship and more on tactics. "We must study Russia like England studied us," he said. "There is no point in putting more pressure on Maldini, but he must realise where he went wrong."

First he must cure the divisions: Maldini was publicly criticised by playmaker Gianfranco Zola after the England match and the team seem to be disintegrating at the worst possible moment. Without drastic action, they may join Napoleon and Hitler in the list of those making a shameful retreat from Moscow.

Additional reporting by Michele Puccioni

OTHER TIES

How the rest will shape up

CROATIA-UKRAINE: Should Ukraine triumph, it will be a case of the latest surprise package beating last year's model. The Croats became the romantics' favourite at Euro 96 on a wave of emotion and flair but folded under the pressure. This time around, that role has been taken by Ukraine, who only missed automatic qualification by the width of a post against Germany. With the Croats at a loss to explain their inconsistency, expect Ukraine to edge through after a tight second leg in front of 100,000 fans in Kiev.

HUNGARY-YUGOSLAVIA: The Magyars are on a steady if slow upward curve, having qualified for last year's Olympics. But they only reached the playoffs thanks to a last-minute goal in Finland while Yugoslavia have shrugged off a four-year exile from world football to become one of the most exciting teams. The 'Genie and the Pixie' – Dejan Savicevic and Dragan Stojkovic – are an intoxicating duo. Throw in Peja Mijatovic, Vladimir Jugovic and Sinisa Mihajlovic and you have an attacking line-up that should destroy the Hungarians.

IRELAND-BELGIUM: The hardest of all the playoffs to call. The heart goes for the Republic with their blend of youth and World Cup veterans and their diehard fans. But the head says that Belgium's Dutch-based strike force of Luc Nilis and Gilles de Bilde will provide the goals to send them on the short journey to France. If any of the four playoffs ends up being settled by the dreaded Golden Goal, this could be the one.

DOMINIC O'REILLY

EUROPE'S BEST ■ Two months into the new season, the cream is rising to the top of the charts

Ajax edge upwards

THIS was supposed to have been the season when Ajax Amsterdam struggled, when the famous Dutch club would be found out as it sought to replace a generation of home-grown players.

But the opposite has occurred and ten straight wins in their domestic league has seen Morten Olsen's side climb to fifth place in *The European*'s guide to the most consistent teams across the Continent. Ajax leapfrog over Monaco which lost 1-0 at Lens in the French league.

Ajax's rivals PSV Eindhoven are rewarded for a 4-0 away win and a 2-2 away draw by moving up three places to 17th, while two fine wins in a week by Atletico Madrid see them move up one spot to 11th.

Two Champions' League clubs are making strong progress: Besiktas of Turkey, who have jumped seven spots and Beyer Leverkusen of Germany whose away win at Borussia Dortmund helped them rise eight places.

The *European* table is a form guide that goes back 50 matches. Stronger emphasis is placed on current form, so expect the Arsenals of this world to enter shortly despite their lack of European success over the last two seasons. Next week's table is certain to show even more movement after the latest games in the three European club competitions.

THE EUROPEAN TOP 50

	Last week	TEAM	Country	Points
1	1	JUVENTUS	Italy	207.7
2	2	INTER MILAN	Italy	188.7
3	3	BARCELONA	Spain	186.5
4	4	BORUSSIA DORTMUND	Germany	182.4
5	6	AJAX	Holland	173.6
6	5	MONACO	France	172.2
7	7	PARIS ST GERMAIN	France	167.7
8	8	FC PORTO	Portugal	160.3
9	9	REAL MADRID	Spain	157.5
10	10	SCHALKE	Germany	154.4
11	12	ATLETICO MADRID	Spain	151.5
12	13	PARMA	Italy	147.7
13	11	LAZIO	Italy	147.2
14	17	PSV EINDHOVEN	Holland	144.6
15	14	MANCHESTER UNITED	England	144.3
16	16	FEYENOORD	Holland	143.1
17	18	BAYERN MUNICH	Germany	142.4
18	15	DYNAMO TIBLISI	Georgia	141.4
19	19	ROSENBORG TRONDHEIM	Norway	140.2
20	22	SPORTING LISBON	Portugal	138.8
21	23	FC BRUGES	Belgium	137.9
22	20	LIVERPOOL	England	137.8
23	21	AEK ATHENS	Greece	136.5
24	25	SAMPDORIA	Italy	133.2
25	26	AUXERRE	France	132.2
26	24	METZ	France	131.7
27	27	SKONTO RIGA	Latvia	131.3
28	28	GALATASARAY	Turkey	130.5
29	29	UDINESE	Italy	129.7
30	31	WIDZEW LODZ	Poland	129.0
31	38	BESIKTAS	Turkey	128.0
32	30	VICENZA	Italy	127.2
33	32	DYNAMO KIEV	Ukraine	126.9
34	35	KARLSRUHE	Germany	126.9
35	34	FENERBAHCE	Turkey	126.5
36	44	BAYER LEVERKUSEN	Germany	126.4
37	33	NEWCASTLE UNITED	England	126.3
38	36	TRABZONSPOR	Turkey	125.5
39	37	CROATIA ZAGREB	Croatia	125.5
40	46	ROTOR VOLGOGRAD	Russia	125.3
41	39	SPARTAK MOSCOW	Russia	124.8
42	41	BENFICA	Portugal	124.8
43	45	BORDEAUX	France	124.7
44	40	OLYMPIAKOS PIREUS	Greece	124.5
45	42	SLAVIA PRAGUE	Czech Republic	124.1
46	43	BRONDBY	Denmark	123.9
47	49	RANGERS	Scotland	122.3
48	53	RODA JC	Holland	122.1
49	51	ANORTHOSIS FAMAGUSTA	Cyprus	121.6
50	54	STEAUA BUCHAREST	Romania	121.6

HOW POINTS ARE ALLOCATED

EUROPEAN COMPETITION: Champions League: 4.5 points for away win, 3.5 home win, 1.5 draw; Uefa and Cupwinners Cup: 3.5 away win, 2.5 home win, 1 draw; (one extra point given to any side that beats a seeded side)

DOMESTIC LEAGUES (prior to this season): Top tier teams: 3 away win, 2 home win, 1 draw; Second tier: 2.5 away win, 1.5 home win, 0.5 draw

This season:
Top Tier teams 3.5 away win, 2.5 home win, 1.5 draw; Second tier remains unchanged

Good week for...

The shareholders of Manchester United, the only one of 18 football clubs on the stock market to improve their share price since April. While the majority of clubs floated have suffered a drop in value, United's shares have increased from 644p to 667.5p since the start of the financial year.

Paul Cayard *(pictured)* skippered Swedish yacht EF Language to victory in the 7,350-mile first leg of the Whitbread round-the-world yacht race. Cayard and his crew now have until Nov 8 to sample the delights of Cape Town before setting off again.

Alexandr Lebziak, the Russian light-heavyweight boxer, made the quarterfinals of the world amateur championships without even throwing a punch. Having already received a first-round bye, his next opponent pulled out with a stomach upset. All the Russian had to do was wait in his corner for a mandatory period.

Bad week for...

Roy Evans *(pictured)*, Liverpool manager, not only saw his side lose to local rivals Everton but then suffered the indignity of a second humiliating result in four days as his players went down 3-0 to Strasbourg in the Uefa Cup and almost certainly said goodbye to Europe for another season.

Aad de Mos, Dutch coach of Belgian club Standard Liège, was sacked after a run of poor results. De Mos had problems from the start, saying the players he had inherited would not be good enough to put up a realistic title challenge

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ITALY ■ A medieval village enables office workers to 'commute' to work on the Net

Hi-tech haven for computer hermits

ROSSELLA LORENZI

THE Italian village of Colletta di Castelbianco is the sort of place that comes tantalisingly to mind on a Monday morning in the office. Perched on a hill with sweeping views over the rugged Ligurian countryside, it is a tangle of medieval lanes, arches, steps and terracotta roofs.

But by June next year it need no longer be an unattainable commuter fantasy. Colletta is to become Italy's first 'telematic village', its 65 flats equipped with the latest technology to enable office workers with a hankering for rural isolation to operate from home.

Each house is fitted with telephone lines with two separate high-speed channels for the transmission of voice and data, as well as cable and satellite television and 'interactive' television services. In addition, the village will have its own server connected to an Internet provider, which means that Colletta's inhabitants will be permanently online.

No cars are allowed in the grey slate streets and, as shops are also banned, residents must rely on teleshopping for provisions, although the village caretaker is on hand to run errands when required.

For evening entertainment there will be a 400 seat 'teletheatre' for live cultural events and virtual art, and a cafe – a cybercafe, naturally, so that locals can continue to trawl the world's computer networks over their morning cappuccino.

Until now, although Colletta was enticingly picturesque, it was hard for anyone to earn a living there. The steep slopes of the valley are difficult to cultivate and its relative isolation made commuting time-consuming. For 30 years it lay abandoned until developers discovered that the unusual lay-out of the village made it a perfect site for a hi-tech centre.

"The houses were built one above the other like a mussel bed on a rock, which made life much easier," says architect Giancarlo De Carlo, who won acclaim for his restoration of the historic centre of Urbino. "Wiring the village is easier here because you're adapting the stone, rather than concrete." Building work is expected to continue until 1999, with the first apartments completed in March 1998.

Online: flats in Colletta di Castelbianco sell from $120,000

A number of financial brokers, academics and entrepreneurs have already bought properties, lured by the prospect of the views from their desks over a valley of rosemary, thyme and sage fields.

The idea of living surrounded by computer nerds does not worry Marco Revelli, one of the first to sign up for a flat. A lecturer at Turin university and the author of a book on the destructiveness of computers, he was seeking a tranquil retreat which can double up as an office and holiday house. "I like the idea of living in a 400-year old stone-built house and, at the same time, being thrown into the future."

This privilege costs about $120,000 for a one-bedroom flat; prices rise up to $340,000 for a four-bedroom apartment. A few of the apartments have their own private gardens.

While the interiors are luxuriously restored, the exteriors have been changed as little as possible. The village will be surrounded by a park with a swimming pool, solarium and tennis court. Hi-tech hermits will also be able to take screen breaks in nearby sport facilities including a golf course, a riding school and mountain bike trails.

Most buyers are expected to use the flats as holiday homes or emergency retreats where they can keep tabs on office affairs. "Sales are going well," says Valerio Saggini, responsible for the project. "Colletta is a good investment as prices will certainly rise in coming years. This is a unique place which offers a unique lifestyle."

Contact: Colletta di Castelbianco
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Fax +39-131- 26 24 07;
Colletta can be toured online at http://www.colletta.it

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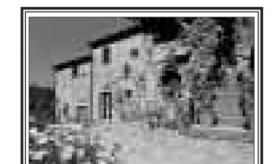

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The Continental

Are you carrying the right bag? Your bag sends out secret signals; find out what they mean – page 59

SECRET ADDRESSES ■

Unveiling the exclusive locations which should be on the top of every traveller's list

Hotels better than home

STEPHANIE THEOBALD

THE changing face of luxury is perfectly illustrated by fashions in hotel lobbies. In the 1960s and 1970s the hotel foyer was typecast as the ostentatious marble stage where human extravagance could be enacted to the campest degree.

In the era of *Hello Dolly*, when Ginger Rogers and Carol Channing cavorted their way round the humongous polished lobby of their hotel in the company of high-kicking concierges and shimmying bell boys, the concept of discreet intimacy was as welcome as a hole in your tap shoes.

Luckily in the 1990s, now that we are all low-key and sophisticated, we don't need an officious doorman and a lobby the size of an ice skating rink to convince us that we are in the lap of luxury. If you get it right, there is nothing sexier than staying in a hotel, especially if you are on your own (in the 1990s, *especially* if you are on your own). These days, the right hotel can provide the kind of psychological pampering only otherwise available through therapists and hairdressers. Just remember: you don't always have to go to a *grand hotel* to get a quotient of *grand luxe*.

Niki Harold, general manager of London's Durley House, one of Europe's growing range of so-called 'boutique' hotels, knows all about the importance of being loved: "Nobody wants to be anonymous. Nobody wants to be a face in the crowd. You want to feel liked."

But old-fashioned values like niceness don't cancel out such modern imperatives as good lighting, big beds, power showers and modem connections. The Durley, in the heart of the exclusive Knightsbridge shopping district, contains all mod cons in its 11 suites. Each has kitchen facilities, although most guests – including Jessica Lange, Kevin Costner and Mel Gibson – prefer to have the staff organise exclusive cocktail parties in the privacy of their suites. And absolutely no choreographic extravaganzas.

The Pelham in London's fashionable SW7 has 44 bedrooms and Harrods is within walking distance.

***Grand luxe*: A suite at The Pelham in London offers style and comfort, and Harrods is a short walk away**

Customers can't get enough of smallness

The concrete monster hotel chains – Forte and Intercontinental – are taking a leaf out of the book of the small fry and starting to build smaller also. But the main point of the new 'boutiques' is precisely that they are even better than home and sexiest of all is to live in a hotel. We all still want to be Coco Chanel living at the Paris Ritz in the 1930s.

Boutique hotels are filled with modern-day Coco Chanels – people for whom a hotel lifestyle is an attractive alternative to mundane domesticity. Living in a discreet hotel for a week, a month or a year is an ideal arrangement for those desperate for some personal space, whose life is in flux, people looking for adventure or those who want a breather from their furniture, their neighbours and their never quite fresh enough sheets.

The late Italian film actor Marcello Mastroianni made a quiet hotel on the left bank of Paris his home for two years. The Hôtel de L'Abbaye – a former convent – also housed the actor Klaus Kinski in the 1970s. French actress Juliette Binoche has been known to take up residence during times of duress. Writers also favour the location – just out of the main drag of the publishing district of St Germain – as a place of calm which offers the peace of a monastery, the *luxe* of the olden days and a clientele seriously worth rubbing shoulders with.

The French claim to be the ones to have invented the 'boutique' concept, although in France they call them 'charm' hotels. Delphine Bouillet has been working at the Abbaye for four years and says that customers can't get enough of smallness. She points out that the atmosphere is like that of a family but without the psycho-claustrophobia that often accompanies life *en famille*. And she adds: "Most of the staff have been here for more than 20 years. Most of our guests are regulars. They come here because they don't want to be in a hotel that feels like a hotel."

Boutique hotels should not be confused with the new crop of fashion hotels – such as the Met in London or the Costes in Paris – where you might feel nervous about venturing down to dinner if you are over 25. If, on the other hand, you were lodged at Hazlitt's in Soho – the former home of the essayist William Hazlitt – you would feel a sense of belonging in the humming hub of trendy Britain.

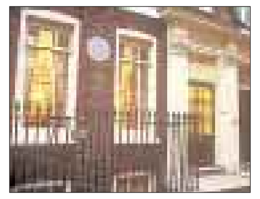
An alternative way to use these hotels is as pied-à-terre bases when visiting friends in a city you know but where you want the luxury of your own space. When you meet your friends for dinner, you know that your conversation will be so much more interesting than usual.

Instead of tales of sheet glass windows that don't open and 30-minute queues at reception amid crowds of jostling tourists, you can impress with your idiosyncratic lodgings: the place that used to be a convent (Hôtel de L'Abbaye, Paris), or a brothel (Hotel Monaco, Madrid), the bedroom designed by Karl Lagerfeld (Schlosshotel, Berlin), or the Hotel Lord Byron in Rome – so secret that Michael Jackson stayed there on a recent tour, and booked every one of the 57 personalised rooms.

GUIDE

Individual hotels for the discerning executive

LONDON ***Hazlitt's*, 6 Frith Street, Soho Square, London W1V 5TZ, tel: +44 (0) 171 434 1771, fax: +44 (0) 171 439 1524. The former house of the essayist in the heart of Soho. Single room, $247, suites $327.**



Keep it secret: Hazlitt's

***The Pelham*, 15 Cromwell Place, London SW7 2LA, tel: +44 (0) 171 589 8288. Has 44 bedrooms and is a short walk from Harrods; prices from $207 for a single to $560 for the Pelham Suite.**

***Durley House*, 115 Sloane Street, London SW1X 9PJ, tel: +44 (0) 171 235 5537. Has just 11 rooms, prices from $350.**

BERLIN ***Schlosshotel Vier Jahreszeiten*, Brahmsstrasse 10. 14193 Berlin, tel: +49 30895840; fax: +49 8958480. This exclusive 40-room establishment hosts regulars including the Spanish royal family and Elton John. Two first class restaurants, an indoor pool, three saunas, solarium, whirlpool, and bar complete with open log fire make up the rest of the facilities. Single room from $311 per night, the top of the range Kaiser Suite $2,571.**

Berlin: Lagerfeld Suite

CHRISTIAN JUNGEBLODT

Exclusive: Berlin's Schlosshotel Vier Jahreszeiten

AMSTERDAM ***Canal House Hotel*, Keizersgracht 148, tel: +31 206 225182; fax: +31 206 24 1317. The owners of this quirky three-star hotel whose 23 bedrooms are individually furnished with antiques are especially welcoming to women on their own. It does not have a dining room but is situated in Amsterdam's scenic canal quarter close to numerous cafés, restaurants and bars. Prices range from $114 to $137.**

ROME ***Hotel Lord Byron*. Via G De Notaris 500197 Roma, tel: +39 6 322 0404/322 4541; fax: +39 6 322 0405. The Lord Byron hides behind a smart but unassuming 1950s exterior. The basement restaurant, Le Relais, prides itself on being a cut above the average hotel restaurant. Chef Franco Brancatella has a Michelin star. Prices from $181 for a single room, to suites costing from$379.**

Hiding place: Lord Byron

MADRID ***Hotel Monaco*, Calle Barbieri 5, tel: +34 1 522 46 30; fax: +34 1 521 16 01. The 32 bedrooms include a round boudoir with trompe l'oeil pink drape walls and clusters of plaster cherubs gazing down on a raised bathtub. The Monaco's kitsch has become a minor legend among arts and media visitors who love its central location, value, colourful guests and friendly service. Prices range from single rooms at $47, doubles at $68 and triples at $78.**

BRUSSELS ***Hotel Le Dixseptième*, Rue de la Madeleine, 25 1000 Bruxelles, tel: +32 2 502 57 44; fax: +32 2 502 64 24. This jewel of a hotel was for a long spell the residence of the Spanish ambassador to the city and its Louis XVI staircase is a listed work of art. Most of its 24 rooms are self-contained apartments. Atmosphere is calm and relaxed.**

Prices from $156 to $265. Special rates for weekends (from $111-$166) and customers are advised to book at least ten days in advance.

LISBON ***Hotel Britania* Rua Rodrigo Sampaio, 17 1150 Lisbon Portugal, tel: +35 11 315 50 16; fax: +35 11 315 50 21. This little-known hotel is in a quiet street in the very centre of Lisbon. It was built by art deco architect Cassiano Branco in 1940 and boasts luxuriously large rooms and bathrooms fitted in marble and chrome. Singles from $114 per night, breakfast included, and doubles are $132.**

VIENNA ***König Von Ungarn*, Schulerstrasse 10 Vienna, tel: +43 1 515 840. It hurts to give away this one - 33 rooms only - next to the house where Mozart composed *The Marriage of Figaro*. Rooms are elegantly furnished, lofty and secluded. Restaurant truly Viennese and very secluded. Prices start at $140 for a single to $175.**

PARIS ***Hôtel de L'Abbaye*, 100 Rue Cassette, 75006 Paris, tel: +33 1 45 44 38 11; fax: +33 1 45 48 07 86.**

One of Paris's most desirable hotels. In the 1600s, the building was a convent and the original stone arches can still be seen in the reception area. There are 42 double rooms and four two-storey suites. Each suite has a leafy terrace. Staff are friendly and the service is personalised. Double rooms from $168-$270, suites from $328. Breakfast is included.

Friendly: l'Abbaye

ATHENS ***Andromeda Hotel*, 22 Timoleontos, Vassou Street, Mavili Square, Athens 115 21, tel: +30 1 6437 302; fax: +30 1 6466 361. Probably the most exclusive hotel in Athens, and its goal is to maintain a low profile for a faithful clientele. It has been granted recognition and membership of the prestigious 'Small Luxury Hotels of the World'. It hosts no more than 70 clients at any one time, having 17 VIP de luxe rooms, four VIP studios, five suites and four penthouses. Prices start at $295 for a single and rise to $510 for a penthouse.**

BERNE ***Das Jugendstil-Hotel Belle Epoque*, Gerechtigkeitsgasse 18, 3011 Berne, tel: +41 31 311 43 36; fax: +41 31 311 39 36. Small but stylish and totally individual hotel, with a lively, museum-like atmosphere. Exquisite Art Nouveau objects adorn the 16-room house. Single room from $136, Double room from $193, lesser suites from $204.**

COPENHAGEN ***Havreholm Castle Hotel*, Annasvej 9, DK-2900 Hellerup, tel: +45 39 40 02 77; fax: +46 39 40 11 77. This 19th-century manor house, just a five-minute walk from the fine beach of Hornbæk, is a fashionable refuge for those who know better than the tourist map. Prices start at $144 per night, huge smorgasbord breakfast included.**

DUBLIN ***Longfield's Hotel*, 9 Lr Fitzwilliam St, Dublin 2, tel: +353 1 676 1367; fax +353 1 676 1542. A charming and intimate three-star hotel in the heart of Dublin's business and cultural district. Staff are soft-spoken and unruffled. The Number 10 restaurant has garnered numerous accolades. Single rooms from $112, double/ twin from $160 to $206.**

OSLO ***Frogner House*, Tel: +47 22 56 00 56; fax: +47 22 56 05 00.**

In the immediate vicinity of Oslo's Royal Palace, and a ten-minute walk from the city centre and the harbour lies this charming hotel known by its steady and loyal clientele for personal service and a home-from-home atmosphere. Prices from $147 for a single to $188 for a double.

The Continental

Diary of the Frankfurt Book Fair

ANNA TIMS

This year's 49th literary festival was the biggest ever with 351 exhibitors and the usual heady mix of scandal, intrigue and extraordinary success stories

PETER KULLMAN

Great expectations

GERMAN PUBLISHERS have long puzzled over why John Grisham's blockbusters should top the country's bestseller lists rather than the streams of consciousness from national monuments such as Peter Handke or Botho Strauss. Now they've hit on a startling revelation: German readers want plots with a beginning, a middle and an end and preferably some sex and a murder or two in between.

The result is a band of radical young writers who are thumbing their noses at the postwar tradition of *Neue Innerlichkeit* (new introspection) and attempting to produce novels with narrative. At the moment, for every German book translated into English, ten English ones are translated into German.

However, the German publishing world has such faith in this latest innovation that they have produced a magazine, *New Books in German*, to persuade foreign publishers that their literature is readable again.

ONE NEW NOVEL which amply fulfils this pioneering criteria is *Abstieg vom Zauberberg* (Descent From the Magic Mountain) by one Jens Walther. The plot follows the fortunes of a first-time novelist, Anna Becker, as she sleeps her way through the ranks of a leading German publishing house and wins a national literary award.

It is an all-too-plausible exposé of the intrigues undertaken to manhandle a title on to the bestseller lists and television chat shows and of the florid relationships between authors, publishers, booksellers and critics. The 'revelations' have scandalised Frankfurt, not least because the characters in the story are transparently recognisable figures from Germany's literary elite.

The ferment increased when Jens Walther was revealed as a pseudonym. But for whom? Clearly someone from the inner circle whose aim is to stir up literary Germany. Fingers have been pointed at Patrick Süskind, bestselling author of *Perfume* and the distinguished poet Hans Magnus Enzensberger. The mystery man has since volunteered a clue. "The author's opinion of the current publishing industry should be clear from the novel," he said via his publisher. "He despises it and wants nothing whatsoever to do with it."

MEANWHILE, temperatures were soaring over the treatment of yet another venerable German institution. Author Karl Hugo Pruys insisted that he was not dragging Wolfgang von Goethe "through the mud" by claiming that the poet was gay in his book *The Tender Caress*. However, his thesis that Goethe was an active although undeclared homosexual has caused outrage in Germany where Goethe is regarded as one of the few unsullied national heroes.

The Weimar Classics Foundation, which had agreed to sell the book at its 23 museums, withdrew its offer at the last minute, declaring it 'inappropriate'. Goethe, whose account of unrequited love for a woman in *The Sorrows of Young Werther* made suicide briefly fashionable, has traditionally been thought of as a ladies' man. This, says Pruys, is "pure invention". "I want people to see Goethe as he really was – delicate, a little effeminate and the antithesis of macho."

NICK COBBING/REX

Blockbuster: unknown British author Patrick Mawson made up to £3 million after European publishers fought for the rights to his novel *The Lazarus Child*

The only thing that gets better about the Frankfurt Book Fair is the wine

PUBLISHERS, having predicted the demise of the book and been proved wrong, are now fretting over the demise of blockbusting authors. "There are no top-rate authors coming through," lamented one literary agent. "The only thing that gets better about the book fair is the wine."

Nonetheless, over in Hall 8 a bidding frenzy was under way for the rights to a novel by obscure British author Robert Mawson. Patrick Janson-Smith of Transworld had camped outside the office of Mawson's agent to be first in with an offer for *The Lazarus Child*. "I read the book in one take and was outside that office at 8am. When Mawson arrived he had already been offered £50,000 ($80,000) by Hodder, so I reacted with a £250,000 offer. At auction Orian upped it to £300,000 but I clinched it for £450,000."

The Lazarus Child, a weepie about a couple's efforts to save their injured daughter, has since been auctioned across Europe and is set to be snapped up by Hollywood. Mawson, whose only other book sold 2,600 copies, has emerged from Frankfurt £3 million richer.

ELTON JOHN, alas, fared less well. Invigorated by the success of his tuneful tribute to Diana, his agent attempted to persuade publishers to pay $10m for the rights to his as yet unwritten autobiography. There was a resounding silence in Frankfurt where, incidentally, no fewer than 20 hastily compiled books on Princess Diana were competing for the spotlight. "Their reaction was frankly scornful," said one agent. "They were going about it as if the book were a recording deal, but after all what is there left to say about John?"

RIDING THE WAVE of self-help books aimed at aimed readers on their quest for the id, news broke of a radical new therapy guide from America. "They said it was called *Women Who Talk to their Vaginas*," said a puzzled British publisher. "Everyone was talking about it, but no-one could track it down."

HANDBAGS ■ This season, your true identity lies at the end of your arm

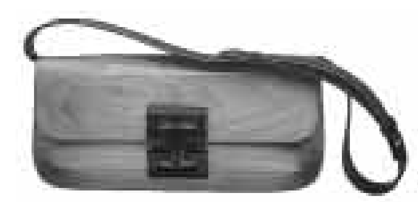
It's in the bag

ILLUSTRATIONS: PENNY SOBR

Men have always been baffled by the relationship women have with their handbags. Yesterday's man used to wonder why women carried so much around, today's man appreciates the slimness of the new bags but wonders about their inflated prices. But cult accessories will always be in demand. The bag's status as a personality prop has resulted in waiting lists and long queues in front of boutiques every morning – the most flattering of fashion laureates.

Classic Chanel: quilted exterior, interlaced strap. From $1,053. *+331 42862800*

High-Class Hermès: *the* Kelly bag is available in five sizes, priced from $3,500-$12,800. *+331 40174717*



Fabulous Ferragamo: laminated plywood and calfskin shoulder bag with Rosewood clasp. From $520. *+39 553360453*

Princess Prada: velvet evening bag from Velluto collection. Choice of two sizes and three colours, $560. *+392 546701*

Gorgeous Gucci: Devore handbag with stamped double 'G' pattern and metal strap. Available in four colours, $544. *+392 760 13050*

The Next Big Thing - Bottega Veneta: leopard print nylon canvas shoulder bag. Also available in four plain colours, $408. *+392 76015562*

le Darling Dame
CHANEL
Clever, bohemian, classic

Le SophistiCat
HERMES
Snooty
precise
efficient

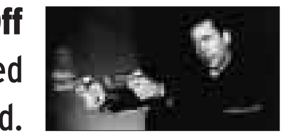
NEXT WEEK
A look at men's briefcases

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

In Germany John Woo's ingenious thriller is aptly called *In the Enemy's Body*. Enough said.



BOOK OF THE WEEK

Postcards from Europe's past

Fifty Years of Europe: An Album
Viking $13

WHEN Jan Morris first began pondering the nature of Europe, he was in Trieste in 1946. Then a 20-year-old soldier, he was proud of victory and of Britain, which, of course, was not Europe at all.

Although polite enough to disguise his feelings, he looked upon others – Italians, French, Germans – slightly *de haut en bas*. In those days, as Alan Moorehead, another writer said, the British travelled the world like the children of rich parents.

Fifty years later, Britain has changed. The empire is gone, and British national pride now expresses itself in truculent, and increasingly ignored, protests in Brussels.

Over these years, Morris has shed his Britishness, discovering instead a love for Wales, his paternal homeland, and finding a place more European than Britain could ever be. For the nationalism of Wales harks back to the shared Celtic origins of Europe, and the Dark Ages of early Christianity, when the Celtic fringe was alone in keeping the glimmer of civilisation alive.

Morris has enfolded himself deeply within this twilight land of ancient stones, learning the language, and writing of it with enthusiasm. His pride in Britain and its empire has become a nostalgic affection, expressed in his popular history books, such as the *Pax Britannia* trilogy.

Along with his British national sentiments, Morris has discarded something else which adds to the originality of his musings: his male sex. Twenty five years ago, when married with four children, he became a woman.

At one moment in *Fifty Years of Europe: An Album*, a collection of brief essays and reminiscences, Morris is marching up the Italian peninsula in khaki. The next, she is an old lady having her handbag stolen.

More interesting than her travels in Europe is the journey Morris has made over the past 50 years, from Anglo-British maleness to Welsh womanhood. And, of course, one would love to know whether she has ever fancied French men.

There is none of that in this book. The only acknowledged sexual response is her affection for Venice, for which she says she feels more than a sensual regard. There is also an illuminating, ill-tempered passage on Barcelona. Lumping the Catalans (questionably), with Europe's other historic losers, like the Irish, Scots and assorted Slavs, she complains that Barcelona is so fast, rich and sexy. All that red lipstick and short black dresses are at odds with her own Celtic plaids.

For Morris, a good day out is something else entirely. When Prince Charles married

Indefatigable traveller: Jan Morris

in 1981, or rather 'when the titular Prince of Wales, heir to the throne of England, was married to almost universal sycophancy in England', Morris joined other nationalist protesters on a Welsh mountain.

The possibility that she and her friends might be thought as ludicrous as the crowd in the Abbey does not seem to have occurred to her. For many living there, Morris's national sentimentality reinforces the blinkered provincialism of the place.

But Morris remains infuriatingly elusive. She opens chapters saying that she once spent Christmas in Stockholm, or Riga or Wales, but then goes on to recount quirky historical and cultural anecdotes about the place, rather than what she was doing there. She and her feelings stay out of it, and as a collection of fact-swapping essays, this is very much a male book.

On this level, too, it is often a disappointment, however. The essays are frequently too brief and episodic to be satisfying, and there is no structure at all.

Yet Morris is too good a writer to be uninteresting. She is sharp and funny about France's theatrical military swagger in modern times, as though amnesiac of 1940, Indo-China and Algeria.

As a very young officer she remembers German prisoners who were waiters in the officers' mess in Cairo. She despised their servility, but recognised they were brighter than their British equivalents. Forty years on she could imagine them as middle managers with large offices.

When she made a documentary with German TV recently, she went out of her way to proclaim herself Welsh. "You are ashamed to be thought one of us," the producer lamented, and she has the honesty to admit that that was true.

Fifty years ago she says she could recognise an English face in a crowd, as they were so proud of themselves. Now, no longer, and Morris broods how John Major's suburban folk succeeded in governing the quicker-witted and better-read Scots, living amid mountains and lakes. Then, we are back in Trieste, and the detail that espresso coffee was not yet available in Italy in 1946. Many things can be discovered in this book – that the theory of relativity came to Einstein on a tram in Berne, that the *Communist Manifesto* was written at No. 9 in Brussels' Grand Place, that *Deutschland, Deutschland über alles* was a Croatian melody from Haydn's childhood.

What you will not find out, though, is Morris's place in this modern Europe, whose history she knows so well and through which she has travelled so indefatigably. Both as a man, and a woman.

SEBASTIAN O'KELLY

BILL COOPER

Cinders blitzed by Bourne

RE-WORKING classics can be dangerous and those who attempt it face accusations of arrogance or lack of creative talent. Matthew Bourne, director of British ballet company Adventures in Motion Pictures, struck lucky when he audaciously rewrote the well-loved *Swan Lake* last year. His troupe of all-male swans, whip wielding anti-hero and brilliantly adapted disco scenes turned Tchaikovsky's fairytale into a cult hit. Now he's turned his attention to *Cinderella*, stoking anticipation by banning revelations before the opening. Alas, the formula has not worked so well second time round.

Bourne has switched the plot to London in the Blitz.

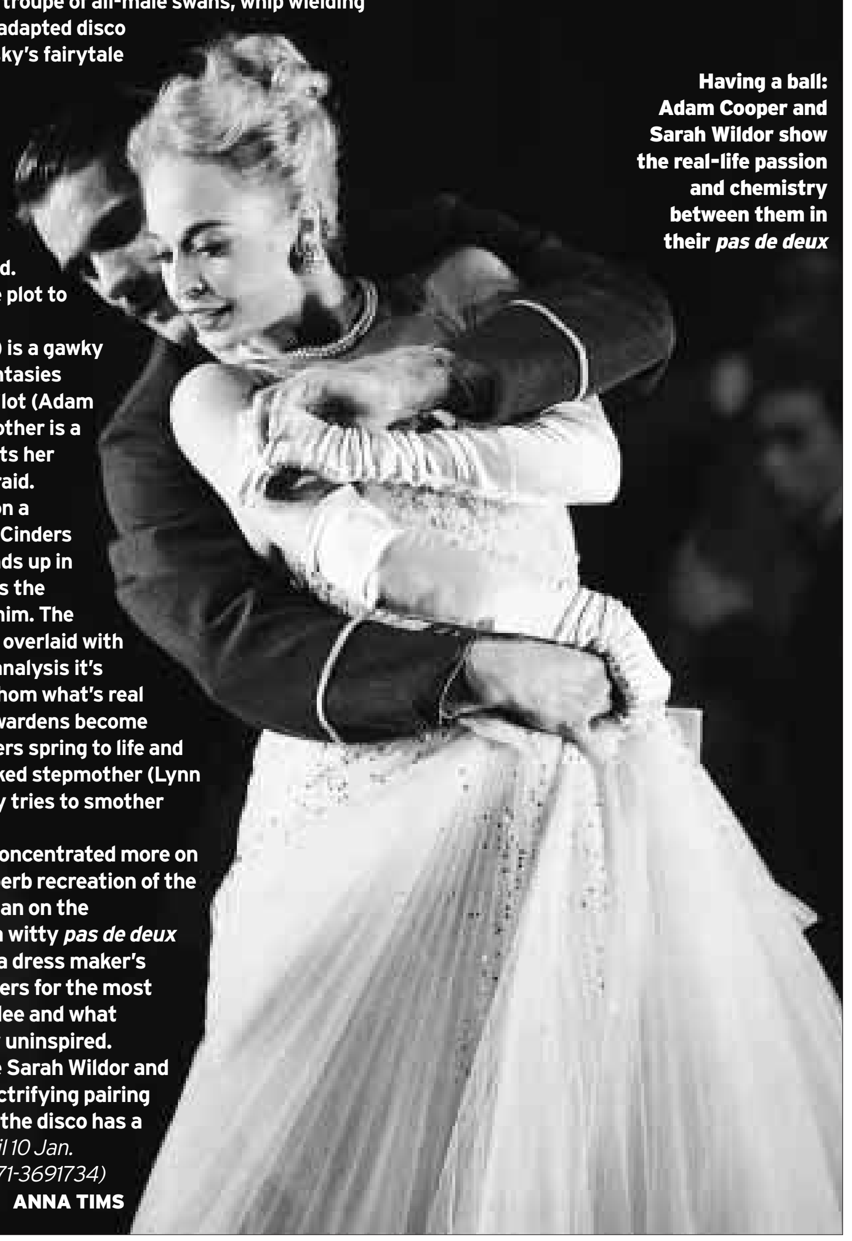
Cinderella (Sarah Wildor) is a gawky frump weaving lonely fantasies around an injured RAF pilot (Adam Cooper). The fairy godmother is a camp young man who gets her locked out during an air raid.

After surrealist scenes on a bombed-out dance floor, Cinders is herself injured and winds up in hospital where she meets the same pilot and marries him. The problem is a storyline so overlaid with symbolism and psycho-analysis it's almost impossible to fathom what's real and what's not. Air raid wardens become barking dogs, dead dancers spring to life and expire again and the wicked stepmother (Lynn Seymour) unaccountably tries to smother Cinderella in her bed.

Bourne seems to have concentrated more on the sets, including a superb recreation of the London underground, than on the choreography. There is a witty *pas de deux* between Cinderella and a dress maker's dummy but the performers for the most part strut, wander and flee and what dancing there is is sadly uninspired.

However, real-life couple Sarah Wildor and Adam Cooper are an electrifying pairing and their *pas de deux* in the disco has a resonating passion. *Until 10 Jan. Piccadilly Theatre (+44 171-3691734)*

ANNA TIMS



Having a ball: Adam Cooper and Sarah Wildor show the real-life passion and chemistry between them in their *pas de deux*

PICK OF THE WEEK

Architect and art in harmony in Bilbao

AS BILBAO's Guggenheim Museum opens its doors after a fanfare of publicity, it is clear the real star of the show is architect Frank Gehry. This is not to say that the first exhibition, *The Guggenheim Museum and the Art of this Century*, is dwarfed by its spectacular building. Instead Gehry's backdrop lures visitors on a magical mystery tour of 19 galleries, each of which engages with the art in strikingly different ways. The sculptural white spaces are on three floors around a giant atrium and range from a 100 metre hangar to an intimate cuboid alcove. They have been used to group the 250 works , which start with Cubism and end with Damien Hirst. Its greatest strength is its opinionated vision highlighting the distance between American and European traditions and tracing contrasts and links between movements and individuals.

This works best when it throws a fresh eye on well-seen work and gives it back the shock of the new. Warhol's *150 Multicoloured Marilyns* and *63 White Mona Lisas* hang side by side to suggest a bridge between Minimalism and Pop while the gallery of geometric abstraction and surrealism sets Arp, Malevich and Ernst against Tanguy, Calder and Pollock. Other highlights are straightforward spotlights: nine Kandinskys, superb Abstract Expressionist paintings (Rothko, de Kooning and Clifford Styll) and the vast hangar gallery filled with American Pop and Minimalism.

More debatable are contemporary focuses on German artist Anselm Kiefer, Briton Damien Hirst (whose five works fill the gallery originally reserved for Picasso's *Guernica*) and three Spaniards. By comparison special commissions such as Richard Serra's giant *Snake* and Jenny Holzer's 12-metre wall of red electronic ticker-tape respond to the building's visual thrill with a rare energy suggesting a nexus between art and architecture like that of a medieval cathedral. *Museo Guggenheim (+34 4-4359000)*

VICKY HAYWARD

Impressive: Richard Serra's giant 30-metre steel *Snake*

Cinema

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

NEW

AFTERGLOW★ Charmingly old-fashioned romantic comedy by Alan Rudolph about two ill-assorted couples, one (Julie Christie and Nick Nolte) veteran and down-market, the other young and affluent, who interact when Nolte comes to do repairs on the yuppies' apartment and cross-class love erupts. *(Germany)*

ALORS VOILA 72-year-old actor Michel Piccoli directs for the first time, in a characteristically witty and darkly bizarre family story with an aged and crooked patriarch coping with three sons, one out-of-work and suicidal, and a daughter betrothed to a rich Arab: all squabble in ill-lit squalor. *(France)*

THE PEACEMAKER★ George Clooney, Nicole Kidman and high-speed thrills: what more do you want, except character and depth? Mimi Leder's (and DreamWorks's) first feature is a Bondish yarn about nukes hijacked from a Russian train and pursued to the Iranian frontier and at length to New York. *(UK)*

ZUSJE★ Roughly translated as 'Sis' or 'Kid sister', this is a Dutch variant by Robert Jan Westdijk on Steve Soderbergh's *sex, lies and videotape* in which the girl is incessantly videotaped by her long-absent brother; but the process reveals childhood traumas and misplaced guilt. *(France)*

ON RELEASE

COP LAND★ Sylvester Stallone again shows he was always more than muscle (and now some fat) in James Mangold's simple but forceful and (in its premise) interesting tale of good NY cops duped by bad cops into buying houses across the Hudson from the mob; Harvey Keitel is of course the main baddie. *(Netherlands, Spain)*

LOLITA★ Inching nervously on to Europe's screens, Adrian Lyne's version of the 1955 Vladimir Nabokov novel, with Jeremy Irons and Dominique Swain, is closer to the book than Stanley Kubrick's film (which foregrounded Peter Sellers as Quilty) but despite good acting is duller though atmospheric. *(Italy, Spain)*

MA VIE EN ROSE★ Scandal (and fantasy) in Paris's leafy suburbia when the seven-year-old son of a normal couple shows transvestite longings: Alain Berliner's films deals lightly and warmly with serious topics, including parental concern, finely shown by Michele Laroque, and neighbourly shock. *(France, UK)*

WILDE★★ Oscar, in his brilliant new incarnation by Stephen Fry, deserves the eponymous award. Brian Gilbert's film is sturdy, more convincing than his *Tom and Viv*, but lacking the fun of *The Frog Prince*. More wit and less gloom would have helped, but Jude Law as Wilde's fatal love explains a lot. *(Germany, UK)*

RICHARD MAYNE

AUSTRIA

VIENNA: Linda di Chamounix Vienna's 'own' Donizetti opera, currently enjoying a comeback after decades of obscurity, celebrates the composer's bicentenary in November in the Staatsoper's first new production of the season. He wrote it for the Court Opera here in 1842, furnishing its romantic 'love conquers all' drama with some of his most beguiling music. Edita Gruberova negotiates the dizzying coloratura title role in veteran director August Everding's staging conducted by Bruno Campanella. 25, 29 Oct. *Staatsoper (+43 1-5131513)*

BELGIUM

ANTWERP: Romeo and Juliet A radical new look for Prokofiev's ballet and what could prove a controversial opening night for the new Royal Ballet of Flanders season. André Prokovsky has created a version unlike any other, reducing it to two acts and replacing parts of the score with sections from the composer's first orchestral suite derived from the music. The effect is to focus the action on the four principal characters and enhance the roles of Tybalt and Mercutio. Purists be warned. A 'new twist' is even promised for the lovers' final *pas de deux*. The production will later tour Belgium, Holland and Austria. 25, 26 Oct. Stadsshouwburg; 29 Oct in Den Bosch. *(+32 3-2343438)*

BRUSSELS: Audi Belga Jazz Festival The Belga festival is well established and brings some of jazz's biggest stars for a month-long peripatetic event throughout the country. This week in Brussels there are performances by Larry Coryell and Billy Cobham and the great Michael Nyman. Until 13 Nov. *Various venues (+32 2-5138946)*

FINLAND

HELSINKI: Finnish National Ballet The company's 75th anniversary celebrations reach their climax with the John Cranko version of Prokofiev's *Romeo and Juliet*, 24 Oct, and a gala performance showcasing tradition and skills. All the principals and soloists will share the spotlight in excerpts from *Swan Lake*, Schneitzhöffer's *La Sylphide*, *Don Quixote* and several modern works choreographed for the company, 25 Oct. Natalia Makarova's sumptuous new production of *La bayadère*, never before staged in Finland continues in repertory, 27, 29 Oct. *Ooppera (+358 9-40302211)*

Painted face: Louis XIV in Toulouse

FRANCE

PARIS: Cyrano de Bergerac France's golden couple – Francis Huster and Christiana Reali – star in Jérôme de Savary's production to mark the 100th anniversary of Edmond Rostand's tale of unrequited love. The costumes are sumptuous, the stars glamorous and the battle scene – complete with horse – is impressive. Reali has scored a hit as Roxanne with a coquettish, arrogant and tragic performance. Until 31 Dec. *Théâtre de Chaillot (+33 1-45051450)*

TOULOUSE: Visages du Grand Siècle: Portraiture during the reign of Louis XIV The Sun King was one of the most painted faces of the 17th and 18th centuries, depicted in paintings, sculptures, engravings, books and medals. This coincided with a craze for portraits among the rich and aristocratic. This show of 80 paintings and 50 engravings dates from 1660 to 1715, and includes portraits which range from the regal and historical to heroic and flirtatious, such as Largilliere's *La Belle Strasbourgeoise* (1703). Until 5 Jan. *Musée des Augustins de Toulouse (+33 5-61 22 21 82)*

GERMANY

MUNICH: Elektra Richard Strauss's ferocious soprano tournament pits three formidable voices in contest, Gabriele Schnaut in the title role, Nadine Secunde as Chrysothemis and Marhana Lipovsek as Klytemnestra. Herbert Wernicke is a director whose modernist concepts can be relied on to divide opinion into warring camps – and *Elektra* is a notoriously blood-soaked production battleground. This first new staging of the Munich season is conducted by Peter Schneider, 27 Oct. *Bayerische Staatsoper (+49 89-21851920)*

IRELAND

CORK: Jazz Festival Known as the 'friendly festival' – partly due to standing room-only in many of the venues and its Guinness sponsorship – Cork takes place over the Irish October bank holiday. It has a concentrated programme which covers modern jazz, including rising stars such as trumpet ace Terell Stafford and New Yorkers like Danny Gottlieb, Buster Williams and Joe Beck. Among the established performers are Johnny Griffin, Cedar Walton, plus the cream of Irish jazz, including Louis Stewart and the Guilfoyles. 24-27 Oct. *Various venues (+353 21-270463)*

WEXFORD: Wexford Festival This seaport has become an annual mecca for critics and lovers of forgotten titles. Dargomizhsky's version of the *Rusalka* legend, premiered at St Petersburg in 1856, still popular in Russia, but little known outside, makes its debut, 23, 26 Oct. *Theatre Royal (+353 53-22144)*

ITALY

MILAN: Vassily Kandinsky (1866-1944) While the Centre Pompidou in Paris is renovated, its Kandinsky collection travels south to Milan. The exhibition of 110 paintings, watercolours, sketches and drawings give a comprehensive survey of the Russian artist's life. Kandinsky was one of the greatest pioneers of 'pure' abstract painting and taught at the famous Bauhaus school of modern design. This is a rare chance to follow the artist's career from the early *Winter, Schwabing* (1902), painted while he was studying under the German painter and sculptor Franz Stück, to *The Last Watercolour* (1944). Until 11 Jan. *Fondazione Mazzotta (+39 2-878197)*

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. Until 18 Oct 98. *State Hermitage (+7 812-3113465)*

SPAIN

MADRID: Schubert en el Alma Madrid pays its own tribute to Schubert in a series of concerts dedicated to his life and work. Among the stars performing are the Brussels International Trio, baritone Inaqui Fresán, soprano Annie Sophie Schmidt, clarinettist Adolfo Carcés and pianist Juan Antonio Alvarez. 23, 25, 28 Oct. *Auditorio Nacional de Música (+34 1-3370139)*

Measure for Measure Britain's acclaimed Nottingham Playhouse, directed by Stéphane Braunschweig, brings his version of Shakespeare's play of justice, corruption, morality and power to Madrid for three nights. 23-25 Oct. *Teatro de la Comedia (+34 1-5214931)*

SEVILLE: Tannhäuser German film director Werner Herzog's forays into opera are rare – the most recent was a collaboration with Placido Domingo in *Il guarany* at Bonn three years ago – so interest in his interpretation of Wagner will be keen. Heikki Siukola sings the title role and Eva-Maria Bundschuh, rapidly emerging as a powerful Wagner/Strauss soprano, is Elisabeth. Klaus Weise conducts. 29, 31 Oct. *Teatro de la Maestrana (+34 5-4226573)*

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)*

ZURICH: Alfonso and Estrella Conductor Nikolaus Harnoncourt's valiant efforts here to restore credibility to Schubert's long-ignored operas have met with mixed reactions. Lovely music, a pity about the plot. Jürgen Flimm's new production could turn the tide. The only through-composed opera without dialogue passages among the 14 Schubert wrote, it contains some of his finest music, though the story is typically fey. The son of an exiled king falls in love with the daughter of the villain who has usurped his father's throne. Philippe Rouillon sings the role of the king and Reinaldo Macias and Luba Orgonasova are the lovers. 26, 29 Oct. *Opernhaus (+41 1-2686666)*

UNITED KINGDOM

ALDEBURGH: Britten Festival Never-performed works by the prolific Benjamin Britten are becoming a regular feature of festivals in the picturesque east coast town where he lived and died. This time an important early work which evolved into one of his masterpieces has its first public performance. The composer was 18 when he wrote the *Piano Variations on a Theme of Frank Bridge*, later to be re-modelled into his popular orchestral work. Roger Vignoles unveils it, 26 Oct. Affinities between Britten and Haydn is a festival theme with performances of their respective parody operas *Albert Herring*, 21-23 Oct, and *L'infedilià delusa*, 25 Oct and juxtapositions of both composers' string quartets and settings of Scottish verses. Visiting artists include pianist Charles Rosen, cellist Raphael Wallfisch and The Brodsky Quartet. 21-26 Oct. *Various venues (+44 1728-453543)*

JILLIAN EDELSTEIN

Merry: Lesley Garrett is in London

LONDON: Colours of the Indus: Costume and Textiles of Pakistan This first ever exhibition on the textile traditions of Pakistan is a richly-coloured survey of exquisite detail and craftsmanship. Vibrant reds and deep indigos stained in silk and cotton provide welcome colour in the autumn gloom. Coats are lavishly embellished with gold thread, folk garments embroidered with beads, buttons and mirrors. There are also exotic court costumes, silk turbans, tobacco bags, shawls and quilts. Until 29 March. *Victoria and Albert (+44 171-9388361)*

The Merry Widow The Royal Opera breaks new ground with its first ever production of an operetta – discounting *Die Fledermaus*. The innovation honours Franz Léhar in anticipation of next year's 50th anniversary of his death. Viennese conductor Dietfried Bernet vouchsafes an authentic lilt to a Graham Vick production which, we are assured, will exude glamour and sophistication. Double casting involves Felicity Lott and Lyuba Kazarnovskaya in the title role, Lesley Garrett and Juliette Galstian as Valencienne and Thomas Allen and Dale Duesing as Danilo. 23-25, 27-29 Oct. *Shaftesbury Theatre (+44 171-3044000)*

Send details of cultural events, at least three weeks in advance, to: Fiona Adams, The European, 200 Gray's Inn Road, London WC1X 8NE, United Kingdom Tel: +44 171-418 7720 Fax: +44 171-713 1870 email: fadams@the-european.com

LETTERS

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

Should Nato control the airwaves?

NATO troops have been seizing television transmitters in Bosnia in a concerted attempt to halt a propaganda offensive by hardliners opposed to the Dayton peace accords. The confiscation of this equipment has given an immense boost to the western-backed Bosnian Serb president, Biljana Plavsic.

Control over television, radio and the printed word is at the centre of a power struggle between supporters of Radovan Karadzic, the indicted war criminal based in Pale, and supporters of President Plavsic in Banja Luka.

Nato has long taken a partisan role in supporting one side against the other. While the alliance is undoubtedly on the right side, is it now over-reaching its peacekeeping role? Who gives the alliance permission to censor the airwaves? Bosnia today, Berlin tomorrow?

A transmitter in the eastern town of Bijeljina broadcasting support for Karadzic has now been destroyed by a mysterious explosion. It would be an unacceptable escalation of Nato's role were the alliance to be implicated in this bombing.

E Hulftegger
Berlin, Germany

S-FOR troops have shut down the TV transmitters of the 'hardline' Bosnian Serb faction. The Pale Serbs were guilty of disparaging Dayton. They are no longer able to broadcast the news that a body of American opinion, led by Senator Kay Bailey Hutchison of Texas, wants US troops to leave Bosnia as soon as possible, acknowledges that Dayton is unworkable and hence urges international acceptance of the partition of Bosnia.

Mike Finch
Teddington, England

IT IS hardly surprising that there is increasing support for Serb nationalism. Punitive measures against Germany after the First World War inflicted tremendous hardship on its people and helped to bring about the rise of Hitler. Such behaviour towards the Serbian people has been unremitting since the break-up of Yugoslavia and harsh sanctions have led to extreme poverty.

Dr Radovan Karadzic and the Bosnian Serb leaders in Pale are democrats and were seeking to establish a democratic republic, even as one of three entities in a federal Bosnian state. They did not ask for special concessions, only impartiality and fair treatment. But Karadzic was barred from taking part in the Dayton peace talks, the voice of the Bosnian Serbs was not properly heard and a harsh settlement imposed on them.

It must be understood that the present international borders were the state boundaries in federal Yugoslavia drawn up for administrative purposes and taking no account of where the ethnic groups were concentrated. The Krajina and Slavonia regions of Croatia and almost two-thirds of Bosnia are traditional Serb lands, and have been occupied mainly by Serbs for centuries. The concept of Greater Serbia was to unite all Serbs together. It did not seek to take territory from other ethnic groups or threaten them in any way. The actual boundaries were negotiable.

The concern now is that extreme nationalism will only bring more misery for the Serb people. If the US and Nato powers suffer any grief, they have only themselves to blame.

MSJ Thompson
Peterborough, England

Britain on the fence

CONFUSION reigns over when or even if Britain will opt in to the single currency. Government spokesmen say that the British will stick with the pound for at least the next few years, but Gordon Brown, the Chancellor of the Exchequer, has been giving out a different message. He wants Britain to sit on the fence for as long as possible and see what happens on the other side of the Channel.

He says he will let us know. Let us hope that this will be sooner rather than later. As the chancellor watched the market fall at the prospect of Britain staying out of EMU – and sterling rising against the mark with the expectation that British interest rates would not fall to German levels – investors are left struggling to ascertain government policy. Tony Blair's government should learn from the lessons of the one it replaced – a fudge (especially over Europe) will please no one.

Prominent industrialists and the head of the Trades Union Congress want in, but others point to the practical and ideological obstacles of early entry. Foreign car manufacturers with enormous European investment spearheaded through Britain try to force the pace. The money markets dictate their own terms and exploit the damage to business confidence.

But is there not a firm commitment from Tony Blair that says it is the British people, in a referendum, who decide whether to retain sterling or opt for the euro? Or has this been overtaken by events?

Jacob Pretzlik
Tournai, Belgium

Swedish stereotypes

IN THE 1960s it was free sex that put Sweden in the news. Today, the headlines are of an economic and social model gone bust. These myths perpetuate stereotypes and seem to ridicule the Swedes. As a Swede who has lived abroad for a number of years I can subscribe to much of the criticism of the 'Swedish model' (if there ever was a unique Swedish one within the postwar European context), but what is wrong with a social conscience?

Sweden's modern political life has mainly been characterised by minority governments. The Social Democratic Party has only once since the Second World War managed to achieve more than 50 per cent of the votes in a general election. In order to stay in power, pragmatism and compromise have been the leading principles of Swedish political life. The resulting weak governments, leaning left or right, have prevaricated over making bold economic policy decisions.

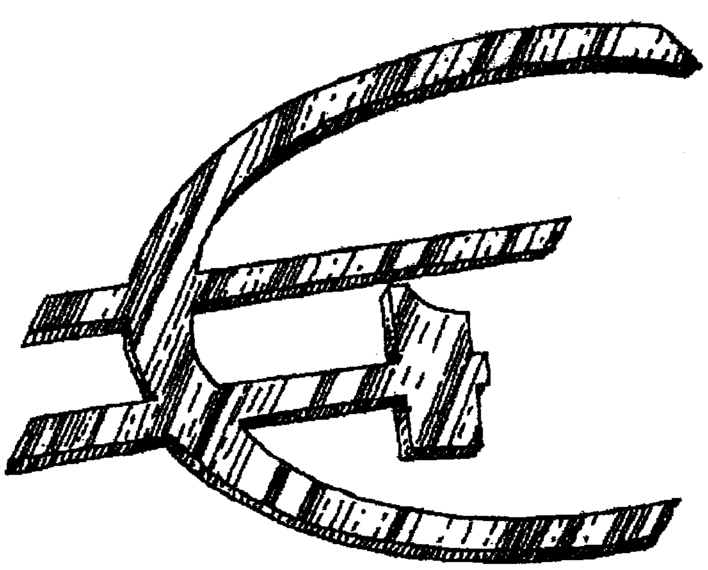
The present high tax burden – which is slightly higher than the Netherlands and Denmark – has very little to do with expanding the public sector. A soaring budget deficit that almost bankrupted Sweden in 1992-93 had to be reversed promptly. This was achieved through cutting expenditure and raising tax revenue.

Most Swedes agree that taxes cannot be increased any further and many even favour reductions. But taxes cannot be lowered drastically if basic services are to be provided with public funding. The problem with taxes in Sweden today is that many people, especially the middle classes, see that they are paying the same taxes as before but getting less in return, both in quality and quantity.

Anders Östman
Kampala, Uganda

DRAWN FROM EUROPE

CARTOONISTS AND WRITERS SYNDICATE — BERTRAMS – *HET PAROOL*, AMSTERDAM, THE NETHERLANDS



ITALIAN DESIGN

Iran's blood money

'TOTAL control freaks' (editorial, issue 387) brands America a bully. Perhaps so, but rather a bully than a bomber. Total, the French oil giant, is simply after financial gain in signing a $2 billion gas deal with Iran. But does money bring back the victims of state-sponsored terrorism?

Iran supports terrorist activity. It is not a democracy. Who wants its blood money? Bully for you, America.

JC Ireland
Kildarf, Ireland

Upsetting mother nature

MUCH has been written about the El Niño warming of the eastern tropical Pacific and the effect that this will have on our weather patterns. The question we all need answering is: why is our weather becoming increasingly freakish and unsettled? The obvious answer remains global warming.

The disruptive weather pattern of El Niño is certainly no accident. Mother nature is bearing us the very fruit we ourselves have sown. Atmospheric pollution and deforestation are taking their toll. The cure for this 'ecoluenza' is not the paracetamol solution. We need to fix the problem, not the symptoms.

Jesse Karjalainen
E-mail: jesk@hotmail.com
Pargas, Finland

Plight of gypsies

IT seems that a large number of Czech and Slovak gypsies are seeking political asylum in Britain. They claim to be fleeing racial harassment. If this is the case, we should not be considering for one moment the admission of either of these countries to the European Union or to Nato. If these refugees are victims of discrimination or persecution, this is not acceptable by the standards of either organisation.

Dr Ronald M Gabriel
Bédarrides, France

United in football

SINCE the break-up of the Soviet Union, there are now more countries than ever playing international football. So far as Britain and Ireland are concerned, I would like to see the opposite. As a Scot, I would prefer to see Scotland, Wales and England playing as one British team and the two Irish teams playing together as an all-Ireland team. It would give these teams a better chance of winning important tournaments.

Fred Spence
Birmingham, England

Italy's political earthquakes

ITALY has recently suffered a number of earthquakes, not all of them geological. Its political infrastructure has been shaken by the stubborn refusal of Rifondazione Comunista to live in the real world. The government of Romano Prodi has been held to ransom by a small but powerful bunch of old-fashioned Stalinists.

The crisis over the 35-hour working week is only one of the battles being fought on the industrial front. Reducing the working week by five hours – to 35 – makes no sense. It will not reduce the number of unemployed. On the contrary, it will probably increase labour costs by between ten and 11 per cent and damage Italy's ability to meet the Maastricht convergence criteria for economic and monetary union.

Victor Garrard
Milan, Italy

THE real priority for workers in Italy should be job security and salaries, both of which are under threat. For the government, the priority should be combating tax evasion, balancing the budget and trimming the excess costs of pension provision, healthcare, welfare and state-funded dodos. The country faces the unexpected enormous burden of restoration of treasures and buildings damaged in recent earthquakes.

Having given in once to the blackmailers, Romano Prodi is in a weakened position for when the communists return demanding more. He should have called their bluff, resigned and forced an election. Rifondazione Comunista would have been trounced.

J Webber
Madrid, Spain

YOUR editorial on the 35-hour working week ('The great job massacre', issue 388) paints rather a black picture for both the Italians and the French. But if governments co-operate with employers, a 35-hour week may not be all that bad.

The employers' additional burden could be compensated by a reduction in corporation tax, with governments recovering the difference by paying out less in unemployment benefit. They would also receive extra value-added tax from employees who have more time to spend their money. Additional expenditure means more sales, more work and a healthier economy. There would be increased revenue from the newly created workforce.

As for overtime, the unions' demands are not new. Many of today's factory workers supplement their income by working 44 hours a week, often with inbuilt overtime of five or more hours a week.

There would also be a number of indirect socio-economic benefits from a reduction in the working week. Workers would have more time with their families, and stress, the biggest killer in Anglo-Saxon countries, would be reduced.

Alex Charalambous
Fleury en Bière, France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