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Tony Blair  
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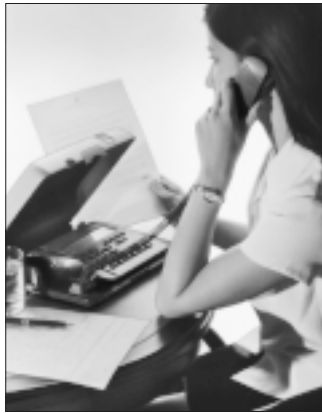
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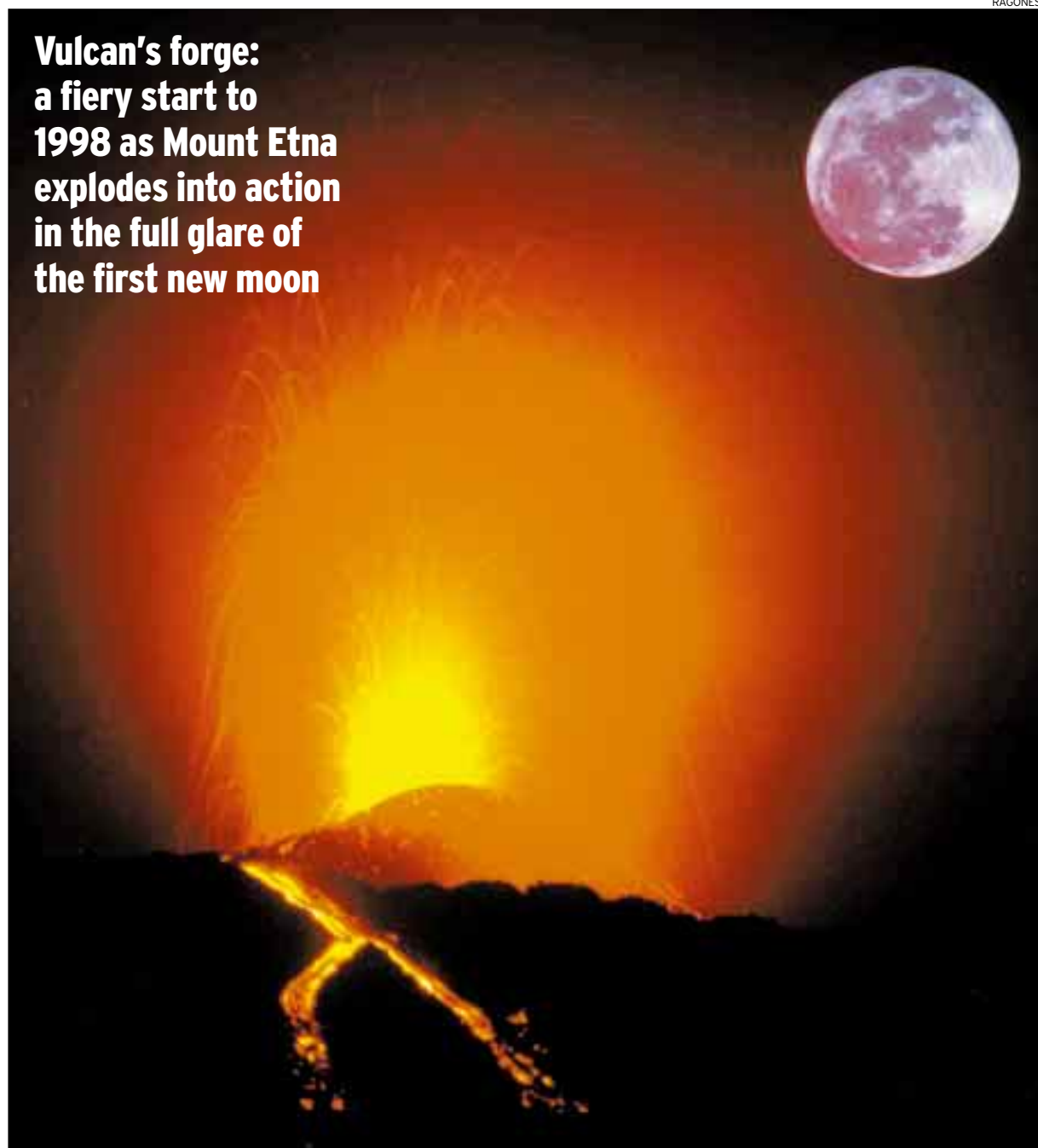
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## Dutch courage

**T**HREE CHEERS for the Dutch, who alone among the countries of the European Union (EU) have found the courage to state an obvious truth nobody else dares to utter: that even by resorting to the most liberal interpretation of the criteria laid down by the Maastricht Treaty, Italy fails to qualify for the single European currency. Our honest hero comes in the unlikely shape of Gerrit Zalm, the Dutch finance minister, who is insisting that entry to the euro must be in accordance with the letter and spirit of the treaty.

He will not get his way, of course – there is enough political momentum behind Italy's membership to force a fudge – and even his own ruling coalition in The Hague has not thanked him for his intervention. The suggestion that the Netherlands might stay outside the euro-zone if Italy is allowed in is not credible given the guilder's long and stable relationship with the D-mark. But Mr Zalm has nevertheless raised an issue which threatens to haunt the single currency during its troubled birth.

Maastricht lays down two crucial fiscal tests which countries must pass to join the single currency: their annual budget deficits must be no more than three per cent of gross national product; and their accumulated national debt must be no more than 60 per cent of GDP. The wording of the treaty allows some room for manoeuvre: substantial progress towards both these goals might be enough, provided countries are in spitting distance of the targets. Italy fails on both counts.

True, it is now claiming to have forced its budget deficit under the three per cent limit. But this has been achieved by various sleights of hand and one-off measures designed to massage the figures. There are real doubts that Italy can sustain a deficit this low for long. But France and even Germany have fiddled their own figures to meet the three per cent yardstick, so they are not likely to demand a stringent, independent audit of Italy's dubious budget calculations. Those of a generous disposition will allow Italy to slip past the first Maastricht test.

But even the most profligate-minded should surely balk at Italy's astronomic overshooting of the second: at 122.5 per cent of GDP, its accumulated national debt is more than twice the Maastricht limit. This is what Mr Zalm had in mind when he raised the matter of Italy's euro-credentials last week. By no stretch of the imagination can it be massaged to fall within the letter or spirit of the Maastricht within the timetable the treaty lays down. Rome has rushed out figures to show that its debt is declining. It is even promising to hit the 60 per cent target – but not before 2009 at the earliest. Even that distant date depends on some heroic assumptions, such as an Asian-tiger annual average of 4.5 per cent economic growth for the next 12 years, low inflation and a steady and massive stream of

income from privatisation. Those inclined to believe all that will also have faith in the tooth fairy.

The incredible fact is that, bar the Dutch, the rest of the EU is determined to believe it. The French want Italy in the single currency so that Italian exports do not flood into France propelled by a devalued lira. The German government, despite the reservations of its people about sharing the euro with Italy, is prepared to go along with Paris. Besides, Belgium's ratio of debt-to-GDP is even worse than Italy's but everybody takes it for granted that the Belgians will be among the first wave. Why pick on Italy? Political convenience rather than sound economics is to be the euro's guiding spirit.

Even Tony Blair, the British prime minister and current president of the EU, who prides himself in a rigorous approach to European matters, affected no concern about Italy when tackled by *The European* last week. "People will look at whether the ability to get there is clear," he told us vaguely "and at all the criteria in the round." Euro-fudge is now firmly on the Downing Street menu.

Yet almost in the same breath Mr Blair insisted that Britain would use its EU presidency to ensure a hard euro: "It's got to be a currency that has credibility ... I want to see a strong euro." The markets will soon disabuse him and the rest of the EU that you can launch a currency on a false prospectus and fudged figures and expect it to be valued by dealers as if it was the D-mark. Clearly, London has no intention of rocking the euro-boat. Indeed, it will have nothing of substance to say about the euro during its presidency: Germany and France will continue to call the shots that matter in this particular project.

There is another factor which threatens the credibility of the euro and it also involves the Dutch. The former long-serving governor of their central bank, Wim Duisenberg, a banker with impeccable anti-inflation credentials, was supposed to be a shoo-in as the first governor of the European central bank (ECB). Then President Jacques Chirac unhelpfully nominated France's own central bank governor, Jean-Claude Trichet. In typical Brussels fashion, it is now being suggested that the first eight-year term should be divided between them.

But the Maastricht Treaty laid down a single, non-renewable eight-year term for a very good reason: it wanted to convince the markets that the head of the ECB would be free from political interference to pursue its sole monetary objective of price stability. Now the French want to make it a matter of political horse-trading and buggin's turn. No wonder the Dutch are angry. And no wonder those who promised that the euro would be as strong as the D-mark it is to replace are now looking daily more discredited.

**Those who believe  
Italy can achieve  
4.5% annual growth  
must also have faith  
in the tooth fairy**



**TONY BLAIR** ■ Britain's 'euro-friendly' leader appears to have been rumbled

# A prophet exiled to the wilderness

Julian Coman  
LONDON

IT SEEMED a smart formulation back in June, in the Scandinavian sunshine. Still revelling in his own election triumph the month before, Britain's new prime minister, Tony Blair, directed a gathering of European socialists in Malmö towards new Labour's vision of a brave new world.

"We want to leave to future generations a People's Europe," he intoned grandly. "A Europe which is more secure, more optimistic. The Europe which European citizens deserve." Above the deafening applause which followed, excited talk could be heard of a new dawn in relations between the European Union (EU) and its most recalcitrant member: Britain, with Tony Blair at the helm, was at last talking positive. New Britain, New Europe.

Seven months later, as the same talk launches Britain's six-month presidency of the EU, the innocence of summer is already a memory. That originally indulgent audience is now demanding substance as well as style. What, it asks, does a "People's Europe" mean in practice; what will a Blair presidency deliver, bar warm words? The harsh verdict is: not much, according to the growing number of Blair-sceptics in the rest of Europe.

The French, who instinctively suspect Blairite rhetoric to be a verbal Trojan Horse for Anglo-Saxon values, have already judged the notion of the "People's Europe" to be beyond the

linguistic pale: "Should the phrase be translated as *Europe populaire* or *Europe des peuples*?" sniffed *Le Monde*, slyly re-posing the whole question of British attitudes to EU integration. The new Labour list of "people's priorities" – "peace and prosperity, progress and partnership" – was quickly dismissed as "puerile" (with some justice, since it is pretty meaningless rhetoric).

In Italy, scorn was poured on a new Labour pledge published across Europe which promised a "model presidency" from the British. "There seems to be a growing disparity between proclaimed intentions and reality," judged the financial paper *Il Sole 24 Ore*.

This could be dismissed, of course, as typical media cynicism. But it was followed by a remarkable session in the European Parliament in Strasbourg on 14 January, when speaker after speaker stood up to dump on Europe's most fashionable politician – *Newsweek* magazine's European of the Year, no less.

Gijs De Vries, leader of the European liberals, suggested that the Blair EU presidency amounted to little more than "a vast public relations exercise" which did not deserve the enormous goodwill it had attracted. Claudia Roth, the German leader of the European Greens, accused Blair of conducting a "rock 'n' roll" presidency – all glitzy rhetoric and very little substance. Another MEP said it was more like a "slow foxtrot". Whatever the musical analogy, nobody felt like dancing.

The next six months will determine

whether the bandwagon carrying new Labour "to the heart of Europe" (another Blairite mantra, echoing the words of his predecessor, the failed John Major), has lost its way. We may even know by then if the journey was ever genuinely undertaken. Like many British prime ministers before him, Blair's professed enthusiasm for the European Union is long on rhetoric and short on specifics.

The past eight months suggest that Blair thrives when the fortunes of European integration are on the wane and the individual nation-state is allowed to define its own relations with the global economy.

The high tide of Blair's European prestige coincided with a genuine crisis over European economic and monetary union (EMU). In May of last year Lionel Jospin, a socialist of the old school, unexpectedly became French prime minister. His first move was to throw the Franco-German alliance, on which progress towards the single currency is founded, into disarray. Swept into office on a wave of anger at the inexorable rise in French unemployment, Jospin used an EU summit in Amsterdam to attack the so-called "stability pact" – an austerity plan devised by Germany's finance minister, Theo Waigel, to keep government expenditure in line once EMU was launched.

Jospin, true to his tax-and-spend roots, argued that Europe's unemployment crisis demanded a less rigorous approach. In the name of demand-led growth, he said, the fiscal corset which had been imposed to



This is he: Helmut Kohl, the German chancellor, makes a point to new boy Tony Blair (top left) at last July's Nato summit

ensure a strong euro should be loosened, not tightened. A European economic government made up of politicians (not bankers) should decide just how strict or liberal the new monetary regime should be. Chancellor Helmut Kohl of Germany was incandescent. The Bundesbank, which insists that Europe's single currency be as free from political interference as the deutschmark, crossed itself and murmured a prayer. As the fabled Franco-German "motor" of European integration spluttered to a halt, EMU's true believers were having a crisis of faith.

This suited Blair down to the ground. The spat between the French and the Germans gave him an

opportunity to point out that Britain did not suffer from the economic travails of its neighbours: UK unemployment stood at less than six per cent, inflation was low and economic growth healthy. He felt able to preach a little: the jobs Jospin wanted, said Blair, would be created only through the adoption of "flexible labour markets", as pioneered by the United States and Britain. "Old-style state intervention and regulation" was a dead end.

So too, by implication, was the idea of the pan-European economic government favoured by the French. Bureaucratic institution-building in Brussels was out. The "People's Europe", deregulated, dynamic and

Anglo-Saxon in inspiration, was in. The new agenda had come to town.

Just as happily for new Labour, waning European enthusiasm for the single currency appeared to let the British government off the hook when it came to making its own EMU intentions clear. The French and Germans could not stop arguing. Meanwhile, several countries, including France and perhaps even Germany, appeared increasingly unlikely to meet the Maastricht Treaty criteria for joining EMU on its agreed starting date of 1 January 1999. Delay was a distinct possibility. Perhaps Blair, at best ambivalent to the idea of a single currency, would not have to sell the euro to a sceptical British public after all –

at least not until he knew what he thought himself.

For a politician who had promised to play "a leading role" in Europe, the summer could not have gone better. The British prime minister had been handed an easy propaganda victory over jobs and a good excuse to shelve the one difficult dilemma he faced on the European stage. To cap a splendid summit for the British, Blair even won a prime-ministerial bike race organised in Amsterdam for the media's benefit.

This cosy confluence of events did not last. By the end of last year the EMU juggernaut had regained its momentum and Blair's team was in danger of falling into the kind of bad

**Tony Blair's enthusiasm for the EU is long on rhetoric and short on specifics**

odour that was once reserved for a succession of Conservative governments. Jospin, like President Jacques Chirac before him, had come round to Kohl's way of thinking. The drive towards the single currency was to take precedence over all other matters. A token jobs summit in November nodded perfunctorily towards Jospin's domestic agenda. Angry occupations of French job centres by the unemployed in the New Year spoke eloquently of Jospin's real priorities: his government was battering down the hatches, cutting its deficits and preparing for the euro.

The new mood entailed a host of unpleasant consequences for Blair and

*continued on page 10*

# Yes, we are the people

HE started out self-consciously as the "people's prime minister" walking from 10 Downing Street to the House of Commons immediately after his election, but in Tony Blair's Britain, "people" have become public relations.

The Blair government has been appending the "people's" possessive as a label which automatically confers public approval-wishful thinking in the case of the "People's Europe" - or, better still, establishes a beneficial link with new Labour.

Britain's unprecedented public outpouring of grief over the death of Diana, Princess of Wales, had scarcely begun before Tony Blair, with much hand-wringing, retitled her the "People's Princess".

Now Foreign Secretary Robin Cook, who only narrowly escaped being labelled "the people's adulterer", has announced pseudo-populist plans to mark the six-month British presidency of the European Union with an alternative summit, entitled "the People's Summit".

The idea is to invite dozens of ordinary "people" - defined by Mr Cook as representatives of non-governmental organisations - to air their views in Cardiff in June on the eve of the other meeting attended by Very Important Persons.

"Old Labour" cynics accuse Blair of kidnapping socialist vocabulary to disguise the fact that he has abandoned the ideology. When it was run by left-wing extremists, the district of London in which Blair then lived was only half-jokingly dubbed the "People's Republic of Islington".

It is not part of Blair's policy to have Britain compared to former "people's republics", Poland, Romania and Bulgaria. Nor would they be demanding EU membership if they thought a "people's Europe" was anything like the communist hell they fought so hard to escape.

PETER MILLAR

continued from page 9

new Labour, who were obliged to find a form of words allowing the UK to remain on the EMU fence while appearing to come off it.

Britain's finance minister, Gordon Brown, said that Britain would join the single currency if and when economic conditions were right, but only after a referendum, which would not take place in the current parliament. In other words, 2002 at the earliest.

New Labour was retaining John Major's opt out of EMU; but it also wanted to opt in to the informal Euro-X committee, constituted by those countries intending to join the single currency club in 1999 and set up to discuss arrangements for the transition. The French, with a good deal of relish, said no, adding that the British, who invented clubs, should understand better than most the rules that govern membership.

As the atmosphere soured, what was once taken as new Labour's youthful ambition and go-ahead thinking began to be re-interpreted. Blair's June vision of leading Europe's modernisation was fading fast. "The UK is in danger of throwing the word 'leadership' around too much," commented one EU diplomat. "Every country uses the word when it takes over the presidency, but we seem to be hearing it all the time from Blair." As a faintly comic conclusion to a rapid fall from grace, Alistair Campbell, Blair's formidable press secretary, was accused by the Brussels press corps of conducting aggressive, patronising and one-sided briefings. One Austrian journalist wrote that the press are required to write "victory for Blair" or "shut up".

The timing of all this ill temper and argument has been highly unfortunate for new Labour. Just as Blair takes formal charge of Europe's agenda for the next six months, the feelgood rhetoric has stopped working. The "People's Europe", when finally defined, turns out to mean little more than a desire to complete the single market; promote pragmatic co-operation on issues such as crime and the environment; and advance the case for dismantling Europe's over-regulated labour markets.

As for the enlargement negotiations which will take place in March, the Blair presidency will follow the traditional British line of using Europe's eastward expansion as an argument for the reform of the Common Agricultural Policy. These are all laudable aims, but hardly new ones. Meanwhile, on EMU the government waits and sees, albeit with a positive smile on its face. Britain has been here before (minus the smile), with Major.

Marco Niada, who has followed British politics for five years on behalf of *Il Sole 24 Ore*, comments: "The apparent British confrontation between Europhiles and Eurosceptics has proved deceptive. Apart from a few extreme exceptions, British Eurosceptics and Europhiles are much closer to each other than Blair is to the euro-enthusiasts on the continent." The "euro-friendly" Blair government appears to have been rumbled.

As a result, it seems likely that the Blair agenda will be a sideshow to the main event. The British presidency will be among the most momentous in the history of the EU. But its



Towards a 'People's Europe': Blair leads a prime-ministerial bike race organised in Amsterdam for the media's benefit

significance will have nothing to do with the "People's Europe" and everything to do with the grandiose project of a federal Europe, of which the euro is a crucial step. As far as Germany and France are concerned, it is the euro and the common institutions which are intended to flow from it, not flexible labour markets, which will revive their ailing economies and fulfil their political ambitions.

On 2 May, as chairman of the European Council, Blair will be obliged to announce the list of countries which will take part in the first wave of monetary union in 1999. Britain, of course, will not be on that list, but it seems virtually certain that 11 countries will, including Italy. In the words of one Italian editorialist, Blair will in effect have become EMU's "notary". This is the real reason Europe has stopped taking new Labour's rhetoric seriously: it is already irrelevant to the real business of the next six months.

Blair's fall from economic grace was probably inevitable, given the hostility of British public opinion to further European integration. Even Major had more room for manoeuvre. As EMU approaches, the delusions of those who once thought that European construction could be halted at the

Eurosceptic Maginot line of the single market become clearer by the day. The single market is about to give birth to monetary union. The single currency will in turn lead to calls for a European economic government to match the future European central bank (ECB) - and ultimately to "ever closer" political union.

Jacques Delors, architect of European integration when he was president of the European Commission, recently restated the bald logic at work in an interview given to a British magazine to mark the beginning of the Blair presidency. "As soon as there is a bad economic crisis [post-monetary union]," Delors predicted, "public opinion will treat the ECB in Frankfurt as a scapegoat and rebel against *la construction européenne*."

Europe's governments, horrified by the prospect of the engine of integration going into reverse, will promptly create a Brussels counterweight to the ECB. As time passes and public opinion grasps that the EU is now running economic policy on the euro, the same public will "turn to the European Council with greater urgency to demand that it consider the questions of political integration and democratic accountability". Last autumn's

Münster agreement between France and Germany to co-ordinate economic policy is a taste of things to come.

Blair's mistake has been to believe that such grand strategies need not be confronted directly. In the interview published in *The European* this week, he argues that monetary union cannot be conceived of politically. But there has been precious little discussion in new Labour circles of how to confront the majority in Europe who do conceive of EMU as a significant stepping stone towards a political union.

Driven by a desperate desire to appear constructive, Blair's government has instead focused on a parallel programme which bypassed the whole debate and, with some justice, focused on the pressing need for an alternative to the European social model. But now that programme itself seems likely to itself be bypassed and even derided as a trick of the rhetorical light, lumped together with new Labour's well-rehearsed weakness for spin-doctoring and slick but spurious policy presentation.

Let's make Europe work, said Blair in the bright June sunshine, but already nobody is listening.

Interview: page 12

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WHERE THE STARS COME OUT AT NIGHT



## ON THE RECORD:

Britain's prime minister speaks to *The European* as he takes over the EU presidency

# Blair admits that social democracy is failing

IT WAS a remarkable admission for a Labour prime minister, even one who revels in the prefix "new". The traditional European social democratic model no longer works, he says. It is time to study what is wrong with it and replace it with something better.

The left in Britain and the rest of Europe has long realised that Tony Blair was not a socialist in the usual meaning of the word. Now it seems he even has doubts about its more moderate manifestation, social democracy, which has dominated mainstream European thinking since the Second World War.

This distances Blair not just from the likes of Lionel Jospin, France's conventional socialist prime minister. It puts him to the right (to use outdated and inadequate terminology) of a Christian Democrat like Germany's Helmut Kohl.

Blair has been driven to acknowledge the inadequacies of modern European social democracy by its inability to create jobs. Contemplating the prospects of the current jobless recovery in France and Germany (in both countries economic growth has returned but the dole queues are still horrendous), Blair had this to say: "If the objective is a more just and efficient society where as many people as possible are working, if that is the test, if it [the traditional European model of the social market economy] isn't working, if it isn't delivering, then we should look at what is wrong with it."

Blair was talking in a small ante-room off the cabinet room in 10 Downing Street, sipping mineral water and looking as young and relaxed as ever, despite having just returned from a gruelling trip to Japan where he had stayed up half the night on the telephone to rescue the Ulster peace process.

New Labour's honeymoon with the British voter is over and the adulation of the rest of Europe is on the wane. His government, despite its short life, is already racked by splits and scandal. But if he is feeling the strain it isn't showing. Europe, however, threatens further trouble.

Blair has said privately for some time that European social democracy is in crisis. He believes that his own party's long and successful internecine battle to marginalise its

**'If the traditional European model of the social market economy isn't delivering then we should look at what is wrong with it'**

hard left masked the fact that the moderate European left was also bereft of fresh ideas and solutions. The Blairite agenda is designed to fill the vacuum.

He continues to hold to the idea that "governments still have a role – but it's a different role". This is the first time he has been so explicit, on the record, that not just socialism but social democracy as practised in most of Europe is past its sell-by date.

He has a clear idea of the direction in which a progressive centre-left government must now go: "Most people recognise today that the labour market is totally different. There aren't jobs for life. New technology is altering working patterns and the way people function within the labour market. We've a lot more self-employment and entrepreneurship, where a lot more women are working, where people will work part-time – and part-time out of choice – because what's the way they want to work."

"In such a labour market you need rules, but they've got to be different rules. The biggest thing that government can do to assist people at work today is to provide the right education and school system. It's not to tie their employers up in a mass of regulation .... [but] to encourage dynamism within the business sector whilst having basic minimum standards that apply to [all] people."

Blair believes that a number of younger, new-left leaders in Europe share this vision – "I would say that

we are winning the argument ... most of Europe is coming round to it" – but when asked how that squares with, for example, Jospin's plans for a statutory 35-hour week without loss of pay, there is a long silence before saying: "Well, that's a question to put to him." When pressed, he admits: "I suppose there may be a different perspective on some of it."

Blair has made labour market reform and greater job flexibility key elements in his "People's Europe" agenda for Britain's six-month presidency of the European Union. When asked who else really shares this agenda in Europe he cites the recent Luxembourg summit where "governments agreed that any labour market regulation they introduced would be measured up against how it increased the employability and adaptability of the workforce."

"There is no great raft of European social legislation in the pipeline that is going to impose great burdens on employers," he insists. "I think there is a very different mood."

Maybe. But most of Europe remains hostile in practice to Blair's labour market reforms and few countries are making much progress towards them, much less ready to renege on their long-standing love affair with social democracy. Indeed, stripped of its warm words and populist rhetorical flourishes, his "People's Europe" proposals are little more than Britain's traditional policy position in Europe, which has been long ignored.

Like previous prime ministers, Blair sees enlargement of the EU as a Trojan Horse for radical reform of the Common Agricultural Policy (CAP). "There is no way we can enlarge Europe and keep the CAP in its present form," he says firmly. But British governments have tried and failed for years to ditch the CAP in its present form. "I'm not saying it won't be a struggle," he admits.

The other major elements in the Blair agenda – action on drugs, crime and the environment – fall into the motherhood and apple pie category, while his hopes for a more coherent and co-ordinated European foreign policy fell at the first hurdle: the efforts of his troubled foreign secretary, Robin Cook, to

organise a fact-finding mission to investigate the atrocities in Algeria were rebuffed and had to be hurriedly upgraded before Algiers would let a delegation in.

Nobody expects the European Union to do much more than gather facts. At least, says Blair: "Insofar as anyone is responding to what's happening in Algeria, it is the EU. We're taking it more seriously than anybody else." Quite so. But given Algeria's strategic position on the other side of the Mediterranean, Europe has more to lose than anybody else should Algeria be destroyed by an Islamic bloodbath.

It is hard to avoid the conclusion that as Blair waxes lyrical about his people's agenda the rest of Europe is getting on with business as usual, in particular the final stages of creating the European single currency in which Britain has only a bit part. Blair is keen on the crucial role he wants Britain to play in overseeing a successful launch but knows it will be technical rather than substantive.

He has no stomach, for example, for tricky matters like questioning Italy's qualifications for entry to the euro, given its massive accumulated national debt (twice the Maastricht limit). "We will look at all the criteria in the round," he says vaguely, in effect acknowledging that the 11 countries earmarked for entry is already a done deal between France and Germany.

As for Britain's own attitude towards the euro, Blair continues with the very British conceit that it is almost wholly a matter of economics. While the rest of Europe acknowledges that the single currency is a significant step towards further political integration, Blair persists in believing it will do no

**'There's no suggestion of further political integration consequent upon monetary union'**

more than encourage closer economic co-operation: "If you speak to them [the leaders of Europe] they say they don't want some grand United States of Europe, they want to maintain independent nation-states."

In fact, Helmut Kohl says that "the great goal that we and our European friends have in common is a United States of Europe" and a senior French diplomat recently told *The Economist* that "to say that EMU is a political project is simply a truism, a tautology".

Blair denies that a single currency need even lead to the harmonisation of tax policies: "I don't think that's what most people want and any time the idea of fiscal harmonisation comes up in Europe in terms of basic tax rates and so on it's not merely the British that stand up and say 'we don't want that, thanks'."

Yet last October the Germans and French met in Münster and agreed to co-ordinate their tax policies in preparation for the euro. "That doesn't mean to say they're going to start trying to set the same rates of tax," claims Blair. But no less a figure than Alexandre Lamfalussy, former head of the European Monetary Institute (the forerunner of the European central bank), has said: "If monetary union is to work, a common fiscal policy is essential." Most American economists, drawing on the experience of their single continental currency, agree.

Britain's prime minister still insists that "there's no suggestion that there should be further political integration consequent upon monetary union. In discussions I've had with [Europe's leaders] they're not talking about further steps to political integration or harmonising tax codes".

He is prepared to admit, however, that a single currency involves a "substantial pooling of sovereignty. You can't get away from that." Come the day if and when he decides sterling should be swapped for the euro, Blair will have to explain to the British people what the difference is between a "substantial pooling of sovereignty" and further major steps towards European political integration. They sound very much like the same thing.

ANDREW NEIL

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**ALGERIA** ■ The EU looks likely at last to get into the war-hit state. But can it make any real impact?

# Adrift in a vale of tears

Ian Mather and Robert Fox

**T**HERE is a sense of *déjà vu* about the European Union's intervention in Algeria. The diplomatic mission which the EU is finally despatching this week to investigate the massacres shows ominous signs of adding to the sorry string of failures that has marked the EU's common foreign and security policy (CFSP) since it came into existence with the signing of the Maastricht Treaty in 1991.

The pattern is familiar. First the EU announces that a "troika" of foreign ministers will travel to the country that is the object of concern. The government of that country initially demurs, before agreeing to receive the EU mission on terms designed to massage its own *amour propre*. The mission then flies in, holds talks, extracts promises that things will improve and departs. Nothing changes.

In the seven-year history of the CFSP not a single success has been chalked up by the EU. All attempts have failed because individual members of the EU cannot commit themselves to common decisive action. Confronted with the harsh reality of risking the lives of their troops for causes that are not directly connected to the national interest, member governments prefer to do nothing. When they do act, the six-monthly rotation of the Union presidency makes it almost impossible to follow a consistent line because each country has its own priorities.

Now once again the EU has dipped a cautious diplomatic toe into the cauldron of a crisis, this time in Algeria, where in the worst spate of killings since the Bosnian war more than 1,200 people have been massacred in under three weeks. Once again the start has

been inauspicious. When the British, who have just taken over the EU presidency, proposed to send a low-key delegation "to continue dialogue" with President Liamine Zéroual's military regime, the mission was given a calculated snub by the Algerian government. Algiers rejected it on the grounds that it was "inappropriate"; that is, not senior enough.

Algeria also responded to accusations that its own security forces were partially responsible for the massacres by accusing EU governments of not doing enough to close down terrorist networks supporting the killers. "Networks are active in several European capitals," Algeria's foreign minister, Ahmed Attaf, charged. "We know it, and our European partners know it. It is not only Britain. Other countries are involved."

In the end the visit was settled on 15 January only after Robin Cook, the British foreign secretary, had agreed up upgrade it to junior minister level after talks with Attaf. It was also agreed that the visiting team, headed by Derek Fatchett, a British Foreign Office minister of state, could discuss "all matters relevant to ending the suffering of the Algerian people", a bland catch-all phrase that allows both sides to claim they have set the agenda.

The team will return in time to report back to the EU's next foreign ministers' meeting in Brussels on 26 January. But whether it will have anything new to say is already open to doubt, since the team's movements and contacts have been shackled from the outset by the Algerians.

The most delicate problem the EU faces is that elements of the regime may be part of the crisis rather than its solution. But the EU is disinclined to investigate government militia



**Faces of grief: mothers mourning their murdered children has become almost an everyday occurrence in the villages of Algeria as the forgotten war rages on**

involvement. Cook was quick to dismiss it, perhaps as the price for getting the delegation into Algeria. "We have seen no evidence to support allegations of involvement by the Algerian security authorities," he told the European Parliament in Strasbourg on 14 January. Two days later the French foreign minister, Hubert Védrine, also played down the allegations - though a fortnight before he had criticised the Algerian regime for failing to "enable its citizens to live in peace and safety".

The delegation will meet members of the Algerian government, EU diplomats and MPs. It will not meet any members of the biggest Islamic opposition party, the Islamic Salvation Front, nor will it travel to any of the massacre sites. But this sort of half-baked action is par for the course.

The first and still the most notorious example of the EU's failure in foreign policy came with the break-up of Yugoslavia in 1991. The EU failed to stop appalling bloodshed even

though crimes against humanity were being committed within Europe.

The EU shares the blame for the disaster in the first place. It was a German diplomatic campaign, led by then foreign minister Hans-Dietrich Genscher, which led the EU to recognise the independence of Slovenia, Croatia and later Bosnia - even though it was clear that war would ensue.

The EU took an early lead in international efforts to restore peace. Foreign ministers from Italy, Luxembourg and the Netherlands set off on a dramatic late-night flight around Balkan capitals. The trio returned, like British prime minister Neville Chamberlain after his meeting with Hitler, with pieces of paper containing the signatures of Balkan leaders promising that they would settle their disputes peacefully.

Later the European Community (as it then was) agreed to send a large contingent of military monitors. They arrived in time to witness the Serbs overrun a third of Croatia. It was only when the United States stepped in to force the warring Bosnian factions to sign the 1995 Dayton accords that peace came to Bosnia.

A similar pattern was repeated, albeit on a

minor scale, when Greece and Turkey almost went to war over the uninhabited Aegean islet of Imia in January 1996. The confrontation between their two navies was embarrassing as well as dangerous - one of the two would be belligerents, Greece, was an EU member.

Once again it was the Americans who forced Greece and Turkey to back down, while the EU sat on the sidelines and issued vacuous statements. Richard Holbrooke, the US special envoy to the region and architect of Dayton, after a day and a night of telephone diplomacy, summed up the Washington administration's feelings by openly accusing the Europeans of being "asleep" while the Americans were rescuing them from war. "You have to wonder why Europe does not seem capable of taking decisive action in its own theatre," he said.

Algeria looks like being no different. The European partners have watched the crisis in Algeria deepen for six years while doing their best to keep out, even though the accelerating murder of civilian innocents has been taking place on Europe's Mediterranean doorstep. Estimates, necessarily approximate, are that between 60,000 and 70,000 people have died

since the violence began in 1992. The EU's excuse for not intervening has been that nothing could be done as long as the regime rejected all outside help in the name of protecting Algerian sovereignty.

France, as the former colonial power, has done little to encourage EU involvement in a country it still considers to be in its own backyard. France has also been more willing than most to give the Algerian government the benefit of the doubt over the behaviour of its security forces.

The sheer scale of the killings in the three weeks since the beginning of Ramadan, the Islamic month of fasting, meant the EU could no longer look the other way. The rate at which events in Algeria have spiralled out of government control since the fundamentalists were banned has meanwhile led the government in Ankara to act against Turkey's Islamic extremists (see panel), even at the risk of repeating the same mistake.

But whereas Turkey is a European concern, primarily on account of its strategic situation and its repeatedly rebuffed attempts to join the EU, the spreading anarchy in Algeria strikes at very different interests. The turmoil in North

Africa creates potential security problems in France and Spain, countries with large Maghreb immigrant populations. It also is now beginning to strike at economic interests. For the first time the massacres in remote upland villages, particularly in the Rélizane area just east of Oran, are reported to be causing mass internal migration across northern Algeria - and this could soon trigger a flood of refugees into Italy, Spain and France.

The new terrorist offensive in the Rélizane area could signal a threat to the most vital interest of Europe in Algeria - the network of pipelines, and refineries processing the gas and petroleum which earns Algeria \$43 billion in annual export revenues. It is this goldmine which keeps the military regime afloat. More than 90 per cent of the exports go to Europe, and Italy alone gets more than one-third of its domestic gas requirement from Algeria. Many of the oil and energy installations and their foreign crews are protected by specialist guards provided by international security firms. They have already been subjected to attacks by Islamist units, although the government officially denies it.

Once again there are signs of a rift between

## TURKEY

### Islamic party shut down

**I**N A DECISION with disturbing echoes of the banning of Algeria's Islamic Salvation Front in 1992, Turkey's pro-Islamic Welfare Party was closed by Ankara's constitutional court on 16 January for "actions against the principles of the secular republic".

The court upheld charges brought by a state prosecutor last May that Welfare was "undermining Turkey's secular regime and bringing the country to the brink of civil war". As president of the European Union, Britain pledged urgently to discuss the ban with its EU partners, saying: "We are concerned at the implications for democratic pluralism and freedom of expression."

The nine-to-two majority ruling to shut down Welfare, which won 21 per cent of the vote - more than any other party - in December 1995 elections, comes into effect later this week. It represents a major blow against the Islamic movement by Turkey's secularists, led by the powerful army generals.

Former prime minister Necmettin Erbakan, 71, who, under army pressure, resigned last June after a year in office, is barred from political leadership for five years and loses his status as an MP. The court also banned five other Welfare officials from participating in politics.

Erbakan responded to the move with restraint. He vowed to refer the decision to the European Court of Human Rights, saying it was "legally impossible". Most of his party's 158 MPs automatically become independent deputies, but are expected to try to regroup under another name. A grouping called the Virtue Party is already being formed.

This is the first time an Islamist party has been closed under a democratic government, but military-led regimes closed two parties founded by Erbakan in 1971 and 1980.

"This is a victory for the military, but the power struggle is not totally over," said Ankara-based political analyst Doğan Akin.

Europe and the US. In testimony to the subcommittee of the Senate Foreign Relations Committee, Ronald Neumann, the US deputy assistant secretary of state for near eastern affairs and former ambassador to Algiers, said that Algerian security forces "had been guilty of excesses".

Neumann told the Senate subcommittee: "Economic and social discontent, if not treated, leave the possibility that Algeria will become unstable." His mild words are understatement of the blindingly obvious, namely that the violence in Algeria now threatens the stability of southern Europe as well as of north Africa.

Algeria now has one of the world's fastest growing populations, with more than half its 30 million inhabitants under 20, and nearly 70 per cent of its youth unemployed. They are fodder for both the Islamic militants and the mafia activities of many of the regime's associates.

It should also serve as the clearest warning that the EU's Bosnia-style of hand-wringing diplomacy towards a prickly regime such as that in Algiers could at best prove fruitless, and at worst disastrous.

**Inside the triangle of death: p21**

## FRANCE

■ Police face night turmoil in suburbs

# Battle rages in 'ring of fire'

Darius Sanai  
PARIS

**P**OLICE commando Christian Bergoud knows to be on his guard. "Last time we came in here they dropped a paving stone on us from the sixth floor," he says. He crunches through the remnants of a car windshield on the ground. "My colleague Paul was in a coma for three weeks."

Bergoud and three of his colleagues from the Brigade Anti-Criminalité (BAC), the elite violent-crime unit of the French police, are treading warily through the grounds of La Caravelle housing estate in Colombes, a violence-racked suburb north of Paris. The burned-out hulks of stolen cars litter the parking area enclosed by the U-shape. The officers, heavily armed and wearing bullet-proof vests and helmets, are tense.

Around 100 residents of La Caravelle are currently "at war" with those of La Sabline, an equally deprived estate 500 metres away across the main road. "They set fire to dustbins and stolen cars, they smash windows, throw rocks, sometimes they shoot," says Bergoud, pointing the beam of his torch through the darkness at bullet holes in the



Stop and search in Nanterre: 'This isn't normal crime. This is war against the police'

concrete walls. They walk under a canopy, careful not to venture into the open unnecessarily. Back in the car, we accelerate to 100kmh down Chaussée Anapurna, a narrow alleyway. "They threw a chimney on the car last time, smashing the bonnet," explains the driver, pointing upwards at the high-rise blocks. "It's not exactly a no-go zone for us, but it's a no-stop zone."

Nowhere is France's crisis of urban violence more powerfully illustrated than in the network of vast housing estates surrounding Paris. Described by one of the BAC commanders as a "ring of fire", these concrete jungles, only 20 minutes' metro ride from the Champs Elysées, are wrapped in a miasma of chaos. Many, like those in Colombes and neighbouring Nanterre, have youth unemployment rates of around 80 per cent and are in thrall to the "parallel economy" of drugs and stolen goods, with rioting the major pastime.

The 200-strong BAC of the Hauts-de-Seine département covers around a third of the worst suburbs to the west and north of Paris. Its brief is to help out the regular police, often venturing where their colleagues fear to tread. Its members, veterans chosen for their toughness and weapons ability, are no community policemen. "Why should we try to talk to them?"

says Marc, an officer in charge of a large German shepherd dog. "This isn't normal crime. This is a war against the police."

The radio crackles, and a call for urgent assistance comes through. We slow down as we approach the estate. A crowd of youths is gathering at the entrance to the Pablo Picasso estate, a maze of high-rise blocks and concrete walkways just a paving stone's throw away from the spectacular La Défense office complex. Maybe 70 youths, most of them north African, dressed in baggy clothes and baseball caps, are gathered at one of the entrances.

Our unmarked Peugeot arrives first. The crowd looks up and stares, unable to make out the figures inside. But when the three marked cars follow, they take one look at the occupants - wearing helmets and bullet-proof vests, armed with truncheons, revolvers and plastic bullet guns - and decide that tonight is not their night.

In the time it takes for the 18 officers to run the 100 metres from the road to the entrance, every one of them has vanished - save for one, whose scooter won't start. He is around 17, wearing Nike sports clothes and a Rolex watch worth \$2,000. They check his papers, and let him go. "He's unemployed, and he can afford a watch like that," smiles Captain Alain Dutrey,

the BAC commander. An hour later we are in Les Grandes Ensembles, one of the most notorious estates, in the suburb of Antony, overlooked by the Eiffel Tower. We are hunting a gang which attacked policemen earlier. Then the radio crackles again.

Ten minutes later we have crossed Paris from south to north and joined around 100 officers at the doors of the cinema in the shadow of La Caravelle, where the last show is just finishing. A gang of 50 youths has been taking drugs and harassing customers in one of the auditoriums.

In a stealthy operation worthy of the James Bond movie that is still flickering on the screen, the policemen file inside the hall silently and, when the lights come on, the gang looks up from its seats to find it is surrounded by riot police, truncheons and shotguns drawn. A few jump to their feet, but they are outnumbered and outgunned. Several dozen marijuana joints hit the carpet simultaneously.

They are rounded up and taken down to the police station. What, I ask one of the arresting officers on the way, can be done about the near-anarchy? "Unless the politicians pay proper attention instead of giving us lip service," he says, "Paris will soon become worse than the worst parts of Los Angeles." ■

## JOBLESS ON THE MARCH

# Jospin swamped by desperate tide of the unemployed

IF THERE was ever a test of the famous "méthode Jospin" of reconciling the apparently irreconcilable, the current crisis is it. The thousands of unemployed demonstrators across the country last weekend illustrated the dire plight the government finds itself in.

So far, Jospin has pledged to hold to his strategic course. "It is necessary to take into account this or that emergency, but we must do so without forgetting the economic facts, without challenging the

coherence of our policy," he stressed last week.

The French prime minister must take into account public opinion, which - as during last year's lorry drivers' strike - sides with the demonstrators: 70 per cent of the French population support the movement of the unemployed, according to the latest public opinion poll. "Since the beginning of the 1990s, public opinion has been sympathetic, identifying with social movements that express the fear of

unemployment, of exclusion, of the future ... I call this going on strike by proxy," says Stéphane Rozès, a political analyst who heads the CSA opinion polling organisation.

Another recent poll shows that 52 per cent of respondents rate unemployment as their top preoccupation. Many people fear they could one day join the ranks of the three million unemployed.

After initial confusion within the coalition government, the prime minister has taken the reins and has

ordered his team to close ranks, preferring to place the emphasis on growth.

Demands to extend unemployment benefits to more categories, particularly to those under 25, and to double the minimum monthly payment, currently set at Ffr2,300 (\$377), are likely to be rejected. Instead, Jospin has announced that he will hold fast to the three per cent budget deficit limit for entry into the single currency. He will also press

forward with controversial plans for a 35-hour working week.

The employers' organisation, the CNPF, is implacably opposed to this, rightly saying that it will destroy rather than create jobs. The real obstacles to job creation are blatant labour market rigidities and the high rate of social security contributions. Some employers are already talking about moving their operations out of France if the work week is reduced. Pure bluster, says the hard left.

EDITH CORON

**ULSTER** ■ New plans but the same old bricks

# No peace for the wicked

Walter Ellis

**T**ONY BLAIR described it as the first step "from darkness into light." Pro-British politicians in Northern Ireland agreed. Dublin spoke of improved prospects for peace. Yet the latest Anglo-Irish "heads of agreement", announced last week, merely underscores the contradictions – constitutional and emotional – inherent in any attempt to resolve the Ulster crisis: the immovable object and the irresistible force have not yet decided their test of strength. Under the two governments' proposals – presented as a starting point for detailed negotiations – a devolved assembly would be elected in Belfast; delegates from it would meet representatives from Dublin in a separate consultative council; the two governments would institutionalise their meetings and a so-called Council of the Isles, linking the parliamentary bodies plus the new assemblies in Scotland and Wales, would debate the "totality of relationships": a series of talking shops with plenty of goods in the window but no obvious buyers. It remains impossible to please



Burden of responsibility: Sinn Féin's Martin McGuinness carries the coffin of Terry Enright

two sides dedicated to contradictory aims. David Trimble, leader of the Ulster Unionist Party, is upbeat, believing the proposals confirm Northern Ireland's British identity. Sinn Féin, the political wing of the IRA, is appalled by such a prospect. It has spoken of "grave disquiet and enormous anger": a warning as clear as any in terrorist code that the days of the ceasefire could be numbered. The guns are off the table, but still under it.

Last week a relative of Sinn Féin president Gerry Adams was shot dead – paradoxically while working at a bar owned by a hardline loyalist. Terry Enright, the husband of Adams's

niece, Deirdre, was a community worker, whose murder, by the outlawed Loyalist Volunteer Force, has been condemned by all sections of the community. Mourners included not only Martin McGuinness, Sinn Féin's chief negotiator, but the Lord Mayor of Belfast and representatives of Protestant youth groups the dead man had taken hiking and canoeing.

In an equally poignant classic case of friendly fire, a policeman was wounded in Belfast by a panicky undercover woman soldier of the British Army. This is the stock in trade of a tragedy that has by no means run its course.

## SPAIN

# Basque sharks

MARÍA Corcuera Urandurraga, a 32-year-old lawyer in the Spanish border town of Irún, is wary of young people in tracksuits or jeans, carrying sports bags and wearing tinted glasses. Such people, a new security handbook advises, are liable to kill her.

Corcuera belongs to Spain's most endangered species – town councillors of Prime Minister José María Aznar's conservative Popular Party in the Basque Country. The Basque separatist group, ETA, has made them their main target. Three of Corcuera's 165 colleagues in town halls have been assassinated in the past six months. The last, a 32-year-old father-of-two, bled to death after his car was blown up.

Most of ETA's nearly 800 victims have until now been outsiders, killed in distant cities. Its new targets are no longer the "invaders" from Madrid but locals whose political duties rarely go beyond deciding on street cleaning and drains. The deaths and pro-ETA teenage street violence have now pitted ordinary Basques against the gunmen, but they are in no mood to listen.

Local councillors are an "easy kill". Corcuera's special security manual advises her to memorise the faces of ETA gunmen from "Wanted" posters and, should she come face-to-face with one of them, the advice is clear: "Try to flee."

GILES TREMLETT, MADRID

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POLAND ■ Boy's death and riots in the streets follow basketball showdown

# Match that lit the flame

Ian Mather

IT WAS only a basketball match, albeit a keenly fought local showdown. But the fracas that followed the clash between the northern Polish towns of Slupsk and Koszalin – the former won 91-66 – has turned Slupsk into a dangerous flashpoint.

The incident is severely testing the nerves of the Solidarity-led government as well as raising acute questions about the behaviour of a police force still wedded to heavy-handed practices from the communist era.

Exactly what happened on the evening of 10 January is the subject of bitter dispute. It is agreed that a 13-year-old boy, Przemek Czaja, one of some 200 fans walking from the sports hall to the railway station, was killed during a confrontation with police.

Witnesses say that Czaja was clubbed to death with a baton after doing no more than cross a street against a red light after two police cars tried to force the group to wait. Police say they were responding to reports of hooliganism, and that when they went to break up the crowd they were met by volleys of stones.

The protesters became enraged when local prosecutors suggested



ROBERT KWIATEK

Czaja had been killed by running into a trolleybus pylon. Although a 37-year-old police sergeant was then arrested, in four nights of street violence dozens of police and rioters were injured. On the day of the funeral several thousand young mourners from cities all

**Only a game: but the death of a fan led to four nights of rioting in the town of Slupsk**

over Poland wrapped in team colours gathered around the red brick church of Jesus in the city centre. Police found dozens of Molotov cocktails and heaps of stones.

Alarmed at the turn of events, Prime Minister Jerzy Buzek announced a

fundamental review of the handling of sports events and sent a top-level investigative team to Slupsk.

The three-month-old government now finds itself in the uncomfortable position of threatening to meet force with force, an irony since the cabinet includes former Solidarity activists who suffered police brutality under pre-1989 communist rule.

Basketball is attracting a growing following among Polish teenagers through the screening of American matches on cable television. But it has never been besmirched by the hooliganism associated with soccer, and the attendance at the Slupsk match was only 500. The rage over Czaja's death had more to do with youth alienation and the state of police discipline. Decimation of the state farms surrounding the town of 100,000 since the changes of 1989 has produced 20 per cent unemployment, mostly among the young. The police, meanwhile, are expected to confront a rising tide of crime, vandalism and hooliganism while under extreme pressure and scrutiny.

If forensic tests prove that a baton blow was the cause of death there could be an explosion in Slupsk. The government may be wise to delay publishing the results. ■

GERMANY ■ Election accord in doubt as Social Democrats and Greens squabble

# Mine row puts Kohl rivals in a hole

Tony Paterson  
BERLIN

THE hole in the ground already has the dimensions of a massive grave. Now it could bury the German left's chances of building a so-called "red-green" coalition government of Social Democrats and Greens to replace Chancellor Helmut Kohl's conservatives after next September's general election.

The project – a massive extension of the noisome Garzweiler open-cast lignite mine in North Rhine-Westphalia that will provide 9,000 jobs in Germany's troubled coalmining industry – is threatening to tear apart what had hitherto been considered a model red-green state coalition. It would gouge a hole 48 kilometres square and 210 metres deep in a tranquil suburban landscape and force the resettlement of 7,000 inhabitants.

While the state's social democrats have given their wholehearted support to Garzweiler, their Green coalition partners are predictably recalcitrant. They claim that it amounts to an ecological disaster that will commit the country as a whole to an outdated energy supply system heavily reliant on stinking, sulphurous lignite.

Whether they are right or not about that,

the Greens have suddenly woken up to the implications that the Garzweiler affair is likely to have for the party's chances of gaining power in Bonn. "If the coalition falls apart here, we can forget Bonn," observed Bärbel Höhn, North Rhine-Westphalia's Green environment minister. But leading Greens like national spokesman Jürgen Trittin see another side to the political equation. Opting to stay in the state coalition despite Garzweiler would wreck the party's credibility as an effective force for change, they fear.

Whatever the outcome, the lesson voters – currently much in favour of an alternative to yet more Kohl – could draw is that, when put to the test with serious dilemmas such as jobs versus environment, red-green governments don't work.

The Garzweiler controversy also suggests that the Greens would be incapable of forming an effective government with Gerhard Schröder, the popular prime minister of Lower Saxony and the man most German voters would like to see run as the SPD's candidate against Kohl. Most Greens have made it clear that they view Schröder's pro-business stance as a threat to the environmentalist cause, and would much prefer to join a coalition headed by the SPD leader Oskar Lafontaine, an electoral no-hoper who ran against Kohl in 1990



ULI DECK

**At court: four economists take on the euro**

and was thrashed. Whatever voters might want, a growing majority within the SPD also appears to dislike the idea of backing Schröder for chancellor. The party has opted to wait until key elections in his home state in March before finally making its choice.

Kohl himself, meanwhile, has suffered new setbacks. This week he marked 16 years in power facing the worst unemployment problems since the Weimar era and an imminent clash between employers and unions over public service pay. To add insult to injury, he was sheepishly forced to admit that he would

not be able to stick by his promise to halve the jobless figures by the year 2000 after all.

If the latest opinion polls are anything to go by, 52 per cent of voters would like to see Kohl's coalition replaced by a red-green alliance. But against the backdrop of mismarriages like the one in North Rhine-Westphalia, Kohl's future could suddenly appear a lot brighter. It is still true that a majority of Germans are reluctant to accept his pet project, the euro. But by the time the election arrives it will already have become inevitable, a fact that Kohl will be able to use in his favour. But even this could yet be derailed if four economists – Karl Albrecht Schachtschneider, Wilhelm Hankel, Wilhelm Nölling and Joachim Starbatty – succeed with their constitutional court challenge to German participation, launched on 12 January.

It is also true that, apart from the euro, Kohl does not have any effective remedy for unemployment. But then the SPD hasn't got one either, and certainly cannot claim any credit for the new currency. If Germany's reds and Greens go on shooting themselves in the foot, the worst he can expect is to become chancellor of a grand coalition government with the SPD. At best the status quo may not even be ruffled. For Kohl, the Garzweiler mine "disaster" could yet be a breath of fresh air. ■

**Germany's King Canute: p28-29**



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**PRESSWATCH ON:**

**Ulster**

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The biggest success of the Northern Ireland policy is hidden at the end of the new text for negotiation: the decommissioning of weapons.

The question of whether, when, how and to whom the IRA should hand over its weapons had paralysed to a considerable extent the peace process over the past 18 months. The question of whether or not the IRA would take part in the process was intimately linked with this question.

But whenever the Northern Ireland policy takes the form of typical April weather - moody and changeable - one should be on the alert. The dispute over weapons is child's play in comparison with other issues that need to be addressed. The end of the negotiations will not bring a reconciliation.

It will take a generation or two to overcome the split. Until then, it would be sufficient if both sides accepted rules - ideally the same rules - for peaceful co-existence. The institutions which will be given form and power during the negotiations can only be crutches to help along this road into the future.

**El Mundo**

British Home Secretary Jack Straw told justice and interior officials and senior MPs that he did not believe that the Northern Ireland peace process represented a model by which Spain could resolve its conflict with ETA.

At the meeting in Madrid, which covered co-operation in the fight against terrorism and organised crime, Straw explained the ways in which the government of Tony Blair hoped to put Northern Ireland on the road to peace.

**Le Figaro**

Mo Mowlam seems to have won her bet of putting the Northern Ireland peace talks back on the rails after her visit to the representatives of Protestant paramilitary groups in the Maze prison.

Tirelessly, and with a pugnacity which suggested that no setback or insult could deter her, she repeated her credo that an agreement between all parties approved by the population of the province was the only route to a durable peace.

**Izvestiya**

For the British government the current peace talks in Northern Ireland are of such importance that it is undertaking unprecedented steps.

Minister Mowlam visited the Maze prison where about 600 terrorists are held, where she met some very "colourful" characters.

The risky step undertaken by the minister seems to have been successful. The terrorists with political representatives within the parties who are involved in the peace talks gave their go-ahead for the continuation of the negotiations. The government suggested a multiparty forum.

It envisages the formation of an assembly to represent citizens from both sides of the border.

Not one group involved in the talks has rejected this project.



Heaven's fire: rescue workers examine the scene in Hamburg after the devastating storm of bombing which left the city in ruins in 1943

**WORLD WAR II** ■ Author challenges his contemporaries

**Can Germans be victims?**

**Volker Hage**  
HAMBURG

**P**ICTURES of an apocalyptic inferno: "The flaring flames soaring two thousand metres into the sky suck the oxygen in with such strength that the air currents attain hurricane force, groaning like great organs on which all the stops have been pulled at once." Human bodies are driven by the sea of fire "like living torches"; roofs are whisked from houses and the water in the canals boils.

The description is of Hamburg in July 1943, the night of the firestorm that raced through the German city after allied aircraft dropped a precisely calculated mixture of explosives and incendiary bombs to unleash a blaze unprecedented in its force and ferocity. The speaker is WG Sebald, a German writer living in England, delivering a three-part lecture to Zürich university on the theme "air war and literature", which packed in the Swiss.

The problem is obvious: is it permissible to deal with the German "victim" experience in a literary, even aesthetic way without diminishing the Holocaust? In the first instance, Sebald has made only an observation: that the air attacks and their consequences are scarcely present in the German consciousness and particularly absent from literature. The destruction of German cities in the Second World War, "an act of annihilation without precedent in history", seems to have left no scar on the German soul. But Sebald makes the obvious connection: "a nation which murdered millions in concentration camps" is in a poor position to demand information from the victors about the "military-political logic" of the bombing campaign.

Nonetheless it remains true that the events have made no significant impact on German literature: an astonishing fact given that they were a formative experience for millions and between 1940 and 1945 killed more than half

a million civilians. It is undoubtedly dramatic material. The Dresden bombing in February 1945 proved a rich vein for three noteworthy works: *Slaughterhouse 5* by the American Kurt Vonnegut, *The Stone Bridal Bed* by Dutchman Harry Mulisch, and *Dresden Died With You Johanna* by Frenchman Henri Coulonges.

But apparently those soldiers returning from the lost war who became authors had too much to cope with personally to deal with the trauma of their wives and children - trauma for which they felt at least jointly responsible.

Literature repeated the scenario in many German families: the fathers told their version of the war. They didn't mention the war that fell from the heavens and landed on the cities, in the same way as they didn't mention the crimes of the Wehrmacht, and certainly not the Holocaust. As a result, they weren't really talking about war, not about this war.

Today, Germany is a leading importer of literature in translation by authors who are free from German inhibitions and taboos: North and South Americans, British, French, Czech, all of whom can talk to the Germans gracefully, directly and without embarrassment, of that more or less unbearable "lightness of being". They have told us also about the war and the Holocaust. It would be wrong to think the German public's fondness for foreign literature was based on a desire to escape from the burdening themes of the past. Quite the contrary.

The fact is that much of what we seldom or never find in our literature really could not be dealt with by Germans: first and foremost, Auschwitz. Christa Wolf has championed the view that it befits "only those affected by Auschwitz" to write about it. But if the persecution of the Jews is not to be a topic for German authors, how dare they then write about other, much lesser sufferings of our own, about horrors that have to be morally accepted, if painfully suffered, as consequences of German aggression? One taboo begets another.

Even present-day themes lose their meaning. The motives of German everyday life must, in comparison, seem unimportant and unreal. A love story, the collapse of a marriage, a summer by the sea - all of that was and is risible against the background of what is kept silent. The difficulty lies in portraying Germans as victims, even hiding in air-raid shelters. Is it possible to give them a voice, to feel sympathy for their suffering, without simultaneously, for the sake of political correctness, putting things in relative terms - just at the point where art demands that a story be kept free from explanations?

Wolf Biermann, the prominent East German dissident expelled from the communist state in 1976, could be the man to tell such a tale. Born in Hamburg in 1936, Biermann only recently exercised his epic-writing talent in a postscript to a poetry collection.

As a child Biermann lived through the 1943 Hamburg firestorm which killed tens of thousands. In a few pages he describes his flight with his mother out of the inferno of the Hammerbrook district, in a surprisingly personal testimony. His "life's clock" stopped in the "furnace of that one night". "I was six and a half years old and I have never grown older. I am a grey-haired child, still amazed by everything." His flight ended at the Dammtor station, where "two years earlier Hamburg Jews had to line up for deportation to Minsk". Close relatives of Biermann had been among them.

Of course, the two stories are inseparable. But that is no reason not to tell them. The great German novel about the Thirty Years' War only appeared in 1688, 20 years after its end: *Simplicissimus* by Grimmelshausen, who himself had been a young soldier. Christoph Hein has said it will take at least 50 years for the seemingly urgently-needed book on the events of 1989 to appear. So, perhaps, German post-war literature will only begin at the turn of the century, at the turn of the millennium. ■

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**ALGERIA** ■ From a deceptively peaceful capital and prosperous orange groves to a family home turned into a charnel house and dismembered bodies

# A journey inside the triangle of death

**Bernard-Henri Lévy**  
ALGIERS

**O**N THE autoroute between the airport and Algiers stands a huge painted sign. With perhaps unintentional humour, it says: "Welcome to Algeria!" It is followed by another: "Bosnian-Algerian friendship!" Then comes a deserted but apparently functioning amusement park, and the government sports centre, occupied by juvenile handball players. Then, on the horizon, the port, with its spiky cranes, which looks like a perfect target for terrorist attack. But still I see no police presence.

Soon, of course, I will be leaving Algiers. I will head for the "triangle of death" – the Mitidja – and the region around Oran, scene of the latest massacres. But this, for the moment, is the first impression. One expects to see a city in a state of siege, and the signs of daily horrors. Instead, it looks like "normal" life: women without veils, packed taxibuses, people going about their daily business as if nothing was wrong. There are only three checkpoints in the 20km which separates the airport from the city centre.

Eight days later, after a trip to central Algeria, we find ourselves at the home of Cherif Rahmani, the governor of Algiers, a neo-Moorish palace built at the beginning of the century. The man is open, typical, it seems to me, of the new breed who have ousted the old discredited FLN moguls. "Terrorism is on the way to being eliminated in the Casbah," he says.

I reply: "Let's go there. If the Casbah is so safe, why not come with us?" The governor hesitates, takes advice, finds the gendarmerie are otherwise engaged and we would have only his own bodyguards for protection. Still, he takes me at my word. Thus I find myself walking once again in the forbidden city, to the astonishment of the inhabitants, seeing him stop for a coffee at Hadj Moussa in the rue Barberousse. People complain about their dustbins not being emptied, and at a crossroads a small crowd gathers, mistrustful but not really hostile.

I am not completely stupid. I do not exclude the possibility that I have been subject to a charm operation as most politicians are. But nonetheless, the fact that it is possible for the local Chirac or Tibéri [Mayor of Paris] to move around like this in the most dangerous areas of the city, is this not a sign of something?

To be a journalist, real or approximate, makes it impossible to go anywhere unescorted. For "danger areas" like the Casbah you get a substantial squad of police. If you leave Algiers, you get two or three big Toyotas full of policemen accompanied by an unmarked squad car.

In any case, there are your permanent companions: a driver in your car, two bodyguards and another driver in a second car, constantly in walkie-talkie communication with a mysterious "central". Their job is to protect you – sometimes to over-protect you – but also to engage you in conversation on the lines of "the media makes too much of a few little terrorist attacks, it's all just gangsterism really, it's of no interest".

The route out to Larbâa was beautiful. It seemed to reek of prosperity – orange groves, vines, well-maintained fields of corn, a classic

Mitidja landscape. In Larbâa itself, without the forest of signs saying "Slow down" and "Stop, Police", the machine-gun set up in front of the sub-prefecture, and the sandbags on the roofs of two villas facing the hills, you would never suspect that two days previously this village had been the scene of a massacre.

There is a direct route from Larbâa to Bentalha, but the military tell me it is "impracticable", so we have to go another way. I enter Bentalha through the area to the west that was the target of the attack there. Three months later there is still a smell of cold ashes, sudden and sharp, which wraps itself around you like an invisible frontier of death.

When we hear in France of these massacres, we picture whole devastated areas, entire villages razed. But here, seven, perhaps eight houses were sufficient for the killing to attain the ultimate horror. For – it suddenly strikes me – what makes this ferocity all the more intolerable is that it was not blind. Families were exterminated, not villages.

I try to see what has happened to Bentalha. The bomb hole in the wall of the Zafar family's home; the terrace to which the family fled; the metallic ladder they had to climb to reach the higher terrace next door. The small shoes of the three children who could not make it and, caught from behind, had their throats cut. The bedroom of the asthmatic son who could not climb either. "I can't breathe," he screamed. "I can't breathe." He was killed where he lay, in bed, with blows from a shovel. The terrace of the other family – but no, they were all one big family, in two houses, gathered there to die on this concrete terrace – the broad pool of blood, now turned dark green, of the 36 dismembered bodies, thrown over the parapet. The dark patches in the stairway: that is the blood of the elderly man who faltered and was beaten with axe-blows to join the rest of his tribe.

It was the most beautiful terrace in Bentalha, it had the best view; from there, when the air was clear, you could see Algiers. Now, for ever, it will be a scene of absolute nightmare. A home turned into a charnel house.

At Rais, still in the Mitidja, I heard the testimony of a man who escaped the massacre there. A restaurant owner, he carries a knife mark on his neck and below it that of the axe which almost decapitated him. He tells how his baby child was allowed to bleed to death; how his wife was dragged from under the bed with their other, four-year-old, child. He tells how he heard the leader say: "The adults are killed as a punishment. The children are killed to save them."

Then he recalls that the night before there had been a marriage celebration at a neighbour's house. Everyone was enjoying themselves. Among those people there were – mark this well – four of the men who, a few hours later, took part in the massacre. "Who is killing whom? I know that people are asking the question. But us, we know very well who is killing us. We saw them, the killers. They were from this area. They were at that party ..." The question of who is killing whom is itself an obscenity, as if you needed to add doubt and confusion to the horror ...

In between times, I went to Arzew, on the other side of Oran, where six gas pipelines pour out their wealth into the methane tanks of Sonatrach [the state energy monopoly]. This is the other Algeria, the "useful" Algeria.

While isolated villages burn, here they know nothing about the war. This Algeria knows only about the war of figures, cubic metres, performance. It lives in a different world, that of international markets and barrels. There is only one question that interests me as they proudly recite their achievements: how do they view the terrorism? To listen to them, this zone has never suffered from Islam. Of course, in reality that is untrue. We know that this sort of information is embargoed, that there have been attacks on the gas pipelines in the past five years.

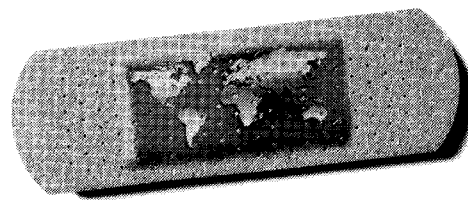
It is here, on the approach to Arzew, that I saw the first serious security checkpoints since my arrival in Algeria, huge walls topped with barbed wire, hermetically enclosing the industrial zone. The chief of security is proud. This giant target, this Islamist's dream, this national bankroll, has been protected from the violence

– apart from a few skirmishes – for the past six years.

But here is the real question. I pose it, once back in Algiers, to a government party official. Why have they not deployed this mastery of military techniques to create security screens around the devastated villages of the Mitidja or those villages in the west awaiting their turn? It is the only question worth anything, the real challenge facing the state. Algeria will only be irrevocably launched on the path to democracy on the day when it can tell the world that there are no longer "useful" towns and "non-useful" towns; that there is no difference in matters of life or death; that the fate of a peasant in Rélizane is at least as important as that of a petrol installation. ■

*A longer version of this article first appeared in Le Monde*

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**Just coasting**

FRENCH Eurocrat and aristocrat Yves-Thibault de Silguy, he of the monogrammed shirts who insisted monetary union was dead in the water until he became commissioner in charge of the project, is stretching the boundaries of his office.

To be more precise, he is attempting to expand beyond it, challenging the authority of his boss, Commission President Jacques Santer, and even the Treaty of Rome itself. De Silguy, 49, a former adviser to ex-French premier Edouard Balladur and staunch supporter of Gaullist President Jacques Chirac, has announced his intention to run for the presidency of the regional assembly in Brittany next March. Chirac is keen to make sure the region is in safe hands before the 2002 presidential election.

The problem is that if De Silguy wins, he would appear to be in breach of the clause in the EU's founding treaty which decrees: "Members of the Commission may not, during their term of office, engage in any other occupation, whether gainful or not."

Santer called him into his office suite at the Council of Ministers building on Boulevard Charlemagne for a low-key chat, during which it was suggested that perhaps he might care to keep his eye on the euro at this crucial time instead of politicking in the northwestern extremities of France.

The proud De Silguy, however, refused to be browbeaten and is insisting on his right to bend the rules, arguing that the French version of Article 157 of the Maastricht Treaty merely stated that members of the Commission were not allowed to engage in any other *activité professionnelle*, which he clearly does not consider to include politics. Santer fumed and called him into another meeting shortly afterwards, where he showed a rare glimpse of steel by insisting that the two jobs were completely incompatible.

De Silguy's ambitions are understandable, if theoretically reprehensible. He would like to step back onto the French political ladder before his term as commissioner ends in 2000. Being ditched from the party list in last June's parliamentary elections only

impressed upon him the urgency of the matter. He would not be the first politician for whom a highly paid job in Brussels turned into an upholstered graveyard for ambition.

Brittany would be the ideal solution. What better place than one's ancestral home (which houses a fine art collection), close to the fabulous Brittany coastline where one's latest luxury yacht is moored? And what better credentials for a future stab at the French presidency than having piloted through monetary union to establish, after the dollar and the yen, the world's third-strongest currency?

On the other hand, it is not too conspiratorial to imagine Santer's objections might have an ulterior motive. Ousting De Silguy on a technicality could be the ideal opportunity to get rid of a right-winger who has a long history of improbable opinions – and who some regard as the single biggest liability facing the Commission's push to get the euro up and running on time. Watch this space.

**In the back of the Net**

NICE to see the latest technology being used to keep the citizens of the people's Europe informed about what their overlords are up to. Very soon, all legislative proposals and drafts, not to mention the entire corpus of current legislation, will be available on the Internet. This will lead to an immediate flood of 800,000 documents, providing the largest Internet site in the world.

Under Article 191a of the Treaty of Amsterdam, the Commission is planning to ensure even wider access to community documents. Experts predict there will soon be enough EU material in cyberspace to keep a team of net-nerd speed-readers occupied 24 hours a day until well into the next-but-one millennium. What bliss!

Internet-users who find trawling the Net for anything more controversial too time-consuming will be pleased by a new initiative from Bonn. The German government is publishing its own list of pornographic and neo-Nazi material. Germany's new multimedia law requires the Federal Youth Protection Agency to compile a list of websites it believes can endanger young people. Queue here.

**Straight answer**

SHAME on those who dismiss the quality of debate in the European Parliament of Brussels or who denigrate MEPs for failing to present a proper democratic challenge to the unelected bureaucrats in Brussels. Some of the exchanges are absolutely scintillating, such as the following gem between Green MEP Hiltrud Breyer and Farms Commissioner Franz Fischler on the subject of genetically engineered crops.

"In the event of authorisation being given for a genetically modified plant line pursuant to the varieties directive, following thorough testing of the change in its metabolites, are all plants resulting from crops-breeding from this line tested for metabolic change?" asked Breyer.

Unfazed by the brilliance of this question, the Austrian agricultural supremo replied: "Under the current community provisions on the common catalogue of varieties of agricultural plant species and on the marketing of vegetable seed 70/457/EEC and 70/458/EEC respectively, a plant variety is officially accepted for certification and marketing only if it is distinct, stable and sufficiently uniform."

So now you know: it really is the end of the line for bent cucumbers. Or is it?

**No hope without dope**

THE process of completing the single market marches on, in ever more unpredictable directions. Members of the European Parliament have been chewing over a report that alleges illicit drug-takers are unfairly discriminated against.

The idea is the baby of Dutch socialist MEP Hedy d'Ancona, who is proposing steps towards the harmonisation of drug laws across the member states. Possession of cannabis is still a criminal offence in the Netherlands, but not many people know it, owing to the fact that police have a standing order to prosecute serious traffickers only. Possession is considered not so much a misdemeanour as a lifestyle statement.

Things are very different, however, in Britain, France, Sweden and Italy, where law-enforcement

**Ousting De Silguy on a technicality would be the ideal opportunity to be rid of a right-winger**

officers have old-fashioned ideas about enforcing the law.

D'Ancona's committee report is a timely poke in the ribs for Jack Straw, Britain's home secretary and currently president of the Union's interior ministers' council. Straw's son was cautioned by police after having been exposed by a tabloid newspaper for selling a tiny quantity of cannabis to a reporter.

Straw, who had made a name for himself as a strong opponent of legalisation, was embarrassed, not so much by his son's gaffe but by an initial court ruling that his son could not be identified, which made it look (wrongly) as if the minister was involved in a cover-up. D'Ancona must be forgiven for challenging Straw to take the bold step of reversing his previously-held views: in this case valour could be the better part of discretion.

**On the other foot**

MORE bad news from Brussels for the Asian tigers, already lamed by the collapse of their markets and currencies. Specifically, Indonesia and Thailand, on their uppers after the events of the past few weeks, now look like being kicked in the pants by an EU imposition of punitive anti-dumping duties designed to stop a flood of cheap footwear imports.

The Commission is preparing to hand European trade ministers a draft proposal in the next few days. The plan has the backing of the Spanish and Portuguese, whose own cheap-labour shoe industries are worst affected. Rome has also submitted evidence purporting to show that its footwear industry has been damaged by undercutting, even though a recent Commission report suggested it was flourishing.

Critics of the plan, including the Austrians, Finns, Belgians and Luxembourgers, who import large quantities of shoes, say the move is unnecessary. They insist it will just push up prices of basic footwear, while Europe's own shoe producers – the Italians in particular – are far too upmarket to be hit by the sort of cheap stuff coming from Asia.

Unsurprisingly, the European Confederation of the Footwear Industry, which admits to a vested interest, says that's a load of old cobblers!

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EUROCENTRISM ■ Stop navel-gazing. It's world markets that

# Even continents can't buck trends

Martin Jacques

**A**SIA is the hope of the world. Europe has run out of energy. There is no dynamic. It's like a beautiful museum. But there's no hope. Lives don't change. There's no excitement, no adventure, no goal in life. Come back to Asia and you see the change every year. Asians are competitive and work hard."

Antonio Chiang, editor-in-chief of the *Taiwan Daily*, was speaking last summer, before East Asia's financial turmoil. Nevertheless, his words reveal a continuing Asian preoccupation with Europe.

We Europeans rarely look at ourselves from the outside. Discussion is overwhelmingly inward-looking.

After the Second World War, the world began to acquire a very different shape. Europe's global importance diminished. In response to the war, then decline, it turned inward and embarked on the long road to integration.

It was the right kind of response. For the United Kingdom, France, Belgium and the Netherlands, the 1950s and early 1960s meant a retreat from Empire. The European project served to direct energies and attention inward. It was about preventing war on the continent, lowering tariff barriers, creating a single market and designing a new set of European institutions.

The events of 1989 reinforced this mind-set: how could eastern Europe be brought into the European Union? How could a newly unified Germany be anchored within it?

Europe's self-preoccupation has borne fruit. With the exception of the Balkans, the continent has enjoyed a remarkable spell of peace. The biggest single dynamo of economic growth has proved to be the rapid increase in intra-European trade. But it has been at a cost. Europe has become too little interested in the outside world.

At no previous time in European history has so much attention been paid to what Europe is, how its borders should be defined, what it means to be European. It is not difficult to explain the reasons for this self-absorption. With the decline of the

nation-state and the search for a new identity to complement a sense of national belonging, the idea of Europe has acquired a new importance. The previous concern for the nation-state has been partially replaced by the growing preoccupation with Europe. One kind of parochialism has, in effect, been replaced by another, continental rather than national. And insofar as this European identity is contrived, the subject of a political project rather than the object of genuine popular consent, then the new parochialism is more deliberate. The positive aspect of Europeanism has been the attempt to transcend the nation-state and traditional national enmities. More negatively, it has involved a new kind of exclusivity.

The nature of the European project has been heavily influenced by European decline – loss of empire, the Cold War, the rise of the United States and, more recently, the success of the Asian economies. So it is hardly surprising that the concept of Europe has partly been defined in terms of threats: the dangers of Americanisation, the vulnerability of a distinctive European culture, decline of the French language, the challenge of Japanese inward investment, the alien character of Islam, the tide of migration from the South.

Until Europe became a political project, no one needed to define what Europe was. Now they do. It is cultural and ethnic,

geographical and (in the context of EU membership) political. Eastern Europe is part of the family, Russia is not. Turkey remains a problem. There are no borders, Europe is a construct, a moveable feast, as Norman Davies shows in his monumental book, *Europe: a History*. Were the ancient Greeks really Europeans or did they more properly belong to the Middle East? The Turks and the Moors, both now excluded from our notion of Europe, had a profound influence on the continent's evolution and formed an organic part of its history and culture.

One of the most negative effects of this search for the true Europe, and the archetypal European, is that it can serve to reinforce one of Europe's most fundamental, less attractive, characteristics: the relationship between territory and ethnicity. Europe's ethnic

groups often display a tenacious and proprietorial relationship with the land they have traditionally inhabited, as the Balkans and Ireland, cases *in extremis*, demonstrate.

The desire of nationalities to declare independence after 1989, the myriad disputes between different ethnic groups in eastern Europe, "ethnic cleansing" in the Balkans all testify to this powerful sense of difference. These attitudes and prejudices underpin the continuing strength of ultra-right, anti-ethnic parties in so many west European countries, not least France and Austria.

Europeanism represents an attempt to replace narrow nationalism with a wider identity, but the preoccupation with what is a European can simply reproduce some of those ancient divisions on a wider stage. A Serbian may regard a Bosnian as an alien, a Romanian may reject a gypsy, even though they have lived in close proximity for centuries.

In the new Europe, everyone within its boundaries can regard anyone from outside as a threat, as an intruder, be they Turks, north Africans, Chinese, Indians or Africans. The Other may be within, or from without, but he is still the Other.

The Schengen agreement illustrates the problem. The old internal borders between EU states that are party to the agreement have been scrapped, replaced by external borders with the outside world. And the overwhelming preoccupation of the Schengen members is how to keep out the Other – those from eastern Europe, Asia, Africa and the Middle East. Over the past year or so, most EU states have sought to restrict immigration, by tightening their asylum laws.

The attempt to construct Europe in a closed fashion is misconceived. It is impossible to define Europe in isolation, just as it is impossible to define an individual outside the social context.

Europe's great periods of history are marked by an extraordinarily confident, expansive mentality based on a passionate belief in what Europe had to offer the world. From Columbus onwards, Europeans explored and opened up the world. Italian city-states dominated the Mediterranean and its hinterland. Colonial

empires were a product of Europe's self-confidence and outward-going attitude. Europe will not prove successful if it consists of little more than reinventing itself from within. It also has to reach out to and interact with other continents, cultures and ethnicities. The meaning of being European will change in the process. It always has. This is something not to be feared but savoured.

This is, above all, true in the era of globalisation. For much of the past 40 years, western Europe has prospered as a result of regional integration. But there is a limit to how far integration can go, a limit not yet reached but to which we are now close. Meanwhile, globalisation has become the most dynamic force of our time. Europeanisation should in some respects be considered as an aspect of globalisation. If no nation-

state can resist the global imperative, then neither can a continent, however old or rich it may be.

A classic instance is the attitude towards inward Japanese investment in the 1980s, welcomed by Margaret Thatcher's government. It would create jobs and enable British industry to learn about Japanese methods. Many on the continent regarded it as a poisoned chalice, an attempt to undermine European companies. Britain was described as Japan's aircraft-carrier moored off the continent. Yet it is now clear that those who embraced it were right. Over the past decade, every major manufacturer has had to introduce Japanese methods of lean production and total quality management.

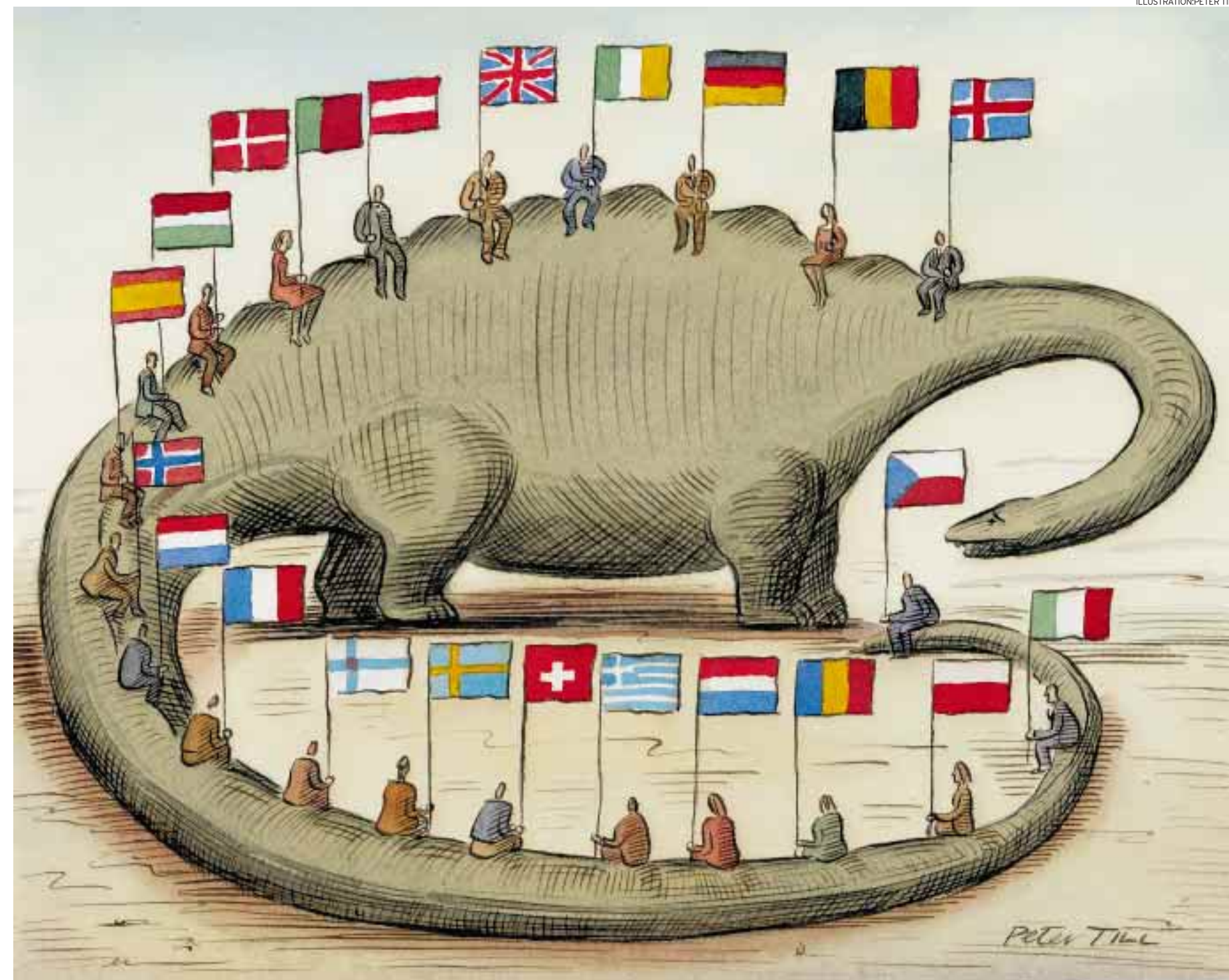
Globalisation is changing the nature and shape of the world. Technology has become cheap and mobile, enabling poorer countries rapidly to acquire modern forms of production. By extending the division of labour to the global market, international firms have drawn whole new countries and regions into the modern economic era. Over the past 40 years, some 1.3 million people, mainly in East Asia, have closed the gap with the West.

The result is a world which is more interactive, more open, more porous, more hybrid, less hierarchical. Cultures and countries that prosper will be those that are open rather than closed, promiscuous

**It's the potent ethnic mix that gives New York and Hong Kong their charge**

**The biggest dynamo of growth on the continent is its increasing internal trade**

hold the key to prosperity for the next generation of Europeans



rather than inert, oriented towards learning from outside.

Europe and East Asia are at different stages of development. One of the lessons of the present turmoil in East Asia is that "catching up" is more complicated than notching up rapid growth rates year after year: institutions, culture and politics also have to be transformed.

But we can still learn from them. There is a striking contrast between the willingness of East Asia to learn from Europe and the resistance of Europe towards the countries of East Asia. The tigers have been brilliant learners. They are constantly on the lookout for new ideas. They made it their business to become familiar with happenings in the West. Many of their elite have been educated in the West and are culturally bilingual. The tigers are creatures of globalisation. We are products of Europeanisation.

Yet there are plenty of European companies, big and small, that are global in mentality. The United Kingdom has become far more global in outlook. But too much of the European Union is still burdened with a "Little European"

mentality. European insularity springs partly from the European project but is also a function of history. For 500 years, Europe has been used to thinking of itself as best in the world. While acknowledging it has lessons to learn from the United States, it is not accustomed to the idea that it might have something to learn from others, least of all from former colonies.

One of the greatest obstacles to European success in the era of globalisation is a supremacist mentality born of half a millennium of history. The consequence? A lack of attention to trends and influences in other parts of the world. Europe is also too restrictive and exclusivist about its view of what constitutes a European. There is a profound hostility to migration from outside, be it eastern Europe, north Africa or Asia, and ample evidence of racist attitudes towards ethnic minorities.

This is not new. Europe was the home not just of the Enlightenment and the Renaissance but also Fascism and the Holocaust. The relationship between territory and ethnicity is among the causes of this ugly side of European tradition.

Europe has been the greatest exporter of people in the modern era, yet Europe does not extend the same generosity to those who now want to come and live on its shores.

No government can ignore the fears of those who feel their livelihood is threatened by immigration; neither can any government simply open its borders to the outside world, a recipe for disaster. But, in the era of globalisation, there is no doubt that heterogeneity rather than homogeneity, the hybrid rather than the singular, multi-culturalism rather than mono-culturalism, are powerful assets. Much of the dynamism of the United States is because of its ethnic mix. The most exciting places in the world are those that live on the edge, on the boundaries between cultures, places of fusion rather than uniformity. It is the potent mix of diversity that gives New York and Hong Kong their charge.

London's renaissance has much to do with its multi-culturalism and rich ethnic mix. It has been a cosmopolitan city for well over 150 years, but mass immigration from the new Commonwealth has had a

qualitatively different effect. For much of the postwar period the new ethnic mix was uneasy, but now it is becoming a powerful advantage, a source of creativity and energy. It defines London as the most original and global city in Europe.

Europe's era of integration must now be complemented by an age of diversity and openness. If Europe looks inward, it will slowly stagnate, becoming ever more insular and provincial. It will prosper only if it embraces influences from outside, reinventing and redefining itself in the process. Europe has one great asset – its imperial history – which lent a cosmopolitanism to the imperial powers, bringing them into contact with many different cultures and traditions. The ethnic minorities of countries such as Britain and France are one consequence of that legacy. They are part of the key to Europe's future in a globalised world; providing that we manage to forsake that other legacy of empire – an innate feeling of supremacy.

**MEDIA** ■ Two powerful women lead the Financial Times and Wall Street Journal into battle

# Karen versus Marjorie

**Harriet Lane Fox**

**M**ARJORIE Scardino, chief executive of Pearson, the British media group which owns the *Financial Times*, is in the third month of an ambitious, some would say reckless, campaign to challenge the mighty *Wall Street Journal* on home territory. Regularly visiting the paper's offices on New York's posh upper east side from London, her goal for the next five years is to triple the *FT*'s circulation in America from a mere 32,000 to 100,000 plus.

Downtown, at the offices of Dow Jones, owner of the *Journal*, Scardino's foray has not passed unnoticed. The company is retaliating by hitting the *FT* on its home turf, creating an expanded UK-targeted edition of the *Wall Street Journal Europe*.

Leading the effort is Karen Elliott House, president of Dow Jones International (who happens to be married to Dow Jones's chairman, Peter Kann). Starting on 2 February, UK readers will get two new pages, more coverage of European news, and closing prices an hour later from New York.

**Two formidable women are locked in a war - the prize is world domination as a business news brand**

Karen Elliott House, president of Dow Jones's publishing interests overseas, is taking the fight to Europe, by strengthening the *Wall Street Journal's* London edition

On the surface, it's a classic newspaper circulation war between two venerated titles: the *Journal*, quintessential organ of American capitalism with its stately grey columns and line drawings in place of photos; and the "pink one", a paper that is a pillar of the British financial establishment.

But two of the most formidable women in the media industry are locked in a much bigger war than that. The ultimate prize is world domination as a business news brand, not just in print but on television and in new media.

It's uncanny how much the two women have in common. Both are 50 and speak with a half-erased Texan drawl. Both started out in journalism - Scardino was briefly with Associated Press, House won a Pulitzer prize for her work as a *Journal* foreign correspondent.

Both are textbook examples of the executive "supermom". Scardino has three children and House has four - a grown-up stepdaughter through her marriage to Kann and three the couple have adopted.

When Scardino took over as chief executive she used a military analogy to describe her approach to the job, quoting General Douglas MacArthur's philosophy: "Have a good plan, execute it violently, and do it today."

House's husband, Peter Kann, also favours military allusions to describe his plans for Dow Jones, dubbing his strategy "Rolling Thunder", a reference to Vietnam bombing campaigns. House has been stuck with a decidedly unflattering military nickname, according to a *Vanity Fair* profile, which claimed *Journal* staff refer to her as "Genghis Khan".

Scardino has a lot of management problems to sort out; but if the *Vanity Fair* profile is to be believed, House creates more management problems than she solves. The profile, published in the magazine's August edition last year, suggested key Dow Jones shareholders were unhappy with Kann's management, and that House was his "biggest liability", citing a catalogue

of examples of poor management. Dow Jones responded to the profile by claiming it contained 21 errors; and a reply published in the *Journal* suggested that far from being a liability, House was a "stellar business executive", turning an eight-figure loss in her division into an equivalent profit.

Scardino has not been subjected to public attacks, but she still has a lot to prove. While she targets America, the complaint in the *FT* newsroom back in London is that Scardino has not fully exploited its franchise in Europe.

Pearson prints in Paris, Frankfurt, Stockholm and Madrid, as well as two UK sites, and is planning to start in Milan. A third of the newspaper's 328,000 circulation is now in Europe (excluding the UK), while House has built the *Wall Street Journal's* circulation in Europe to just 65,000.

In Britain the *FT* has managed only a three per cent increase in sales since the end of 1992. At 173,000, its circulation is still nearly 30,000 short of what the company says is the paper's potential sale.

The figures tell their own story: while the *FT*'s American sales are less than three per cent of the *Journal's*, the American paper manages to sell a quarter as many copies as the *FT* in Europe (including the UK). In Asia, House is winning by a mile: the *Journal* beats the *FT* by 56,000 copies to 10,000. The *Journal* can justly claim to be a global news brand; while the *FT* is not, yet.

On the big new battleground of the Internet, the *Journal* is also far ahead of the *FT*. The *Journal's* site is superior, and generates revenue: you pay for the *Journal's* online edition, you don't for the *FT's*.

Scardino is about to relaunch its website, *FT.com*, using IBM architecture to replace Pearson's DIY stuff. For the first time, there will be subscription packages. The *Wall Street Journal*, however, already has 150,000 paid-up Internet subscribers.

In television, Dow Jones pulled off a major coup against Pearson at the end of last year. NBC did not renew its contract with a Pearson-owned production

company, FTTV, to provide European business content for CNBC, opting instead for a joint venture with Dow Jones.

Scardino can't let her rival win too many more battles. Years after Pearson announced it would focus more sharply on media, the group still includes oddities such as Madame Tussaud's and incongruities like Lazards investment bank. The market has been calling for sell-offs, spin-offs, anything to streamline the business. Scardino has had to cope with tortuous internal politics, not least rumours that she and Greg Dyke, who heads Pearson TV, were at each other's throats.

But since Pearson acquired a US TV production company, All American Communications (AAC), things seem to have calmed down. She said in the staff newsletter that her New Year's resolution was to get into a *Baywatch* swimsuit (AAC makes the programme).

The group's lack of focus has been reflected in a lacklustre stock market performance. Pearson's stock stuck pretty closely to the FTSE All-share Index until early this year but it has consistently underperformed against other international media and broadcast companies. "Might be fine for some businesses," was Scardino's honest verdict, conveyed to London analysts at the beginning of last year, "but in the fast-paced media businesses, it's really not very exciting."

The widely publicised accounting cock-up at Penguin Books that put a \$160 million dent in last year's bottom line heightened the view of Pearson as a company in need of clearer management thinking and direction.

Scardino's vision for the US *FT* is not an all-new paper, rather a reworking of the international edition with more space devoted to American affairs and less to Britain. She is splashing out on a \$9m US marketing budget this

year. On the back of this, the *FT* has for the first time persuaded some newsstands to give it shelf space next to the *Wall Street Journal* and the main local paper, instead of racking it with the rest of the international press.

The early signs are promising. The *FT's* December circulation was 47,000, up 31 per cent year-on-year. Some encouraging trends back the *FT's* timing. In 1990 four per cent of US pension funds were invested outside the US. By 2000 this is forecast to grow to 14 per cent. The big debate is whether there is a real appetite in the US for what is still a British newspaper with an American/international flavour.

Scardino's main problem is the *Journal's* 1.8m US national circulation. Pearson can't take any pleasure from the fact that the figure hasn't risen recently. The *Journal* claims not to have even tried to budge it, focusing instead on increasing the cover price - by 26 per cent. The fact that its readers paid up - as they do for its online version - is the ultimate validation of its brand strength.

Dow Jones is not failure-proof. Dow Jones Markets, the company's rival to Reuters and Bloomberg, is a disaster and its losses will next week push Dow Jones to announce its first net loss since the company went public in 1963.

The *FT* will doubtless cover the news with its customary authority.

**Marjorie Scardino, chief executive of Pearson, intends to triple the Financial Times' American sales over the next five years**

	WHO'S WINNING	
	Pearson	Dow Jones
Revenue	\$3,497.6m	\$2,481.6m
Operating profit	\$450.08m	\$334m
	Financial Times	Wall Street Journal
Operating profit	\$45.76m	\$190m
Worldwide circulation	342,222	1.9m
Online edition paying subscribers	0	150,000
Hits on site (week)	7-8m	8.5m

**SOFTWARE** ■ Brussels fiddles as Netscape burns

## Who's afraid of Microsoft?

**K**AREL VAN MIERT, the European Commission's competition commissioner, was in full voice last week, declaring that the business arrangements of Formula One motor racing comprise the single worst anti-trust violation he has ever seen. Sport, Van Miert has concluded, is Topic A.

Van Miert may well be right that Formula One is a sport with plenty of questions to answer, but his outburst raises a more significant question. Is Van Miert really the man to be running Europe's most important competition authority?

Van Miert, a Belgian socialist, did not come to his job with a great reputation as a trust-buster but it does not take any sophisticated understanding of markets to recognise that Formula One's day-to-day economic importance to European consumers and businesses is close to zero. To invest his authority in his crusade against Formula One, no matter how personally satisfying this may be to Van Miert, is frankly bizarre.

Elsewhere in the world, antitrust regulators have found a more compelling target for their priority action docket: the software company, Microsoft. Currently on the verge of overwhelming Netscape, its main competitor in the Internet browser market, Microsoft has now reached a position in the market where every move it makes raises profound competitive issues.

Browsers matter because they are the crucial software interface between the Internet and computer users. Microsoft's boss, Bill Gates, considers the Internet to be the single biggest commercial development of the century. Taking him at his word, it might perhaps be useful if the competition regulators in Europe kept an eye on how the Internet is developing.

But Brussels has snoozed, even as Microsoft stands on the verge of eliminating its only significant competitor in the browser market through a remarkable strategy. It is simply giving away its browser free with every copy of Windows 95, its market-leading operating system for personal computers. Some might call this strategy an abuse of dominant position.

If this has so far escaped Brussels, regulators elsewhere are in hot pursuit. Last week, as Netscape's shares crashed, Japanese competition regulators raided Microsoft's Tokyo office. In Washington, the justice department's antitrust division has already won an early round in its battle to fine Microsoft \$1 million a day until it "unbundles" its browser from Windows.

The battle to tame Microsoft might seem a worthy one for Europe's own competition authorities, since Microsoft enjoys a better than 90 per cent share of Europe's PC operating system market. If Microsoft continues to give away its browser, in a year from now it is likely to have complete dominance of the European market. This is a matter of more importance to European consumers than the fate of Formula One.

JONATHAN MILLER

**INDONESIA** ■ After 32 years in power the ruling family is \$8bn richer but the party is over for Indonesian crony capitalism as the IMF calls time

# Suharto meltdown

Paula Hawkins and Doug Cameron

**S**UHARTO Inc is one of the most successful family firms in history. Its chief executive is Indonesia's President, General Suharto. Its directors are his six children, along with their spouses and various cronies. Over three decades, Suharto Inc has developed a stranglehold on the Indonesian economy.

There are few sectors in which its presence is not felt. It has thrived on lucrative government contracts, monopolies, subsidies and beneficial tariff agreements. It has developed extensive contacts with some of Europe's and America's largest companies. But the chief executive has lost touch and some of his directors have little business acumen.

When Asian flu hit Indonesia, the first family and friends were the first to feel its effects. Indonesia's financial crisis, however, is more than just a family affair. It has already claimed its first foreign casualty: Hong Kong investment firm Peregrine had recklessly placed up to \$4 billion of investment in Indonesia, including a \$200 million loan to Steady Safe, an Indonesian taxi company with assets of \$4m. Last week, Peregrine went bust.

Fears of an Indonesian meltdown are rife in Washington and Europe. Some western companies have advised their employees not to return to the region following the Christmas break, fearing outbreaks of violence as opposition to the regime, which has been brutally suppressed for 32 years, finally makes itself felt.

Suharto has survived with the overt backing of America and European governments. The stability this support ensured has meant that western companies have poured into this vast market of 204 million people. Now the 76-year-old president's days are numbered. Without an obvious successor, Indonesia's political future is uncertain.

The position of Suharto and his family is central to the bind in which European investors find themselves. A year ago, the best way to break into the Indonesian market was to visit one of Suharto's four most influential children: Tutut, Titiek, Tommy or Bambang. Suharto has used his grip on power to create a huge business dynasty among his family and friends. One of his offspring or "a business associate" is present in almost every sector under state control. The children have built up individual empires worth an estimated \$8.2bn.

The power of patronage, bribes and corruption has given Indonesia the most opaque business climate in the region, but one into which Europe's leading corporates have plunged in search of juicy contracts. With double-digit economic growth until last year's market crash, the thirst for new infrastructure – in particular water, electricity and roads – has lured Siemens, ABB, GEC-Alsthom, National Power and Electricité de France, British Gas, Total and PowerGen International. All were forced to adopt the maxim of "When in Rome" and form joint ventures with Suharto associates. Western banks were eager to finance the projects, viewing credit to Suharto's relations as on a par with Indonesian national credit risk.



Cruising for a bruising: Suharto, family and friends face a rocky ride

Being close to the Suhartos is no longer viewed as a plus. Share prices in Suharto-related firms have fallen further than those in which nepotism plays less of a role. Citra Marga Nushapala Persada, a toll road operator run by Tutut, tumbled by 39 per

cent before the IMF team arrived in January. "There is a strong possibility that there could be a backlash against the Suharto family, which is obviously going to damage those European companies with links to the children," says one banker in Jakarta.

Consultants in the capital are warning multinational companies against further dealings with the Suhartos. "We are telling firms not to touch companies connected to the family, no matter how badly they need government contracts," says one.

In October last year, the IMF launched its first rescue plan for Indonesia, calling for an end to the system of patronage and demanding that public projects be opened to competitive bidding. It ordered that the subsidies and tariffs which have helped boost the Suhartos' profits be scrapped. But Suharto, used to getting his own way during three decades of autocratic rule, ignored IMF warnings, and refused to carry out major reform.

He did so at his peril. America and the IMF have had enough. On 10 January, President Clinton telephoned Suharto, threatening to withdraw political support. Almost immediately, Suharto announced that 15 controversial power projects, many of which involve members of his family, were to be cancelled.

The decree put eight power projects on hold. The largest is Tanjung Jati A, a \$1.66bn project involving Britain's National Power and two Indonesian firms, Bakrie and the Maharani Group, owned by Titiek Suharto. The president has also thrown a few more morsels to the IMF negotiators, including the scrapping of Tommy's National Car project. "Suharto and those around him have had a wake-up call that they need to comply with the terms forced upon them," says one banker in Singapore.

Two days after Suharto's announcement, the cavalry, in the form of the IMF and America's deputy treasury secretary, Larry Summers, arrived. They forced the regime to buckle down to the rigours of a \$43bn bailout. On 15 January Suharto, acknowledging "great challenges to be faced", pledged to dismantle

his family's empire. He is supposed to sweep away a host of monopolies, business privileges and cosy contracts that have made the Suharto family and its associates among the richest in Asia.

In addition to the National Car project, which gobbled up huge subsidised loans, son Tommy will supposedly lose his clove monopoly, which cheated thousands of farmers. Funding of the aerospace industry (run by a Suharto crony) is to be slashed; and the state monopolies of sugar and wheat (also in the hands of family friends), as well as various family-run trading cartels, are to be ended.

Suharto announced all this, grim-faced, on the steps of his official residence. It sounded impressive. But nobody was convinced that it brought to an end his family's vast patronage network.

The Suharto family has already closed, for example, some of its weakly capitalised banks, re-opening them weeks later under different names. It also sold stakes in some of its more troubled firms, using the proceeds to snap up bargains elsewhere.

European companies cannot resort to similar ruses. Their exposure to Indonesia is highlighted by support from national export credit agencies. The Hawk aircraft project made Indonesia the largest market for ECGD, the British agency. In 1996 and 1997, ECGD's total exposure to Indonesia was \$2.8bn. Cofac and Hermes, the French and German credit agencies, back projects worth more than \$4bn.

British Aerospace has an outstanding contract for the delivery of 16 Hawks – some of which are due to be delivered later this year. Given the strength of the military, defence contracts are probably among the safest in Indonesia, regardless of Suharto's fate. This is good news for another British exporter, GKN, which sells water cannons and other security and surveillance equipment to the Indonesian government.

Siemens, the German engineering firm, insists that its investments will not be affected. Siemens won a contract to build a \$1.7bn power plant in September last year. Siemens insists the project is "going ahead at full speed". The plant is being developed with an Indonesian company, Buni pergiwi Tatapradipita, in which (no surprises) members of the Suharto family have a stake.

A few foreign investors have taken evasive action. General Motors, which entered into a joint venture, General Motors Buana Indonesia, with Suharto's

half-brother, Probadjo, in 1993, has bought his stake in an effort to distance itself from the discredited family.

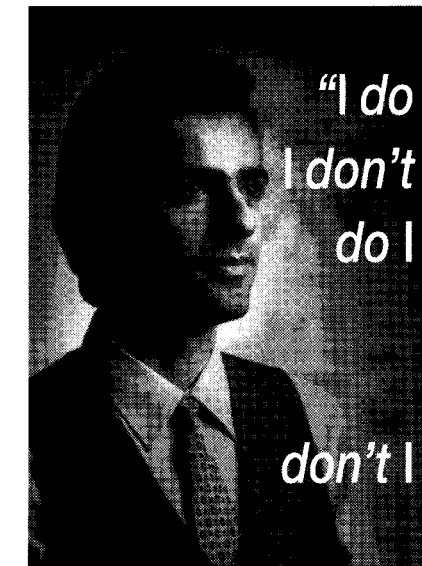
Even if the Suharto regime falls, foreign investors can expect rough times ahead. Muslim nationalists are likely to take a dim view of their links to Suharto's kleptocracy.

Megawati Sukarnoputri, the leader of the Indonesian Democratic Party and daughter of the late President Sukarno, is also critical. Megawati, who announced her candidacy for the presidential elections in March, accused foreign investors in a recent speech of colluding

with a corrupt and oppressive regime. There had been "an increasing flow of foreign investors seeking Indonesian partners with political connections", she said, adding that their strategies were "based on the potential of political connections to provide enormous gain" rather

than solid investment plans. For the first time since Suharto took power in 1966, criticism of his regime has become loud and widespread. "Some of the statements made over the last couple of weeks would have landed people in jail as recently as six months ago," says one politi-

cal consultant. The most pressing danger for Indonesia is that, with the help of the IMF, Suharto, who is running for his seventh term of office, will try to save face by promising economic reform he is unlikely to deliver. That could delay the political change Indonesia urgently needs. ■



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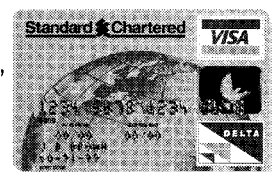
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### CASHING IN ON CONNECTIONS



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Fortune worth \$228m. Owns Maharani Group, involved in cancelled power project. Contracted to build bridge linking Sumatra to Malaysia.



**TUTUT**  
Senior figure in Golkar. Has \$2.4bn empire. Owns a toll roads firm, Citra Marga, 25 per cent of Lucent, a telecoms company, and a slice of Bank Central Asia.



**BAMBANG**  
Fortune estimated at \$3.3bn. Runs Biamantra Citra which has joint ventures with Siemens and Nestlé. Interests in banking and oil production.



**TOMMY**  
Owns Humpuss Group and Sempati Air. Best known for BPPC clove-trading monopoly. Controls loss-making Timor Putra Nasional, the car firm.

**HEAVY INDUSTRY** ■ Gerhard Schröder, Chancellor Helmut Kohl's most likely rival, nationalises targeted steel group in his bid for electoral success

# Germany's King Canute



KONRAD MULLER / COLORIFIC

David Brierley

**L**IKE King Canute, famous for trying to defy the tide, Gerhard Schröder, Germany's leading opposition Social Democrat politician, has decided to take on the tide of history. For decades, European governments propped up nationalised steel companies, throwing billions at loss-makers to save jobs. It never worked. Vast amounts of cash and jobs were lost. Eventually, states withdrew from steel-making and free markets began to take hold around the globe.

But Schröder, the man who wants to replace Helmut Kohl as German chancellor, is nationalising a medium-sized, barely profitable German steel company, Preussag Steel. Facing a regional election on 1 March, the 54-year-old minister president of Lower Saxony has spent DM1 billion (\$549 million) wresting the local steel group from the grasp of Alpina Voest, the Austrian steel company.

The plan is to protect local jobs. Schröder says he had to intervene because he did not want "to see decisions about steel-making in the region taken in overseas boardrooms. A sale to Voest was not in [the region's] interests." It's the battle cry of 1970s Britain.

Voest was astonished to lose a deal, all but signed, which would have created Europe's sixth-largest steel maker. A spokesman for the group in Linz says: "It is like something from an earlier age."

Schröder intervened at the 11th hour, shuffling extremely stretched state funds. Lower Saxony will acquire 51 per cent of Preussag Steel, then buy the remainder in smaller tranches, using both the resources of NordLB, the Lower Saxony-controlled bank, and dividends from the region's 25 per cent stake in car manufacturer Volkswagen.

The total purchase price is rumoured to be DM300m less than Voest's offer. Preussag, the Hannover-based parent of Preussag Steel, defended the decision to sell. "We have not lost any money. There was opposition from politicians and unions to the Voest bid. This way we have a solution." Unfortunately for Schröder, international competition will not go away. Like all of Europe's other steel producers, Preussag faces overcapacity and a cyclical downturn. Waves of privatisations and takeovers continue to sweep through the industry, culminating in the recent merger of Krupp and Thyssen to form Europe's largest steel maker. Preussag, with sales of DM2.5bn, is dwarfed by the new Rhineland giant and cannot survive alone. Schröder knows this but won't admit it during an election campaign.

"Preussag Steel must have the independence and stability to find a new partner of whatever nationality. Then the region could sell its holding. We are protecting jobs," he said unconvincingly.

The Austrians reject Schröder's worries, insisting plant closures were not in the equation. "Schröder's claims that jobs would be lost are just not true," said Voest.

During the past five years Preussag has invested DM1.5bn in sites in Salzgitter and Peine, both in Lower Saxony, and Ilsenburg in Saxony-Anhalt. Although the main works in Salzgitter were built under Hermann Goering, its facilities are modern and efficient. But the company has seen a pitiful return on its DM3bn capital and if the unit is to prosper it will have to cut costs and reduce its workforce of 9,000.

No politician in Lower Saxony dared criticise Schröder for his nationalisation of the Preussag plants. But his King Canute act attracted sharp criticism in Bonn. Günter Rexrodt, liberal economics minister, was unimpressed. "We are striving to make Germany more attractive for foreign investors to create jobs. Then, a potential candidate for the chancellorship comes and puts a spanner in the works," he said.

Public spending makes sense to provide infrastructure to support new technology and jobs. Europe's most modern microchip factory is being built in Dresden, Saxony. The DM1.5bn joint venture between

**Schröder: the leader of Lower Saxony spent DM1bn of public money to wrest control of Preussag Steel from the grasp of Austria's Alpina Voest**

Motorola and Siemens will receive a DM250m state subsidy agreed by Brussels.

This is different from propping up ailing behemoths – something happening throughout Germany. Hamburg recently bought St Pauli, the loss-making brewery near the Reeperbahn; Bavaria acquired Grundig, the consumer electronics group which racked up massive losses for Philips, the Dutch electronics giant. With unemployment remaining stubbornly high in Europe and pressure on politicians increasing, rescuing lame ducks has been given a new lease of life in Germany.

Nationalising Preussag Steel undermines Schröder's claims to be a social democratic moderniser. At last autumn's SPD conference, he unveiled 12 business-friendly themes which, he declared, resembled "the demands of an enlightened conservative". They emphasised the need for new products, new markets, competitiveness and flexibility. It was a brave step in the SPD, which Schröder himself described as the party of "administered protection".

However, for a man who likes to style himself as the German Tony Blair, Schröder's record in office does not match the rhetoric. Last year he was instrumental in scuppering much-needed tax reforms; he has promised postal unions he will oppose the end of the Bundespost's monopoly; he aims to retain Lower Saxony's 25 per cent stake in Volkswagen; and his first term as Lower Saxony's minister president was notable for the profligacy of its "red-green" accord.

Even so, Schröder is seen as more pro-market than most German social democrats. And more populist. He has attacked "Polish car thieves" and adopted a hard line on immigrants. "Foreign criminals should go and now," he has said.

Tall, toothy and quick-witted, he is media-friendly but does not enjoy strong support among his comrades in the SPD. Given the chance, they would vote overwhelmingly for Oskar Lafontaine, the party chairman, as their contender for the German chancellorship. But Lafontaine has already been beaten by Kohl

**Rescuing lame ducks has been given a new lease of life in Germany**

and doesn't enjoy Schröder's public support. Last week, Infratest dimap, the polling institute, found Schröder should win re-election in March by the margin he has set to prove he deserves the party's nomination for chancellor in September's national elections. But without party support Schröder won't get a chance to take on Kohl. It's a stand-off.

Oskar and Gerhard perform a classic double act to the Hollywood routine of Abbott and Costello. Oskar is short and fat and turns red when he

shouts, Gerhard is tall, thin and more laid-back. They spend time in mutual admiration but share few jokes.

An injection of farce has come from the breakdown of Schröder's marriage to Hiltrud, known more commonly as Hillu. The Schröders' relationship turned into a media circus, even for the normally mute German press.

Hillu asked for a job in the Lower Saxony cabinet when Schröder won in 1994. Refused an official post, the attractive fortysomething still had an office and staff in Schröder's Hannover chancellery and became a media personality. A frequent guest on television chat shows, Hillu publicly castigated social democratic colleagues of her husband and espoused green policies and other social causes.

But the marriage of strong wills and marked ambitions fell apart last year when it turned out that Gerhard had fallen for a journalist on *Focus* magazine. After revelations depicting Hillu as a high-earning, Armani-clad Lady Macbeth, the great political marriage was discovered to have long been on the rocks. Hillu swiftly ejected Schröder from the apparently idyllic timber-framed family home and will not now become Germany's First Lady.

Schröder's fate is less clear, his popularity undiminished by marital strife. According to polls, a straight presidential run-off would yield Schröder 55 per cent of the votes, against Kohl's 39. But both men depend on the arithmetic of coalition politics – which may be turning in Schröder's favour. The Free Democrats are in disarray and the Christian Democrats are openly considering a Grand Coalition. King Canute may yet become German chancellor and a European statesman.



Hard times: bonking rather than Bambi is what Germans want

## VIDEO ■ Blockbuster pulls out after finding there's no profit without porn What a flop! Rental group shuts up shop

Nicholas Moss

**B**LOCKBUSTER, the video rental chain, is withdrawing from Germany. It has realised that it can't run a profitable business without satisfying the country's craving for pornography. Its other major problem has been the restrictive business hours which meant it was unable to keep its shops open long enough.

The cost of exiting from its 17 German stores is undisclosed, though the greater sting comes from its humiliation. Still, weary shareholders may also want to ask, why?

After a period of turmoil the subsidiary of American media giant Viacom has again been enjoying success in its 6,000 stores worldwide by stocking family-oriented titles and film classics.

But in Germany nudity, violence and horror are standard fare in the video rental market, with adult movies making up at least a third of the German industry's DM740 million (\$400m) annual rental turnover.

John Rollo, the 50-year-old managing director for Blockbuster in Germany, says "stocking porn was never an option" and the company was willing to take a gamble on opening up other avenues to new audiences in what is Europe's second-largest rental market. However, it wasn't just the more sleazy movies which were absent from the shelves of its stores in Berlin and Munich.

Blockbuster also missed out on another highly profitable and popular area of the video rental business. FSK, Germany's video classification board in Bonn, puts more mainstream titles, such as *Rambo II* and *From Dusk till Dawn*, on an index of films banned from underage viewers. If Blockbuster wanted to stock them it would have to adopt the blacked-out glass and ominous-looking shopfronts of about 95 per cent of the country's 6,000 video stores which prohibit teenagers

from their premises. Moreover, Blockbuster faced the challenge of luring a family audience to establishments ingrained in the German psyche on a level with gambling dens and brothels.

Blockbuster's response in 1995, when it announced its ambitious plans to open 300 stores by the end of the decade with German publishing group Burda as a partner, was to choose prestigious but expensive locations.

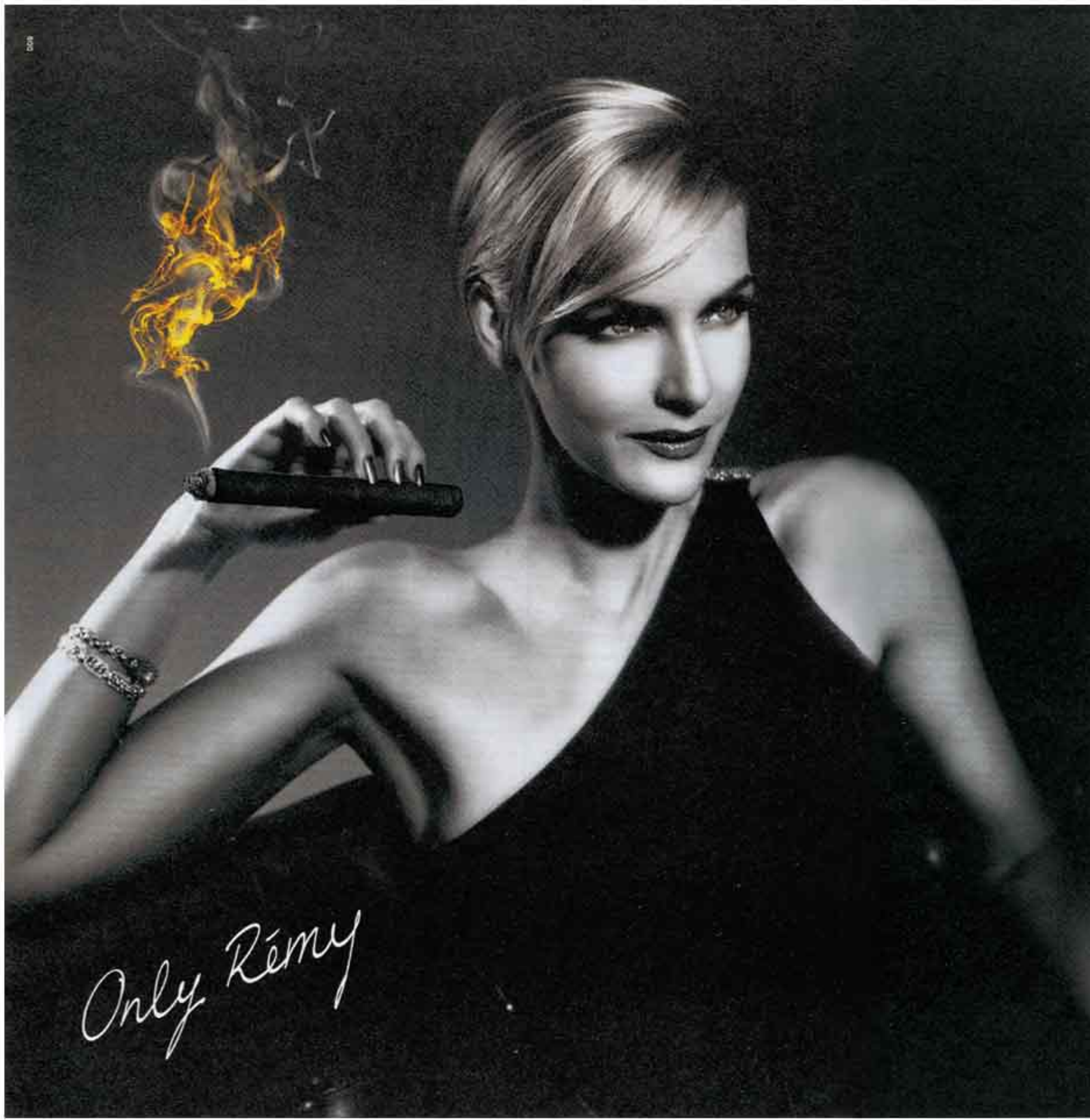
But it faced further problems. Despite reforms it had expected of the country's opening hours, German video stores must still close on Sundays and holidays, stymieing potential customers who might decide on a whim to stay in and watch a video.

Blockbuster has made big inroads into the Spanish and Italian markets, where it also opened branches a couple of years ago. In Germany its experiences offer a demonstration of the problems that arise when a US marketing concept is imposed insensitively on a foreign market.

Its pricing structure did little to help. Peter Lackhoff, chairman of IVD, the German association of video and media stores, says DM9.50 for three days' hire was too much for a German audience used to paying DM3 for renting a video for an afternoon and spoilt for choice by alternatives on more than 30 terrestrial and pay-TV channels. The pricing structure was abandoned but Blockbuster's targets still remained a long way off.

Rollo, the former head of British fast-food chain Burger King in central Europe before he took the job at Blockbuster, won't say how far the company was from achieving its projected DM1.2m annual revenues in each store. But he says staying in Germany would require additional funding.

Blockbuster's erstwhile partner, Burda, pulled out in 1996. For the Dallas-based parent company, any addition to the original DM24m investment was unwelcome. Blockbuster hit the eject button.



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INTERVIEW ■ Goldman Sachs's chairman is poised to cap his career with a bid for the European presidency

# Master of a European universe

Rupert Wright  
LONDON

**W**HERE does an investment banker go when there are no new fields to conquer? At Goldman Sachs, the world's most formidable investment bank, which made profits of \$3 billion in 1997, they have decided that policy-making is too important to be left to mere politicians. Like a medieval sect, they send their men to sort out the world's woes.

Robert Rubin, the US Treasury Secretary overseeing the rescue of Asia, is a Goldman Sachs man. Former Goldman adviser Romano Prodi has, as Italy's prime minister, presided over the transformation of the country's finances to make it fit for joining the European single currency (provided you don't scrutinise the sums too closely). Now Peter Sutherland, chairman of Goldman Sachs International, has his eye on becoming president of the European Commission when the ineffectual Jacques Santer goes in 1999.

Would Sutherland accept the job? "Oh, I am very happy here and very busy," he says, which is diplomat speak for "yes". A former EU competition commissioner and chairman of the Gatt, he admits his one regret is that Albert Reynolds, Ireland's then prime minister, did not put him forward for Europe's top job in 1994. After a successful career as a lawyer in Ireland, a politician in Brussels and now a banker in London, Sutherland has scaled many peaks – but not the dizzy heights of Brussels. With Sutherland in Europe and Rubin in America, all Goldman Sachs would need is a man in charge of Asia and the world would be its oyster.

Goldman Sachs's partners are members of one of the most exclusive clubs in the world. They are not paid bonuses but rewarded with equity in one of the world's best money-making machines. Instead of a salary they receive an annual return on their equity which is normally adequate for them to ignore the cost of living while improving the lot of their fellow man. They are an egalitarian bunch: partners don't have company cars, nor special washrooms. Like Alexandre Dumas's three musketeers,

their motto is "one for all and all for one", even though there is occasional fierce rivalry.

This rivalry now extends to politics: Santer's tenure in Brussels has been lacklustre. The dull former prime minister of Luxembourg does not even have the ear of his officials, who rarely pay even lip service to his wishes. German and French ministers ignore him. (He has, of course, never worked for Goldman Sachs.)

There are strong inside alternatives to Sutherland. But Karel Van Miert, the competition commissioner, and Mario Monti, the single market commissioner, are hardly inspirational. Neil Kinnock, European transport commissioner, is a non-starter, as is the other British commissioner, Leon Brittan. Kenneth Clarke, the former Tory chancellor of the exchequer and Europhile, would love the job (and the Brussels' food) and was touted for it by *The Economist*. But nobody takes that seriously.

Sutherland is the strong outside candidate. Sitting in his office in London's Fleet Street, he looks east with the air of a prince, waiting and watching events in Brussels. "Europe needs leadership," he says. Neither France nor Germany has a candidate but Sutherland is a fan of the Franco-German alliance in general and Helmut Kohl in particular. "Kohl is the giant," he says.

A committed Europhile who thinks the European ideal is the noblest political venture this century, Sutherland admits there are problems. "There's a clash facing Europe: there are huge difficulties with unemployment, which is running around ten per cent. There are major social and economic problems and the growth rate will not be big enough to solve them. In an increasingly competitive environment there will be huge difficulties. Economic and monetary union based on its criteria and the stability pact will eschew a Keynesian approach. Some of the state-owned reservoirs that used to soak up labour have disappeared."

So what's the answer? "Capital markets."

The answer is reminiscent of the scene in *The Graduate*, when Benjamin is given some advice for the future. "Plastics," he is told. For Sutherland, the future is capital markets. Confused? So are we.

He reels off a list of statistics, comparing American levels of investment to European ones, why America has the lowest unemployment rate for 25 years, and how it is creating 900,000 new companies every year, even though 800,000 go bust. "Over the past six years there have been 7,000 IPOs [initial public offerings] in America. In Europe the figure is 720. The private equity market has not evolved. Europe invests in old industries, not new ones," he concludes. Now he is beginning to make sense.

Europe's challenge is to create an environment to attract private investment. Sutherland argues that this need has been ignored in the quest for competitiveness, flexibility, privatisation and meeting the Maastricht convergence criteria.

"There is an enormous challenge facing Europe. I am massively in favour of economic and monetary union. Not only because its failure would be potentially destructive but because it is highly desirable. You cannot sustain indefinitely a common market with fluctuating currencies. We discovered that with Italy in 1992.

"Compliance with the Maastricht criteria has reduced these currency fluctuations. But you cannot use devaluation as a substitute for policy change. I would love Britain to have been part of EMU and it will miss out by not being at the inner core. The risks are bigger not going ahead than going ahead."

While Sutherland is a good European, he is fervently against protectionism and committed to the global economy. "It is no good exporting unemployment," he says. "One would prefer not to have high unemployment. But protectionism is not the answer. Globalisation of the world is a reality. Problems in Asia will lead to a wholesale restructuring of European industry."

He can see fresh opportunities coming out of the economic turmoil in Asia. Goldman Sachs is already

**'The risks of not going ahead with EMU are bigger than going ahead'**



President of the Union: Sutherland says that he is happy as a banker but friends say he would love the top job

cherry-picking amid the debris of the South Korean and Indonesian fall-out. "The situation is potentially very dangerous, but I do not think it will be a terminal blow," he says. "A shock like this will lead to real change."

Sutherland is a free trader. He helped set up the World Trade Organisation. As EU competition minister in 1986 he faced a legal threat when he tried to liberalise a small part of the telecommunications business – a modest step – but one he sees as integral to the change that has occurred. "Sitting in Brussels then, you would never have believed that Deutsche Telekom, France Telecom and Telecom Italia would ever be privatised."

He defends the European Commission as a promoter of the free market. This is not entirely credible when set against its feeble record, such as allowing the French to dole out money to Crédit Lyonnais, failing to discipline Europe's subsidy-gobbling state-owned airlines and flirting with protectionism. He admits that competing to give subsidies to keep jobs has been expensive and discredited.

"Europeans are apocalyptic: they either think they are facing disaster or they are trying to control the world. There is no middle ground. But in the past ten years Europe has moved a long way. We have learnt that doling out state aid for jobs is not viable. Germany has reunified. No other country in the world could have achieved that. We have a social fabric. What we need to do now is create an entrepreneurial culture, a more vibrant society. Once we have a single currency, capital will be more mobile," he says.

He is not disturbed by the Machiavellian events surrounding who will head the new European central bank. "I have never seen the head of any international organisation appointed without a political game. I do not see it as a catastrophe," Sutherland will not be drawn into who will lead it, although he has a high regard for Jean-Claude Trichet, governor of Banque de France, and President Chirac's late nomination for the post. "What is important is that there is balance," he says. "The European central bank cannot be too rigid in its approach to inflation." Maybe, but the sole legal remit of the bank is price stability.

On the troubled subject of the extension of the European Union, which has plagued Santer's reign, Sutherland insists that it cannot come quickly enough. Nor does he think that it should be limited to a handful of countries that border Europe.

"I see Russia as a part of Europe," he says. [So did John Major, and look what happened to him.] "Our future energy demands make it essential that Russia remains stable. We should remain open to Russia and integrate it fully into Europe."

He regrets the fact that world leaders do not meet on a regular basis. He is planning to announce an initiative at the World Economic Forum in Davos at the end of January which will bring them together on a regular basis. "Global leadership is no longer effective. G7 or G8 is no longer working, nor is the OECD. It is just another element in the same problem: developed countries getting together to discuss their problems. Instead, we need leaders from Europe, Brazil, Asean, North America and Africa to meet on a regular basis."

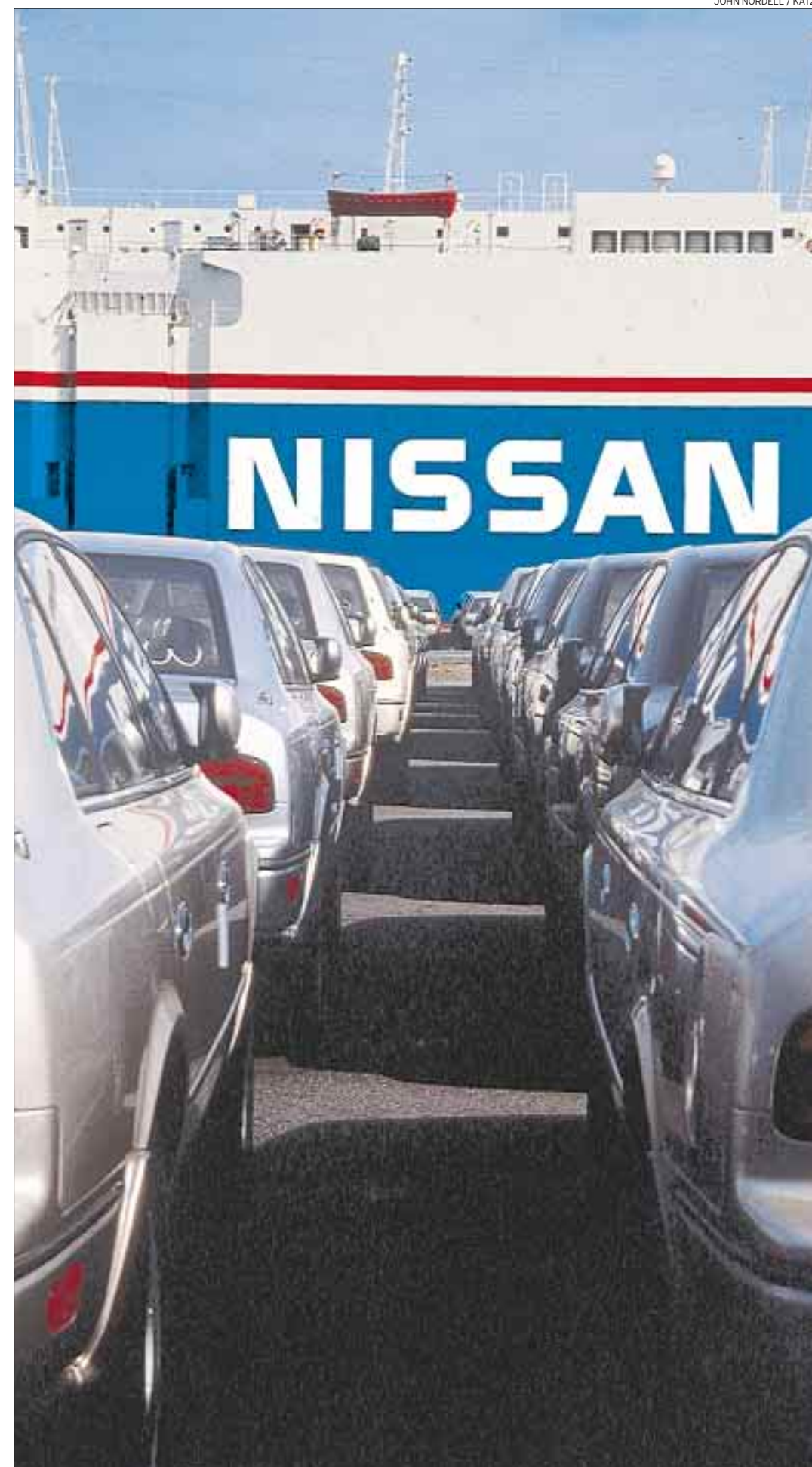
If Brussels does not beckon, and no country steps forward to back his nomination for the presidency, Sutherland can continue to draw his vast remuneration from Goldman Sachs, and a healthy sum from British Petroleum, where he is non-executive chairman. Sutherland laughs. "It is hard to justify the amounts that some bankers earn, but we live in a market situation. The industry is constantly in a state of evolution and will find its own level, just like water does."

True enough. But it is hard to escape the conclusion that Sutherland sees his level to be the pinnacle of power rather than a fat bank account. ■



TURMOIL ■ Europe has created a machine to tame inflation, but has it an answer to the renewed fear of recession?

# Beware the threat of global deflation



You can with a Nissan: Japanese manufacturers prepare to invade Europe with cheap cars

Christopher Smallwood

**A**S THE shockwaves from the Asian economic crisis continue to reverberate around the world, Yves-Thibault de Silguy, EU economics commissioner, is refusing to panic. He is more interested in winning the presidency of the council in his native region of Brittany. While the Asian economic miracle turns sour and threatens a global impact, de Silguy says he sees no reason to change the Commission's forecast of three per cent growth in Europe this year – the most rapid rate of advance this decade.

He is not alone in this view. Finance ministers meeting in Brussels under the chairmanship of Britain's finance minister, Gordon Brown, gave scant sign of concern that events 11,000km away were likely to be of any great consequence for Europe. They are blissfully ignorant of the potential that may blow apart the new currency zone which the ministers had come to discuss. This is a mistake. There is a dark cloud hanging over Asian countries, which produce a third of the world's output. Europe's prosperity cannot be unaffected. If the euro is launched just as Europe goes into an Asian-induced recession, its chances of success will be much less than if the recovery which began to emerge in 1997 rolls on.

Important questions need to be faced. How bad could the Asian crisis get? How well placed will the new single currency zone be to handle the economic consequences? Might the euro itself buckle under the strain?

The conventional view is that while the turmoil in Asia will have a depressing effect on western economies, there is little danger of recession spreading round the world. The Organisation for Economic Co-operation and Development (OECD) has lopped one percentage point off its world growth forecast. Last week the Berlin-based Institute of Economic Research calculated that the Asian crisis would knock 0.5 per cent off German growth this year, although if the crisis continued through 1998, the impact on Germany in 1999 would be "considerably greater".

It is in relation to next year and beyond – the early years of the single currency regime – that concerns are intensifying. The possible ramifications of a recession in Asia go far beyond the curtailment of trade which underlies the rather modest downturn suggested by the OECD.

The contagion has further to spread, even among emerging countries. China is the real wild card. The dramatic devaluations of its east Asian neighbours have set the stage for Chinese exports to be undercut by com-

petitors desperate to produce their way out of their problems. Deutsche Bank has already cut its forecasts of Chinese growth to 6.5 per cent. If the economy started to slump, the crisis would develop another dimension.

Confidence is already starting to drain away from debtor economies outside east Asia. In Brazil, growth has stopped. The next domino is Argentina. It will go on.

More worrying is the possibility of a financial implosion in Japan, the world's second-biggest economy (see table 1). Japan is already in recession. The central expectation for growth this year is zero, hardly surprisingly since 40 per cent of its exports go to Asian markets. Prices are falling. A full-blown credit crunch is gathering momentum as banks' capital melts away in the face of falling share prices and a rising tide of bad debts, not least in the other Asian countries to which Japanese banks have lent money. Banks are cutting credit lines; bankruptcies are rising. The danger is that Japan will sink into a deflationary spiral. The Japanese government has failed to stimulate growth in the past; we have yet to see whether it can be more effective in more frightening circumstances.

Next, there is the probable impact of Asia's difficulties on the world's stock markets. All eyes are on Wall Street, and the knock-on effects if Asia triggers a long-awaited market correction. Even without Asia, the starting point is ominous enough, with price-to-earnings ratios at record highs. Alan Greenspan, chairman of the Federal Reserve, is already muttering about the dangers of deflation. The American economy is expected to slow down anyway in 1998 as the Asian recession reduces US exports, and increases American imports – 40 per cent of which come from Asian companies boosted by devaluations and desperate to export – at the expense of US producers. The question is whether a stock market slide could turn this into a real recession. Asia could well be the trigger. Last week alone, the American market lost five per cent of its value in response to a drop in the Hong Kong market, and it could go on lurching downwards in response to further bouts of bad news.

A 1998 Wall Street crash would be far more serious than the one which occurred in 1987. Fifty million Americans now own shares. Consumers have been spending on the back of rising asset prices and are more heavily in debt than they have been for a generation (see table 2). The Standard & Poor's 500 index has not risen since last August. The market's jumpy since then may well indicate that the bull market is at an end: if so, consumer cutbacks could bring American

growth to a halt. The impact of an American downturn on Europe would be particularly marked if, as expected, it sends the dollar into reverse. The pick-up in Germany and France has been export-led as the deutschmark and other EMU currencies have fallen against the dollar. Domestic demand has hardly picked up at all. Should the dollar weaken through 1998, the main impetus for Europe's encouraging growth rate could be removed. Forecasters are already starting to anticipate this as 1998 progresses.

Maybe China and other emerging economies will prove more robust than some forecasters anticipate. Maybe the Japanese authorities will finally succeed in warding off the danger of real deflation, despite their dismal record to date. Perhaps Wall Street will shrug off Asian worries, the American consumer will keep spending and the dollar will continue to ride high. What we do know is that if any or all of these possibilities become reality, growth in Europe will quickly fall back to the dismal levels of the early 1990s. Would the euro survive?

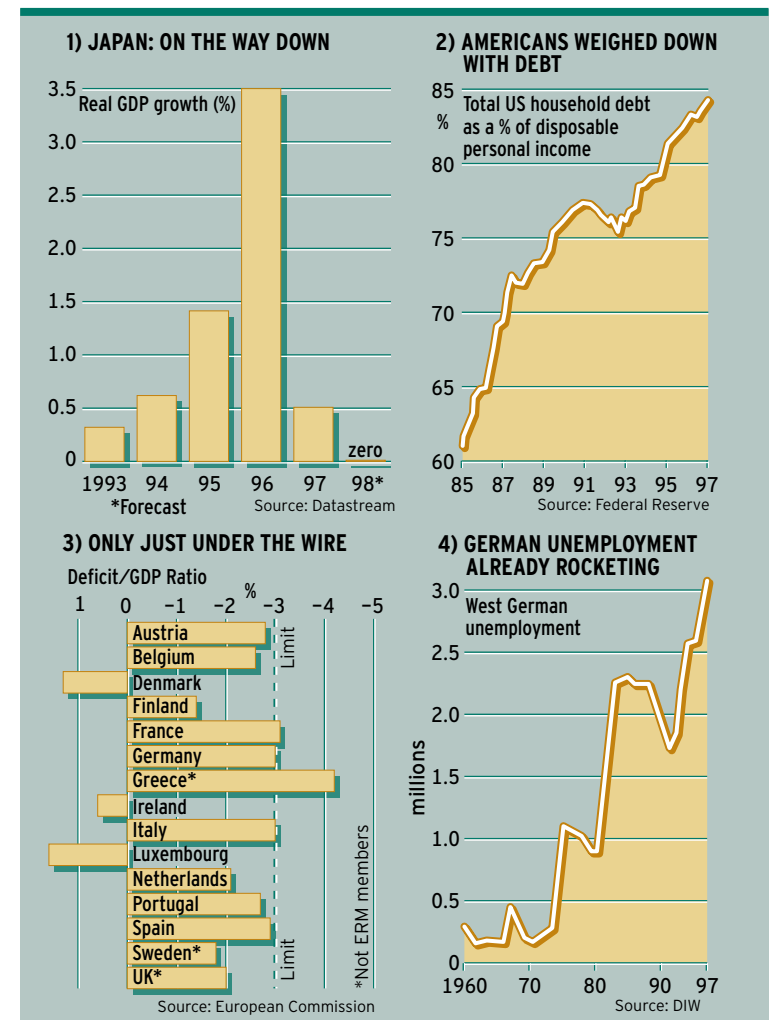
It is hard to be optimistic. The IMF has warned that should the Asian crisis deepen, there would need to be a "timely monetary easing to arrest an escalating downturn". With a single European currency, there will be a

single European interest rate. With inflation so low, it is likely to be close to the German and French discount rate – perhaps 3.5 per cent. Starting from this level, there will be little scope for significant interest rate cuts. And as Japan's experience has shown, when confidence is weak even a base rate of 0.5 per cent may not stimulate demand.

If the scope for monetary action will be limited, the possibility of expansionary fiscal action will be virtually zero. Most of the countries qualifying for the single currency – and certainly the big ones – will have crept in under the Maastricht wire, their budget deficits right up against the allowed three per cent limit (see table 3).

European politicians and Eurocrats have devised a fair-weather system of economic management (see table 4). It can contain inflation, but it cannot counter recession. That is why the deflationary impulse from Asia, which may reach Europe through one of a number of the routes discussed, potentially threatens the entire single currency project.

How to deal with it is worth a little thought between now and 1 January 1999. Perhaps Yves-Thibault de Silguy could be persuaded to make a contribution, once he has finished campaigning in Brittany.



ANALYSIS

## Will the euro catch Asian flu?

ASIA will decide the fate of Europe's economic and monetary union (EMU). Thanks to the Asian crisis, 1998 is shaping up to be an extremely interesting year. Last December the International Monetary Fund (IMF) estimated that the crisis (including spill-over effects on Japan) would lop between a quarter and a half of one per cent off Europe's 1998 GDP growth. But this was based on three assumptions: that the crisis would get no worse; that bailed-out Asian economies would obediently swallow IMF medicine; and that confidence would rapidly be restored so that private capital flows to Asia were resumed. The IMF cut its 1998 Asian growth forecast from six to three and a half per cent, but expected activity to rebound in 1999.

The crisis has intensified. The IMF's interim assessment, published on 22 December, was based on information up to 17 December. It assumed real exchange rates – adjusted for relative inflation – would remain unchanged at their average level between 9 October and 5 November 1997. Since then the Indonesian rupiah has fallen by half against the dollar and the Korean won by nearly half, while the Malaysian ringgit and Thai baht have fallen by a quarter.

As Asian inflation is relatively low, real exchange rates have also fallen significantly. Since 17 December share prices have fallen a further 20 per cent in Kuala Lumpur, 17 per cent in Bangkok and around 10 per cent in Manila and Jakarta. The yen is off eight per cent and the Nikkei has dived to close to its record low.

Spoons full of dollars have not made IMF medicine go down in a most delightful way. Much has been spat out. Korea, Thailand and Indonesia have rightly resisted budget tightening. Even the IMF is now back-tracking on prescribing ice-packs for hypothermia. Its demand that dud banks and companies be allowed to fail has partially been accepted. Crony-banking – a major cause of Asia's problems – led to the

misallocation of capital to property and stockmarket speculation, unprofitable corporate over-investment and grandiose infrastructure schemes. The cronies were able to borrow excessively and cheaply because they were the ruling elite; they supported their families, partners and friends.

The IMF was mad to think it could send the cronies to the wall, while rescuing the foreign lenders. Admittedly, foreign bankers supposed their loans were effectively guaranteed by the governments because of cronyism. But legally they were not. Many of the private borrowers are already defaulting. It is likely that IMF bail-outs will unravel.

There is little prospect of confidence being rapidly restored and capital inflows resumed. Asian growth is more likely to be negative rather than more than 3.5 per cent this year. Imports will crash and exports surge. Current account deficits will turn in six months into surpluses. Indeed Thailand earned a \$2.5 billion surplus in the fourth quarter of 1997, while Korea was back in surplus by December after imports fell 22 per cent.

High saving Asian countries, with current account surpluses, have no need to borrow new foreign capital. They hardly need to fear that default on old loans will deny access to international markets. Foreign lenders are being forced to choose between writing off Asian loans or rolling them over. Meanwhile measures to tackle Japan's crisis have failed to stop the rot. The ¥30,000bn package (\$22.8bn, or six per cent of GDP) announced in January, intended to give dead banks a decent burial and to recapitalise sick banks, was a step in the right direction.

Much more will be done, but reactively rather than proactively, in response to a worsening crisis. The effect of the Asian crisis on European growth is likely to be at least double the IMF's December estimate. The Asian crisis could cut one per cent or more off German growth this year. The IMF's December forecast put German GDP

growth at 2.6 per cent this year. It may be only 1.5 per cent. The OECD, whose latest forecast assumed three per cent growth, put the German budget deficit at 2.6 per cent of GDP in 1998. If growth is half what the OECD expects, the deficit will be 0.8 per cent higher at 3.4 per cent.

This gloomy forecast may be wrong. If not, these grave budgetary consequences will become clear, perhaps not by May when the single currency gets the go-ahead, but before next September's Bundestag elections. Germany will have to raise taxes or cut public spending to meet the Maastricht criteria and the stability pact three per cent budget deficit limit. It will be forced into fiscal deflation in the teeth of fading growth and rising unemployment.

The Bundesbank would have to choose between substantial monetary easing, causing the deutschmark and other European currencies to weaken significantly, or maintaining a tight stance to ensure that the euro starts life as a strong currency. An economic and political crisis is inevitable if recovery aborts. Failure to tighten fiscal policy could lead the German constitutional court to declare membership of the single currency illegal. Fiscal tightening without monetary easing could lose Helmut Kohl the election. Easing of monetary policy by the Bundesbank, resulting in the prospect of a weak euro, could stop the Bundestag ratifying single currency membership.

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PRIVATISATION

■ Italy's guru makes up for past mistakes

# Where every lira counts

Michele Puccioni

**M**ARIO DRAGHI has been the brains behind Europe's most unexpectedly successful privatisation programme. Fortunately for Italy, the country has discovered a genuine financial troubleshooter just when it needed one most. The 51-year-old privatisation commissioner will be listened to with respect as he sets off around Europe this week with a task force of Italian diplomats championing the country's financial credentials with a view to securing entry into the single currency, and persuading sceptics that "Spaghettiphobia" is misguided.

Two years ago the Italian entourage could not have agreed with each other, never mind members of the first wave of monetary union. Much has changed. The country has raised L67,000 billion (\$37.4bn) since Draghi's appointment in 1993, including L37,000bn last year alone, buoyed by the successful float of stakes in Telecom Italia and Banco di Roma. Moreover, the country's domestic investors have taken to equity like old-timers, soaking up retail subscription through astute marketing of issues in the media and local post offices.

Draghi has the reputation to give Italy credibility on the international financial stage. Educated at Massachusetts Institute of Technology, he served as executive director of the World Bank from 1984 to 1990 before becoming director general at the Italian treasury. The privatisation programme is a central pillar of Italy's drive to join the first wave of monetary union. Draghi and Carlo Azeglio Ciampi, the treasury minister, aim to raise annual receipts equivalent to 0.5 per cent of GDP over the next 10 years. This is the only way Italy can meet its aim of reducing its public sector debt from 122 per cent of accumulated GDP to 60 per



Trust me, I'm Italian: Mario Draghi is selling the country to join the euro

cent by 2009. Even then it will be a tall order, requiring annual economic growth of over four per cent for a decade, which nobody believes possible.

Draghi is pressing on regardless. The next tranche of privatisations includes a majority stake in Alitalia, the national airline which has returned to profit and secured a vital alliance with KLM. ENEL, the national electricity company, is also on the block, as is the fourth tranche of ENI and Societa Autostrade, which controls the national road system.

Airlines and utilities are regarded as the easiest sells in a crowded privatisation marketplace. Banks can prove trickier, particularly when they themselves are reluctant to be sold. Draghi will have to continue the diplomatic conjuring which last week rescued the planned merger of Banco di Napoli, Italy's ninth-largest bank, and state-owned Banca Nazionale del Lavoro (BNL), the sixth-largest.

Every lira counts as Italy seeks to maintain momentum in boosting public finances. Any delay to the planned sale of the merged bank - scheduled for early 1999 - threatens to derail Italy's progress from EMU first-round contender to the second wave. Banco di Napoli is 51 per cent owned by INA, Italy's second-largest insurer, which last year joined forces with BNL to rescue Banco di Napoli.

But relations between executives of both companies soured over how to manage the integration. Draghi used all his skills of persuasion to broker a deal, guiding Davide Croff, BNL's managing director, to lead the BNL-Banco di Napoli integration. There are still serious hurdles to cross. After the planned merger,

INA would have only 10 per cent of the new company. To gain more control, INA looks forward to special privileges in the privatisation phase, such as emerging as the single largest shareholder.

The treasury remains vague about the timing of the sale and there are fears it could be delayed indefinitely. The timetable calls for Croff's plan to be ready by March for approval by early summer. INA is holding out until a formal privatisation date is named. "For us, Banco di Napoli turned out to be a far better deal than expected," says an INA shareholder. "As things stand, we are not sure that its merger with BNL is the best solution to increase further our investment."

**Banks are tricky to privatise, particularly when they won't play ball**

Draghi has been helped by the appointment of Croff to head up the merger. At the end of last week's meeting he pushed the joint executive board to pursue the merger with "attention, quickness, clarity and compactness".

"He was impressive," says a source from INA, "the perfect mixture of diplomacy and determination to sort out a confrontation which threatened to make a shambles of the whole project."

Draghi's ambition goes beyond privatisation: he is pressing for a reform of corporate governance rules which received approval from the cabinet in late December.

This establishes new limits for cross-shareholdings, and removes some of the obstacles to takeover bids, in particular the use of anti-takeover pacts between shareholders' syndicates. Bad news for groups like Fiat. This should give the Italian equity market the impetus to continue its expanding role in the national economy.

MERGERS ■ Big is not always beautiful: customers are abandoning giant banks

# Swiss bankers held to account

John Parry  
GENEVA

**B**AD news for bankers trying to take over the world. Customers in Switzerland are starting to vote with their feet against the surge in European bank mergers over the past year. They don't like standing in long queues, which have been created in the cause of cost-cutting, and have been switching accounts in their thousands since Union Bank of Switzerland (UBS) announced its decision to merge with Swiss Bank Corporation (SBC) last December. A recent survey by the *Sonntagsblick* newspaper found that a quarter of the renamed United Bank of Switzerland's domestic clients planned to desert Europe's largest bank.

The global aspirations of the megabanks has started to distance them from the everyday demands of individual account holders and small companies, and Switzerland's cantonal (regional) banks are jumping in to poach the business. Marc Fues, chief executive of the Geneva Cantonal Bank, says it has opened 1,000 new accounts a day since the merger, 10 times the normal rate.

The regionals have two advantages over a UBS or Credit Suisse: a lower cost base and a willingness to extend the level of personal service which their larger rivals can no longer afford to provide. The regional banks have also used their closer community ties to secure higher borrowing rates from customers in return for enhanced service.

The potential cost savings which drove the UBS-SBC tie-up lie in their domestic market where retail growth has been sluggish; the pair plan to axe 6,000 jobs and close up to half their branches. The media coverage given to the merger convinced many that their local branch is destined for the chop. "We [hear] from customers that they worry about the high street bank disappearing," says an official at

Banque Cantonale de Neuchâtel. "We stress that we are not going to disappear."

This same fear has spread even to medium-sized companies. "Firms requiring loans of only a few million dollars may well find that UBS is no longer interested in them because it is concentrating on mega-lending," says Neil Carnegie, who looks after international lending at the Geneva Cantonal Bank. The bank is poised to pick up a slew of new accounts in a neat example of niche marketing.

While some banks are staying local, others are taking the opportunity to go international. Geneva Cantonal aims to provide one-stop banking, making a conscientious effort to beef up its services to provide a complete banking service for all clients in Switzerland - and eventually elsewhere as well.

"This isn't something we cobbled together when the news of the UBS merger broke," he says. "We have been working for the last two years on putting together a global network. It just happens that it's in place at a time when there's a buyers market for banks offering such things."

Geneva Bank's global network includes informal links with HSBC, which looks after its securities operations in Asia and Standard Chartered in Africa - where the Geneva Bank is building up its commodities business. They will eventually include an American partner. "We're looking for partners who don't have a retail business in Switzerland, something we can offer in exchange for their global know-how. This will enable the customers to do their retail and corporate business under one roof," says Carnegie.

By offering to do the same thing better than the megabanks, smaller banks risk diluting their main advantage - a lower cost base - as they become sucked into a spiral of paying higher salaries to hire professionals in new areas. And management risks being distracted from doing what they do best.

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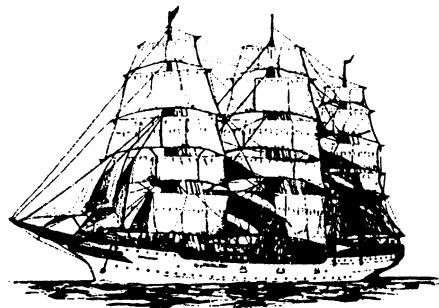
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**TENNIS** ■ The world's No. 1 doesn't let her sport get in the way of her fun

# Hingis the carefree champion

Andrea Leand  
MELBOURNE

**M**ARTINA HINGIS began her domination of tennis by winning the Australian Open here. Twelve months on, she is also the Wimbledon and US Open champion but the fans failed to recognise her when she arrived in Melbourne. Only when Hingis donned a jacket with her name on the back did they flock for the autograph of the world's most famous sportswoman who begins her defence of the Australian Open on 19 January.

Her admirers had not expected last year's girlish 17-year-old to become so calm and self-assured. For as befits someone named after the most successful tennis player of all time, Martina Hingis is totally unflustered by being the world's No. 1.

Her self-confidence was shown by the way she shrugged off an early defeat in her last tournament to Venus Williams, an even younger prospect. Along with her fellow-teenagers Anna Kournikova and Iva Majoli, Williams is keen to speed Steffi Graf, Monica Seles and the rest of that generation into retirement. There are not many 18-year-old prodigies who find their main threat coming from an even more precocious source but Hingis is unconcerned by the challenge.

"Why should I feel pressured?" she told *The European*. "I earned all my titles, they were not given to me. Why shouldn't I do it again this year? It is true that last year I was the one coming up and this time everyone wants to beat me but I don't mind because I've improved my game."

Even though success came early, Hingis is quick to remind everyone that it did not come easily. The Czechoslovak-born Swiss angrily rebuffs any accusation that she took the top spot only because Graf was injured for most of last year.

"I don't like it when I hear that I am only winning because others are not here or not playing well," said Hingis. "There is much more depth and com-

petition in women's tennis now, and I had to beat everyone to earn my ranking. Believe me, it was not easy."

Saying what she thinks is a Hingis trademark. Former world No. 1 Tracy Austin could only laugh when Hingis's first words on being introduced to her were: "Hi Tracy, I'm breaking all your records." Most of the time Hingis accepts her accolades with grace, and last year the tennis press voted her the most co-operative player on the tour. Unlike other top stars who isolate themselves from their peers, Hingis enjoys the locker room camaraderie and is regularly seen at player parties.

She is generally viewed as a welcome change to many of modern sport's moody millionaires who sulk in hotel rooms griping about their lives despite travelling the world and earning a fortune to do what many people pay to enjoy as a hobby.

Those sponsors who are constantly bemoaning the lack of personalities in sport find Hingis's ready smile and clear enjoyment in what she does hugely refreshing. She is being marketed as a normal teenager who just happens to be the world's best tennis player. However, she has also acted the diva.

She refused to sign an autograph for basketball star Michael Jordan, the world's richest sportsman, "because I didn't know him personally". When an elderly tour official asked her to sign a few posters, Hingis threw them back saying: "I've done my work for today." She also has her own way of dealing with newspaper articles and fan letters that call her arrogant.

"I don't read them," said Hingis. "I only read the good ones. I guess that I have the right to be [arrogant] since I am No. 1. It probably takes that type of confidence to become No. 1."

But before anyone dismisses her as another overpaid spoilt brat, it should be remembered that she is only 18 and from a broken home. Her parents divorced when she was four, and her mother, herself a former tennis professional, then married and divorced a Swiss businessman. Hingis's relation-



ship with the father she rarely sees is strained, and she refuses to talk about it.

She remains close to her maternal family and, while most players ignored their racquets during the three-week break before the new season, Hingis practised in the small Czech town of Prostějov, her mother's birthplace. There she shared Christmas with her mother, Melanie, who has reverted to her maiden name Moliter, and their family and also hung out with the local kids.

Hingis and her mother are spending ever more time in Prostějov and built a home there last year, although Zürich remains their main residence. Hingis clearly enjoys spending her spare time with

**'The French Open is my biggest goal for 1998. That and not falling off my horse'**

family and childhood friends, playing sports and riding her beloved horse.

She has expressed an ambition to compete in the Olympics for Switzerland at both tennis and show jumping. This is a risky aspiration: her only major setback last year came when she took a tumble from a horse and needed surgery on her left knee. Until the accident, Hingis was undefeated for the year. In her first tournament after the injury, she lost the French Open final in straight sets to her close friend Majoli.

"That French Open final is still on my mind," said Hingis. "I was still recovering from my surgery when I went to Paris and wasn't playing my best. Winning

**All smiles: Hingis remains cheerful on and off court by riding horses, seeing friends and ignoring any bad press**

## REPUTATIONS

### Did Borg care if he won or lost?

**BJORN BORG**, once the golden boy of tennis, has been accused of deliberately losing matches and demanding money to appear for his country.

The source for the allegations is a book by American journalist Peter Bodo. He claims that Borg was paid far more appearance money than anyone else per tournament - \$100,000 - and that, with this financial freedom, he was able to disregard the prize money on offer and became indifferent to whether he won or lost.

There are three matches which Borg is alleged to have lost in this way: against Jimmy Connors in 1978, Peter Fleming, also in 1978, and Jim Mayer four years later. In this last match Borg was booed off court by the public. Borg has denied the allegations. "I have never thrown a match," he said. "I tried 100 per cent in every game."

In his heyday the Swede was the epitome of Scandinavian cool: controlled, concentrated and beyond reproach. The nature of the opposition only served to accentuate this. Connors cursed and spluttered while John McEnroe swore his way around the world's courts. On the other side of the net the ever-polite Borg was held up as a paragon of the professional



**Borg: a hefty service charge?**

sportsman.

The mask slipped a long time ago with his failed business ventures, divorce and reported suicide attempt, but at least these failings had nothing to do with tennis. Now it is being suggested that maybe Borg the player was not perfect either.

If these accusations had come only from abroad, they might be seen as a brazen attempt to gain publicity for a book. But they have been backed by Björn Hellberg. For 20 years he has been the voice of tennis on Swedish television and was at the Mayer match. "Borg gave up," says Hellberg. "It was

clear he didn't give a damn and it was done incredibly clumsily."

While Borg made \$3.6 million in prize money during his career, he lost much of his wealth in failed business ventures. The amount should also be compared with the serious fortunes being made now: Austria's Thomas Muster, who has won one Grand Slam title to Borg's 11, has already made twice as much money as Borg.

News that he was paid to play in the Davis Cup in 1978 and 1979 also rocked the Borg image. What galls the Scandinavian sense of fairness is that nobody else got a cent while he made \$220,000.

Borg has made a robust defence of the Davis Cup criticism, based on economics. The fee, negotiated on his behalf by sports management firm IMG, was part of a package including the Swedish and Stockholm Opens, and Borg's presence was vital to ticket sales, television income and sponsorship. "The federation made several million Swedish crowns out of me," he said. But he is now playing on the Seniors' Tour with talk of an event at Wimbledon. If the paying public start to believe their memories are tainted then the whole business could flop.

**MICHAEL BUTCHER**

the tournament is my biggest goal for 1998. That and not falling off a horse."

This year Hingis hopes to maintain her top spot with help from her mother-coach and Chris Evert. The former world No. 1 will advise Hingis through the tour's new mentoring programme, designed to prevent the burn-out that cut short the careers of Austin and Andrea Jaeger, and saw Jennifer Capriati cautioned for drugs and shoplifting offences.

Hingis requested Evert as her mentor after talking to her last year. Instead of discussing strategy or pressures, Hingis asked Evert about her children and family life. She wanted to see pictures of Evert's three young boys, and asked what it was like to be a mother.

"Martina's first comment to me was about my children," said Evert. "She felt that family is what is important in life. Her interest impressed me because usually at that age, most girls are tunnel-visioned about their tennis. But Martina sees the big picture. That helps her tennis and could be one reason why she clearly has so much fun on court."

Hingis agreed that there are similarities between her and Evert in their playing styles and perhaps most important, both exude a quiet sense of confidence on court even during the toughest times. In last summer's Wimbledon final Hingis smiled as an inspired Jana Novotná raced away with the first set. She forced her way back to win, looking as though she was playing on a public court with a friend instead of contesting the sport's biggest prize.

"Chris and I have similar styles but the reason I wanted her as my tour advisor is that we have been through similar experiences at a young age," said Hingis. "She won her first titles at 17 - the same age that I did. Her relationship with her father is also similar to the relationship that I have with my mother. They are both coach and parent."

Many parents have fallen prey to the publicity

and pressures of grooming a star athlete. Peter Graf is serving a prison sentence for tax evasion while handling the business affairs of his daughter Steffi, and Jim Pierce was once banned from every tennis tournament in the world for the physical and verbal abuse that he inflicted on his daughter Mary.

Moliter's relationship with Hingis is helped by her having once been on the tour herself. She prefers to stay behind the scenes, whereas Hingis loves the limelight and playing the daredevil.

When Hingis injured her knee last year, Moliter panicked that her daughter's career was over, but the teenager simply dismissed the incident as "one of those things". Finally, after Hingis suffered a string of losses last autumn, Moliter put her foot down. She set a different pace so that her fearless daughter would not exhaust herself in only her fourth year on the tennis circuit.

Hingis is currently happy to have her mother by her side but sees a time when she will tour alone. "It may happen in the next few years," she said. "But right now, I want my mother with me. My mother is my coach but she also looks after me and makes sure that I have my meals and laundry done so I can concentrate on my tennis. I'll start travelling on my own either when I feel experienced enough or find a boyfriend."

There have been a few dinner dates in the past year but as yet no steady boyfriend in her life. Constant travel makes social opportunities rare but Hingis is clearly looking for someone. She rollerblades around tournaments to catch a glimpse of each of the men's matches. Afterwards, she hangs out in the players' lounge to chat and flirt with the men she likes.

"Sure, I'd like a boyfriend," she said. "But though it would be great if it happens, I am concentrating on tennis now. It is my job and I will have enough time for the rest later."

SPORT

**FOOTBALL**  
■ Italy's most famous team finally cash in on their name

Chris Endean  
ROME

**T**HE icy, windswept playing fields of Broccostella football school in the shadow of Monte Cassino seem an unlikely venue for a football revolution. Children weave through a slalom course, footballs apparently tied to their feet. Physical education teacher Alessandro Caizza shouts instructions as older pupils play a seven-a-side match on a sand-covered pitch. Only the colours of the would-be champions' shirts give the game away – the black and white stripes of Italy's premier club, Juventus.

Broccostella belongs to a nationwide network of schools known as Punto Juve, in which they are joint partners with Juventus in a commercial scheme setting new trends in the Italian football industry. Situated on the outskirts of Sora, about 100 kilometres south of Rome, few places better illustrate the principles of the Turin club's New Deal with its fans: *Vendere e Vincere* (Sell and Win).

The school guarantees its members the regular physical education that the Italian state fails to provide. "Of course, potential champions are quickly earmarked for Juve but the school's main purpose is to serve the community," said Caizza, who co-ordinates Punto Juve in north and central Italy.

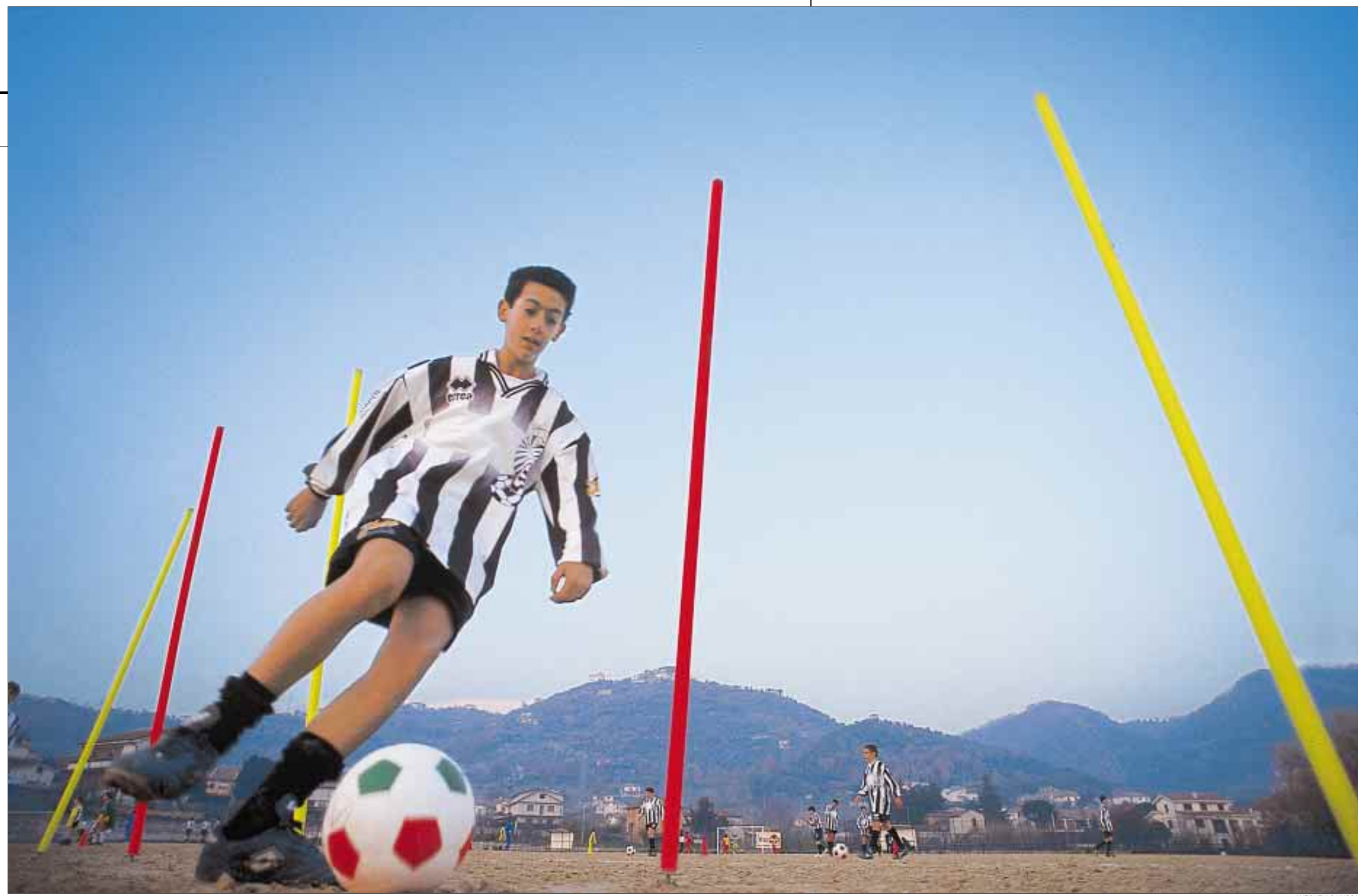
In return, Punto Juve feeds off Juventus supporters in the local community by encouraging banks, garages, supermarkets, travel agencies and sports shops to sell club merchandise to help sponsor the schools.

For a club like Juventus, with the best support in the country, the strategy is a salesman's dream. Punto Juve offers confirmation that Juventus are leading the way, as Italian clubs slowly awaken to the rewards of marketing some of the best-known trademarks in sport. Soccer schools like Broccostella do not just cover the failings of the Italian education system: their commercial activities will fill a far bigger hole in the balance sheet of Juventus, in particular, and Italian football in general.

According to a study by Antonio Marchesi, Milan partner of the Deloitte & Touche accounting group, in 1996 players' wages accounted for nearly half Juventus's total turnover. At Milan, that figure rose to a massive 69 per cent. Compare that with the English Premiership and, in particular, the undisputed world leaders in football commerce, Manchester United, whose \$30 million income from merchandising last financial year meant that just 25 per cent of turnover was accounted for by wages.

The contrast between the two leagues' business strategies was never more apparent than at the two legs of Juventus's recent Champions League clash with United. The motley collection of souvenir stands outside the Stadio delle Alpi hardly bore comparison with the Megastore at Old Trafford that has led to the English champions being called a shopping mall with a football club attached.

"The problem with Italian football is not the elevated costs of players' wages but our failure to develop more sophisticated sources of income than just gate receipts and television rights," said the Juventus commercial man-



# Juventus on the ball financially

ager, Romi Gay. "Right now, if we are eliminated from the Champions League, we have no alternative sources of funding. We must bring stability to our earnings."

As the home of the world's most glamorous league, Italian football has long been considered the slumbering giant of soccer show business. Directors were content to bask in the limelight of success on the field and slow to realise that their clubs' famous brand names offer a common currency around the world.

"So many of these people ran their club as a side interest rather than having a distinct business focus," says Robert Ellstone, author of Deloitte & Touche's annual report on the football industry. "Now they are being forced to make money out of it because they have just realised that sport has got to compete against an entertainment industry in the wider sense." While their latest commercial strategy was unveiled last autumn, Juventus started putting their financial house in order four years ago. A new management team was brought in, headed by Roberto Bettega, once a player and now club president. Fans first learnt about

the *Vendere e Vincere* strategy when the club started to sell off the prize assets: in the past three years, players of the calibre of Roberto Baggio, Gianluca Vialli, Fabrizio Ravanelli and Christian Vieri have all gone.

In the Bosman era, when out-of-contract players can leave for another club without a transfer fee, players' value on paper counts for little on the balance sheet. The club's hard-nosed approach was also behind the move to exploit the summer training camps. Each year, around 2,000 Juventus fans take their holidays where their beloved team train; two years ago, Valle d'Aosta's regional government, shrewdly aware of the rewards of soccer tourism, paid the Turin club L500 million (\$280,000) to train there.

Now, as the Punto Juve scheme suggests, the club are moving in on merchandising, described by Romi Gay as the future of football finance.

"We have done our homework," he said. "We have identified our objectives, the social status of our fans and what the trademark Juventus means to them." Market research

suggested it was not simply a question of following in the footsteps of the English Premiership sides. For a start, like most Serie A clubs, Juventus do not own their stadium, which deprives them of a natural supermarket for merchandising, corporate hospitality, entertainment and conferencing.

While Romi Gay says that moves are afoot for the club to build their own stadium, that is unlikely to happen until Juventus take to the stock market to raise cash. And he predicts there will be no application for a listing for at least three to four years.

However, it is not just the lack of a stadium that has forced Juventus to invent entirely new revenue streams. Football may well be a global religion but English and Italian fans worship different faiths. Unlike the average Manchester United fan, Juve supporters do not consider replica shirts a fashion priority. It is simply not cool in Italy to stroll across the piazza in the black-and-white kit. Instead merchandisers must cater to a local gusto. Last December, the two Milanese clubs and Juventus financed a joint venture to sell *panettone* –

Italy's version of Christmas cake – in boxes decorated with club colours. Juventus sold 500,000.

Although Romi Gay admits that Juventus's merchandising is still in its "embryonic stage compared with Germany and England", the club have introduced a novel sponsorship deal from which clubs throughout Europe may learn. The Turin club will select a series of "institutional" sponsors whose name will become a permanent fixture on the hoardings around the Delle Alpi pitch and as a backdrop to television interviews. Punto Juve and TIM – Telefono Italia Mobile – are the first two such sponsors, signing contracts collectively worth nearly L4 billion.

"It is an ingenious move," said Marchesi. "Juventus have the brand, their sponsors have the distribution capacity." The scheme counteracts the outstanding weakness of club merchandising: a poor distribution network. Most Italian clubs' sales are limited to "when Sunday comes". By joining forces with big brand names like TIM, Juventus are able to sell their products through their partners' nationwide

**One for the future: a would-be star practises his ball skills at one of Juventus's new football schools**

outlets. "It is difficult for an organisation like Juventus to have a market penetration capacity of that nature," added Marchesi.

The same philosophy underlies Punto Juve. It has taken less than five months to tap into the nationwide enthusiasm for Juventus and establish 50 schools. The club aims to set-up at least one school in each of Italy's 106 provinces by the end of the year.

Juventus make no secret of the fact that the Punto Juve concept teeters precariously between market innovation and outright manipulation of their fans. They have even set up a special currency, offering fans a discount on Juventus products. Members of Punto Juve can trade in their lire not for tickets but for Juve dollars with which they can buy even more club products. One Serie A outfit, at least, is finally starting to talk the new language of football. ■

**LEADERSHIP** ■ Football's most crucial few years may be masterminded by a pensioner

# Yesterday's man set to take charge

Andrew Warshaw  
PARIS

**A**S IT reaches an unprecedented level of both popularity and wealth, football looks certain to be led by a 67-year-old Swede who has been accused of racism and hates being called in the evenings.

Lennart Johansson is the president-in-waiting of Fifa, football's world governing body, whose top job becomes vacant after this summer's World Cup. The deadline for nominations is 7 April: Johansson's is the sole name put forward, although Sepp Blatter, the Fifa general secretary whose last bid for power failed miserably, may stand.

This is despite his comments about "blackies" and "how dark it is when you're sitting among them". These were made after a visit to Africa during 1997, European Anti-Racism Year.

He made a grovelling apology after the remarks were widely reported, but the head of the African Football Federation said Johansson should still have been barred from running for the sport's top job.

In the seven years since he took over as head of Uefa, the European governing body, interest and investment in football has made the sport a multi-billion dollar business.

Johansson's attitude, however, has been worryingly King Canute-like. Five years ago, Jean-Marc Bosman was a mediocre Belgian footballer who wanted to transfer to a French club. He would have remained unknown without the help of Johansson.

Frustrated by the refusal of his club to sell him, Bosman appealed to Uefa but got nowhere. He began a legal battle with Uefa that ended up in the European Court of Justice and won freedom of contract and movement for all sportsmen within the EU.

More than two years on, Johansson seems unable to accept the judgment which has revolutionised sport. "People were misusing the facility and my wife got upset. It's no fun getting calls in the middle of the night. People seemed to think they could call about anything, any time. But no, it doesn't worry me that being boss of Fifa might be worse simply because I'm going to make sure my privacy is never infringed again."

"I didn't overreact to Bosman," he told *The European*. "Sport should be an exception to the open Europe philosophy." It is this type of



Sitting pretty: Johansson should soon be football's top man

wishful thinking and refusal to move with the times that kept football from realising its potential for so long.

Johansson's entrenched stance may be a product of his age. Even he acknowledges this as a handicap and, in fact, said this month that the Fifa presidency is not a suitable job for anyone over 65.

His dislike of being called at home during the evenings is not age-related. In his native Sweden, phone calls after 10pm are almost always made only in an emergency, and it is Johansson's business if he wants his friends to continue that habit. But he, as the CEO, in effect, of a multinational corporation, must be on call 24 hours a day. Six months ago he changed his private number in a bid for domestic peace and quiet.

"No one seemed to respect that I had offices in Sweden and Switzerland," he said. "People were misusing the facility and my wife got upset. It's no fun getting calls in the middle of the night. People seemed to think they could call about anything, any time. But no, it doesn't worry me that being boss of Fifa might be worse simply because I'm going to make sure my privacy is never infringed again."

With digital television imminent, football's global popularity leaves it perfectly placed to make billions of dollars. The sport needs a dynamic workaholic running the show not an old man reluctant to chat once he's left the office.

Perhaps, with the summit of world football just one step away, Johansson feels able to pick and choose his company. He has certainly been ambitious and dedicated in the past: he started his own sports club at the age of 12, and saw his first marriage fail because of the travelling his job entailed.

Despite this life spent in sport, he claims that he had to be talked into running for the Fifa presidency.

"I changed my mind only because the member associations said we must have a European candidate," he said. "I realised that after 35 years in football, it would be a challenging way to end my career."

Football has finally found the funds and desire to modernise itself. It is a huge pity that to lead itself into this brave new world, the sport has chosen an old stager rather than a rising star.

Additional reporting by Michael Butcher

LOVE LIFE ■ Europe's tradition of juggling wife and lover is disappearing as affairs of the heart command less time

# Last sighs of the mistress

Stephanie Theobald  
LONDON

ONLY in France could one of the country's most famous wronged wives lament the dying art of the mistress.

Madeleine Chapsal, who spent much of her life sharing her media magnate husband, Jean-Jacques Servan-Schreiber, with the former culture minister, Françoise Giroud, has just completed her second love-triangle novel. The first in the series, *My Husband's Mistress*, was a thinly veiled autobiography of her life as the keeper of a famously straying husband. The new one, *This Man is Married*, is a sequel which underlines the author's firm belief that the art of philandering has gone to the dogs.

Chapsal considers this trend to be inevitable but a great shame. Although Servan-Schreiber and his mistress flaunted their liaison while they were setting up France's first news magazine, *L'Express*, Chapsal insists that there was great "complicity" between her rival and herself: the mistress lent her clothes, gave her a car and published her writing; the *ménage à trois* would often turn up together at soirées - arm in arm.

Chapsal has never believed in the myth of all-encompassing love. France's best-known romantic novelist describes herself as "a realist". "My husband loved me utterly - just not

exclusively." Her new book reflects the sociological and cultural changes she sees around her: women demanding more from life and no longer being prepared to put up with what she calls "l'amour back-street".

"Being a mistress was an art," Chapsal says. "From the time of the Marquise de Pompadour through the 19th-century novel - Balzac and Maupassant - there is a tradition of the power-wielding mistress. Young men came to Paris to make their way in the world and the way they progressed was through the hierarchical ladder of the courtesan-run salon."

If having an affair used to be like being in a novel, it is now more like performing in a tacky soap opera. The French mistress simply has no status any more. Gone are the plush, paid-for boudoirs, the candlelight dinners, the giddy weekends in Deauville.

Chapsal blames the scourge of the mobile phone, which has put paid to the famous *cinq à sept*, or the fornication prime time of 5pm to 7pm between leaving work and returning *en famille*.

She says: "Your lover can call and cancel at any time, even squeeze you in between morning meetings. Desire hasn't changed but the way of accommodating it has."

But if something is rotten in the state of French infidelity etiquette, then the British version is digging its grave deeper every year. Sir James

Wedgwood once famously said that it was a terrible idea to marry your mistress because it merely created a vacancy.

In Britain men seem intent on making honest women of their mistresses. Foreign secretary Robin Cook's recent announcement that he was to marry his mistress caused an eruption of titters at "the English disease" all over France. Why should any woman want to take on the entire upkeep of one man? Far easier to share him.

Well, at least, that's how it used to be. But even in chauvinist France, female emancipation is beginning to creep slowly through society. Mobile phones may have done their bit to damage the mistress culture, but offices full of career women armed with sexual harassment codes now threaten to obliterate the school of the "Other Woman".

French men shuddered at the recent sight of Earl Spencer's wife and mistress in league together, stomping towards the Cape Town divorce court. But what of French women?

Tired of gaining (limited) power through affairs and by playing the mistress game, many of them are taking matters into their own hands. There is a growing tide of married women *rouées* who are cheating on their men. Pan-European statistics show that the biggest increase in the philanderers' market is coming from women, usually married, who decide they want to play the field too. Affairs



ILLUSTRATION: MARY HOGAN

On hearing that British foreign secretary Robin Cook would marry his mistress, titters erupted all over France

initiated by married women have increased threefold in Britain in the past 30 years, whereas that figure has increased only by half for men.

Greece is a glaring exception. Eight out of 10 married men claim to have mistresses, according to research at Athens University, and the figure has changed little in the last 20 years. But, interestingly, there is a large rise in the number of women who have extramarital partners: five out of every 10 women, as opposed to two out of 10 in 1970.

In Italy, women are taking charge. A survey published last month of Italian married women who had or were having extramarital relations showed that 70 per cent considered their behaviour to be perfectly acceptable. Twenty-three per cent said they were simply dissatisfied with the service that their husbands were offering. Wily Pasini, the sexology professor who carried out the survey at Geneva University, declared: "The cliché of the frustrated housewife is destined to disappear."

Laurent Sublet, 33, is a corporate

trainee officer who lives in Lyon and has the lifestyle of a Don Juan with a 1990s twist. Most of his lovers are married women because, he says, married women are more likely to be attracted to a no-strings-attached fling. Sublet considers himself a sexual pioneer rather than a male version of a mistress. He says that these days even the word "affair" has been downgraded to *aventure*, of which he has an average of two per month with women he meets in the course of his work at the office. In general, his *aventures* last anything from two weeks to two months.

He points to the success of Lyon's New Hollywood nightclub, a rendezvous for women of a certain age looking for someone to spice up their lives. Paris is filled with a rising number of *boîtes échangeistes* - partner-swapping clubs - such as Chris et Manu on the rue Saint Bon in the heart of the urbane shopping district, Les Halles.

In typical French style, clubs such as these are the preserve of the adult-erous elite. Entry is strictly by membership and the evening's proceedings

commence with a discreet *foie gras* led dinner upstairs before couples are escorted to the playroom downstairs where they are free to indulge in consensual marital treason to their heart's content. "It's seen as a way of cheating without really cheating," says Sublet, who laughs if you bring up the word "morality".

"You know," he adds, "the film *Fatal Attraction* bombed at the French box office because we saw it as too moralistic, too puritanical. We live for the moment; we are Latins."

In a controversial new book by a French philosopher, Jean-Claude Guillebaud, *The Tyranny of Pleasure* (Editions Seuil), he claims that the French have become victims of their penchant for decorous infidelity. They are obsessed with hyping up their debaucheries while laughing at the rest of the world for being "puritanical".

The title of his book comes from an idea of Plato's. He believed that desire was an unexploded volcano which could cause untold harm to the individual and to society. "This idea

of sexuality as some sort of performance has devastated our society and has become a source of suffering, as any psychoanalyst will tell you," Guillebaud told *Le Nouvel Observateur* this month in a feature the magazine ran on the need to return to a rigid moral order in France.

Guillebaud's book sees a shrinkage in the mistress market as inevitable in a society that has tired of the *laissez-faire* permissiveness generated by the naive fervour of May 1968.

Back in Britain, Zeldia West-Meades, a prominent marriage counsellor, claims that the mistress market in Britain has been left to women who frequent men of a higher socio-economic group. "If you are a baker, you can hardly say that you are off on a conference every weekend," she says.

But Madeleine Chapsal, still remarkably alluring at 72, insists that old habits die hard in France. "Desire is not limited to class," she chuckles wisely. "I can tell you that half the shopkeepers down my street lead a fascinating double life."

## THE CONCUBINE

### Fantasy and reality of life in the harem

AN American beauty queen created a worldwide scandal recently by claiming that the brother of the Sultan of Brunei had tempted her to the southeast Asian sultanate only to keep her prisoner in his palace of pleasure. Europe's tabloid press responded with excited headlines. Clearly the fascination of the harem has as much hold over today's man as it did over his 19th-century predecessors.

In her book *Secrets of the Harem*, Carla Coco makes a brave effort to demystify the allure by claiming that far from being a centre of exotic promiscuity, the harem was an enlightened, unsullied place where women could create their own anti-society away from men and in some cases rise from obscure backgrounds as kidnapped slaves to become behind-the-scenes rulers of a vast empire.

The word harem designates "a closed, reserved place", the part of the Ottoman house set apart for women. For westerners this meant a mythical place of pleasure and lust. But in the real-life Muslim world it was more an institution with strict rules and regulations, governing even the behaviour of the master of the house. The subject of this fascinating book is the most famous harem of them all, that of the Ottoman sultans. The Imperial Harem of the Seraglio in Istanbul was the ultimate pleasure den on earth. Coco documents every detail of daily life, from the food prepared to smoking tobacco and opium, from hours spent lazing and being massaged, to the search for magical creams

and oils which might help seduce their master. There are also the "fat and flabby black eunuchs" chosen to guard the ladies after the painfully described castration operation.

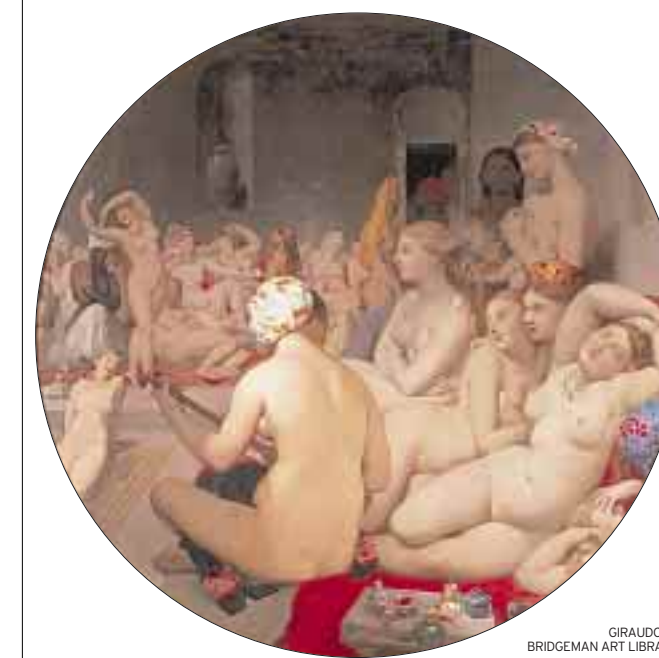
Coco tries hard to persuade the reader that for girls taken hostage from their far-flung homelands, the harem "must have seemed a far more comfortable place than the villages they came from, where misery was all-pervading and where their fate would actually have been much worse". Installed in the harem, they now had the chance of a "career" to become First Lady of the Empire, "where no distinctions of birth, culture, ethnic origin or religion were made".

It is clear that European travellers created their own fantasy world of the harem. But the author has fallen under her own seductive spell. Despite commendable research, her prose resembles a historical romance rather than a work of scholarship.

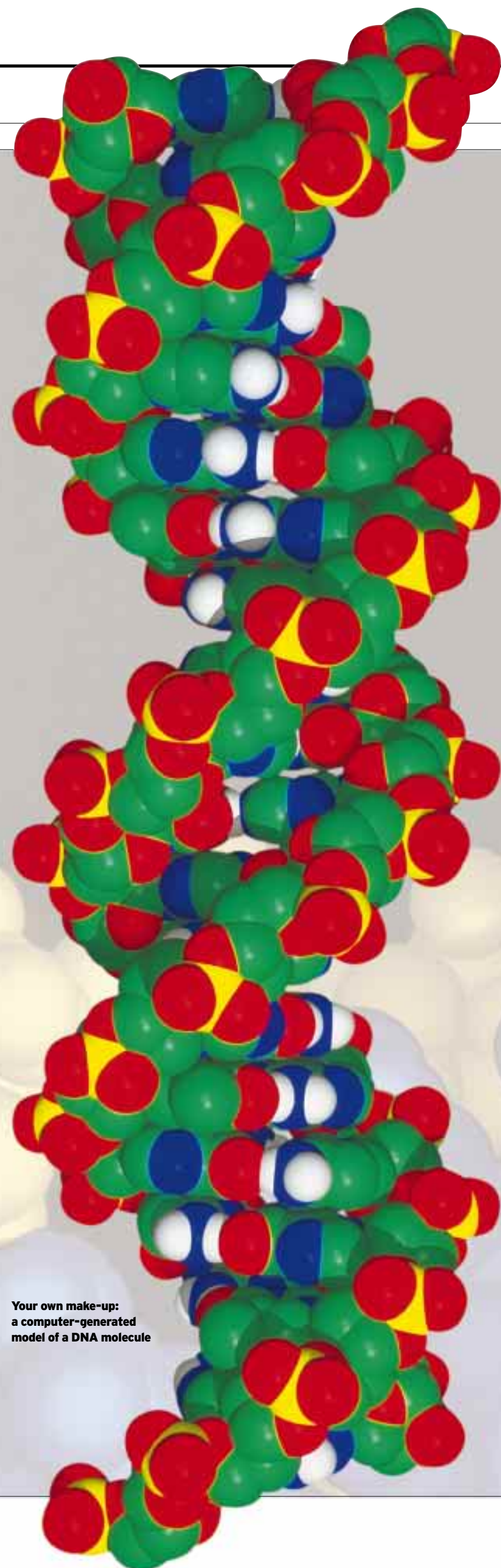
The chief strength of this book is the illustrations, ranging from wonderful, graphic, stylised images of harem life from the 15th and 16th centuries to voluptuous paintings by the 19th-century Romantics. It is these images of a mysterious, closed-off world that remain with the reader rather than the routine of daily life, perhaps because some illusions are too deeply entrenched for demystification.

*Secrets of the Harem* by Carla Coco, published in the UK by Philip Wilson. Price: \$48. Also published in Italy, Germany, France and the US

JOHN BRUNTON



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Your own make-up: a computer-generated model of a DNA molecule

**HEALTH** ■ A card holding all tell doctors which drugs need to

# Bespoke

Cath Blackledge

IT'S autumn 2020. You're feeling ill, under the weather, washed out. You go along to the doctor and he or she diagnoses high blood pressure. But instead of being prescribed first one drug, and then another, to find the one that works best for you, the doctor asks for your ID card. The card is swiped, the DNA chip is read and the medicine to suit your genetic make-up is prescribed. No side-effects and no further trips to the doctor.

This is not science fantasy. It will soon be everyday reality. Most drugs do not work for everybody. Some work for two-thirds of the people who take them; the average is more like 50 per cent; in some cases it's fewer than one in three, with some irritating side-effects thrown in. Why some drugs work in some people and not in others is about to be solved. The key to the mystery is human diversity.

We are all genetically different - yet despite this, drugs are designed with a one-size-fits-all mentality. We don't all respond in the same way to germs, allergens or food, so why should we to medicine? If we can identify and understand the genetic variations that all humans carry, then we can begin to develop drugs that work in all of their target population.

This is the aim of pharmacogenomics - tailoring a drug to suit an individual's genetic make-up. Pharmacogenomics is still in its infancy - so much so that the world hasn't managed to find its way into any dictionaries yet. Drug companies have until now left it alone. It has always been easier and more profitable for them to develop a drug for everybody and push it to all: the end market is larger and the genetic information and technology necessary to tailor drugs individually have until now been unavailable.

However, the last couple of years have seen the emergence of technologies which are potentially capable of determining which patients are likely to respond to which drugs based on genetic data. Pharmacogenomics will be the buzzword of 1998 as the race to sell bespoke medicine begins in earnest.

The American pharmacogenomics firm Variagenics is going after customised drugs for cancer. The more genetically complex

(polygenic) a disease is, the less likely it is that a drug will have its desired effect across its target population. Such polygenic conditions present the greatest opportunities for pharmacogenomics. Other potential blockbuster therapeutic areas are expected to include cardiovascular drugs such as treatments for high blood pressure, or disorders of the central nervous system, such as schizophrenia. Variagenics is due to start testing an anti-cancer treatment this year. But most experts predict that it will be five years before a pharmacogenomics product is commercially available.

Others are more optimistic. One company, Genset, has already signed a deal in the field. Paris-based Genset linked up with US drugs and diagnostics giant Abbott in July last year in an alliance valued at \$40 million and which was seen as a validation of the science.

The deal, which involves tailoring an unspecified Abbott drug to fit its target population, is expected to be completed by the end of the year. "The first drugs will be on the market in 2000," says Pascal Brandys, head of Genset. At the same time, Abbott is developing diagnostic kits, to predict a patient's response, which will be used in tandem with any drugs produced.

Genset is focusing on systematically analysing the association between all our genes and disease. To do this, it is constructing the world's largest map of the human genome - our complete genetic information. When completed, the map will be able to describe the major genetic variations in every one of us.

The next step is to find out what these markers mean in terms of the diseases they are linked with, and compact that mass of information on to a DNA gene chip, and put it on to an ID card. It is a complex task, with many potential pitfalls. Will the map contain enough data to give meaningful answers, and will the bioinformatics tools necessary to process all this information be robust enough?

Certainly in the not-so-distant future, the genetic background of an individual will be summarised by such markers. Scientists predict that in five to 10 years' time, people will carry a credit card with a chip which holds their genetic background. It will be nothing less than a social

your genetic information will soon be prescribed individually for you

# medicine

revolution. Variagenics' experts say that change will be easier. They forecast that the solution will be far simpler than a genome on a chip.

They believe the end product will be a medicine that is sold together with a test kit. Buy the kit first, see what type of responder you are for the particular therapeutic you require, and then buy the correct pill. Testing could be done in the home, in the doctor's surgery or in the hospital. Indeed, genetic testing in hospitals is likely to become as routine as having an X-ray done and may be only a couple of years away.

Pricing is one issue that all companies involved in pharmacogenomics are agreed on: the price of tailor-made drugs will carry a premium. Makers of tailor-made drugs will argue, of course, that the end price should reflect the technology and time invested in such pills, and the reduced market bespoke drugs would target. Typically, pharmaceutical companies prefer to go after diseases which affect a large set of the population - the payback is a billion-dollar blockbuster drug. Focusing on giving medicines only to those people who will benefit from them will drastically reduce the market and their profits, hence the desire to crank up prices.

So will there be any losers in this brave new tailor-made world? The pharmacogenomics firms argue that we're all going to be winners. The companies will reap the benefits of higher priced drugs and reduced costs of drug trials, while the payers of healthcare - governments, insurance firms and health management organisations - won't lose out because they will feel the economic benefit of not prescribing and paying for drugs that don't work. The consumer should also benefit because we will have medicines that work, and with fewer side-effects.

But in the tailor-made world of tomorrow, will all humanity be catered for, or just those with common genetic signatures? What if you are the genetic mutant with a particularly quirky make-up: will large pharmaceutical companies, intent on pursuing the more lucrative areas of disease, develop drugs for you?

Companies such as Roche, the Swiss giant, Anglo-American SmithKline

Beecham and the UK's Glaxo Wellcome are all positioning themselves to catch the crest of the personalised medicines wave. Roche, which is now the world's largest diagnostics company, following its purchase of Germany's Boehringer Mannheim last year, believes that the downside of a reduced market will be offset by the greater market penetration that a truly effective drug will achieve.

Who will and who can pay for expensive designer drugs is also at issue. Healthcare costs are rising, despite the efforts of European governments and American healthcare providers to curb spending. Already it is acknowledged across Europe that automatic access for patients to every new expensive drug on the market may not be possible. The response from pharmacogenomics firms is that buyers -

whether they are governments, insurance companies or US-style disease management companies - will be prepared to pay more for personalised medicines, based on their improved cost-benefit profile. However, the emergence of personalised medicines could push the balance towards a two-tier healthcare system, with the one-size-fits-all prescription drugs of today becoming the cheaper generics of tomorrow. Britain has already announced plans to set up a National Institute for Clinical Excellence to police the expense of medicine.

The proposed drugs revolution raises other social and ethical issues. How well will our already sickly healthcare systems cope with the extra complexity that genetically targeted drugs will bring? These new drugs also raise ethical problems. Who will own all the genetic information collected by hospitals and companies? Who will have access to the data? Most pharmacogenomics companies are happy to state that all genetic information would remain an individual's property. But the risks of it being used inappropriately are real, and haven't been planned for from a legal perspective.

New knowledge is taking us towards new boundaries of healthcare, now that we have begun to understand the full complexities of DNA. But we have yet to work out how to apply the knowledge responsibly to the treatment of patients. ■

We are all genetically different, yet drugs are still designed with the mentality that one size fits all

People will carry a card with a chip holding their genetic history. It is a social revolution

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INTERVIEW ■ As the film business booms in Europe, Oscar-winner Juliette Binoche is wisely staying put

# 'Nothing grabs me'

Laine Goodman  
DORDOGNE

**T**HE woman for whom every agent in Hollywood would willingly renounce his table at Morton's is nibbling on a hunk of baguette in a dim café in deepest France. Luckily, all that hype about her luminous glow is absolutely true. Even without make-up, the 33-year-old actress brings the kind of radiance to any room that has American movie moguls straining at the leash.

André Techiné, whose new film she is filming just down the road in Cahors, summed up why Juliette Binoche works so well when he described her as having "her feet in the mud and her head in the stars".

Now that her US contemporaries such as Demi Moore are spinning around in some galaxy beyond the ken of many Americans, Binoche's forté in playing enigmatic vulnerability confers saleable potential on her, even in the Midwest.

But the Americans are slow to catch on. Or rather, they are slow to be convinced when it comes to the international box-office potential of French actresses, whom they tend to lump together in one scary "femme fatale" basket. Once they catch on, however, they won't let go.

This level of furore surrounding a French actress hasn't happened since Brigitte Bardot set America alight in the late 1950s with Roger Vadim's *And God Created Woman*. Here was the perfect package - sex appeal (but safe sex appeal) multiplied by a pair of fantastically trembling lips. Hollywood entreated Bardot to leave Saint Tropez for the United States until it was red in the face but Bardot made no secret of the fact that she would rather go to a nunnery than go to America.

Last year, when Juliette Binoche became the first French actress to win an Oscar for her performance as the nurse in Tuscany who cares for Ralph Fiennes in *The English Patient*, America decided it wanted in on her act. But if Binoche is being a bit more polite than Bardot in her response, she seems equally unkeen.

"Nothing has really grabbed me so far," she smiles, wiping her mouth with the back of her hand with typical Binoche panache. Only a few months ago she turned down Paul Auster when he asked her to play the lead in his directorial debut *Lulu on the Bridge*. The film - a revamping of GW Pabst's silent movie classic *Pandora's Box* which starred Louise Brooks - promises to be a big hit. But Mira Sorvino is now playing the role of Lulu. "My head told me to accept it because I admire him," Binoche says. After reflection she adds: "I finally listened to my intuition and decided against it. You have to recognise your path."

Though Binoche claims to have little interest in Hollywood, the actress has indirectly dabbled very deep in that market. Her acclaimed 1987 movie *The Unbearable Lightness of Being*



MARION STALENS / SYGMA

was funded by American money, as was Oscar-winner *The English Patient*. It is difficult to tell whether her decision to stay physically in France is disingenuous or not. The fact remains that her strategy is a shrewd one. According to Charles Finch, head of movie production for Europe at US talent-brokers the William Morris Agency: "Hollywood will soon be coming to France and not vice versa."

The best recent case of Hollywood coming to France was Luc Besson's mega-budget \$70 million *Fifth Element*, starring Russian actress Milla Jovovich and Bruce Willis. The movie was largely funded by French cinema giant Gaumont, its biggest pledge ever to an English-language French movie. But Binoche claims she is not money-minded, although she admits that her contract to be the face of Lancôme's Poème perfume allows her the freedom to work on the kind of films that please her.

She has been the subject of various requests by Elia Kazan to go to Hollywood, and she turned down Steven Spielberg three times for starring roles in *Indiana Jones*, *Schindler's List* and *Jurassic Park*. She says though that her refusal for the last was only because of her commitments to Krzysztof Kieslowski's *Blue* and Léos Carax's epic *Les Amants du Pont Neuf*.

Her one US movie experience was a bad one. It came in 1996 when she played a ditsy psychiatrist in *A Couch in New York* alongside William Hurt. Although directed by respected Belgian film-maker Chantal Ackerman, the film flopped hugely. In this new one, called *Alice and Martin*, she plays a tormented violinist who falls in love with a troubled fashion model 11 years her junior.

European creativity excites Binoche, who was voted best European actress by the European Film Academy in Berlin last month. Next month she will star in a production of Pirandello's *Naked* at London's Almeida Theatre, after which she will head to Tuscany once more for another English-speaking role as an artist's model in Chinese director Chen Kaige's *The Assumption of the Virgin*.

Charles Finch, who represents French stars including Sandrine Bonnaire and Emmanuelle Béart, understands Binoche's decision. "There is a growing infrastructure for the movies now in Europe," he says. "It's a healthy time, like in the 1950s and 1960s. You are starting to see up to 60 per cent, sometimes 90 per cent, of movie funding coming from Europe."

Back in the café Binoche keeps asking questions - some about my son. She has a five-year-old, Raphael, but won't answer anything as vulgar as to who his father is. She is interrupted by the arrival of Alexis Loret, her co-star in *Alice and Martin*. She excuses herself, links her arm in his and then she turns and says: "My ambition is to have beautiful encounters, not to make money." ■

**Binoche on the set of *Alice and Martin*: the French actress whose strong-willed fragility makes her sought-after in Hollywood**

## Salazar of Portugal, more a great accountant than a great dictator

**Négócios com os Nazis**

by António Louçã  
*Fim de Século \$11*

**Máscaras de Salazar**

by Fernando Dacosta  
*Notícias Editoriais \$15*

ANTÓNIO de Oliveira Salazar, single-minded and single-handed ruler of Portugal for more than 30 years, was the most fastidious and private of the great dictators of Europe this century. He shared none of the taste for public theatre and psychopathic thuggishness shown at different times by peers such as Franco, Stalin, Mussolini and Hitler. He even disapproved of smoking in his presence, and he never revealed whether he had taken his long-suffering housekeeper Maria Caetano to be his mistress or his wife - or neither.

He died in a high state of delusion, believing he was still prime minister of Portugal, though in fact he had been replaced by Marcello Caetano two years before, in 1968. Confidants reported that he had lapsed into dementia after suffering a stroke from falling out of a British-made deckchair. After losing power, his courtiers maintained the daily routines and ceremonies to maintain the fiction that he was still in charge.

Subsequent generations in Portugal have kept the fascination with the mystery of Salazar, though most would like to forget the grinding austerity and isolation his dictatorship brought to their country. These two recent accounts, by the historian António Louçã, and Fernando Dacosta, a veteran reporter who met the old man on assignment for his Spanish newspaper in the 1960s, have both become bestsellers in Portugal.

Part of the problem in cracking the Salazar enigma has been the sensitivity of the authorities in Lisbon about opening the official archives on the inside story of the dictator - particularly on the delicate issue of his hoarding of sizeable quantities of Nazi gold. This is the most fascinating part of the story revealed in these

books, particularly by Louçã, one of the pioneers of investigations into Nazi gold.

Portugal's strong gold and currency reserves in the immediate aftermath of the Second World War won Salazar grudging recognition for sound financial management, if not a dash of wizardry, which is shown here to be largely bogus. The gold reserves were built on the squalid commerce in bullion looted by Nazi Germany, in which Portugal was the world's biggest trader, next to Switzerland.

The postwar reparations commission demanded that the Bank of Portugal should surrender some 44.8 tonnes

startling eyewitness accounts. One witness in his book describes seeing gold bars stamped with Reichsbank swastikas being shipped on to communist China in the 1950s, despite the US embargo.

By the late 1950s the allied authorities had begun calling the dogs off. By this time Salazar's Portugal, like Spain under Franco's new technocrats, had become a most valued ally in the new crusade, the Cold War.

The death of Salazar in 1970 was hardly marked by the world beyond - because by then Portugal was moving towards a new phase, dramatic decolonisation, and a steady climb to democracy particularly under Mario Soares, and eventual membership of the European Union.

Unspectacular though much of his rule was - he appears in these pages as much the great accountant as the great dictator - he was prepared to be ruthless enough in using his security forces and licensed thugs when he had to.

Under his "economy of terror", communists and anarchists were sent to concentration camps in the colonies. Fascists didn't fare any better, and he drove them from the streets before they could mount a serious threat.

He established his authority by exerting ruthless fiscal control: from being a financial journalist he became finance minister, first in 1926, and again in 1928, when he demanded absolute control over all government budgets. In 1932 he became prime minister; a post he never relinquished and thought he held to his death.

Outwardly he could appear austere plausible, persuading countries such as Britain to invest in the 1930s in the Portuguese electricity industry - despite the suspension of the constitution in 1933.

He was master of political duplicity and disguise, hence Dacosta's title "Masks of Salazar". These two books have done much to lift the mask and demolish the myth of Salazar the national saviour, so long cherished by the militaristic right of Portugal.

ROBERT FOX



of gold from its vaults. Most had been looted from French and Belgian treasuries, and many people have

subsequently speculated that the real amount stolen was far higher than that demanded by the reparations authorities. It was here that Salazar's penchant for fiscal secrecy served him brilliantly.

For years he managed to string the commissioners along with assurances and vague promises until 1958, when negotiations closed. In fact he authorised the repayment of just less than four tonnes of the gold.

Louçã's persistent tracking of documentation of the transfer of Reichsbank gold through the then neutral Portugal has revealed some

**BOATS** ■ This summer take the Manhattan and join the jetty set

# The latest Escort for the waterways

**Rupert Wright**

**T**HE Sunseeker Manhattan 80 battling its way across the North Sea to the Düsseldorf Boat Show, which opens this week, will be the star of the show. For a price tag of \$3 million, ownership brings its reward: membership of an exclusive club renowned for its bad taste. Dour, thick-browed Nigel Mansell has got one. So has Eddie Jordan, head of the Formula One Jordan-Peugeot racing team. Peter Stringfellow, owner of the tackiest nightclub in London, has just ordered one. Michael and Ralf Schumacher share one. Most of Europe's lottery winners want one.

To join them you will have to wait until 1999. The order book is full of customers desperate to splash out so much on the world's least stylish boat. Around one-quarter of the boat's owners are British, but you will not find them chugging up the Beaulieu river on their way to Bucklers Hard in Hampshire for lunch. The sun in England is not strong enough to turn their skin tough and leathery as it does in the Mediterranean or Caribbean. The Manhattan 80 is the yachting equivalent of a Ford Escort XR3i: there would be no surprise to see a nodding dog at the stern or tumbling furry dice above the helm.

From the quayside it looks fine. The decks may be a bit flash, bright and shiny as a bottle of Coca-Cola, but there's a flybridge ideal for spotting game fish and a fine teak deck. You can imagine Ernest Hemingway fishing

with a cigar in his mouth and a bottle of beer in his hand - until you go on board. There is shining white leather everywhere: there is one large round sofa which serves no purpose except as a vantage point for leggy bimbos to watch the skipper. There are cold boxes dotted about the deck for those keen on a drink but unwilling to walk to the fridge.

This is admirable: most sensible people would want to avoid walking in the cabin - the shagpile carpets are thick and colourful. Spiral staircases lead to bedrooms last seen in porn films made during the 1970s. There is more white leather, fluffy beds and lots of mirrors. The Manhattan 80 sleeps six in opulent comfort. There is further room for three crew in two cabins.

There is nothing wrong with the performance of this boat: owners can choose either a V12 Caterpillar 1,350 brake horsepower or a MTU/DDC V12 1,350 brake horsepower engine which can send you skimming through the water at 36 knots. The boat has a range of up to 800 kilometres.

But nobody buys a Manhattan 80 to go places. The television sets will work only when they are plugged into a socket on shore. There is a garage at the stern for a "bandit", the Sunseeker's own inflatable dinghy, so you can go water-skiing. Or

you can listen to the hi-fi, phone your friends or use the washing machine.

It is hard to see how one could improve on this splendid example of kitsch. But one owner has come up with a flash of inspiration. He wants a Jacuzzi on the flybridge. Perhaps he thinks it would be amusing to watch one of his guests hook a large marlin, then get soaked with suds from the hot tub. Or perhaps he has no further ambition for his boat than to keep it in the harbour at Saint Tropez.

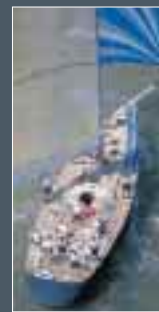
Beautiful girls everywhere should launch a boycott of this terrible vessel and insist that they will keep their clothes on while on board. One reason alone should be sufficient: the dreadful names these boats are given. The first Manhattan 80 launched was called *Distraction*. Worse names will follow. Owners are faced with the difficult task of deciding whether to name them after their wives, mistresses, boyfriends or favourite daughters. Whatever the outcome, they will be prefixed by the word "Lady". The Schumacher brothers alone are reported to have found a way round the dilemma by naming their Manhattan 80 after their mother. ■



Not so plain sailing: Sunseeker's Manhattan 80

## RIDING THE WAVE

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THE most glamorous yacht in the world is the Nautor Swan. A 60-footer (18m) can be picked up for around \$3m. Hand-built in Finland, Swans are sailed in the most glamorous

places in the world. With a fibreglass hull but teak decks and interiors, they combine performance with class. These are not just for poseurs: renowned for their ocean-going ability, a Swan 65 won the first Whitbread Round the World Race. This year up to 80 Swans will gather in Porto Cervo in Sardinia at the end of August to contest the Rolex Swan World Cup.



CAN'T afford the boat? Sailing clothing is now seen in the coolest nightclubs in Europe.

Escapiste makes one of the best collections of fleeces, jackets made of sailcloth, canvas shirts and trousers, twill cotton shirts, sweatshirts, caps and woolly hats. A new collection coming out before Easter will include a full ladies' and children's range. Prices start at \$50 for a checked shirt, with fleeces from \$80. Contact: tel +44 181 741 1141 or [www.escapiste.com](http://www.escapiste.com)

FROM around \$7,000, the Kawasaki leads the fleet in jetskiing. The 1100ZXI hull design gives high-speed cornering and a top speed of 80kmh. This is a craft with attitude: with its automatic trim-adjustment system, the nose can be raised or lowered to give the optimum position in the water to give either high-speed stability or manoeuvrability. It can seat two people, both of whom are kept relatively dry by anti-spray strips on the hull. Comes with a watertight glove box and storage compartment to house bottles of champagne. Just the thing to impress those left on the beach. Tel +44 1628 851000





## Toe the party line on drugs – or else

LAST summer we heard that the British Labour Party had sent a circular to all its MPs telling them that if they spoke out or voted against the government they risked deselection.

We now hear that the Labour Party has instructed all 60 MEPs to vote against the report being presented by Hedy D'Ancona, the former Dutch welfare, health and culture minister who chaired the EU parliamentary commission on drugs. This report calls for EU harm-reduction policies, room for regional solutions and studies of alternatives. It concludes that the heavy-handed approach to solving the drugs "problem" has failed.

How many of our elected representatives think for themselves? Judging by both their reaction to the changes in welfare benefits and their recent silence over the cannabis issue, not many. Why don't we drop the pretence of democracy, get rid of all the Labour MPs and MEPs who so enthusiastically toe the party line without question, and invest the money saved in

cloning Tony Blair? Whatever happened to democracy and the voice of the voters?

**Alun Buffry**  
 Norwich, England

ONE of the biggest challenges to overcome in the fight against drugs is the education of the general public as to what drugs are. For many well-intentioned people "drugs" are a small group of substances – cannabis, cocaine, heroin, LSD etc – which are sold in dodgy bars and consumed by criminals. Valium, morphine and antidepressants are, on the other hand, useful "medicines", whereas alcohol and tobacco are acceptable social pleasures.

This leads to a situation where valium-addicted patients, alcoholism, alcohol-induced violence and the millions of smokers who die prematurely each year are considered to be a normal part of society, whereas millions of responsible, recreational cannabis users are categorised as criminals. The vast majority of

people who are against the legalisation of cannabis probably have no idea what it is or what it does. Its effects are generally no more dangerous than those of alcohol and, in some cases, are probably socially more acceptable. I cannot imagine brawling in the streets being a problem at closing time were people in bars to smoke a few joints instead of drinking five or more litres of beer.

Some drugs are too potent to be legalised since their effects leave the majority of users incapable of controlling their habit, but if we can live with alcohol being legal, then we can live with cannabis as well (and I speak as an impartial non-user).

All drugs, including tobacco, alcohol and prescription drugs, can be dangerous. What is important is the education of drug users and critics to try and set a common goal – namely fighting drug abuse instead of fighting drugs.

**Mark Hannah**  
 Bad Fischau-Brunn, Austria

## The Scots find a voice

THE petty and vindictive comments that C Dicken directs towards the Scots (Letters, issue 398) reek of sour grapes and bear all the hallmarks of an embittered person. What Dicken termed "Scottish aggression" is far more likely to be the surprising discovery that Scots aren't subservient, pliant vassals eternally grateful for distant and direct Westminster rule.

The Scots are beginning to assert themselves, and rightfully so, with regard to decisions which affect them, and will soon be taking a measure of responsibility for these through a devolved parliament, like many others throughout Europe.

Dicken's petulant tirade ended somewhat bleakly: "Nationalism, it would appear, does beget nationalism." However, judging by his puerile and pointless boycotting of Scottish goods, I can only surmise that in this particular case it has gone one step beyond and begotten a banal and spiteful bigotry.

**David Wilson**  
 Ellon, Scotland

IT WAS rather sad to read the comments made by an English reader in relation to the Scottish (Letters, issue 398). The manner in which his letter was written suggests he is ignorant of Scottish nationalism and the mature way it has manifested itself in Scotland.

Nationalism need not be racism. From a Scottish perspective, it does not stem from anti-English sentiment. The polity in Scotland reflects more than the frustrations of being a minority region of various integrated ethnic groups within the UK. It encompasses not only the much mooted historical considerations, but likewise economic and social factors, and contemporary ideals.

Scottish politics is forward-thinking, if at times slow, and racism is deplored by the majority. Indeed, our journalism reflects this, unlike its English counterpart which is often found stirring racial hatred and tensions, be it through reports about the Germans at the poolside or the whingeing, scrounging Scots who are supposed to be of the same nation-state.

Your letter-writer kindles the worst sort of nationalism, that of hatred. We in Scotland should at least be glad he will never holiday up north.

**Wayne A Mathieson**  
 Stenton, Scotland

## Sentenced to the euro

WHAT is going on in Ireland? The economy is booming but its currency is plunging. While ordinary investors continue to have faith in the bullish Irish stock market, speculators have been unloading Irish pounds. This fiasco can be blamed on economic and monetary union (EMU). Ireland is already locked in, or so foreign exchange dealers seem to believe. We Irish are the first prisoners of the single currency life sentence.

The Irish pound has tumbled because the market has decided that we will lock into the euro at 2.41 deutschmarks. With a higher rate, who in their right minds would have held on to punts when they could still get more marks and pfennigs for them? Dealers just kept on selling in the sure and certain knowledge that DM2.41 is on the horizon.

The Irish government and the central bank are giving the go-ahead to the same slogan: EMU rules OK. Their impotence is a taste of the emasculation to come. Who will care for our exporters – or inflation?

The consequences of our fall against other currencies will be more expensive imports. In three weeks the Irish pound has dived from 89 pence sterling to 84 pence. Inflation will rise in the months ahead, just in time to herald our entry into the European prison. There is a floor for the punt. Is there one for the euro?

**Clement Mackay**  
 Limerick, Ireland

## Guidelines on beef

WE know very little about the new variant of CJD, the human form of BSE "which has killed 23 Britons since 1996" (issue 397). There is no simple test for the infectious protein particles (prions) which lead to this killer disease or even agreement among scientists about modes of transmission. Given the slow progress of this nvCJD, we have no idea how many people are infected or what future mortality rates will be. We know only that it is new and that it is becoming more common.

To state that potentially infected beef is known to be safe or to be fairly



safe is guesswork. We do not know the true risks. If you must eat beef, make certain that it has been expertly deboned, and eat only prime cuts. "Economy sausages", "steak" pies and cheap minced beef are best avoided.

**Professor John Birkett**  
 Geneva, Switzerland

## Baltic security

FURTHER to "Russian coercion" (Letters, issue 397), it is easy for Mr AV Ozolins, chairman of the Latvian National Council in Great Britain, to use for propaganda purposes a phrase taken out of context and to apply labels to each and everyone. It is more difficult to search jointly for solutions to a problem.

I wonder whether Mr Ozolins is aware of the Russian proposals concerning security arrangements for the Baltic region made at the level of President Boris Yeltsin and aimed at facilitating the process of reconciliation between the Baltic States and the Russian Federation, where there should be an equal interest on all sides.

**Boris N Malakhov**  
 Press-Counsellor, Embassy of the Russian Federation London, England

## Charismatic spokesman

IN AN otherwise excellent Dispatches article on London, reprinted from *Süddeutsche Zeitung* (issue 399), I was appalled that Gerd Kröncke refers to me as a "sect leader". In fact, I am probably regarded as one of the leading spokesmen for charismatic Pentecostal evangelism in Britain and speak on a wide range of platforms from Roman Catholic to Anglican, Baptists to Salvation Army.

Along with Sir Cliff Richard and Archbishop George Carey, I am a founder and patron of the largest Aids initiative in Britain. The Pioneer Trust charitable foundation, of which I am director, has just completed a major event at Wembley Stadium involving 45,000 people. We have been privileged to hand out £87,000 (\$141,725) to children in need.

**Gerald E Coates**  
 Director, Pioneer Walton on Thames, England

## Proud tribal queens

PETER MILLAR ("London", issue 396) refers to Boudicca, the Roman or Latin version of whose name was "Boadicea", as "proud queen of the Brigantes rebelling against Rome"

who razed London to the ground. "Proud queen" Boudicca may have been, but of the Icenii, who lived in what is now East Anglia, not the Brigantes, whose territory extended across south and west Yorkshire and included Lancashire, Cumberland, Westmorland and County Durham. Millar is confusing her with Cartimandua, tribal queen of the Brigantes, who is known for rather friendlier relations with the Romans.

Boudicca was the widow of King Prasutagus of the Icenii. She led the rebellion against Roman rule after she was flogged and her daughters raped by Roman officials after the death of her husband, despite the fact that Prasutagus had left half his wealth to the Roman emperor.

Cartimandua, by contrast, betrayed the British rebel Caratacus to the Romans, and sought and obtained military help of Rome when, having divorced her husband Venutius and married his armour-bearer, Venutius led a rebellion against her. Although Roman help assisted her in defeating this, it was able only to rescue her when a later invasion by Venutius resulted in his seizing power.

**Heather Field**  
 Griffith University Queensland, Australia

## Chinese puzzle

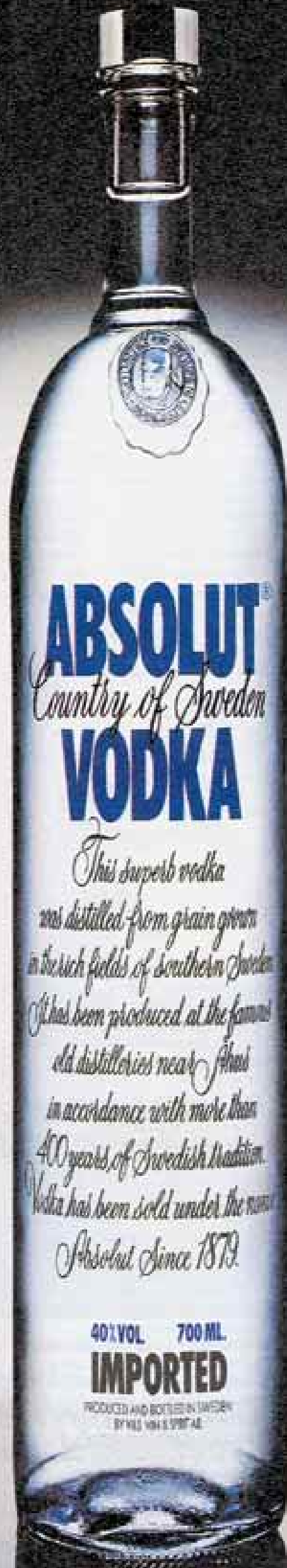
IT IS reported that the 13 vials of human growth hormone (HGH) found in the luggage of the swimmer Yuan Yuan were enough to treat all 23 swimmers in the Chinese team for the duration of the Perth World Championships. Injectable HGH costs \$1,200 to \$3,500 a month, well out of reach of most athletes. Who has been funding this drugs programme?

**Robert Goldman**  
 San Francisco, California, USA

## Kinnock appeal

I AM writing an authorised biography of Neil Kinnock and would be grateful if readers with anecdotes, eyewitness accounts, letters or other material of interest could write to me.

**Dr Martin Westlake**  
 81 rue Artan, B-1030 Brussels, Belgium



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