THE EUROPEAN

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DRESSED TO KILL

Italy's fashion industry leads the world

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▶ **Desktop secrets for executive success**
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PAGE 50

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On 10 July 1997 The European changed from a broadsheet newspaper to a tabloid news magazine designed for Europe's business elite. Our readers liked the results. So did the judges at this year's Society of News Design Awards.

The European has been included in their list of the World's Best Designed Newspapers. Our redesign also won a Gold medal.

Congratulations also to our sister papers, *The Scotsman* and *Scotland on Sunday*. Both were rewarded for their coverage of the death of Diana, Princess of Wales. *The Scotsman* was also included in the list of the World's Best Designed Newspapers, while *Scotland on Sunday*'s Spectrum magazine won a Silver award for its redesign.

2–8 MARCH 1998

No seats on the gravy train

THE rich have already grabbed the best seats on the European Union's subsidy gravy train and have no intention of giving them up to poor newcomers. That is the dilemma plaguing Monika Wulf-Mathies, Brussels' commissioner for regional affairs, as the 18 March deadline for launching a review of EU regional aid policy draws near. She needs to score savings from existing members that can be spent on the five fast-track applicants anxious to join. Otherwise there can be no enlargement.

The same problem haunts Brussels' plans to reform the Common Agricultural Policy (CAP), to be announced at the same time. How can French, German, Spanish and Italian farmers survive on reduced subsidies so that resources can be diverted to the newcomers? Bolting on agricultural Poland to the present CAP structure would spell budgetary meltdown. Again, no reform, no enlargement.

Dilemmas over regional aid and the CAP are now certain to delay enlargement. Talk of completing negotiations with Poland by the year 2000, with entry two years later, is already fantasy. Poland's GDP per capita is a measly 31 per cent of the EU average; its agriculture industry is still in the dark ages of 1950s rural France, employing 25 per cent of the population. Neither the EU nor Poland will get their act together to meet the fast-track timetable. Expect the talks to meander on for the foreseeable future.

Progress has already been delayed by a certain acrimony. The EU has banned the import of Polish milk because dairies are unhygienic; Poland wants to maintain protective tariffs to shield its inefficient steel mills and balks at the restrictions of the Schengen agreement, which force it to impose visas on non-EU neighbours. That has already brought Belarussians who conduct a thriving trade with Poland on to the streets. But the EU does not want Poland to be a leaky backdoor for illegal immigration. So far, stalemate.

If Poland's EU membership is delayed then it is inconceivable that the four other smaller aspirants – Slovenia, the Czech Republic, Hungary and Estonia – will make it without their bigger brother. Poland is by far the most important of the newcomers: enlargement cannot proceed without it.

This places a heavy responsibility on existing members to get their act together. Regional aid needs to be reformed so that fewer rich countries are eligible for it and CAP subsidies need to be cut. The problem is that too many EU members have no stomach for doing either. With a German federal election beckoning in September and a French government battling with unemployment, the required radical changes are unlikely to happen. Both Bonn and Paris are timid when it comes to facing down powerful farmers and the Commission president, Jacques Santer, is too weak to give a lead. When protesters dumped a fake cow on his Brussels doorstep last week he rushed out to placate them.

As with CAP, so too with regional policy. Member states acknowledge the need for reform but still fight like ferrets in a sack to hang on to their share of the loot. Despite all its boasts about Cool Britannia and the success of the British economic model, the Labour government in the unimpressive shape of Margaret Beckett, the industry minister, rushed to Brussels last week to plead poverty so that it could hold on to its share of regional funds. Nobody once bothers to ask if these funds ever turned a depressed region around. They are more porkbarrel than economic stimulus

At least Ms Wulf-Mathies concedes that aid programmes should be streamlined. It is crazy to classify 51 per cent of people living in one of the world's richest continents as economically depressed. That is politics at work, not economics. But even the Brussels reformers are only tinkering. All that is on the table is a standstill in aid to the 15 existing member states between 2000 and 2006. That's Ecu230 billion ($250bn) for rich members, while poverty-stricken entrants are to be allocated a meagre Ecu45bn of crumbs that fall from their rich neighbours' tables.

> **Nobody once bothers to ask if these funds ever turned a depressed region around**

Bringing the newcomers up to present members' income levels is a mammoth task and regional aid is likely to play no more than a walk-on part. Their future prosperity depends on how quickly they become dynamic market economies. They have a long way to go: GDP per capita of the five suitor nations as a percentage of the EU average is 41 per cent. Present policy is to give the most regional aid to deprived areas with a GDP per capita of less than 75 per cent of the average. So without reform the newcomers would all qualify for the lion's share of regional funds.

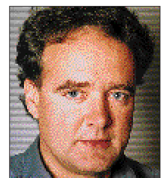
There is room for change if the political will is there. Three of the four poorest existing member states – Greece, Portugal and Spain – have seen their GDP per capita grow from 66 to 74 per cent of the EU average over the past 10 years. They need to be weaned off regional aid. Ireland, which is forever claiming to be the tiger economy of Europe, has a GDP per capita of more than 100 per cent of the average. It is time to take its snout out of the regional aid trough. But there is no sign that anybody is in the mood for tough decisions.

If the growing tension over accession talks is not to slide into downright disillusionment and failure, Brussels needs to wake member states from their make-believe world. Achieving the goal of enlargement is crucial if the EU is to be anything more than a protectionist rich man's club. Giving up seats on the EU gravy train to poorer passengers is a necessary first step to getting down to serious business with potential newcomers. We fear that self-interest and the politics of the porkbarrel will stop that from happening.

Pleading poverty: page 14–17

TONY PATERSON'S

Berlin



IT WAS almost shocking. "*Hamwaanich*!" barked the po-faced Berlin shopkeeper when I innocently asked for a replacement brake-lever for my 30-year-old bicycle. It sounded more like Arabic than German. I tried again. He leaned over the counter and stared at me with a look no doubt reserved for the cretins among his customers and began to enunciate the phrase in slow time. "*HAM WAA NICH*!" he bellowed.

Not knowing the Berlin dialect too well, it took me a second or two to deduce what he was saying from my knowledge of Hochdeutsch. "*Haben wir nicht*" was what he meant. It translates more accurately into "We ain't got it." That was more than 10 years ago when I was first getting to know what was then the western half of divided Berlin, its legendary reputation for rudeness and complete lack of what has since come to be known as service culture.

Yet nine years on from the fall of the Wall and a year before the city is due once again to become the seat of German government the "Hamwaanich" experience is still what passes for good customer relations.

Berlin author Peter Schneider, recently returned from a protracted stay in the United States where he was bowled over by the prevailing "Have a Nice Day" culture, has described the attitude of Berlin's retailers as a mixture of "unbelievable arrogance and stupidity". The effect is to give the customer in a shop, department store, taxi or restaurant the impression that it is a rare privilege to be served at all.

MODEL CULTURE: SHOP TILL CLOSING TIME OR UNTIL THEY INSULT YOU

Time has taught that the "Hamwaanich" experience can take on a multiplicity of forms and usually happens when you are least expecting it. A couple of weeks ago I ventured on to Berlin's once opulent, yet now rather tacky Kurfürstendamm shopping boulevard in search of a copy of the *Herald Tribune*. I spotted one covered in plastic sheeting clipped to a stand outside a newspaper kiosk.

Unwittingly, I began to unclip the newspaper. Suddenly a voice from inside the kiosk screamed: "What the hell do you think you're doing. Leave that alone!" When I told the vendor that I merely wanted to buy a paper he snapped back: "I'm the only one allowed to unclip the papers." But the climax came when I tried to pay out of a pocketful of loose change rather than tendering a few high-value coins. "I'm not taking all that crap," he fumed.

Not surprisingly, it is the newcomers to Berlin who suffer most, especially foreigners. A correspondent for a Finnish newspaper admitted that he had to take a whole day off to recover after being submitted to bureaucratic humiliation by Deutsche Telekom employees for daring to ask to have his phone connected. Small wonder that the Berlin city government recently spent several thousand deutschmarks on an education programme designed to teach the city's entire underground train staff to insert the word "please" when issuing the command "Stand clear of the doors".

If Berlin's service shortcomings were confined merely to rudeness, it might not be so bad. But combine this with antediluvian shop opening hours which, despite recent reforms, still mean that most shops lock up their doors at 1pm on Saturdays and stay closed on Sundays and public holidays and you end up with the reality of Berlin – a customer no-man's land.

This is particularly galling for organisations such as Berlin Partner, a private public relations group that is trying to publicise the city as the future service capital of Germany. "It is unfortunate that most of the service problems associated in Germany appear to be concentrated in Berlin," said its director, Volker Hassemer, a former Berlin senator. Time was when the rudeness of Berlin officials, shopkeepers, bus drivers (Passenger: "How can I get to the zoo?" Bus driver: "As what?") was referred to in glowing terms as the *Berliner Schnauze*, or "Berlin Lip".

It was supposed to be the kind of cheery, cheeky, bluntness comparable to the demeanour of whacky London Cockneys during the Blitz.

But the fall of the Wall has exploded this myth and shown up the city, warts and all: if Berlin ever had a service culture it died with the advent of the Nazis. Instead of adopting some of the limited "customer-friendly" attitudes developed in West Germany during the 1980s, the city stuck to its outdated ways, resenting the so-called colonising influx of the modern west German business ethos just as much, if not more, than east Berlin.

Yet in a sort of bizarre re-run of the colonisation of the lands east of the Elbe by German farmers in the 13th century, Berlin is gradually being forced to adapt at the hands of western invaders. It goes without saying that the city's latest service culture apostle is a west German customer guru. Peter Dussmann from Swabia has just gained permission for his east Berlin media superstore to remain open from 10am to 10pm, Monday to Saturday. There is only one service branch in the city that beats him: the bars and pubs. They almost never close; "Hamwaanich" is unheard of. In that sense at least, Berlin is streets ahead of Munich, Hamburg and London, if not New York.

SNAPSHOTS

STEVE HILL/NTI

Man and his best friend united in adversity

Hot hound and owner reflect on the Larkstone Beacon, one of many covering the UK on Thursday 27 February. They were a prelude to a rally in London's Hyde Park by protesters seeking to preserve the countryside, halt legislation to ban fox-hunting and campaigning against banning beef on the bone.

Behind bars

MARIO CONDE, the slick lawyer who was Spanish banking's rising star in the early 1990s, has been sent to jail for four and a half years for the wrongful appropriation of up to $4 million of his Banesto bank's money. The court was unable to prove that the money taken from Banesto's shareholders had ended up in Conde's own pocket, but still considered him responsible for its disappearance.

The sentence, in the first of a number of cases against Conde, finally confirmed the fall from grace of one of Spain's most glittering, power-hungry bankers. Conde had Banesto, Spain's fifth-largest bank, taken out of his hands by the Bank of Spain in 1993. Judicial investigations have since found up to $20 million of the bank's money unaccounted for. Public prosecutors hope that the cases still to be tried will see Conde's sentence increased to 35 years.

As Conde spent his first few days in Madrid's Alcala-Meco prison there was speculation that he might seek revenge on the country's political establishment, which he blames for his downfall. Conde is reported to be the source of a number of major political and security scandals over the past few years. His name has also been connected with attempts to re-establish a republic in Spain.

Mega union

GERMANY's service sector union pact, creating a 4.1-million-member giant embracing 38 per cent of all German trade union members, is being driven by the need to streamline administration and protect workers as the European service sector is liberalised. Hans-Helmut Kotz, economist at Deutsche Girozentrale, believes that although it is yet unclear whether the move will succeed, it is a sensible strategy. "Unions will have a much tougher time in Euroland," he says.

Service sector unions are having trouble recruiting members because the sector's workers have varying skill levels and operate in different areas of management. "It doesn't help to put a bunch of unions in one big union if none of them works on their own," says Kotz.

Germany's banking sector employment problems are set to increase. Last week the DAG union of service workers said that up to 200,000 bankers could lose their jobs over the next five to eight years after Deutsche Bank announced 5,000 job losses.

Economists estimate that the merger between Bayerische Hypobank and Bayerische Vereinsbank will produce the same number of casualties, so the 200,000 estimate may have to be reviewed upwards.

Flirting banker

IN AN INTERVIEW with *Le Figaro economie*, Sir Brian Pitman, chairman of Lloyds Bank TSB, was discretion itself when quizzed about rumoured mergers with Abbey National and/or Nationwide. "Speculation," he smiled. Faced with the suggestion that he might buy Crédit Lyonnais, his response was rather more surprising. "I would like to very much," in what was described as a spontaneous and rapid reply.

But Lloyds TSB colleagues back home will be reassured that the accent seems to have been on the "would". Sir Brian then set out all the reasons why he "wouldn't": restrictive French labour markets, inflexible employment laws, the need to deregulate and hidden costs.

What started out as a gallant response to a rather ludicrous question soon turned into a lecture on the virtues of free-wheeling British capitalism.

Hostile bidder

GLAXO WELLCOME may not have given up in its bid to merge with SmithKline. Revealed during talks as a predator dissembling as suitor, London analysts speculate that Glaxo may now stage a rerun of its successful hostile takeover of Wellcome plc in 1995. SmithKline has been badly weakened by Glaxo's strong-arm tactics. It is the second time that merger talks have failed in recent weeks, leaving the company looking vulnerable. SmithKline's shares rose 47 pence on the rumours, Glaxo's fell 58 pence, investors balking at the high cost of a hostile bid.

Hardly tumbling

FRENCH unemployment fell in January for the third month in a row. The rate slipped from 12.2 per cent to 12.1 per cent, but the seasonally adjusted jobless total rose by 5,900 to 3,033,700.

The rise in the number of job-seekers breaks a sequence of four consecutive monthly drops. The finance minister, Dominique Strauss-Kahn, said that cutting unemployment was the government's top priority and predicted that for 1999 the whole of the budget would be oriented towards creating jobs. Analysts point out that the fall is gradual. It took five months for the rate to dip from last July's 12.6 per cent record.

SINGLE CURRENCY

Will fudged Friday stick?

ALL 11 of the European Union countries wanting to join the single currency have reported 1997 figures which they can claim fulfil the Maastricht criteria. So have the three *refuseniks* (Britain, Sweden and Denmark), leaving only Greece obviously and inflationarily outside. Eighteen months ago some cynics said only Luxembourg would nominally qualify, brandishing a tax haven's inscrutable accounts.

The figures released on Friday 27 February by monetary union's likely first 11 are a disinflationary achievement by mainstream Europe. By far the most impressive figure is that Maastricht demanded that no member have a price inflation more than 1.5 per cent above the average of the best-performing three.

QUALIFIED SUCCESS

Targets	Budget deficit/GDP 3%	Debt/GDP 60%	Price/inflation 2.7%
EMU hopefuls			
Austria	2.5	66.1	1.2
Belgium	2.1	122.2	1.5
Finland	0.9	55.8	1.2
France	3.0	58.0	1.2
Germany	2.7	61.3	1.5
Ireland	–0.9	67.0	1.2
Italy	2.7	121.6	1.9
Luxembourg	–1.7	6.7	1.4
Netherlands	1.7	70.4	1.9
Portugal	2.5	62.0	1.9
Spain	2.6	68.3	1.9
Refuseniks			
Britain	1.9	53.4	1.9
Sweden	0.4	76.6	1.9
Denmark	–0.9	55.8	1.2
Rejected			
Greece	4.0	108.0	5.9

Price target was not more than 1.5% above three best who were at 1.27%

The best three (an improbable trio of France, Finland and Ireland) had only 1.2 per cent inflation in 1997. Only Greece had 1997 inflation (by Maastricht's method of counting) at above two per cent.

Less impressively, everybody's 1997 budget deficit has been duly reported at three per cent of GDP or under, except for Greece at four per cent. That happened in some cases via creative accounting, many awful examples of which were proposed, but not always carried out. The most relevant comments from critics may be almost the opposite ones: that some improvements were achieved by stern fiscal policies which have helped add to high unemployment at the wrong time and (this is a timebomb) that the dramatic and converging changes over the past 18 months mean there could be dramatic and disconverging changes over the next 18.

In a rather unexpected reference to creative accounting last Friday, the French finance minister, Dominique Strauss-Kahn, was miffed that France showed a larger budget deficit (though better debt ratio to GDP) than Germany; he explained with some understatement that "our calculation methods have not been fully harmonised". But Mr Strauss-Kahn's more interesting revelation was that France had achieved its improved budget figures in the second half of 1997 by a recovery in consumption (which could threaten inflation) and stock-piling (which could threaten recession), with investment and external accounts turning sour. These are not desirable trends. They raise fears that the triumphant convergence to reach the euro may have converged on the wrong policies.

The biggest questions now are (a) whether some of those straining into the euro have been tying on ankle cuffs which will make them immobile if speculators strike against their fixed exchange rate during the euro's first years, months or weeks; and (b), more immediately, whether any of the various bodies through which they still have to apply will strike any of the 11 out. Let us look at this second question first, and answer "probably no".

By 25 March the European Commission has to say whether it accepts last week's figures as fulfilling the Maastricht criteria. Since present commissioners want maximum membership of "their" euro, they might have been tempted to approve coal-black fudge as snow white. The figures are more impressive than coal-black fudge. The embryonic European Central Bank also has to report by 25 March. It will want to start working and it will be surprising if it disrupts that by saying anything rude about dangers ahead. The Bundesbank is also due to make a special statement for the German parliament before the end of March: that could be more interesting. It is worried by Italy's huge debt-to-GDP ratio and some elements of its creative 1997 budget accounting – the one-off euro tax supposed to be repaid two years hence, for a start.

The German public is chary of sharing its deutschmark with the lira, rather like sharing the Wehrmacht with the Italian army after 1940, some old-timers snort. For Germany's constitutional court it is possible to draw up both an economist's brief (partly already written by 155 German academics) saying that the Maastricht conditions have not been met; and a lawyer's brief saying that the craftily worded and amended Maastricht criteria surprisingly have. It depends how many economists and fellow lawyers Germany's constitutional gurus like to keep dancing on the head of a pin.

My guess (and almost everybody else's) is that on 3 May the expected 11 declare that their mutual exchange rates are immutably fixed to each other for ever. It is then that the problems could begin.

In 1992 speculators led by George Soros borrowed enough short-term money one morning to drive John Major's Britain out of the old exchange rate mechanism during the next day's afternoon. A year later they bumped France and others into a wider band of exchange rates almost as easily and quickly. The indications, for the very short time ahead in which it is possible to see, are that Soros is not this time in a queue for a kill. But some of last year's successful speculators against Asia probably are.

Last year's Asian troubles arose largely because the tigers' currency peg to the US dollar worked fine while the dollar was devaluing to Yen 82 in mid-1995. When the dollar upvalued by half, to more than Yen 120 a year ago, speculators moved in against the fixed dollar pegs of Thailand, Malaysia, Indonesia, the Philippines and South Korea. They made a lot of money by destroying each peg within a few days. Some of them lick chops in the knowledge that the easiest domino in the new euro system will be ready for speculation after 2 May. The domino's partners in the euro system will be obliged to throw in foreign exchange to defend the domino's currency at its fixed exchange rate, which the speculators think will be lower by at least a few pfennigs a day or so after.

Which domino, when, and will this really happen? Nobody can tell. We do not know whether and when Lionel Jospin's France will surrender to another strike that is really a riot, whether some Italian government collapse will bring in anti-Europeans, whether Spain and Portugal might some day turn more like Greece, whether Club Med countries might face external payments crises now that Asian exports are so much cheaper.

I think I would bet – though not on the Soros scale, and less determinedly than before last half-fudged Friday – that something of this sort will happen some time. The main worry is that a Club Med with a euro peg might be suddenly thrust the same way as Asian tigers with a dollar peg were thrust last year – and into a crisis which German taxpayers would not be too eager to pay for.

NORMAN MACRAE

Target practice: page 54

MEDIA

Murdoch's mask slips

WHAT is remarkable about Keith Rupert Murdoch's unceremonious ditching of Chris Patten's book on the Hong Kong handover, and the lies told by senior executives in a cover-up attempt, is that the media tycoon's contempt for Patten was well known.

It almost beggars belief that Eddie Bell, HarperCollins' chief executive, instructed his editor-in-chief, Stuart Proffitt, to bid for the book in the first place. Murdoch thought Patten weak, left-wing and, as Hong Kong's governor, set on a course of conflict with China that would damage prospects for doing business, especially Murdoch's satellite TV interests.

Faced with sticky decisions, executives in the NewsCorp empire need only consult the well-known runes of Murdoch *obiter dicta* to know what line to take. The easy option was not to bid for the book. The motive need never have been revealed.

HarperCollins' reputation as a publisher of standing lies in ruins. Proffitt has departed and the writs are flying. A question mark will hang over every controversial publication. Has it been "KRM'd"? No wonder there is talk of a writer's boycott of the publisher.

Its authors, after all, cannot always rely on editors of Proffitt's integrity being on hand. So various are Murdoch's interests that conflicts of interest will often arise. Controversy in politics, the media, broadcasting regulation, restrictive practices and ownership rules all impinge on NewsCorp's business.

The now, not so hidden, hand of Murdoch puts them all out of bounds for HarperCollins. Bell's position looks untenable, though as is the Murdoch way his demise will not come until a suitable time has passed.

With British government support, Murdoch has been fighting amendments to legislation which would outlaw predatory pricing techniques used to boost sales of his *Times*. After this debacle, NewsCorp will find that it has fewer friends at court than before.

COVER STORY

ITALY ■ The French have a great heritage, the British enormous creativity, the Americans own the mass market, but only the Italians have it all

FASHIONING GENIUS

Chris Endean
and Stephanie Theobald
MILAN & LONDON

A THIS textile mill, deep in the Alpine foothills of the Biella valley in northern Italy, Ludovico Barbera likes to keep the secrets of Italian fashion's phenomenal success under wraps.

Glancing cautiously over his shoulder, he types in the code to the lift and its doors slide open; within seconds, they are parting again to reveal a vast storeroom, 10 metres underground. In the darkness, walls reverberate to the sound of the river Socasta, its diverted waters keeping the room's temperature permanently fixed at a mild 18 degrees Celsius.

As a visitor's eyes grow accustomed to the light, the treasure that Barbera has gone to such lengths to hide is revealed: row upon row, shelf after shelf, of cashmere yarns. "Working with cloth is like making a good wine," says the designer. "The longer it is left to mature, the better the product." Like the luxury cashmeres, mohairs and worsted fabrics they produce, the 200 textile mills located around Biella – Italy's "Cashmere Valley" – have been maturing for the best part of two centuries.

A centre for wool production since Roman times because of the soft waters that flow through its narrow, twisting valleys, Biella was once a poor cousin of the mills in Britain's Bradford and France's Lyon. In a remarkable about-turn over the past 30 years, the valley's total wool-spinning capacity has grown to twice that of France and has become the backbone of Italy's multi-billion-dollar fashion business.

Insiders secretly admit that anyone who really wants to know the trends in the Italian quality clothing market should snub the likes of Naomi Campbell and Claudia Schiffer on the Milan catwalks and pay a visit to next week's Idea-Biella trade fair. It is here that the thread of quality running through Italian fashion's remarkable success story starts to unreel.

The Armanis, the Valentinos and the Versaces are really just the shop front of an innovative, thriving fashion industry that has become a huge Italian success story. "The beautiful collections, the designers and the brand names are just the tip of the iceberg," says Anna Zegna, marketing manager of menswear giant Ermenegildo Zegna, whose textile mill in the village of Trivero is the source of two million metres of luxury cloth each year and the key to a 30 per cent share of the global market in luxury menswear.

French fashion might have bundles of heritage but it imports its designers (even from Britain) and cannot manufacture its glittering ideas. Its *prêt-à-porter* wardrobe is imported virtually entirely from Biella. Chanel orders its materials from the Agnona mill, while Hermès, in a pique of French chauvinism, hates to admit that its fabrics come from Loro Piana, just up the road. In Britain, nobody disputes the creative genius of homespun designers, but the likes of Vivienne Westwood simply lack wearability and, even more important, the industrial muscle to turn rave reviews into rich returns. That leaves the United States. There is no doubt that America leads the world in the fashion mass market but American designers remain short on quality and creativity.

Italy, by contrast, has it all: designers with the flair of modern-day Michelangelos, the industrial genius to turn dreams into reality and, crucially in an image-conscious world, status. The result is that Italy is now the world's undisputed fashion leader; its clothes and its fabrics are the ones most desired by fashion-conscious buyers all over the world.

The luxury that this week is paraded on the catwalks of Milan during its biannual fashion week and that, year round, tumbles out of the shop windows along Milan fashion's *quadrilatero d'oro*, or golden rectangle – the square 1.5km lying within Via Montenapoleone, Via della Spiga and Via Sant'Andrea – is merely the showcase for an industry widely recognised as the world's best and most profitable.

The Italian fashion industry sold L85,000 billion ($47.43bn) of clothes in 1996 and employs 700,000 people. It is due in no small part to the entrepreneurial skills of the Biella textile trade. In the past 20 years, analysts estimate, the textile industry in Biella has more than doubled its share of the international market in the manufacture of high-quality garments, against fierce competition from all over the world. The Ermenegildo Zegna textile mill at Trivero alone accounts for 30 per cent of the world's luxury clothes for men.

"The growth has come mainly at the expense of the French," says Carlo Pambianco, a fashion analyst based in Milan. Biella's entrepreneurs are not gloating. They are the first to admit that the cutting edge to their success over the past 20 years owes more than a little to industrial plagiarism.

"They unashamedly stole ideas from the British and the French," says Gianni Bertasso, editor of the trend-setting monthly, *Fashion*. "But their real merit was to invest money in innovation in the 1970s, when the rest of the global market assumed that the textile industry had reached the top of the curve of diminishing returns."

While British manufacturers kept producing tweed suits and Shetland wool, the Italians developed new fabrics, investing in state-of-the-art technology that twisted cashmere, mohair and ultra-fine wool into single cloths. These extraordinary new fabrics made possible innovations such as Zegna's High Performance suit (*see panel*), a remarkable 100 per cent woollen garment that guarantees that the average businessman will step off a 12-hour plane ride crease-free.

Many of the developments are truly innovative. Zegna has recently put on the market Mircrotene 10,000, an impermeable polyester so light that 9,000 metres weighs just 0.4g; two kilos of this thread would circle the equator.

Innovation without style in Italy would be like building a Ferrari without its famous designer, Sergio Pininfarina. In Italian folklore, the Versaces and Armanis are the natural heirs to the great artists of the Renaissance. Just as the medieval painter, Paolo Uccello, loved to paint his horses vivid red, so the designers are fêted for their ability to dress up their fellow Italians' dreams.

It is their grasp of understated luxury that has so dominated fashion in the late 1990s. France might harp on about its ancient fashion culture and its *savoir faire* in haute couture but many of the clothes coming out of Paris at present (Christian Lacroix and John Galliano, for example) resemble gaudy *millefeuilles* loaded up with too much cream.

Italian fashion, like America's, aims to be more practical, more wearable. Giorgio Armani in the early 1980s designed sharp suits and simple but sophisticated dresses that fired the imagination of a generation of men and women who did not want to look like they just walked off a movie set every time they went to the office.

continued on page 10

Italy's top ten designers

Global turnover: $1.1 billion.
The 63-year-old master of Italian minimalism is currently hyping his profile through an aggressive advertising campaign. He invested an estimated $1 million to be the sole advertiser in this month's *Time* 75th anniversary issue. Recently bought legendary Publicis drugstore in Paris to create largest Emporio Armani store. Armani has 24 licences for clothing (*right*), fragrances, accessories, underwear and fabrics and has 60 Giorgio Armani boutiques worldwide.
Outlook: Armani says that there are "no immediate plans" for the stockmarket but he is interested in introducing his niece as the public face of one of his more lucrative diffusion lines, Mani.

REX

Global turnover: $949 million
Since his death last year, the image of Versace's clothes (*right*) has been less fleshy and flashy and more subtle. Gianni's sister, Donatella, is the current design face of the label, while brother Santo is the financial brain. Versace has successfully managed to leverage its brand by adding a higher number than average of diffusion lines. These cheaper ranges include Versus, Istante, Versace Jeans Couture, Versace Sport, Young Versace and Versace Intensive.
Outlook: Rumours fly that a "name" designer is being sought to put some mystique back in the label now that Gianni is no longer around. Stockmarket flotation planned for 1999.

Italy's top ten designers

Global turnover: $837 million
Family scandal and power struggles nearly ended the reign of the 71-year-old company until Bahrain-based Investcorp injected fresh funds and promoted insiders Domenico de Sole and Tom Ford to oversee the business and creative sides, respectively. In 1996 Investcorp let the company go fully public – and netted an impressive $1.7 billion on the deal. Leather goods remain the bestseller.
Outlook: Main mover in the Italian trend for design houses to acquire stakes – or complete control – over their licensees. Acquisition of watch licensee Severin for $150 million last year helped consolidate Gucci's control over a business with operating profits of $42.8m.

Global turnover: $726 million
Roman couturier Valentino Garavani solved the problem of having no family successors by selling his company for $300 million to HdP – a company controlled by a shareholders' syndicate that includes Fiat, Milan merchant bank Mediobanca and the Pirelli group. Valentino and Giancarlo Giammetti, Valentino's long-time business partner, will pay $35m to acquire a 2.5 per cent stake in HdP. Giammetti believes the deal will set a precedent in Italian fashion.
Outlook: HdP's chief executive, Maurizio Romiti, has said that the Valentino deal will set the stage for his company's future acquisitions in the fashion and luxury goods sector.

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Armani said the point of his clothes was to see the person before the garment.

On the back of such tailoring, the Italians have created accessories for a new way of living in which simplicity and quality are more important than glitz and novelty. In turn, the Italians have inspired a new generation of American designers such as Donna Karan and Ralph Lauren, now experts in the "total lifestyle" approach to fashion. Others, like the giant Calvin Klein, have copied the simplicity of Italian tailoring but at bottom they lack the spark of genius that sustains Italy's success. Calvin Klein may have a bigger turnover than any of the individual Italian fashion houses but much of it comes from selling underwear and cheap perfumes.

Glittering names seem light years away from the industrial mills of Cashmere Valley. But therein lies the secret of Italy's success. In the "mending" room at Zegna's mill, more than 40 women pore over finished fabrics with needles; next door, male labourers smooth the finished fabric with cuttings from a thistle-like bush that grows locally.

It is an odd sight when needle and thread sit side by side with a $400,000 weaving machine. "This is a sort of blend between craftsmen and innovation," says Anna Zegna. "It takes a magician to make it work." And a load of lire. In Cashmere Valley, labour comes at L30,000 ($16.75) per hour. What stops companies from shifting production to the likes of Taiwan or China, however, where labour costs drop to L400 per hour, is the know-how on offer in the valley.

The Industrial Union of Biella calculates that the average Biella worker adds enormous value to the final product. "As much as 30 to 40 per cent," says Tomasso Caotorta, the union's president. "It's equivalent to an electrician in Japan or the chemical engineer in Germany." But Biella's role in Italy's fashion business is not just down to the skills of individual workers – otherwise France or Britain could copy the recipe for success. Biella's uniqueness is the network of 5,000 small and medium-sized businesses that operate in a unique way, together comprising an industrial infrastructure unmatched anywhere in the world. The firms are not so much in competition with each other as part of a giant collaborative network, complementing each other.

"The valley's productive system stretches from the fibre to the finished product," says Anna Zegna. "Each company has tried to develop a specific personality: some are more into women's wear, others more into menswear. There are more forward-thinking companies, others are more traditional." It is a network which gives the Italian textile industry enormous flexibility, one of the keys to its competitive advantage in the international marketplace.

At moments of high demand or cutting of costs, Zegna, Loro Piana and their like can subcontract work out. For an industry which usually works 18 months ahead of the market but must respond to instant trends, this capacity cannot be underestimated. Some textile mills in Biella can "create" knitwear jumpers from no fewer than 24 components; in just 48 hours, Zegna can transform a sketch into a fully fledged prototype of a tie.

If it was down to the Biella model, then Italy's leading status in world fashion would look invincible. The only cloud on the valley's horizon is the threat of a 35-hour week – a lethal prospect for a such a labour-intensive industry in which flexible working to achieve otherwise impossible delivery deadlines is crucial.

The nightmarish death of Gianni Versace last summer in Miami underlined another threat to the future of Italian fashion. "Nobody, not even a fashion hero, is immortal," says Daniela Fede, a fashion journalist. "The fashion houses are vulnerable to the demise of their owner, and that in most cases also means their founder."

It did not go unnoticed in Milan that Armani used his first fashion show after the Versace murder to introduce his niece, Silvana Armani; likewise Missoni's recent show marked the debut of his designer-daughter, Angela. Others have gone further.

ILLUSTRATION NICOLA CRAMP

The Italians stole ideas without shame from the French

Valentino's decision last December to let HdP – the giant Holding di Partecipazioni Industriali controlled by Fiat and a merchant bank, Mediobanca – buy a controlling stake in his business was born of a financial design worthy of the great dressmaker's best garments.

Valentino, now 65, and his business partner, Giancarlo Giammetti, have long been keen to secure the financial future of their fashion house and HdP, which already controls sportswear company Fila Holding, clothing manufacturer GFT and publishing house Rizzoli Corriere della Sera, has all the attributes to become a fashion powerhouse capable of competing on global markets.

Carlo Gaeta, managing director of Romeo Gigli, thinks it is time for the great names of Italian fashion to follow suit. "*La moda Italiana* is a sophisticated product with great designer names, but what will happen in years to come if it fails to replace the likes of Armani, Versace or Prada with registered trademarks?" he asks. The

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INNOVATION

The quest for the super suit

"THE nearest fashion will get to a Ferrari," is how one fashion journalist refers to Ermenegildo Zegna's High Performance suit. The epitome of the Italian fashion industry's innovative approach to textiles, the suit allows a business traveller to step off a plane after a 12-hour flight with his clothes completely wrinkle-free.

Zegna needed to find a lightweight fibre, preferably wool, that would result in a suit weighing less than half the average 0.5 kilos. The search lasted three months. Known in the trade as Super 100s, the final wool fibres are manufactured in such a way that a 1kg thread will stretch for 100 kilometres. Its average width is less than that of a human hair. When woven, the new fibre keeps its shape indefinitely.

"It was one of our toughest assignments," says Augusto Ferrarris, chief designer at Zegna, who likes to demonstrate the remarkable cloth by tying it into a knot and unfurling it, utterly unmarked, to the amazement of onlookers.

CHRIS MOORE

Linen tailoring: a nice idea but don't sit down in it

Zegna's High Performance suit costs $2,000. "It's like a high-quality woollen pullover," says Anna Zegna, the company's marketing manager. "It keeps you warm in winter, cool in the summer. You, the wearer, are aware of these properties but to the onlooker it is a normal suit."

Americans have dubbed the High Performance outfit "the Friday jacket" because of its ability to double up as smart casual wear for the weekend. Competitors are now looking into fabrics that protect against electromagnetic radiation.

Italy's top ten designers

Global turnover: $474 million
The five Ferragamo children retain control of the luxury leather house created in the 1920s by their father, Salvatore, who became famous for the shoes he made for the Hollywood set. The Ferragamos set the pace for raising the stakes of Italian fashion in July 1996 when they bought a controlling share in Ungaro. Ferragamo went on to establish a joint venture with Bulgari to develop fragrances for both Ferragamo and Ungaro. The style of the house has changed in the past year with a more urban feel to the collection (*left*).
Outlook: Chief executive Ferruccio Ferragamo will continue to pursue a policy of acquiring more brands.

Global turnover: $447 million
Gianfranco Ferré was Christian Dior's spirit of the 1990s but when he was displaced by John Galliano in 1996 he returned to Milan to consolidate his own label. Ferré's acumen has been to realise that women over 40 wear clothes too. His jeans line has proved surprisingly popular in what was thought to be a saturated market. This year he celebrates 20 years in the business.
Outlook: Although profits have remained stable there is a feel of stagnancy about the company. Analyst Carlo Pambianco says change is afoot: "Whether it's through a mega deal or a stockmarket listing, a way will be found to take the company forward."

CHRIS MOORE

Global turnover: $419 million
Mario Prada opened a leather boutique in Milan in 1913. In the 1980s his granddaughter Miuccia Prada introduced a clothing line (*left*) which went on to become one of the signature labels of the late 1990s. Prada's husband and director of production arm IPI, Patrizio Bertelli, believes that Italian fashion needs a higher profile but he is strongly anti-stockmarket. He has stated that the fashion business requires a longer-term investment approach than the stockmarket will tolerate.
Outlook: Bertelli has ambitions to be an Italian Bernard Arnault but stresses that in Italy such a figure would have more knowledge of the fashion industry.

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COVER STORY

ANTONELLO NUSCA

State of the art: while English manufacturers kept producing tweed, the Italians developed exciting new fabrics

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experience of Romeo Gigli underlines the fragility of personality-dependent businesses. Market analysts have lost count of the number of times the company has gone bust, thanks to a designer who, according to one close friend, "hands out cheques like Christmas presents".

Gaeta, a hard-nosed manager with a long background in financial troubleshooting, makes no secret of his disgust for the fashion world's profligacy. "Take the fashion shows," he complains. "OK, so they're beautiful to look at, but they can burn up L700 million [$390,600] in 20 minutes."

Romeo Gigli's headquarters at Palazzo Chiesa in central Milan underlines Gaeta's point. The fashion house occupies a floor of prime real estate, elegantly adorned with Renaissance paintings and decorations. "Like Mrs Thatcher," suggests Gaeta, looking around, "we need to impose a little market discipline."

There are signs that, like Valentino, firms are tightening their designer-made purse strings and replacing their ephemeral family names with longer-lasting brands. Some, like Gucci Group NV, have done this by floating shares on the stockmarkets – with considerable success. Gucci sales rocketed 113 per cent in the first quarter of 1996 alone. The HdP deal also made Valentino a publicly quoted company.

Others are changing character through mergers and the entry of big companies that guarantee better distribution networks for their designs. Gaeta has no plans to take Gigli on to the Italian Borsa, but he is seeking to build a new management structure that will tighten up his founder's financial act.

A pool of 60 international companies that includes America's Johnson & Johnson, Swedish automobile producer Volvo, Italian tyre group Pirelli and Dutch electronics giant Philips invested in Gigli's future less than a month ago. The group expects to double Romeo Gigli's annual sales to L500 billion ($279m) over the next five years by imposing a more efficient business philosophy and improving distribution through alliances with textile companies such as Zegna.

Others have adopted the same strategy. Textile producer Ittierre, in the central Italian region of Molise, has joined forces with Versace, Ferré and Dolce e Gabbana, among others, to distribute their lower-priced (but still luxurious) clothes internationally. Set up in 1992, Ittierre keeps an estimated 80,000 clothes items at its Isernia warehouse, linked via computer to 3,000 sales outlets. "If the Japanese demand yellow boots, they can provide them in less than 48 hours," says fashion writer Fede. In less than five years, Ittierre produced year-end profits in 1996 of L57bn ($31.8m), with more than half from foreign sales.

Gaeta is convinced that designers have much to learn from the sound business strategies of Italy's textile trade. "We need to work more closely. I can even foresee mergers or partnerships," he says. "We have much to learn from them. They have long-established industrial processes behind them. We have nothing tangible." Gaeta admits that he will visit this week's fashion shows in Milan with great reluctance. Straight after, however, he will happily make the 120-kilometre drive up the Biella valley for next week's trade fair, seeking closer co-operation.

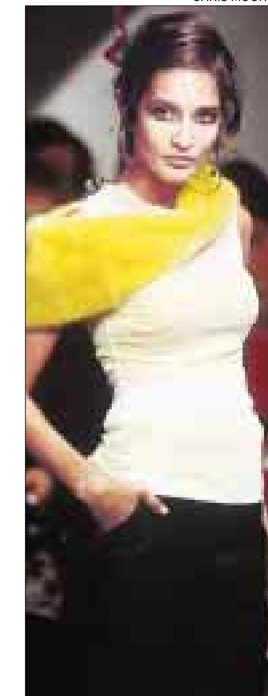
He will get a warm welcome. "We laid the roots of the Italian fashion industry," says Barbera. "But the designers helped us grow. Now it's time to pay them back." ■

Milan's hot property: page 35

Italy's top ten designers

Global turnover: $335 million
In 1910 Dante Trussardi became famous in Italy for his stylish leather gloves. His grandson Nicola speeded up production techniques and started using leather in more innovative ways for classic women's clothing; he quickly followed this move with a more "hip" clothing line to attract the younger market. Trussardi takes a more modern approach to the use of leather than its main competitor, Fendi. The new logo is supposed to represent what the company specialises in. It is a greyhound: noble and elegant yet swift and dynamic.
Outlook: A hefty 35 per cent of sales are in the Far East, which augurs for some rocky times ahead.

CHRIS MOORE



Global turnover: $223 million
Domenico Dolce and Stefano Gabbana are relative newcomers, having just celebrated 10 years in the business. Influences include virgins, vendettas, *la Dolce Vita*, Sicilian widows and *omerta*. Their glamorous clothes (*left*) reject the beige sophistication which sums up so much high-level Italian fashion and have saved a generation of Italian youngsters from having to dress tastefully like their parents. Fashion muses include screen siren Anna Magnani, Linda Evangelista and Isabella Rossellini
Outlook: Their homewear range is growing in popularity. Cheaper sports and jeans diffusion lines have become the Calvin Klein equivalents of Europe.

Global turnover: $223 million
Founded in 1954, Krizia is one of Italy's oldest design houses not to have begun life as a luxury leather boutique. Company director Mariuccia Mandelli named her company Krizia after Plato's dialogue, *Critias*, whose protagonist was a man unable to stop himself giving women expensive jewels and dresses. Krizia was the first Italian company to introduce the idea of *prêt-à-porter* clothes. The company's commercial structure has always been based on export (especially to the Far East), which today represents about 80 per cent of sales. There are 54 shops throughout the world.
Outlook: Something must quickly be resolved about a successor to Mandelli.

BVD CHARLEMAGNE

BILL BUTCHER

Udder nonsense

FRENCH FARMERS protesting in Brussels against Common Agricultural Policy reform last week were upstaged by their own cow.

Marguerite, a green bovine giant with an improbably shiny resin udder, is three metres tall and five metres long and made out of wire, polystyrene and grass. It added a touch of surrealism to the farmers' protests as they massed in front of the Council of Ministers' building.

La Maquette Marguerite was commissioned by the French farmers' union from Factura, a Paris-based firm better known for making marionettes for television programmes.

Company spokesman Michel Ploix said the cow's construction had taken three people three weeks and cost $11,000. The Brussels appearance was her first: she will be at an agricultural show in Paris this week. Before that, she will need some repairs: the 700-kilometre round trip from Paris to Brussels on the back of a lorry damaged her 400kg frame.

Connoisseurs of the bovine form at the show may be a little puzzled by her pedigree. She is, Ploix admitted, *une vache hybride*, designed to appeal to beef and dairy farmers alike. So she has the head of a Charolais beef cow, while the body is a mixture of a Salers and an Anjou, both dairy breeds.

We should consider ourselves lucky that the agro-industrial complex has not yet found a way to clone her.

Attali encore

GHOSTS of a bygone era are haunting the European Parliament with the appearance of Jacques Attali, a former adviser to the late French president, François Mitterrand.

No matter that Attali is something of a Renaissance man who has been a professor of economics, man of letters and a judge in France's highest court; he will ever be remembered for one thing – his founding role in the European Bank for Reconstruction and Development (EBRD). More specifically, he will be remembered for resigning in less than perfumed odour after a raucous furore over the lavish spending on the infrastructure of the EBRD's London headquarters.

Apt then that Attali was visiting the European Parliament to talk about microcredit – now widely touted as a means to enliven the economies of the developing world, giving small loans, generally of less than $100, at high rates of interest, to individuals who lack any assets with which to secure the loan.

Quite a comedown from the EBRD's initial capital of Ecu10bn ($10.88bn).

Bottom feeders

THE European Commission came down hard last week on the abuse of development aid in Germany.

The aid was granted in 1994 by the German government to an Indonesian public corporation to support its purchase of three dredgers from Volkswerft Stralsund, one of the struggling shipyards left over from years of subsidy in the communist East.

The aid was approved on condition that the vessels were only used in Indonesian harbours and waterways, but in 1996 the European Dredging Association protested that the Indonesian company was using the dredgers in other countries.

The European Commission discovered that since 1995 at least one of the vessels had been operating in Malaysia for more than 300 days. It has now ordered that the aid be repaid, with interest.

It is still investigating the aid for the other two vessels. Perhaps somewhere in the Pacific two dredgers are heading for home in a hurry.

The empire strikes back

BRUSSELS is abuzz with plans for the commemoration of a previous attempt to unify Europe, although it ended up hopelessly botched.

The 500th birthday of the Holy Roman Emperor, Charles V, falls on 24 February 2000 and will be much marked in the museums, galleries and concert halls of Europe.

By accidents of birth and death, Charles ruled over the Netherlands, the combined crowns of Spain, Naples and Sicily, the German Reich, including its greatest kingdom, Austria, and its Hungarian possessions. Military campaigns extended his territory in the Low Countries and Italy.

His political advisers planned the creation of a secular empire that would unite Europe and rival the strength and scope of the papacy.

The extent of Charles's empire will be marked by exhibitions in Ghent, Vienna, Bonn and Madrid. There will also be a series of concerts, lectures and exhibitions in his native Flanders. Professor Wim Blockmans, one of the international organisers, announced that the exhibitions would encourage people "to reflect on the foundations of the European identity".

Such reflections might be dangerous. The Bonn museum's most highly prized contribution to the exhibitions is the series of tapestries commemorating the Battle of Pavia in which Charles V defeated the forces of the French king, Francis I.

It was in Brussels, now the centre of plans for economic and monetary union, that Charles V admitted the failure of his grand project for European unity and announced his abdication in 1555.

He then retired to a monastery in Spain to mend clocks. The latter-day architects of European unity will be hoping that times have changed.

Charles V's attempt to unite Europe ended with him mending clocks in a monastery

Muggers' game

IT IS DANGEROUS work being in the employ of the Austrian MEP Paul Rübig. In the space of three weeks, one of Mr Rübig's assistants had his flat in Brussels burgled, another was beaten up by a man trying to steal his car and a third was mugged by five masked attackers in the city centre.

Mr Rübig reacted by tabling a resolution calling for a debate about safety in the vicinity of the European Parliament building. He wants more police patrols, closed-circuit camera surveillance and a dedicated emergency phone number.

In recent months an Irish MEP, John McCartin, was beaten with a baseball bat as he walked through a nearby park. An Austrian Green, Johannes Voggenhuber, was attacked outside a hotel. Mr Rübig estimates that a third of Parliament's lowlier employees have suffered attacks.

But the European Parliament's president, José Maria Gil-Robles, reluctant to create further bad publicity, ruled that the resolution fell outside Parliament's remit. Instead, he promised talks with the Belgian authorities to ensure "a satisfactory solution". Mr Rübig said he would table his resolution again if he was not satisfied. In the meantime, his assistants are treading carefully.

No deal

THE COLLAPSE of a bribery trial in Britain will have come as a relief to the European Commission official who featured as a key witness. Nick O'Regan, of Bedford Borough Council, and Mike Cotter, a Labour councillor, were appearing at Warwick crown court charged with soliciting inducements from Andersson Elfers Felix (AEF), a Dutch consultancy involved in European Union work. They both denied the charges.

The prosecution alleged that O'Regan had attempted to secure an inducement and a job for Cotter from AEF in return for placing a council contract with them.

A key part of the prosecution case was a letter to Cotter from an AEF employee, Christian Curran, detailing the arrangements between them in which he said: "I would envisage that on the signing of a contract we would pay you 2.5 per cent."

But when Curran, supposedly a prosecution witness, denied that the letter was meant as a bribe or backhander, the prosecution case collapsed. The judge ruled that there was no case to answer. Mr Curran is now working for the European Commission in Israel.

Surely some mistake

THE LEADER of a European Parliament delegation to Bosnia and Herzegovina returned fuming at the administration of European Union aid.

Tom Spencer, chairman of Parliament's foreign affairs committee, said that he and his five MEP colleagues had found "bureaucracy and confusion" in Bosnia. He accused the Commission of "understaffing, political and managerial shortcomings and a highly centralised decision-making process in Brussels".

Mr Spencer said that "as a result of the failure of European political leadership, the Americans take all the policy decisions and Europe is just used to provide the money".

Over the past two months the Commission has taken steps to decentralise the administration of aid distribution in Bosnia. But Parliament wants the EU to go further and embark on a "fundamental reorganisation" of its activities, including the creation of a special task force to be called "EUAID for Bosnia and Herzegovina".

"I haven't been so angry in 15 years in the European Parliament," said Mr Spencer. "Which makes me wonder where he has been hiding all this time.

Justus Lipsius

NEWS

FRAUD ■ Investigation into EU malt subsidies reveals trail of corruption

Sting in the fields of barley

BURT GLINN / MAGNUM

Bertrand Benoit and Julian Coman
BRUSSELS

AT Bernard Levacher's cereal farm in the Eure-et-Loir *département* on the fertile alluvial plain between Paris and Orléans it has been a bumper year, but not necessarily for making money. "Producing barley can be very lucrative if you have the right soil," he admits. "But very good years can also be bad because prices come down. They have rarely been as low as they are now."

In the charmed circle of the European Common Agricultural Policy (CAP), however, farmers rarely stay melancholy for long. Barley represents 10 per cent of Levacher's production, spread over 20 hectares, which his co-operative then sells on to maltsters such as Groupe Soufflet, the biggest French producer of malt used for beer production. That chain makes Levacher an innocent player in a labyrinth where lions lurk.

Through a complex network of subsidies and refunds, Levacher is part of a loop designed to insulate growers and producer-exporters from the vicissitudes of the seasons and the cruelties of the world economy. If the market won't pay, then Brussels and the European Commission will. But a system intended to shelter Europe from the risks of world markets has left itself open to daylight robbery by the very men it is supposed to protect.

Now investigations into activities of the maltsters to whom farmers such as Levacher sell their produce have uncovered a scandal involving millions of Ecus in subsidies which have been misappropriated, lost or just plain stolen. An unscrupulous minority among the men, known as "the barley barons", have fabricated and bluffed their way to illicit riches, growing fat on non-existent, redirected or misdescribed exports. They have benefited along the way from a system of regulation worthy of the Keystone Cops.

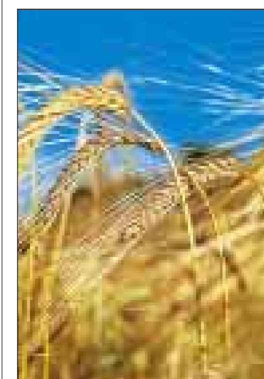
At long last, the spoor of corruption has been scented even in the offices where, it is now admitted with embarrassment, the scam has been the beneficiary of incompetent neglect. On 20 February, French MEP Jean-Antoine Giansily, reporting to the budgetary control committee of the European Parliament, accused the Commission of gross mismanagement of export refunds for cereals between 1991 and 1993. The Commission, he said, failed to run proper checks on the origin and the quantity of the exported cereals it subsidised, cleared dubious financial accounts and failed to clarify the regulations and guidelines governing export aid.

Giansily is demanding an examination of the whole regulatory system and, more concretely, the recovery of Ecu3.3 million ($3.6m) fraudulently claimed by a British exporter. *The European* has learned that British police are now investigating a UK firm suspected of embezzling taxpayers' money; and that is only one part of an overall picture of corruption and imaginatively creative book-keeping. Altogether, the sums lost through bad management and malpractice reach an estimated Ecu67m ($73.5m), a lot of money for a relatively small industry (Britain has fewer than 20 operating maltsters).

The theory of export refunds, which forms the most arcane chapter in the book of EU law, goes like this: refunds are paid to agricultural exporters in order to cover the differential between prices within the EU and those set by the world market, where the cosy artificial certainties of the CAP do not apply. From 1991 to 1993 around Ecu11 billion ($12bn) was distributed in export refunds for cereals overall. For malt and barley alone French exporters were paid refunds of Ecu1.07bn ($1.2bn). The figure for Britain was smaller but still an embarrassing Ecu392m ($400m).

Despite the intention to impose strict regulation, the system in practice places an onus of essential honesty on the exporter. To obtain his payout, an exporter approaches the national customs and excise authority and asks for a certificate for exports to a third country. That certificate, stamped by customs, states the amount of produce to be exported and its destination. It is then handed to the national agency responsible for refunds, in Britain the Intervention Board and in France the Office

In practice customs men rarely bothered to turn up



National Intervention Céréales (ONIC). The process is intended to incorporate at least two vital checks. It is the job of customs and excise to check that exports are accurately described and go to where it is claimed they will go. The agencies are expected to check the accounts of exporters twice a year.

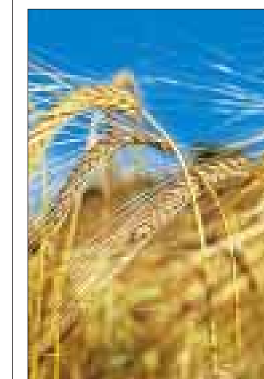
It has now emerged that for much of the time between 1991 and 1994, particularly in France and Britain, this did not happen when it came to malt products, even though the EU was happily handing out more than a billion dollars in export subsidies to producers. Bamboozled by the complexity of Commission rules regarding the timing of specific refunds, the relevant authorities in both countries asked for clarification but received none. To all appearances, they subsequently gave up trying to understand.

In the UK, customs and excise suspended physical checks on the origin and the quantity of exported malt. The British government later discovered that Ecu3.3m ($3.6m) had been fraudulently claimed by one exporter. The European Parliament is now demanding that the Commission recover this sum.

In France the situation was even worse. Controls were halted completely between July 1993 and February 1994. So lax had the system become that most French and many British producers were effectively free to claim export refunds without ever producing the relevant malt.

The evidence is that many did just that, with the result that the European taxpayer was funding a sort of "honour system", often operated by dishonourable men. A European court of auditors report has found that at the port of Hull in northern England, the examination of silo records was deficient, "even when silos were located close to the export office". Frequently and alarmingly, the numbers didn't add up. Alleged quantities of malt loaded on to vessels appeared to shrink in transit. During the loading operations the customs men rarely even bothered to turn up.

Warehouses became monuments to ingenious obfuscation



In the Normandy port of Rouen, which boasts the largest group of storage units for grain exports in Europe, the same auditors found it impossible to distinguish between produce which qualified for subsidy and that which did not. Put bluntly, French exporters were free to make it up as they went along. Dunkirk was no better.

As controls degenerated into a shambolic farce, the less scrupulous malt producers made hay. Warehouses across Britain and France became monuments to ingenious obfuscation. How was it possible to distinguish between domestic malt produce intended for export to a non-EU country (and therefore attracting subsidy), from produce imported from a non-EU country (and not attracting subsidy)? Or from produce intended for sale within the EU (also not attracting export subsidy, though its purchase price was effectively already subsidised)? Not surprisingly, no one knew; the unscrupulous were able to reap a rich harvest of illegitimate funds on the back of the confusion.

The culture of malign indifference went all the way to the top. While the French and British regulatory agencies had stopped bothering to check, the European Commission had stopped checking up on them. The monthly bills from the national intervention boards arrived, unscrutinised and unverifiable. The Commission simply paid them.

One official at the Clearance of Accounts unit in Brussels, which is charged with rubber-stamping payments, admits that "no checks were made by the unit on exported malt between 1991 and 1993". In any case, "understaffing" problems meant that "only the riskiest transactions are ever scrutinised".

The court of auditors doesn't buy that excuse. "These sort of sample checks were and are wholly unsatisfactory," comments one member.

As for the missing money, despite the best efforts of the likes of MEP Giansily, the task of recovery will be Herculean. A spokesman for the EU's anti-fraud organisation, Uclaf, comments: "It is never easy to recover money, mainly because big multinational companies, in agriculture and other sectors, are well equipped to defend themselves." Even finding a definitive figure for the amount of stolen cash will take a considerable amount of time yet: the Commission's examination of its accounts has only just reached 1994.

In any case, the European Parliament is in no position to insist that the Commission lay the law down to member states on recovery of funds. "Apart from complaining, there is very little Parliament can do," says one Commission official. The CAP budget comes under the bureaucratic category of "compulsory expenditures" which is another way of saying that they are non-negotiable by MEPs.

A motion of censure could be moved, but since these crimes and misdemeanours took place in the time of the previous Commission, it would amount to visiting the sins of the fathers upon the sons.

Like inheritance tax. ■

QUOTAS

Italy milks the system

NO ONE, not even the most audacious and unabashed wine producer in the Sicilian hills, would ever pretend that Italian agriculture was pure as the driven snow. But the revelation this week that Italian farmers defrauded or misspent European Union agricultural funds to the tune of Ecu123.5 million ($134m) in 1996 has caused renewed embarrassment to the government in Rome. Germany, in contrast, with a population 40 per cent higher, recorded frauds totalling just $27.8m, while Austria – admittedly in its first year of EU membership – presented a clean sheet to Brussels auditors.

The United Kingdom, so often condemned as unEuropean, turned out to be a virtual model of probity, with misspending held to $4.5m – less than five per cent of the Italian figure.

Fines imposed by the European Commission barely begin to tackle the problem. For every misspent grant reported, many more go undetected. In addition (*see main story*), agricultural fraud is hydra-headed, eating seriously into the EU budget and sustaining a moral climate in which deception is regarded as a way of life.

In Italy farmers have long assumed that the Common Agricultural Policy is in fact a politically driven rural support mechanism which they are invited to abuse on a systematic basis. Italian ministers and officials down the years would almost certainly have agreed.

Arguably, they were right. In the early years of the then-EEC, maintaining an active rural economy was the first priority of member states. Subsidies, grants and the system of price intervention (which guarantees producers a living wage and, in so doing, creates the wine lake and the beef and butter mountains) quickly became a central feature of the rural landscape.

Italy, where governments rose and fell amid constant allegations of malpractice and corruption, played the system best of all. Production quotas were ignored; grants were awarded for schemes never intended to get off the ground; phantom herds and invisible wine appeared on accounts destined for the paymasters of Brussels.

Italy is not alone, of course. The Irish caught on quickly; so did the Greeks; Spanish and Portuguese farmers proved no slouches. Italian producers complain that the fault lies with Rome. Dairy farmers insist they were told to forget about quotas. Officials and academics admit there is some truth in this, and there is no doubt the present Italian government of Romano Prodi must bear part of the blame.

With the single European currency approaching and CAP reform a priority, Prodi is committed to bringing his farm sector into line with best practice in northern Europe. Yet to do so, he must engineer a cultural shift as great as any Italy has endured this century.

Farmers have already taken to the streets and are promising dramatic action if they are asked to bear the brunt. Prodi knows the scale of the problem: imposing the necessary correction is unlikely to prove an easy task.

WALTER ELLIS

A DUBIOUS HONOUR

Amount of misspent EU agricultural funds reported to European Commission in European currency units

	Ecu
Italy	123,503,793
Germany	25,504,762
Spain	16,487,337
Netherlands	10,130,519
Ireland	7,383,760
Portugal	7,045,267
France	5,096,471
UK	4,157,736
Belgium	2,439,279
Greece	1,361,106
Denmark	553,498
Finland	106,969
Sweden	21,390
Austria	0
Luxembourg	0

Source: European Commission

NEWS

OLIVE OIL

Counting the cost, but not the trees

Giles Tremlett
JAÉN

REBELLION is brewing again in the rust-coloured rolling hills of Jaén. The main roads that thread their way through the vast plantations of olive trees in this southern Spanish province are blocked by angry marching protesters, gathering in a ritualistic rising against Brussels.

This is the heart of Spain's olive oil region. Here the neat lines of short, round-headed trees stretch as far as the eye can see and the bitter smell of freshly pressed olives pervades the air.

Without olives, Jaén's farmers and politicians contend, there would be nothing here: no agriculture and no jobs. National politicians of all colours agree. Protecting the olive oil industry is a Spanish national obsession.

Madrid has persuaded the European Union to come up with a series of subsidies that pumped some $700 million into the olive-growing regions of Spain last year. The subsidies Brussels gives to individual farmers are double those they received from their own government prior to Spain's entry into the EU. Far from allowing the region to explore new ways to earn money, the EU has increased its dependency on the olive tree and the subsidy that keeps it in place.

The EU is fuelling a vicious circle. The more money it pumps into the olive oil industry, the bigger it grows and the more subsidy is needed to maintain it.Some 85 per cent of Jaén's 700,000 hectares of farming land is covered with olive trees. More than a 100,000 Spanish *jornaleros*, agricultural day-workers, depend on the $30-a-day wage offered by olive farmers during the weeks of harvest in December and January.

Subsidies are designed to protect people such as Francisco Molina who, with his two brothers, has 34 hectares of olive trees in 12 different plots near the small town of Torreperogil. "Some of my trees are 400 to 500 years old," he explains. "The olive tree is the most important thing in our culture." Without a 40 per cent subsidy on each litre, he says, the trees would be dug up or left to grow into the wild bushes that nature meant them to be.

Molina also grows cereals and admits that as a low-maintenance crop they do not need much subsidy. But he values his trees and not just for historical reasons: "They provide work for the *jornaleros* and a livelihood for many smallholders; that prevents our villages and towns from disappearing."

In Brussels Franz Fischler, the EU farms commissioner, is planning to reform the $1.8 billion olive oil subsidy programme, money shared largely between Spain, Italy and Greece. Fischler wants to award subsidies on the basis of the number of trees owned by each farmer, rather than for each litre of oil produced. His reasons are clear. The current system penalises small traditional farmers such as Molina. Those who gain mostare the wealthy big landowners and those creating new plantations with more productive trees and fraudsters.

Nowhere is the subsidy system milked more efficiently, or corruptly, than in Italy. Many Italian smallholders claim their subsidy before selling their olives on to bigger companies which then claim again. Subsidies are often paid twice. Oil as a liquid asset is easy to manipulate but trees are big and easy to count, Fischler's logic goes. Under his new proposals fraud would be almost impossible.

In Spain fraud is much less prevalent, but Molina and his like also suffer. The big landowners have higher producing trees. Irrigation, an option generally only open to big mechanised farms, can increase a tree's production from three kilos to 25. Larger farms, therefore, not only benefit from better techniques; they can also multiply their subsidies up to eight times.

Then there are the newcomers: farmers joining the dependency culture by changing wheat fields to olive trees. They gain because new trees can be planted closer together and produce more oil. This increase in productivity helps explain how Spain's olive sector, far from being in crisis, has grown. The number of hectares dedicated to olives has increased by 10 per cent, to 2.2 million over 15 years.

Fischler's plan, contained in a leaked draft document that he is already backtracking on, has one added benefit. The EU currently promises aid to farmers if overproduction forces the price of olive oil below a certain level. This effectively means buying olive oil off the market. "It has never happened," explains Molina. "But we have now had two bumper harvests back to back. The minimum price aid may be needed this year. It is an important backstop." By transferring the subsidies to trees Fischler can get rid of this system, ensuring that the sector never expands to create an olive oil "lake".

Oil as a liquid asset is easy to manipulate but trees are big and easy to count

Despite the fact that he could benefit from Fischler's reform, Molina was out demonstrating in the streets of Jaén last week in an attempt to put pressure on Fischler and Loyola de Palacio, the Spanish farms minister.

Politicians, anxious for the *jornaleros*' votes, refuse to recognise that the current subsidies make the olive oil sector a bigger, not a smaller, problem. Only one person in Spain, the economist and newspaper columnist Pedro Schwartz, has dared raise his voice against the current system as the annual anti-Brussels campaign reaches a crescendo.

"It is clear that this absurd policy has created a parasitic olive sector whichis now impossible to sort out," he wrote in *La Vanguardia* newspaper. "Protecting the olive tree has made the rich richer. With subsidies there are now so many artificially employed people that the choice is between ruin or revolution."

Fischler has indicated that there will have to be a two-to-four-year transition period before any move to awarding subsidies on a tree-by-tree basis. In the meantime, he has to put limits on the subsidies received by each country. His problem is that he must set limits based on national production levels that are, in some cases, wildly inaccurate or exaggerated. But waiting another five years is just an invitation for a million new trees to be planted. ■

Road to nowhere: traditional olive farmers make less than big plantation owners yet still resist reform

GRAZI NERI

ABBAS / MAGNUM

ITALY

Pure oil or greased palms?

IN ITALY olive oil is more than a seasoning, it is virtually the staff of life. "We could draw a line between civilised people, who use olive oil for cooking, and the uncivilised who use butter," says a particularly sensitive Tuscan farmer.

Any suggestion that Spanish olive oil producers might have primacy in the field is greeted with derision. "We are not interested in arguing with them, they have nothing to say that we want to hear," says Michele Bungaro of the producers' association, the Unione nazionale produttori olivicoli (Unaprol). Then he proceeds to argue.

"Spain may have tripled its production in recent years and because of its late entry into the European Union it escaped some of the controls. But Italy has the most sophisticated control system in the world for olive trees and olive production, with all the relevant data perfectly filed in computers," he says. "Spain doesn't even have a olive-growing archive, nor an agency for checks on quality and quantity of trees." There are 1.1 million olive producers in Italy, 700.000 of which are members of Unaprol.

The Italians see the proposed Fischler reform with "cautious optimism tinged with dissatisfaction". Bungaro explains: "We are pleased that for the first time there is a serious attempt at reforming olive production in Europe. But we do not like the proposed new quota for Italy of 446,000 tonnes a year, compared with 538,000 for Spain and 335,000 for Greece.

"If you consider that our average annual production, through good years and bad years, is 550,000 tonnes and that the internal demand for olive oil amounts to 650,000 tonnes, our request for a quota of 550,000 becomes more than reasonable. In our opinion such an increase reflects demand in Italy and should be allied with an enlargement of the European maximum guaranteed production, which is now only 1.35 million tonnes."

Unaprol is unworried about the Fischler proposal to switch the calculation of subsidies from oil production to the number of olive trees, seeing it as a potential non-starter. "Such proposals would not be effective for the next couple of years anyway and we are happy with the Europan parliament's rejection of the plan last December," says Bungaro.

"With the support of our government, we are totally opposed to subsidies on trees, which will affect the quality of the olive oil produced. Why should someone be take an interest in growing, pruning, and feeding a tree properly if the fact of it being there is enough to attract a subsidy?"

MICHELE PUCCIONI

REGIONAL AID

EU funds prescribe too much medicine, not enough sugar

Tim King
BRUSSELS

SOMETIMES it pays to plead poverty, especially if you are trying to win a hand-out from the European Union's structural funds, the Ecu33 billion ($36bn) a year to help economically backward areas.

The European commissioner for regional affairs, Monika Wulf-Mathies, is preparing a wholesale shake-up of the structural funds; but member states and their regional governments are lobbying hard against alterations to the eligibility criteria that would see them struck off her gift list.

Wulf-Mathies will present her proposals for reform when the European Commission meets on 18 March to consider its budget for the period 2000-2006. Also on the agenda will be parallel proposals from Franz Fischler, the farms commissioner, for reform of the Ecu40.9 billion ($44.59bn) Common Agricultural Policy (CAP). Together the CAP and the structural funds make up 81 per cent of the EU's Ecu91bn ($99bn) annual budget.

The status quo is in for rude adjustments – but only if the Commission can persuade member states to accept the practical consequences of what they have already recognised in theory; that changes must be made if the EU is serious about enlarging into central and eastern Europe.

The structural funds are intended to promote economic and social cohesion by channelling aid to the poorest geographical areas and population groups. But the influx from the east, where the Czech Republic, Estonia, Hungary, Poland and Slovenia head the queue for admission, would overwhelm the system on its present terms. There is no political will for a huge increase in the EU budget. Indeed Germany, the largest net contributor, has been issuing demands for cuts. Monetary union is in any case forcing a round of belt-tightening on member states.

The member states know they have to take their medicine, but that does not mean they will go along quietly with the Wulf-Mathies prescription. The Commission envisaged last year that structural funds for the existing 15 member state should be progressively cut, while an increased share went to the states expected to join in 2002. By 2006 more than a quarter of the regional budget would be going to new members. At 1997 prices the hand-outs to the existing 15 states would be cut back by at least Ecu4bn ($4.35bn) a year.

There are currently five sources of cash support, of which the most important are the cohesion fund and the regional development fund (ERDF). The cohesion fund was allocated Ecu16bn in 1994-99, to part-pay for transport or environment projects, but only in countries where the per capita GDP is below 90 per cent of the EU average: Greece, Ireland, Portugal and Spain. With the EU average certain to be reduced by the poorer brethren from the east, all four risk finding themselves off the Christmas list. The ERDF, by far the biggest of the funds with an allocation of Ecu109bn for 1994-99, has four categories of eligibility, referred to as "objectives".

Wulf-Mathies plans to simplify the system, cutting the number of objectives from seven to three, two of which will be defined by geographical – potentially cross-frontier – criteria, rather than political boundaries. The new Objective 1 areas (top priority) encompass those with per capita GDP below 75 per cent of the EU average - but more strictly measured and applied – plus the EU's outermost regions. The number of people covered would fall from 25 to 20 per cent of the EU population.

For those well below the cut-off line there are few fears. There is no danger of Saxony-Anhalt, the region with the highest level of unemployment in the former east Germany, losing its Objective 1 status. Per capita GDP is about 60 per cent of the EU average. United Berlin, on the contrary, is likely to lose the Objective 1 status previously held by the eastern part of the city.

Some member states have already embarked on a rearguard action to save themselves from the Wulf-Mathies pruning shears. The United Kingdom looks particularly vulnerable: even Northern Ireland could lose Objective 1 status. Margaret Beckett, Britain's trade and industry minister, has been pressing for the Highlands and Islands of Scotland to retain top priority status by qualifying as a sparsely populated area – a criterion only introduced in 1995 to help northern Finland and Sweden. The Belgian region of Hainaut and the northern French districts of Valenciennes, Douai and Avesnes might also fail to qualify, along with the Spanish region of Valencia.

With national and regional interests threatened, the fight over structural funds reform is, as so often at the council of ministers, liable to degenerate into an unseemly squabble of self-interest. But unless the member states accept the Wulf-Mathies recipe, they know they will be in no fit condition to welcome enlargement. ■

ITALY

US airmen 'must be tried in Italy'

Michele Puccioni

THE Cavalese cable car tragedy seems set to turn from a police and military inquiry into a full-scale diplomatic wrangle between Italy and the United States. Last week Giovanni Maria Flick, the Italian justice minister, announced that his government is formally to request that the United States renounce its jurisdiction over any eventual trial of the United States air force personnel involved.

Twenty people died on 3 February when a USAF Grumman EA-6B Prowler jet sliced through the 10cm-thick cables of the Cavalese-Germis ski lift, sending a cable-car hurtling 80 metres to the valley floor. The Italian air force investigation is expected to place the blame firmly on the shoulders of the airmen, from the base at Aviano, 100 kilometres east of Cavalese.

According to the 1951 London convention, United States air bases in Italy remain sovereign territory and any judicial proceedings against US personnel would normally take place in America. "But this tragedy is something that goes beyond international agreements" Flick said. "We have to take into account the huge impact this disaster has had on the Italian people and the possibility that some Italian citizens may also face charges." It would then be sensible to hold a single trial, he said.

Because the Prowler was operating in Italian airspace, the pilots were obliged to respect Italian laws on military flights. But the Italians are responsible for verifying that the rules are obeyed, so some local officers may face negligence charges.

General Vincenzo Camporini, head of flight security for the Italian air force, has said that the report prepared by a seven-member investigative committee left no room for doubt that the airmen, under the command of pilot Richard Ashby, were to blame.

"This pilot flew in substantial deviation from the flight plan and the rules and this was the fundamental cause of the accident," Camporini said. Italian civilian investigators are conducting a separate inquiry.

American sources have claimed that the crew did not have Italian maps on which the ski-lift was marked. It is the Pentagon's stated policy to use US military rather than local maps. But local officials in the Alpine valley say the area was well known to pilots from the Aviano base, who often used it for practice at low-level flying well below the minimum altitude of 150m – revised to 600m after the accident.

One USAF squadron commander has already been relieved of his command in the inquiry and the commander of Ashby's squadron, Lieutenant Colonel Richard Muegge, is also under investigation. ■

Helping hand: Milo Djukanoivc greets enthusiastic supporters while his bodyguards keep a vigilant watch DARKO VOJINOVIC

YUGOSLAVIA

Serious hard ball play in the Balkans

Ian Mather
PODGORICA

MILO DJUKANOVIC stands 1.97m tall, which is fairly average for a the "race of mighty mountaineers", as Lord Byron described the Montenegrins. A former basketball player, he still occasionally turns out at the age of 36 for the Montenegro government team against the Serbian government. It is a serious needle match; the Montenegrins usually win since they provide the backbone of Yugoslavia's international medal-winning teams. Whether Djukanovic can win his next big political contest is a question vital to the fragile stability of the entire Balkan region.

The recently elected president of Montenegro, smallest of the former Yugoslav republics and the only one not to have broken away from Belgrade, is a man in a hurry. Djukanovic has won applause from Europe and the United States for his pledges to introduce political and economic reforms in a country that has for years been regarded as little more than a lapdog of Belgrade.

But his sense of urgency has set him on a collision course with the most ruthless and wily of Balkan leaders, Slobodan Milosevic, president of Yugoslavia, whom he nominally owes allegiance to but openly despises.

In an interview in the presidential office, dominated by the national emblem of two winged eagles epitomising this sparsely populated land of stark and beautiful mountains, he poured scorn on Milosevic's attempts to stop him from taking office. "I have not met him since I was elected president. He is not even attempting to hide his dissatisfaction with my election. Milosevic is waging a political battle for the survival of his own autocratic and uncontrolled rule," he said.

Djukanovic won a narrow victory last October in the teeth of unscrupulous tactics orchestrated from Belgrade. The former Montenegrin president, Momir Bulatovic, who also claims to lead the same party, the bitterly divided Democratic Party of Socialists (DPS), declared the vote invalid. His supporters tried to prevent Djukanovic's inauguration from taking place in January with two nights of demonstrations by a Kalashnikov-brandishing mob. In a gesture of international support 57 ambassadors attended his inauguration. But Milosevic has not given up.

Djukanovic's strongest card is the international support for his reforms, particularly for his radical privatisation programme. Of 350 "socially owned" companies, 85 have already been sold to domestic investors, while one big enterprise, the Miksic brewery, went to Interbrew of Belgium last year. In January the government interviewed eight foreign groups bidding to handle the privatisation of six more companies, comprising two hotel groups, a health spa, an aluminium combine, a tobacco factory and a wood processing plant.

"It is not our objective to sell enterprises to just anyone who could shut them down and hand over the burden of social welfare to the state," said Djukanovic. "We want reputable companies, so we are following international tenders procedures." But foreign governments remain slow to follow promises with concrete proposals.

Montenegro's coffers are empty. The international sanctions are applied to the republic as part of the rump Yugoslav federation, and Djukanovic is pessimistic about the prospects for economic recovery.

His next two appointments after my interview were with experts from the British "Knowhow" fund, set up to provide assistance to former communist countries, and Italian aid officials. The British promised help in establishing media diversity in Montenegro; the Italians promised 100 buses. But the International Monetary Fund and the World Bank deal only with central governments; that means Belgrade. Until Milosevic honours his commitments to the Dayton accords, an American "outer wall" of sanctions has kept Montenegro imprisoned despite its president's liberal ambitions.

"Under the Dayton agreement a number of conditions for the reintegration of Yugoslavia were laid down," he says. "One is the restoration of human rights in Kosovo [where a Serb minority dominates an Albanian majority]. Another is co-operation with the war crimes tribunal in The Hague. But nothing has been done at all. Time passes and Yugoslavia's isolation is increasingly ruinous," he warns in apocalyptic terms.

In his inauguration speech Djukanovic denied his opponents' claims that he would seek secession from the Yugoslav federation. But in the interview he clearly intimated that one issue could push Montenegro over the brink: the continued closure of its borders with Albania and Croatia on the orders of Milosevic.

With a lengthy strip of attractive Adriatic coastline, Montenegro is a natural tourist destination. Yet Belgrade refuses to lift Yugoslav visa restrictions on foreign tourists. Djukanovic warns: "I do not think Milosevic can occupy the post of federal president and ignore an initiative from one part of the federation. If he does he will have to take responsibility for breaking the federation, because Montenegro does not need Yugoslavia."

The next big test will be parliamentary elections in May. If Djukanovic consolidates his position, Montenegro could be the role model for a liberal renaissance in Yugoslavia. But if Bulatovic, again backed by Milosevic, wins, the result would be a dangerous stalemate which could lead Milosevic to declare a state of emergency and send in the Yugoslav national army.

We have been there before. ■

FRANCE

Sailing close to the wind in murky waters

Roger Faligot and Edith Coron
PARIS

ORBAN / SYGMA

A BODY in Taipeh, the capital of Taiwan, and an antique tapestry in Paris are two of the key signposts which led investigators into a mysterious labyrinth of events now entangling a former French foreign minister in what could be France's biggest-ever corruption scandal.

Roland Dumas, the president of the country's constitutional court, is under investigation over alleged "commission payments" worth millions of dollars in connection with the controversial $2.7 billion sale of six missile-bearing frigates to the Chinese nationalists of Taiwan.

The body of naval captain Yin Ching-feng, director of arms procurement for the Taiwanese government, was discovered in Taipeh in December 1993. His murder was never solved. But inquiries carried out by the Taipeh justice ministry's investigative bureau pointed to a network of illegal payments over foreign trade deals, including the frigate sale.

A chief suspect was even identified: Wang Chuan-fu, another former military officer who acted as an agent for the French company, Thomson. But before he could be questioned Wang fled to the safety of Los Angeles.

Thomson denies any links with the murder inquiry, which produced the first public question marks over the frigate deal. Yet it is known that the dead Taiwanese officer visited the shipyard at Lorient in Brittany where the first of the frigates was being built. The supposition remains that Yin was murdered because he was about to reveal details of under-the-counter dealings.

While the long-running controversy over the deal continued, two leading French magistrates, Eva Joly and Laurence Vichnievsky, were pursuing a complicated inquiry into the French petroleum giant Elf-Aquitaine and its foreign deals, in which bribery and fraudulent dealings have been alleged.

The two cases are linked by one common factor: Christine Deviers-Joncour, an elegant, middle-aged woman who was a very intimate friend and former press attaché of Dumas and on Elf-Aquitaine's payroll. The former foreign minister is alleged to have secured the job for her; Elf was happy to share her privileged access to Dumas. She was given a monthly wage of $8,500 and company credit card.

While investigating the sources of Deviers-Joncour's wealth, the judges discovered she had paid $85,000 for an antique tapestry, by bank transfer from an account in Switzerland. The discovery led Joly and Vichnievsky to unearth no fewer than 10 bank accounts in her name in Lugano, Switzerland. Deviers-Joncour then allegedly admitted being paid a $7.5m "commission" on the frigate deal after Elf offered her to Thomson as an experienced fixer.

The judges are exploring an apparent coincidence in dates between her "commission" and $1.6m in payments – some in cash – made into Dumas's own bank account in 1991 and 1992. The main focus of the investigation has now switched to the frigate deal, which was controversial from the start. French industrialists in the military and defence industries were keen on contracts with Taiwan, which paid cash on the nail, had a western business outlook and was at the time the world's third-biggest arms buyer. The then defence minister, Jean-Pierre Chevènement, an old friend of a Thomson director, Alain Gomez, favoured the frigate deal, for financial and employment reasons.

The French foreign ministry at the Quai d'Orsay, however, was anxious to develop relations with mainland China, in spite of the Tiananmen Square massacre and Beijing's reputation as a poor payer.

Enter Roland Dumas, a close friend of the then president, François Mitterrand, and foreign minister from 1988 to 1993. Initially at least he backed his ministry's opposition to the deal. But by May 1991 he was telling his Chinese counterparts that four frigates would be sold to Taiwan – but only for defence.

FSP

Up close and personal: Roland Dumas is escorted from his office by justice officials in January (above), and Dumas and Deviers-Joncour (circled) in earlier times with president François Mitterrand

Why did Dumas change his mind? Magistrates Joly and Vichnievsky are trying to answer that question as they plough through accounts and paperwork seized from Dumas's office, his Paris flat and his country house in Bordeaux, which were raided on 27 January.

As for Deviers-Joncour, she remains in custody. She used to live in some style, spending Ffr17m ($2.8m) on a sumptuous apartment in the rue de Lille in Paris. Dumas, meanwhile, who has always had a reputation as a womaniser, denies any wrongdoing. He says Devier-Joncour brought him "some dossiers" but has not specified their content. His reputation and position as constitutional court president are under threat.

He can expect little help from the current socialist government of Lionel Jospin, which is anxious to dissociate itself from what now appear to be the decidedly murky dealings of the Mitterrand era. ■

RUSSIA

The new KGB poised to rebuild its empire of terror

Askold Krushelnycky
MOSCOW

IN 1991, after a failed hardline communist coup against Mikhail Gorbachev, crowds gathered around the statue of Felix Dzerzhinsky, the founder of the Cheka, forerunner of the feared and hated KGB, and dismantled it with oxyacetylene torches.

Dzerzhinsky boasted that his service represented "organised terror". It had been created not to repel foreign enemies but to destroy the citizens of the new communist state who were deemed hostile to it. The Cheka and its successors, metamorphosing through many acronyms – OGPU, NKVD NKGB, MGB – until becoming the KGB, faithfully carried on that work, becoming the most feared instrument maintaining Soviet power. Now there are disturbing signs that the old organisation, under yet another new name, is growing bolder and is determined to reassert the sinister, all-pervasive power it used to wield.

After he succeeded Gorbachev, Boris Yeltsin ordered the "liquidation" of the KGB. Yet he and many of his closest supporters had been part of the communist system that had relied on the same beast. Perhaps they could not bring themselves to finish it off altogether.

Yeltsin did try to dilute the former KGB's powers. The main successor organisation was renamed the FSB, the Russian acronym for the federal security service responsible for internal security. Another unit, the SVR, was charged with external security – sending spies abroad – and the former KGB's army of border guards also became a separate service. But in recent months the FSB has mounted a series of high-profile operations, arresting Russians and foreigners for spying. It has publicised a bizarre telephone hotline for Russians to confess if they have been spying for foreign powers and claims that many have come forward. The arrests, based on flimsy evidence, seem ridiculous to outsiders but are intended for domestic consumption.

The audience is carefully chosen: the millions of supporters of the Communist Party, still the single most powerful and best-organised political body in Russia and still yearning to restore the days of Soviet power. The moves also appeal to Russian nationalists for whom loss of prestige and empire remains a bitter experience and to the millions who feel they have been plunged into impoverishment because of the move to democracy.

An announcement this month that a Kremlin committee is to investigate 60,000 public organisations and 5,000 political parties formed in Russia since the demise of communism will provide more work for the FSB.

A former KGB lieutenant colonel, Konstantin Preobrazhensky, said: "Anti-western sentiment and the image of the United States as an enemy is spreading in Russia today. The FSB is using the failures of the democratic movement in order to restore, step by step, its lost privileges."

The FSB's biggest victory as it seeks to refashion itself has been last month's decision to restore its control over the border guards, providing it with a private army of 220,000 people, bigger than Britain's standing forces and far better equipped and trained than the shambolic Russian regular forces. ■

Inside Europe's central bank: not ready for business PAGE 50

MANAGEMENT ■ In the acquisitions jungle, alpha males are deal-breakers

WHEN EGOS COLLIDE

Cath Blackledge and Nicholas Moss

IN the primate kingdom, mergers of neighbouring groups occur only when one or both groups has been devastated by some event. Primates may be the only animals that form political alliances but they will never do so with a group of equal strength, or when they don't have to. "They get together in desperation: one male primate will give the appropriate gesture to maintain the alliance that will keep him on top," says a Harvard anthropologist, Dr Greg Laden.

Perhaps business schools should add anthropology to the curriculum; the parallels between the behaviour of corporate executives and that of great apes are uncanny. The spectacular collapse of the putative alliance of drug giants Glaxo Wellcome and SmithKline Beecham (SKB), which looks likely to turn next into an aggressive attack by Glaxo on SKB, is a textbook example. But when two ambitious, aggressive alpha males in the business jungle clash, the casualties are not limited to the individual executives who walk away with wounded pride.

The colossal collision of corporate egos involved in the collapse of the Glaxo-SmithKline mega drugs merger was ironic for another reason. These were the men who were perfectly willing to sacrifice the jobs of 10,000 of their employees but could not compromise at all when it came to their own job security and status. As for the legion of shareholders – well, for them, it was just tough. A deal that was supposed to deliver them billions in enhanced value fell apart because the alpha males at the head of the two tribes couldn't compromise. The fiasco wiped $14 billion off the value of shares in the two companies.

These guys got straight A grades in school, but with a note from teacher: 'Does not play well with others'

The ultimate cost to shareholders could be even greater than that because the stand-alone companies are not as valuable as the two would be together. There was clear business logic to the union of the two pharmaceuticals giants. The deal gave the companies a drugs research and development budget more than twice the size of their closest rivals, Novartis and Merck, and the combination of their complementary research technologies could have left them streets ahead of the competition; cost-cutting alone could have saved $1bn. But because these two great beasts of the jungle chose to throw sand in each other's faces, the deal is off, at least for now. "If I was a shareholder I would be very upset," says Scott Magire at Andersen Consulting.

The men responsible for this business fiasco will doubtless not be grateful for being compared to chimps, but the metaphor is apt. The alpha male chimp is a male who physically dominates the whole troop. Sir Richard Sykes, chairman of Glaxo, is a perfect example of the alpha male's efforts to dominate every scenario. He is alleged to have reneged on key issues – the value split of the company (59.5 per cent to Glaxo) and the make-up of the combined board – not for business reasons that were evident to dispassionate observers but through his desire to stamp his authority on every aspect of the deal. Friendly mergers are not his forte; aggressive takeovers are.

But he was not the only alpha male involved in the drama. SmithKline's Jan Leschly, a fiercely competitive former tennis champion, did not agree to Sykes's changes; neither man could compromise. Days after the mega-drugs merger was announced to rave reviews it had all degenerated into the most squalid of rows.

Corporate egos cause problems but they seem to be inevitable in a business culture that prizes drive, determination and leadership above all. Having the strength of personality and the ability to outmanoeuvre others is a fundamental prerequisite to climb to the top of any corporate ladder. So with one power-hungry alpha male at the top of each company, it is not surprising that every time a mega-merger is announced, there's a high probability of a boardroom bust-up.

"It takes a level-headed view to say 'I recognise as an individual I won't get the top job, even if it is in the interest of the shareholders'," says Ian Diamond at consultancy Arthur D Little. There are doubtless rare, saint-like executives who are capable of putting aside their personal ambition in the interest of their organisations, but it is hard to think of many.

Nicholas Bateson, head of human resources management at the European Business School, says many senior businessmen actually go off the top of the scale on personality tests. "Some of them have unusual profiles, scoring extremely highly for assertiveness, aggressiveness, extroversion and dominance. Some of them are almost psycho-pathological and would have no hesitation in taking everybody else down with them. Some are verging on the paranoid." Nevertheless these are precisely the sorts of personality that companies want because they can transform a business; the problems appear only when they have to get together with peers in other organisations who don't share their views. Then, clashes are inevitable.

Cathy Walton, a director of London business psychologists Nicholson Bride, warns of the dangers of allowing egos to run rampant at the top of companies. "The people involved assume they have the ultimate say and strive for it. They begin to see themselves as infallible and don't take on board the views of others. They don't see there are other people around who have valid views."

She stresses that any merger negotiations need to establish from the start what positions will be assumed by key personnel once the deal goes through. Otherwise the deal becomes shrouded in ambiguity. "In a merger situation there are two or three people used to heading their own organisations. From being at the top of the tree they have to start working as a team and being frank about their strengths and weaknesses and how these fit in with each other. They also need to keep an external focus. Otherwise antagonisms build, people are wrong-footed and a defensive-attack routine develops. Ultimately the decision-making process becomes much harder and in an extreme scenario people are unable to envisage working together and the deal collapses," cautions Walton.

The scenario played itself out in the collapse of the drugs merger, right down to the script in SmithKline's exit press release. "Glaxo Wellcome's recent conduct of these discussions has inevitably strained relations between the two companies … Insurmountable differences have arisen which would undermine the effective management of the merged group …" That's corporate-speak for calling the other guy a skunk.

Both Leschly and Sykes should have taken a look at the merger history book. Europe's most spectacular and public merger bust-up – between automotive giants Volvo and Renault, for example – ran on similar lines. Leschly could have learned a lesson on how the friendliest of marriages can turn into an acrimonious power struggle.

In September 1993 Volvo and Renault, in a deal masterminded by Volvo's chairman, Pehr Gyllenhammar, announced they were to tie the knot, with Volvo holding a minority 35 per cent stake. However, three months later Volvo shareholders and senior management rejected the marriage plans because of concerns that the deal undervalued Volvo and was turning into a takeover by Renault, without Renault paying the acquisition premium. Simmering resentment among shareholders over Gyllenhammar's dictatorial management style at Volvo, which earned him the nickname "the Kaiser", added spice to the management revolt. The divorce is reputed to have cost Volvo several hundred million dollars and forced the resignation of Gyllenhammar after more than two decades in the driving seat. The lesson he failed to learn at Volvo, probably because his ego told him it was not necessary, was to surround himself with enough allies in case of rebellion.

Whether Leschly will be given the same treatment and forced to step down by SmithKline's board will be made clear in the coming weeks. Maybe he has managed to keep a modicum of business sense in the middle of all the glamour and attention that comes with masterminding mega-mergers and has a second contingency plan stuffed up his other sleeve. He needs one. Instead of capping his career by becoming head of the world's largest drug's company, Leschly may find himself looking for a job. When Bristol Myers merged with Squibb, he did not get the job he wanted and spent a year doing a philosophy course. Maybe next time it should be psychology.

Gyllenhammar, like all alpha males, did not disappear. He has recently popped up as the mastermind behind the £14 billion ($23bn) merger of British insurance companies Commercial Union and General Accident, which was announced last week. Gyllenhammar is chairman designate of the combined group, which will be Europe's ninth-largest insurers and the second largest in Britain.

But back to the animal kingdom. The alpha male in a chimp pack surrounds himself with cronies. Megalomaniac men are not content with planting their cronies on the executive board. More than 80 per cent of non-executive appointments are still made through the old boys' network, despite guidelines to maintaining a degree of independence.

A recent survey of non-executive appointments in the top 1,800 companies by Mori shows 59 per cent of appointments are a result of personal contacts and only 14 per cent of companies having women on their boards. Disney's Michael Eisner is the proud chairman of a board of directors which includes his children's former headteacher, his lawyer, the architect who designed his house and two ex-Disney executives. "There is no evidence that the Disney board is anything else but a rubber stamp for its chief executive," says a report by a pension fund adviser, Proxy Monitor.

Last year's Mickey Mouse annual meeting in Los Angeles degenerated into a six-hour shouting match, so this year Eisner decided to change the venue to Kansas City, in a damage-limitation exercise. Despite these dodging tactics, more than a third of shareholders voted to remove Eisner's cronies from the board.

Eisner, of course, is a classic alpha male. In 1995 he hired Michael Ovitz away from Creative Artists Agency as Disney's president and described him as heir apparent. It was a rash move. Months later Ovitz was fired, his bruised ego salved by a pay-off worth $90m. It is safe to say that these are men who got good grades in school, albeit with an annotation from their teachers: "Does not play well with the other children."

Usually, animals fight for a reason:

continued on page 22

TONY STONE

Law of the wild: parallels between the anthropology of animals and business executives are uncanny

continued from page 21

typically status, sex or mere dominance. Humans often need less excuse. Egos and pride can lead to running battles which have absolutely nothing to do with enhancing shareholder value. Lonrho's Roland "Tiny" Rowland and Harrods' Mohamed al Fayed were locked in a long-running battle which cost them both millions since Rowland challenged Al Fayed about the source of his money in his takeover bid of House of Fraser in the mid-1980s.

BT's foiled attempt to purchase American long-distance carrier MCI was in part driven by ego. One London analyst says: "The City was divided over the commercial logic of the deal but without doubt part of the motivation came from the ambitions of then chairman, Iain Vallance, to preside over a global telecoms powerhouse. It would have done little harm to his ambition to become a lord either." BT dithered and its rivals WorldCom and GTE stepped in.

Their battle for control of MCI also seems to have been more about ego and, in particular, the personalities of Bernard Ebbers, WorldCom's boss, and Charles Lee, his staid rival at GTE, than about technicalities such as long-distance calling rates. WorldCom's Ebbers won but paid a hefty premium for MCI, and it will be up to him to prove the price was right.

The issue of corporate ego at BT was also in part responsible for the collapse of talks with its British competitor Cable & Wireless in 1996. Insiders say the arrogance of BT executives was a serious stumbling block to negotiations. C&W also had ego problems with two senior executives, chairman Lord Young and chief executive James Ross. In November 1995 both men chose to leave after failing to overcome their personality differences and resolve a rancorous power struggle. Their lack of compromise was ultimately bad for business, resulting in a lack of focus in the company's corporate strategy.

The £23.8bn merger of Guinness and Grand Metropolitan to form Diageo was nearly wrecked when one of Guinness' major shareholder's developed a bad case of bruised ego. The two food and drinks giants had initially been able to proceed smoothly with the deal on the strength of the relationship between the two company heads, Tony Greener, the smooth, mild-mannered chairman of Guinness, and George Bull, the gruff, stocky chairman of Grand Met. But they had not counted on the ego of one man. Bernard Arnault, then Guinness's largest shareholder, who had barely been consulted about the merger and was livid.

As well as feeling ignored, Arnault feared that his influence in the envisaged behemoth would be greatly reduced. His piqued ego was enough to stir the Paris-based executive into vowing he would pull the merger apart unless the interests of his luxury goods company, LVMH Louis Vuitton Moët Hennessy, were better represented. Arnault then took his company and its shareholders on a high-risk game of bluff and brinkmanship, risking billions of francs buying stock in Grand Met to bolster his position. In the end the strategy paid off and Arnault is the largest shareholder in the new company. But at times it appeared his ego would cost LVMH's shareholders dearly, with its stock price taking a rollercoaster ride on the Paris exchange.

Egos play such a large role when two giant corporations come together that it is hard to make them work – unless one personality is prepared to take a back seat or step down. The $26bn marriage between Swiss giants Ciba and Sandoz to form Novartis in 1996 is often held up as a text-book example of how mega mergers can work.

It is successful, but much of that success is dependent on the fact that key personnel were ready for retirement or were prepared to relinquish old roles in favour of new opportunities in other scenarios. Sandoz's chairman, Marc Moret, and Ciba's chief operating officer, Heini Lippuner, chose to retire, while Ciba's spin-off of its speciality chemicals operations gave Ciba's chief financial officer, Rolf Meyer, the chance to be chairman of his own company. A similar option was handed to Sandoz's chief operating officer, Rolf Schweizer, when Sandoz spun off its speciality chemicals division a year earlier.

The recently announced mega-merger between Commercial Union and General Accident has a chance of working, not because it is based on good business sense but because the battle for top positions has already been decided. General Accident's Bob Scott will be group chief executive, Pehr Gyllenhammar will be chairman-designate and Commercial Union's chief, John Carter, is happy to step down into retirement. Sparks could fly though if Gyllenhammar displays the autocratic behaviour that finally ousted him at Volvo.

Compromise is essential if mergers between two powerful corporations are to work to the advantage of both parties and their shareholders. Otherwise friendly discussions will always break down and can easily turn into all out war. In the corporate jungle, the question is now whether the imperatives of shareholders can overcome the egos of the managers to force through deals that deliver them their just deserts. This is where independent directors ought to play a part, though they rarely do.

The saga of the great drugs merger may still have an act or two to play. With SmithKline bruised from two merger bust ups, a hostile attack from Glaxo looks imminent. That would at least result in the companies joining forces, although job losses from the top would be sure to follow. Perhaps, next time, the men in charge ought to take a handful of tranquillisers, so they can calm down before saying or doing anything foolish. ■

Seven warning signs

1 Dominates conversations, commandeers meetings, interrupts and finishes off sentences of others. Competitive in all aspects of life, not only business but also tennis, squash or drinking.
2 Bold. Has no qualms about going into new situations and meeting new people.
3 Has a hyperinflated opinion of himself and his abilities. His mantra is "After God came I" and, wouldn't you know it, he's always right.
4 Thrives under pressure. He loves tight deadlines, is impatient to get ahead and does several things at once.
5 Must be the centre of attention at meetings, parties, social gatherings, and can't do without attention or flattery.
6 Loves power and the trappings. Couldn't bear to be without the chauffeur-driven car, panelled office, secretaries and trips on Concorde.
7 Has abnormal energy levels, is always on the go, needs little sleep, and is constantly restless.

Source: European Business School

DEALS

'Most mergers simply don't work,' say the experts

MERGER and acquisition (M & A) frenzy has been the theme of the corporate world for much of the last year. Despite the relatively high cost of acquisitions and the enormous operational stress they create, mergers and acquisitions are viewed as an essential component of any growth strategy.

Cross-border takeovers of EU companies have never been higher. In 1997 2,444 acquisitions worth $157 billion were announced, more than 50 per cent higher than the previous year, according to *Acquisitions Monthly*. In just one day in October – dubbed Manic Monday – nearly $100bn of deals were announced as some of the world's biggest companies decided to hook up. Still the trend to combine has not diminished; neither has the delight with which the stock market greets such marriage proposals.

Last week, British insurance giants General Accident and Commercial Union read from a familiar script as they announced their intentions to merge in a £14.1bn ($23bn) deal to create one of Europe's biggest insurance and asset management groups.

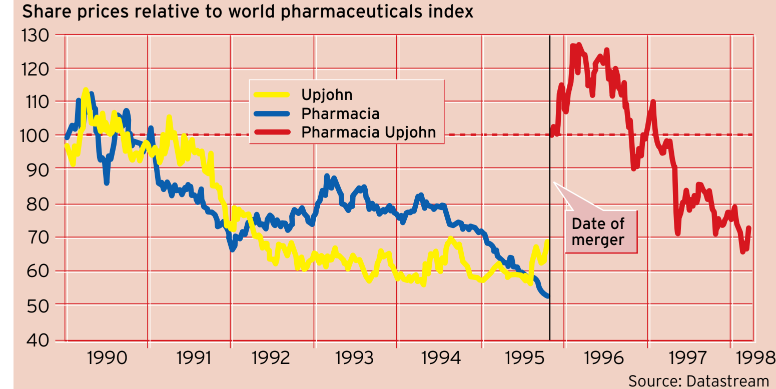
The benefits were held up for shareholders. More than 5,000 jobs would be lost from a workforce of 53,000 when the new company, to be called CGU, is created. Integration should result in savings of £225 million after two years, the companies said.

Shares in General Accident and Commercial Union actually slipped immediately after the deal was disclosed. But both had risen strongly in recent weeks as leaks from both camps heightened the sense of anticipation.

The rest of the stock-market responded rapturously to the news, with stocks in the insurance sector making some of the biggest gains. The FTSE index of leading shares gained 94 points, just short of its 5,752 peak. The smaller capitalised index and broader All-Share index reached new highs.

By the same token, the response to news of a merger collapse takes its toll on the share price of the companies involved.

UNITED THEY CARRY ON FALLING
Share prices relative to world pharmaceuticals index



Source: Datastream

SmithKline Beecham and Glaxo Wellcome wiped £14bn off the value of shares in their companies when their chief executives announced the biggest-ever merger, to create a pharmaceuticals behemoth with operations spanning the globe was off (*see main story*).

But the hype surrounding the deal may have been misplaced anyway. It is not unusual for headline-grabbing mergers to end acrimoniously in separation.

British Telecom limped away with a hefty pay-off but its pride bruised after it lost out on American long-distance carrier MCI to American upstart WorldCom. Italy's Generali failed in its bid to capture France's AGF on October's manic Monday, though it was eventually able to forge a deal with the involvement of Germany's Allianz. French retailer Promodes was unable to tie the knot with rival Casino in September and also missed out on supermarket group Rallye.

Worse, even if they do go through, M&A deals are often not all they are cracked up to be in the first place. The promises of synergy, efficiency and rationalisation seem to go the way of many of the other vows engaged couples take at their weddings. Ironically, while M&A activity has never been more frenetic, very few deals deliver the shareholder value they promise.

As Andersen Consulting puts it in its report, *Making Mergers Work*: "Quite simply, most mergers *don't* work."

The London Business School has more damning research. It found that 75 per cent of British-based M&As failed to reach their financial targets. Moreover, half the companies never recoup the premium they pay above market value. Lower productivity, customer defections and loss of investor confidence also combine to pull down company share price.

Take the much-trumpeted merger of Swedish pharmaceuticals company Pharmacia and American drugs group Upjohn in November 1995. Despite the promise of better operating margins, a lower cost base and the benefit of combined drugs research, its performance has been lacklustre. The supposedly united company failed to reach a compromise on the structure of its new business and ended up with headquarters in Kalamazoo, Stockholm, Milan and London – hardly the manner in which to deliver the projected savings. A severe clash of cultures – the uptight Americans could not get on with their laid-back new bed partners – left the company haemorrhaging top management. Costs were higher than anticipated and new drugs failed to materialise from the company's development pipeline. In May 1997, after a string of profits warnings, and a sliding share price, an outsider was brought in to clean house.

An examination by Alan Gregory, professor at the University of Exeter, of the performance of acquiring firms in Britain found shareholders in the acquiring company tend to lose out.

In his study of merger performance in *Foundations of Corporate Success*, John Kay, now head of Oxford Business School, says: "The effect on business performance is more often negative than beneficial. Frequently corporate activity is not based on a clear view of the firm's distinctive capabilities but is the result of financial objectives or simply the thrill of the chase."

Some would say that every bid is the work of an egomaniac. But where winning becomes a matter of personal pride as much as commercial logic, the risk of excess is greatest.

Given the thrill of the corporate chase, it is understandable that chief executives and their boards mistake a successful kill for successful completion. The sobering reality is that the benefits of M&A are far from automatic.

RETAIL

Wal-Mart goes shopping in Europe

Stephen Armstrong

PHIL COBURN / US PIX

Size is everything: a typical cavernous US Wal-Mart even boasts an in-store McDonald's franchise

EUROPEAN shopkeepers had a nasty start to 1998. After a tough autumn and a disappointing Christmas the more knowing were further taken aback when the American retail giant, Wal-Mart, bought Germany's huge Wertkauf chain on New Year's Eve, giving it 21 hypermarkets across the country and placing it at the heart of Europe's complacent retail sector.

Wal-Mart threatens European retailers, with their addiction to high margins, by taking to the extreme an approach known in the trade as "pile 'em high and sell 'em cheap". Whether this approach will work in Europe remains to be seen.

American Wal-Mart stores are typically twice the size of a football pitch (four times the size of a typical European supermarket) and all are stacked with branded quality goods priced to move with deep discounts. Wal-Mart invests heavily in staff training: its employees greet shoppers personally and pack their bags for them at the check-out, offering a level of service normally associated in Europe only with stores that cater to the wealthy.

This philosophy has made Wal-Mart the world's largest retailer. The company operates 3,300 Wal-Marts, Sam's Clubs (membership-only warehouse stores) and Wal-Mart Supercentres in America, Argentina, Canada and Puerto Rico and, by franchise, in Brazil, China, Indonesia and Mexico.

Wal-Mart comes to Europe lean, mean and cash-rich. After 99 consecutive quarters showing increases in earnings, the company responded vigorously to a single down quarter in 1996, further cutting costs and upgrading its US stores by converting older, smaller Wal-Mart outlets into new Supercentres. These sell groceries as well as the traditional Wal-Mart staples.

Since Americans shop twice as often for food as for other goods, people now visit their Wal-Mart stores twice as often. Shrewdly, Wal-Mart places the groceries at the back of the store, making consumers on their way to the regular food shop pass rack after rack of potential impulse purchases.

But Europe is not going to be an easy nut to crack. Although the continent is notorious for its lazy retailers and undemanding consumers who put up with high prices and surly service, it will not be easy to replicate the mid-American formula inside the high-cost EU. Some analysts say it can only be a matter of time before decadent old world retailers fall before the vigour of the new, but it is also true that building stores the size of football pitches is not easy in crowded, environmentally-conscious western Europe.

Even if Wal-Mart can get the sites it needs, it will find it costly to operate them and it may have a hard time persuading suppliers to deliver the goods. Brands such as Levi's and Nike, which are commoditised in America, are carefully positioned to be sold in Europe at premium prices. Manufacturers of electronics products and white goods are especially notorious for denying supplies to retailers who discount.

Richard Hyman, chairman of Verdict Research and a retail industry analyst who has been following Wal-Mart closely for a number of years, believes the ground is hardly fertile for an American invasion. "For one thing the market in Europe exhibits all the characteristics that Wal-Mart traditionally avoids. It's a low-growth, mature market with a sophisticated consumer. Other parts of the world would represent much more fertile ground. Wal-Mart always seeks high-growth, cheap land, an underdeveloped industry and an unsophisticated consumer, even in America."

While Wal-Mart could continue to expand throughout western Europe through a policy of acquisition, Hyman says: "I can't see how its shareholders would support such an expensive move into a highly developed market when there is much more money to be made at much lower cost elsewhere in the world."

But Wal-Mart may be more ambitious than Hyman thinks. "When we purchased the 21 stores in Germany we decided we were in a vantage point to look at European competition," says Dale Ingram, a spokesman for Wal-Mart International. "We have had our 35 German managers over to the US recently to see how we we run things here and we will be learning from them about the German market. The German market is very competitive and very mature and that has shaped our plans for the region."

Just what are these plans? Wal-Mart may be new to Europe but it is not naive. It plans to buy its way in, not to build.

Outsiders wonder whether there may be an even better strategy for Wal-Mart. The truly fertile ground for Wal-Mart-style megastores is in eastern Europe, where the retail sector looks ripe for the American approach. Poland looks especially promising, especially as its planned entry into the EU is likely to leave it with a great deal of surplus agricultural land.

Robert Clark, executive director of Corporate Intelligence on retailing, a UK consultancy, agrees. "I think Wal-Mart would do better to look at eastern Europe and central Europe rather than northern and western," he says. "It may be true that European retailers are ripe for revolution in some ways – German and French retailers are poor on information technology and distribution and UK retailers have very high margins – but there are a number of factors that mitigate in their favour and suggest they can strike back very swiftly."

Clark points out that Wal-Mart's US warehouse rival, Costco, which made an unspectacular European foray of its own a few years ago, suffered by assuming that acting globally as it did at home was a recipe for European success. The danger of hubris is real. Wal-Mart remains a minnow in Europe. Even its German acquisition gives it just 21 outlets with a turnover of DM3 billion ($1.65bn). German-based Markant, however, supplies 41,000 outlets and has a turnover of Dm44bn, while Rewe has a turnover of Dm44bn and Edeka has a turnover of DM39bn. Even Aldi, which is expanding across the continent, has a turnover of DM33bn and, with private ownership, sells with margins of one or two per cent.

'Wal-Mart works on massive buying power and very low margins'

"Wal-Mart works on massive buying power and very low margins," says Clark. "It's hard to see where the company will get a foothold against these vast buying groups and privately-owned companies. Most European territories also have stores which overlap each other's catchment area; when conquering America that was something Wal-Mart didn't have to deal with."

One apparently ripe plum for picking is the British market. Whereas across most of the continent privately-owned store chains operate on net profit margins of two to three per cent – figures very similar to Wal-Mart's US margins – Britain is dominated by quoted companies with net margins in excess of five per cent. Britain also has the slackest planning regulations, albeit stiffer than most US regulations. Mainstream British supermarkets such as Tesco also prefer to concentrate on aspirational consumers. It's a difference that hasn't been lost on European discount chains such as Aldi, Lidl and Netto which have established a niche at the cheaper end of the British market.

British consumers, however, have so far shown little taste for the new discounters. According to a survey of consumers by Mintel International, while only 18 per cent felt that discount retailers sold low-quality goods, very few said they would "make a special trip" to a new discount retailer. Seventy per cent of consumers said they would expect a discount of 10 per cent or more before they changed their shopping habits. Mintel concluded that 30 per cent of consumers were confirmed bargain-hunters and this was mainly in the less well-off end of the market.

The next study for Mintel should be to look at the increasing willingness of consumers to cross national borders to find decent bargains. Britons are already flocking across the Channel for cheap booze and the Eurostar to Paris on Sunday night is packed with French shoppers clutching goods from Marks & Spencer and eight from London's Camden Lock market.

As the mobile worker spreads through a deregulated continent, it is but a small leap of the imagination to conceive of the mobile consumer, shopping in the countries that offer the best bargains. If Wal-Mart stores spread across Europe, western retailers could still face the nightmare of their loyal shoppers deserting them for American-style bargains in vast retail shops. ■

TELECOMS

Global calling finds answer at 10,000km high

Simon Reeve

IN THE three-way race to dominate a new global market for satellite mobile communications, the outsider is ICO, based in, of all places, Hammersmith, west London.

Unlike its competitors, ICO has yet to launch its first satellite. Neither has it had the extensive PR trailing of its competitors, Iridium, backed by Motorola, and Global Star, a venture of Loral Space and Vodaphone. Both competitors are planning to launch their services ahead of ICO. But there are those who think that the European company may be worth a bet as the dark horse with staying power.

One reason to back the company is its Swedish chief executive, Olof Lundberg. He resigned a sinecure as the director-general of the International Maritime Satellite Organisation, which he had run since its inception, armed with little more than a big idea. Lundberg thinks he has figured out a better way to offer global mobile satellite communications.

The key to his strategy is his unconventional approach to the satellites themselves and the orbit into which he has chosen to launch them.

Conventional communications satellites are launched into geosynchronous orbits, perpendicular to the equator at an altitude of 35,000 kilometres. Here, they appear to remain stationary relative to the Earth, and hence it is easy to point a satellite dish at them, to "uplink" or "downlink" analogue or digital information.

This orbit works well for television broadcasting and for trunk traffic between fixed points, but the satellites are too far out in space to be easily used by low-powered hand-held devices. And in the fast-growing world of mobile communications, nobody wants to have to set up a satellite dish every time they want to make a telephone call.

Iridium and Global Star have chosen to use low-Earth orbiting satellites, orbiting at just 780km. These work well with low-powered devices on the ground and require no more than a conventional cellular-telephone type of antenna. But the satellites are not geosynchronous; to ensure that one is always close overhead, large numbers must be launched. Iridium alone plans to launch 66 of them. That is costly.

Lundberg's idea is to use a little-utilised orbit at 10,000km. That way, he can make do with fewer satellites, and make up for their higher initial cost because they will remain in orbit longer. Few disagree that the market potential is huge. Even the rapid growth of cellular radio has left most of the world's surface unserved. It is estimated that the global satellite mobile market will be worth at least $10 billion annually within two years and that up to 50 million subscribers will sign up.

Demand is expected to be strong not only from globe-trotting business people but also from millions of customers in remote areas or developing countries where it is too expensive to build traditional fixed and cellular phone systems.

Lundberg insists that despite the strong competition, ICO has the best products, best prices and best strategy. He intends to concentrate on niche markets such as long-distance lorry-drivers and capitalise on the expected demand from "rural and remote" customers. Another strength will be his diversified shareholder base in more than 50 companies, which include BT, Deutsche Telekom and telecoms firms in China and India.

The caution for investors is that the competition is formidable. Iridium was founded in 1990 and already has more than half of the 66 satellites it needs in orbit. After $5 billion of investment, Iridium will launch its service on 23 September this year, but its charges will be high: phones will cost around $3,000, with charges for calls at up to $6.50 a minute.

Global Star is running in second, having just launched the first of 48 satellites and planning to put the rest in orbit during the next year. Their charges will be lower than Iridium but are still likely to be significantly higher than ICO's.

Lundberg's first satellite will be launched on an Atlas rocket from Cape Canaveral in Florida only in December this year, but he is confident that his organisation can defeat the opposition. "Whenever there is competition the market grows faster. We will benefit from that as we come through with affordable and faster services," he said.

Twelve of ICO's Hughes-built satellites (a modified version of the HS 601) will be placed at the higher 10,000km middle-Earth orbit. As they are higher than the competition's, he will need fewer to cover the world.

ICO's satellites will also last for 12 years, seven years longer than most of those in a low-Earth orbit, helping to keep ICO's costs down. Price will be crucial, and ICO's handsets, made by Samsung and Mitsubishi, will sell for around $700, with call charges estimated as low as $1 a minute.

ICO also promises a data-transfer rate faster than either Iridium or Global Star. Although its telephones will not initially offer multi-media services such as Internet browsing, it will be possible for them to receive e-mail messages at the rate of 9,600 bits per second.

To begin a full service late in the year 2000, ICO needs additional funds. Lundberg is thought to be planning to raise approximately $450 million in a public share offering on the US Nasdaq to complete the $4.5 billion investment it needs to put 12 satellites in orbit. The firm has already raised $2bn from such investors as NEC, TRW, Sumitomo and Telstra.

Lundberg is seen by many investors as one of the fathers of satellite communications, a man who knows the industry better than almost anyone. He spent his teenage years building radios.

"I'm still doing it," he said. "They've just got more complicated."

HUGHES

Sky lines: the antenna array on a Lundberg satellite, which will orbit at 10,000km

MEDIA

French utility giant turns water into wine

Walter Ellis

JEAN-MARIE MESSIER, the chairman of Compagnie Générale des Eaux (CGE), is about to transform his venerable conglomerate from a company best known for sewage treatment and household waste collection into the leading French player on the information autoroute.

Two years ago Messier announced his intention of refocusing CGE on three core activities: collective services (water, energy, waste disposal); international electricity production; and telecommunications. With a detour to take control of Connex South Central, one of Britain's privatised rail companies, Messier appears to have focused hardest of all on telecoms and is now busy developing media too.

CGE's latest move is to declare itself the impresario France needs to drag it on to the Internet. The French presence on the Net is currently pitiful: less than two per cent of French homes have access. In a deal with AOL, the largest US supplier of Internet access, and Bertelsmann, until now AOL's exclusive European partner, Messier has agreed to relaunch the AOL service in France. Messier brings the missing ingredient to the party: telecoms. One reason why Internet take-up in France has been so low is the crippling cost of connecting to it via France Telecom. Since CGE owns Cegetel, France Telecom's strongest competitor, that is one issue that looks as though it will be solved.

The other problem facing the Anglophonic Internet in France is the lack of French content. Messier has a solution to this too. In a deal that further points the company away from sewage and towards the future, Messier is in talks to buy the 70 per cent of Havas it does not already own. The terms of the deal are not known but CGE has denied that it is prepared to pay one CGE share plus Ffr100 ($16.4) for each share of Havas it does not already own. These reported terms have infuriated some shareholders. "Messier's getting away with highway robbery," said Marc Gabelli, managing director of Gabelli Funds.

A graduate of the prestigious Ecole Nationale d'Administration (of course) and formerly a banker with Lazard Frères, Messier, 41, began as an advocate of rationalisation, trimming fat, slashing debt and selling off unprofitable subsidiaries. Guy Dejouany, Messier's predecessor, was a mercurial old-style empire-builder whose grasp exceeded his reach. The 2,700 companies he assembled under the CGE umbrella proved to be a house of cards which collapsed amid losses of more than $10 billion and allegations of incompetence and fraud.

Messier has been restoring focus to a group that had become an archetypal conglomerate of disparate businesses held together by no evident logic. The new logic seems to be, brutally, to convert water into wine, using the leverage of the cash flow from his utilities division, which still accounts for 26 per cent of CGE's income, to buy positions in more glamorous, if riskier, future-facing businesses.

The takeover of Havas may prove prescient. Havas's most inspired creation, Canal Plus, is not just a trend-setting television channel; it is also, via its digital format, capable of acting as an Internet server and provider of other interactive services.

For Messier the challenge is considerable. CGE remains unwieldy and, at least for a time, will become more so. But the Grenoble-born financier has signalled his intentions by announcing that a new group headquarters is to be acquired, distinct from the headquarters of the utilities division, giving rise to speculation that further big changes could be in prospect. While Générale des Eaux will remain active in water services and transport, for the foreseeable future IT and telecoms will provide the dynamic for corporate growth.

La Générale has promised profits for 1997 of Ffr5 billion. With the synergy of the Havas acquisition just a year or two down the road, Messier could emerge as France's first world-scale media tycoon.

PAUL COOPER

Café society: as France belatedly embraces the Net, Générale des Eaux aims to play a crucial role

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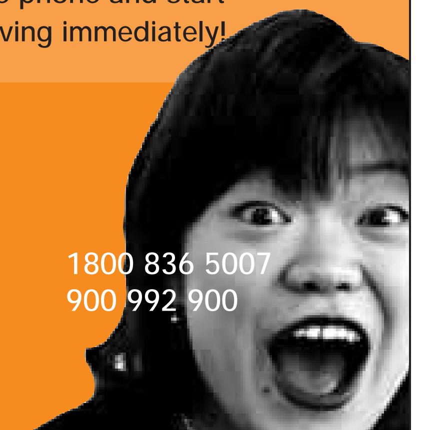

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BROADCASTING

Still no sign of a clear picture on digital TV

Simon Reeve

IN British television, history is repeating itself. A decade ago Rupert Murdoch took on a consortium of commercial broadcasters and emerged as the winner in an expensive battle to control satellite television. Now he is again at war with the broadcasting establishment in a battle to control digital TV.

The conflict is shaping up to be a bitter one for the protagonists and a confusing one for British viewers as they are forced once again to make a choice between incompatible technologies.

It was not meant to have worked out this way. Murdoch's British Sky Broadcasting (BSkyB) last year negotiated a deal with its terrestrial rivals jointly to launch digital television in the UK, using a common set-top box that would be capable of picking up digital signals from BSkyB's satellites as well as from terrestrial digital transmitters.

A joint company was established, British Digital Broadcasting (BDB), in which BSkyB was a partner along with Carlton Television and Granada, Britain's two leading commercial television companies.

Enter Britain's television regulator, the Independent Television Commission (ITC). It insisted that BSkyB exit the BDB consortium, fearing that its membership would give Murdoch too much influence over the new digital transmission medium.

For those who remember the history of BSkyB, the irony was considerable. More than ten years ago the regulator refused Murdoch a licence to use the UK's direct broadcasting by satellite frequencies; the spurned media tycoon promptly leased channels on a Luxembourg satellite to compete regardless, ultimately vanquishing the official licensee, which also happened to be made up of a consortium of terrestrial broadcasters. Now, excluded from the officially-sanctioned digital broadcasting scheme, Murdoch is again prepared to go it alone and the terrestrials are on the defensive.

This time, however, there is a difference. In 1989, when Murdoch launched Sky, there were but four complacent terrestrial channels available and consumers were quick to buy dishes in search of then-novel channels specialising in films, sport and news.

Today more than a quarter of British television homes already have access to dozens of satellite channels and the additional benefits of converting to digital are less obvious. BSkyB and BDB face formidable obstacles persuading Britain's viewers to make a switch.

In truth, digital is a hard sell. Its backers claim that it is the most exciting development in entertainment since the introduction of colour, promising better quality pictures and sound, scores of new channels including movies and sport on demand, as well as a host of ancillary interactive communications services, including access to the Internet, home shopping and banking, all through one screen.

But delivering these services is proving problematic, and the inability of the two sides to agree on a common set-top box is presenting consumers with a classic dilemma. Traditionally, consumers have proven highly reluctant to invest in new entertainment technology unless they are convinced that it will prove durable. Thus, when the first video recorders were introduced in the late 1970s, many buyers held back for a long time because they were unable to choose between the rival Betamax and VHS formats.

That dilemma was finally resolved with the introduction of rental schemes, which minimised consumer risks, and there followed a *coup de main* by the proponents of VHS, who were the first to extend cassette playing time to accommodate full-length feature films. Nevertheless, many consumers who chose the losing standard, Betamax, were embittered by the experience. They were among those who held back from acquiring satellite until it became clear that Murdoch's system would triumph over the technically incompatible system used by its then-rival, British Satellite Broadcasting.

Originally, BDB was to use a digital set-top box developed by a Murdoch company, but since BSkyB was expelled from the consortium relations between the terrestrial players and Murdoch have degenerated into acrimony; BDB is going in a new direction.

Inside BSkyB's headquarters on an industrial estate in west London, there are reports that executives are holding weekly "F*** BDB" meetings. Michael Green, the head of Carlton, was said to have been astonished last week when a whole day passed without a writ from BSkyB landing on his desk.

If so, it must have been an oversight. BSkyB has already issued a writ against BDB over a $50 million compensation payment due to BSkyB when regulators forced it to withdraw from the BDB consortium. BDB is refusing to pay until BSkyB secures digital terrestrial rights to supply coverage of Premier League football on BDB. This may prove impossible, as the Premier League has ideas of its own. Even if the league plays ball, BSkyB is unlikely to be a pushover. Football has proven to be a major attraction on BSkyB's existing satellite service and depriving its rival of football would be a good start to scuttling their chances.

Mark Booth, the chief executive of BSkyB, is now threatening new legal action after BDB announced that it will use software in its set-top boxes supplied by Seca, a joint venture of France's Canal Plus and Bertelsmann of Germany. Booth claims this breaks an agreement to make BDB's boxes compatible with BSkyB's, which use technology supplied by NDS, part of Murdoch's News Corporation.

All this adds up to embarrassment for the ITC, which is continuing to insist that subscribers to digital television must be able to switch quickly and easily between digital satellite and digital terrestrial. Since there is bound to be a third digital system, offered by cable operators, the prospects for a common digital platform currently appear remote. The competitors face huge marketing problems.

Although television professionals are enthusiastic about digital television, consumers are thus far only dimly aware that the new medium even exists. Research conducted for Pace Micro Technology, the Yorkshire-based manufacturer of analogue and digital set-top boxes, shows that two-thirds of viewers do not even know what digital television is, months before BSkyB is supposed to launch its service.

Manufacturers seem to think that "digital" is a magic word which can be used to sell an expensive new entertainment format; but the Pace survey shows that 65 per cent of people say pay-per-view programmes on digital will be of "no value" to them. Only eight per cent of people say they would want the service, which had been expected to be a big earner.

A survey by the ITC also shows little evidence of public demand for new channels. "There is a stable group who refuse to be interested," says the report. That doesn't mean digital can't succeed but it does imply that the companies will have to prove remarkably adept at marketing their new technology.

BSkyB is a master at this game but even it has problems. The number of customers handing back the firm's current satellite dishes (the "churn" rate) has increased by more than 15 per cent in the past six months. Although a quarter of British homes have taken BSkyB television in the past nine years, most people remain stubbornly uninterested in the prospect of more TV channels.

BDB's problem is, if anything, worse. It has hired a newspaper executive, Stephen Grabiner, as its chief executive, but he is still under contract to United Newspapers, where he is managing director, and his current employer is refusing to let him leave until 1999. Even if that dispute is resolved before then Grabiner, who did not impress in newspapers, knows nothing about TV.

BDB has another problem. While its rival operates one of Europe's most adept customer service operations, the subscriber management centre based at Livingston in Scotland, BDB has no similar experience of operating call centres and fulfilment operations on such a scale. It underestimates the difficulties of this at its peril. BSkyB also enjoys established relationships with the retail trade; BDB partner Granada is actually pulling back from the retail and rental business.

The government has launched a consultation process on the introduction of digital television after an economics consultancy, Nera, forecast that the switch could cost consumers more than $23 billion.

Set-top boxes, even when subsidised by the broadcasters, will sell for roughly $300 but many customers will also need to buy new aerials and video recorders as well as new television sets, on top of a monthly subscription. The idea that existing analogue services might be cut off after, say, 10 years, to encourage a switch to digital, is dynamite. It could leave millions of people, including pensioners, unable to watch television. But it might be the only sure way to make the digital revolution work.

For the moment the biggest question concerns when a digital service will be launched. Although BSkyB claims to be on target for a June launch, it now looks likely that satellite digital TV will not become widely available until next year. The Astra 2A satellite which BSkyB will use is not due to be launched until May and full services may not start until autumn.

Consumers who hope to sign up to digital during the crucial run-up to Christmas will be confronted by conflicting advice and bewildering offers. It is a recipe for confusion and many will simply stand aside until the digital television picture becomes clear. ■

ACTION PRESS

ORDER OF BATTLE

BSkyB	BDB
ON OFFER: 200 digital satellite channels, with a further 50 audio channels with CD-quality sound. BBC1, BBC2 and UK Gold will be available as well as existing Sky channels. BBC's 24-hour news channel and a link with Channel 5 also likely, as are specialist channels for sport, music and lifestyle. Customers would have a pay-per-view film channel, with a film of their choice every 30 minutes.	**ON OFFER:** A 30-channel digital service on terrestrial television. Fifteen of the 30 channels will be new, 12 will be free and the remaining three (two Sky sports channels and the movie channel) will be available by subscription.
PRICE: No prices confirmed, but approximately £200 ($330) for a set-top box and movies starting at roughly £3 each. Many viewers will need to buy other new technology.	**PRICE:** Operating via existing aerials, viewers will need only a set-top box decoder for about £200. Basic subscription will be around £8.99 a month, rising to £20 for all premium channels.
START DATE: BSkyB claims services will begin in June but autumn looks more likely.	**START DATE:** Expected to launch in the autumn.

Two-thirds of viewers do not even know what digital television is

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GERMANY ■ Gerhard Schröder poses as the SPD's business-friendly pragmatist, but is the prime minister of Lower Saxony really just an old-fashioned protectionist at heart?

The man for all the wrong reasons

Peter Heinacher

IN the intellectual world of Gerhard Schröder, the state plays an important role: it is up to the state to get involved on behalf of businesses, to work as an intermediary between them and to provide an attractive framework for them in which to operate.

A belief in economic policy based on state intervention has been demonstrated many times by this Lower Saxon power-player who is such a controversial figure in his own party because of his supposed closeness to the "bosses". First and foremost there is the Lower Saxony *Land*'s holding in Volkswagen which Schröder – "for strategic reasons" – does not want to disturb. The *Land* government currently holds 20 per cent of VW's share capital. As a member of the VW board, Schröder, rather than lose influence, allowed himself to be carried along in discussion about increasing the company's capital through a rights issue, despite Lower Saxony's empty coffers.

Schröder also made his influence felt in securing the appointment of Ferdinand Piëch, VW's chief executive, and threw his weight heavily on the side of the carmaking giant in the controversy over José Ignacio López de Arriortua's defection from General Motors and the accompanying allegations of industrial espionage. Schröder also fought tooth and nail to have cars made in Salzgitter. But nobody – not even the opposition CDU – bothers to ask whether this involvement of the *Land* government in VW actually makes sense. If the "Lex VW", which in effect gives Lower Saxony control over Europe's largest carmaker, did not already exist then Schröder would have invented it.

In every big business in Lower Saxony, Schröder wants to be "on board", driven by barely comprehensible fears of the *Land* bleeding to death industrially. It was exactly these fears that were instrumental in Schröder's decision to prevent the Italian Pirelli group taking over tyremaker Continental in 1993. He weighed in to create the so-called "Lower Saxony pool", made up of Norddeutsche LandesBank, PreussenElektra, two insurance companies and the regional savings and loan organisation, which then raided the Conti-shares already in Italian hands. The invasion of the north German plain by foreign investors was repelled.

The Preussag Steel deal followed the same pattern. Here too the hour came when the documents outlining Preussag's agreement for a sale of its steel sector to the Austrian Voest-Alpine concern landed on Schröder's desk. A sell-off to the Austrians? Just before the local elections? The very idea was anathema. Almost immediately it was announced that Preussag Steel would be taken over by the *Land* and Nord/LandesBank.

So have Schröder's economic policies been successful over the years? Only partly. In no way has Lower Saxony under Schröder been transformed from Cinderella into Sleeping Beauty. The *Land* is as bitterly poor as it ever was. The economy is structurally weak and in terms of debt and unemployment it stands right at the top of the list among the larger west German *Länder*.

Of course there is no question of accusing Schröder of lacking political good intentions. During his time as a member of the VW board the Wolfsburg carmaker went through a difficult rationalisation but one which paid off in the end. At Continental some things have also improved, although it must be said that the company's restructuring has substantially involved moving parts of the production process abroad and cutting the workforce.

FABIAN BIMMER

You scratch my back: Schröder awards a medal to his protégé and ally, VW chief Ferdinand Piëch

Lower Saxony is as bitterly poor as ever

Even at the Lemwerder aircraft works, which previously belonged to Dasa and then was briefly run by the *Land* government, the future looks a little rosier.

Schröder supported all these rationalisation processes through his connections to workers' factory committees and the management; he acted as mediator. But he still did not succeed in remedying the structural weaknesses of an economy dominated by car manufacturing and agriculture. What Schröder has done in industrial policy is no evidence that he is on the right track in his economic policy. The billions spent by the *Land* in supportive intervention would have been far better invested in projects for the future.

A worrying aspect of Schröder's economic policies is his bunker mentality against foreign investors. What lies behind this is the social democrat politician's fear that foreign concerns will absorb know-how from Lower Saxony firms they take over and turn the *Land* into little more than a workbench for foreign-based industries. For the image of Germany as an attractive investment site, Schröder's policies are fatal.

Let us imagine the Social Democrats were to win the election with Schröder as their candidate: how is Chancellor Schröder going to set about campaigning abroad for investment, when every potential investor has a vivid memory of this same SPD politician a few months earlier evicting all foreign invaders from the north German plains? There would be no credibility at all.

"It is not a question of social democratic versus conservative economic policies but of modern versus old-fashioned ones," was the phrase Schröder famously formulated two years ago – and lost his job as SPD economics spokesman on account of it. But to say that Schröder's economic policies are modern and therefore successful – based on the results of his eight years in office – is a claim that nobody would swallow. ■

This article first appeared in Handelsblatt

FROM THE ATLANTIC TO THE URALS

Germans turn to the state as east-west rift narrows

GERMANY'S OPPOSITION SPD, EMERGING from the tumult of the Lower Saxony elections, steels itself this week to select either Gerhard Schröder or Oskar Lafontaine as candidate for chancellor. But most Germans, it seems, believe in the old-fashioned social democratic ideal that the state owes them not only a living but good health and a prosperous old age. Two-thirds of respondents in a poll published by the Allensbach Institute said that the state's first responsibility was to provide jobs. In 1994 they believed it was to improve the environment. They also wanted more national resources ploughed into health care and pensions.

Analysts see in the survey a return to the old socialist ideal of the state as the key provider – a view disavowed in theory as much by Schröder as by the governing CDU. Revealingly, differences in expectations between Germans in the east, who always favoured the rights of the state over those of the individual, and the traditionally more self-assertive west Germans have decreased over the past four years, a trend that is beginning to concern supporters of liberal parliamentary democracy.

The result of the general election in September could decide not just the fate of Helmut Kohl and his ambition to outserve Bismarck, but the kind of state the emerging "Berliner Republic" will become.

♦♦♦

WARRING BIKER GANGS WHO FOR FOUR years terrorised Scandinavia, otherwise one of the most peaceable areas of the world, have declared a truce, but it is not good news for Nordic crime rates. A series of shoot-outs, bombings and assassinations carried out between the Hell's Angels and the Bandidos left 12 people dead and almost 80 injured.

But now that peace has broken out, police officers are complaining that the new-found spirit of co-operation among the biker community has led to a hugely increased workload. Oslo police claim that their narcotics squad has never been so busy, dealing with four large drugs-busts in the past few months. The story is similar across the region. "While the war raged, gang members had no time to see to their other criminal affairs," complained one exhausted police chief in Stockholm. "Now it's back to business as usual."

♦♦♦

AN ANNOUNCEMENT BY LEO PEETERS, the Flemish interior minister, that official information in six outlying districts of Brussels will in future be provided in Flemish has only served to set Belgium's two linguistic communities at each other's throats.

Brussels, towards the southern extreme of the Flemish region, is supposed to be bilingual, although a majority of its inhabitants speak French, and Peeters's decision effectively to expand Flanders into the federal capital has caused outrage among Walloons.

Belgium has been tearing itself apart ever since it was created in 1830 as a buffer state between France and the Netherlands. The division of the country into autonomous Flemish and Walloon regions, completed in 1993, was supposed to resolve the ethnic question for good, but succeeded merely in giving further hostages to fortune. The frontiers of the various linguistic zones are jealously guarded, while the two communities – plus the tiny German-speaking minority in the eastern Eupen and Malmedy areas – slug it out for federal and European Union grants.

Over the past 30 years Francophone Belgians have watched aghast as their historical dominance of national affairs has been whittled away by their Flemish compatriots, whose economy, free of the burden of past reliance on coal and steel, has become significantly more dynamic.

The realisation that the increasingly assertive Flemish majority may now be attempting a linguistic putsch as well is, for French-speakers, the last straw. Political leaders and their followers on both sides are entering the fray. The country's embrace of the European Union and the single currency may come just in time to see the Belgian nation-state disappear up its own arguments.

IAN HODGSON

'With a view to a death in the morning': the fight over England's traditions hots up

ITALIAN POLICE WHO ENTERED A FARMhouse near Catania in Sicily last week expected to uncover a Mafia arsenal of arms, ammunition and explosives. What they found was the mob's latest high-tech "persuader", a portable inquisition kit used apparently to extract information and extort confessions.

Investigators believe that the American-made generator, known as the "Omega Stimulator" and advertised by mail order catalogues as a defence mechanism for females in tough districts, may have been used by the local Mafia to detect traitors within their ranks who had broken the rigidly enforced code of silence.

The instrument, reconfigured as a highly effective "Omerta stimulator", can produce a charge of 120,000 volts, with devastating effect. Pressed against someone's throat, the electrodes induce immediate fainting; attached to a man's testicles, they can distinguish truth from lies within seconds.

♦♦♦

BRITAIN'S LOVE-HATE RELATIONSHIP WITH its countryside is reaching a crescendo of tension. City-dwellers – particularly Londoners – whose experience of rural life is mainly confined to day trips and the view from the motorway, are regularly exercised by what they perceive to be the social failings of their country cousins.

Urbanites detest fox-hunting. They believe farmers to be over-subsidised, self-indulgent despoilers of the landscape and cannot understand why village residents do not want housing estates and motorways next to their homes.

Matters have come to a head over a parliamentary bill that seeks to outlaw hunting with hounds. The Countryside March on Sunday attracted tens of thousands of pastoral protesters to the capital, demanding the survival, intact, of their way of life. All over the country, from the Shetland Islands to London's Hampstead Heath, beacons were lit proclaiming rustic independence. One Berkshire farmer, who had been planning the demolition of an old barn, simply set fire to it, while in Cornwall an illuminated balloon was visible for a distance of 50 kilometres.

Sam Butler, one of the march organisers, is in no doubt of the seriousness of the task. "Freedom is something the British people have fought for in the past," he said, "and I believe they would do so again."

♦♦♦

SEX. ARE YOU GETTING ENOUGH? THE answer, it turns out, may depend on where you live. A survey by the French National Institute for Demographic Studies reveals that north European females become sexually active on average two years earlier than their southern counterparts. Icelandic women tend to have sex for the first time at the age of 16, while the women of Portugal and Greece wait until 19. British and German women fall in between – losing their virginity at a mean 17 – while the French opt for 18.

No doubt the weather has a lot to do with it, but southern women apparently continue to be dominated by their menfolk and do not wish to bring "shame" on

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PRESSWATCH ON: THE IRAQ DEAL

Le Figaro

OF THE FIVE permanent members of the security council, three – China, Russia and France – were hostile to an American airstrike, because it was an act of aggression rather than, as in the Gulf War, a reply to aggression. But China and Russia were perhaps not unhappy to see the United States upset Arab opinion. Only France had the audacity to act, allowing the efforts of the UN secretary-general to bear fruit.

France showed that the US's best partners are those who can keep their heads. Discreetly, without embarrassing President Clinton, France kept the diplomatic option open and helped him avoid a terrible faux pas.

How is it that a power which even we often describe as "medium sized", or even "small", could be so effective? The reason is that France has more credibility in the world than it believes.

Crises are very revealing. It must be noted that Britain aligned itself with Washington with alacrity; Germany did the same but in a more disciplined way; and even Italy managed to quieten the indignation roused by the Cavalese cable-car incident. Imagine that a common European foreign policy had existed and that it had been defined by the majority. What would have happened? France would have had to give way; Europe would have followed the Americans without a word of dissent.

De Standaard

EVERYTHING seems to indicate that UN secretary-general Kofi Annan has succeeded. No one can have any regrets that a military confrontation in the Gulf region has been averted – even the Americans, it appears. Everyone agreed that the regime of Saddam Hussein is a danger. The question is only how such a regime can best be neutralised. The way Washington has gone about it is deeply questionable.

Süddeutsche Zeitung

THE Saddam-Annan deal is a glimmer of hope, nothing more. It will bathe the region in its weak light for longer with the visible presence of the Anglo-American fleet. The weeks ahead will show whether Saddam adheres to the deal, thus preventing military action. The ancient conflict between Israeli and Palestinian had been pushed out of the limelight, first, because it was stymied anyway; and second by the threat of war in the Gulf.

But already, before Annan had returned to New York, the spotlight swung back to the Mediterranean. Benjamin Netanyahu sprang a surprise by announcing not only that a meeting between him and Yasser Arafat on US territory was necessary but also that he was ready for true peace and real concessions. He spoke of "final resolutions" and Arafat – unlike his previous attitude – signalled straight away that he, too, was ready to negotiate on final agreements regarding borders, regions and sovereignty. They both know that Clinton, so far the winner in the Saddam conflict, will return with new energy to their peace negotiations. So they had better organise themselves before Big Brother puts pressure on them. The test of strength in the Gulf in 1990/91 produced the Palestinian peace process as a side-product. Perhaps the recent points win against Saddam could provoke a similar miracle.

El Mundo

A DIPLOMATIC solution to the crisis does damage to the White House; even a lot of damage. For the political price of an attack which was opposed by both public opinion in the US and the Arab world would have been very high. If Kofi Annan's compromise holds, it will be a shot in the arm for the beleaguered United Nations.

Kommersant, Moscow

The US has simply dealt Iraq a symbolic blow. Thanks to its own designs, the administration of President Clinton put itself into a highly tricky situation, from which it could see no way out. If the US had begun its military operation, however, and Baghdad had responded, we could have expected a worldwide outbreak of unrest. Clinton would also have found the Republican majority in Congress against him. Saddam would have had the president wrapped round his little finger and tax money would have been spent in vain.

La Repubblica

THE agreement brokered by Kofi Annan could be broken by Iraq. But the most important consideration is that the danger of a new Gulf war has been averted, because even the United States does not have the political and psychological strength to allow the UN secretary-general to fail by going ahead alone with a military strike on Iraq. The Clinton of these days is a reluctant war-maker. The hopeful signs that Annan gave him were too precious to be rejected.

Die Welt

THE language of news reportage is often unclear. The UN secretary-general, it says, managed to "prevent" military action in the Gulf. In reality, he persuaded Saddam to reconsider his position. But while the weapons are silent, the political crisis is not over yet. The UN mission offered Saddam not only an escape route from a second military disaster but also the kind of international influence not offered to a dictator for a long time.

The situation also reflects on the US as a "world policeman". In the end diplomacy outstripped the military option; how far it was successful the future will show. The media note a setback for the US. In his first statements Clinton put a brave face on the game of UN diplomacy. He can explain convincingly that without pressure Saddam would not have given way and that the continuing military presence ensures that promises are honoured. At the same time Washington has to be prepared for a second passing manoeuvre of the "multipolar" coalition: for a softening or even a lifting of sanctions.

Libération

FOR once good sense has prevailed in the cruel circus of international relations. Bloody, disproportionate and counterproductive, the bombardment of Iraq would have aggravated the situation in the region without dispelling American fears about Iraqi armaments. Obviously, without the deployment of American troops in the Gulf and without Clinton's threats, compromise would have been impossible. America has spoken loudly backed by a big stick. Finally it was heard.

CARTOONISTS & WRITERS SYNDICATE

AMMER – *WIENER ZEITUNG*, VIENNA, AUSTRIA

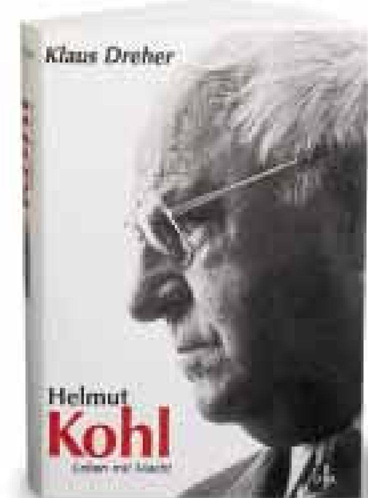
BOOKS ■ Is the German Chancellor one of the century's most inspired statesmen or a plodding mediocrity with talented friends?

History of Helmut the juggernaut

Helmut Kohl – Anatomie eines Erfolgs
(Helmut Kohl – Anatomy of Success)
by Jürgen Busche
Berlin Verlag, DM39.80 ($22)

Helmut Kohl – Leben mit Macht
(Helmut Kohl – Living with Power)
by Klaus Dreher
Deutsche Verlags-Anstalt, DM58 ($32)

HE WILL never become chancellor, Franz-Josef Strauss said of his political ally Helmut Kohl, more than 20 years ago. "He is absolutely incapable. He lacks the personal and mental prerequisites; indeed, all that is necessary for the position." Strauss, who was then the heavyweight leader of the CDU's Bavarian sister party, the CSU, was letting off steam over the conservative party's candidate after Kohl failed to beat Helmut Schmidt in the general election.



Kohl is Germany's longest-serving chancellor and he can look back on historic successes, such as his country's unification. But many of Germany's most reputed personalities from all political camps still despise his manner, his fatness and his apparent mediocrity.

How in the world could Kohl achieve the semblance of greatness despite his clumsiness? This is the central question of Jürgen Busche's "essay-like" biography of the Chancellor. It is also a less obvious *leitmotif* of Klaus Dreher's meticulous 700-page tome. For Dreher, what matters is that Kohl has become one of the most important European statesmen this century.

"Comparisons with great statesmen such as Adenauer suggest themselves," he writes.

Kohl has already begun to write his own history. Last year a book entitled *Ich wollte Deutschlands Einheit* (I Wanted Germany's Unification) was ghostwritten by two *Bild Zeitung* journalists. In the light of such work, it is historically necessary that Kohl biographies should be written not only by journalists who maintain a critical distance from their subject but also treat it fairly.

Both Busche and Dreher, who worked for many years with the *Frankfurter Allgemeine Zeitung* (FAZ) and the *Süddeutsche Zeitung* (SZ) newspapers, have done a relatively good job. They deal in a completely different manner with their subject.

Busche, who studied ancient history, impresses the reader with his style and puts Kohl into a wider historical context. He recalls succinctly all the steps of the Chancellor's rise. But, for his analysis of Kohl's attitudes, tactics and behaviour, he focuses only on a few exemplary events.

On the other side, Dreher – nearly as old as Kohl, also born in Rhineland-Palatinate and from 1966 to 1992 Bonn correspondent of the *SZ* – painstakingly considers almost all the available details of Kohl's career, which he has followed for 34 years. It is a book for insiders in an easy-to-read style.

Some chapters are truly revealing. For example, he shows that Kohl was already trying to build a coalition with the liberal democrats (FDP) during the 1970s in talks with Hans-Dietrich Genscher, who was to become his foreign minister in the crucial months of 1989.

Dreher's description of the negotiations for German unification with Mikhail Gorbachev is a further insight. The crucial agreement with the Russians was not, as Kohl would like us to believe, achieved during private talks with his "friend Mikhail" in the Caucasus. Gorbachev's and Kohl's administrations had already agreed during their official summit in Moscow the day before.

Also, according to Dreher, Wolfgang Schäuble has been Kohl's designated successor since well before last autumn, when he was publicly anointed. Kohl has been trying to build him up as the future chancellor since 1990. But he has never decided when to resign, so Schäuble runs the risk of getting what his party friends call the "Prince Charles syndrome": to be the eternal successor, because the right moment for the change may never happen.

Busche only seldom refers to such power struggles behind the scenes of Bonn's political theatre. He is mainly interested in Kohl's personality and tactics. He expresses conclusions much more pointedly, which are mostly supported by the facts that Dreher describes. But informed readers who might be bored by Dreher's reconstructions of Kohl's successes and defeats – he needed two attempts to become party leader and chancellor – will long for Busche's fresher, more daring views. Kohl never manages to rise above Germany's profile. He only confirms it, but – to his advantage – does it perfectly.

ROLAND WEIHRAUCH

Hatchet job: carnival revellers show Kohl butchering the deutschmark

"With his Palatinate accent Kohl personifies Germany's provincialism and, with his lack of vanity, its stuffiness. With his unsophisticated thoughts and his ungainly language, he asserts its harmlessness," says Busche. These qualities (or non-qualities), noticed by almost every well-educated person, have been sensed by Kohl's constituents as early as the 1970s, Dreher reports. Even Kohl does not think that rhetoric is one of his best skills. His first speeches in Mainz's Landtag, where he became prime minister in 1959 and minister president of Rhineland-Palatinate in 1969, were embarrassingly bad. The same is said about his first speech in the Bundestag in 1976.

His then press officer persuaded him to represent, in future, the average citizen, which would cover up Kohl's tendency for uncontrolled outbursts and arrogance, Dreher writes. In March 1983, six months after the liberal FDP left Schmidt's government and formed a new one with Kohl, this image might also have attracted voters. With 48.8 per cent, Kohl got the second best result ever for the CDU (only Adenauer in 1957 won more votes).

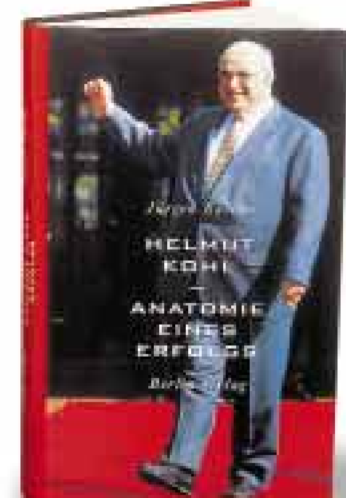
Dreher, who thinks that Kohl's doggedness is the secret of his success, also gives some hints on his outstanding skills, especially in the first chapter of his book, which deals with Kohl's youth.

Born in 1930 in Ludwigshafen, Kohl grew up in the petit-bourgeois family of a local government official, who believed that modesty hardens one's character – an opinion that his son adopted. After the war, in which Kohl's elder brother Walter died, the 16-year-old joined the CDU, enthused by the then emerging European idea. He also joined a group of young people who broke down barriers at the French border.

In school, Kohl, who was an average pupil, was quick to realise the importance of making friends. During examinations no pupil wanted to sit in the first row, so lots were drawn for the seats. The giant Kohl, who was at that time already 1.93m tall (but still slim), pushed through the crowd, grabbed some lots and kept the best ones for himself and his friends. Throughout his career he has made a virtue of using talented friends. "His closest collaborators are always more diligent than him – otherwise they would not have become his assistants. Often they are more intelligent than him – otherwise he would not have chosen them," Busche writes.

Kohl's other great skill is primarily passive (sitting things out). "He likes talking things through until all participants lose patience. More intelligent strategists always reach this point sooner than Kohl," Busche claims.

But those who desert Kohl can be sure to reap his anger. During his chancellorship Kohl has dismissed 38 junior ministers. Dreher suggests that the choice of the almost unknown Peter Hintze as the new CDU general secretary in 1992 showed that the reserves of new personalities among Kohl's friends have thinned out. Busche agrees: "The ship is not sinking but it is in danger of turning into a ghost ship." As for the forthcoming general election on 27 September this year, only Busche dares to give a prognosis and then hesitantly. He thinks that Kohl will not win again because he is not able to cope with the fact that there are now more parties on the left than when he developed his system of gaining and maintaining power. He doubts that the weak FDP is strong enough to jump the five per cent hurdle. Even if it succeeds it is disputable whether the CDU/CSU will win enough votes to build a coalition with them.



The opinion polls are bad for Kohl. But Busche forgets that Kohl can still rely on important "friends", notably Leo Kirch, the media tycoon, whose influence extends from the SAT1 television channel to the Springer Verlag with its newspapers *Bild* and *Die Welt*. Helmut's helpers have not yet abandoned him.

MATTHIAS SCHATZ

CULTURE CLASH

Sturm und Drang rage around Goethe's refuge

FOR years the Goethe Institute in Marseille has provided an oasis of Teutonic calm in a city where the pace of life is rarely less than frantic. Outside, political scandals come and go as secular economic decline deepens. Inside, thoughts are free to turn to Beethoven rather than Bernard Tapie, the rogue socialist who once controlled and corrupted the local football club.

At least they used to. When the culturally famished turn up at the doors of the Goethe Institute (GI) on 1 April, they will find the doors to further enlightenment locked and barred. And this will be no *poisson d'avril*. Along with nine other institutes across Europe, and 15 more before 2000, Marseille's sanctuary for Germanophiles is to shut down for good. As far as this corner of southern Europe is concerned, Hegel's dialectic will have finally come to a full stop.

The reason for what is being called "a crime against the intellect" is the determination of the German government to keep its cultural budgets under control. Edification and education come at a price: in this case DM305 million ($168m) in government funding last year for the 141 GIs around the world. Chancellor Helmut Kohl's administration has decided that a spot of downsizing is in order.

The government has demanded that staffing levels should be reduced by two per cent every year until the new millennium. Fifteen GIs have since closed down and Marseille is the latest casualty of the philistines in Bonn.

The outcry has been vociferous. More than 1,000 intellectuals signed a petition insisting that their GI be saved. School pupils and teachers sent wave after wave of letters, faxes and e-mails to GI headquarters in Munich. One complained of "the loss of a magical place"; others talked of being "affronted" by the fiat handed down from Bavaria.

All to no avail. Hilmar Hoffmann, the 73-year-old president of the GI, merely throws up his hands. The edicts from the capital brook no opposition. But he does show signs of resenting his role as a particularly malign kind of culture vulture. "If I have to close more than the scheduled number of institutes," he says, "I will resign. The absolute limit has been reached.

"With nine closures we will, this year, save around DM5m. In the context of the government's total budget, this is a tiny sum. And yet the cultural damage these shutdowns will do to Germany is huge."

Klaus Kinkel, Germany's foreign minister, apparently agrees. He has just made a point of stating publicly that this wave of cuts should be the last and emphasised the "great importance" of the GI's work. But to crestfallen employees in places such as Marseille, Reykjavik, Tampere and Århus, all he can offer is sympathy. His colleague, Finance Minister Theo Waigel, is unable to give even that. Adding insult to injury, Waigel recently pushed through legislation which will make it considerably more difficult for the GI to find new sources of finance. From now on, hefty taxes will have to be paid on sponsorship income: $1m from Lufthansa, for example, would generate a tax bill of $430,000.

Most galling of all, the GI's natural rivals in the highbrow market are flourishing, especially the French. The *Süddeutsche Zeitung* recently published a lengthy piece unfavourably comparing the cultural priorities of Paris and Bonn, noting that while austerity rules on one side of the Rhine, the French have sacrificed projects such as the renovation of the Grand Palais in order to maintain funds for the 138 Instituts Français dotted across the globe. The French have 23 *instituts* in Germany; after Marseille goes, there will be just six GIs in France.

Ramming the point home with relish, Jean-Jacques Victor, deputy cultural attaché at the French embassy in Bonn, comments: "Culture is an essential part of France's image in the world and counts as an essential part of our diplomacy." In eastern Europe the French are in expansionary mood. New institutes have been opened in Bratislava, Moscow and St Petersburg.

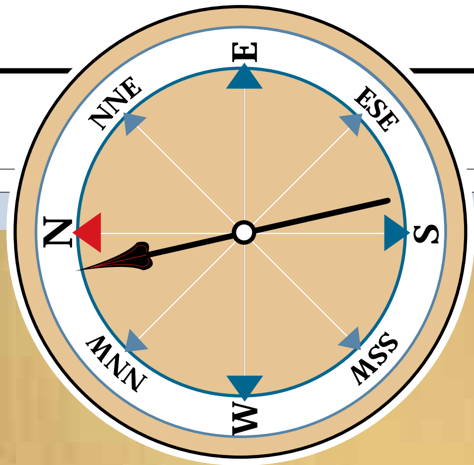
The British too, despite a 10 per cent decline in funding last year, have refused to contemplate contraction and retreat. As long as the world continues to use English as a second language, the British Council will enjoy a natural competitive advantage. Its 118 teaching centres put 450,000 pupils through examinations last year. As with the French, cost-cutting has taken place domestically rather than abroad.

Hoffmann, in an attempt to find a cheap way round his funding problems, has begun to think in terms of joint ventures. One idea being mooted is a European institute in China which would lump together the cultural resources of the British, French, Finnish and Swiss, as well as the Goethe Institute. "We could use existing facilities in Beijing as a basis or we could found an institute in Shanghai," he comments.

But it remains to be seen whether volumes of Nietzsche and Voltaire will ever be seen side by side in a pan-European library. The continent may be about to merge currencies but the sharing of intellectual prestige may be another matter. "There is no German culture; only culture from Germany," says Hoffmann, but the various institutes have long been jealous promoters of national heritages. Old habits die hard. Then again, Goethe himself did say once: "National literature no longer means very much; the age of world literature is due."

Some 170 years on, that shift may have become an economic necessity for the institute that bears his name.

JULIAN COMAN



FENG SHUI

DESK for success

Mark Porter

WHAT have Marks & Spencer, British Airways and The Body Shop got in common? Answer: they all believe in magic. And they're not the only ones. More and more businesses now seem to think that if you rearrange the furniture, hey presto, you can make bigger profits.

The tough nuts of the corporate world have taken to using the ancient Chinese art of *feng shui* in the quest for higher share prices after being persuaded by holistic gurus that a dab of red here, a mirror there and a dangly widget in the middle would enhance health, wealth and happiness.

British Airways has just finished building $300 million offices at Heathrow that will house 2,750 employees. The operation has been overseen by Simon Brown, a feng shui consultant and author of two books on the art.

"We think that feng shui will help boost work performance," says a BA spokeswoman. "It is also very agreeable. I'm sure we'll use it in future building projects."

Says Brown: "Often, people don't think of the implications of the colour schemes. Walls, floors, desks and bookshelves can make a huge difference to the mood of a building and the wellbeing of those in it." So who benefits from certain colours?

"For accountants, who do intensive but uncreative work, grey or white walls are best," says Brown. "For a dynamic feel for an expressive and motivated sales team, you need reds and purples. For barristers involved in high-profile cases and for journalists, greens and blues are the appropriate colours.

"If you can inspire your team, then they might have the competitive edge. Not so long ago such considerations would have been unthinkable; the workplace was somewhere you went in order to earn a wage. Consequently, the environment often left a lot to be desired and this, in itself, can be stressful."

Feng shui, which translates as wind and water, works on the principle that everything on the planet is made of energy or vibrations. By learning to realign this energy, you create a more positive and productive atmosphere. It is thought that the way a house or office is decorated, the placement of its contents and the building's orientation can all affect the energy flowing through it. If an area is negative, there are ways of redirecting the energy, thereby making it a happier place. Happy workers are more efficient and efficiency leads to profit. Or so the theory goes.

Feng shui took 2,000 years to reach Europe. It has won high-profile supporters, including Prince Charles and Donald Trump. London's Canary Wharf was designed with feng shui principles in mind. Devotees of the art can read about the latest developments in the world's first feng shui magazine, *Feng Shui for Modern Living*, which has just been launched.

Sir Richard Greenbury, chairman and chief executive of Marks & Spencer, was one of the first western bosses to use the practice. He called in consultants for the company's store in Hong Kong.

Graham Gunn runs Holistic Environment Engineering and is a management consultant with experience in high-tech multinational projects, as well as working for Nasa on the design of space stations. He says: "If your working day is a long, hard slog dogged with obstructions, stresses and interruptions, which leave you exhausted and depressed, then you should take a serious look at your working environment.

"There are connections between the details of our working environment and the stresses we experience. Feng shui brings our attention to these obvious and not-so-obvious links. Many people are put off initially by the mystical surface structure in which feng shui is often presented. We need to look beneath this surface to find the gems of wisdom it conceals."

OK, I believe you. You win. I'll buy some. How much? "The effects are hard to quantify because they are indirect and unpredictable," says Gunn. "This means the cost of feng shui does not fit easily into traditional budgets."

Trenta Technologie of Augsburg in Germany was experiencing difficulty in selling its new lighting product. The company was in all sorts of trouble because its office had "low energy levels and a bleak view".

Gunn redesigned the managing director's office, advised him to apply for a European Commission grant (which he got) and the company climbed out of the mire. The magic also worked for a company called Prexim in Warsaw. And we can expect to see a rise in the share prices of Innovation Media in London.

The latter is a subsidiary of American-based IPG, the world's largest advertising group. It needed to double its staff in London and this entailed moving premises. "The new place was dowsed and negative energy flows were dealt with. It was enhanced by feng shui for a cost of about $7,500 for the consultation," said the company's designer, Michael Cheong.

While most captains of industry might think of feng shui as a form of martial arts, clearly some believe it is anything but wind and water. ■

Simon Brown is the author of The Principles of Feng Shui *(Thorsons) and* Practical Feng Shui *(Ward Lock). He also runs feng shui courses. For details, call +44 171-431 9897*
Graham Gunn can be contacted on +44 181-567 2043 or at HEE Ltd, 18 Alacross Road, London W5

Your desk is a tool to help you work. The primary consideration is to ensure that it serves your needs efficiently. Make sure the size of your worktop and the storage space are more than sufficient for your needs. When you sit down at your desk, you will ideally feel you have all the space and resources to take on new challenges. In this sense, your desk should help you to do more in a day. The direction your desk faces will expose you to different types of energy. You must decide whether the energy you are getting is one that will help you to succeed.

1 Facing east will align you with the rising sun and the beginning of a new day. This energy is supposedly the best for starting new projects, developing new ideas and expanding your business. It is an advantage to sit with the entrance in your view and be facing towards the centre of the room. Place a compass on the centre of your desk and keep nearby things associated with beginning new projects, new ideas and the future. This could include your business objectives and an in-tray.

2 Keep items associated with communication to the southeast. The *ch'i* energy of the southeast is associated with wind and therefore helps to spread ideas in the same way as wind spreads seeds. Useful equipment to place here is a telephone and fax machine. Equally, this would be a good place to keep letters.

3 The southern part of your desk is associated with fire *ch'i* energy, which is helpful for being noticed. This would be a beneficial place to keep awards or items related to sales.

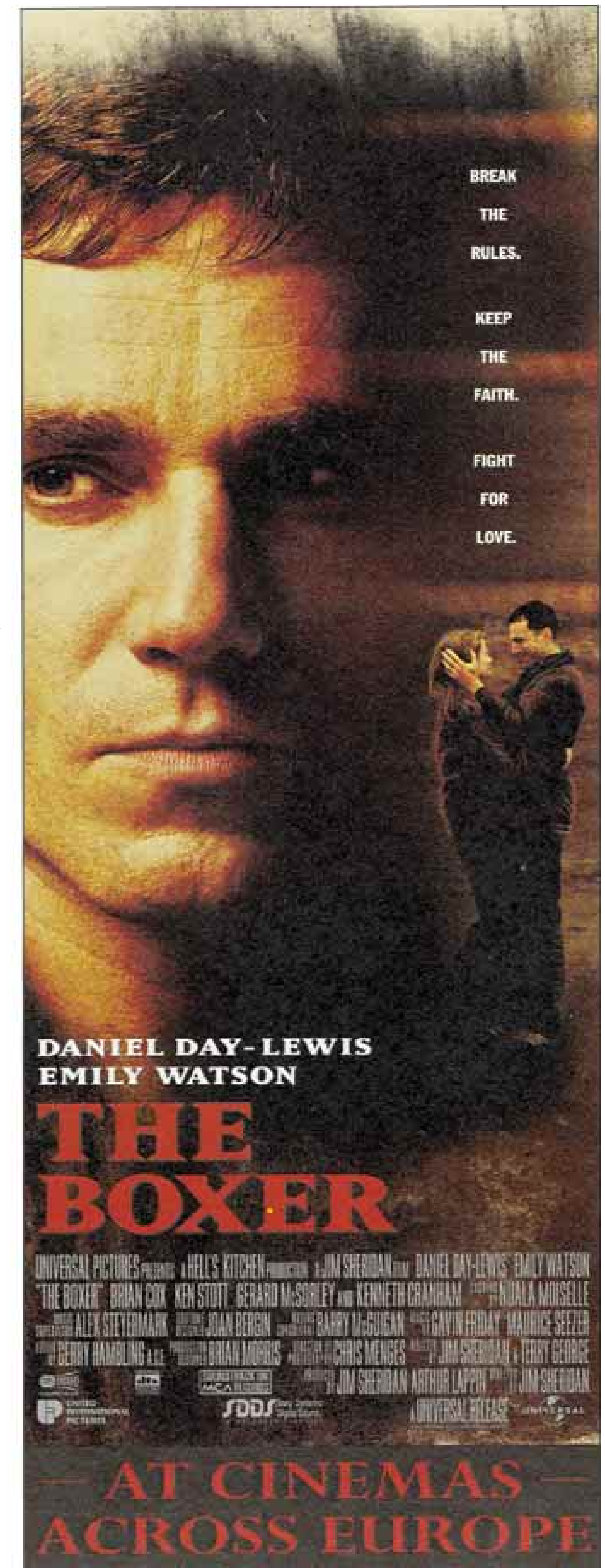
4 The southwest part of your desk is associated with the sun descending in the afternoon sky, making it helpful for consolidating your achievements. Keep pictures of other people in your team or valued long-term customers here to help strengthen your relationships.

5 West of the centre of your desk is a *ch'i* energy associated with sunset and the end of the day. This is ideal for completing projects and receiving financial rewards. Here you could place an out-tray and keep your paying-in book, cheques and cash waiting to be banked.

6 The northwest segment of your desk has a *ch'i* energy that is associated with leadership and organisation. This would be a useful place to keep a Filofax, planner or organiser. The north part of your desk would be a useful place to keep things to do with developing yourself to be more successful.

7 The northeast section is associated with taking risks, motivation and being competitive. Here would be a helpful location for papers relating to investments or pictures of materials and things that would motivate you such as cash-flow projection charts.

SIMON BROWN



Zeitgeist

TEETH

KOBAL COLLECTION

Dental disasters: Dustin Hoffman climbs into Laurence Olivier's chair for the 1976 film *Marathon Man*

No pain, no kidding

Cath Blackledge

THE dentist's needle is twice the size of a conventional hypodermic; the inside of the mouth is a mass of nerve endings. If the patient is nervous then the pain threshold drops, making the procedure feel far more painful. It is not surprising that so many people try to avoid going to the dentist.

"I haven't been to the dentist for years," admits Ian Evetts. Two out of three Britons and more than 50 per cent of Europe's population stay away from the dentist. Nervousness about dental treatment is the main reason for the high absenteeism rate: 23 per cent of the British population say they would rather suffer from toothache than pay a visit to the their dentist.

Evetts, though, is the business and marketing development manager at a biopharmaceuticals company called Chiroscience, which together with PowderJect, a fellow British firm, is working to make the painful experience of the dentist a thing of the past.

The two companies are developing an anaesthetic injection system which, like that used by Dr McCoy in *Star Trek*, is needleless. The dental device, called Oral PowderJect, gets round the need for a needle by powering an anaesthetic through the skin at supersonic speeds. A blast of helium gas from inside the hand-held device provides the lightning speeds for effective penetration of the skin.

The device, developed originally by PowderJect, is not the first needle-free injection system; others are already commercially available. But previous needle-free devices have worked by firing a jet of liquid at high speed through the skin; though they may be needle-free, they are not pain-free. The Oral PowderJect system and its big brother, the Dermal PowderJect, go a step further beyond the pain barrier and promise to be needle and pain-free.

Injections hurt for two reasons: first, the needle punctures the skin; then, more pain signals are triggered when a heavy dense liquid is pushed into and under the skin. The needleless device by PowderJect is painless because it avoids triggering pain sensors by firing a fine powder of low density, rather than a heavy dense liquid. A silencer is fitted as part of the system so that all the patient hears is a tiny sonic boom. Some noise is necessary because otherwise neither the patient nor the dentist would know the injection had taken place.

Chiroscience's part of the deal is to test out its drugs – the anaesthetics lignocaine and Chirocaine – in the dermal and oral devices. The company is assessing whether the correct amount of drug gets through the skin, the depth of the anaesthetic block that is felt and whether the skin is irritated by the procedure. If the testing continues to go well the oral product is just a couple of years away from becoming widely available.

The needle-free injection is set to become just one tool in the dentist's kitbag as it widens to encompass gadgets designed not just to create a healthy mouth but the perfect smile as well. Twenty years ago 28 per cent of British adults had no teeth; at the start of the 1990s that figure had dropped to 17 per cent; and by 2008 the British Dental Association predicts it will have fallen to 10 per cent. Most people now expect to keep their teeth for life and want them to stay looking healthy. "The focus is on aesthetics and prevention of disease, not just treating the consequences," says Maria Mindak of the World Dental Federation.

This shift in focus copies America's obsession with achieving the perfect smile. European consumers, in particular those in Germany, Britain and Scandinavia, are embracing cosmetic dentistry, such as orthodontic procedures and implants instead of dentures. Although the dental industry in continental Europe is still dominated by single-handed dental practices, the consumers' awareness of what can be done to improve their smiles is beginning to change the way dentists do business. In Britain, the move to small business units – chains of dentists such as White Cross and Dental World which act as one-stop shops for dental treatment – has begun.

This opening up of the dental industry in Britain is expected to mirror that of the high-street optician, where consumers have benefited from the increased choice and reduced prices that corporate optician outlets have nurtured. Private investment and competition in the dental business should help to bring down the costs of dental treatment and help make treatment available at high-street dental practices at the best price. The British might even develop smiles that stop Americans smirking at the generally low quality of their teeth.

PowderJect is not stopping at perfecting the best injection system for the mouth and skin. Deals have been signed with an American biotechnology company, Insite Vision, to deliver drugs to the inside of the eyeball for the treatment of conditions such as glaucoma; PowderJect has linked up with Pfizer to look at ways of delivering the impotence drug alprostadil to the penis. The companies also have their sights set on the big money-spinners: needle-free injections for diabetics and vaccinations. ■

COUNTING THE COST OF TEETH

How the price of dental treatment compares across Europe

	Check-up	Filling	Cap
Turkey	10	28	315
Spain	7–20	30–50	160–225
Germany	10–20	20	270–330
France	20	15–40	500–1000
Greece	20–40	20–30	100–140
Italy	30–40	40–50	280–330
Sweden	40	40–70	250

All figures in $

SOUNDBITES

■ A red gel that dissolves tooth decay in half a minute reduces the need for the dentist's drill in Sweden. Carisolv has been developed by a Swedish company, Medi Team. When a few drops are applied to the cavity, the sodium hypochlorite attacks the decayed dentine while the amino acids stop the bleach solution from damaging the rest of the tooth. The dentist waits 30 seconds before scraping the cavity and repeats the process until the decaying material dissolves; the gel then changes from cloudy to clear. Medi Team is planning to launch the gel in Germany at the end of the year and in Britain, Italy, France and Spain by 1999.

■ Drilling could also be minimised as the result of a device called the Dentron Biogun. The brainwave of Jonathan Copus, a British entrepreneur, the system, dubbed the electronic antibiotic, works by bombarding the microbes that cause decay with a concentrated stream of negatively charged air particles, sterilising the surface of the tooth and halting decay. Copus sees the Biogun as a way of catching dental damage in the early stages. The hand-held device, which looks like a pen with fine wire protruding from one end, is on the market in Britain and should be available throughout the rest of Europe by the end of April.

■ An auto-repair system that could make fillings unnecessary and cut back on drilling is being developed by scientists at Birmingham Dental School in Britain. The researchers are trying to encourage teeth to repair themselves by growing back after bacteria have eaten into them. Dentine, the tooth's main material, contains minute amounts of signalling molecules called growth factors. Their job is to tell the dentine-secreting cells to start laying down dentine. These dental signals are switched on in infants but appear to lie dormant in adults. The British dental team is looking for a way of turning on these signalling molecules at the site of decay. However, a potion which can be applied to the tooth is at least 10 years away, according to the lead researcher, Dr Tony Smith.

PROPERTY

ITALY

Lombardy fog still shrouds Milanese deals

Galina Slepneva

ROME may be eternal but Milan knows how to reinvent itself. The canny Milanese have profited for centuries from their strategic position on the Lombard plain: theirs is the first city of importance that tired north Europeans come to after crossing the Alps.

The old route from the Simplon Pass enters northern Milan as the Via Sempione, built by Napoleon in the style of a Parisian boulevard. To the south of the city the Autostrada di Sole stretches the length of the Italian peninsula, passing through Rome and Naples.

Milan straddles the route, so it is natural for the visitor to pause, perhaps to take a Fernet Branca at the café Cova on the Via Montenapoleone. This is the moment when you are waylaid by a well-dressed member of the *Milanese bene*, the ultra-snobbish business oligarchy who are as *furbo* (sharp) as any Neapolitan railway tout whom they so denigrate.

"Why bother to go farther south when Rome is so corrupt and slow?" they ask. "Stay here in Milano: we are so much more transparent than the Mezzogiorno and we are closer to Europe." A significant number of German, French and Japanese corporations and banks have bought the story. Senior foreign executives from Schroders, Morgan Stanley, Crédit Commercial de France, Dai Ichi Kangyo, Sumitomo and others have piled into Milan.

Like the foreign merchants clustered around their churches in medieval Constantinople, expatriates in Milan tend to rent property close to their respective international schools.

Deirdre Doyle of Property International explains that the French are mainly located close to the Lycée Stendahl in the San Siro area, near the Fiera (Milan trade fair). Milan's superb ability to link art and architectural design is exemplified by the QT8 district, designed by Piero Bottoni in the early 1950s to coincide with Milan's eighth Triennale Fair. Apartments with gardens, some with swimming pools, command a monthly rent of L5 million ($2,790) plus L1m ($558) for condominium charges.

Senior American executives with families like to live in the city centre. A school bus takes their kids to the American school in Noverasco di Opera, just outside Milan. An apartment of 250-300 square metres costs around L100m per year. Other American expatriates live in the suburban development Milano 3, where apartments are smaller, at 170-180sqm, but offer garages to facilitate weekend escapes to Lake Como. The annual rent is about L70m-80m and L12m charges.

The British, who send their children to the Sir James Henderson School, are found mainly in Milano 2, Cirnusco su Naviglio, the individual villas in Segrete and the new development of Villaggio Ambrosiana. The Japanese in Milan tend to live near the Bande Neri metro station, close to the Japanese school on Via Arzaga.

> **The lack of 'transparency' could explain why foreign investors are relatively few**

This international influx of banks and financial intermediaries follows a domestic pattern dating back to the turn of the century. Then Milan created a banking infrastructure that included Banca Commerciale Italiana and attracted regional banks such as the Banca di Genova, later to become Credito Italiano.

It was these institutions that gave Milan the platform upon which it could expand in the process of Italy's postwar reconstruction. To the annoyance of Rome, Milan has succeeded in the past 50 years in positioning itself as Italy's de facto capital in commercial matters.

Milan has long since seen off its late-medieval rivals in northern Italy: the great trading cities of Florence, Genoa and Venice. Turin has also passed its peak and is regarded by the Milanese *bene* as no more than a company town run by Fiat.

The city's *disponibilità*, or flexibility, when it comes to drawing in new blood has been a key factor in its modern success. Milan has sucked in hard-working and ambitious people from the deep south, such as the late Gianni Versace. It is a magnet to people in the Lombard hinterland, in particular Brescia, which acts as a New Jersey to Milan's Manhattan and provides a lower middle-class commuter belt and home for light industry.

Remarkably for a population of only 1.37 million (four million in the whole of greater Milan), occupying an area of only 181 square kilometres (compared with Rome's 1,308sqkm), the city generates about 10 per cent of Italy's GDP, or L200,000 billion ($110bn).

Milan's urban geography has expanded in a series of concentric circles. The innermost circle covers an area of 8.32sq km and follows the line of the medieval walls. Within this Cerchia dei Navigli are found the symbolic heart of Milan: the Duomo and the Teatro La Scala. Farther out is the circle that follows the line of the old Spanish walls, the Viali. Here run the remnants of the canals that were 18th-century Milan's highways to Europe; Goethe arrived in the city by boat. This waterfront district has undergone a process similar to the Quartier Latin in Paris, from cheap-and-cheerful bohemia to prime gentrified property. A two-bedroom penthouse here costs about L7m per month.

Italian prime office rents went into a 40 per cent freefall, from a high in 1991 of L750,000 per sqm per year down to L450,000 in 1994. Pier Luigi Fusacchia, a Milan estate agent, cited the example of a 700sqm prime property only 50 metres from the Duomo that was sold in December for a third of what it made a decade earlier. Although the past four years have seen prices bumping along at the same level, Nick Barnes of DTZ Debenham Thorpe predicts that this year there is "reasonable prospect for some rental growth" as Italy slowly comes out of the recession.

High-quality office space in the city centre is in short supply and industrial companies are moving to out-of-town developments. BMW and Agip have acquired space in Metanopoli, a development in the San Donato area to the south. The quoted price is about L300,000 per sqm. In the north, companies such as Siemens, Digital and Deutsche Bank are taking space in Bicocca, a mixed-use development of about 180,000sqm sited on a former Pirelli factory.

Modern retail space is also in great demand and costs more than in Rome: L2m per sqm compared with L1.5m per sqm. There have been some moderate rental increases in the pocket of prime real estate known as the *quadrilatero d'oro*, or golden rectangle. Within a few streets around Via Montenapoleone, known to the cognoscenti as "Montenapo", is a concentration of Italy's greatest design and jewellery houses. The litany of names includes Missoni, Armani, Ermenegildo Zegna, Gianfranco Ferre, Krizia, Dolce e Gabbana, Valentino and Versace. To have a presence in this heaven is thought so important that there is always a strong appetite for space, even when it is rumoured to make a loss.

In the post-1999 Europe of the single currency, Milan is set to become a significant player. It has the stock exchange; it has the Bocconi Business University, whose alumni graduate effortlessly into the Piazza Affari (Milan's aptly named business square) to run banks and businesses; the international fashion industry revolves around the New York-Paris-Milan axis; and the city's media and service industries are so powerful that the Fininvest Mondadori group provided a springboard for Silvio Berlusconi to take power in Rome. Lack of transparency, as it is euphemistically called, may explain why comparitively little foreign investment is seen in the Milan property market.

Berlusconi's 29-year-old son, Piersilvio, known as "Dudi", is like a Sforza duke about town. That is hardly surprising, given that the new mayor of Milan, Gabriele Albertini, was elected on the Polo ticket – that is Dudi's papa's party – with the unsavoury and little-publicised support of the former Italian Fascist party, Alleanza Nazionale.

A few years on from the scandal of Tangentopoli – the "City of Bribes" – magistrates were meant to have cleansed Milan's Augean stables. Yet the higher reaches of the property world are as impenetrably foggy as the city's climate ever is. The verdict of Dr Roberto Peretta, an expert in contemporary Milan, is: *Tutto come prima ma non proprio* – "All as it was but not exactly." ■

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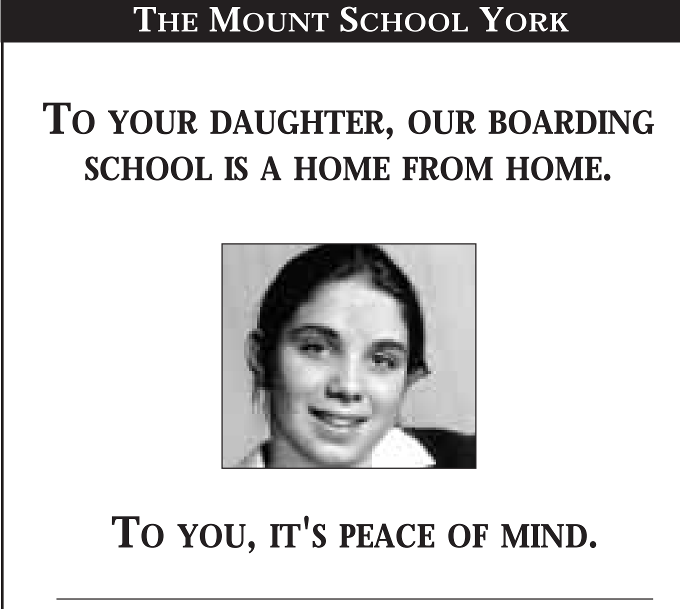

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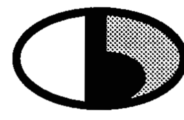

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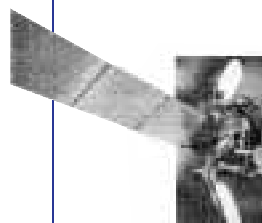

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WORLD CUP

French ticket touts may add to fans' fury

THE continuing row over ticket allocations for the World Cup dominated a conference last week on security at the tournament. Sixty-five per cent of the seats for this summer's month-long event will go to the French public with just 16 per cent earmarked for foreign fans. Some of the best-supported countries, including Germany, England and Denmark, will have as few as 3,000 tickets for some matches. This will satisfy barely 10 per cent of the demand. Several national football federations have already warned that this disparity will lead to violence.

Jack Straw, British home secretary, who chaired the security conference in Blackburn, northern England, said he would press the French organisers to increase the allocation for travelling fans. Straw is not alone in his criticism. The European Union's commissioner for competition, Karel Van Miert, has rapped the French on the knuckles. He ordered them to reduce the restrictions on foreigners buying tickets and increase the numbers available to them.

This year's World Cup is the biggest ever, with 32 teams taking part. As France is within easy travelling distance of many of the participating countries, ticket touts will enjoy more business than ever. The French are basing their security policy on having rival fans at either end of each stadium with a buffer zone of locals between them. The prime concern of any tout, however, is his wallet; he will sell tickets to anyone, regardless of nationality.

Away from the stadiums, disappointed fans unable to gain admission will be milling about outside. They will almost certainly be bored, probably drinking heavily and a minority will be looking for trouble.

There is a chance that Germany will face the Netherlands and Croatia will play Yugoslavia. These are obvious flashpoints, but a combination of sun and wine could cause problems among normally well-behaved fans.

To tackle the risk of violence, the French will deploy 6,000 police and they are also introducing tough law-and-order measures. Special 24-hour courts will be set up near each stadium during the tournament to deal with hooligans on the spot. Selling tickets at more than face value is illegal in France and the authorities have threatened to crack down on touts.

Anyone convicted in the early stages of the World Cup will be deported and refused re-entry to France until the competition finishes. There are also plans for anyone prosecuted in France to be dealt with by their own authorities when they return home.

Sadly, by preventing the majority of fans from getting their hands on tickets by legitimate means, the French are ensuring that such punishments will have to be handed out.

GEORGE ROWLANDS

EMPICS

CHAMPIONS' CUP

Dynamo powers Ukrainians' hopes

Dominic O'Reilly

OUTSIDE the Dynamo Kiev stadium is a statue revealing why the club enjoys such unsurpassed affection in Ukraine that it has become Europe's best-supported team.

During the Nazi occupation, what was left of the pre-war Dynamo side took on a German team which was hugely confident of success. As a precaution, the Ukrainians were told to throw the match. They ignored the orders, beat the Germans, and were executed.

The legend of this "Match of Death", combined with the winning of more Soviet titles than any Russian club, ensures Dynamo will have the support of the whole Ukrainian nation for its Champions' Cup quarterfinal against Juventus. The first leg is in Turin on 4 March.

Dynamo's attendances in this season's Champions League averaged 90,000, dwarfing the next best figure, Real Madrid's 56,000. A full house of 100,000 is guaranteed for the second leg of the Juventus tie.

Three years ago Dynamo could only dream of playing such a match, having been thrown out of the Champions League for attempted bribery of a referee. The mood of the Ukrainian people is hugely influenced by Dynamo's fortunes, and the bribery scandal was a national humiliation. The affair typified the corruption endemic in this former Soviet republic. Such was the shock that the country's president pleaded in person for Dynamo's readmission to European competition.

Now it is once again one of the most respected teams in Europe, with the world's biggest clubs offering tens of millions of dollars for its outstanding young players. Defeating Barcelona 3-0 and 4-0 this season proved the club is back to its peak of the mid-1980s when it won three European trophies and provided nine members of the Soviet Union team for one World Cup.

Dynamo was led to these successes by Valery Lobanovsky, who returned from a period in the Middle East to revive his beloved club after the bribery scandal. Lobanovsky's scientific approach to coaching relies on the repetition of training drills which gives the players an almost telepathic awareness of where their team mates are.

He is one reason why, unusually for east European clubs, Dynamo has hung on to its best players. Striker Andriy Shevchenko, who scored a hat-trick in Barcelona, turned down $22 million transfer offers from AC Milan and Manchester United "to continue learning under Mr Lobanovsky".

Such is the prestige of Dynamo that the country's politicians, including the president and prime minister, flock to be seen at the ground on matchdays. So many of the leading figures are present it is said that most of the country's business is decided during the half-time interval.

The club is run and financed by Hryhory Surkis, who has pumped more than $70m into Dynamo since taking it over five years ago. With a commercial empire that includes a television station and a law firm, Surkis typifies the new breed of entrepreneur who sprang up from the disintegration of the Soviet Union.

His involvement with Dynamo has been criticised by some fans, who are sceptical of his seemingly altruistic behaviour; they believe Surkis enjoys numerous government perks in return.

There are also those who claim that, like vodka, Dynamo's success distracts Ukrainians from the importance of implementing economic reform.

Theirs are isolated voices, however. Nothing will ever persuade the average Ukrainian that Dynamo is anything other than wonderful. It is why even the mighty Juventus, European and world champion two years ago, will be wary of taking on the dark horses from the east.

In charge: Kiev (right) proved this season the club is back to its best

IN BRIEF

Crystal Juve

ITALIAN champion Juventus may take a 10 per cent stake in English Premiership side Crystal Palace. Computer millionaire Mark Goldberg announced after his $50 million takeover of the London side that the Italian side would take a financial stake in the club.

This was denied by Roberto Bettega, Juventus vice-president, who said that the two clubs had a deal for technical collaboration but no commercial or financial accord.

Despite Bettega's denials, there remains the possibility of Juventus receiving a share of the club as part payment for two players bought by Palace this season. The balance of the transfer fees is due to be paid by the beginning of May. If any deal is signed, it would be the first investment in English football by an overseas club. Juventus had talks with Second Division side Oxford United last year over an involvement to allow the Italians access to emerging talent and provide them with an outlet for their own young players to gain experience.

Taxing game

THE managing director of one of Italy's leading teams has been charged with tax evasion involving the club. Gino Pozzo, head of high-flying Udinese, is accused of facilitating tax evasion totalling $33.7m through the Barcelona branch of his family's wood products industrial group. Pozzo's office in Barcelona was searched as part of a two-year investigation into the club.

The Pozzo family, which has owned the club from Udine near the Slovenian border since 1986, described the charges as "mad" and said that Udinese was suffering special attention from the authorities. They announced they had no option but to sell Udinese, currently in contention for the Italian league title, at the end of the season.

In 1992 Udinese paid an undisclosed sum to settle tax irregularities involving payments made to several South American players. The club is also involved in another inquiry into alleged tax evasion by a former player unconnected with the main investigation.

DOMINIC O'REILLY

Why no one wants to work at the European Central Bank PAGE 50

ICE HOCKEY

Gold brings Czechs' revenge

Frantisek Bouc
PRAGUE

IN the biggest public gathering since 1989's Velvet Revolution, 200,000 Czechs brought Prague to a standstill to welcome the country's ice hockey team back from Olympic success in Japan, where they beat Russia in the final.

Fans lined the route from the airport to Prague city centre and waited up to nine hours for the team. A further 140,000 packed into Old Town Square, site of the official celebrations, with thousands more in Wenceslas Square waving flags and chanting *At ziji zlati hosi* (Long live the golden boys).

Ice hockey is a national passion in the Czech Republic. The triumph in the Olympic tournament, which for the first time featured the game's biggest stars from the North American National Hockey League, brought the country to a halt for two days.

The Czechs have suffered a year marred by political turmoil, economic woes and floods. The victory gave them an excuse to party. Celebrations started on 23 February when 70,000 fans watched the final, which started at 5:45am, on large screens in Old Town Square.

Victory was especially sweet because it was at the expense of the Russians. It came 50 years to the week since Soviet leaders orchestrated a communist coup in Czechoslovakia. Two decades later Soviet tanks rumbled through the streets of Prague to crush Alexander Dubcek's reformist government.

The significance of their Olympic success was not lost on the players, who cancelled their plans to go straight back to North America, where they play professionally, from Japan. After the team bus had taken an hour-and-a-half to cover the 10 kilometres from the airport to President Vaclav Havel's villa, star forward Jaromir Jagr, who wears the number 68 on his shirt to commemorate the Soviet invasion, said the experience was worth more than his $48 million contract with the Pittsburgh Penguins.

Petr Svoboda, who scored the winner in the final, defected to the United States in 1984. He hoped that his gold medal-winning goal would finally bring about a change of conversation at his parents' home.

"They are always talking about victories over the Soviet Union," he said. "Now they can talk about me for once."

It was the country's first Olympic hockey gold, although Czechoslovakia won four silvers. On three occasions the medal was devalued because the gold went to the Soviet Union.

Even when they did beat the Soviets, it was impossible for players or fans to celebrate properly.

In the World Championships in Stockholm in 1969, just half a year after the military invasion, the Czechoslovaks twice beat the Soviets. The second win was followed by mass celebrations in the streets of Prague. These ended after a disturbance initiated by *agents provocateurs* among the secret police who smashed windows at the Aeroflot airline offices. It gave the regime an excuse to crack down and end the partying, ridiculing the claim that the Soviet tanks had been welcomed into Prague to restore order.

In 1985 the Czechoslovak ice hockey side beat the USSR to win the World Championships. The scoreline from the match with the Soviets, "2-1", was painted all over Prague in a gesture of passive resistance; it can still be seen today.

Even though games against the Russians should have lost their political relevance with the fall of communism in 1989, the truth is that any major win will always be celebrated by the whole nation, even those who know nothing about sport. This was the case with many of those who were out in the streets this time. Josef Krsek, a pensioner, admitted that he could name only two of the victorious squad. However, he waited for two hours with the national flag in his hand to greet the country's newest heroes.

"They beat the Russians; they deserve it," he said.

The Czechs' head coach, Ivan Hlinka, cried after the 1976 Olympic final when the Czechoslovak team, of which he was a member, lost to the Soviet Union. When he stepped on the stage at the Old Town Square in front of the huge crowd, Hlinka was crying once again, but for a different reason.

"It was like a dream that, this time, it was the Russians who had to shake hands and congratulate us," he said.

Anything goes: a young Czech ignores a policeman's instructions to dismount as he celebrates his country's Olympic triumph

EPA

SPORT

MOTOR RACING

Europe swallows Ecclestone's bluff

Jonathan Noble

FEARS that anti-tobacco legislation would cause the sport to withdraw to the Far East, ending Europe's traditional dominance, have proved ill-founded. The climbdown by four European governments on a series of disputes in the face of tough talk by motor racing's supremo, Bernie Ecclestone, means that F1 will run on its traditional tracks again this year when the new season begins on 8 March.

Apart from the general threat to the sport, some individual grands prix have faced their own problems. The French Grand Prix was threatened by laws which give every television station the right to cover any major sporting event, jeopardising Formula One's exclusive deal with Canal Plus. The country's government changed the legislation in an effort to have the event restored on the sport's calendar.

The Hungarian government, faced with another withdrawal threat, raised its financial support for its country's grand prix, giving $2.5 million to the event to improve facilities and for promotional work which kept the race on the calendar. Belgium's parliament altered its anti-tobacco legislation to ensure the Spa-Francorchamps circuit remained on the Formula One list.

In Britain, motor racing was excluded from anti-tobacco legislation to secure the long-term future of the country's grand prix. That tarnished the squeaky clean image of Tony Blair's new government when it was revealed that New Labour had received a £1 million ($1.64m) donation from Ecclestone.

For Ecclestone, such concessions from governments were just the response he was seeking last year when he threatened to take the sport away from Europe. Nobody had the guts to call his bluff.

"If we are forced to move races to new markets in the Far East because of legislation on tobacco advertising, then we will have to cut certain European events," Ecclestone had warned. "I cannot believe that when people look at this proposed legislation they will do anything to endanger what has become such a successful business. It just seems silly to me to think of harming something which has been doing so well here."

Lord Hesketh, president of the British Racing Drivers' Club, which runs Silverstone circuit, warned that nobody within the sport in Europe should become complacent. He believes Ecclestone's threats have only receded, not disappeared.

Hesketh has expended much effort on making sure Silverstone could exist as a viable business if it were to lose the British Grand Prix.

"If Formula One did move away, teams would find that it is cheaper to service their cars in Asia rather than flying back to Europe every two weeks," he said. "They would set up bases there, where they would probably receive support and money from Asian governments. Eventually the whole sport would move there."

He added: "No one should underestimate the risk of us losing the British Grand Prix. It is only because of the current financial crisis going on in southeast Asia that Korea, Malaysia or Indonesia have not been added to the calendar."

But gloom-merchants may be underestimating the overall strength of Europe's position. Ecclestone may have faced down several European governments but, even if he had not got his way, he would probably have been forced to remain in Europe regardless.

No other venues are realistic alternatives. Ecclestone has long conceded that North America, despite its Indycar racing, does not have a suitable venue for Formula One. The problem with taking grand prix racing to Asia is not only the current economic crisis among the tiger economies but also

PAUL HACKETT

Four-nil: Ecclestone has forced a quartet of Europe's governments to change their laws in order to keep their grands prix. But the Formula One supremo's position may not be as comfortable as it seems

the continent's tobacco advertising laws. These are just as stringent as any in Europe.

Thailand and Singapore have total bans on tobacco advertising, while countries such as Indonesia, Malaysia and China have complicated partial bans that should exclude international sporting events such as Formula One.

"It would be a problem," admitted Hanifah Yoong Abdullah, a director of the Shah Alam circuit in Malaysia. "In Thailand the situation is now so bad that if a television station wants to broadcast a race from Australia, where tobacco advertising is allowed on cars, they have to blur out every manufacturer's name and logo."

These hurdles discredit the argument and all the headlines that Formula One could casually have relocated itself on the other side of the world in time for the new season. But if Asian governments change their own rules to lure Formula One eastwards, Ecclestone's next series of threats may prove to be far more substantive. ■

'Garden leave' helps designer produce the car to beat

WILLIAMS, the reigning world champion team, has shot itself in the foot by holding a defecting design chief to his contract. When Adrian Newey, Williams' design chief, walked out in January last year to join arch-rivals McLaren, team boss Frank Williams insisted Newey take the eight remaining months of his contract as "garden-ing leave", instead of allowing him to join his new team at once.

The ploy, to prevent him from working for McLaren for as long as possible and hold up development of its 1998 season car, backfired. By enabling him to relax and make a clean break from his old team, the break has re-invigorated Newey, who eventually joined McLaren last August.

Judging by the team's pre-season form, the enforced rest has done him a great deal of good. The McLaren MP4-13, the first car he has designed for the English-based team, dominated the winter testing times and heads into the championship-opening race at Melbourne on 8 March tipped as the one to beat.

Newey's late arrival meant the car was put together in just five months, less than half the usual time. The team was able to carry out some preliminary work but the overall design of the car is very much Newey's.

"We had very little collective time," said the 39-year-old Englishman. "What happened was that I had my ideas, McLaren explored their own and we pooled them once we could work together. It was not an ideal situation but I enjoyed my time off. I did a bit of skiing, played some tennis and spent a lot of time with my family – I would recommend it to anyone. It all worked to my advantage, because in this job there is always the danger of becoming burned out."

It was the first decent break that Newey has had in his decade in Formula One. After making his name at the underfunded Leyton House team between 1987 and 1990, taking them to the verge of their first grand prix win, Newey spent seven years at Williams. He worked his way up through the ranks, but his progress was halted by Williams' technical director, Patrick Head, who insisted on taking overall credit for the team's successes. Deciding that he was never likely to get the top job, Newey made the switch to McLaren.

The team was all-conquering during the 1980s but has not won the championship since 1991. Progress was made last year with a string of race wins, but if Newey as technical director can restore McLaren's pre-eminence then he will have accomplished a remarkable feat.

JONATHAN NOBLE

DRIVERS

WILLIAMS
JACQUES VILLENEUVE (Canada)
Races: 33 Wins: 11
HEINZ-HARALD FRENTZEN (Germany) Races: 65 Wins: 1

FERRARI
MICHAEL SCHUMACHER (Germany) Races: 102 Wins: 27
EDDIE IRVINE (Britain)
Races: 65 Best finish: 2nd

BENETTON
GIANCARLO FISICHELLA (Italy)
Races: 25 Best finish: 2nd
ALEXANDER WURZ (Austria)
Races: 3 Best finish: 3rd

McLAREN
DAVID COULTHARD (Britain)
Races: 58 Wins: 3
MIKA HAKKINEN (Finland)
Races: 96 Wins: 1

JORDAN
DAMON HILL (Britain)
Races: 84 Wins: 21
RALF SCHUMACHER (Germany)
Races: 17 Best finish: 3rd

PROST
OLIVIER PANIS (France)
Races: 59 Wins: 1
JARNO TRULLI (Italy)
Races: 14 Best finish: 4th

SAUBER
JEAN ALESI (France)
Races: 135 Wins: 1
JOHNNY HERBERT (Britain)
Races: 113 Wins: 2

ARROWS
PEDRO DINIZ (Brazil)
Races: 50 Best finish: 5th
MIKA SALO (Finland)
Races: 52 Best finish: 5th

STEWART
RUBENS BARRICHELLO (Brazil)
Races: 81 Best finish: 2nd
JAN MAGNUSSEN (Denmark)
Races: 18 Best finish: 7th

TYRRELL
RICARDO ROSSET (Brazil)
Races: 16 Best finish: 7th
TORONOSUKE TAKAGI (Japan)
Races: 0

MINARDI
SHINJI NAKANO (Japan)
Races: 17 Best finish: 6th
ESTEBAN TUERO (Argentina)
Races: 0

CALENDAR

Date	Grand prix
8 March	AUSTRALIA
26 March	BRAZIL
12 April	ARGENTINA
26 April	SAN MARINO
10 May	SPAIN
24 May	MONACO
7 June	CANADA
12 July	BRITAIN
26 July	AUSTRIA
2 August	GERMANY
16 August	HUNGARY
30 August	BELGIUM
13 September	ITALY
27 September	LUXEMBOURG
1 November	JAPAN

ACTION PLUS

Prost has no excuses this time

HAVING taken over the Ligier team on the eve of the Australian Grand Prix this time last year, Alain Prost found that the 1997 season was a case of making do.

By now he has had time to assemble his own workforce, organise the design and construction of his own car and plan his team's move to their new purpose-built facility. With all of that accomplished, he will no longer be able to dismiss poor results with a Gallic shrug if the team remain unable to win a race.

Prost must decide how far the team should play on their French identity. With Peugeot engines, a new team base nearing completion in Versailles, a French designer and the leading French driver, Olivier Panis, it is hard to believe Prost does not want his challenge to be an all-Gallic effort, so he plays down such suggestions.

"It is much more of an international team," he said. "The first time we win it will be good for France, but that is it. We want to win for us."

After two podium finishes last year, the team is now far closer to that first victory. Prost has worked fast in the past 12 months to expand the operation, but knows there is still some way to go.

"I have driven for Williams, Ferrari and McLaren and I know how they are organised, their resources and their people," he said. "We had 68 staff when I took over the team; now we have 150. We are moving to our new factory soon and we have a new gearbox and a new engine, but there is still much for us to do."

Now that the set-up is closer to his ideal, Prost wants to enjoy himself. When, backed by Peugeot, he stepped into the breach last season to take over the struggling Ligier team, there was no time to plan or think.

"I did not have much fun last year; it was too difficult," said Prost, 43. "I had a lot of satisfaction when the drivers had good results, like in Spain, but I think I might start to enjoy it far more from now. There is a different ambience. I can work more quietly and in a more organised way."

It is only now, after a season working on the opposite side of the pitwall to the track where he earned his money and reputation, that Prost appreciates the stresses of being a team owner.

"It is difficult to make one decision without interfering with other things. I realised that sometimes when you're a little bit outside, a decision doesn't look right. But the observer doesn't know all the background. It is a very difficult business."

It is not something that Prost always appreciated. During his days as a driver, he was notorious for his skill at playing people off against one another. He is now finding how much harder it is to keep everyone motivated.

One advantage that he can carry through from his previous career is the knowledge of how to win world championships. He won three drivers' titles with McLaren, another with Williams and had some near-misses with Ferrari.

He has spent much time this winter training with his drivers, Panis and Jarno Trulli, passing on the benefit of his experience. He may yet get behind the wheel of one of his own cars to show them how it is done.

"When everything is OK, it is not out of the question that I might go for one or two drives: not for a complete test but just to get an understanding of the difference between these cars and the way it was," he said. "The need is still there for me to understand the tyres, the properties of the engine and which strategy we need."

He added: "I am working in the same way as I did when I drove with a lot of concentration on detail. I like to encourage everyone to finish work each day thinking of how they can improve for the following day."

JONATHAN NOBLE

In charge: Prost was a hands-on boss during the first year of running his all-French team

'I didn't have much fun last year. I might start to enjoy it more now'

European countries fudge the Maastricht criteria. Surprised? PAGE 54

CLAUDIO HILS

CENTRAL BANKERS ■ Countdown to monetary union closing, but no decisions

THE GHOST BANK WITH NO STAFF

Eric Culp and Rupert Wright
FRANKFURT & LONDON

ON 1 July the European Central Bank (ECB), Europe's most powerful financial institution, will be born. It looks like being a premature birth. A visit to its Frankfurt offices – formerly the headquarters of BfG, a German bank – is a painful operation. Taxi drivers have not heard of it. There is no name on the door. Once inside the grey building, the atmosphere is tense. At the reception desk, hands are working busily under a computer desk. Past the security guards and a sturdy revolving door, a lighting fixture hangs from wires over an empty ladder. Upstairs, workers are being shifted from office to office. It is an unsettling environment.

The ECB is still without a president, an executive board and most of its staff – just 16 weeks before they are supposed to begin work on economic and monetary union. Although staff have been working at the European Monetary Institute (EMI) for more than four years, when the name is changed to the European Central Bank many of its top employees will disappear. The unseemly spat between the French and the Germans over who will be president may look like a playground power struggle. But the delays could threaten the foundation of EMU. At the very least it is dragging down morale at the new headquarters. A

Board games: the lights are on but no one is home at the European Central Bank's lavish offices

leaked memorandum listing employee complaints has dragged the organisation into the spotlight. Employees are unhappy with issues ranging from pensions and schooling for their children to the city of Frankfurt itself.

The timing could not have been worse: the institute is gearing up to recruit 150 more staff to get the ECB up to its full strength of 500 by the end of the year. But more than 20 per cent of the existing 350 workers will pack up before January next year. By the time the bank is up to its peak staffing levels, close to half of the hands on the reins of the new European currency will be new.

The main complaint from the banking bureaucrats is job security: most contracts run out at the end of 1998, but they are with the EMI, which ceases to exist from 1 July. This may seem feeble when compared with the job insecurity facing many of Europe's commercial bankers. But the uncertainty at the ECB goes right to the top: Wim Duisenberg, president of the EMI, is not even sure of his future; nor is his executive board; nor are the ladies who bring round *kaffee und kuchen*.

Europe's finance ministers will thrash out a list of board members by 3 May at an Ecofin meeting. These names will need to be endorsed by heads of state and government, then put forward to the European Parliament (*see panel*).

Management is trying to hammer out contracts for ECB staff, who will be charged with signing up workers, although they are not sure if they will be there themselves. The staff's latest complaint is pensions. They claim that they are paid less than European Union civil servants and receive no housing allowance or low-interest mortgages. Their salaries are sweetened with a 16 per cent expatriate allowance, which is supposed to cover housing costs.

The institute refused to give out salary information, or even the average figure of what an economist makes. But it is known to be considerably more than the equivalent at the Bundesbank, where a monthly salary of DM9,000 ($4,950) plus generous pension allowances is common. The difference is that the workers at the EMI will have to work past five o'clock, sometimes apparently staying as late as seven.

It does not help that the bank is situated in Frankfurt. All the fuss over where the bank was going to be located ignored the fact that few people want to live in one of Germany's dullest cities. With fewer than 700,000 residents, Frankfurt pales in comparison with major European capitals such as Paris, London, Rome or Madrid.

A spokesman for the organisation, who refuses to be named even though he is head of public information, denies there is a crisis. "Nobody here knows if they will be employed in the future. There isn't a salary structure. I can't tell you what the salaries will be. It is a private matter," he said.

This is silly. In fact, the spokesman's name is Dirk Freytag; he will doubtless be furious that we have revealed this startling fact but then the bank's PR operation can only be described as weird. Frankfurt journalists report that dealing with the bank is an almost surreal experience.

There are reports that Herr Freytag has adopted uncompromising attitudes towards journalists who put to him stories that he finds objectionable. More than one say they fear being cut off from all information if they defy the head of public relations. The fear is ludicrous as Freytag refuses to release any meaningful information anyway.

This is a long way from the happy picture that was painted in the January edition of *Euromoney*, a specialist financial publication: "The working atmosphere at the EMI has been superb throughout ... the EMI's relatively small community of less than 350 has drawn itself together by establishing its own sports clubs, including sailing, golf and skiing. EMI staffers organise weekend trips away, run their own band and write about these activities in their own full-colour magazine. Even the Christmas party on December 15 was entertained by the in-house choir."

The sycophantic drivel continues: "Central bankers say the EMI has enjoyed a smoother working atmosphere than other multinational institutions like the European Commission because the mood is intellectual, not political. Esprit de corps may exist but that doesn't preclude rivalry."

No doubt Freytag approves of this fawning. But the reality is that the bank is a shambles and ill-prepared for running Europe's monetary policy. Those happy days of debate and singing are over. The onus is on the EMI management to deal with the complaints; a Commission spokeswomen in Brussels said the ECB charter has given the bank a large amount of independence and responsibility for its own personnel.

Some 70 per cent of employees come from national central banks, with the rest filled through recruiting. Ahead of the ECB's operations, the EMI is seeking economists, statisticians, management, settlement staff and technology experts. It is proving hard to recruit them. One source says the EMI has decided not to talk about the difficulty because it does not "want to scare people away".

Negotiations have proven difficult: in December, four of the five members of the staff committee resigned after a row with management. EMI workers aren't getting much sympathy from their colleagues at most private Frankfurt banks. An economist at one of the country's largest financial houses said: "If workers here want to live in clover like people in Brussels, then they should get a job there." Noting that EMI slots are as mutable as any other banking job, the economist added: "Insecurity is part of everyday life."

Empty chairs need to be filled from top to bottom fast. National governments are still wrangling over who will be the ECB president, with the French preferring their fellow countryman, Jean-Claude Trichet, over the EMI President, Wim Duisenberg of the Netherlands, a Dutch-German favourite.

The Bundesbank president, Hans Tietmeyer, seems like a logical choice, but the mere mention of his name hurts French ears and he's a Duisenberg supporter. Despite the political acrimony between the French and the Dutch-German front, the Dutchman is a nose ahead at the moment. A compromise that favours anyone other than the institute head may mean a loss of face for the German Chancellor, Helmut Kohl. "We need to have decisions now," said one analyst.

Once the president and executive board are in place, reshuffling of high-level staff and the structure of the institute could soon follow. A new president might choose to clear the decks and bring in some of his or her own people. The upper echelons of the institute are mainly Dutch and German: besides Duisenberg, other Dutch managers include Gert Jan Hogeweg, head of the monetary, economics and statistics department and Lex Hoogduin, adviser to the president. Both of these came from the Dutch central bank.

On the German side, Peter-Wilhelm Schlüter leads the administration department, while Hanspeter Scheller is secretary-general. They all came from the Bundesbank, though Scheller spent some time at the Bank of International Settlements. It would be a surprise if Trichet wanted to work with any of these men.

The delays would be humorous if they weren't so serious. French blocking tactics over the presidency (Trichet was a late entrant, thrown into the stakes by President Chirac) have left an impasse at the top which has worked its way down and left a number of key issues unresolved: it has still not been determined, for example, whether the ECB will use the French or German method of tracking monetary targets by using broad money supply as well as other indicators as a guide to monetary policy decisions, rather than just setting inflations targets like the Bank of England; how the bank's foreign exchange trading desk will work or whether the job will be delegated to national central banks.

Although the size of the ECB's reserves has been set at Ecu50 billion ($55bn) it has not been decided how much of this will be held in gold. This decision will be left to the executive board.

"A lot has to happen in six months," said Armin Unterberg, a Euro-strategist at Dresdner Bank. "The workers and management are bound to be sweating." ■

POLITICS

Strasbourg joins euro bandwagon

WHILE the ECB wrangles over its staff and its president, the latest focus of debate is how to increase its political accountability. Like everything else about the institution, action to soothe long-held concerns is only taking place at the last moment.

The European Parliament has nominated itself to bring the bankers to heel. Parliament is pushing to have its supervisory role beefed up with a formal veto over the appointment of the president and the executive committee and a call for inflation and other monetary targets to be made public.

Parliament's belated appearance follows increasing calls to balance the powers of the central bank. Even the former Commission president, Jacques Delors, the architect of monetary integration in Europe, wants its powers held more in check. A stronger role for Parliament is seen as more palatable than the French calls for an as-yet undefined "economic government" to match the overarching powers of the new bank, assuming it arrives on schedule on 1 July. However, Strasbourg's advance is threatened before it begins by its low public profile and fears in the financial community that it will seek to overpoliticise the fledgling institution.

The focus of Parliament's move is Christa Randzio-Plath, a German Social Democrat MEP who chairs its monetary affairs sub-committee. Her report on democratising the ECB is due to go before a plenary session of Parliament on 2 April and has every chance of being adopted by MEPs. To date, their views have been all but ignored, but the Maastricht Treaty does confer powers to Parliament which will add momentum to Randzio-Plath's campaign.

The treaty requires the Council of Ministers to consult Parliament before appointing senior ECB officials, including the president and the supervisory board. The monetary affairs sub-committee is scheduled to conduct formal hearings with the ECB presidential candidates when ministers announce the names at the start of May.

However, the Council of Ministers can still overrule Parliament under the current framework. Parliament is pushing for the treaty to be amended to introduce American-style confirmation hearings for the ECB. "We would not be choosing candidates, just saying yes or no," says Randzio-Plath. "If we fail to confirm then no would mean no. At present we have to beg the presidency [to make ourselves heard]." She says the most important step towards improving accountability would be to step up the bank's reporting mechanisms. "We have to know the targets, the concepts and the monetary instruments," she says. "We need to know every year, why they failed and why they succeeded." This echoes calls for the bank to publish targets for inflation and money supply and hold regular meetings with Parliament to reduce the speculative impact of leaked minutes.

The monetary sub-committee has already met with the two leading candidates, Wim Duisenberg and Jean-Claude Trichet. Both will be relieved to hear that Strasbourg has deemed them fit to govern, providing member states can reach the same conclusion about one of them on 1 May.

Parliament's desire to raise its profile has not won universal plaudits and there are serious doubts that an enhanced role would raise the credibility of the bank itself. The identity of the president remains the primary concern of the financial markets, which retain serious doubts over the desirability of going too far along the democratic road. "There is a fine line between the democratic process of a central bank and political interference with its role," said Rita Schumacher, EMU strategist at Nikko Europe.

"If you see political interference in the [president's] appointment that would be a big concern," she said. "One or two meetings a year between the president and Parliament would not be a problem. But if there was any risk that bank governors were under political influence it would be bad news for the ECB." She has a point, but even the gnomic Alan Greenspan, chairman of the US Federal Reserve, manages to report each year to Congress without compromising his independence.

To dampen these concerns Randzio-Plath has already dumped plans for broader parliamentary powers which included identifying the preferences of executive board members in bank votes. Parliament has been sharply critical of compromise plans to split the initial presidency, with Duisenberg and Trichet serving four-year terms. "It's not we who are attacking the independence of the central bank. It's the governments themselves by seeking a package deal. The first president has to serve the full term."

The split-term proposal put forward to allow Duisenberg and Trichet to serve violates the Maastricht Treaty. However, as uncertainty reigns over the choice of the ECB supremo, it is a sign of the weakness of Parliament that the Council of Ministers is more likely to sanction dual presidents than give up power to Parliament. More accountability remains far from certain.

DOUG CAMERON

PRIVATISATION

Gayssot leaves Air France stranded

Paula Hawkins

AIR FRANCE risks becoming the wallflower of the European airline industry. While its competitors have paired up with US and Asian carriers, the French flag carrier has been rejected by potential partners. The latest, Alitalia, chose to link up with KLM despite political pressure to choose Air France. "It has not been made explicit, but it's clear that Alitalia preferred a private partner," says one analyst. "Unless the French government concedes control of Air France, it is going to stay on the shelf."

The French government has no intention of relinquishing control. When France's communist transport minister, Jean-Claude Gayssot, grudgingly announced the sale of Air France last week, he confirmed that just 20 per cent of the company would be offered to private investors. Up to 15 per cent of that stake (three per cent of the total) will be offered to employees on a preferential basis and a further 12 per cent to pilots and senior managers prepared to take shares as part of their salaries.

This is not what the market wanted to hear, but they were warned: Gayssot hinted at his intentions last year, prompting the resignation of Christian Blanc, the chairman who had turned Air France's finances around. Selling a minority stake hamstrings Air France's long-term development: no commercial airline wants to enter into a close partnership with the French government.

The structure of the privatisation will limit the rush for shares in Air France – this is no France Telecom in which two million French people applied for the retail offering – but Air France shares could be a good investment for the short term. They should be cheap for a start. Although the advisers on the deal – Société Générale and Lazard Frères for Air France, Morgan Stanley Dean Witter and Banque Indosuez for the government – will not comment, analysts say they will have to discount the shares relative to those of its European peers.

"Selling a minority stake is politically convenient but it does mean the government will get less money for it," says Keith McMullen, managing director at Aviation Economics, an airline consultancy. Air France will be valued at around Ffr20 billion ($3.3bn), equivalent to 45 to 50 per cent of sales. Lufthansa and British Airways have a market capitalisation of 60 per cent of sales.

The government stands to make about Ffr4bn from the sale – and will keep it all – while Air France needs Ffr40bn over the next five years to upgrade its fleet. Banks will lend to the airline at lower interest rates because they see it as a low quasi-government risk. The downside is that it will have only limited access to capital markets funding because of state aid rules, although France has always been good at circumventing Brussels' restrictions. It also prevents the company raising money from the equity markets because the government refuses to dilute its holding.

Air France is at last in reasonable shape for a state-owned airline, but this is due mainly to a hefty state subsidy of Ffr20bn in 1994. Under Blanc, Air France went from losing $1.3bn in 1993 to making a modest $65 million profit last year – its first profit in eight years. Its debt has been slashed by a third and passenger numbers have increased 17 per cent.

Blanc confronted Air France's notoriously fractious employees, cutting numbers by 10 per cent to a still bloated 36,170. Blanc's successor at Air France is Jean-Cyril Spinetta, who was a former aide to a number of socialist politicians, including former president François Mitterrand, before heading Air Inter, the domestic carrier now merged into Air France. In contrast to Blanc, Spinetta looks disappointingly like a socialist yes-man.

While the French government has appeased its communist partners by keeping Air France in state hands, the move leaves it without potential partners. Four other European airlines – Iberia, Alitalia, TAP Air Portugal and Lot Polish Airlines – are due to be sold off over the next 12 months. In each case the government plans to sell off a majority stake (though sometimes in two stages).

Air France has agreements with Continental Airlines and Delta but has been unable fully to exploit these links because there is no open skies agreement between France and America. The last treaty was abandoned in 1992 in a bid by the French government to protect Air France from competition. Its partnership with Continental is on the ropes.

Continental is under pressure from Northwest, another US carrier, to abandon its Air France links. Northwest, which owns 14 per cent of Continental, is part of an alliance with KLM and Alitalia and has urged Continental's management to "refocus attention" on that group.

With Spinetta at the helm and under firm government control, Air France's fragile financial recovery may not endure. Unions could regain the upper hand. Just three days after Gayssot's announcement of the privatisation plans, the CFDT union countered with an announcement that Air France cabin crew intended to strike in support of improved working conditions.

With few potential partners around, Spinetta must persuade the government to give another airline a seat on the Air France board. Until France lets go of its flagship carrier it will travel alone in the airline industry.

SYGMA

Alone in a crowd: Jean-Cyril Spinetta must get the government off his back if Air France is to attract partners

Commercial airlines do not want a partnership with the French government

EQUITIES

Swedish firms opt to join euro zone with new index

Doug Cameron

STOCKHOLM's Stock Exchange is preparing to launch a new benchmark market index of the country's largest firms denominated in euros to avoid being left behind by fund managers' clamour for euro stocks from 1 January next year.

The Stockholm index is the latest in a line of new benchmarks to be unveiled but is the first with defensive characteristics. The recent closure of the Antwerp stock exchange – the oldest in Europe – highlights the pressure that smaller markets face as investors consolidate in the major markets. Many are seeking to merge to generate critical mass. Recent index offerings, such as the Swiss-based Stoxx, have attempted to provide a pan-European measure of stocks in the single currency area.

Fund managers have indicated that non-euro stocks will be at a psychological disadvantage with less dependable financial results as well as losing the currency plays still available. The capital flows released by the end of investment barriers in the euro zone will also be denied to stocks which remain outside.

Swedish stocks are most at risk because of the small size of the overall market, the presence of world-class benchmark companies on the market and the overdependency of the Stockholm exchange on the consumer goods sectors through companies such as Ericsson, Volvo and Electrolux. "Companies will find that if they are only quoted in local non-euro currencies they will be treated at a discount to the rest of their industry group," said Jerry Evans, equity strategist at Enskilda Securities. "Sweden is the most exposed to any strains as it seeks to straddle the fence – half in the euro and half out."

The new Swedish index is likely to be based on the OMX, set up in 1986 to track the 30 largest stocks on the market. The stock exchange said it could be operational within a year. "I'm pretty convinced that there is a demand," said Leif Windevag, head of research at the Stockholm exchange. "We have already taken the operational decision to proceed based on consultation and some arm-twisting [of OMX companies]."

The exchange had been reluctant to meet company demands for a euro-denominated option fearing that it would devalue plans to create a new pan-Nordic exchange. While a single market including Sweden, Norway, Finland and Denmark would have more market clout it could find itself overshadowed by the redenominated OMX.

There are two weaknesses to the Swedish plan. First, the heavy concentration of the country's stocks in the OMX may lead to a rump of smaller equities joining the new index which have little international exposure or appeal to investors. Second, the overweighting in three sectors – capital goods, autos and industrials – is good in boom times but potentially disastrous when the economy heads south. The strong cyclical nature of these sectors could pull the whole index down in a recession. But Europe's stock exchanges know they have to adapt to the euro.

BANKS

Spanish families feud over banking prize

Giles Tremlett
MADRID

EMILIO & Emilio has the potential to become the Spanish superbank to rival European allcomers. What it lacks in branding appeal it makes up for in domestic retail coverage and strong European and overseas equity and lending franchises. But it is unlikely to come to fruition. Emilio Botin and Emilio Ybarra, the banking heavyweights who slug it out at the top of Spain's financial hierarchy, have little time for each other.

Emilio Botin is the latest to steal a march on his arch-rival. Spain's richest man is the patrician boss of the Banco Santander and known for his aggressive business style. Ybarra is the conservative Basque who heads Banco Bilbao Vizcaya (BBV) and is famed for his tight-fistedness, hard work and steady, long-term planning.

The two men rarely meet and enjoy rather cold, if polite, relations. They are consistently voted among Spain's 10 most powerful people. The tension created by their personal competition is one of the vital forces driving Spain's booming banking sector. Being number one matters a lot in the macho world of Spanish banking. The largest will be able to build solid European alliances, while failure will lead to being eaten up by hungry foreign predators. The trend is clear: grow or get out.

Botin has emerged on top in the latest battle with a surprise $4 billion offer to buy 52 per cent of Banesto – Spain's fifth largest bank, best known outside Spain for its sponsorship of Tour de France legend, Miguel Indurain. Santander acquired 48 per cent of Banesto in 1984 in a hard-fought battle with BBV when the bank was put up for auction.

Buying all of Banesto tripled Santander's Spanish retail network and allowed it to leapfrog BBV. With assets of around $120bn Santander outstrips BBV by 20 per cent and threatens to overtake it in both profitability and stockmarket value. Its shares have jumped 11 per cent since the deal adding at least $60m to the Botins' personal wealth. The family owns 2.68 per cent of the bank's traded shares.

The memory of losing out on Banesto still leaves a bitter taste in Ybarra's mouth, even after 15 years. Botin followed up his coup by poaching a top BBV executive, Alfredo Saez, to run Banesto. Saez took a dozen executives with him and turned the bank around. Santander claims that it will now double its overall profits over the next three years and rival BBV's $27bn stockmarket valuation, 30 per cent higher than Botin's bank.

The significance of the Banesto takeover is as a harbinger of things to come. The 63-year-old Botin is the commander-in-chief of an emerging banking dynasty, having inherited control from his father (also named Emilio) in 1986. He ignored the unwritten non-aggression pact of Spain's banking cartel in 1989 by launching a new account aimed at poaching wealthy customers from other banks. Botin doubled his bank's customers in just one year.

BBV has yet to respond to its rival's latest move. Ybarra, thanks to a cost-cutting efficiency programme – "The 1,000 Day Plan" – has brought in the bank's best-ever results, with a 26 per cent increase in profits to Pts131bn ($875m) in 1997. Like Botin, he claims to be looking abroad, rather than looking over his shoulder at domestic competition.

BBV's executives boast that no other bank in the world with a stockmarket value above $10bn has matched its three-year share price increase of 350 per cent. The only European bank to have come anywhere close is Britain's Lloyds TSB, which managed 225 per cent. "We are now within the select group of European banks capable of generating annual profits of more than Ecu1bn ($1.1bn). That makes us a point of reference in Europe," says Ybarra. The reality is that Spanish banks have emerged as serious takeover candidates for predators elsewhere in Europe. European banks like the idea of a Spanish connection with links to Latin America.

Spanish banks are coming to the end of a four-year spending spree in Latin America, hoovering up banks across the continent from Chile to Mexico. Ana Patricia Botin, the 37-year-old daughter and heir apparent to her father, headed Santander's drive as executive vice-president and chief executive of Santander Investment.

Ana Patricia has inherited her father's sense of ambition. She has made Santander the biggest international bank in Latin America, with six per cent of the market. BBV has not lagged far behind. Latin America provided nearly 40 per cent of profits last year. Her brothers, Emilio junior and Jaime, also have senior positions within the bank.

The fight for first place is viewed as a battle for future survival as the two big banks prepare for a pan-European shake-up that will come with currency union. Spanish banks will have to be stronger if they are going to survive the onslaught of the new mega-banks such as the new Swiss giant UBS or traditional power houses such as Deutsche Bank, HSBC and Crédit Suisse (*see table*). Santander's takeover of Banesto is seen as the start of a new wave of Spanish banking mergers, which is why the Madrid stockmarket soared.

Ybarra is rumoured to be plotting either a merger with another European bank or the purchase of one of Spain's second-tier banks. These, in turn, might be considering fusions that would keep them safe from bids by the big boys. A frenzy of share-buying has resulted, with the second-rank Popular, Argentaria and Central Hispano banks sharing in the bonanza. Banking shares are up 40 per cent since 1 January.

Further domestic mergers, however, would produce substantial lay-offs, which is why neither Ybarra nor Botin expresses interest in buying other Spanish banks. What the two Emilios do seem intent on, however, is improving profitability and share performance to such a level that hostile bids from other European banks are impossible.

"Santander should not be compared with banks in this country," said Botin. "It should be compared to the most profitable banks in the world." Both Botin and Ybarra are keen, instead, to construct Europe-wide strategic alliances which could protect them from outside bids. Santander has laid the foundations of such an alliance, buying 10 per cent of the Royal Bank of Scotland and seven per cent of Italy's Istituto Bancario San Paolo di Torino. It also has a co-operation deal with ING-Barings to cover Benelux countries and owns the small German CC Bank.

With Spain unable to produce it own mega-bank, both Botin and Ybarra know that failure to establish a strong European network will leave them open to foreign predators. Neither wants to see control of their bank transferred to another country, where the new mega-banks will have their head offices. Both bankers want to be number one. The battle is not over yet.

PHOTOGRAPHS COVER

Polishing off the opposition: Emilio Botin (above) has won another round against Emilio Ybarra

HEAD TO HEAD IN EUROPE

Source: The Banker	Country (June 1997)	Assets $bn ranking	World
Deutsche Bank	Germany	569.9	2
Dresdner Bank	Germany	355.6	13
Crédit Agricole	France	477.3	3
BNP	France	355.4	14
HSBC Holding	Britain	401.7	10
Barclays Bank	Britain	315.8	20
Crédit Suisse	Switzerland	389.3	11
UBS	Switzerland	324.8	19
ABN-Amro Bank	The Netherlands	341.4	15
Rabobank	The Netherlands	190.0	44
Istituto Bancario San Paolo	Italy	171.3	49
Banco di Roma	Italy	141.1	55
Banco Santander	Spain	117.9	52
BBV	Spain	103.0	59

The two Emilios rarely meet and enjoy rather cold relations

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FINANCE

EMU TARGETS

If at first you don't succeed, make it up and get top marks

Gavin Gray

FRANCE, Germany and Italy have crept under the final hurdle to first-round monetary union with all the dexterity of a geriatric limbo dancer. There was no fanfare in Brussels on Friday 26 February as EU member states released their 1997 budget deficit figures. Countries simply faxed numbers to the European Commission or told their ambassadors to sneak round with an envelope.

Surprise, surprise, all of the 11 candidates came in at or below the magic three per cent deficit target laid down in the Maastricht Treaty. In fact most of them came in at 0.1 to 0.2 per cent below economists' forecasts. But there was little rejoicing for the eager EMU participants.

In the long run they may choose to weep instead. Here was a fantastic opportunity to change once and for all the wasteful way that European governments function. They have passed that up for short-term measures to achieve the magic three per cent. The figures are in some cases a sham. Most importantly there is little evidence that the 11 countries can keep up their new-found fiscal discipline.

The worst offenders have been France and Germany – the two countries without which EMU could not even start. France, which scraped in with a three per cent deficit, would not have come close without a dubious pension dodge when it privatised France Telecom last year.

The government assumed part of the company's pension liabilities on privatisation, in return for which the company paid it Ffr36 billion ($6bn) upfront – equivalent to 0.5 per cent of GDP. The government booked it as revenue but assumed a long-term liability. Not a clever stunt and against the spirit of EU rules barring countries from recording privatisation receipts as revenue.

When the EMU participants are selected in May, France will certainly be included. Apart from supposedly meeting the three per cent maximum deficit target, its inflation rate is below the 2.7 per cent ceiling, 10-year government bond yields are less than 7.9 per cent and government debt represents less than 60 per cent of GDP.

From the outset, the rules to determine which country can take part in EMU have been rewritten to suit some. For example, the 60 per cent debt rule was quietly replaced with an insistence the countries be moving in the right direction. Without that Italy and Belgium would have fallen out at an early stage.

It has been more like a school examination where all the pupils were given the answers in advance – but the teacher said that the pass mark might be shifted afterwards in case anyone failed. Even at the beginning of last week many economists were predicting that France would just miss the target – but that it would be let in nevertheless.

Apart from its pension dodge, France would have missed the three per cent target without the benefits of a surprise pick-up in European growth in the last half of 1997. That lifted VAT receipts and meant that earnings from new corporate taxes introduced last year ran well ahead of expectations. In 1997 there was a real freeze in government spending but analysts expect it will find it much harder to resist social pressure this year. Looking longer term, France, like many countries in Europe, has an unsustainable pension liability.

France is still running a structural budget deficit of two per cent. Some economists also say that it will not be clear whether France truly met the three per cent target until figures for social security spending are released this autumn. "The only data we have are estimates and they are notoriously unreliable," says one analyst.

Germany was another beneficiary of the pick-up in economic growth in the last half of 1997, without which it might not have met the three per cent target. With real interest rates pushed to low levels and the deutschmark weakening against the dollar, German exporters have enjoyed a boom. Europe has benefited enormously from the massive fall in interest rates in Europe over 1997, with the greatest gains going to Spain and Italy, which funded themselves until relatively recently at double-digit rates of interest. Now they can borrow at five to six per cent.

One of the few countries to persuade the market that structural changes are on the way is Italy. "There is a huge commitment to Maastricht," says Darren Winder, economist at SBC Warburg Dillon Read in London, "because the establishment believes that it is the best way to become fully integrated into Europe. But the price has been high. Between 1993 and 1997 the budget deficit fell by seven percentage points and the average growth rate has been less than one per cent as a result."

Most European countries should have done better than just scrape in. The lesson is clear: countries which think it is enough to fudge the figures when the climate is benign are running a risk when a recession returns. "It is easy for countries to slim down together," says Winder at SBC, "but the sustainability of it all will become clear once the rigours of the Maastricht criteria are taken off." ■

EMU QUALIFIERS

Country	Deficit 1997	1996	Bond yield
Germany	2.7	3.3	5.302
France	3.0	4.2	5.334
Italy	2.7	6.8	5.649
Spain	2.6	4.4	5.619
Netherlands	1.5	2.2	5.324
Belgium	2.1	3.2	5.470
Austria	2.5	4.0	5.365
Finland	0.9	3.2	5.520
Portugal	2.5	3.2	5.603
Luxembourg	−1.7	n/a	5.498
Ireland	−0.9	0.5	5.480
Average	2.6	4.2	–

SOURCE: EUROPEAN COMMISSION

The three criteria laid down in the Maastricht Treaty for entry to EMU were met by all of the states which have expressed their intent to join on 1 January 1999

ANALYSIS

China adds to Asian woes as currency troubles deepen

Brian Reading

WITH the notable exception of the basket case that is Suharto's Indonesia, the Asian financial crisis appears to be over. But is it? In reality the round of exchange rate changes may have gone only half way as the Chinese domino threatens to topple.

China is said to have started it. In January 1994 it devalued its official exchange rate by a nominal 40 per cent by unifying it with a lower swap rate. But as most transactions were already at the lower rate, the effective devaluation was only 10 per cent. Since then the yuan has remained pegged to the US dollar at around ¥8.5 to the dollar. But other Asian currencies have fallen by half against the dollar and the Indonesian rupiah by up to 80 per cent.

Worse still, China's inflation rose faster than most of its trading partners. By the end of 1996 the yuan had appreciated once more by 25 per cent in real terms. Today, despite a fall in Chinese prices during the past year, the yuan is much higher in real terms than it was four years ago. Will it be devalued again?

This matters. Taken together, European, Japanese and US trade with China is as important as trade with the five nations caught up in the Asian debt crisis. Japan's trade with China is more important, Europe's less and the US about the same. Moreover, China runs a massive $65 billion trade surplus with the US and Japan. If China continues the round of competitive exchange rate depreciation the impact of the Asian crisis on activity in advanced industrial economies would be substantially increased.

China cannot be forced to do so by market pressure. It survived contagion when the crisis was at its worst because it is fundamentally better placed than most other Asian economies. Although its currency is pegged to the dollar, making it an attractive target for speculators, they have little way of getting at it. Exchange controls restrict most capital movement. Short-term foreign debt is modest. China has been a massive recipient of direct foreign investment, but such inflows cannot easily be reversed. Nor does China need to borrow abroad. It runs a current account surplus, more then $10bn last year.

Foreign direct capital inflows, mostly joint ventures between Chinese and foreign companies to set up manufacturing facilities in China, have been encouraged to provide modern technology and management skills, not because China needs foreign funds to finance them. Indeed the inflow of foreign capital was matched by a similar increase in China's official foreign currency reserves as the Bank of China intervened in the exchanges to stop the yuan from appreciating. China's reserves exceed $140bn.

ROBERT WALLIS / NETWORK

Capital flows: infrastructure projects such as the Three Gorges dam will boost GDP but are slow to generate momentum for the economy

But while immune from the Asian financial crisis, China is critically exposed to the economic fall-out from it. Its economy is in deflationary mode, with prices actually falling. It is not in a recession. Nor is it facing anything like one by European standards. Growth last year slowed from 9.7 per cent in 1996 to 8.8 per cent and the government hopes to achieve more than eight per cent this year. But in Chinese terms any slower growth sets alarm bells ringing. China is in the midst of rapid and massive structural change as it converts from a command to a market economy. Agricultural productivity is rapidly rising and there are estimated to be 100 to 130 million surplus workers in the rural labour force.

Financial reforms are freeing and forcing banks to cut bad loans to inefficient and loss-making state-owned enterprises (SOEs). These companies are being forced to restructure or close, throwing workers out of jobs. Massive migration is occurring to urban areas where, it is estimated, up to 30 million new jobs a year must be created just to re-employ redundant SOE workers, never mind immigrants from rural areas. With less than eight per cent a year growth, unemployment will soar and social unrest will become inevitable.

But eight per cent this year looks a tough target as investment prospects are poor. The SOEs can't borrow, private sector investors won't borrow even if money policy is eased. Foreign direct investment is contracting; it could fall by a fifth this year. Job insecurity is causing consumers to tighten their purse strings. Trade damage from increased competition due to the fall in Asian competitors' currencies is likely to be limited. More than half of China's exports involve assembling imported components. At its present exchange rate, Chinese labour remains far cheaper than its competitors'. Imports of components come overwhelmingly from other Asian countries which account for 60 per cent of China's imports. Imports from Europe, Japan and the US are heavily weighted in favour of capital goods. Over 80 per cent of exports are now manufactured goods, the greater part of which go directly, or via Hong Kong, to Europe, Japan and America.

Cheaper imports of components from Asia will help Chinese exports compete in its main markets. China's trade balance should not deteriorate on account of the yuan's strength. Lost exports will be offset by lower imports of capital goods. But China's trade will suffer from the general slowdown in activity in Asia and continued recession in Japan.

Last year an improved trade balance contributed two per cent to growth. This year the contribution could be negative or negligible, unless lost exports to Asia and Japan are recovered in Europe and the US. Eight per cent growth is impossible if China does nothing. Two solutions remain. One is a massive programme of public spending, announced already. China's vice-president, Li Lanqing, revealed a new three-year $750bn infrastructure plan earlier this month. But major public works take time to feed through and the new plan is unlikely to have much effect on growth this year. The other solution is competitive devaluation.

It seems that later this year China's hand may be forced. ■

The writer is a director of Lombard Street Research

MARKETS

THE EUROPEAN 500

***The European*'s exclusive index of Europe's top companies ranked by market capitalisation and priced in ecus**

STOCK PICKS

Insurance shares at a premium

MERGER speculation in the European insurance industry has gone into overdrive following the announcement by Commercial Union (CU) and General Accident (GA) of a £14.1billion ($22.8bn) tie-up on 26 February. The combined company, to be known as CGU, will be the second-largest in the UK and the ninth-largest in Europe. Both companies have had difficulty boosting their presence in the UK life market where growth has not been spectacular.

The majority of CU's life profits have been from its Dutch-based subsidiary, Deltalloyd. It is GA's thriving life operations that are a big draw for CU. These were built up from virtually nothing five years ago, helped by the acquisition of Provident & Mutual. GA has expanded this successful life business into France and Germany and further acquisitions in these markets by CGU are likely. Equity analysts are expected to call for a special dividend from CGU and there could be a share buyback. Royal Sun Alliance is committed to buying back five per cent of its shares after the merger.

Both sides are pushing for a progressive dividend policy, which will not go down well with the rating agencies. "In companies such as this with volatile earnings this prevents capital formation and can be very damaging," says Rafael Villarreal at Moody's. The merged CGU already has after-tax dividend commitments of £380 million to £400m.

The British insurance market is already following the lead of its continental rivals in seeking not just to consolidate but also hook up with other financial services providers, most notably banks. The combination of Crédit Suisse and Winterthur is the largest such bancassurance merger to date, followed by Trygg-Hansa's tie-up in Sweden.

As well as domestic bancassurance deals, insurers themselves are starting to move across borders. In Germany, Allianz bought a spot as the largest insurer in Europe by securing a lightning-quick deal to take control of Générales de France for $10bn.

The downside is that insurance shares are starting to look pricey. The sector has been the star of the markets for more than a year, rising even more than banking stocks. Such inflated prices will make it difficult to pursue stock-swap deals.

LOUISE BOWMAN

GUARDIAN ROYAL EXCHANGE

GRE is unlikely to survive the next 18 months as an independent company. It has reported slightly lower than expected pre-tax operating profits of £191 million, having been hit by bad weather payments in the UK. Management is, however, extremely reluctant to cede control and is unlikely to consider any outright sale. Any potential suitor would have to have a continental presence, and as such a tie-up with Eagle Star would make sense. As part of the BAT-Zürich Group, Eagle Star would boost GRE's European presence and allow it to gain critical mass in the UK. Another possibility would be a Norwich Union merger, with the Norwich concentrating on life business and GRE sticking to non-life.

EA GENERALI

Generali has been trying to boost its presence in Hungary and Austria for years but lost out in its attempt to link up with Creditanstalt. With no bank distribution in Austria, the Italian giant could consider pulling out of the countries altogether.

Its 81 per cent-owned subsidiary EA Generali has seen its shares rise 15 per cent amid takeover speculation, with five times the average daily volume of stock (16,500 shares) traded on 26 February. Any German or Swiss company would be an obvious buyer, but a good fit would be Ergo of Germany. Ergo is 50 per cent owned by Munich Re.

PRUDENTIAL

Prudential has made no secret of the fact that it is keen to expand its retail distribution in the UK and Europe. As such, an acquisition along similar lines to its purchase of Scottish Amicable last year would make sense.

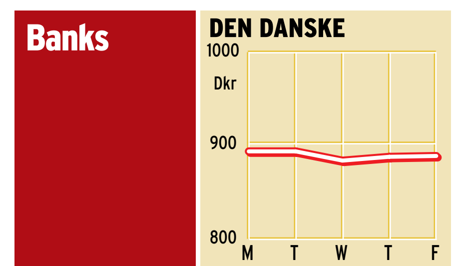
"Asset management is a growing sector, and savings are a growing sector so it is an obvious tie-up," says Stephen Dias, insurance analyst and executive director at Goldman Sachs. The US house ranks Prudential as underperforming despite 1997 results in line with expectations of £895m.

ROYAL SUN ALLIANCE

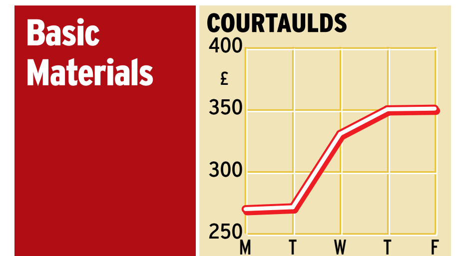
Having been formed by the merger of two UK insurance companies in 1996, RSA now has global ambitions. The company is likely to announce a merger within the next 12 months – most probably with a European partner. A tie-up with one of the European majors – Allianz or AXA – is unlikely as the company would simply be subsumed into the larger player. But Netherlands-based Aegon would be a good fit. The company has strong continental and US operations and a good life business.

BALOISE INSURANCE

Despite its protestations to the contrary, Swiss insurer Baloise has become a speculative merger target. The more it protests, the more the market responds. Its shares have risen 18 per cent over the last year. Industry consolidation has been rife in Switzerland, with Crédit Suisse's acquisition of Winterthur and the Zürich/BAT industries tie-up. Swiss National Insurance and Helvetia Patria are seen as likely takeover targets.



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Abbey National	UK	1249.0	18.8	−4.2	3.1
ABN Amro	Neth	45.4	0.7	0.7	2.6
Alliance & Leicester	UK	972.5	14.7	2.8	2.7
Allied Irish	Ire	9.5	0.1	4.1	1.9
Alpha Credit Bank	Gre	15400.0	232.3	1.9	6.0
Banca Commerciale It	Ita	8134.0	122.7	5.0	2.0
Banca di Roma	Ita	2463.0	37.2	3.7	–
Banca Fideuram	Ita	11333.0	171.0	17.5	0.5
Banco Bilbao Vizcaya	Spa	7030.0	106.1	3.8	1.2
Banco Central His	Spa	4785.0	72.2	9.7	1.3
Banca Intesa	It	4035.0	60.9	1.5	1.9
Banco Com Portugues	Port	5935.0	89.5	16.5	1.2
Banco Esp Credito	Spa	2200.0	33.2	2.8	–
Banco Espirito Santo	Port	7585.0	114.4	8.7	1.7
Banco Popular Espanol	Spa	13650.0	205.9	12.9	2.1
Banco Santander	Spa	7120.0	107.4	2.6	1.7
Bank Austria	Aus	865.0	13.1	1.9	1.4
Bank Fuer Intl Zah-Belg	Swi	9010.0	135.9	−1.0	3.1
Bank Fuer Intl Zahlungs	Swi	9355.0	141.1	1.1	3.0
Bank Of Ireland	Ire	14.1	0.2	8.0	1.3
Bank Of Scotland	UK	692.0	10.4	−2.5	1.6
Bankgesellschaft Berlin	Ger	38.6	0.6	0.7	4.1
Bankinter	Spa	9860.0	148.8	1.3	2.3
Banque Gen Du Lux	Lux	71500.0	1078.7	−0.2	1.9
Banque Nat de Paris	Fr	368.0	5.6	3.7	2.2
Barclays	UK	1807.0	27.3	−3.1	2.5
Bayerische Vereinsbank	Ger	113.2	1.7	−2.2	2.0
BBL	Bel	9000.0	135.8	3.4	2.8
BG Bank	Den	410.0	6.2	4.3	4.9
BHF-Bank	Ger	51.8	0.8	3.0	4.0
Christiania Bank	Nor	32.3	0.5	6.6	3.7
Cie Financiere De Paribas	Fr	578.0	8.7	−1.2	3.4
Commerzbank	Ger	65.7	1.0	0.8	3.3
Compagnie Bancaire	Fr	1022.0	15.4	–	1.4
Corp Bancaria De Esp	Spa	11460.0	172.9	1.4	2.6
Den Danske Bank	Den	890.0	13.4	−1.1	2.0
Den Norske Bank	Nor	41.7	0.6	8.9	3.2
Deutsche Bank	Ger	124.7	1.9	0.1	2.1
Deutsche Pfandbrief	Ger	137.5	2.1	8.8	1.5
Dexia Belgium	Bel	5380.0	81.2	5.5	2.2
Dexia France	Fr	–	–	–	–
Dresdner Bank	Ger	82.3	1.2	−2.8	2.7
Generale De Banque	Bel	17725.0	267.4	−1.1	3.0
Halifax	UK	947.0	14.3	1.5	–
HSBC	UK	1764.0	26.6	4.0	3.6
Istituto Banc San Paolo	Ita	20472.0	308.9	7.5	1.4
Kredietbank	Bel	17300.0	261.0	0.9	2.0
Lloyds TSB	UK	912.5	13.8	−1.8	2.4
Mediobanca	Ita	18513.0	279.3	3.6	1.1
Merita	Fin	30.0	0.5	1.7	3.0
National Bank of Greece	Gre	20500.0	309.3	−2.8	–
National Westminster	UK	1122.0	16.9	−3.5	3.6
Rolo Banca	Ita	36120.0	544.9	5.8	1.6
Royal Bank of Scotland	UK	941.5	14.2	−3.9	2.8
Schroders	UK	2272.0	34.3	3.9	1.2
Schweizerischer Bank	Swi	491.0	7.4	1.0	–
Skandi Enskilda Banken	Swe	103.0	1.6	0.5	2.9
Societe Generale	Fr	918.0	13.9	2.9	2.9
Standard Chartered	UK	881.5	13.3	13.1	2.7
Svenska Handelsbanken	Swe	321.0	4.8	2.2	2.0
UBS	Swi	2277.5	34.4	1.1	1.4
Unidanmark	Den	502.0	7.6	−2.0	3.0
Woolwich	UK	380.3	5.7	−1.7	3.1
Worms et Compagnie	Fr	380.0	5.7	0.3	18.9



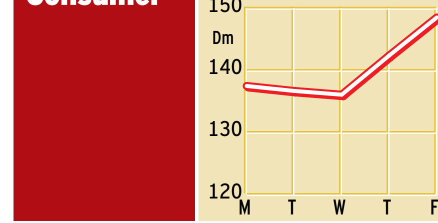
Company	Country	Price (local)	Price (Ecu)	%change	Yield
AGA	Swe	101.0	1.5	−3.3	2.7
Akzo Nobel	Neth	415.3	6.3	6.0	2.0
Allied Colloids	UK	202.5	3.1	0.2	2.0
Alusuisse Lonza	Swi	1684.0	25.4	0.8	1.1
Arjo Wiggins Appleton	UK	165.5	2.5	0.6	5.3
Assidoman	Swe	197.0	3.0	1.5	2.8
Basf	Ger	66.1	1.0	6.7	3.7
Bayer	Ger	76.5	1.2	5.1	3.2
Billiton	UK	151.3	2.3	−3.2	–
Boc	UK	967.5	14.6	2.9	3.5
British Steel	UK	146.0	2.2	1.6	8.5
Ciba Specialty Chems	Swi	178.0	2.7	4.7	–
Clariant	Swi	1460.0	22.0	2.2	0.7
Courtaulds	UK	351.5	5.3	29.3	4.7
Degussa	Ger	94.0	1.4	2.5	3.0
DSM	Neth	205.0	3.1	2.1	4.6
Enso	Fin	49.5	0.7	3.1	4.4
FPB	Ger	–	4.8	−0.5	7.9
Henkel Kgaa	Ger	111.4	1.7	1.3	1.5
Hoechst	Ger	70.3	1.1	3.8	3.0
Imperial Chemical	UK	1109.5	16.7	1.7	2.9
Johnson Matthey	UK	527.5	8.0	−2.4	3.0
Koninklijke Knp	Neth	54.6	0.8	2.6	2.0
L'air Liquide	Fr	984.0	14.8	3.6	2.1
Laporte	UK	662.5	10.0	−0.6	4.3

MARKETS

Basic Materials

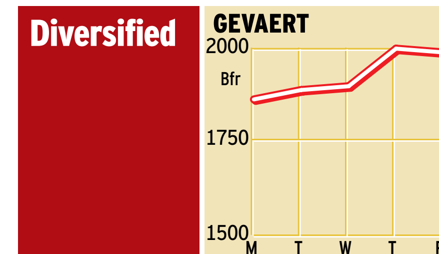
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Minorco-Bearer	Lux	636.0	9.6	–	0.1
Mo Och Domsjoe	Swe	233.0	3.5	6.2	3.9
Pechiney	Fr	270.0	4.1	13.2	1.8
Preussag	Ger	588.5	8.9	0.5	2.9
Rio Tinto	UK	821.5	12.4	2.3	3.9
SGL Carbon	Ger	215.0	3.2	−11.5	1.6
Skw Trostberg	Ger	62.0	0.9	2.0	2.5
Solvay	Bel	2350.0	35.5	−0.8	3.1
Ssab Svenskt Stal	Swe	150.0	2.3	11.5	3.0
Stora Kopparbergs	Swe	115.5	1.7	9.5	3.2
Svenska Cellulosa	Swe	182.0	2.7	1.1	3.2
Upm-Kymmene	Fin	143.0	2.2	3.9	3.8
Usinor	Fr	91.4	1.4	3.0	4.9

Consumer



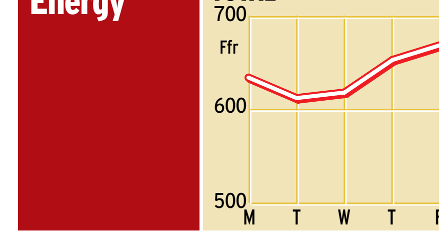
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Accor	Fr	1407.0	–	0.3	–
Adidas	Ger	284.0	4.3	3.2	–
Airtours	UK	456.5	6.9	5.2	–
Alitalia	Ita	15113.0	228.0	2.6	–
Allied Domecq	UK	585.5	378.5	7.3	4.2
Altana	Ger	145.0	93.7	−1.7	1.5
Associated British Foods	UK	640.0	413.8	1.0	3.0
Astra	Swe	156.5	01.2	3.6	1.2
Audi	Ger	1448.0	–	2.8	–
Autopistas Con	Spa	2310.0	1493.4	5.7	3.2
BAT	UK	606.5	392.1	3.9	5.4
Bass	UK	1017.5	657.8	6.0	3.8
BMW	Ger	1834.0		–	–
Beiersdorf	Ger	85.8	55.5	0.4	1.7
Bic	Fr	482.6	312.0	10.0	1.9
British Airways	UK	571.5	8.6	2.2	3.4
Cadbury Schweppes	UK	775.5	501.4	5.2	2.6
Carlsberg	Den	405.8	262.3	−1.3	0.9
Castorama Dubuis Inv	Fr	825.0	12.4	6.6	2.0
CCP	Spa	2570.0	38.8	2.0	2.5
Christian Dior	Fr	738.0	477.1	10.3	3.2
Cie Ffinanc Richemont	Swi	1614.0	1043.4	0.2	–
Cie Generale Des Eaux	Fr	958.0	619.3	6.1	1.9
Colruyt	Bel	23800	15386.4	11.5	0.7
Compass	UK	888.0	13.4	2.0	1.4
Continental	Ger	43.6	0.7	4.6	2.0
Daimler-Benz	Ger	148.6	2.2	10.5	1.1
Danisco	Den	433.5	280.2	0.8	1.2
Deutsche Lufthansa	Ger	35.0	0.5	7.9	2.0
Diageo	UK	622.0	402.1	2.6	3.6
Elan	Ire	42.3	27.3	−1.9	–
Electrolux	Fr	610.0	9.2	−2.6	2.0
EMI	UK	517.0	7.8	5.4	3.2
Eridania Beghin-Say	Fr	1086.0	702.1	2.1	4.6
Essilor International	Fr	1869.0	1208.3	0.1	1.2
Fiat	Ita	6371.0	96.1	2.1	1.6
Fresenius Medical Care	Ger	127.4	82.4	−3.5	–
Gallaher	UK	355.0	229.5	−3.3	–
Gehe	Ger	96.0	62.1	−0.5	1.5
GKN	UK	1472.0	22.2	4.4	2.1
Glaxo Wellcome	UK	1702.0	1100.3	−11.6	2.3
Granada	UK	950.5	614.5	5.1	1.9
Groupe Danone	Fr	1230.0	795.2	3.7	2.1
Hays	UK	937.5	606.1	4.3	1.2
Heineken	Neth	379.8	245.5	0.7	0.9
Imperial Tobacco	UK	427.0	276.1	2.6	6.4
Jeronimo Martins	Port	6497.0	98.0	4.0	0.6
Klm-Konin Luchtvaart	Neth	74.1	1.1	2.6	1.4
Koninklijke Ahold	Neth	62.6	40.5	7.6	0.7
La Rinascente	Ita	15918	10290.8	6.9	1.3
Ladbroke	UK	308.8	4.7	8.2	2.6
L'Oreal	Fr	2742.0	1772.7	7.9	0.8
LucasVarity	UK	234.0	3.5	4.0	2.4
LVMH	Fr	1224.0	791.3	9.2	2.6
Michelin	Fr	377.0	5.7	9.3	1.3
Montedison	Ita	1844.0	1192.1	3.5	1.1
Nestle	Swi	2573.0	1663.4	−0.4	1.2
Northern Foods	UK	272.0	175.8	1.5	4.5
Novartis-Bearer	Swi	2676.0	1730.0	3.1	0.7
Nutricia Verenigde Bed	Neth	70.0	45.3	5.1	1.0
Nycomed Amersham	UK	2286.0	1477.9	−2.9	0.9
Orkla	Nor	733.0	473.9	2.9	1.2
Parmalat Finanziaria	Ita	2896.0	1872.2	1.5	0.5
Pernod-Ricard	Fr	398.0	257.3	6.4	3.2
Pharmacia & Upjohn	Swe	324.0	209.5	0.0	2.7
Pilkington	UK	115.0	1.7	6.0	5.0
Pirelli	Ita	4996.0	75.4	4.1	2.0
Pirelli Spa-rnc	Ita	4001.0	60.4	0.0	3.0
Promodes	Fr	2715.0	1755.2	9.5	0.8
PSA Peugeot Citroën	Fr	867.0	13.1	1.0	0.5
Raisio	Fin	918.0	593.5	0.9	0.3
Randstad	Neth	85.8	55.5	0.9	1.1
Reckitt & Colman	UK	1082.5	699.8	2.6	2.4
Renault	Fr	212.0	3.2	7.4	–
Rentokil Initial	UK	300.5	194.3	2.9	1.1
Rhone-Poulenc	Fr	280.6	181.4	6.1	1.9
Roche Holding-bearer	Swi	26000	16808.7	1.0	0.3
SMH-Bearer	Swi	917.6	13.8	11.9	1.1
Sairgroup	Swi	1978.5	29.9	6.1	–
Sanofi	Fr	690.0	446.1	5.5	1.4
Scania	Swe	174.5	2.6	−3.3	3.2
Schering	Ger	203.9	131.8	0.7	1.8
Scottish & Newcastle	UK	876.0	566.3	1.7	3.1
Seb	Fr	886.0	13.4	3.1	1.9
Securicor	UK	365.5	236.3	3.4	0.6
Seita	Fr	266.0	172.0	8.1	3.7
Sgs Soc Gen de Surv	Swi	2677.0	1730.7	2.1	2.5
Smith & Nephew	UK	176.8	114.3	−0.6	3.5
Smithkline Beecham	UK	760.5	491.7	−5.4	1.9
Sodexho Alliance	Fr	3924.0	59.2	10.6	1.3
Sophus Berendsen	Den	1225.0	791.9	–	0.4
Springer (axel) Verlag	Ger	1550.0	–	2.4	1.9
Suedzucker	Ger	850.0	549.5	2.4	2.9
Synthelabo	Fr	850.0	549.5	7.6	0.9
T & N	UK	255.0	3.8	0.0	–
Tabacalera	Sp	15550	10052.9	10.4	1.4
Tate & Lyle	UK	525.5	339.7	4.5	3.5
UCB	Bel	150500	97296.6	5.6	0.7
Unigate	UK	650.5	420.5	1.2	4.0
Unilever-CVA	Neth	131.7	85.1	5.3	1.7
Unilever	UK	551.0	356.2	6.7	1.9
United Biscuits	UK	270.0	174.6	5.1	4.6
Valeo	Fr	521.0	7.9	8.1	1.2
Volkswagen	Ger	1194.5	18.0	7.6	1.1
Volvo	Swe	216.5	3.3	1.2	2.3
Whitbread	UK	982.5	635.2	2.4	3.1
Wolseley	UK	500.5	7.6	0.2	2.8
Zeneca	UK	2645.0	1710.0	−0.5	1.7

Diversified



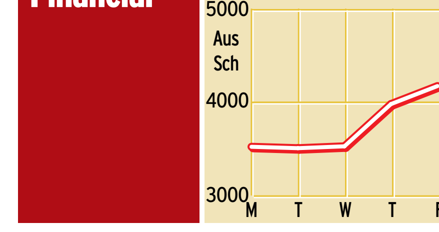
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Barco	Bel	7980.0	195.8	−1.2	0.8
BTR	UK	160.8	3.9	3.4	6.8
Gevaert	Bel	1990.0	48.8	7.0	–
Industrivarden	Swe	511.0	12.5	1.6	2.9
Lagardere	Fr	221.0	5.4	0.5	2.5
Metallgesellschaft	Ger	36.7	0.9	−0.7	0.8
Montaigne Participat	Fr	2100.0	51.5	0.0	0.4
Ste Gen de Belgique	Bel	4390.0	107.7	0.0	2.6
Tomkins	UK	350.0	8.6	3.1	4.5

Energy



Company	Country	Price (local)	Price (Ecu)	%change	Yield
British Petroleum	UK	838.0	12.6	1.1	3.4
Burmah Castrol	UK	1048.0	15.8	−3.4	5.5
Cia Espanola de Pet	Spa	4680.0	70.6	3.2	2.6
Electrafina	Bel	3625.0	54.7	2.4	3.9
Elf Aquitaine	Fr	693.0	10.5	3.0	3.0
Eni	Ita	10409.0	157.0	−2.9	2.3
Enterprise Oil	UK	563.0	8.5	0.7	3.9
Lasmo	UK	277.8	4.2	4.4	0.8
Neste	Fin	142.0	2.1	1.1	2.1
Petrofina	Bel	12775.0	192.7	1.6	3.6
Petroleum Geo-Services	Nor	427.0	6.4	3.9	–
Repsol	Spa	6860.0	103.5	5.5	2.8
Royal Dutch Petroleum	Neth	111.9	1.7	4.7	2.8
RWE-DEA	Ger	440.0	–	1.1	5.2
Saga Petroleum	Nor	113.0	1.7	1.8	3.1
Saipem	It	10146.0	153.1	0.7	1.5
Shell Transprt&tradng	UK	435.0	6.6	4.8	3.3
OMV	Aus	1547.0	23.3	6.0	1.7
Total	Fr	668.0	10.1	6.0	2.4

Financial



Company	Country	Price (local)	Price (Ecu)	%change	Yield
3I	UK	573.0	8.6	11.9	2.1
Aegon	Neth	233.0	3.5	9.6	1.3
AGF	Fr	330.5	5.0	0.6	2.3
Alleanza Assicurazioni	Ita	21945.0	331.1	1.5	0.7
Alliance Trust	UK	2795.0	42.2	2.4	2.6
Allianz	Ger	571.5	8.6	−1.0	0.5
Allianz Lebensversich	Ger	2050.0	–	10.5	0.7
Almanij	Bel	2150.0	32.4	0.0	1.5
Amvescap	UK	593.5	9.0	1.7	1.2
Asr Verzekeringsgroep	Neth	146.0	2.2	−4.6	1.8
Assicurazioni Generali	Ita	50689.0	764.8	−0.2	0.7
Axa-UAP	Fr	589.0	8.9	0.7	1.9
Axa Colonia Konzern	Ger	221.0	3.3	−3.9	1.1
Baloise	Swi	3200.0	48.3	0.1	–
Bayer Hypo-Und Wech	Ger	86.0	1.3	−0.9	2.4
BHW	Ger	32.5	0.5	6.4	4.0
BK Vision	Swi	1674.0	25.3	1.9	–
Britannic Assurance	UK	1238.0	18.7	4.1	3.3
British Land	UK	746.0	11.3	2.3	1.4
CCF	Fr	450.1	6.8	3.5	2.2
Cetelem	Fr	770.0	11.6	2.7	1.9
Cobepa	Bel	1990.0	30.0	13.1	5.8
Commercial Union	UK	1107.0	16.7	−1.9	3.0
Credit Suisse	Swi	269.0	4.1	1.0	1.5
Credito Italiano	Ita	6912.0	104.3	8.6	0.9
Ea-Generali	Aus	4182.0	63.1	18.8	0.3
Edinburgh Investment	UK	482.0	7.3	1.8	2.8
Ewart	Ire	1.0	0.0	6.6	–
Exor	Lux	93.0	1.4	–	3.1
Finaxa	Fr	480.1	7.2	4.6	2.0
Foreign & Colonial	UK	188.3	2.8	2.4	1.6
Forenings Sparbanken	Swe	246.0	3.7	4.7	2.4
Fortis	Bel	9580.0	144.5	−0.2	1.3
Fortis Amev	Neth	111.8	1.7	4.5	1.8
Gan Assurances	Fr	149.9	2.3	0.3	–
General Accident	UK	1360.0	20.5	0.1	3.4
Groupe Brux. Lambert	Bel	5870.0	88.6	1.4	3.4
Guardian Royal	UK	463.3	7.0	0.1	2.5
Hammerson	UK	501.5	7.6	−3.2	2.8
Ifil	Ita	7503.0	113.2	3.8	1.7
INA	Ita	4953.0	74.7	5.8	1.3
Incentive	Swe	768.0	11.6	−0.3	1.3
ING Groep	Neth	108.3	1.6	5.2	2.0
Insinger	Lux	86.0	–	−4.4	–
Investor	Swe	408.0	6.2	0.0	2.5
Istituto Mobiliare It	Ita	24882.0	375.4	10.1	2.2
La Fondiaria Ass	Ita	10637.0	160.5	3.7	1.3
La Gaiana	Ita	4520.0	68.2	32.9	2.7
Land Securities	UK	1138.0	17.2	2.4	3.0
Legal & General	UK	687.5	10.4	−5.3	2.1
Liberty Int	UK	588.5	8.9	4.3	3.7
Liechtenstein Global	Swi	1265.0	19.1	12.3	1.7
Mediolanum	Ita	40432.0	610.0	3.8	0.9
Mepc	UK	600.0	9.1	4.1	3.6
MAM	UK	1690.0	25.5	−1.2	3.5
Muenchener Rueckver	Ger	575.0	–	8.4	0.4
Norwich Union	UK	517.3	7.8	6.2	–
Pharma Vision 2000	Swi	1052.0	15.9	1.2	–
Provident Financial	UK	986.5	14.9	6.8	2.5
Prudential	UK	909.5	13.7	4.9	2.1
Ras	Ita	20708.0	312.4	5.0	1.6
Royal & Sun Alliance	UK	774.5	11.7	1.2	3.2
Royale Belge	Bel	11875.0	179.2	0.6	3.0
Safra Republic	Lux	122.5	1.8	–	1.8
Sampo Insurance	Fin	211.0	3.2	2.4	0.7
Schw lebensv & Rent	Swi	1280.8	19.3	2.9	0.5
Schw Rueckversich	Swi	3105.9	46.9	5.2	1.0
Scottish Mort &Ttrust	UK	366.5	5.5	3.5	1.8
Skandia Forsakrings	Swe	452.0	6.8	4.6	0.8
Slough Estates	UK	403.5	6.1	3.9	2.1
Stillhalter Vision	Swi	886.0	13.4	2.2	–
Storebrand	Nor	59.0	0.9	0.9	–
Sun Life & Provincial	UK	548.3	8.3	0.5	2.3
Trygg-Hansa	Swe	240.0	3.6	–	1.0
United Assurance	UK	611.0	9.2	3.4	4.0
Victoria	Ger	2175.0	32.8	–	0.9
Volksfuersorge	Ger	860.0	13.0	−1.7	2.3
Witan Investment	UK	361.5	5.5	3.4	2.4
Wuertt Versich-Beteil	Ger	2800.0	42.2	5.7	0.7
Zürich Versicherungs	Swi	800.0	12.1	2.4	0.9

Industrial

CGIP
3000
Ffr
2500
2000
M T W T F

Company	Country	Price (local)	Price (Ecu)	%change	Yield
ABB-B	Swe	99.5	11.4	5.3	2.1
ABB-Bearer	Swi	1999.0	228.6	5.3	2.0
Asea Brown Boveri	Ger	530.0	–	1.9	5.0
Associated British Ports	UK	308.0	35.2	−0.8	3.3
Atlas Copco	Swe	222.5	25.4	2.1	1.9
BAA	UK	569.0	65.1	1.2	2.8
BBA	UK	433.0	49.5	3.2	2.0
Blue Circle	UK	357.5	40.9	6.7	4.5
Bouygues	Fr	854.0	97.7	3.5	3.0
BPB	UK	329.5	37.7	5.0	3.7
CGIP-Gen d'ind & de Par	Fr	2619.0	299.5	15.2	2.3
Cimenteries CBR Cement	Bel	3280.0	375.1	−1.6	2.9
Cimpor Cim de Port	Port	5545.0	634.1	3.6	2.3
Compagnie de Saint	Fr	853.0	97.5	3.3	3.0
Cookson	UK	226.5	25.9	8.9	4.4
D/S Svendborg	Den	450000.0	51459.8	−0.3	0.3
Electrocomponents	UK	462.5	52.9	1.3	2.2
FKI	UK	179.0	20.5	7.2	3.7
Fomento de Con Constru	Spa	6600.0	754.7	7.8	0.6
Fried.Krupp Hoesch	Ger	330.0	37.7	6.5	2.2
General Electric	UK	399.5	45.7	6.8	4.2
Hanson	UK	306.0	35.0	4.8	1.6
Heidelberger Druck	Ger	104.8	12.0	0.1	–
Heidelberger Zement	Ger	134.5	15.4	−0.4	1.5
Hochtief	Ger	63.0	7.2	−1.7	2.7
Holderbank Fin Glarus	Swi	1436.0	164.2	8.1	1.2
Imetal	Fr	758.0	86.7	6.5	3.2
Imi	UK	421.0	48.1	3.4	3.7
Kvaerner	Nor	254.0	29.0	−5.9	2.8
Lafarge	Fr	449.3	51.4	8.8	3.3
Lahmeyer aktiengesell	Ger	74.0	8.5	−5.1	1.8
Legrand	Fr	1406.0	160.8	6.5	0.4
Linde	Ger	1201.0	137.3	5.4	2.1
Man	Ger	546.0	62.4	12.7	2.6
Mannesmann	Ger	1090.0	124.6	8.8	1.3
Norsk Hydro	Nor	331.0	37.9	−2.2	2.3
Peninsular & Orient	UK	790.5	90.4	3.0	4.9
Philips Electronics	Neth	159.0	18.2	2.6	1.3
Railtrack	UK	927.0	106.0	3.9	3.0
Rexam	UK	277.5	31.7	11.2	–
Rexel	Fr	2050.0	234.4	0.8	1.4
RMC	UK	933.0	106.7	11.8	3.4
Rolls-Royce	UK	233.3	26.7	13.0	2.9
Rwe	Ger	100.4	11.5	0.6	2.3
SKF	Swe	165.5	18.9	1.8	3.2
Sandvik	Swe	224.0	25.6	1.4	3.1
Scancem	Swe	314.0	35.9	4.7	2.4
Schneider	Fr	379.0	43.3	6.9	2.0
Sidel	Fr	422.0	48.3	2.0	1.6
Siebe	UK	1258.0	143.9	7.4	1.2
Siemens	Ger	111.7	12.8	−1.2	1.9
Skanska	Swe	362.0	41.4	1.4	3.0
Smiths Industries	UK	910.0	104.1	3.1	2.5
Smurfit	Ire	1.9	0.2	−3.6	2.3
Stagecoach	UK	811.5	92.8	−0.6	1.5
Suez Lyonnaise Des E	Fr	803.0	91.8	2.7	2.2
Thyssen	Ger	399.5	45.7	5.4	3.6
Ti	UK	530.3	60.6	9.4	3.2
Va Technologie	Ger	1763.0	201.6	5.9	1.7
Valenciana De Cem Port	Por	3005.0	343.6	3.3	–
Veba	Ger	121.8	13.9	1.3	2.2
Viag	Ger	982.0	112.3	−1.0	2.0
Williams	UK	352.3	40.3	−0.5	5.0

Media

CANAL PLUS
1500
Ffr
1200
900
M T W T F

Company	Country	Price (local)	Price (Ecu)	%change	Yield
Audiofina	Lux	1400.0	–	–	–
British Sky Broadcasting	UK	393.5	5.9	5.1	1.9
Canal Plus	Fr	1283.0	19.4	9.8	2.3
Carlton Communications	UK	427.3	6.4	3.7	3.6
Daily Mail&General	UK	2355.0	35.5	3.3	1.2
Elsevier	Neth	38.5	0.6	0.8	2.2
Emap	UK	1106.0	16.7	1.3	1.5
Havas	Fr	474.9	7.2	7.0	2.7
Mediaset	Ita	10101.0	152.4	5.4	1.9
Pearson	UK	906.5	13.7	1.2	2.6
Polygram	Neth	106.1	1.6	−1.4	0.9
Rank	UK	338.5	5.1	0.6	6.6
Reed International	UK	714.5	10.8	2.0	2.4
Reuters	UK	616.5	9.3	−2.9	2.8
Télévision Française TF1	Fr	660.0	10.0	0.9	3.6
United News & Media	UK	722.5	10.9	5.8	4.2
VNU	Neth	64.4	1.0	12.8	0.9
Wolters Kluwer	Neth	316.1	4.8	0.0	0.8
WPP	UK	321.0	4.8	7.4	0.7

Retail

METRO
100
Dm
80
60
M T W T F

Company	Country	Price (local)	Price (Ecu)	%change	Yield
Adecco	Swi	476.0	307.7	4.0	1.1
Argos	UK	613.5	9.3	0.1	91.4
Asda	UK	202.8	131.1	0.9	1.9
Benetton	Ita	32086.0	484.1	5.0	1.5
Boots	UK	914.5	13.8	0.9	2.9
Burton	UK	151.3	2.3	–	–
Carrefour	Fr	3655.0	2362.9	5.6	1.1
Casino Guichard Per	Fr	371.0	239.8	2.5	1.8
Comptoirs	Fr	3310.0	2139.9	7.8	1.1
Delhaize-le lion	Bel	2280.0	1474.0	0.0	1.6
Dixons	UK	545.0	8.2	−1.2	2.5
Great Universal	UK	779.5	11.8	2.4	3.0
Greenalls	UK	414.5	6.3	−0.1	5.0
Hagemeyer	Neth	95.0	61.4	1.7	1.4
Hermes	Fr	477.0	7.2	3.7	0.8
Karstadt	Ger	647.0	9.8	4.3	2.2
Kingfisher	UK	1050.0	15.8	3.3	2.4
Marks & Spencer	UK	583.5	8.8	0.3	2.9
Metro	Ger	82.5	1.2	8.7	1.4
Morrison	UK	242.5	156.8	−2.8	0.9
Next	UK	829.0	12.5	0.4	2.4
Pinault-Printemps	Fr	3992.0	60.2	2.1	1.2
Safeway	UK	361.0	233.4	−3.9	4.9
Sainsbury	UK	464.5	300.3	2.0	3.3
Tesco	UK	518.3	335.0	−0.5	2.6
Vendex Intl	Neth	128.9	1.9	4.7	1.6

Technology

ASM
200
Nfl
175
150
M T W T F

Company	Country	Price (local)	Price (Ecu)	%change	Yield
Alcatel Alsthom	Fr	792.0	119.5	4.6	1.9
Ares-Serono	Swi	2200.0	331.9	−3.9	0.3
ASM Lithography	Neth	188.8	28.5	18.1	–
Baan	Neth	92.5	14.0	0.5	–
British Aerospace	UK	1910.0	288.1	1.6	1.3
British Telecom	UK	612.8	92.4	2.3	4.0
Cable & Wireless	UK	663.5	100.1	0.4	2.0
Cap Gemini	Fr	700.0	105.6	14.6	0.4
Dassault Aviation	Fr	1550.0	233.8	8.9	3.0
Dassault	Fr	246.0	37.1	17.1	0.5
Ericsson	Swe	364.0	54.9	3.3	1.0
Getronics	Neth	81.3	12.3	2.9	0.4
Misys	UK	2675.0	403.5	9.1	0.6
Nokia	Fin	551.5	83.2	4.6	1.4
Novo-Nordisk	Den	1035.0	156.1	−1.3	0.6
Oce	Neth	275.7	41.6	6.9	1.3
Orange	UK	345.3	52.1	−2.4	–
Premier Farnell	UK	393.5	0.8	3.1	4.0
Sap	Ger	690.0	104.1	7.6	0.4
Sema	UK	1960.0	295.7	2.6	0.5
Sgs-Thomson	Fr	466.8	70.4	9.0	–
Telecel-Com Pessoai	Port	24760.0	3735.1	2.5	–
Thomson	Fr	210.0	31.7	−0.9	2.0
TIM	It	8319.0	1254.9	1.2	0.6
Vodafone	UK	544.3	82.1	3.6	1.2

Utilities

BERLINER KRAFT
80
Dm
70
60
M T W T F

Company	Country	Price (local)	Price (Ecu)	%change	Yield
Aguas De Barcelona	Spa	7100.0	42.4	14.5	1.3
Anglian Water	UK	842.5	5.0	−0.8	5.3
Berliner Kraft Und Licht	Ger	80.0	0.5	20.3	1.8
BG	UK	304.0	1.8	−5.6	3.5
British Energy	UK	447.5	2.7	−0.2	3.9
Centrica	UK	108.5	0.6	7.6	–
Deutsche Telekom	Ger	36.7	0.2	1.5	4.7
Edison	It	11787.0	70.4	1.3	1.7
Electrabel	Bel	9090.0	54.3	−0.8	5.2
Electricidade De Port	Port	3984.0	23.8	1.4	3.1
Elektrowatt	Swi	550.0	3.3	0.0	1.5
Endesa	Spa	3400.0	20.3	1.5	2.1
Energy	UK	778.5	4.7	0.7	2.2
France Telecom	Fr	295.1	1.8	4.8	–
Gas Natural	Spa	6840.0	40.9	−2.6	1.0
Hellenic Tel	Gr	5600.0	33.5	1.9	2.9
Hyder	UK	936.5	5.6	−1.9	6.1
Iberdrola	Spa	2225.0	13.3	1.1	3.2
Italgas	Ita	6915.0	41.3	−0.9	1.9
Koninklijke PTT Ned	Neth	103.0	0.6	9.8	2.9
National Grid	UK	343.0	2.0	8.2	4.9
National Power	UK	630.5	3.8	−2.1	5.6
Neckarwerke Stuttgart	Ger	496.0	–	−1.2	2.3
Oest Elektrizatswirt	Aus	1342.5	8.0	−2.2	1.2
Portugal Telecomister	Port	9730.0	58.1	2.2	1.4
Powerfin	Bel	6480.0	38.7	4.7	2.5
Powergen	UK	849.0	5.1	0.1	3.9
Scottish Hydro-Electric	UK	546.5	3.3	−3.0	4.2
Scottish Power	UK	518.0	3.1	0.3	4.6
Severn Trent	UK	932.0	5.6	0.1	5.2
Sevillana De Electric	Spa	1480.0	8.8	5.3	3.4
South West Water	UK	902.5	5.4	0.1	5.3
Southern Electric	UK	513.3	3.1	−9.2	5.4
Sydkraft	Swe	210.0	1.3	0.0	2.0
Tele Danmark	Den	448.0	2.7	−2.0	3.8
Telecom Italia	Ita	12319.0	73.6	0.6	1.1
Telefonica De España	Spa	5290.0	31.6	6.4	1.8
Thames Water	UK	888.5	5.3	1.6	5.0
Tractebel	Bel	3845.0	23.0	3.1	2.7
Union Electrica Fenosa	Spa	1910.0	11.4	11.0	2.9
United Utilities	UK	819.5	4.9	1.4	5.9
Vew	Ger	610.0	3.6	−1.6	2.2
Yorkshire Water	UK	511.5	3.06	4.2	4.7

THE EUROPEAN 500

The European 500 lists Europe's top companies, ranked by market capitalisation and divided by industry sector. It has several unique features. The index is priced in ecus as well as in local currencies (we will report prices converted into euros when the new currency is launched). In coming weeks, The European 500 index will be available in real time on Bloomberg screens. We will also be adding sector-by-sector movement graphs.
The European 500 is edited by Melanie Bien

KEY

Aus	Austria	**Gr**	Greece	**Port**	Portugal
Bel	Belgium	**Ire**	Ireland	**Spa**	Spain
Den	Denmark	**Ita**	Italy	**Swe**	Sweden
Fin	Finland	**Lux**	Luxembourg	**Swi**	Switzerland
Fr	France	**Neth**	Netherlands	**UK**	United Kingdom
Ger	Germany	**Nor**	Norway		

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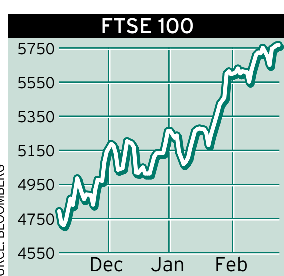
MARKETS

The drinks are on the house PAGE 62

ROUNDUP

London



SOURCE: BLOOMBERG

MANY BRITISH strategists' sights are trained several weeks down the line when the engineering sector starts to report. An early taster will be provided next week, however, when Rolls-Royce announces year-end results.

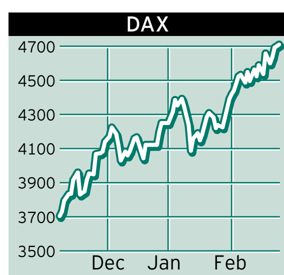
"The stock has been weak and has been trading at a big discount to market," says one strategist. "But as long as the figures are okay and Asia is not a disaster it could have a good run." Rolls-Royce was up six per cent on 27 February indicating that people may feel that the bad news is all in the market. "If I were a director at a British engineering company, I would put in as much bad as possible now to make comparisons look better later," says Kevin Gardiner, vice-president at Morgan Stanley in London.

Two big insurers, Halifax and Royal Sun Alliance, report this week, following the £14 billion ($23bn) Commercial Union/General Accident deal announced on Thursday 26. The merger frenzy that has been triggered by the CU/GA announcement will hit the sector and speculative price hikes are anticipated.

Merrill Lynch forecasts Halifax profits in the region of £1.6bn. The company's stock has been held back by fears over spending plans and the market would welcome a share buyback. The focus for Royal Sun Alliance will be, not surprisingly, on consolidation. Analysts expect the company to announce a tie-up within the next year, probably with a strong European bias. Another five per cent share buyback is also anticipated.

At the macro level, strategists expect another interest rate hike – if not this week then the week after – of the order of 0.25 per cent. This will have a short-term impact on the market.

Frankfurt



SHARE TRADERS in Germany are looking forward to a quiet week after more than a month of seemingly unstoppable price rises. Although the Bundesbank council is scheduled to meet on 3 March, the market is expecting no change in interest rates. The only major company announcing results this week is sportswear producer Adidas, which is due to hold presentations for analysts on 5 March.

In the short run, domestic political events may influence the market more than fundamentals. On 2 March, the SPD will pick a leader for federal elections later this year, while local elections will be held in Lower Saxony mid-week.

Although the market is up more than 10 per cent since mid-January, analysts now believe that recent fears of a market collapse as a result of a decline in earnings can be discounted. Earlier this year, by contrast, some traders speculated that German exporters would inevitably suffer earnings declines as a result of the meltdown in Asia this year.

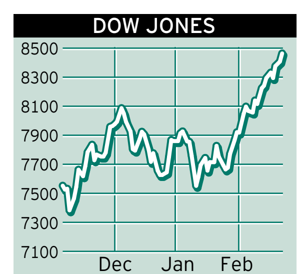
But results from engineering group MAN torpedoed that theory. Its net profit more than doubled to DM185 million ($102m), with management declaring that it had been unaffected by events in Asia.

Buoyed by similar indications from other engineering groups, traders expect investors' focus to shift to manufacturing industry over the next couple of weeks.

"Bid rumours in the banking and insurance sector have propelled the market as a whole so far this year," said one analyst. "Industrial companies are now looking undervalued in comparison."

This enthusiasm for industrial stocks has also been fuelled by recent macro economic figures.

New York



THE DOW JONES continues its strong form, hitting all-time highs of 8,457 and 8,490 on 25 and 26 February. However, fourth quarter GDP revisions revealing that growth is not as firm as had been predicted might hold back sentiment.

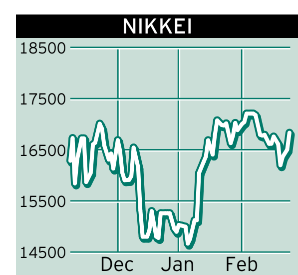
Trade figures previously reported showed growth of 4.3 per cent, but the revisions show the actual figure to be 3.9 per cent. This is unlikely to have any sharp impact on the index. "As long as bond yields are well-behaved then things should be OK," says one strategist. "But performance won't be anything like as spectacular as it has been."

Richard Gray at Bank of America in London disagrees. "The market will go up," he predicts. "There have been a lot of nerves in the market, about supply more than anything else, and a lot of these factors get laid to rest by these figures." Gray contends that the data show that there was strong growth in the fourth quarter, but that it is all in inventory, and so will feed through to the first quarter figures.

There seems little let-up in the unprecedented liquidity flows into the market, particularly from the mutual funds. On 27 February S&P Futures were up 1.9 points at 1,054 – a premium of 2.87 points to the cash index.

If there are any surprises this week, they will come from employment figures due out on 6 March. The consensus is for 4.6 per cent unemployment, non-farm payrolls of 250,000 and average hourly earnings of 0.4 per cent. Goldman Sachs supports the 250,000 figure, but Gray at Bank of America is expecting a lower figure: "200,000 would be bond positive and good for the Dow Jones, but 0.4 per cent plays straight into Greenspan's problem – the tightness of the labour market."

Tokyo



SPECULATION surrounding a stimulus package from the Liberal Democratic Party (LDP) has been circulating for so long that it is hard to attribute any rise in the Nikkei to it.

However, the market was up 330 points on 27 February, despite the release of poorer-than-expected industrial figures. Industrial production was up 2.9 per cent month-on-month versus a consensus of more than 3.1 per cent.

But some sort of concrete announcement on a stimulus package is anticipated after 12 March (when the main fiscal 1998 budget is announced) and before year end. Indeed, after close of play on 27 February many investors piled into the futures market, which reached 17,500 against an index figure of 15,830. This impetus is expected to carry through to next week, but it is not thought to amount to a rise of more than 200 to 300 points.

"The government has no choice but to release details of some sort of stimulus package towards the end of March, especially with the United States breathing down their necks," says one strategist. But the LDP is prohibited by law from making any comment about any such a package until after the budget, and must therefore content itself with releasing information that it believes the market wants to hear.

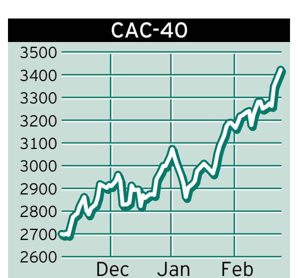
Government officials must be hoping that the proposal – also announced on Friday 27 – to cut the marginal rate of income tax from 65 per cent to 50 per cent will do the trick for the time being. "[The LDP] does not want to let any significant market slump happen before year end," says Neil Williams, a strategist at Goldman Sachs in London.

STOCKMARKETS

MARKET	INDEX	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	1070.3	5.0	43.3	1070.3	702.1
Athens	General	1419.2	−0.6	3.8	1794.1	1206.5
Brussels	Bel-20	2746.3	2.5	27.9	2746.3	2077.9
Budapest	BTI	8170.3	2.9	45.8	8483.8	4992.4
Copenhagen	Stock Market	695.5	−0.1	30.3	708.1	520.5
Dublin	Ireland SE	5005.0	3.7	23.5	5017.2	2923.6
Frankfurt	Dax	4709.8	2.3	43.7	4709.8	3215.2
Helsinki	Hex	4124.5	3.9	41.3	4124.5	2734.4
London	FTSE 100	5767.3	0.3	32.9	5767.3	4214.6
Madrid	Madrid SE	772.6	4.2	64.6	772.6	461.7
Milan	Mibtel	19890.0	3.1	66.7	19932.0	11551.0
Oslo	OBX	685.2	1.7	1.3	758.5	566.0
Paris	CAC-40	3421.9	4.9	30.1	3421.9	2514.5
Prague	Stock Market	477.4	1.9	−3.6	613.6	452.4
Stockholm	Affarsvarlden	3329.4	2.0	23.0	3329.4	2610.5
Vienna	Credit Aktien	497.9	6.6	22.0	497.9	392.8
Warsaw	WIG-20	1817.4	2.6	0.7	1817.4	1312.9
Zürich	SPI	4426.1	2.3	54.2	4426.1	2828.7
New York	Dow Jones	8550.5	1.6	23.5	8550.5	6391.7
Tokyo	Nikkei	16831.7	0.5	−11.5	20681.1	14664.4
Hong Kong	Hang Seng	11480.7	8.3	−15.3	16673.3	8121.1

SOURCE: DATASTREAM, BLOOMBERG

Paris



THE PARIS stock exchange CAC-40 index is on the up and up, continuing to reach record highs on a daily basis. Last week saw the blue chip index rise by a staggering 136 points, or four per cent. Such an upward surge could persist for at least six months before a fall, according to the more bullish French analysts.

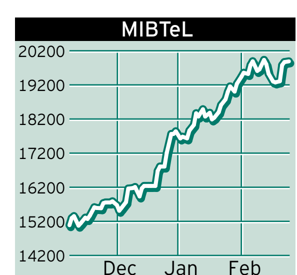
The bears say this is an unrealistic situation and that the market is bound to overheat within the next few weeks unless investors see reason. Some profit-taking is expected to start this week but the general feeling is that the index is going to continue to spiral upwards.

The reasons behind Paris's good performance – the European rally aside – are healthy year-end results, more positive economic news and the stronger dollar. Together, these factors drove the the CAC-40 above the 3,400 mark last week. Economic data released on 27 February shows consumer spending up on last year's levels, with savings expanding.

Among the best performers was Cap Gemini, which reports year-end figures this week. Cap Gemini's stock rose to almost Ffr700 ($115) a share on the back of increased confidence in the computer sector. Technology stocks have benefited from expanding business opportunities, courtesy of the much-hyped millennium bug and conversion to the euro.

Merger speculation continued to buoy drug stocks, despite the collapse of merger plans between Glaxo Wellcome and SmithKline Beecham, and the announcement from Sanofi's parent, Elf Aquitaine, that the search for a partner was not of primary importance for the firm. Rhône-Poulenc, Sanofi and L'Oréal's drug's arm, Synthélabo, were all amongst Paris's best performers.

Milan



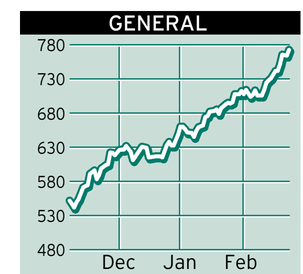
THE ITALIAN stockmarket is expected to rally gently this week in the optimism created by the country's success at meeting the Maastricht criteria. Rumours are expected to fuel another rise in stock prices, following a mini-rally last week that took the MIBTEL index close to its all-time high of 19,868.

Rumours have resurfaced of a series of mergers and acquisitions in the financial services sector. One mooted merger is between Credito Italiano, Banca di Roma and insurance group Generali – a deal reportedly being put together by Italian merchant bank Mediobanca. Insurer INA is also linked with reorganisation at Banca di Napoli. To date, the only recent merger in the banking sector has been that between Istituto Bancario San Paolo di Torino and IMI announced in January.

Although rumours, more than fundamentals, have been buoying the market, Italian analysts maintain that last week's economic statistics help justify the rise in prices. With Italy now certain to join EMU in the first wave, the country's interest rates should continue falling, stimulating the economy and fuelling growth for equities. "Rates could fall another two per cent this year," says one analyst in Milan.

According to one economist, the Italian economy should pick up sharply this year, with GDP growth rising from 1.5 per cent to 2.5 per cent. "Exporters will be the biggest beneficiaries, because the lira is so weak," he says. Leading industrials such as Fiat and tyre maker Pirelli could be among the greatest beneficiaries of a pickup in growth. However, as elsewhere in Europe, analysts await the reporting season to see whether companies have yet enjoyed the effects of economic recovery.

Madrid



IN THE ABSENCE of any key economic data, Madrid will be spending this week digesting a flurry of figures released last week, in addition to those out on 2 March, as companies rush to beat the 2 March deadline imposed by CNMV, the stock exchange commission, for reporting full-year earnings for 1997.

Among them, Tabacalera, the 52 per cent state-owned tobacco group, is expected to show it is in better health than many of the consumers that keep it in business. The stock has risen strongly during the past year and especially during the past two months. The consensus for net profits is around Pts18.6bn ($121m), more than 50 per cent up on last year. Such expectations will already have been keyed into the price. But Tabacalera's dynamic chairman, Cesar Alierta, is likely to have kept some more good news up his sleeve, as he tries to ramp the stock ahead of the government's sale of its final tranche in the next couple of months.

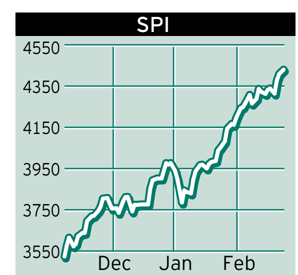
Oil and gas company Cepsa, hotel management group Sol Meliá, zinc producer Asturiana de Zinc and builders Acciona and Fomento de Construcciones will also disclose the colour of the ink on their books.

The power utilities, which were granted an extension request by the CNMV, won't be reporting this week. They have until 31 March to adapt to new electricity regulations and the resultant accounting problems before releasing results.

The frenetic pace of activity in the banking sector continued, forcing the MADX to new peaks. It closed the week at 773.

There were impressive showings from other stocks including fast-food company Tele Pizza, also releasing results on Monday 2 which, at one point on Friday 28, was up 14 per cent.

Zürich



THE SWISS market is expected to edge further forward this week, supported by other European markets and consolidating gains following the peaceful resolution of the Iraqi crisis. Analysts believe the market could continue to rise, even though the Zürich stock exchange SPI index ended last week at a record high of 4,423.

Towards the end of the week the market was bolstered by strong results from SAir, the parent of Swissair. It recorded a profit in 1997 for the first time for three years and will also be paying a dividend for the first time for five years.

By contrast, sectors that have supported the rally over the past two weeks, especially banks and insurers, look set to weaken as bid speculation evaporates (*see page 55*).

Insurer Baloise was one of the weaker stocks last week after rumours that it was going to be taken over came to nothing.

The pharmaceuticals sector is expected to be volatile in the aftermath of the uncertainty surrounding the Glaxo/SmithKline merger. Analysts will be following Roche's planned acquisition of Corange, an American holding company, which has received US regulatory approval.

Meanwhile, analysts report that demand for equities remains strong. "Institutional liquidity is great," says an analyst in London. "With interest rates so low the debt market is not attractive. That flow of funds ensures that there is always upward pressure on the market. It would take a major shock like the outbreak of war in the Gulf to make investors transfer their funds in cash." He foresees the SPI index breaching the 4,500 barrier this week.

Moscow

THE MOSCOW market opens on mixed signals this week, with good news on interest rates likely to be tempered by political and economic uncertainty. The Russian central bank is due to lower its key Lombard and refinancing rates on 2 March from 39 per cent to 36 per cent, which will send bullish signals to the market.

But this bullishness could dissipate if oil prices fall further. Crude oil prices slipped back last week as the threat of military action in Iraq receded, for the moment at least. This hit some major oil firms, including Sibneft, which slipped back three per cent. However, news that Fitch IBCA has given Sibneft a credit rating should boost the stock this week.

There could be some bad news from the rating agencies. Delegations from Fitch IBCA and Moody's were in Moscow last week and both have hinted that they could downgrade Russian debt. An announcement is expected in the next few days.

On 4 March, the Duma will vote on the government's draft 1998 budget. The prime minister, Victor Chernomyrdin, has urged President Boris Yeltsin to veto the budget if it is passed (as is likely) without a crucial amendment cutting government spending. Continuing uncertainty over the budget, as well as Yeltsin's threat to sack three (as yet unnamed) cabinet ministers, is likely unsettle the market. High-level ministers, such as Anatoly Chubais and Boris Nemtsov, are not thought to be in danger of losing their positions.

Foreign investors were given some cheer by Vladimir Potanin, the influential head of Oneximbank, who attacked Russia's poor corporate governance record in an interview given last week.

Amsterdam

THE DUTCH stock to watch in this week is ASM Lithography (ASML), a semi-conductor manufacturer. ASML has received a major new order from Samsung, allaying fears that the company's earnings would be seriously damaged by the Asian crisis. The company had warned earlier this year that its orders could fall by up to 50 per cent as a result of East Asia's market crash.

A number of other large firms are due to report this week, including Royal Gist Brocades, the antibiotics manufacturer which is the target of a friendly takeover by DSM. Its 1997 results are expected on 5 March, when analysts forecast it will report net profits down six per cent on 1996 figures, at Nfl 149m ($72.9m). Results are also expect from Alpinvest and Hunter Douglas, which is expected to show profits up more than 22 per cent, according to ING Barings.

Analysts are uncertain about the outlook for the Dutch market. It has performed spectacularly well since the beginning of 1998, rising 17 per cent. This makes it the second-biggest percentage gainer in Europe, after Spain. This has led some analysts to advise caution. Although economic fundamentals continue to look encouraging, some stocks are becoming too expensive. The best value is to be found in the technology and financial services sectors.

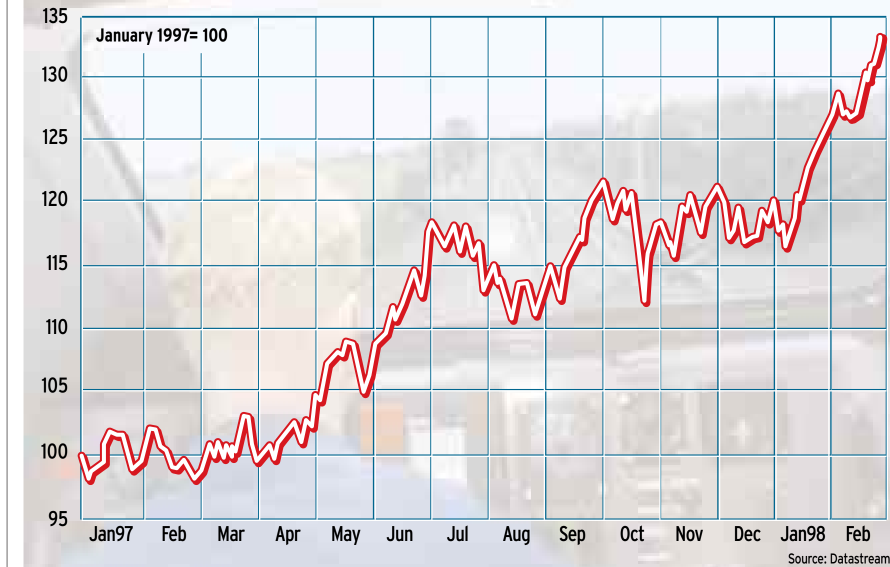
In other corporate news, Hagemeyer, the Dutch trading company, announced its intention to sell 39.7 per cent of its shares, which are worth an estimated $1.6bn. Hagemeyer distributes a wide range of goods including such brands as Rolex, Chanel and Givenchy.

Cath Blackledge, Louise Bowman, Gavin Gray, Paula Hawkins, Nicholas Moss

SELL-OFFS

THE EUROPEAN PRIVATISATION INDEX

Index measured in synthetic euros (1.10 synthetic euros to the dollar)



A LOT of good bargains ahead

THE POLISH government is stepping up its privatisation programme, planning to sell 62 state-owned companies over the next 18 months. Bank Pekao, the country's largest commercial bank, a 15 per cent stake in telecom company TPSA, and the airline Polskie Linie Lotnicze (LOT) are all on the government's list.

A history of widespread suspicion of privatisation in the early 1990s accounts for the snail's pace of the programme in the past. East European countries are now showing real progress after years of transition. Poland is one of the most attractive prospects, keen to get its economy in shape to meet its goal of entering the European Union by 2005.

These public sector companies were all earmarked for sale under the previous government but the new timetable is much shorter. Since the government took office on 31 October last year, seven companies have been sold, raising 1.3 billion zloty ($365.2 million). Its predecessor sold five companies for 82 million zloty over the same period the previous year.

There are some difficulties ahead. Fears are rising over the current account deficit – 1.9 per cent last year with a target of 1.5 per cent this year – as it threatens to constrain Poland's strong growth rates (six per cent GDP growth forecast this year). The privatisations are part of government plans to discipline wage policy, essential to reducing spending.

LOT's on-off privatisation seems to be on again. The company is expected to go ahead with its strategic privatisation mid-year, but is understood to have changed its mind on the listing. Interest from potential lead managers in the sale is muted, with one large US investment bank which had been interested in the deal in the past now more interested in representing the buyer rather than the seller.

But while there are plenty of attractive opportunities for investors, some companies are more worthy than others. The coal mining and steel sectors, for example, are generating losses at the rate of $500 million a year. The government still has to decide whether these sectors should restructure first, as Britain did with its steel sector, or sell them straight away.

The government is not being complacent; it plans to increase the efficiency of state companies before they are turned into private ones. A team has been set up to monitor the spending of companies that are major state debtors. Leszek Balcerowicz, deputy prime minister and finance minister, has also promised to speed up and simplify sale procedures.

Meanwhile, the sale of insurer PZU is being delayed as the government looks for a foreign investor.

MELANIE BIEN

TOP 40 COMPANIES

COMPANY	Country	Sector	Closing Price	Change 5 days	COMPANY	Country	Sector	Closing Price	Change 5 days
AGF	Fra	Insurance	5.0	0.6	Istituto Mobiliare It	Ita	Financial	–	–
BAA	UK	Airport	64.8	1.2	INA	Ita	Insurance	73.3	3.8
Banca di Roma	Ita	Banks	37.2	4.0	Koninklijke PTT	Neths	Telecoms	0.6	9.8
Banca Commerciale It	Ita	Banks	123.7	5.8	Lufthansa	Ger	Airline	0.5	7.9
Banque Nat de Paris	Fra	Banks	5.6	3.7	National Power	UK	Elec	3.8	−2.0
British Airways	UK	Airline	8.6	2.2	Portugal Telecom	Port	Telecoms	58.1	2.4
British Energy	UK	Elec	2.7	0.4	PowerGen	UK	Elec	5.1	0.5
British Gas	UK	Gas	1.8	−5.4	Railtrack	UK	Transport	105.9	2.3
British Petroleum	UK	Oil/Gas	12.6	1.3	Renault	Fra	Motors	3.2	7.4
British Steel	UK	Industrial	2.2	1.2	Repsol	Spa	Oil/Gas	103.5	5.5
British Telecom	UK	Telecoms	92.5	2.5	Rhône-Poulenc	Fra	Chems	181.3	6.1
Cable and Wireless	UK	Telecoms	100.2	−0.2	Rolls-Royce	UK	Aerospace	26.6	11.8
Cie Financière de Paribas	Fra	Banks	8.7	−1.2	Scottish Hydro Electric	UK	Elec	3.3	−3.0
Deutsche Telekom	Ger	Telecoms	0.2	1.5	Scottish Power	UK	Elec	3.1	0.4
Electricidade de Port	Port	Elec	23.8	1.4	Société Générale	Fra	Banks	13.9	2.9
Elf Aquitaine	Fra	Oil/Gas	10.5	3.0	Telecom Italia	Ita	Telecoms	73.5	0.7
ENI	Ita	Oil/Gas	157.9	−2.4	TeleDanmark	Den	Telecoms	2.7	−2.0
Endesa	Spa	Elec	1.5	20.3	Telefonica	Spa	Telecoms	31.6	6.4
France Telecom	Fra	Telecoms	1.8	4.8	UAP	Fra	Insurance	–	–
Istituto Banco Paolo Tori	Ita	Banks	316.0	10.0	Usinor	Fra	Industrial	1.4	3.0

Closing prices expressed in ecus

SOURCE: PRIVATISATION INTERNATIONAL

BONDS

SOVEREIGN ISSUES

Bond markets look for national identity

Phyllis Reed

THE switch to a single currency signals a fundamental shift in Europe's sovereign bond markets. Countries will find it more and more difficult to distinguish themselves when they go to the markets to borrow and there are signs that some states remain unprepared for the task of differentiating their issues from next year.

The importance of distinguishing national issues is heightened by the unique market opportunity which presents itself from the drying up of US sovereign issues. The balanced budget proposals on the other side of the Atlantic will halt the steady supply of US Treasury issues and lead to negative net issuance.

Annual net issuance by the 11 states in the euro area looks set to remain around the $160 billion level over the next two years. The largest eurobond issuers over the past three years – notably Italy and France which still have structural deficits to finance – will continue to come to market but they will have to compete with a broader array of corporate and emerging market issuance. Hence, they have to adopt a marketing and pricing strategy to ensure the issues take off.

In theory, economic and monetary union will virtually remove any currency risk associated with crossborder transactions in the euro area. Inevitably, this will mean that the participating governments' debt markets will be treated more like one individual eurobond market. Investors' attitude to asset allocation in these markets will shift. Under current actuarial rules, European pension fund managers can invest only a certain percentage of their assets in foreign currencies. Following monetary union these rules are unlikely to apply to the countries participating in the single currency area. International bond benchmark indices may also change as well.

Current individual country weightings in the countries scheduled to join in the first round are likely to be combined to a single euro area weight. Both changes suggest that it will be more difficult for an individual country to rely on natural investors to buy their bonds. For example, an international bond fund manager may decide that he or she wants to maintain a "neutral" position in the euro area markets (ie holding something like 29 per cent of their total portfolio). Instead of maintaining individual country weights, the investor may decide to put all the holdings in Italian government bonds instead of any of the other European government bond markets which were included in the index previously.

Conversely, they may decide to hold it all in German government bonds. Either way, these investors are unlikely to be required to hold individual country names within the euro area any longer. Changes in the futures and swaps market, as well as the way in which the new central bank allocates liquidity, also suggest that, no matter how you look at it, competition between the government issuers in the euro area looks set to increase as a result of the move to EMU.

As long as markets are convinced that EMU will hold together once introduced, credit ratings and liquidity will be the only factors differentiating euro area government bond debt. In terms of credit spread from 1 January next year, it is our view that, although the market will demand some sort of premium for a AA credit versus AAA, this yield pickup will be quite modest, around a maximum of 15 basis points on our estimates. Various factors suggest that this spread could be even lower. We think liquidity differences existing in the government bond markets will be insignificant in terms of yield differences.

In addition to credit and liquidity issues, it is our view that investors should at least keep in mind what the implications would be should markets call into question the viability of the EMU project as a whole or if it looks like one or more countries might have to leave the single currency.

Pricing in some sort of breakup premium to bond issues would become necessary in such an event. Quantifying this breakup yield premium is not easy, but gets down to two things. First, the probability of breakup or secession; second, the speed at which the country in question has converged.

The bottom line is that the breakup premium will not be as significant in those markets where economic convergence has been maintained over a period of time. This is true even if the probability of breakup is high, but will be a major consideration for those countries where convergence has come rapidly. Spain, Portugal and Italy still fall into the latter category. At present, this is not really an issue for investors, with the probability of breakup or secession so low.

This is not only good news for the European corporate bond market; it is also good news for these markets with European bond markets generally. Although a further adjustment in the valuation of euro area bond markets relative to the US may be necessary to compensate for EMU risk in the next year or two, the outright demand for euro assets looks likely to be strong.

As well as readying themselves for EMU by striving to meet the Maastricht convergence criteria, potential participant governments have been preparing for the single currency in the capital markets as well. By and large, they are preparing to compete with each other by doing the obvious, such as harmonising market conventions, increasing the liquidity in their markets and generally improving price transparency. The range of products that a sovereign issuer provides to potential investors will also be a critical factor post-EMU. This is true not only as a means to compete with government bond markets across the globe, but also as a means to compete within the single currency bloc.

The market will demand a premium for AA credit countries, but it will be modest

The French government has been the clear leader when it comes to product innovation, the first country of the four major European borrowers – France, Germany, Italy and Spain – to introduce strips and index-linked securities. Within the last year, Germany and Spain have followed France's lead by introducing strips markets. Italy is expected to do the same at some point.

Another way governments are preparing for EMU is by effectively borrowing in the single currency market ahead of time. This is achieved by issuing ecu bonds which become fully fungible with other outstanding government issues after the single currency is introduced and all government debt becomes denominated in euros.

Recent landmark Spanish and Italian euro government issues are a good examples of how this sort of borrowing strategy can help these countries to compete. The Spanish government's 30-year issue is now becoming known as the benchmark issue in 30-year euros.

The supply of euro area government paper does not look set to dry up and should remain steady for the next couple of years compared to the negative net issuance we will see in the US. Over the longer term, however, governments in Europe should not find it too difficult to find homes for their bond issues even if these issuance figures remain steady, so long as they diversify.

The author is a director at Barclays Capital Group in London

BENCHMARK INTERNATIONAL BONDS

ISSUER	RATING	AMOUNT (mil)	MATURITY	COUPON	PRICE	YIELD	SPREAD (bp)
$							
Rhône-Poulenc	Baa3/BBB–	500	1/02	7.750	104.23	6.489	91.9
Bayer Corp	Aa2/Aa2	400	10/02	6.500	99.99	6.501	88.4
MEPC Finance	A3/A–	225	5/03	7.500	104.99	6.347	73.4
BAT Capital	A2/A–	500	11/03	6.500	102.83	5.896	40.1
Siebe plc	A2/A+	250	1/07	7.125	99.99	7.125	148.2
DM							
Volkswagen Finance	A1/A+	1,000	5/03	7.000	109.60	4.877	40.2
ITT Promedia	Ba3	575	9/07	9.125	99.99	9.125	441.9
£							
BOC Group	A1/A+	150	7/02	7.250	101.42	6.937	62.1
Stagecoach Holdings	NA	125	10/07	7.625	99.59	7.676	157.1
Cable & Wireless	A3	150	3/02	10.375	111.03	7.145	72.5
Diamond Holdings	NA	135	2/08	10.000	99.99	9.125	351.2
Tesco	Aa3	250	7/07	10.375	105.83	6.638	53.2
Ffr							
Usinor Sacilor	Baa2/BBB	1,800	3/02	8.500	99.99	8.496	414.2
Aérospatiale	AA–	1,500	7/03	7.000	110.66	4.696	19.2
Alcatel Alsthom	A1/A+	2,000	10/03	10.375	106.78	4.957	44.0
LVMH	A1+	1,500	11/02	5.250	99.99	5.245	85.0
Sfr							
Merck KGaA	NA	300	11/02	3.500	99.99	3.499	158.8
Nestlé Holdings	NA	300	2/02	6.750	99.99	6.752	512.2

Closing prices at 27 February. SOURCE: SALOMON SMITH BARNEY/IMV DATASTREAM, BLOOMBERG; RATINGS FROM MOODY'S AND S&P

MARKET PREVIEW

INTERNATIONAL debt markets are slowly regaining the momentum they lost last autumn with issues expected this week from several borrowers that have been effectively barred from the markets for more than three months.

That applies to emerging market issuers as an entire asset class. This week Colombia is planning to issue in lire for the first time in a transaction to be arranged by Chase and JP Morgan. It will be one of the first international bond issues out of Latin America this year.

Italian investors have been among the most accommodating for Latin American borrowers and the deal is expected to be highly successful. Colombia has one of the best credit ratings in its region, ahead of Mexico and Argentina.

A handful of issues is also in preparation from eastern Europe. But borrowers from that region are realising that even if they once more have access to the euromarkets, it is at a much higher cost than before the meltdown.

That became clear last week when the Ukrainian government launched its first true eurobond. The DM750 million ($414m) issue was highly successful, but the government paid a 16 per cent interest rate for the three-year funds.

Croatia is another potential issuer from the east European region. It is considering raising funds in yen or pesetas this month. However, there seems little chance of Asian issuers returning to the euromarkets in the near future. Many of the huge number of issues planned out of Russia will remain on hold for the foreseeable future – at least until the uncertainty over its international credit rating is removed.

And one of the most important trends in the Euromarkets remains investors' strong desire for large, liquid deals – as evidenced by the overwhelming demand for Italy's Ecu4bn ($3.67bn) transaction. The European Investment Bank will be conducting roadshows this week for its contribution to the expansion to the market for debt in euros.

Its deal will be a global bond, rather than a eurobond, which means that underwriters will be able to distribute debt directly into US at the primary stage. The Luxembourg-based supranational hopes its Ecu2bn issue will spark increased demand for euros outside Europe.

CURRENCIES

FORECAST

Good news for dollar as yen left to struggle

Avinash Persaud

OVER THE past fortnight a number of obstacles standing in the path of the dollar have been removed, clearing the way for a rally against the yen to 134.5 and against the deutschmark to 1.85 in the spring.

Since the beginning of the year, the dollar has been held back against the yen by speculation that the Japanese government would unveil a package that would revive the economy and that this package would be followed and supported by concerted G8 intervention to support an ailing yen. These initiatives are failing to materialise and, over time, the market has become more confident that a stimulus package and G8 intervention are unlikely in the foreseeable future.

It is increasingly clear, both from recent officials' statements and from government inaction, that the Japanese government is too worried over the size of the fiscal deficit – approaching four per cent of GDP – to support a sizable tax cut either during this fiscal year or the next. The absence of a tax cut in the last fiscal package was not an issue of timing but a matter of principle.

It is also clear from last weekend's G8 *communiqué* and the tone of subsequent press conferences that this position does not receive much support from Japan's G8 partners. The US Treasury Secretary, Robert Rubin, was adamant that Japan should undertake more stimulative measures to boost both the Japanese economy and the beleaguered economies of the Asian region. If G8 finance ministers believe Japan is not doing enough to help itself, they will not be inclined to offer intervention support. The American Treasury will only intervene to bring the dollar lower when it is also in the interests of the US and currently, given pent-up inflationary pressures, it is a strong dollar, not a weak one, which is in the best interests of America. The timing of the dollar's rally versus the yen will be determined by the strong seasonal capital flows related to fiscal year-end later this month. Traditionally, Japanese financial companies repatriate financial assets back into yen in order to flatter their closing balance sheets. In March 1997, for example, Japanese selling of overseas assets amounted to ¥780.3 billion.

As a result of this flow, the yen could strengthen again in the final weeks of March. This effect will be temporary and could be more muted than in previous years. Normally repatriation is greater when financial companies are trying to mask investment losses. However, the depreciation of the yen and the strength of the domestic bond market over the past year suggests that these losses are not as great as in previous years. Moreover, while the inflow may be more muted, the subsequent outflow may be larger than normal as retail investors join the institutions in the hunt for yield.

We forecast dollar/yen to revisit the highs for the year – ¥134.5 – between the end of March and the summer. The dollar's strength will be seen first through gains against the yen, which will lead the American currency's charge higher. While the dollar is also set to strengthen against the deutschmark and the Swiss franc, the outlook is more complex. Though there appears to be little hope of an early recovery in the Japanese economy, there are signs of a gathering economic recovery across Europe. The current level of European interest rates is unsustainably low if recovery takes hold; the market will expect the putative European Central Bank to be keen to assert its authority and earn credibility early through co-ordinated rate rises.

Rising European money market rates, a stable path to European monetary union and a burgeoning current account deficit in America, will contribute to a significantly lower dollar against European currencies and the deutschmark at the end of the year – we look for DM1.65 by December.

However, this picture looks distant today, with the market concerned that Asia's coming economic slowdown will harm Europe's export-orientated recovery. Over the next three months the perception that America will maintain a 200 basis point rate differential to Germany will buoy the dollar towards the upper end of DM1.79-1.85 and Sfr1.47-1.53 ranges.

The dollar's strength against core European currencies presents a supportive background for sterling. Britain boasts the highest level of interest rates in G8 and is the only country in G8 – save for Canada – that is likely to raise interest rates in the near future. Indeed, the close vote in the Bank of England's monetary policy committee to keep rates from rising suggests the market is not fully pricing in the risk of an early hike. We look for sterling/deutschmark to rally through DM3 in coming days and hold its own against a strong dollar. Certainly, sterling is overvalued on a price competitiveness basis and the trade position is set to deteriorate; but currency weakness will come only when rates have reached their peak. We forecast sterling to start slipping by the summer and to leave 1998 below DM2.80.

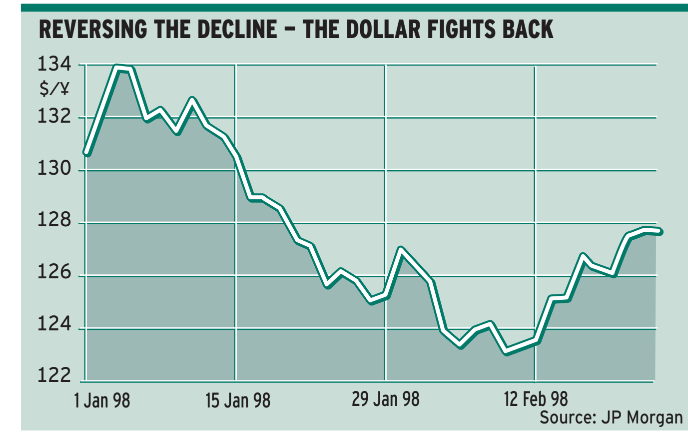
Sterling is overvalued and the trade position is set to deteriorate

Finally, concern that an economic slowdown in Asia will have global repercussions, as well as fading tensions between Iraq and America, have helped oil prices lower, undermining the Norwegian krone and prompting the Norwegian central bank to firm money market rates on 26 February.

Although Norway's oil reserve fund – established in January 1997 – should have loosened the relationship between the krone and the oil price, the link continues to remain strong. If this relationship holds up, an oil price below $14 per barrel should push the krone downwards as far as 1997's low against the deutschmark of Nkr4.24.

The author is JP Morgan's head of currency research

REVERSING THE DECLINE – THE DOLLAR FIGHTS BACK



THE SYNTHETIC EURO RATE

CURRENCY	LATEST	% CHANGE ON A YR AGO	HIGH	LOW
British pound	0.66	–7.09	0.74	0.65
French franc	6.66	1.61	6.68	6.53
German mark	1.99	2.25	1.99	1.93
Italian lira	1958.19	1.34	1961.31	1910.60
Japanese yen	140.43	0.00	145.71	122.46
US dollar	1.10	–4.75	1.17	1.05

THE SYNTHETIC euro has been developed to allow investors to calculate financial data in euros ahead of the official introduction of the new currency next year. Datastream/ICV's rate is based on the current formula of the ecu, which is measured against a basket of currencies, calculated by tracking the movement of these currencies back to 1975. The Austrian schilling and Finnish markka have not been included because the current ecu formula uses the likely list of "euro-in" countries. From May, when currency rates between member states are fixed, a revised version of the synthetic euro will be calculated based on these fixed rates and GDP weightings of each country, including all "euro-in" countries.

EUROPEAN CROSS RATES

2 MARCH 1998	Aust Sch	Belg Fr	Dan Kr	Ger Dm	Neth Fl	Fin Markka	Fr Fr	Grec Drach	IR Punt	Ital Lira*	Nor Kr	Port Esc	Spain Pts	Swe Kr	Swi Fr	UK £	US $	Jpn Yen	Can $	Eur Ecu
Austria Schilling	–	0.341	1.846	7.035	6.243	2.318	2.098	0.044	17.43	7.140	1.683	0.069	0.083	1.591	8.681	21.02	12.75	0.101	8.963	13.91
Belgium Franc	2.934	–	5.415	20.64	18.32	6.801	6.155	0.130	51.13	20.95	4.937	0.202	0.244	4.666	25.47	61.67	37.39	0.296	26.30	40.82
Denmark Krone	0.542	0.185	–	3.811	3.382	1.256	1.137	0.024	9.442	3.868	0.912	0.037	0.045	0.862	4.703	11.39	6.905	0.055	4.857	7.537
Germany Deutschmark	0.142	0.048	0.262	–	0.887	0.329	0.298	0.006	2.477	1.015	0.239	0.010	0.012	0.226	1.234	2.988	1.812	0.014	1.274	1.978
Netherlands Guilder	0.160	0.055	0.296	1.127	–	0.371	0.336	0.007	2.791	1.144	0.270	0.011	0.013	0.255	1.391	3.367	2.042	0.016	1.436	2.229
Finland Markka	0.431	0.147	0.796	3.035	2.694	–	0.905	0.019	7.519	3.080	0.726	0.030	0.036	0.686	3.745	9.069	5.499	0.043	3.868	6.003
France Franc	0.477	0.162	0.880	3.353	2.976	1.105	–	0.021	8.306	3.403	0.802	0.033	0.040	0.758	4.138	10.02	6.075	0.048	4.273	6.631
Greece Drachma	22.52	7.675	41.56	158.4	140.6	52.19	47.24	–	392.4	160.8	37.89	1.547	1.870	35.82	195.5	473.3	287.0	2.270	201.8	313.3
Ireland Punt	0.057	0.020	0.106	0.404	0.358	0.133	0.120	0.003	–	0.410	0.097	0.004	0.005	0.091	0.498	1.206	0.731	0.006	0.514	0.798
Italy Lira*	140.1	47.74	258.5	985.3	874.4	324.6	293.9	6.220	2441	–	235.7	9.624	11.63	222.8	1216	2944	1785	14.12	1255	1949
Norway Krone	0.594	0.203	1.097	4.180	3.710	1.377	1.247	0.026	10.36	4.243	–	0.041	0.049	0.945	5.159	12.49	7.574	0.060	5.327	8.237
Portugal Escudo	14.55	4.961	26.86	102.4	90.85	33.73	30.53	0.646	253.6	103.9	24.49	–	1.208	23.15	126.3	305.9	185.5	1.467	130.5	202.5
Spain Peseta	12.04	4.105	22.23	84.72	75.19	27.91	25.27	0.535	209.9	85.99	20.27	0.828	–	19.16	104.6	253.2	153.5	1.214	108.0	167.6
Sweden Krona	0.629	0.214	1.160	4.422	3.925	1.457	1.319	0.028	10.96	4.489	1.058	0.043	0.052	–	5.458	13.21	8.013	0.063	5.636	8.746
Switzerland Franc	0.115	0.039	0.213	0.810	0.719	0.267	0.242	0.005	2.007	0.822	0.194	0.008	0.010	0.183	–	2.421	1.468	0.012	1.033	1.603
UK Pound	0.048	0.016	0.088	0.335	0.297	0.110	0.100	0.002	0.829	0.340	0.080	0.003	0.004	0.076	0.413	–	0.606	0.005	0.426	0.662
US Dollar	0.078	0.027	0.145	0.552	0.490	0.182	0.165	0.003	1.367	0.560	0.132	0.005	0.007	0.125	0.681	1.649	–	0.008	0.703	1.091
Japan Yen	9.919	3.381	18.31	69.78	61.93	22.99	20.81	0.441	172.9	70.82	16.69	0.682	0.824	15.78	86.11	208.5	126.4	–	88.93	137.9
Canada Dollar	0.112	0.038	0.206	0.785	0.696	0.259	0.234	0.005	1.944	0.796	0.188	0.008	0.009	0.177	0.968	2.345	1.422	0.011	–	1.55
Europe Ecu	0.072	0.025	0.133	0.506	0.449	0.167	0.151	0.003	1.253	0.514	0.121	0.005	0.006	0.114	0.624	1.512	0.917	0.007	0.645	–

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

EAST EUROPEAN CURRENCIES

COUNTRY	US$	DM	UK£	Ffr	Ecu
Albania Lek	160.0	88.3	263.9	26.3	174.5
Belarus Rouble	46200.0	25497.7	76188.6	7604.9	50394.9
Bulgaria Lev	1803.5	995.3	2974.2	296.9	1967.3
Croatia Kuna	6.4	3.5	10.6	1.1	7.0
Czech Rep Koruna	33.9	18.7	55.9	5.6	37.0
Estonia Kroon	14.5	8.0	23.9	2.4	15.8
Hungary Forint	208.4	115.0	343.7	34.3	227.4
Latvia Lat	0.5	0.3	1.0	0.1	0.6
Lithuania Litas	4.0	2.2	6.6	0.7	4.4
Macedonia Denar	55.9	30.9	92.3	9.2	61.1
Moldova Leu	4.7	2.6	7.8	0.8	5.2
Poland Zloty	3.5	1.9	5.7	0.6	3.8
Romania Leu	8100.0	4470.3	13357.7	1333.3	8835.5
Russia Rouble	5999.0	3310.8	9892.9	987.5	6543.7
Slovakia Koruna	34.9	19.2	57.6	5.8	38.1
Slovenia Tolar	170.7	94.2	281.5	28.1	186.2
Ukraine Hryvna	2.0	1.1	3.4	0.3	2.2
Yugoslavia New Dinar	4.9	2.7	8.0	0.8	5.3

SOURCE: BZW

FINE WINES

Don't uncork that bottle: it's worth a fortune

WINE is no longer just a drink. It's a commodity, offering the potential to make millions tax-free. The index represented in this graph constitutes actual sale prices for a basket of 23 top Bordeaux châteaux from five vintages (1982, 1985, 1986, 1990 and 1995). The individual châteaux represent those most actively traded and comprise the five Médoc first growths – Latour, Lafite, Margaux, Haut-Brion and Mouton-Rothschild; the "super seconds", such as Leoville-Las-Casses, Lynch-Bages, Pichon-Lalande; and the top wines of Pomerol and Saint-Emilion such as Chateau Pétrus, Le Pin and Lafleur.

The graph paints an accurate picture of the wine market in 1997. Steadily rising prices virtually throughout the year until October (with September witnessing record prices in the £7 million [$11.2m] sale of an anonymous collector's cellar at Christie's), followed by the downturn in prices at the end of the year attributable in part to the uncertainty in the Asian financial markets.

Plotted over a longer period – anything from two years to 30 years – this downturn would be barely perceptible. Wine has historically been the most extraordinary investment, consistently outperforming virtually all major financial indices.

It is characterised by constantly increasing worldwide demand and finite supply. The top châteaux, such as Lafite or Mouton-Rothschild, produce fewer than 20,000 cases annually, a relatively tiny amount to satisfy global demand. In addition, the supply diminishes constantly with consumption.

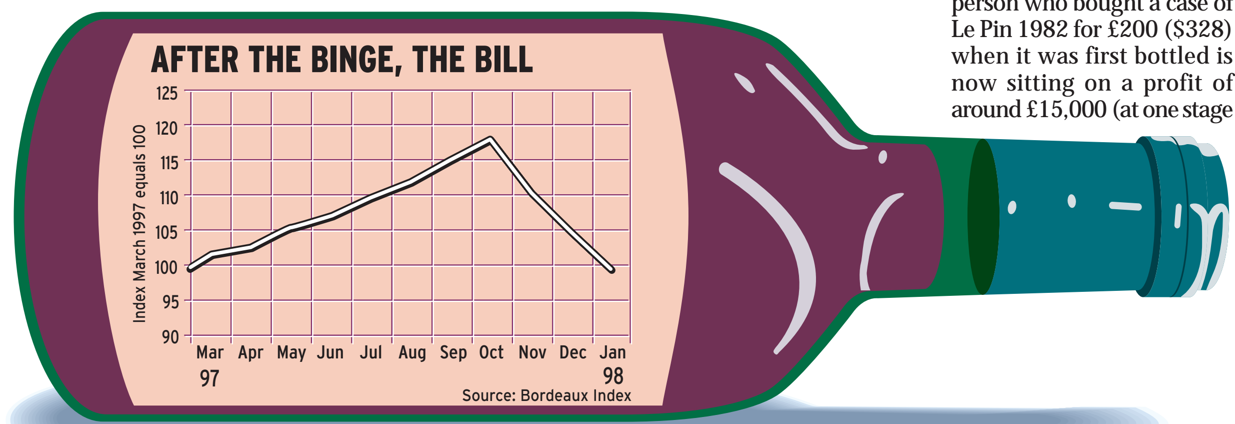
So what should punters be buying? Top wines from Bordeaux should be the keystone of any wine portfolio. The golden rule is to buy the best wines that one can afford as young as possible, preferably *en primeur* (buying the wine between the harvest and the actual bottling).

As with any investment portfolio, the key is balance. The ideal Bordeaux portfolio would include first growths, super seconds and a selection of lower-value wines. A diverse selection of the latter can throw up some unexpected windfalls: any lucky person who bought a case of Le Pin 1982 for £200 ($328) when it was first bottled is now sitting on a profit of around £15,000 (at one stage last year the price hit a heady £25,000). Vintages in the ideal portfolio include 1982, 1986, 1989, 1990, 1995 and 1996. The 1997 vintage, which will be released in April and May, will be worth looking at, depending upon the prudence of Bordeaux producers on setting their prices.

It pays to look outside Bordeaux for investment potential. Top producers of wine from Burgundy, such as Domaine de la Romanee-Conti and Ponsot; wines from the Rhône Valley such as Chateau Rayas and Hermitage La Chapelle; wines from the Napa Valley in America, such as Screaming Eagle and Dominus; and Grange Hermitage, Henschkey Hill of Grace and Astralis from Australia have all increased in value but are likely to show further gains.

PAUL BOWKER

The writer is a director of Bordeaux Index



INTEREST AND MONEY MARKET RATES

COUNTRY	OFFICIAL INTEREST RATES: Rate	Previous rate	Date of change	Name	MONEY MARKET RATES, 3 months: This week	Week ago	Year ago	Benchmark bond: This week	Week ago	Year ago	Name
Austria	2.50	3.00	18.4.96	Discount	3.60	3.62	3.30	5.06	5.06	5.54	Oest Bund
Belgium	3.30	3.00	9.10.97	Central	3.61	3.63	3.19	5.09	5.09	5.63	OLO
Denmark	3.75	3.50	9.10.97	Repo	3.87	3.88	3.63	5.27	5.28	6.22	DGB
Finland	3.25	3.00	15.09.97	Tender	3.42	3.42	3.06	5.10	5.13	5.85	FGB
France	3.30	3.10	9.10.97	Intervention	3.56	3.56	3.34	4.98	4.98	5.32	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.50	3.51	3.22	4.95	4.97	5.54	Bund
Germany	3.30	3.00	9.10.97	Repo	n/a	n/a	n/a	n/a	n/a	n/a	
Germany	2.50	3.00	18.4.96	Discount	n/a	n/a	n/a	n/a	n/a	n/a	
Greece	14.50	15.50	13.5.97	Discount	n/a	n/a	n/a	n/a	n/a	n/a	
Ireland	6.75	6.25	2.05.97	Short Term	6.06	6.13	5.81	6.26	5.21	5.16	Gilt
Italy	5.50	6.25	23.12.97	Discount	6.06	6.10	7.31	5.35	5.36	7.12	BTP
Luxembourg	3.30	3.00	9.10.97	effective rate*	3.61	3.63	3.19	5.09	5.09	5.63	related to OLO
Netherlands	3.30	3.00	9.10.97	Special Adv.	3.43	3.44	3.01	4.98	4.99	5.42	DSL
Norway	5.50	5.25	16.7.97	Overnight	3.81	3.83	3.55	5.21	5.20	5.63	NGB
Portugal	4.90	5.20	18.11.97	Discount	4.75	4.80	6.17	5.15	5.21	6.56	OT
Spain	4.50	4.75	13.2.98	Repo	4.63	4.58	5.88	5.17	5.22	6.73	Bono
Sweden	4.35	4.10	16.12.97	Repo	4.67	4.72	4.16	5.49	5.52	6.59	SGB
Switzerland	1.00	1.50	27.9.96	Discount	0.91	1.00	1.63	2.72	2.70	3.39	Swap rate
UK	7.25	7.00	6.11.97	Base	7.50	7.47	6.16	5.96	5.94	7.12	Gilt
US	5.00	5.25	31.1.96	Discount	6.31	5.56	5.37	5.60	5.56	6.38	Treasury
US	5.50	5.25	25.3.97	Fed Funds	n/a	n/a	n/a	n/a	n/a	n/a	
Japan	0.50	1.00	9.7.95	Discount	1.17	1.13	0.56	1.71	1.77	2.46	JGB
Canada	4.85	4.75	25.2.98	Call Loan	4.88	4.94	3.03	5.45	5.46	6.26	CGB

* Tied to Belgian Franc

SOURCE: STANDARD & POOR'S MMS

ECONOMIC DATA

COUNTRY	INDUSTRIAL OUTPUT*: Latest quarter	Previous quarter	Year ago	INFLATION†: Latest month		Month ago	Year ago	UNEMPLOYMENT††: Latest month		Month ago	Year ago
Austria	3.7[1]	n/a	4.2	Jan	1.2	1.0	1.7	Dec	4.5	4.5	4.0
Belgium	1.7[1]	1.9	0.7	Feb	0.7	0.4	2.0	Jan	13.1	13.2	n/a
Denmark	2.2	3.7	2.7	Dec	1.7	2.3	2.3	Jan	7.4	7.4	8.3
Finland	6.0	6.2	3.8	Jan	1.9	1.9	0.6	Jan	13.8	12.9	16.7
France	2.6	2.2	1.7	Jan	0.5	1.1	1.8	Jan	12.1	12.2	12.7
Germany	2.6[2]	2.4	2.2	Jan	1.3	1.8	1.8	Jan	11.6	11.8	11.2
Greece	2.0[3]	n/a	1.4	Jan	4.4	4.7	6.8	Nov	8.4	7.5	8.1
Ireland	7.8[1]	n/a	10.1[1]	Jan	1.8	1.9	n/a	Jan	9.7	9.8	10.7
Italy	2.1	1.9	0.7	Jan	1.6	1.5	2.6		11.7[4]	12.2[5]	11.7
Luxembourg	5.5[1]	3.8[2]	12.4	Nov	1.5	1.7	1.7	Nov	3.7	3.6	3.6
Netherlands	2.9	3.1	3.0	Jan	1.8	2.3	2.3	Jan	5.0	4.9	6.5
Norway	4.4[2]	2.3	4.3	Jan	2.0	2.3	3.0	Jan	3.0	2.6	4.1
Portugal	3.0[1]	2.3	2.0	Jan	2.3	2.1	3.3		6.5	6.5	7.1
Spain	3.6[2]	3.5	2.6	Jan	2.0	2.0	2.9	Jan	12.9	12.8	14.1
Sweden	2.7	2.5	0.8	Jan	1.3	1.9	−0.1	Jan	7.4	6.9	8.8
Switzerland	0.8	0.2	−0.7	Jan	0.0	0.4	0.9	Jan	5.0	5.0	5.7
Turkey	6.6[4]	6.6	8.1	Jan	101	99.1	75.7		5.8[6]	6.3[7]	6.6
UK	3.9	3.5	2.3	Jan	3.3	3.5	2.8	Jan	5.0	5.0	6.8
US	3.9[2]	3.9	3.2	Jan	1.6	1.7	3.0	Jan	4.7	4.7	5.3
Japan	1.0	0.1	3.1	Jan	1.8	1.8	0.6	Jan	3.5	3.5	3.3
Canada	4.3	3.9	1.8	Dec	0.7	0.9	2.2	Jan	8.9	8.6	9.7

*Gross domestic product year on year. † Annual per cent. †† Per cent of workforce. SOURCE: STANDARD & POOR'S MMS
q3 1997 except where stated: 1=q4 96 2=q4 97 3=q4 95 4=q2 97 5=q1 97 6=Oct 96 7=Apr 96

EAST EUROPEAN DATA

COUNTRY	INDUSTRIAL OUTPUT*: Latest month		Month ago	Year ago	INFLATION†: Latest month		Month ago	Year ago	UNEMPLOYMENT††: Latest month		Month ago	Year ago
Bulgaria	Sept	−19.9	6.2	−22.1	Nov	0.5	1.0	754.8	Nov	13.5	13.4	12.0
Croatia	Nov	6.5	6.0	2.3	Nov	0.4	0.2	3.2	Nov	22.7	22.8	21.7
Czech Rep	Oct	9.1	6.6	6.3	Dec	0.5	0.4	10.0	Dec	5.2	4.9	3.5
Estonia	Oct	12.5	13.7	4.8	Oct	0.9	0.6	12.2	Sept	3.6	3.5	4.2
Hungary	Nov	13.3	14.2	10.6	Dec	1.1	1.2	19.4	Dec	10.4	10.2	10.5
Latvia	Sept	10.9	1.9	−2.9	Sept	0.2	0.4	8.1	Sept	7.1	7.3	7.0
Lithuania	Oct	10.8	−5.2	−5.4	Oct	0.4	0.3	9.0	Oct	5.9	5.6	6.4
Poland	Nov	11.7	10.7	4.7	Dec	1.0	1.2	13.2	Nov	10.3	10.3	13.3
Romania	Oct	−11.6	−15.6	13.2	Nov	4.3	6.5	165.6	Oct	7.6	7.2	6.3
Slovakia	Sept	0.1	−0.8	3.1	Dec	0.7	0.7	6.7	Nov	12.6	12.9	12.2
Slovenia	Nov	−1.5	1.3	3.6	Dec	0.3	0.6	9.5	Oct	14.5	14.4	14.0
Russia	Aug	3.0	3.4	−6.6	Oct	0.2	−0.3	9.5	Oct	8.9	9.1	9.2
Ukraine	June	−2.4	−1.8	−4.5	Nov	0.9	0.9	9.6	Oct	2.7	2.7	1.3

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

ECONOMIC INDICATORS

FRENCH consumer prices fell 0.3 per cent in January, reducing the annual inflation rate to its lowest for 40 years and signalling that the Bank of France is unlikely to raise interest rates at any time soon. Prices rose 0.5 per cent from a year earlier. A fall in commodity prices and post-Christmas sales accounted for much of the decline, alongwith a change in the way the inflation index is calculated. Unemployment also fell unexpectedly to 3.09 million, or 12.1 per cent, its lowest level in almost two years as a pickup in consumer spending and other signs of economic revival led companies to take on more workers.

THE BANK of Portugal cut benchmark rates for the first time in five and a half weeks, lowering each by 20 basis points, after the government said it qualified for EMU. The central bank cut the repo rate to 4.9 per cent, the floor absorption rate to 4.6 per cent and the emergency lending rate to 6.6 per cent.

POLISH GDP is set to reach six per cent this year amid strong pressure on wages and a deteriorating current account deficit which could reach 5.5 per cent of GDP. Jerzy Kropiwnicki, head of the official planning unit, indicated that the current account deficit is growing dangerously.

SWISS inflation figures from three local governments reinforce expectations that February's consumer price inflation for the whole country will remain at zero. Prices in Basel and Bern rose 0.1 per cent in February. Meanwhile, Geneva prices rose 0.4 per cent.

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Shorter letters are preferred. Letters may be edited for clarity

Invasive 'ParaSites' undermine the Net

FURTHER to Simon Reeve's criticism of Europe's retailers for being "slow and reluctant converts to the value of the Internet" ("Net loss", issue 404), the London-based artist Rachel Baker is challenging big supermarket brands by using their trademark logos to undermine their digital marketing strategies. She has set up "ParaSite" web pages mimicking those of two of Britain's leading food retailers, Tesco and Sainsbury's.

Baker's "Tesco TM Clubcard" website features Tesco Clubcards and mimics Tesco's site. But it has nothing to do with Tesco. Baker boasts: "The project I created on the Web sought to assimilate the brand identity of Tesco's by hijacking their Clubcard marketing strategy to create my own club via a database that created connections, not separations, between the members."

Acting on Tesco's behalf, Willoughby & Partners, a leading London firm of solicitors specialising in intellectual property protection and enforcement, undertook a "Whois" search with an Internet name registration organisation and fired off a letter in April 1997 threatening legal action. Tesco was concerned with the issues of copyright, "passing off" and trademark infringement. Baker's site contains direct lifts of the logos and trademarks from the real Tesco site. Users are requested to provide the last nine digits of their Tesco Clubcard number and prompted to complete a detailed form requesting personal details.

Users are likely to be misled into thinking that this is a site directly associated with, supported or sanctioned by Tesco. The supermarket chain is concerned that visitors to the Baker site have provided personal confidential information under the apparent belief that this information is being requested directly by Tesco.

No legal proceedings have been initiated. Individuals such as Baker are able to keep one step ahead of the authorities by changing the content of their sites or moving to a different service provider. The danger is that this sort of deception will cause immense damage to online home shopping and the integrity of the Internet. It provides enormous opportunities for fraud. Any big company with a loyalty card scheme could be a target for the ParaSite treatment.

Gareth Henson
London, England

YOUR article on the poor state of Europe's Internet economy ("Net Loss", issue 404) misses a crucial point. The real future of online trading lies not so much in consumer markets but in the business-to-business environment where Internet access is more prolific and the value of individual transactions much greater.

At Cisco Systems, the volume of business transactions over the Internet now averages more than $10 million a day. In just 18 months since launching our online service, we have moved 40 per cent of sales to the Web, which not only generates $3bn in annual sales, but creates savings of $300m a year on customer support and marketing costs. I doubt that these results could ever be mirrored in a consumer market.

Mike Couzens
Marketing and Training Director, Cisco Systems
Uxbridge, England

I LOOK forward to online shopping for services such as insurance – as well as for groceries. Like the euro, the Net will encourage transparency.

Erich Gerlach
Heidelberg, Germany

Spanish telecoms

GILES TREMLETT ("Crossed lines", issue 404) outlined the problems caused by Telefónica's blinkered outlook and apparent inability to come to terms with deregulation of the Spanish telecoms market. For the past three years my company, Hello Comunicaciones, has offered a private "call-back" service from Spain to the rest of the world. This works extremely well and has saved our customers millions of pesetas in call charges.

However, from time to time Telefónica illegally blocks subscribers' access numbers. Because of these disruptions, and Telefónica's attitude in general, many of our private subscribers would now rather use our communication system – or alternative networks – not only for the reduced prices but also to avoid putting any business Telefónica's way.

It is time that the Spanish government realised that there is a free market out there – one that Telefónica could cash in were its attitude to change.

Barrie Wainwright
Director, Hello Comunicaciones
Tenerife, Canary Islands

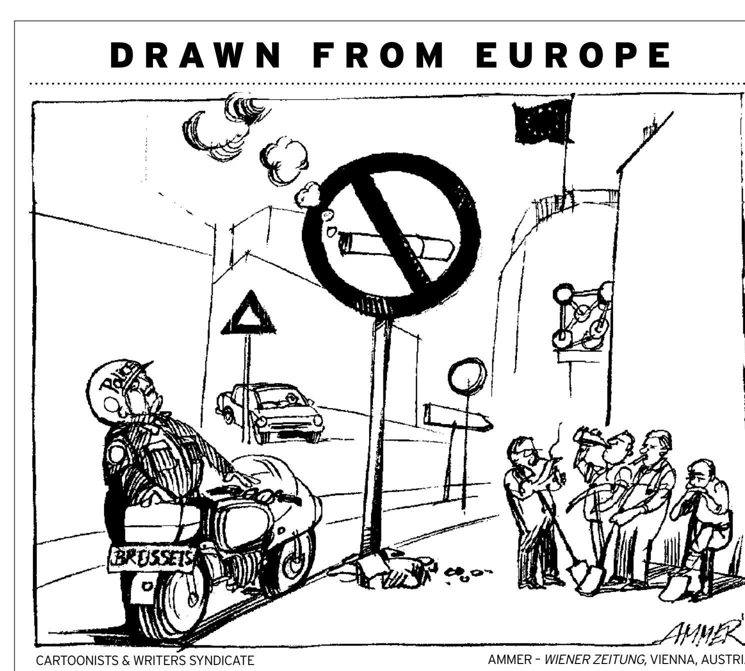
Tietmeyer's honesty

HANS TIETMEYER, the chairman of the German Bundesbank, is an "honest banker" in the same mould as Jean-Claude Trichet, the governor of the Banque de France (Editorial, issue 405). Tietmeyer hides nothing when he says that a single currency will lead to member states of the European Union transferring their sovereignty over financial and wage policy, as well as in monetary affairs. He has stated on a number of occasions that it is an illusion to think that states can hold on to their autonomy over taxation policy.

Such honesty is refreshing, even if the news is crushing. When we enter into economic and monetary union, we lose the power to control our national finances, our taxation powers and even the power to negotiate a wages policy. We have already surrendered control of our interest rates.

Lucy Stoker
Antwerp, Belgium

DRAWN FROM EUROPE



CARTOONISTS & WRITERS SYNDICATE

AMMER – *WIENER ZEITUNG*, VIENNA, AUSTRIA

German gloom

I HAVE lived in Germany for the past 11 years and have never seen the country in such a gloomy mood. However, I warned my German colleagues a long time ago that their party would end.

The Germans continue to cling to their faith that the long-established troika of government, unions and employers will find some magical cure for Germany's unemployment problems. Many hope falsely that an SPD-Green Party coalition has the answer. I have tried unsuccessfully to convince many people here that the only solution is for the people swallow the bitter medicine and realise that without across-the-board tax reform and relaxation of government regulation on business, this is going to be a long recession.

Anthony Barkley
Berlin, Germany

Regional airlines

IT COMES as no surprise to read that Lufthansa is losing DM100 million ($55 million) a year on its domestic network ("Lufthansa Lite not ready for take-off", issue 405). Lufthansa may have an enviable safety record but in no way is it user-friendly or cheap. There are few bargains to be had flying Lufthansa or, indeed, any of the other major European carriers. There are invariably long queues at Lufthansa's check-in desks and scrambles at the luggage reclaim areas, usually because of the lack of carousels. Regional airlines offer better value for money. The smaller, no-frills competition is to be encouraged. I make a point of flying with Debonair, easyJet and Eurowings whenever possible.

Jens M Andersen
Zürich, Switzerland

Sinn Fein's expulsion

THE expulsion of Sinn Fein from the Northern Ireland talks for breaching the Mitchell principles was fully justified. The principles which Sinn Fein breached are quite specific. They require parties to the talks to renounce violence and to oppose any efforts by others to use violence to influence the negotiations.

From the moment the IRA murdered another two people, everything ground slowly into place. Sinn Fein is now out of the talks until 9 March. Whatever the relationship between Sinn Fein and the IRA, the British, Irish and American governments know that without Sinn Fein's involvement there is little hope that the multi-party talks will proceed to a successful outcome. The integrity and inclusivity of the talks have to be maintained.

Colum Hand
Dublin, Ireland

Eurostar model

AS A regular passenger on Eurostar from London to Paris and Brussels ("Terminal shambles", issue 404), I have always found the service in first class to be impeccable and the reliability of the trains exemplary, matching the high standards on the continent.

Perhaps one day Britain will have domestic services to match.

TR Jones
Sevenoaks, England

Clinton's inheritance

RESPONDING to Adam Wynn-Jones's propaganda giving President Bill Clinton all the credit for six years of economic boom (Letters, issue 403), the Americans have George Bush to thank for the current economic expansion.

Clinton inherited the Bush economy and, for once, listened and left well enough alone. For this, only, he deserves some grudging credit.

Frank Stoveken
Münster, Germany

Offensive material

WITH reference to Martha Douglass's letter inquiring if distasteful or offensive material on the Internet can be removed ("Free speech on the Net", issue 404), yes it can.

If you download a file on to your hard disk and then find it to be offensive, you can delete it. If others download the same file and do not find it offensive, they can keep it. Distaste, after all, is a matter of taste.

Andrew MJ Poole
Coventry, England

From tobacco to cannabis?

BRITISH American Tobacco (BAT) uses a variant high-nicotine tobacco to keep smokers hooked ("Tobacco's last gasp", issue 405). Details of this have been revealed in a number of internal memos made public through lawsuits in the US. Many of the documents are British but it has taken American court cases to bring them to light.

The tobacco giants may yet manage to profit from addiction and keep their share price up, but it is unlikely to be through very low-tar, virtually smoke-free cigarettes. They are planning to exploit cannabis when the drug is legalised.

Cigarette companies have registered a number of brand names with links to cannabis. Philip Morris has filed a trademark application for Marley. The name is associated with Bob Marley, the late Jamaican reggae singer. Other companies have registered Acapulco Gold and Red Leb – red Lebanese being a particularly potent form of cannabis.

Having hooked millions of people on nicotine, there is a danger that the tobacco giants will encourage the development of hybrid strains of cannabis with up to four times the psychoactive ingredients of the more common strains. Even regular users of cannabis are warning of the dangers of these potent variants.

Jamie Fleming
Madison, Wisconsin, USA

IN MANY parts of North America cannabis use is socially more acceptable than smoking cigarettes. My American friends regard me as a leper because I smoke. They also fear the effects of passive smoking. But in a world of instant gratification, where speed of hit is the primary virtue, the cigarette is top of the evolutionary scale.

Eileen Steensen
Bergen, Norway

AMONG addictive behaviours, cigarette smoking is the one most likely to be established during the early teen years. About 90 per cent of new smokers are teenagers. Youth tobacco addiction is on the rise in southern Europe, notably in Greece and Italy.

It is scandalous that the European Commission spends more than $1 billion a year subsidising European tobacco growers.

J Hindess
Athens, Greece

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