THE EUROPEAN

Nº 408

France Ffr15 Germany DM3.80 UK 75p USA $3

OIL MURDER SEX & MONEY

An everyday French tale of greed and corruption in high places

Former French foreign minister Roland Dumas and mistress Christine Deviers-Joncour

▶ Low-cost airlines scramble into battle
PAGE 20

▶ Reuters faces a second legal onslaught
PAGE 23

▶ Derivatives without risk?
PAGE 50

12

9 770959 906012

INTERNATIONAL PRICES

Austria....S35	Belgium....Bf75	Cyprus....C£1.20	Finland....Mk15.00	Gibraltar....£1.40	Ireland (Rep)....IR£1.00	Japan....Y700	Malta....Ml0.80	Poland....Zl 7.9	Slovakia....Sk70	Sweden....Kr20.00	UK....75p
Bahrain....Din1.650	Canada....C$3.50	Czech Rep....Kč78	France....Ffr15.00	Greece....Dr500	Israel....NS 12	Luxembourg....Lf75	Netherlands....Fl 4.00	Portugal (Cont.) Esc 430	Slovenia....Sit360	Switzerland....F4.00	USA....$3.00
	Canary Isles....Ptas400	Denmark....Kr18.00	Germany....DM3.80	Hungary....HUF340	Italy....L4,000	Malaysia....S$7	Norway....Kr20.00	Singapore....S$7	Spain....Ptas375	Turkey....TL350,000	USAFE....$1.95

CONTENTS

FT PICTURES

Ryanair boss Michael O'Leary opens new routes and orders new jets as low-cost carriers battle for the skies over Europe Page 20

Cover photograph: Thierry Orban/Sygma

EDITORIAL OFFICES: 200 Gray's Inn Road, London WC1X 8NE UK. Tel: +44 (0)171-418 7777
Fax: +44 (0)171-713 1840 Home page: http://www.the-european.com
Editor's e-mail: editor@the-european.com
SUBSCRIPTIONS DEPARTMENT: The European, PO Box 7000, Leicester LE94 7ZU UK.
Tel: +44 (0)1858 439 601. Fax +44 (0)1858 468 969 e-mail: subscriptions@the-european.com

Denmark - importer and distributor: International Press Distribution Denmark ApS, PO Box 9006, 1022 Copenhagen K, Denmark. Basic annual subscription rate £52 - £150. The European is a registered trademark of The European Limited. 'The European' (USPS 008-803) is published weekly for $135.00 per year by The European Ltd., 200 Gray's Inn Rd., London WC1X 8NE, England and distributed by Speedimpex USA, Inc. Periodicals postage paid at IMS of NY. Postmaster: Send address changes to: The European, c/o IMS of NY, PO 1518, Champlain N.Y. 12919-1518.
Printed by BPC Watford Ltd.

ISSN - 0959 9061A

THE EUROPEAN
16–22 MARCH 1998

Slow track to neverland

IT IS CRUEL to invite people to become members of a club they cannot afford to join. That is the trick the European Union (EU) played on 11 aspiring members at the Lancaster House enlargement conference in London last week. Only Turkey had the gumption to stay away, turning the event into farce.

As canapés and champagne were consumed under crystal chandeliers to the accompaniment of the sound of hot air, Turkey's prime minister, Mesut Yilmaz, made the point that not all his country's eggs were in the EU basket by paying a whistlestop tour of Georgia. Turkey, an economic basket case with 99 per cent inflation, a plunging currency and a towering trade deficit, but still a regional force to be reckoned with, was keen to make the point that it can look East as well as West. Securing deals for pipelines under the Black Sea and through the Caspian corridor and improving relations with neighbours such as Kazakhstan, Turkmenistan, Azerbaijan, Ukraine and Bulgaria will keep Mr Yilmaz's hands full if Europe does not play ball.

Turkey's boycott of London underpinned the hollowness of the 26-nation enlargement conference, as did the conclusions it reached. With poor nations knocking at rich Europe's gate it would have seemed reasonable to focus on economic growth and opening up opportunities for them to increase trade with the EU. Instead, there was agreement only on the vacuous and indefinable: the fight against organised crime, environmental protection and co-operation on regional policies. It all sounded virtuous in the usual Euro-waffle way, but was essentially meaningless – more public relations pap to give the perception of impetus to a British presidency that is long on talk of "people power" but bereft of achievement.

The enlargement of the EU is too serious a matter to be sloughed off in this shallow way. The rhetoric last week was of removing the line across the European continent drawn at Yalta; to do so would be a historic achievement. But so far EU states have steadfastly refused to admit the extent of the challenge.

Poland, Hungary, the Czech Republic, Slovenia and Estonia are on the so-called fast track to EU membership. They should not hold their collective breath. "Fast" for the EU means admission by 2005, at the earliest. It could take much longer: until the Common Agricultural Policy (CAP) is thoroughly reformed – and that will not be tomorrow, or the next day – membership of "grain plain" countries such as Poland and Hungary cannot be seriously entertained. Enlargement would be excellent news for French, British and German consumers, who would see food prices plunge. But nobody has yet summoned the courage to tell the farmers that their subsidy dripfeed would have to be disconnected.

The "slow" track, perhaps a 20-year journey, is a euphemism for "never". Yet Bulgaria, Latvia, Lithuania, Romania and Slovakia, slow trackers all, were treated to the humbug that a greater Europe was on the point of rebirth, even though the essential groundwork has not even begun. The sop tossed to aspiring members on the fast track is a share of the EU's regional budget, amounting to Ecu45 billion ($48.6bn) from a six-year budget of Ecu275bn which will still go mostly to EU members who do not need it. So much for European fraternity.

The building of a wider Europe was never going to be a cash-free option. Ask Chancellor Kohl how much it cost – and is still costing – to absorb former East Germany. But if continued stability in a post-Cold War Europe, the objective of expansion, is attainable, the price may be worth paying. Add up the cost of maintaining a Cold War standoff from 1945 to 1989 and the bill comes to thousands of billions of ecus. Investing a fraction of that to secure enlargement might make sense if long-term peace and prosperity is the dividend.

Raise that prospect and present members run to their own narrow subsidy trenches. Labour Britain will not give up Margaret Thatcher's rebate. Christian Democrat Germany, sick of being the EU paymaster, will not tolerate any further expansion of the Brussels budget, which stands at only 1.7 per cent of EU GDP. Subsidised steel makers, phantom olive growers, quota-fed dairy farmers, featherbedded grain producers, puffed-up (killer) tobacco growers and handout-hooked cattlemen all scream in unison that reform is fine with them, so long as their snouts stay in the trough. It is time for EU leaders to point out that life for the subsidy junkies cannot continue as they have known it.

Removing the line drawn across Europe at Yalta would take courage that the EU can't summon up

If Tony Blair wants the remaining months of his EU presidency to be remembered for anything other than populist drivel and limp-wristed strategy he has a way out of the impasse. Instead of extending the insult of membership postponed, offer the incentive of lucrative trade agreements now, including to Turkey.

Top priority should go to encouraging investment and freeing up trade across the borders of aspiring applicants. Only then will their economies have access to the capital they need to grow and the markets in which to prosper. With low-cost, educated labour some, especially Hungary, the Czech Republic and Poland, could be strong competitors; and this competition would be the beneficial catalyst Germany and France need to free up their own labour markets.

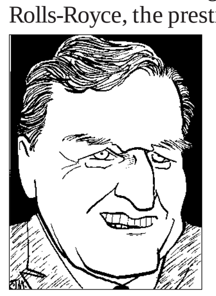
In a week when the EU rightly trumpeted a new free trade pact with the United States, typically opposed by anti-Atlanticist France on the left and right, it is a sad signal to those who want to resume their rightful place in the European landscape that nobody could bring themselves to offer the same deal to them. Talk of enlargement is hollow until it is.

Turkey, the neglected suitor: page 17

SNAPSHOTS

Schröder's drive turns people's car into Rolls-Royce

GERHARD SCHRÖDER, Germany's SPD chancellor candidate for September's election (*pictured*), is taking his choice of campaign vehicle seriously. As a member of Volkswagen's supervisory board (Lower Saxony, where he is premier, owns 20 per cent of the company), he and Ferdinand Piech, Volkswagen chairman, are believed to have travelled to Britain to gather information on Rolls-Royce, the prestige subsidiary of Vickers plc, now being touted around a series of luxury carmakers by the Vickers chairman, Sir Colin Chandler.



VW is keen to kill its utilitarian image, announcing this month that it is to build a luxury executive model and a sports car to challenge BMW and Mercedes-Benz at the top end of the market.

But if Schröder tested the new Rolls, the Seraph, for size he would have noticed its powerplant is made by BMW, still hot favourites to take over the wheel at RR.

Moving target

HOT competition among euro payment and settlement systems is driving down the likely cost of crossborder transactions once a single currency is up and running.

According to the Bank of England study published last week, three systems devised by the European Banking Association (EBA), a German system, EAF2, and Germany's existing real-time settlement system, EIL-ZV, will all undercut transaction costs predicted by Target, the payments system sponsored by the European Monetary Institute and central banks in the euro area.

Target is proposing a crossborder price in the range of 1.5 to three euros a transaction, whereas the competitors forecast 0.25 euros. The EBA system and EAF2 are based on netting out transactions between banks during the course of the day, thus securing economies of scale, but EIL-ZV operates on the same real-time basis as Target. The Bank of England now says the European Central Bank will be forced to review the costs of Target to assess whether or not its transaction costs are realistic.

Sins of emission

EUROPEAN car manufacturers faced with the threats of draconian EU legislation have grudgingly tabled revised proposals to cut carbon dioxide emissions from new cars.

Environment ministers from EU member states meeting in Brussels next week will discuss whether carmakers have given enough ground and may yet demand further concessions. The European Automobile Manufacturers Association (ACEA), which represents 11 leading carmakers, has offered to cut average CO_2 levels from new cars sold in the EU by 25 per cent from 1995 levels to 140g/km by 2008. Although an improvement from the 155 g/km offered by ACEA last year and rejected by the EU, it still falls short of the 120g/km target set by member states.

Carmakers are still smarting from being outmanoeuvred by the oil industry, which has been resisting calls to clean up its act. The oil companies argued that the economic costs of making improvements had to be taken into account, so shifting the odds in their favour. The carmakers have been left to carry the can.

Mixed signals

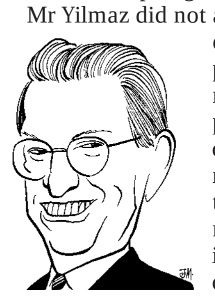
THE German Association of Taxpayers has become the latest organisation to join Germany's populist anti-euro fray, saying that the country's entry into economic and monetary union (EMU) should be delayed for at least three years. The president of the 400,000-strong association, Karl-Heinz Däke, said the government "worked with numerous tricks and generously disregarded essential requirements" in calculating Germany's deficit for EMU. He added that the selection process scheduled for April and May is threatening to become "only a ritual or a political show".

Citing estimates of civil servant pension claims of DM750bn ($414bn) that were not taken into consideration during computations, Däke said Germany's true 1997 deficit was about a percentage point higher than the government's official 2.7 per cent. In a poll of association members, 84.3 per cent said they wanted a delay of EMU.

Another opinion poll, however, suggests that Germans are warming to currency convergence. According to a survey conducted by the newspaper Handelsblatt *and the Psephos Institute in Dresden, 34 per cent are ready to replace the mark with the euro, a rise from only 30 per cent in January. Some 51 per cent are still against the single currency, a decline from 58 per cent.*

Corrected vision

IN LAST WEEK'S Snapshots we referred to Mesut Yilmaz, the Turkish prime minister, but, in error, illustrated the piece with a caricature of Suleyman Demirel, the president. Although we doubt whether either felt put out by the mistake, we apologise to both.



Mr Yilmaz did not attend last week's London summit on European Union enlargement, fed up with being patronised about his country's human rights record, scathing about the EU's lack of determination to protect the interests of the Muslim community in Kosovo and angry at Turkey's exclusion from the list of countries scheduled to join the EU.

Hot-air convention: page 17

FRANCK FIFE

GOODBYE, DOLLY

Victims, as they see it, of the EU's borderless markets, workers from Panasonic's Longwy complex in northeastern France staged an occupation of the plant last week in protest at Panasonic's January decision to close the factory on 31 March and move lock, stock and barrel to Germany, where the company believes it can produce more efficiently. The placard in the foreground reads: 'Longwy – when Japanese firms take the money and run. Scandal'

Make mine a Danish

THE biggest loser in the Danish general election was the Conservative Party: its vote slumped and it lost 10 seats, leaving it with a rump of 16 in a 179-seat parliament. They have only themselves to blame. In a country with a bloated, inefficient welfare state, some of the highest taxes in the world and a 7.4 per cent unemployment rate which looks good only by Europe's terrible standards, they had nothing radically distinctive to say.

Even nasty far-right parties did better. So, the Conservatives are condemned to irrelevance and Denmark to another no-change government.

Confounded pollsters: page 18

Mai goes west

ANOTHER thumbs-down for the Multilateral Agreement on Investment (Mai) being negotiated between the 29 members of the Organisation for Economic Co-operation and Development (OECD) and due for adoption on 28 April.

The European Parliament last week condemned the plan for international investors to sue states for default on loans, expropriation and prohibitive tax policies. Parliament wants the Commission to conduct studies on the impact of the agreement on the environment, social protection, intellectual property, development programmes and regional agreements. It fears that Mai rules would prevent states from enacting tougher laws for fear of legal action from multinationals. Parliament has aligned itself with the French government, which put conditions on acceptance of the Mai, including – surprise, surprise – the exclusion of audiovisual products and agriculture.

Business interest is declining. An American Chamber of Commerce in Brussels spokesman said: "There's not much left in the Mai to lobby for."

Drachma drama

GREECE has astonished foreign exchange traders with the announcement that it is entering the drachma as part of Europe's exchange rate mechanism (ERM) in an initial move towards becoming the 12th member of economic and monetary union (EMU).

The decision underlines the determination of the socialist Pasok government to meet the qualifying criteria to allow Greek entry into EMU in early 2001. ERM entry procedures, initiated on 12 March, were expected to be wound up at a meeting of the EU's monetary committee on 15 March though Greece has previously said it would stay outside the mechanism until the launch of the euro next year.

So why the volte-face? Traders dragged the drachma 10 per cent lower against the ecu on 13 March. This way, the devaluation can be disguised by the government as a step towards EMU. But the drachma, long regarded by investors as overvalued and subject to a string of speculative attacks since the Asian currency crisis last summer, may have to enter at an even lower rate. The trick will be to hit a level that keeps it on track for EMU but diverts the attention of speculators.

Soros unstuck

INVESTMENT guru George Soros may be losing his touch. His lawyers failed to spot a glaring $150 million hole in the Svyazinvest tender into which Soros poured nearly $1 billion last July. Under the terms of an earlier deal with Yuri Luzhkov, Moscow's mayor, the city is about to swallow a majority shareholding in one of Svyazinvest's main subsidiaries, Moscow City Telephone Network (MGTS).

At the time, the Svyazinvest auction was heralded as the most transparent deal to come out of Russia so far. But unbeknown to Soros and other investors, under the terms of the 1995 privatisation of MGTS, Moscow's committee for science and technology has the right to increase its 33.3 per cent stake to 51 per cent, provided the city has invested $105m.

Analysts expect MGTS to increase its authorised capital in the next few months, diluting the 47 per cent stake held by Svyazinvest by one-third.

News of MGTS's share issue damaged its reputation with investors but it did not stop the Russian blue chip from raising $150m through an oversubscribed eurobond offering in the first week of March.

CONVERGENCE CRITERIA

Accountants fiddling in hell

WHEN member states of the European Union (EU) recently reported their economic performance for 1997, the figures all boasted prudent finances. The only thing EU states have been economical with is the truth.

Like Dante's Inferno, there are seven circles of increasing statistical depravity, the first opening the way down to all others. In the decision to offload on to accountants a decision which is deeply political, politicians have hidden behind statistics.

This is most flagrant in the second circle, the widespread practice of quoting a state's budget deficit and debt as a percentage of gross domestic product instead of as a percentage of its tax receipts. The latter calculation would accurately reflect a state's real profligacy or prudence. It would show the difference between what a state "earns" and what it spends. The entire national economy does not, after all, belong to the state.

For 1997, Germany reported a budget deficit of 2.7 per cent of GDP, but the German government spent 6.07 per cent more than it received in tax. So, German debt should be regarded as 133 per cent of its annual tax receipts, instead of 61.8 per cent of annual GDP.

This leads to the third circle of statistical hell: the measurement of GDP. Accountants in an office cannot accurately know what is going on in every town and village outside. A free market is precisely a body of dispersed knowledge, which no individual or institution can master.

This is not theory. GDP figures are revised upwards or downwards after initial publication, when new data become available. The figures for German GDP in 1993 were revised up by 1.6 per cent between March and September 1994, then down by 0.13 per cent a year later. But the figures being used now for 1997, for the purpose of Maastricht, are the earliest ones available, thus the most unreliable.

There are sectors of the economy at whose size statisticians can only guess. Services, the most significant, represent an unseen economy of as much as 10 per cent of GDP. In 1995, the German statistical office reckoned the production of cars and spare parts to have dropped by 0.6 per cent, while the Alliance of Engineers said it had risen by seven per cent.

All countries include estimates of the black economy in their GDP figures, even though such activity produces little or no tax income for the state. When Italy included a new estimate for the black economy in its GDP figures, Italian GDP promptly "rose" by 17 per cent, pushing the country from sixth to fifth place in the world league.

Because of these uncertainties, statisticians have to devise rules for their guesses. The EU's accounting rules were agreed in 1979. Acknowledged to be out of date, they will not be replaced until 1999. So, decisions on economic and monetary union (EMU) rest on accounting methods whose integrity has never been legally verified and which even accountants have decided to abandon.

The measurement of debts and deficits – the fourth circle – suffers from the same problems. The current EU accounting method bases the distinction between the state and the private sector on an institution's primary source of income, not who owns it. Thus, in Germany, state hospitals are booked into the private sector because their income comes from patients, not taxes. That the state controls payments into the social security system and is ultimately responsible for the hospitals' debt is brushed aside and with it, DM5.1 billion ($2.8bn) disappears from the budget deficit. But any surplus income of hospitals, run as private companies, goes on to the state's books. This rule has allowed Germany to use the money in its social security funds, not officially state companies, to chip a further 0.2 per cent or 0.3 per cent off the deficit.

Since debt is calculated only on the basis of the amount of state paper issued, the figures do not reflect the true state of a country's obligations, in particular social ones. Take pensions. Because pensions in most European countries are paid by tax deducted from workers, the obligations of the state towards its future retirees do not appear on the books. Given the demographic collapse – fewer people of working age paying for more and more pensioners – the state will have to issue massive new debt to plug the gap.

Within 20 years the French pensions system will collapse. If the true state of pension obligations were accounted for, Germany's state debt would be over 150 per cent of GDP, Italy's over 250 per cent. The accounting rules give no accurate account of the state's true financial position, yet these figures are supposed to show the sustainable suitability of a country for EMU membership. Because the figures are infinitely flexible, politicians slide from pretending to fulfil criteria, to not fulfilling them, then ignoring them. This – the fifth circle – is the case with the debt criterion. Maastricht stipulates that debt must be below 60 per cent of GDP and may be higher only if it is "sufficiently diminishing and approaching the reference value (ie 60 per cent) at a satisfactory pace". Debt rising beyond 60 per cent is forbidden.

Yet across the EU debt has risen from 56.1 per cent in 1991 to nearly 74 per cent now. When Theo Waigel became German finance minister in 1989, German debt was 41.8 per cent of GDP; since then, Germany has made more debt than under all previous finance ministers in the past four decades put together. The total figure, now some DM2,258 billion, or 61.8 per cent of GDP, rises at more than DM3,000 every second and costs more than DM80 billion a year (or 20 per cent of annual tax receipts) simply to service.

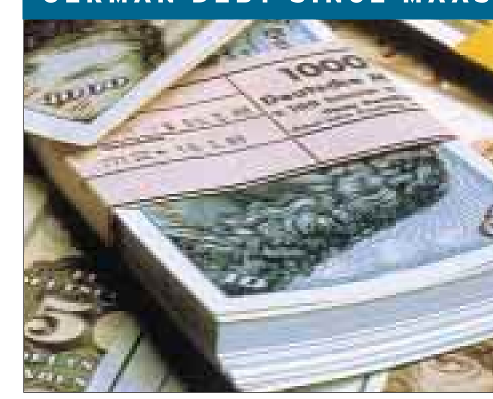
The sixth circle is short-term manipulation of spending to massage the figures. Germany has flagrantly undertaken one-off measures to get the published figures down in 1997. Land belonging to the state railways was sold; payments to the social security system were temporarily cut; and public investment mysteriously fell by 10 per cent for the year (18 per cent in the last quarter).

For the past six years, net contributions of between DM3bn and DM5bn have regularly been made to Brussels at the end of the year, but in December 1997 they were deferred and replaced by receipts of DM469m from Brussels. This chipped another 0.1 per cent off the deficit figure. The underlying figure – without these one-off payments and deferrals – should have been 3.2 per cent, not 2.7 per cent.

The seventh circle is straightforward lying about the point of all this. German and other European politicians insist that the criteria take precedence over the timetable and that the euro will be as stable as the D-mark. The opposite is true. The timetable is the most important thing and the purpose of EMU is to allow Germany to introduce a weak currency in order to dope up its exports artificially without having to undertake proper economic reform. Which all goes to show that the way to economic hell is paved with good statistics. ■

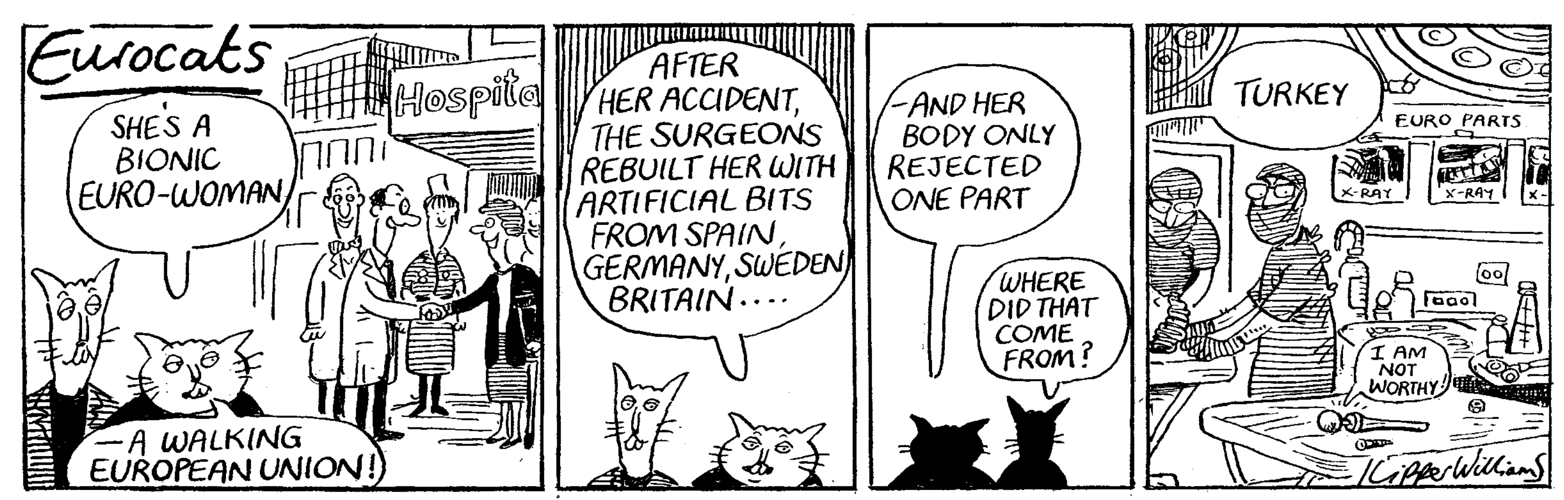
JOHN LAUGHLAND

GERMAN DEBT SINCE MAASTRICHT TREATY



YEAR	DEBT	AS % OF GDP
1991	DM1,184bn	41.5
1992	DM1,357bn	44.1
1993	DM1,518bn	48.0
1994	DM1,672bn	50.2
1995	DM2,006bn	58.0
1996	DM2,140bn	60.4
1997	DM2,258bn	61.8

SOURCE: EUROSTAT



WORLD CUP

EU jumps the queue

KAREL VAN MIERT, the European Union (EU) competition commissioner, will sit down this week with France's World Cup organisers to thrash out arrangements for the sale of unsold tickets for this summer's championship.

Van Miert has threatened to impose hefty fines on the Comité Français d'Organisation (CFO), the tournament's organisers, for failing to make the 160,772 remaining tickets available outside France.

An offer to allocate 50,000 of those tickets left to national football associations, with the rest being sold on a phone line that accepted international cheques and credit cards, has been rejected by Van Miert.

That would still allow French citizens to make further purchases on top of the 30 per cent already sold to French nationals.

The intervention was prompted by accusations that the CFO had done its best to favour French fans unfairly. As the organising body it was permitted to sell 60 per cent of the tickets.

The CFO set up a phone line to sell its tickets, which are 20 per cent cheaper than those bought through agents abroad, but restricted access to numbers dialled from France, or the French Minitel teletext system. Purchasers were obliged to furnish a French address.

This has resulted in a booming black market in tickets, snapped up in France, then sold on to touts or travel agents at a substantial mark-up.

The remaining tickets were allocated to Fifa, soccer's world governing body (20 per cent), and to 17 nominated tour operators.

The organisers argued that closed arrangements were needed to ensure the separation of rival fans, but uncontrolled selling-on has jeopardised security arrangements.

To ensure even-handed treatment in future, Van Miert has called on Fifa to draw up a ticket sales system in conjunction with the Commission to sell tickets in a more transparent manner.

FRANCE ■ Roland Dumas, the head of the constitutional court and guardian of the rule of law, is enmeshed in scandal

If the shoe fits ...

SIPA/REX

Opening doors: Loïk Le Floch-Prigent, the Elf chairman who secretly hired Roland Dumas' lover as a lobbyist

Julian Coman and Edith Coron
PARIS

THE SHOES were hand-stitched and made to measure by Berluti, the chic shoemakers on the Champs-Elyseés. They cost Ffr11,000 ($1,795). Christine Deviers-Joncour, an attractive political consultant, only had to make a short trip across town from her flat in the nearby rue de Lille to pick them up. But they were not for her. That same day, in August 1991, the purchase was sent on to the address of her lover, Roland Dumas, at the time France's foreign minister and now head of France's constitutional court.

So far, so Parisian; an everyday morning in the life of the city's rich and powerful. Seven years on it holds the key to a scandal which could ruin Dumas, imprison his mistress and provoke a constitutional crisis.

For when Deviers-Joncour bought the shoes, she used a blue credit card given to her by Elf, the oil giant for which she unofficially worked as a lobbyist. Since Elf was at that time publicly-owned, it would not be stretching the truth to say that the French taxpayer had paid for the minister's splendid new shoes.

The reasons why have attracted the attention of two investigating magistrates who have demanded that Dumas appear before them on 18 March to explain his dealings with Deviers-Joncour and Elf, and a series of mysterious bank deposits paid into his accounts during the early 1990s.

The judges, Laurence Vichnievsky and Eva Joly, were called in last year to look at complaints of malpractice involving the sale of six military frigates by the defence company Thomson-CSF to Taiwan in 1991, a delicate deal in which Elf staff and contacts, including Deviers-Joncour, played a significant consultancy role.

In less than 12 months a trail of secret bank accounts, extravagant "commissions" and exorbitant payments for nebulous services has led directly to the door of Dumas, the fifth most powerful man in the Fifth

continued on page 10

THE JUDGES

Clean hands come under the spotlight

IN THE corridors of the Palais de Justice of Paris they are known as Les Colombettes, as if they were young female followers of the American television detective, Columbo.

But judges Eva Joly and Laurence Vichnievsky never wear the hallmark scruffy raincoats of the American cop. They prefer power dressing in smart business suits and they seek their targets in the elegant corridors of the top French political institutions, party headquarters and the headquarters of major companies.

Eva Joly, of Norwegian origin and with a degree in political science, became a judge in 1981. Initially, she worked on the government's committee for industrial restructuring, where she learned how companies are run. Laurence Vichnievsky, a judge since 1977, has been an investigative magistrate since 1993.

Stars of *la galérie financière*, the local name for the white-collar crime division, Joly and Vichnievsky are inevitably controversial. The concept of judges who work without ulterior motives and act independently is relatively new in France.

The two women are under great pressure and in the spotlight. In some cases, evidence has disappeared from the offices of the investigating detectives, their computers have been hacked into and Eva Joly is under permanent police protection because she has received a series of threats.

Many draw a parallel with the Italian judges. Once a judge enters the realm of high politics and becomes publicly known, both the pressures and the potential rewards are redoubled. Antonio di Pietro, the chief of the *mani puliti* judges in Milan, became one of Italy's best-known figures and was eventually tempted, to enter the political arena himself.

There is no suggestion that Joly and Vichnievsky have political ambitions but their long-running inquiry into the dealings of Elf Aquitaine, which subsequently led them to arraign Roland Dumas, has raised questions about the judicial system and whether the "presumption of innocence" is being maintained.

As a French magistrate said: "We used to laugh at the Italians for their corruption. But when they started their 'clean hands campaign' the judges received the necessary resources. Look how we work here."

Joly and Vichnievsky work in crammed offices in the old Palais de Justice. They share one official car with 80 other judges. When it broke down, a judge had to pile seized documents into a taxi. Joly has complained about her working conditions. Elisabeth Guigou, the minister of justice, has promised improvements. But when?

BOIN/ANDIA

SYGMA

In at the deep end: Roland Dumas (above) is taken in for questioning by justice ministry officials; (top) two of the six frigates at the centre of the rogue 'dirty money' allegations

continued from page 8

Republic. The deeper Joly and Vichnievsky dug into the subterranean and bizarre business practices of France's largest oil company, the higher up the ladder of Parisian political society their investigations led, unravelling a squalid weave of public enterprises, private greed and political hypocrisy. *L'affaire Dumas* promises to be more than a tour of Champs-Elysées shops.

The star-crossed lovers, Deviers-Joncour and Dumas, met in the Dordogne, where her parents had become friends of the rising political star who had his constituency in the area. A flamboyant and successful lawyer, Dumas was the suave Parisian sophisticate, effortlessly straddling the worlds of politics, law and high culture. He liked women too, including the daughter of Syria's defence minister among his conquests. To Deviers-Joncour, the future foreign minister offered the prospect of an *entrée* into metropolitan society. By the late 1980s they were lovers and Deviers-Joncour was living in Paris.

Having entered the charmed and lucrative circle of Parisian influence it was not long before she found a job – as his press attaché. But that was only a stepping stone to more profitable employment. In 1990, on the recommendation of Alfred Sirven, chief adviser to the Elf chairman at the time, Loïk Le Floch-Prigent, the oil company secretly hired Deviers-Joncour as a lobbyist. Her brief was specific, limited but potentially crucial and hardly arduous: to keep the foreign minister sweet. To begin with, the money was modest: an $8,500 monthly payment from Elf Aquitaine International, made to a codenamed Swiss bank account and use of a company credit card. But the real money was just around the corner.

The same year that Deviers-Joncour unofficially joined the Elf payroll, the company managed to grab a foothold in a deal worth Ffr14bn. Two years previously Taiwan had commissioned the French company Thomson to deliver six military frigates; a huge contract but one which had run into political problems. The Elysée and the Quai d'Orsay valued France's economic relationship with China too highly to endorse military collaboration with the troublesome island over which the Chinese claimed sovereignty. From the then president, François Mitterrand – and Dumas – the judgment was clear and hugely frustrating for Thomson: no deal.

Le Floch-Prigent thought he could help out. Since the Second World War, Elf had managed to develop an intelligence and contact network to rival that of many small states. For a slice of this cake, Le Floch-Prigent told Alain Gomez, his counterpart at Thomson, that Elf would use its people in the Far East to "reassure" the Chinese. And in Paris, what better ally could Thomson ask for than the lover of Roland Dumas?

Gomez agreed. The money required to grease palms and oil wheels was released on a staggering scale. Dumas himself has since estimated that around Ffr500m of "dirty money" went on the "commissions" and payments designed to facilitate the frigate deal. One intermediary, Edmond Kwan, an American of Chinese extraction living in Hong Kong, was promised as much as Ffr160m.

Back in Paris, Deviers-Joncour went shopping during the day and whispered gentle exhortations into the ear of Dumas at night. More than Ffr59m went into various Swiss bank accounts to which she had access. Deviers-Joncour knew how to spend it; the imminent departure of six military frigates for Taiwan financed a life of exquisite taste. A lover of books, Deviers-Joncour spent a fortune at the famous Gallimard bookshop in the Latin Quarter. She bought a concert piano. Eating out constantly, she became a "face" at places such as the Brasserie Lipp and the Lutetia restaurant. In 1992, with the help of one Gilbert Miara, now in police custody for embezzlement, she bought a flat – measuring 370 square metres and costing Ffr17m – in the fashionable rue de Lille, paid for with money from a Swiss bank account. The legalities were allegedly looked after by Dumas himself. And she bought her influential lover a pair of shoes.

The finances of the foreign minister were also prospering. Between 1991 and 1992 around Ffr14m found its way into Dumas' Crédit Lyonnais account or into the account of a close colleague. The money was always delivered in used notes, usually in sums between Ffr500,000 and Ffr800,000 – never by Dumas himself. One bank employee, unwilling to give his name, found the scale and regularity of the payments so unusual, and the manner of their delivery so odd that he went as far as telephoning the minister for further details after a Ffr1m payment.

"It was difficult to do, given who he was. But I telephoned him for something else and then asked him about the deposit. He said that the money had come from the sale of a work of art," the official said.The river of cash certainly came in handy. Each of Dumas' three sons acquired a Parisian apartment, courtesy of their father.

And the frigates? Miraculously, by the end of 1991, the French government dropped its opposition to the Thomson deal and the contract with Taiwan was signed. Beijing – soothed by Edmond Kwan and others – made little objection. The money-go-round had, it seemed, worked to everyone's satisfaction and to a considerable number of people's profit.

Or so it seemed. One man who did not profit was naval captain Yin Ching-feng, director of arms procurement for the Taiwan government. In December 1993 he was found murdered in Taipei. The murder was never solved, but investigations uncovered a network of illegal payments related to arms deals, including the frigates.

There was another problem. Kwan was not happy. He never received the Ffr160m promised for smoothing the deal. He complained to an international tribunal in Geneva, which ruled in his favour, prompting an appeal by Thomson. Vichnievsky and Joly were soon on the case, astonished at where it was leading.

Le Floch-Prigent, president of the Elf group from 1989 to 1993, was the first to come into the two judges' legal sights, as they joined up the dots between Swiss bank accounts to discover a "commission" system for which Elf set aside up to Ffr800m per year. The former Elf boss received his 11th indictment for embezzlement and corruption last week.

But it was an anonymous tip-off, received by the investigators at the beginning of 1997, which really set the hare running. "Ask Le Floch Prigent about the accounts of the girlfriend of Roland Dumas," it read, "salaried for life at the behest of Le Floch-Prigent. Mlle Deviers-Joncour has never worked for Elf." On 7 November Deviers-Joncour was taken into custody, where she remains, charged with embezzlement.

Then, on 2 December, Gilbert Miara, the 59-year-old playboy who had "helped" Deviers-Joncour move into rue de Lille, began to talk. He admitted being her accomplice and specified the sums of money she had been given in return for bending the ear of her lover. The horsemen of Roland Dumas' personal apocalypse were drawing closer. Had the head of France's constitutional court, guardian of the rule of law, really played a double game as foreign minister, with one foot in the cabinet office and the other in Elf's boardroom?

By 5 December Dumas was taking to the pages of the press in a desperate attempt to pre-empt the coming accusations. "This campaign of calumnies is destined to compromise me," he told *Le Monde*. "I will not tolerate the fact that, for obscure motives and in violation of the law, people are trying to blacken my name, my past actions and the honour of the office which I hold."

Dumas argued that he was the victim of a witch-hunt: the accusations were a disgraceful and vicious attempt to damage the reputation of the government in which he had served, the ultimate target of which was quite another urbane and elegant politician. "I get the impression," raged the former foreign minister, "that people are out to get me and through me to destroy the legacy of Mitterrand."

But while Dumas cried foul, he also started to give answers. For everything. The pair of shoes – *that* pair of shoes – were not a gift from Deviers-Joncour; he later paid her back the Ffr11,000. She bought them in the first place only because she lived close to the Berluti shop. He had no idea that she had used the Elf credit card.

He had taken no part in any business concerning Elf and Thomson. He played no role in the acquisition of the flat in rue de Lille. He had remained consistently hostile to the frigate deal with Taiwan; it was other people, Mitterrand included, who had changed their minds. As for the money paid into the Crédit Lyonnais accounts belonging to himself and the anonymous colleague, that represented the profit from judicious sales of works of art, including one in particular to an English buyer who also wished to remain anonymous. Dumas protested that he had never known of any payments made to his lover by Elf.

This long and detailed protestation of innocence has failed to persuade the legal furies to call off their pursuit. In insisting that their quarry appear on 18 March to respond to accusations, Vichnievsky and Joly have taken the scandal to its next stage. Dumas will for the moment be spared their grilling: he is recovering from a minor operation. But the investigation has created a constitutional and probably a political crisis. Persistent voices, so far stubbornly ignored, are suggesting that Dumas should resign.

Founded in 1953 to ensure that the principles of 1789 continue to be upheld, the constitutional court had acquired – until this – a reputation as the last remaining outpost of integrity in an increasingly tacky political universe. That is now in tatters, and Jean-Marie Le Pen's Front National can scarcely believe its luck. If *Lepenisme* has one surefire vote-winning principle, it is that the postwar French state has long been a den of thieves, populated by corrupt Parisians out to feather their own nest. *L'affaire Dumas*, if it does demonstrate that vice flourished even in the presumed seat of virtue, would provide the FN with a clinching and vote-winning argument.

Dumas has been hinting that if he is brought low, others will go down with him

The rot may not stop with Dumas. If the former minister spent the latter part of last year denying all charges, he has spent the first part of this one dropping heavy hints that, if he is to be brought low, other prominent politicians will go down with him.

Le Floch-Prigent, perhaps unhappy at the absence of honour among thieves, maintains that the huge scale of backhanders, "commissions" and bungs handed out by Elf was common knowledge in the government. According to him, the annual sums involved were even passed to the presidency for approval. Dumas, while denying malpractice on his part, has now publicly accepted this and implied that the identities of those who benefited from such largesse would make interesting reading.

"A $500m commission on the frigate sale had been approved with the authorisation of the ministry of finance and the presidency," he affirmed this month. "That decision

continued on page 12

PAUL COOPER

CORPORATE HISTORY

Elf's shadowy world of bribes and intelligence

IN 1965, when the French president, Charles de Gaulle, gave his wartime colleague and ally Pierre Guillaumat the job of setting up the state oil company Elf, the result was almost the creation of an unofficial "oil ministry".

Elf, in its original conception, had two distinctive features. First, it was ordered to concentrate its operations in Africa to defend French interests as vast new oil discoveries were made, and second, it set up an intelligence service which in time would be as influential as the official government organisations.

Guillaumat was an experienced Africa hand: it had been his theatre of operation for the Free French secret service during the Second World War.

Elf, under the direction of the former secret agent, launched a tradition which was to endure at least until the election of Lionel Jospin to head a socialist-led government last year.

The Elf network expanded over the years so that company offices throughout the world (Elf now employs 90,000 people) became closely linked with the French intelligence service, known today as the Direction générale de la sécurité extérieure (DGSE) and the shadowy Gaullist networks known as *Les Barbouzes* (from the perceived image of Gaullist spies with beards).

These were run independently by De Gaulle's long-time chief adviser on Africa, Jacques Foccart, and his deputy, Charles Pasqua. Later Foccart was recalled to watch over the same territory by Jacques Chirac when he became president.

The head of the service's Africa desk, Colonel Maurice Robert, organised the initial liaison and later moved on to become ambassador for France – and Elf – to oil-rich Gabon. Many officers retiring from the DGSE went straight into Elf's own "protection, security and administration" service. Its chief was another old Africa hand, Jean-Pierre Daniel, who remained in the job until last year when he was replaced by another agent, General Patrice de Loustal, a combat diver and former chief of DGSE's covert operations.

The strategic objective of these networks was to keep in check the Anglo-Saxon oil companies such as BP and Shell. They themselves were receiving support from their own intelligence services, the CIA and its British equivalent, MI6.

The horrific Biafra war was one example of French interference which had terrible conequences. The French supported the secession of the Ibo people from Nigeria, which triggered a murderous civil war and the death by starvation of two million Biafrans.

André Tarallo, Elf's number two as head of Elf-Gabon in the mid-1970s, now also under investigation, co-operated with the French secret services in financing the Cabinda rebels against the Marxist Angolan MPLA regime. They even set up a dissident guerrilla organisation, le Front de Libération de l'Enclave du Cabinda (FLEC), to challenge the central government and protect the vital oil fields. FLEC was led by a French agent, Jean da Costa.

By then, some African heads of state, such as Omar Bongo of Gabon, were more interested in dealing directly with Elf than with the French embassy. They built their own fortune thanks to bribes from Elf.

From the beginning, Elf strategists had promoted the idea of redistributing proceeds from oil sales under the cover of *provisions pour investissements diversifiés* (unspecified investments), effectively bribe money.

In the mid-1980s Elf expanded to increase its interests and its influence in Asia. But Africa remains at the heart of Elf's operational strategy. When Loïk Le Floch-Prigent took over as Elf director-general, he asked the then president, François Mitterrand, if the Elf system should continue.

According to his own testimony to the magistrates, Le Floch-Prigent made a special visit to the Elysée to submit the list of bribes to be paid in the course of Elf's international oil dealings. In 1991 Mitterrand, Le Floch-Prigent claims, ordered the list to be cleared by him personally rather than the Elysée chief of staff.

The man the Elf chief dealt with was Hubert Védrine, then head of the Elysée staff. Today Védrine is Jospin's foreign minister. He is also the man who resolved to end once and for all the neo-colonialist Africa policy launched by De Gaulle. But though Foccart died a year ago and many of the old Africa hands are gone, the Elf network spreads far and wide.

ROGER FALIGOT

SIPA/REX

continued from page 11

is recorded but I will not publicly reveal the beneficiaries." The Parisian rumour-mill will get there in the end.

But full disclosure of the facts behind the scam will lead to consequences reaching far beyond the odd unexpected ministerial casualty. Talk of a vendetta being conducted against the entire Mitterrand era may be the desperate hyperbole of a politician on the run, but there is a kernel of truth in Dumas' paranoia.

Le Mitterrandisme is, indeed, what is at stake: a culture of complicity, fostered by a powerful state, in which huge invisible payments by a publicly-owned company could be sanctioned by public representatives; the same representatives who subsequently ensured that a fair proportion of the cash found its way into their own back pockets, via intermediaries, foreign bank accounts and even lovers.

As Jean Montaldo, a writer on the Mitterrand era, puts it: "Elf, as well as other state companies, were and still are paying to ensure that the French nomenclature maintains its standards of living." This investigation, he says, will be "cataclysmic for the Parisian establishment".

François d'Aubert, a centre-right deputy from Mayenne, reaches similar conclusions and draws a parallel with that other creature of the Mitterrand era, Crédit Lyonnais: "Both represent white elephants of the public sector with risible internal checking systems and insufficient external ones. Both were obsessed with dirty money, which was the result of a common-law marriage between politics and business and led to a quite scandalous level of racketeering."

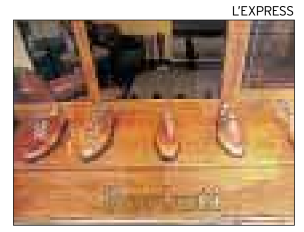
L'affaire Dumas, given the high position of the man at its centre, is set to become an examination of a peculiarly French pathology: an exaggerated respect for the state and its officers, combined with a distrust of private enterprise that permits the political establishment to exert an influence easily turned to its own advantage. The name of Dumas may come to stand for a dirigiste way of doing things which even the likes of the French prime minister, Lionel Jospin, are coming to see as discredited.

Airy Routier, who will soon publish a book on Elf, calls the coming argument "a conflict between two cultures – French powerplay and *raison d'état*, and a new approach, a more Anglo-Saxon one, which values transparency and openness and a much diminished economic role for the state."

It is a safe bet that Deviers-Joncour didn't imagine it would come to that when she went to buy a pair of shoes on a summer's day seven years ago. ■

Grocer's bill: page 24

L'EXPRESS



***L'affaire Dumas*: Christine Deviers-Joncour, lobbyist and lover (top); her flat on the rue de Lille (above left); and the shop where she used her Elf credit card to buy shoes for the then foreign minister**

The mistress bought a flat paid for with money from a Swiss bank account

A walk on the inside of the EU corridors of power

G Brown's schooldays

GORDON BROWN, the British finance minister, has begun wielding his cane like a dour and puritanical schoolmaster. Mindful of last year's Court of Auditors report, which fingered the Commission for failing to stem waste and fraud in aid to central and eastern Europe, he chaired last week's meeting of Ecofin – the council of finance ministers – and cracked the whip in a discussion on the misuse of regional aid on projects overseen by state or local governments.

Threatening to beat recalcitrant states into line, chairman Brown said ministers from every state would be required at the May meeting to answer for their state's abuses. Countries found not to be using money properly "may be asked to pay it back", he threatened. Yes, Sir!

Master Brown was even fiercer in his threats to the economic and social committee, whose 222 members were at the sharp end of the Court of Auditors report. It found they had indulged in widespread fraud over travelling allowances, using a clever dodge: claiming for business class airline tickets, then trading in the tickets to travel more cheaply and pocketing the difference.

The auditors estimated that Ecu300,000 ($324,300) had been paid out for tickets "without justification" and said that of 94 members whose claims were examined, 41 flouted the rules. But in the great European tradition of openness, the 41 have not been named.

Brown said governments would be invited to take the travel claims into account when the committee members' mandates come up for renewal in the autumn. So much for the schooldays of master Brown. He may finger the cane but, in the end, lets his little chaps off with the mere threat of detention.

Virtually sceptic

VIRTUAL Europe is arriving in the shape of a video game. In Euro Tour, the player has to answer questions on European institutions and the history of member states in order to fly from one capital to another.

Action sequences punctuate the quizzes, allowing the player to collect euros, which are then spent on buying airline tickets (economic and social committee members will doubtless be particularly proficient at this part).

The development of Euro Tour was sponsored by the German foreign office, a computer firm, Siemens Nixdorf, and the European Parliament. The questions were subjected to parliamentary scrutiny and a question on Northern Ireland was removed because it was thought too sensitive. But the video game, to be marketed as an educational product, has the occasional lapse from political correctness.

In one action scene, the player is asked to control a small boat to collect euros and other goodies that fall from the sky (a metaphor perhaps for the Common Fisheries Policy?) while fighting off attempts to steal the accumulated treasure from a ferocious looking blob with bushy eyebrows and fierce teeth, labelled "a Eurosceptic".

"We have not had any complaint so far, so we are keeping our Eurosceptic," said one of Euro Tour's developers as he unveiled the game in Strasbourg.

A call to hounds

DELEGATIONS to Brussels come in all shapes and sizes, but one of the more curious appeared on Sunday 15 March when a score of Scottish dog-collars flocked into town.

The Moderator of the General Assembly of the Church of Scotland makes an annual pilgrimage to Brussels. This year the Rt Rev Alexander McDonald brought several others for a walk around the EU corridors of power. Cardinal Thomas Winning, leader of Scotland's Roman Catholics, and Bishop Richard Holloway, Primus of the tiny Scottish Episcopal Church, head a kennel of clerics including Baptists, Methodists, Salvation Army and Congregationalists.

During the three-day visit, the delegation will lunch with Sir Leon Brittan, the European Commission vice-president, meet José-María Gil-Robles, the president of the European Parliament, and will consider, among other things, "the EU as an ethical project". This lofty subject will be addressed in a talk by Jérome Vignon, a leading light in the Commission president's forward studies unit.

Links between the unit and churches were first established by France's European visionary and devout Catholic, Jacques Delors.

Alastair Hulbert, spokesman for the European Ecumenical Commission for Church and Society, said: "Because of all the changes in Scotland with the new parliament, we thought it would be good to get the churches in Scotland buzzing on Scotland in Europe."

The cost of the visit is largely borne by the churches, with Parliament contributing just $1,150. Several years ago Irish churches brought a large delegation to Brussels, paid for by Commission and Parliament offices in Ireland; since then, said Hulbert, "money for this kind of visit has been drastically reduced".

The Church of Scotland has a sizable congregation in Brussels, including Africans and Canadians. But a press release from the Church's Edinburgh office includes an embarrassing political blunder. It says three of the church leaders will conduct worship with, or preach to, "English congregations". Is this, then, really a mission to convert the heathen?

That's the job, Monika

THE commissioner for regional aid, Monika Wulf-Mathies, has been looking for ways to improve the use of the EU's structural funds, which are supposed to help disadvantaged areas and groups of people.

Her reform plans, to be considered by the Commission this week, include proposals to reward schemes which use EU money efficiently.

Last week she announced the finalists in a contest to find the best job creation projects. Mrs Wulf-Mathies is painfully aware that too many projects fail to make a lasting impact on unemployment.

Bouquets then for two projects in the UK, two in the Netherlands and one each in Belgium, Finland, France, Germany, Italy and Spain. Some of these winning schemes sponsored successful start-up projects; most yielded jobs in the technology sector.

Mrs Wulf-Mathies then announced that the winning project managers will be invited to visit the areas receiving regional aid which are not so successful, to teach them a few lessons. She had better watch it, or she may run foul of Karel Van Miert, commissioner for competition policy, who may not favour such controversial inter-state one-upmanship.

My cup runneth over

THE COMMISSION is to spend Ecu880,000 trying to persuade farmers in Morocco to grow crops other than cannabis. The Agence du Nord will be promoting the area as a land of milk and honey by furthering the fruit-tree growing, bee-keeping and goat-breeding in the region of the Rif. An EU official stressed that fruit, honey and goat's cheese were not encouraged as accompaniments to hashish but as alternative sources of income.

Players must collect euros falling from the sky while saving them from the clutches of a ferocious Eurosceptic

Calling the tuna

AS THE FISHING fleets of the EU exhaust their own waters of fish, they turn increasingly to new waters, preferably in the Third World.

Last week a new three-year tuna fishing agreement was signed between the EU and Madagascar. It increases the compensation to Ecu2.28 million from the Ecu1.35m paid for the past three years. The price increase is an indication of fiercer competition for the world's exploited tuna stocks.

The annual tonnage that EU boats can fish rises only from 9,000 to 9,500. The EU emphasised how much cash would be dedicated to research, training and improved fisheries surveillance. But it did not explain that the surveillance is to keep out rival fleets from Asia.

As if that were not enough, a Strathclyde MEP, Hugh McMahon, last week placed before Parliament proposals to strengthen the conservation of tuna stocks in the Mediterranean: that's politics and protectionism, EU style.

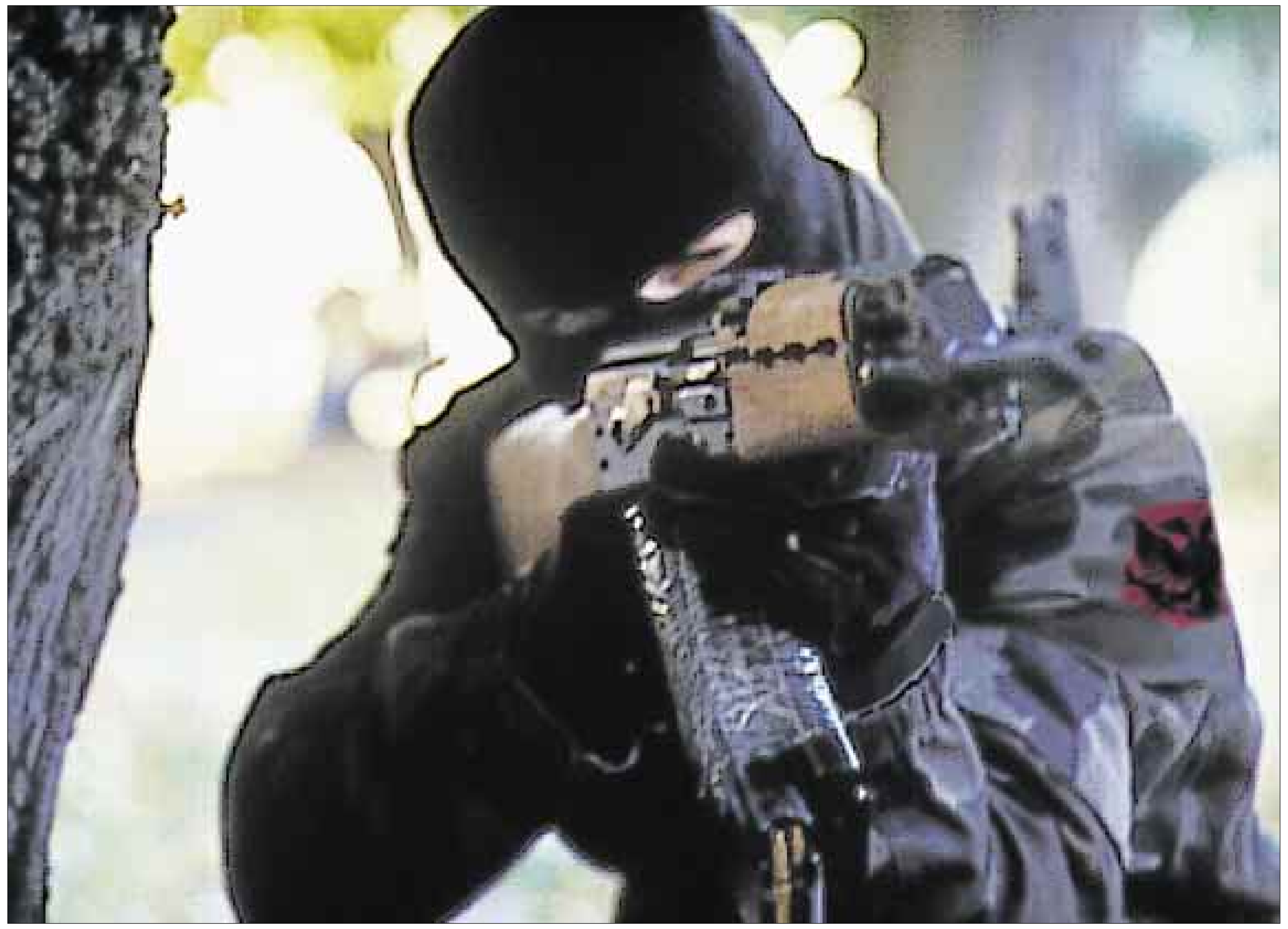
Kinnock's hitch

HITCH-HIKING across Europe may become more predictable, thanks to the endeavours of Neil Kinnock, the transport commissioner.

He wants to rationalise the weekend bans on lorries imposed by seven member states. Curbs on international freight using main European motorways would be permitted between 7am and 10pm on Sundays. Bans beyond those hours would be possible but member states would have to justify them on environmental, safety or social grounds. Mr Kinnock says the changes could save business Ecu1,500m. At the moment Germany bans lorries on holidays and Austria begins its ban on Saturday night. So a lorry travelling westwards from eastern Europe must either spend Saturday night on the Austrian border or take a lengthy diversion.

Justus Lipsius

PHOTOGRAPHS LIVIO SENIGALLIESI



KOSOVO ■ Albania has a crumbling army and a strife-weary people but it has fuel led the Kosovo conflict with thousands of guns

Tension mounts on the fragile frontier of fear

Robert Fox
KUKES, ALBANIA

AT THE windy crossing point in the high Albanian Alps beyond Kukes, the few travellers from Kosovo were visibly very scared. "Everything is quiet down there, just fine," lies Alidin Vullmet, unconvincingly. On his back is slung a sack of corn. "There are no troop reinforcements," he adds.

His sweating face and shifty eyes, despite the biting cold and gentle blizzard, told a different story. Alidin was frightened by what he had heard in the markets of the western Kosovo town of Prizren. "They are all terrified," said the Albanian customs man. "They know what is going on and if it gets worse and if they talk to you, they know it is the end of their trade."

Alidin and his companions are Goran, local Muslims who speak Serb dialect and live in villages along the main border crossing at Kukes between Albania and the Serb province of Kosovo – the latest boiling point in the Balkans. The Goran get tourist visas and live by small-time trading in eggs, flour, cement and tools. For nearly a fortnight, they have been the only people who have dared to cross between Prizren and Kukes.

As they trundle past, they seemed burdened by the fear that the recent crackdown by Serb police on village strongholds of the shadowy Kosovo Liberation Army (UCK) in the Drenica region might herald a cycle of violence which could destroy them all. Agron, 35, carrying bags of frying pans, was prepared to speak out: "The Serbs have been strengthening their roadblocks in the past two or three days and their patrols are everywhere. Yesterday there was a big demonstration by Albanians in Prizren."

It did not take long for the guerrillas to check out the journalists who had come to town. A man with a trimmed silver beard approaches. "I am a member of the UCK, the Kosovo Liberation Army," he announces. He lives locally and crosses into Kosovo frequently using the high mountain tracks.

This self-appointed spokesman, whose name is Vellit, explains that the UCK is a clan network. "We are just a group of families in villages. We are not an army as such." He has come to glean information from us: "We have heard through our network that the Serbs buried 50 in the village of Prekaz today, women and children among them. The Serbs claim there were no relatives to claim the bodies. Do you know anything about it?"

The saga of the corpses is grim testament to the unfolding violence in Kosovo. A surge of terrorist attacks against Serb police there provoked President Slobodan Milosevic in Belgrade to order his special security paramilitary police to flush out UCK gunmen. Several villages were destroyed, their inhabitants killed or forced to flee to nearby woods. Within a week, the Serb forces had encircled a huge area in Drenica, trapping at least 10,000 Albanian villagers, holding them hostage as surely as the Serbs had held the Muslims in the enclaves of Gorazde, Zepa and Srebrenica, four years ago in Bosnia.

Point and counterpoint: volunteers of the Kosovo LIberation Army (*left*), armed from Albania. They fear the fury of the Serbian killing machine, headed by Arkan (*right*), who introduced the world to 'ethnic cleansing'

The struggle for Kosovo is a war of tangled feuds and long memories

This latest struggle for Kosovo is a war of tangled feuds and long memories that links the Albanians in Kosovo to their brethren over the border. The Serbs fought here when the fledgling state of Albania was about to be born in 1912. Pointing at the nearby village of Mirani by the border, Ali the taxi driver remarked: "That whole village was massacred by Serbs in 1913; women and children had their throats cut." In this part of the Balkans such history is not past. It is yesterday.

Few people in Kukes believe a crisis can be averted, despite diplomatic gestures: EU calls for an international conference and the appointment of Felipe González as EU special envoy. Protests in Pristina brought 50,000 people on to the streets. "The minister of defence came up here, looked and went away," said a soldier. After the visit, Albania's government announced that army units were being moved to the border and that the frontier division would be reinforced. But in his peeling, concrete headquarters, Brigadier-General Lama Kudusi, commander of the Kukes Division responsible for the whole Albania-Kosovo frontier, seemed more interested in watching the Roseanne Barr show on a flickering television than tackling an imminent crisis.

"There is no conflict or problem here," he said, rolling a cigarette. "So far we have received no reinforcements. The troops are carrying out their scheduled deployment. We have as many troops as we need to carry out our duty." Border problems were, he said, "a police responsibility".

His crumbling barracks reflect a dilapidated army. Last year his headquarters suffered serious damage in the wave of rioting and looting of military and police arsenals after the collapse of fraudulent pyramid investment schemes. Conscripts fled their barracks, leaving in tatters an army that once boasted 45,000 men, including 20,000 conscripts. The army is believed now to total fewer than 20,000 men, poorly equipped and poorly paid. Their tanks are a few hundred Second World War Russian T-59 and T-34s. The Kukes Division numbers only a few hundred, instead of the 5,000 it should be. In the barracks, jeeps rest on their axles and a few pieces of light artillery are swathed in tarpaulins. The air force, which had old MiG 15 and MiG 17 fighters, is now virtually non-existent.

Despite the heavy nationalist rhetoric of the supporters of former president Sali Berisha's Democratic Party, most in Tirana do not want to fight for Kosovo. "After all the trouble of last year we are really disillusioned," said Costi, a student. "No one wants more violence and fighting, whatever the politicians say."

The looting of the barracks last March brought a stark change to the economy of Kukes – and influenced events in Kosovo itself. The haemorrhage of arms from Albania provided Kosovo's nationalists with a cheap supply of automatic weapons. More than a million Kalashnikov assault rifles, plus small arms and ammunition, were "liberated" by rioters in the troubles. From Albania they filtered into neighbouring Macedonia and then to Kosovo.

"These are difficult frontiers to cross, mostly high mountain," explained a western intelligence source. "You can get only a few weapons over at a time, often just a single rifle." The arms possessed by the guerrillas are mainly small arms. "The Kosovans have nowhere near the range of weapons needed to fight an all-out guerrilla war," he added.

In the Gjalica, the only hotel in Kukes, men in smart new leather jackets, profits of new lines in crossborder trade no doubt, discuss the bloodshed in Kosovo over plum brandy and steak. Few think the government in Tirana or the international community can do much to intervene. Only Isa Halili, 63, a retired history teacher from the school, says he is optimistic.

"It is time to reunite the Albanians of Kosovo with their brothers in Albania and Macedonia," he chants. Most western diplomats in Tirana think this would be the trigger for a new Balkan war – a conflict more destructive than the wars in Bosnia and Croatia.

"We are convinced that the western countries of the international Contact Group are our natural allies. And Russia should understand reality and take the historic decision to uphold the rights of the Albanian people and support the union of our nation," says the ex-teacher. "We hope and believe Europe will correct itself and allow the people of Albania to unite. No refugees will come here from Kosovo. We know these people; they will never abandon their villages and land."

In the main square of Kukes an austere monument recalls a war of what should be a frozen past. The inscription salutes "the brave people of this land who fought for integrity of home and liberty against the chauvinist Serb 1912 - 1913". Today in the icy winds of Kosovo's mountain border it reads like a prophecy of a new Balkan conflict foretold. ■

DRENICA

The man who scares the men in masks

Livio Senigalliesi
QUIREZ, KOSOVO

IN THE VILLAGE of Quirez, deep in the Kosovo hills, a man in a black balaclava, the international terrorist's trademark, poses with his Kalashnikov, a patch with the two-headed eagle of Albania sewn on his sleeve.

He talks bravado and admits membership of the shadowy organisation that calls itself *Ushinia Clirimatare e Kosoves* (UCK), the Kosovo Liberation Army, but denies he is a terrorist: " The Serbian police call us terrorists but UCK is a people's army. Here in Kosovo, isolated guerrilla groups do not exist. UCK was born as a spontaneous movement representing village people. How many are we today? A lot. Between supporters and sympathisers the number is growing daily. There are at least a million rifles already."

But one man in particular scares them: Arkan, the infamous Serb paramilitary warlord whose ruthless squads were responsible for the worst excesses of "ethnic cleansing" in Bosnia."

The UCK claims he is already in the region: "Arkan even commands police detachments, the very same ones that commit massacres in the villages." There has been no confirmation from Belgrade or western observers that Arkan is involved in the Kosovo operation but with the crisis escalating and reports of major Serb preparations for a new offensive against the ethnic Albanians, the UCK's claim may be more than just scare-mongering.

Armoured columns have been spotted moving into the province from the neighbouring Serbian province of Sanjak to the north. The Drenica region, where Quirez is situated, is bracing itself for the onslaught of a hurricane of horror. Thousands of ethnic Albanians have fled, many as far as neighbouring Macedonia, seen by the man in the mask as s source of succour: "UCK is a local movement, at the moment. There is no such thing as a movement like ours in Macedonia, but the Macedonian Albanians are ready to help us."

The comments from the UCK man effectively confirm the Serb strategy of seeing the villages of the Drenica region themselves as the enemy. "You want to know who is KLA?" asked a local man watching as the bodies of 46 slaughtered Albanians were dug up from where they had been dumped by the Serbs in order for them to have proper reburials. "Look around you, all of us are KLA."

Most ethnic Albanians say they are waiting only for a gun and leaders to join in an armed struggle. That is being used by Belgrade as an excuse for atrocities. Two prominent families, the Jasheri and Ahmiti, have lost 23 and 10 family members respectively, with local sources saying that they did have ties with the guerrillas. Serbian forces in the embattled province of Kosovo continued to hold a ring of steel around a pocket of several villages. But they have produced no dead guerrillas as proof of the success of their offensive and their continuing operations are evidence that they, too, believe the armed men have so far escaped.

All roads are blocked by blue-painted armoured cars and troops from the Serbian interior ministry, with snipers and bunkers placed along hilltops leading into the rugged area. Inside the pocket the atmosphere is full of fear. In the village of Llausa the streets are empty; many people have fled into the hills despite recent snowfalls and freezing temperatures.

"We have no food, no medicines and no guns. There are no terrorists here," said one frightened man walking along the village's main street. "Most people are gone, up into the hills, I don't know how they will survive."

Amid the deserted houses cows roam loose in the fields and dogs howl by abandoned farms. The Serbs seem undecided about what to do: whether to storm this pocket, as they have in the villages of Prekaz and Srbica farther east, or to pull back. For the moment, Serb snipers provide a taste of things to come, shooting into the villages, spreading tremors of fear. "We have had six killed so far," said the man, too scared to give his name. "Among them was a woman and her two children. We buried them there in the cemetery by the mosque." He pointed to three piles of freshly dug earth.

What happens next is unclear but dialogue is unlikely to figure. The Albanians' original demand for restoration of autonomy has now risen to full independence for the region. The Serbs, for whom Kosovo is sacred soil, home to the headquarters of the Serb Orthodox Church at Pec and the bones of St Lazar at Pristina, say it must remain inside Serbia. The arrival of a Serb delegation last week, ostensibly to negotiate, was ignored by the Albanians, who insisted it was a public relations gesture for the outside world.

Privately, some ethnic Albanian leaders are hoping to benefit from looming economic crisis. With less than $200 million in foreign reserves, the Yugoslav president, Slobodan Milosevic, is unlikely to find the money to pay the wave of public sector strikes threatened for this spring, while the West continues to deny him funding or loans until he makes democratic reforms.

One way out being pushed by American diplomats is the honouring of an outline education agreement signed in 1996 which committed the Serbs to providing schools and the Albanians to attending them. That would ease tension without the Serbs surrendering sovereignty or the Albanians giving up their long-term aim for independence. Diplomats hope it would provide a "breathing period".

But if Arkan has already arrived, as the UCK claim, a lesson of a different sort will have to be learned.

WOLFGANG RATTAY

GERMANY

With friends like these, who needs Helmut?

Tony Paterson
BERLIN

IT WASN'T much of a honeymoon for Gerhard Schröder. His Cohiba-smoking, pin-stripe-suit image and apparent business acumen were among the main reasons why Germany's opposition Social Democrats chose him as their candidate to run against Chancellor Helmut Kohl in the 27 September general election.

But last week German big business went and spoiled it all by stating categorically that they wouldn't touch the economic policies of Schröder's party with a barge pole and that they much preferred what Kohl's ruling coalition offered.

Meanwhile the German Greens, Schröder's potential partners in the red-green coalition currently favoured in opinion polls, began to look like a broken reed after failing to moderate their policies. A potential street conflict over nuclear waste disposal risks painting them in an even more extremist light.

The revolt by business leaders was a notable reversion to caution and consensus. "Policies that seek to reverse what has already been achieved would only exacerbate structural problems, put a brake on investment and wipe out jobs," was the damning indictment of Hans-Olaf Henkel, the leader of the German Association of Industry (BDI) after joining other bosses for a meeting with Kohl in Munich.

Not only did they fully support Kohl in his efforts to reform Germany's tax system but, in an extraordinary effort to ingratiate themselves with the Chancellor, they also claimed that his commitment, since retracted, to cut Germany's five million unemployed by providing 500,000 new jobs before the election was a realistic target after all. Even the government is not prepared to bend the truth that much.

It amounts to a complete volte-face by German industry. Only three months ago business grandees like Henkel were suggesting that there was virtually no difference between Kohl's economic strategy and that proposed by Schröder. Both were written off as being inadequate to tackle mass unemployment and high unit labour costs which deter investment.

But since then Schröder has become Kohl's challenger and, more significantly, he has given his initial blessing to an SPD economic programme which has more to do with the state interventionism of the party's left-wing leader, Oskar Lafontaine, than anything that remotely hints at deregulation. The SPD programme includes proposals to reinstate full sick pay for workers, plans for a catch-all minimum tax, higher top tax rates, penalties for firms that refuse to employ apprentices and substantial rises in energy tax. Business has taken one look at the economic programme the allegedly pro-business SPD candidate might offer and run for cover.

The industry lobby has concluded that its interests would be best served under the lesser evil of Kohl, however sclerotic his policies.

"Schröder is certainly not like the reform-minded Tony Blair, with whom he always compares himself. He is more like Helmut Kohl's grandson," commented one leading business representative .

There are other reasons for their sudden disenchantment with the idea of a Schröder-led government. The SPD man has baulked at the idea of forming a grand alliance with Kohl's Christian Democrats (CDU) and holds to the red-green option as the most likely scenario after an SPD victory.

But instead of espousing policies that would demonstrate their readiness for government, the Greens have suddenly relapsed into their old protest party role. At a congress in Magdeburg last week the party committed itself to a manifesto that seeks to withdraw German troops from Bosnia, expresses doubt about Germany's continued membership of Nato and, worst of all for German business, aims to raise petrol prices to a staggering DM5 per litre over the next 10 years.

It was a bitter defeat for the pragmatist, or "Realo", wing of the Greens headed by Joschka Fischer, although the Realos insist that in government they would never attempt to implement the manifesto wholesale. "Having seen the Greens' manifesto, I am convinced that the party has an awful lot to learn," was the relatively mild response of Wendelin Weideking, chairman of Porsche.

Trouble ahead: nuclear protests could mean a repeat of the violence last year at Gorleben

'Schröder is more like Helmut Kohl's grandson than he is Tony Blair'

Disenchantment with red-green politics will doubtless grow in the coming weeks. Tens of thousands of Green-minded protesters will descend on the town of Ahaus in North Rhine-Westphalia at the end of March in an attempt to halt a controversial nuclear waste rail convoy heading for an atomic storage depot near the town.

Comparisons are already being drawn with Gorleben, another nuclear storage site and the focus of massive and violent anti-nuclear protests over the past two years. Inevitably the Ahaus protesters will be met by a large detachment of police; more violence is predicted.

North Rhine-Westphalia has a red-green government that is regarded as a potential model for Bonn. Worse still, the police president is a Green. Anti-nuclear riots in Germany's model red-green state would not be the best advertisement for Schröder's preferred political constellation.

"Actually most of us are betting on a grand coalition government this autumn," remarked one German business leader. Given the alternative, perhaps that is not surprising. ■

EUROPEAN UNION

Visions of the future founder in reality zone

Tim King and Walter Ellis
BRUSSELS & LONDON

TONY BLAIR beamed at his audience, many of them hard-bitten journalists from eastern Europe. He beamed at Jacques Santer, who beamed back. The first meeting of the 26-nation European Conference on enlargement in London had, said the British prime minister, been "a truly historic day, an extraordinary symbol of how a divided Europe can come together for a common purpose".

The European Commission president nodded enthusiastically. The journalists, who had read the press release talking about the requirement to tackle organised crime, improve environmental protection and equip people with "the skills needed to exploit 21st-century opportunities", shuffled their feet. The first two questions were about the peace talks in Northern Ireland.

Few topics in the EU evoke as much cynicism as enlargement. Blair, the current president of the Union, is in favour, as were John Major and Margaret Thatcher before him. All three wish to see a broader, shallower Europe develop via the incorporation of the nations of the former eastern bloc. Germany, for its own reasons, is equally in favour so long as it does not have to foot the bill. France shares the German line. Spain, Portugal and Italy make it brutally plain, meanwhile, that whatever money is going by way of regional aid should continue to travel south, not east.

The most obvious spectre at the London feast was Turkey, which had boycotted the conference in protest at its rejection as a candidate for EU membership (*see below*). The Turks, said Blair, were "a great people, a great civilisation. The door remains open."

In the event the only progress made at the conference concerned Cyprus, now expected to open accession negotiations at the end of this month with a team of representatives from the divided island's Greek and Turkish communities. Athens had threatened to block all progress on enlargement unless the Cyprus problem was resolved; the effect was to concentrate minds wonderfully.

Back in Brussels, the realities of enlargement are painfully obvious. Rembert Behrendt, secretary of state in the German regional government of Saxony-Anhalt, represents one of the poorest EU regions. This week, as the European Commission unveils its spending plans for the years 2000-2006, Behrendt's interest is intense. Regions like his have most to fear from the budget reforms, including less subsidy for existing EU members, that must inevitably precede enlargement.

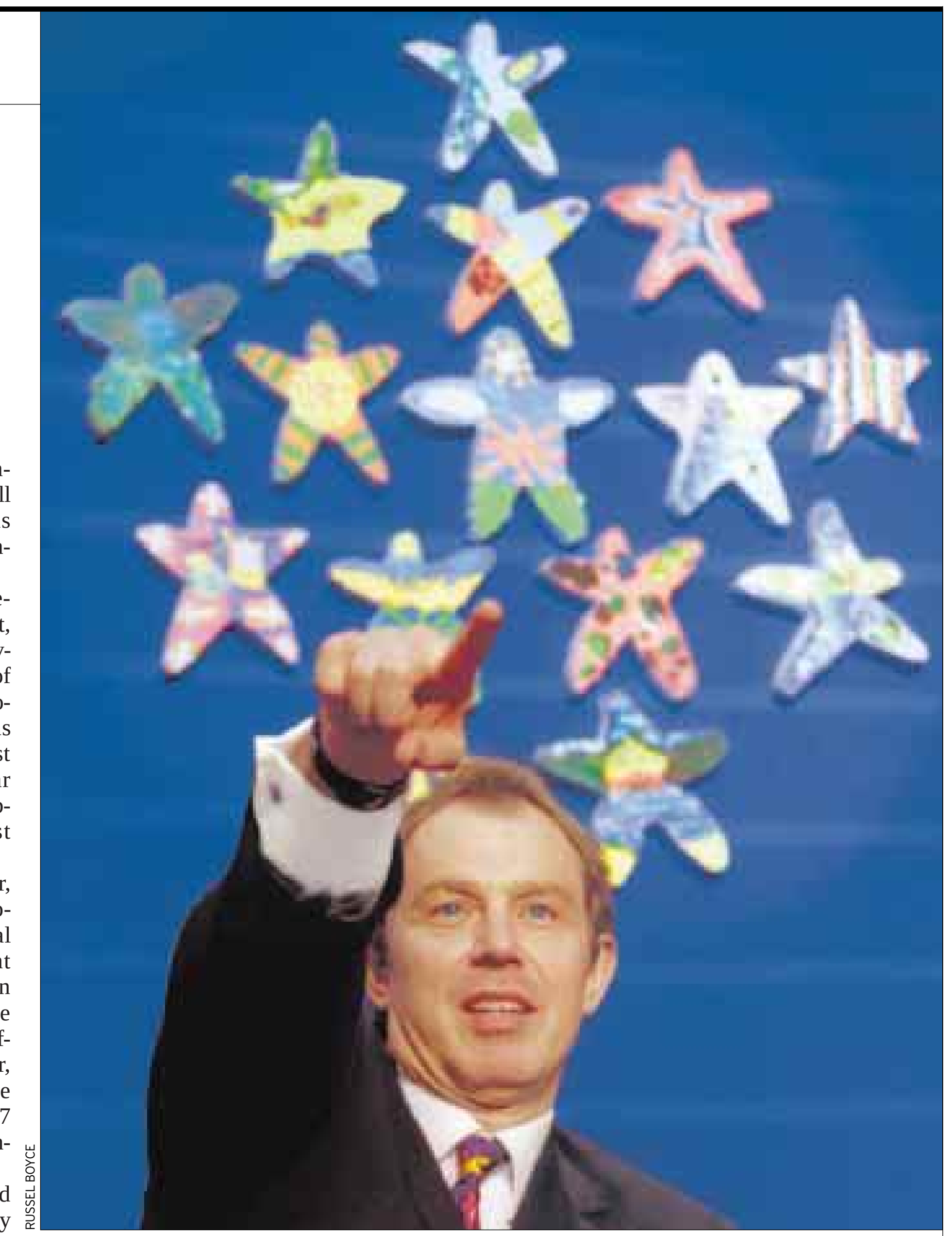
As part of the discussions, Franz Fischler, the farms commissioner, will table his proposals to reform the Common Agricultural Policy (CAP), which accounts for 45 per cent of the current Brussels budget and has been proof against change for as long as anyone can remember. His colleague, Monika Wulf-Mathies, the regional affairs commissioner, will introduce her plans for regional aid – the so-called structural funds – which takes up 37 per cent of the budget and must be substantially redirected if enlargement is to work.

Saxony-Anhalt's near neighbours, Poland and the Czech Republic, are among the early candidates for admission, along with Hungary, Slovenia and Estonia. CAP reform (that is, cuts in agricultural subsidies from Brussels) will impinge directly on the arable and dairy farmers of Germany's eastern Länder, many of whom already make a precarious living. It is the same with the structural funds. Under current arrangements, covering the period 1994-1999, Saxony-Anhalt will receive nearly DM5 billion ($2.6bn) in regional aid. Without support on this scale, economic development would suffer.

Draft plans for 2000-2006 envisage that spending on the existing 15 member states should dip sharply after 2002. That is the only way the EU can encompass enlargement without a huge increase in spending. Yet significant savings can be achieved only by cutting back the two biggest elements: the CAP and regional aid.

Behrendt is stoical; in the cause of the greater good he does not want to see accession negotiations dragged out. Enlargement, he says, is the best way of influencing democratic systems still in their infancy and thus assuring the growth of a huge economic opportunity. "The sooner we get these economies involved, the quicker we have new markets to develop for ourselves." Such optimism is unlikely to be shared by the voters. Saxony-Anhalt may continue to benefit from regional aid – though at what level remains to be decided. Farmers, however, could feel the pinch from day one of enlargement. Resentment seems inevitable. Already, in the vineyards and olive groves of Spain, Portugal and Italy, anger is building and has bred inflexible government attitudes.

The European Conference will need much more than smiles and rhetoric if it is to make progress against such a background. ■



RUSSEL BOYCE

Stars in his eyes: Tony Blair spots enlargement on the horizon at the EU London conference

TURKEY

Neglected suitor knocking on Europe's door cries foul

IT IS sometimes a good idea for Europe's panjandrums to walk, rather than ride, around the streets of their Euro towns. Were they to walk around Strasbourg, or the London which hosted Tony Blair's European conference, they would see more beggars and people sleeping in the streets than in Ankara or Istanbul.

The biggest country on Europe's doorstep, Turkey is not on the list of acceptable applicants to join the European Union. Turkey was told in Luxembourg that the time was not ripe. A Belgian at the end of a Christian Democratic dinner let slip that Muslims were not wanted in a Christian Europe. Turkey's prime minister, Mesut Yilmaz, blamed the Germans. They were, he said, intent on Hitlerian *Lebensraum*: an expansion of Germany to cover central and eastern Europe.

In spite, the Turks turned down an invitation to attend the enlargement conference and their relations with Germany have worsened. Ministerial visits have been cancelled and trade boycotts threatened. Gloomy press columnists shake their heads and wonder where Turkey should go next.

Turkey as part of Europe may sound odd but Turks can justly claim that theirs is the only case of a Third World country becoming a First World one. An economy that was one-third the size of Sweden's a few years ago is now larger than that country's; it is an importer and exporter of respectable size, a leader in textiles and has become advanced enough in aircraft production for some of its operations to be have been farmed out to the former Czechoslovakia.

In 1963 Turkey was a valued member of Nato, an important ally in an impossibly difficult area with enemies on all sides. At that time Europe was closely identified with Nato and the Turks were told that they, too, might belong in a European community.

The Turkish government has some right to feel aggrieved that it is being placed outside the queue of former enemies now joining Europe.

The Europeans have mismanaged things. The wording of their declaration at Luxembourg was largely put together by nationalist-minded Greeks. The German government has been given the blame for this in the Turkish press but the small print in the declaration is actually pro-Turkish.

Yilmaz is not being fair. It is right for the Germans to talk about immediate enlargement with small neighbouring countries that now need immediate free trade. Germany is not an enemy of Turkey. There is a vast amount of German trade and investment in Turkey and the Germans have also been doing their best with their own huge Turkish population.

That Turkey has not been placed on the enlargement list is quite needlessly offensive to people who have tried very hard, with remarkable success, to "westernise" themselves. In the beginning, the Common Market was not just about the market: it also had an educative function, first in Italy, and then, in Spain and Greece, as these countries moved away from authoritarian government towards democracy. Turkey is at exactly the same stage.

It would have been simple to add Turkey to the list of candidates and then to find difficulties with the details, which are many: notably an enormous rural population, which would quickly bankrupt the Common Agricultural Policy. Meanwhile other measures might be taken, especially a freeing of trade and encouragement for Turkish students to attend universities on the same terms as European students. Visas could be given in less humiliating and time-consuming ways

In the old days, educated Turks would have been delighted to join Europe because it might save them from their own past. The younger generation is not nearly as dismissive and can take pride in what the country has managed to achieve in the past generation or two. On present trends Europe may find that Turkey's is the only dynamic economy around and will be rather desperate to rope it in.

NORMAN STONE, ANKARA

FRANCE

How wine summit began red wave

REA/KATZ

Rough vintage: the Russians went to Beaune to join Europe's organised crime club

Roger Faligot
PARIS

IT WAS at the so-called Beaune Summit in 1994 that Russia finally joined the club. Nearby, in the heart of France's Burgundy region, the most exquisite and expensive wines were being sold at auction, as happens every year in the third week of November. On 20 November the reds were selling for an average of Ffr20,000 ($3,200). One bottle of Montrachet went for Ffr67,000. Down the road at a local hotel, the Reds – the Russian mafia, the Organisatsya – were inducted into the club of international organised crime.

According to a confidential intelligence report, a dozen leaders of organised crime groups worldwide discussed a division of the spoils and partnership in western Europe involving art smuggling, prostitution, real estate and drug trafficking. They included representatives of the Gambino clan from New York, the Colombian cocaine cartel from Medellin, the Japanese Yakuza and the Hong Kong-based Sun Yee On triad. The Organisatsya were represented by Vyacheslav Ivankov, known as The Jap because of his far-eastern appearance.

It was the first time French intelligence had been able to monitor the presence of such senior Russian gangsters on French soil. Two days later a Georgian film producer, Sergei Mazharov, was gunned down in the avenue Marceau in central Paris. He had been branded a traitor by the Organisatsya.

A murder trial in Versailles may help reveal how far the Russian mafia barons have penetrated into France. But the defendant, Alexi Polevoi, now aged 19, was a juvenile at the time when he is alleged to have shot six people to death, including his father Yevgeny and stepmother Ludmila. Under French law he must be tried by a juvenile court behind closed doors. Presiding judge Suzanne Muller turned down a request to open the trial to the public.

Alexi initially blamed the murders, in a house in Louveciennes near Paris on a Sunday night in February 1995, on intruders, but later confessed to the crime. The police, eager to emphasise the boy's difficult relationship with his father, skated over possible organised crime links.

Yevgeni Polevoi, 42, was a millionaire businessman with high-level connections in Russia. He was sometimes generous to Alexi, but also drank too much and was regularly violent. He frequently blamed his son for spending more time with his Russian girlfriend than studying. Alexi had been enrolled in private schools, and given Ffr10,000 a month in pocket money and his own flat and credit card. A few months later his mother Raisa, a Moscow librarian who had come to France to support her son, claimed Alexi was innocent. She said Alexi had told her that a "man dressed in black" had carried out the killings and had forced Alexi to fire bullets into his dead father's body, under the threat that his sister, his girlfriend or his mother would meet a similar fate.

Investigations by a French magazine reporter, Catherine Erhel, who has published a book on the case, have revealed a complex web of links between Polevoi's hugely profitable Interprom wood and cotton import and export business, jointly run with a former KGB colonel, and mafia-related activities in gas interests in Turkmenistan and elsewhere. Eleven months after the Louveciennes murders, on 8 December 1996, Yevgeni Polevoi's brother Dimitri was murdered in Vitebsk, Belarus. He had taken over his brother's firm and, according to local police reports, was about to reveal evidence of illegal foreign bank accounts and other questionable dealings.

Whatever the verdict in the Alexi trial, many questions will remain unanswered. French police have been noticeably reluctant to investigate the background to the case and have been criticised for taking Alexi's confession at face value in order to close the file.

Nonetheless it is clear that French authorities are monitoring the growing activities of the Russian community. "France has become one of the principal contact points for visiting Russian godfathers, along with the United States, Germany and Israel," said Viktor Bulgakov, former head of the anti-organised crime brigade in Moscow.

There have been few arrests but in March 1995 French police detained a Kiev-born businessman with known criminal links. He was a close ally of Mazharov, who had been murdered six months earlier, and was alleged to be involved in stealing luxury cars and in high-class prostitution. He has yet to be brought to trial.

After the Beaune meeting, an estimated 200 Russian gangs consolidated their position in continental Europe. Some 150,000 visas have nonetheless been issued by France to Russian citizens, many of them settling on the Côte d'Azur where they invested heavily in land and property. Some are suspected of fronting "screen" companies to launder drug money.

By the end of 1995, several prostitution networks had appeared. Hundreds of women from the former Soviet Union are now resident in France, some prominent around the Pigalle red-light district in Paris, others working for high-class escort agencies. Porn shops have been flooded with adult videos from the former USSR and Hungary.

The main police organisations in France have now set up anti-Russian branches. The French counter-intelligence service DST had a head start because it simply had to cut its former anti-KGB desk and allocate personnel to the Russian gangs section. The security service, including financial analysts from the customs and excise *Tracfin* service, have monitored the growth of Russian-inspired operations in France. Recently, the Banque de France identified Ffr11 billion in transit money from Russia laundered in the country.

That is bad enough but the real extent of Russian mafia infiltration on the dark edges of French life is much worse and may now never be rooted out. ■

DENMARK

Survivor Rasmussen aims for Brussels referend um approval

Birna Helgadottir
COPENHAGEN

ON THE morning after the Danish general election, one commentator was feeling pleased with himself. A full 10 days before voting day on 11 March, Hans Jørgen Nielsen, professor of politics at the University of Copenhagen, told novelty-hungry journalists exactly what they did not want to hear. "This is a boring election. Nothing will change," he said. This was at a time when polls were showing a decisive lead for the centre-right opposition and Uffe Ellemann-Jensen, the Liberal leader, was being fêted as prime minister in waiting.

But, as voters sometimes will, the Danes confounded the pollsters. Once inside the booths many plumped for the familiar and voted Social Democrat, keeping in power the centre-left coalition that has led the country since 1993.

LARS K MIKKELSEN

Chicken out: Uffe Ellemann-Jensen, leader of the Liberals, saw his election hopes dashed

Prime Minister Poul Nyrup Rasmussen was confident enough when he called the election last month not to resign from his post. As the final results from Denmark's semi-autonomous territories that clinched his photo-finish victory came in on the morning of 12 March, he went to the royal palace in Copenhagen to inform Queen Margrethe II that he would continue as head of government. The final tally was 90 to the centre-left, 89 to the centre-right. The government's one-seat majority hung on, winning two out of the four seats allocated to Greenland and the Faroe Islands.

The loss of one of their two Faroese seats – by a mere 176 votes – must have been particularly sore for Ellemann-Jensen and the Liberals. A few weeks before the election the government had been embroiled in a scandal over the sale of a Faroese bank and the Liberal leader had posed as champion of the exploited dependencies, hotly demanding the indictment of premier and the finance minister.

Now the two chief election rivals are vowing to bury their political differences for the greater battle ahead: getting the recalcitrant Danes to accept the Treaty of Amsterdam. According to the prime minister: "The most important task of all is now to secure a Yes vote in the referendum on 28 May." Ellemann-Jensen, for his part, said that the referendum was much more important than the national election. Their efforts will be watched with concern by other European leaders who have not forgotten the turmoil which followed the Danes' rejection of Maastricht in 1992.

According to received wisdom, a positive outcome is more likely with a Social Democrat-led government. As far as Ellemann-Jensen is concerned, the European Union is the best thing that ever happened to Europe, while Rasmussen likes to convey a more considered approach. The Danish electorate, at best cautious in their attitude to Brussels, would be more likely to trust a fellow-sceptic.

The markets certainly seem to fall in with this theory, as Danish bond prices rose in response to the election result. The bullish mood was heightened by an announcement that the tight fiscal policy of the Social Democrats' eminence grise, the finance minister, Mogens Lykketoft, is set to continue.

But it is not all rosy in the garden. Half a million blue-collar workers are threatening to strike from 18 March if, as expected, wage negotiations break down. Economists have warned that historically low unemployment levels could make it difficult to hold wage increases below the four per cent wanted by employers and government.

Economic difficulties would aid the far right. Two groups, the Progress Party and the People's Party, who campaigned on an anti-Europe, anti-immigrant platform, now have a combined total of 17 seats in parliament, the same as the mainstream Conservatives, whose vote plummeted by a third.

Unlike the Liberal leader, who paid lip service to clamping down on asylum-seekers, Rasmussen announced immediately after the election that Denmark's open-door policies would remain. But the backing the right-wing parties received from nearly a 10th of the electorate indicates a problem that will not go away.

The Danes seem more prepared, however, to live with their reservations about the European Union. Last week a Gallup poll showed the Yes camp at 48 per cent, up from 45 per cent in March. But, as the general election results showed, polls are not infallible. ■

Global high-flyers without a home to go to PAGE 34

AIRLINES ■ Low-cost operators are pushing Europe's flag carriers to the brink

EUROPE'S DOGFIGHT

Doug Cameron and Lois Jones

A DECADE after low-cost airlines such as Southwest rewrote the rules of the game in North America, the skies are darkening with jets as battle commences to topple Europe's airline behemoths.

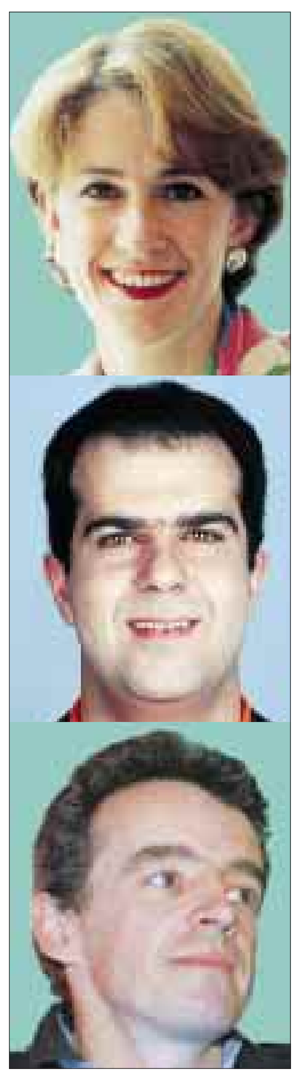
The battle lines have been clearly drawn between the breed of independent no-frill airlines such as easyJet and Ryanair, which offer you just a seat from A to B, and the sagging major carriers which still struggle to throw rolls and coffee at passengers during short trips around Europe.

Salomon Smith Barney forecasts that the low-cost market in Europe will quadruple over the next five years, accounting for 13.5 per cent of total traffic – half the level in America – and five per cent of sales. The sector has already doubled since 1996 to carry eight million passengers last year and reach sales of $700 million.

Dublin-based Ryanair has just announced a $2 billion order to double the size of its fleet over the next five years. It is launching a host of new services to the continent on the back of a share price which has soared by 50 per cent since the start of the year. UK-based easyJet has opened a new hub in Liverpool and is examining plans for a base in Amsterdam to export its unique business strategy.

The majors are fighting back by ditching the in-flight menu and creating their own copycat subsidiaries to capture the new class of traveller prepared to sacrifice service for cheap tickets. Alitalia has already set up a low-cost subsidiary, Team Alitalia, to stem the threat from Air One, a Rome-based carrier. Air One has signed a defensive agreement with Swissair to give it added clout against the threat of Alitalia. Iberia is leasing aircraft and staff from Air Europe, a Palma-based independent, to set up its own cheap operation, and Lufthansa plans a true low-cost operation of its own.

The executives causing this revolution among Europe's airlines form a colourful cockpit crew. Take Michael O'Leary, the baseball-capped chief executive of Ryanair and the rising star of the industry. He is relaxed about facing the challenge of Go, the British Airways-backed subsidiary which plans to enter the low-cost market in May.



Charm offensive: Cassani (*top*), Haji-Iannou and O'Leary are at each other's throats, despite the PR gloss

"BA has no idea how to run a low-fare airline," he says between intermittent outbursts of swearing. "I know more about flying on Concorde than [BA chief executive] Bob Ayling does about running a low-cost airline and I've never flown on Concorde." You know he is holding back.

Round one to the independents but there is more to come. It was a scene to make all bar a boxing promoter blush as the two executives who may hold the key to the future of the European airline industry met for the first time. Stelios Haji-Iannou, the ebullient Greek chairman of easyJet, the low-cost pretender, locked horns with Barbara Cassani, the American executive charged by BA with launching the imaginatively named Go.

Haji-Iannou is normally a public relations dream: young, dynamic and always ready to take on and use the media. But he was strangely subdued as he joined the cream of Europe's airline industry in London last week to hear a speech by Karel Van Miert, the EU competition commissioner. Reflecting on easyJet's rapid expansion and innovative marketing, all Haji-Iannou could manage was a barbed comment aimed at Cassani: "Everything's fine apart from that woman over there."

Cassani has retreated into the cotton wool confines of the BA corporate machine after a brief charm offensive last autumn designed to put the regulators off the scent. She has quickly put together a team and secured eight aircraft to launch services but declines to divulge any more details. "I haven't even told my mother where Go will be operating to," she said last week.

Cassani and Haji-Iannou finally accepted offers of an introduction; Van Miert wisely steered clear of becoming a ringmaster. But Brussels isn't going to stay out of this battle and faces tough choices between encouraging new competitors without hurting the established airlines so much that the politics become unmanageable (*see story, page 22*)

ILLUSTRATION MICK BROWNFIELD

EasyJet, Ryanair and Air One also have to compete with other newcomers who have adopted a full service strategy – meals included – such as Debonair in the UK and Virgin Express in Brussels. The major airlines have reacted by trying to protect their turf by buying up the opposition, launching their own low-cost subsidiaries and, allegedly, driving the upstarts out of business.

Ryanair's Michael O'Leary is doing his best to steer clear of the fray with BA although he stands to lose more than easyJet after turning his airline from a loss-making second-string player into Europe's own Southwest, the model of low-cost operations in America. After expanding from the UK-Ireland market its largest hub is at London's Stansted airport, soon to be home to Go. EasyJet and Debonair both fly from nearby Luton airport.

O'Leary has good reason to be cheerful. Ryanair keeps it simple, flying short-haul routes from Ireland to the UK, within the UK and to the continent with a fleet of 20 Boeing 737-200s. Costs are trimmed to the bone; the airline operates from cheap secondary airports which avoid congestion, and there are no in-flight meals.

The strategy involves aggressive growth targets which have seen the airline double its sales in three years and earn an operating margin of 16 per cent – three times the European average. BA barely breaks even in Europe and easyJet lost £5m ($8.25m) in 1997 on sales of £15m.

Ryanair has become an investors' dream since its Ir£105.7m ($143m) flotation last May in Dublin and New York. Its share price has blossomed in heavy trading since the start of the year, climbing 61 per cent in Dublin and 48 per cent in New York (*see charts, page 22*). "We are the airline that is clearly sustainable," says O'Leary. "Until you are making money, then you can't really say that you're sustainable." The airline made a net profit of Ir£12.7m in the year to 31 March 1997. This is forecast to soar to Ir£30.5m in 1997/98 on sales of Ir£186.1m, a rise of 37 per cent.

'Launching Go is like throwing a kid in the ring with Mike Tyson'

O'Leary is making a push to become the UK's second-largest airline after BA, overtaking sleepy British Midland with a $2bn order for up to 45 new Boeing 737-800s to replace his ageing fleet. The aircraft – 25 firm orders plus 20 options – start arriving next year to launch at least five new routes a year. Six new destinations are planned for this summer from Stansted: Lyon, Toulouse, Malmo, Pisa, Rimini and Venice.

The Ryanair strategy does not contemplate secret assignations with Barbara Cassani's mother. It plans to outwit BA on price and let it stew. The largest threat to Go, aside from the attentions of Van Miert, is that it will simply take passengers from BA's mainline services.

"Look at Ryanair on London-Stockholm," says O'Leary. "Our midweek return fare is £99, while BA's is £500. BA screws you if you don't spend a Saturday night away. If Go were to start on that route, for example, it would have to pitch its pricing somewhere in the middle. Traffic would move from economy cabins to BA and SAS. There's no doubt that Go is going to cannibalise BA's economy passengers over London. I do think though that Go will be a disaster."

Round two to the independents, although low costs come at a price. Ryanair is in the midst of a damaging labour dispute in Dublin following management's refusal to recognise unions at the airline and has already had to cancel flights. Cassani plans to circumvent this problem by striking a single union deal for Go, although this will inevitably push up its labour costs.

The coolness of relations between Haji-Iannou and Cassani indicates that the 31-year-old Greek entrepreneur is having more sleepless nights than O'Leary. Haji-Iannou claims that Go is a replica of easyJet – although the latter is not unionised– backed and subsidised by BA's huge resources.

He argues that Go exists solely to drive him out of business. Last year BA withdrew an offer to buy easyJet, opting to bring Cassani back from America to launch its own version. The mutual distrust has simmered since then.

In February easyJet lodged a writ with the UK courts alleging that BA was abusing its dominant position in the UK and some European markets by supporting Go and refusing to promise to desist. The writ says BA is guaranteeing the leases on Go's initial eight aircraft, which are expected to start services to about a dozen European cities in France, Italy, Germany, Scandinavia and Spain.

The writ also alleges that BA is supporting other aspects of Go's business including maintenance, insurance, advertising and brand support, and accepting an inadequate return on the £50m it is investing in the project.

BA refuses to confirm or deny the charges, claiming refuge in commercial confidentiality. It maintains it is doing nothing unlawful and insists that Go will be a standalone operation. No trial date has been set.

"The only denial BA has made is that they are not doing anything unlawful," says Haji-Iannou. "They haven't denied that they are not cross-subsidising."

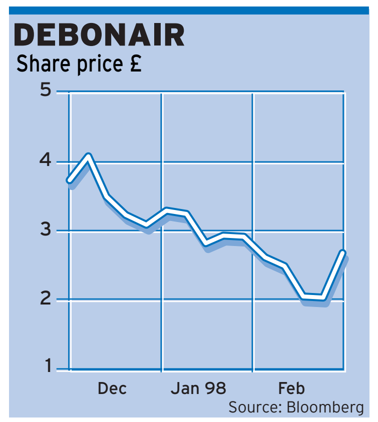
He has already asked the Commission to watch out for Go. "The Commission's position is that they say we have to wait until Go is launched. A breach has to occur for them to take action. But we've got an injunction to keep them honest. We are waiting for them to step out of line."

Franco Mancassola, the flamboyant chairman of Debonair, is less guarded about BA's motivation. "Go is like a 10-year old kid thrown into the ring with Mike Tyson," he says. "It should never be allowed to operate. It's a wolf in sheep's clothing, simply a way for BA to eliminate competi-

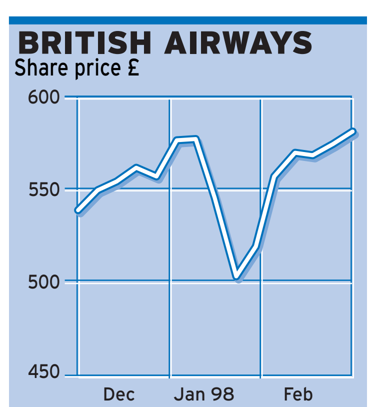
continued on page 22

Sales	**$251m (1997/98E)**
Net profit	**$40.5m**
Passengers	**5m**
Fleet:	**20 737-200s**
Routes	**26**

Sales	**$279.3m (1998E)**
Net profit	**$13.8m**
Passengers	**1.8m (scheduled)**
Fleet	**16**
Routes	**14 scheduled**



Sales	**$60m (1997)**
Net loss	**($8.2m)**
Passengers	**800,000**
Fleet	**8**
Routes	**9**



The European market accounts for around a third of BA's sales – $5.23bn in 1996/97 – but it earned an operating profit of just $9.9m from the market

continued from page 21

tion. BA can't do it themselves because they are too fat and they don't want to go to Weight Watchers."

This is from a man who fronts his own advertising campaigns, normally the preserve of used car salesmen and furniture magnates. Mancassola's appearances are actually funny, showing Debonair's [real] finance director crouched at his feet in tears, begging his boss not to offer passengers such low fares. The ad is a little close to the bone: Debonair's share price has fared poorly since its flotation last year as the airline has missed revenue and profit targets.

Debonair's main problem has been a fragmented route network which relies heavily on targeting business traffic to the continent. It has made innovative use of traffic rights available in the deregulated European airline industry flying, for example, from Luton to Munich and on to Barcelona. But with few frequencies, European travellers have stayed with established carriers.

While aggressive UK entrants have launched European services, domestic continental markets are virtually untouched by low-cost carriers. Road and rail offer stiffer competition to the airlines than in the UK, and it is the charter airline sector which will be under threat from the new entrants – charter airlines account for around 15 per cent of short-haul traffic.

With the exception of Rome's Air One, the other attempts to cut the cost of air travel in Europe are just tinkering. They lack the revolutionary features pioneered in the UK such as bypassing travel agents by offering ticketless travel bought straight from airlines over the telephone. Most of the operations planned by the major airlines simply aim to cut labour costs by paying staff in the subsidiaries less.

The most innovative attempt on the continent is Virgin Express, the Brussels-based carrier formed after the purchase of EuroBelgian Airlines in 1995 by the Virgin Group. The carrier's chief executive, Jonathan Ornstein, arrived from the cut-throat American airline business having headed up Continental Express, the regional arm of Continental Airlines. "Start-ups in Europe are showing a very similar pattern to what happened in the US," he says. "Some failed and some didn't. The biggest problem for the ones that failed was overexpansion and a flawed business plan."

Virgin Express has prospered on the back of a lucrative contract with Sabena, the loss-making Belgian flag carrier. Sabena pays Virgin to operate a dozen European routes from Brussels on its behalf. Virgin also makes a tidy living from the charter market which accounts for half its operations. Its share price has climbed by 50 per cent since its flotation last October in Brussels and New York, powered by the attraction of the Virgin brand to American investors.

The future of Europe's airlines lies in the hands of a disparate band of mavericks. However, this is one corporate battle that consumers can sit back and enjoy. The low-cost independents have already slashed fares in the UK and Ireland, and what Europe needs is more of the same.

Hold on to your free drinks while you still can. ■

POLITICS

EU aims to end US divide and rule tactics

Doug Cameron and Tim King

NEIL KINNOCK and Karel Van Miert have launched a pincer movement to reclaim the authority of the European Commission over the European Union's transport policy. The transport and competition commissioners claim that exclusive aviation deals between member states and America are hampering deregulation in Europe and allowing America to secure a stranglehold over the global aviation business.

The airline industry is hamstrung by the patchwork of individual bilateral deals between countries that still govern which airlines can fly where, how often and charging how much. The inevitable impact has been to stifle competition and push up prices for passengers.

Kinnock is desperate to secure a mandate for the Commission to negotiate the agreements governing airline services with third countries. He has pursued the goal since 1995 and, after being rejected again by the EU Council of Ministers last December, he wants to put pressure on the next Council meeting on 17 March to give him what he wants.

A small number of countries – notably America and Singapore – have pushed for years for a system of multilateral open-skies agreements. This would allow countries, or trading blocs such as the EU, to sign up to a single global agreement allowing any airline from any country to fly where they want without any price restrictions.

The Commission pushed for a mandate to negotiate on behalf of all member states as it believed it could bring more clout to the negotiating table in establishing this new framework, notably in dealings with the United States. "America was officially more in favour of negotiations with the Commission than with individual member states," says Jeff Shane, former American assistant secretary for transport and a partner at Washington law firm, Wilmer Cutler & Pickering. "It was a constant source of disappointment that they never secured the mandate."

America eventually grew tired of waiting for bloc negotiations and pursued individual countries for open-skies agreements. The deals give American airlines access to routes within the EU and, in some cases, lucrative entry to markets such as the Middle East and Africa. European airlines have not secured access to the internal American market in return but do have unrestricted access to the transatlantic market. Crucially, they have also been able to sign broad alliances with American partner airlines.

The American authorities used the carrot of authorising these deals – some of which have anti-trust immunity to allow co-operation in areas like pricing – in return for open-skies agreements. While the American authorities demanded other concessions in return for immunity – such as giving up some routes – Van Miert has decided in retrospect that they contravene EU rules and is threatening more concessions.

Van Miert has fired a warning shot across the bows of the eight member states which have signed open-skies deals with America over the past three years. America is also negotiating with France and Spain for similar pacts. He alleges that the deals distort competition in the EU. "America holds all the cards," says a senior Kinnock aide.

The eight member states – Austria, Belgium, Denmark, Finland, Germany, Luxembourg, Sweden and the UK – have two months to respond to the Commission or risk being taken to the European Court of Justice.

The Commission says it will, if forced, attempt to revoke the deals, which have a one-year cancellation clause. The Netherlands has escaped censure because its deal was signed three months before air transport liberalisation came into effect in 1993.

The countries cited by the Commission have, with the exception of the UK, all fallen for the American tactic of divide and rule. Lufthansa's alliance with United Airlines was contingent on a phased open-skies deal promoted vigorously by President Clinton and Chancellor Kohl. SAS, a member of the United-led Star alliance, brought Sweden and Denmark into the fold. Austrian Airlines and Sabena have a deal with Delta Air Lines while Finland and Luxembourg were flattered just to be asked.

Van Miert is examining all of these alliances as well as the proposed deal between British Airways and American Airlines. The UK is likely to be the most contemptuous of Kinnock's action. It has been protective of its own restrictive agreement with America, known as Bermuda 2 and signed back in 1978. It capitulated to a new deal only last year, stopping short of open skies but offering enough to ease the way for the planned BA alliance, which remains in the hands of regulators in Brussels and Washington after almost two years of talks.

Kinnock will be loath to put at risk the positive benefits of the alliances, which have strengthened European airlines' position in the global marketplace, improved services and cut fares. But clearly he believes it is a risk worth taking to revive the pursuit of a multilateral system.

One effect of his action is to make the Americans sit up and take notice. They have allowed more far-reaching reform of the transatlantic market to slip down their agenda after the open-skies deals while they have pursued new agreements with Japan and Latin American states. But Washington has already indicated that there could be a chance for a new breakthrough. ■

SCANFOTO

Laid back in anger: Kinnock has had enough of being ignored by EU states

SOFTWARE

REUTERGATE II

This time it's personal


INDUSTRIAL ESPIONAGE INQUIRY

REUTERGATE

Simon Reeve

REUTERS, the troubled news service already under criminal investigation in America for allegedly stealing data from its rival Bloomberg, is facing legal attack on a second front. A complaint filed in the federal district court in Manhattan is potentially explosive because it alleges a continuing pattern of corrupt behaviour by Reuters. The Swiss plaintiffs are demanding compensation and punitive damages under America's tough "Rico" (Racketeer Influenced and Corrupt Organisations) laws.

Milan Sulc, the Czech-born head of the Swiss firm, All-Media-Typlan, based in Bern, is demanding compensation for the $2m-$6m in revenue he claims Typlan has lost because the news giant copied its advanced software for unauthorised use. Under Rico, damages could be tripled to punish Reuters if it is held liable.

A catalogue of allegations is contained in the court complaint, which alleges copyright infringement, fraud and violation of the Rico act.

Reuters has admitted it made some unauthorised copies of Typlan's software but it has reacted angrily to the lawsuit. "Reuters believes there is no basis for All-Media-Typlan, a Swiss corporation, to bring Rico, fraud or similar claims against Reuters in a federal court in New York," said Robert Crooke, a Reuters spokesman. "At most, we believe this to be a simple contract dispute having no substantive connection to Reuters America Inc or the United States." Reuters may feel justified in shrugging its corporate shoulders but the plaintiffs appear to be unusually determined in their pursuit of the company.

They also allege that other software firms are victims of Reuters' "unscrupulous" business practices and "'intimidation" to take control of lucrative products. Peter Davies, the founder of Sailfish Systems, a financial software firm based in New York since taken over by Reuters and a likely witness in the Typlan case, says he will never enter into a relationship with the firm again, accusing Reuters of being heavy handed and unethical. Typlan alleges other firms which have had their software misappropriated include Capital Market Decisions and Digital Equipment Corporation.

A copy of the Typlan complaint, obtained by *The European*, alleges that Reuters' treatment of Typlan is "part of a general corporate practice of Reuters of attempting to secure (and sometimes succeeding in securing) innovative products and ideas from vendors of products and services, particularly computer-related products and services, through improper and fraudulent means".

Typlan, which employs just eight people in Switzerland and 13 in Prague, is taking on the might of a firm with global sales totalling nearly $5 billion a year. "I think Reuters will try to destroy us," said Typlan's Sulc. "I know this could have dire consequences for my company but if we have to be the first to take the risk and say that Reuters should not be allowed to treat smaller firms in this way, then so be it."

Typlan has now terminated all its agreements with Reuters, forcing the firm to abandon its multimillion-dollar Fleet editorial system, which was supposed to be a global computer system linking all Reuters bureaux around the world.

Typlan's NewsWorks and Text 1000 are the two advanced software programs at the centre of the alleged misappropriation; the former took 15 Typlan programmers four years to develop. The software has a variety of uses. For example, it allows news wire stories, which are fed into the computers of journalists, politicians and finance houses around the world, to be created, edited and distributed in seconds. When predictable information such as company reports or stock exchange news is received in a Reuters bureau, the Typlan technology puts the figures into a template article, provides a comparison with previous years, and puts it on subscriber screens within seconds.

According to the Typlan complaint, executives from Reuters used coercive tactics in a bid to take control of the source code for Typlan's computer programs. The firm had begun working with Reuters as early as 1984, when it was asked to develop a computer system for use in editorial bureaux. In 1989 the two firms apparently agreed to install Text 1000 in Reuters offices around the world.

In late 1995 Reuters allegedly began attempting to persuade Typlan to provide the NewsWorks software without the protection of "dongles", which are an electronic key to prevent Reuters, or any other firm, from making unauthorised copies. "Given the facts that Reuters Ltd has numerous subsidiaries throughout the world and Typlan is a small company without the resources necessary to police illegal copying of its software, Typlan strenuously objected to Reuters Ltd's repeated requests," states the complaint.

The pressure allegedly intensified. "Between January 1996 and 4 July 1996, Reuters Ltd repeatedly demanded in meetings, by telephone, in faxes and via mail that workstation software for NewsWorks v.4 be provided without dongle protection. Typlan continued to refuse these demands."

Then, it is alleged, came a crucial telephone call: "On 4 July 1996, Mr L Dullaway of Reuters Ltd informed Typlan via telephone that if it provided the final release of NewsWorks v.4 with dongle protection, Reuters Ltd would refuse to accept the software for installation." Typlan buckled under the pressure and agreed, although it sought assurances from Reuters that the programs would not be distributed; it signed agreements to that effect.

According to the complaint, use of the software was supposed to continue only for a short time while both parties negotiated a solution. "Instead, Reuters Ltd and Reuters America simply continue to use the unprotected

continued on page 24

Double whammy: last month Reuters admitted it was under investigation, as *The European* reported. Now it has to fight on a second legal front

The giant news agency is accused of operating a corporate software theft scheme

BUSINESS

BANKING

Haberer helps *les flics* with their inquiries

Alan Tillier and Paula Hawkins
PARIS & LONDON

JEAN-YVES HABERER, once France's most aggressive banker, walked into the office of the Toulouse fraud squad on 11 March to help police with their inquiries into the bankruptcy of a grocery firm.

When he left several hours later, on police bail, he had been charged with "complicity in bankruptcy by ruinous means" in a case that raises disturbing questions about the relationship between the bankrupt grocery chain and his old bank, Crédit Lyonnais, which lost an accumulated Ffr200 billion ($33bn) in the late 1980s and early 1990s. Although several former Crédit Lyonnais executives have been arrested or questioned in connection with various scandals linked to the bank, this is the first time that the investigating authorities have come close to Haberer himself.

Haberer, now retired, was held by officers of the *brigade financière* for several hours and questioned by Laurent Nion, the magistrate probing the affairs of grocers Escaudon, which later became Marland. Haberer left the police station protesting that he had never heard of Escaudon, although it was financed by a company – Altus Finance – of which he had once been president.

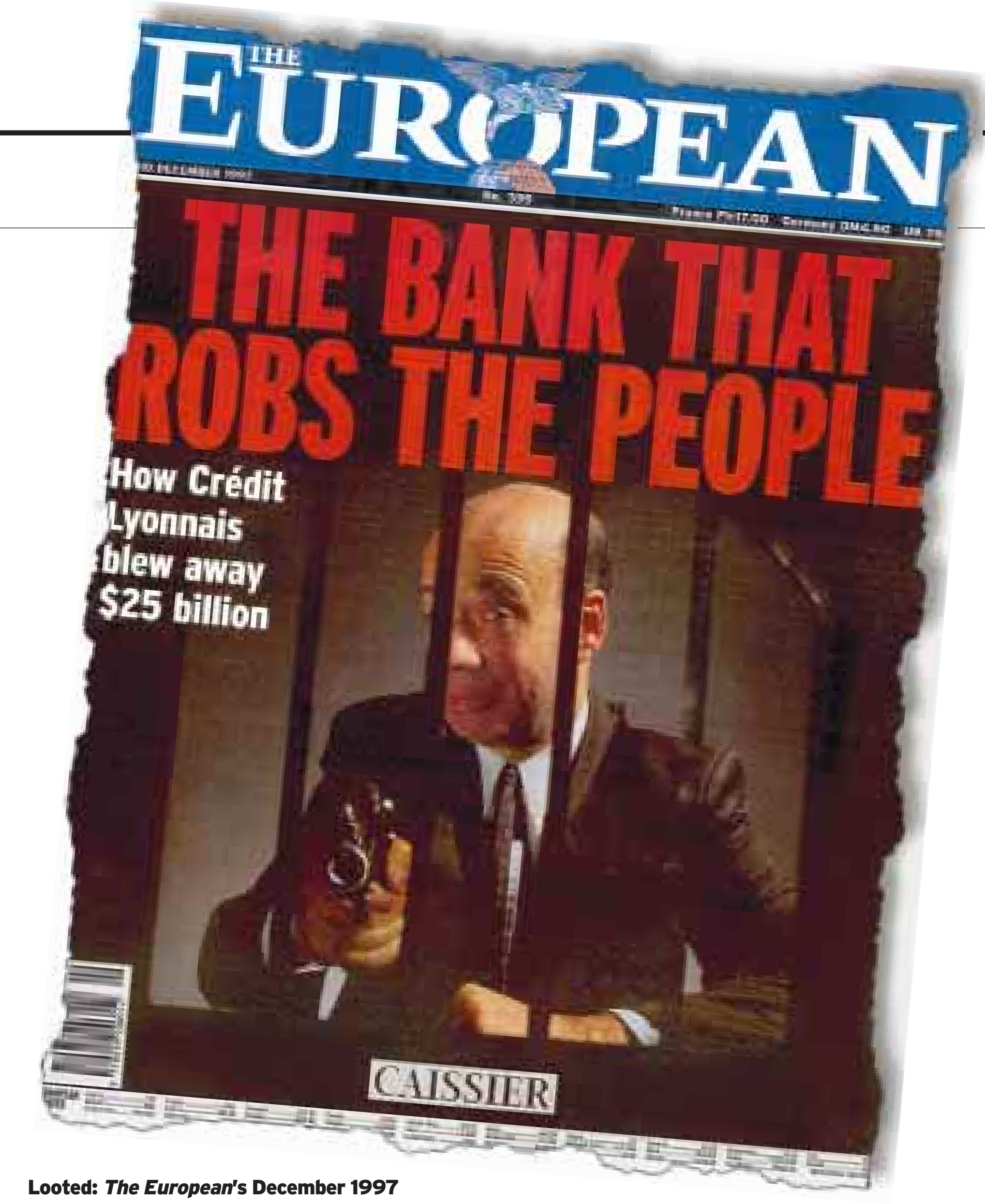
Paul Escaudon's Ffr2.5bn business, which served 2,200 grocers throughout southwest France, went bankrupt in the early 1990s. The business was taken over by François Marland, another grocery wholesaler, financed by Altus Finance, a wholly-owned subsidiary of Crédit Lyonnais which was run by Haberer's friend, Jean-François Hénin.

Altus, one of the most reckless and high-spending subsidiaries of the notorious state-owned bank, pumped Ffr750 million into Marland before selling it to Dutch funds also financed by Crédit Lyonnais.

The affair could be extremely embarrassing for the top echelons of the French government since the funding was approved by La Direction du Tresor, the "state within the state" at the finance ministry, once headed by Haberer but at the time of these events led by Jean-Claude Trichet, now the governor of the Banque de France and France's candidate to assume the presidency of the future European Central Bank.

Lawyers said it was difficult under French law to prove in court that a man in Haberer's position had contributed "intentionally" to any wrongdoing. However, one observer of the case added: "This grocer's bankruptcy, and the way people at the bank and in government bent the rules with Altus financing, could well be linked to broader Crédit Lyonnais investigations in Paris. This case could speed up the whole Crédit Lyonnais investigation."

The Marland bankruptcy highlights the involvement of the socialist government in reckless lending during the economic downturn of the early 1990s. Anxious to prop up



Looted: *The European*'s December 1997 cover story on Crédit Lyonnais

loss-making small and medium-sized companies and so avoid more job losses, the government was happy to approve lending on the scale carried out by Altus. A letter from Haberer has been produced by Hénin's lawyers in which the former head of Crédit Lyonnais writes: "The government was insisting that one crisis should not be added to another."

But Haberer also accuses the right-wing government of Edouard Balladur of exacerbating the problem. In a statement to a French newspaper, *La Croix*, Haberer claimed that, had action been taken swiftly, Marland's books could have been balanced with an injection of Ffr20bn to Ffr25bn. But Balladur, who was prime minister at the time, refused to authorise the payment. ■

continued from page 23

copies of NewsWorks v.4 throughout the world..." As part of this "pirating scheme", it is claimed, Reuters consistently under-reported to Typlan the sums of money it should be paying the Swiss firm for licensing the technology.

Typlan accuses Reuters and its subsidiaries of engaging in a "persistent and pervasive global scheme of making and using unauthorised and unlicensed copies" of Typlan software. Last autumn Typlan alleges it gradually became aware of further unauthorised copying and unlicensed use of NewsWorks by Reuters and presented senior Reuters executives with evidence at a meeting in London on 23 October. According to the complaint, Greg Meekings, the managing director of the Corporate Technology Group of Reuters Holdings, "initially dismissed Typlan's allegations as unsubstantiated; after a short break, he promised to 'look into the situation'."

Lawyers are demanding triple damages for alleged racketeering

Three weeks later, Typlan claims, a cheque arrived from Reuters with a letter admitting some instances where unlicensed software had been used and asking the Swiss firm to submit invoices for other unlicensed installations. However, since then, it is alleged, Reuters has failed to provide the necessary documentation to enable Typlan to calculate the amounts it is owed.

The luridness of the complaint may well make those holding Reuters shares feel faint. "Defendants' pattern of racketeering activity constituted a number of criminal schemes, involving continuous and related criminal activities whereby the defendants utilised similar methods of commission to achieve their desired results ... The racketeering activities include numerous acts of wire fraud ... interstate transportation of fraudulently obtained goods ... and criminal copyright infringement." Reuters shares opened last week at 660 and closed on Friday at 635.

Reuters has brought in Price Waterhouse and spent months on an internal investigation to check whether it is using unauthorised copies of NewsWorks and Text 1000 software. But critics claim that the firm is simply stalling and trying to hide further evidence of wrong-doing.

The claims could hardly come at a worse time for Reuters, which is already under scrutiny from an American grand jury inquiry. FBI agents have spent nearly a year investigating an American offshoot of the London-based company. Prosecutors believe Reuters had a campaign to defeat Bloomberg, its upstart rival in the lucrative market for financial information (worth $6.5bn a year on Wall Street alone), stretching back more than five years and codenamed Project Armstrong.

Michael Bloomberg, the firm's founder, left a job as a Wall Street bond trader with Salomon Brothers in 1981 and used a $10m payoff and experience of the financial markets to develop high-technology information computers for traders. By 1989 Reuters was so worried by the new competition that it developed a computer called Decision 2000, described in excited terms by some executives as the "Bloomberg Killer". Unfortunately for Reuters the competition simply went from strength to strength; thus, claim prosecutors, Project Armstrong was born.

Reuters Analytics Inc, based in Stamford, Connecticut, has been accused of hiring Cyberspace Research Associates (CRA), a small firm with offices near Times Square in New York, to pinch vital information on Bloomberg's computers to help in the development of a new Reuters 3000 machine. It is possible that CRA even took the crucial computer "source" codes. These claims will all be fodder for the jury demanded by Typlan in its lawsuit. The Swiss firm must prove a pattern of unethical and aggressive behaviour by Reuters.

The new allegations seem to follow a familiar pattern. Capital Market Decisions (CMD) sued Reuters in 1993, alleging that executives tried to clone a software product called Decision 2000 which was designed as direct competition to Bloomberg technology. J Stephen Levkoff, the founder of CMD, claims that Reuters wanted to avoid paying royalties to his firm. The case was settled out of court and Reuters later took over CMD.

More damning evidence against Reuters may come from one of its own former employees. Gerald Sharrock, a former Reuters lawyer who left the firm in 1993, is now offering technical and legal advice to firms such as Typlan. Sharrock is currently working in Russia; he claims that Reuters ruthlessly exploited its dominant position in the market to limit competition and that the firm does not hesitate to make frequent use of its legal department to ensure smaller software houses cave in to its demands.

Where the negotiating skills of lawyers end and unlawful practices begin will now be up to the American courts to decide. Given their propensity to find for plaintiffs, Reuters had better hope it is successful at demonstrating that Typlan's allegations are without substance. ■

CEMENT

Collomb's ambition is building

LAFARGE, the French cement and building company, is back on the acquisition trail less than three months after winning control of Redland, the British building materials firm.

Boosted by a 29 per cent rise in second-half profits to Ffr1.68 billion ($438 million), Lafarge plans to raise Ffr3bn via a share issue to fund further acquisitions.

This may be good for the firm's chairman and chief executive, Bertrand Collomb, who stands to gain from a profit-related bonus, but it could mean a rocky ride for shareholders. Lafarge is already highly geared, with its debt-to-equity ratio close to 95 per cent. Redland's British workforce is demoralised by uncertainty, although few jobs have been lost. Lafarge should be focusing on restructuring one company before it buys another. But Collomb is unstoppable.

"We are expanding in emerging markets – Mexico, Uruguay, Honduras, the Philippines, even Ukraine," he said. "Asia is more of an opportunity now than it was two years ago." Let's hope Collomb's knowledge of these difficult markets is better than his geography: talking about the closure of Redland's head office in Dorking, Surrey, he said most of the staff had been offered new positions but preferred to stay in London.

If he is long on ambition, he is short on detail. Even when pressed, Collomb is reluctant to divulge any information. "I don't like to comment on potential acquisitions," he said. "I never prophesy about group results. If you want to know what we are up to, read the newspapers. We have been in business for more than 160 years. When you are in business you learn to do things in an economic way."

Does he fear the introduction of the 35-hour week in France? "It's very complicated. I'm not in favour. I'm against it in principle. We don't know how it will work with the unions."

Shareholders should brace themselves for the announcement of a deal in Asia soon. "We don't know when it will take concrete form," said Collomb. "We cannot do anything unless the price is right."

RUPERT WRIGHT

TELECOMS

WorldCom hates alliances, so it's just made one

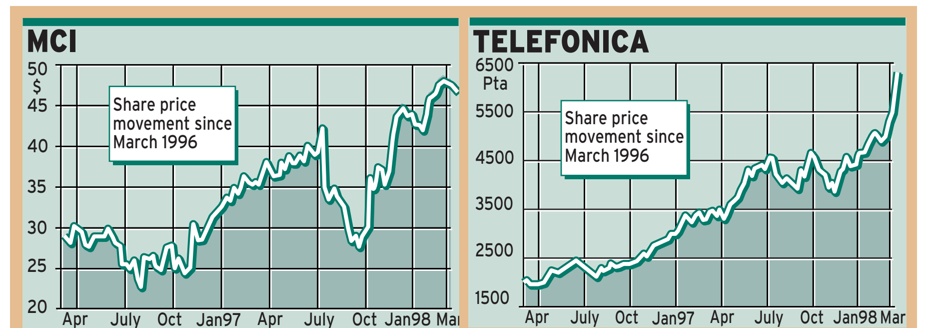
Nicholas Moss

CAN alliances still work in the telephone business? WorldCom and MCI's new deal with Spain's Telefónica was launched with the usual promises of synergy, better customer service and improved shareholder value.

But wherever you look, existing deals are in trouble and there are doubts about the appropriateness of the often-defensive alliances as a business model at a time when some 70 per cent of the world's telecoms markets are opening to competition.

An odd characteristic of the WorldCom deal with Telefónica is that Bernard Ebbers, the aggressive chief executive of WorldCom, the American telecoms powerhouse, is among those who have most loudly proclaimed that such arrangements do not work. His alternative mantra is "acquisition not alliance".

Last November's $31 billion acquisition of MCI – subject only to regulatory approval after the two companies' shareholders voted to accept the deal last week – was the latest in a string of acquisitions which has seen WorldCom grow to become a company with operations in 50 countries and revenues last year of $7.4bn.



HOW THEY DIAL UP

	MCI WorldCom	Telefónica
1997 pro-forma revenues	$27.0bn	$15.6bn
1997 pro-forma profit	$1.1bn*	$4.4bn
Customers	22 million	36 million
Employees	70,000	90,000
	Well-positioned to capitalise on boom in internet traffic and business data transmission	Threatened by competition in home market but excellently placed in expanding Latin American market

* excludes $1.3bn written down by MCI and pre-tax action
Source: WorldCom, Telefónica

More curious still, this week Colin Williams, chairman of WorldCom's international arm, will be headlining at a telecoms industry gig in Versailles. The promotional blurb for the conference promises delegates the opportunity to hear one of Ebbers's senior generals elucidate on the topic: "Why alliances don't work." The evidence to support this proposition is compelling, so why is WorldCom ignoring it?

Concert, the alliance of British Telecom and American long-distance carrier MCI, and latterly Spanish operator Telefónica and Portugal Telecom, collapsed in November when MCI walked from the party into the arms of Ebbers.

Unisource, the alliance of smaller European operators in Sweden, Switzerland and the Netherlands, as well as Telecom Italia with American giant AT&T, is a shambles: it lost Telefónica as a member last year; there are doubts about the loyalty of Sweden's Telia; and AT&T's new chief executive is thought likely to change his mind about the whole arrangement.

Global One, the alliance of France Telecom, Deutsche Telekom and US carrier Sprint, is also struggling. Last month Viesturs Vucins suddenly resigned as chief executive from the company; it has yet to find a replacement for Chris Rooney, who retired as head of global sales last autumn. So what is to be made of the deal in Madrid between WorldCom and Telefónica, as well as the Portuguese carrier, Portugal Telecom, which superficially looks so very similar to all of the other troubled alliances?

Telefónica's deal starts with an ambitious plan to tackle jointly telecommunications markets in Europe, the US and Latin America. WorldCom and Telefónica plan to form at least three additional jointly owned companies. One of these, EuroCom, will expand services to high-margin business customers via a metropolitan network of fibre-optic cable in financial centres in Belgium, Germany, France, Ireland, the Netherlands, Sweden, Switzerland and the UK. Juan Villalonga, the Telefónica chairman, is expected to exercise an option to take 10 per cent of the company for an estimated $2.4bn, as well as 46 per cent of WorldCom's Italian operations.

Another unit will market services to the fast-growing 29 million Hispanic population in the US. But there is no great trick to this: lots of American telephone companies are learning to market in Spanish. A third company, Telefónica Panamericana-MCI, will expand on Telefónica's embryonic relationship with MCI from the failed Concert alliance and invest in a pan-American network, modelled on WorldCom's cream-skimming strategy in Europe, to be managed by Telefónica's international arm, Tisa.

WorldCom has an option to take a 10 per cent stake in Tisa, which Villalonga last week said he would like to float, for an estimated $2.4bn. This sounds like another big and potentially lethally bureaucratic joint venture on the lines of so many others that have failed.

Analysts in Spain say that the Telefónica deal with WorldCom is, in the short term, a worse agreement than that it would have reached with BT. "An alliance with BT was better in the short term. WorldCom must face up to the financial costs of its merger with MCI – costing some $37bn – so it will be lacking financial muscle," says Belen García of Madrid stockbrokers Benito y Manjarin.

Analysts also point to the vague terminology of this agreement, compared with the earlier version signed with BT and MCI in Concert. "It is less well-defined than the previous agreement. We will have to see how MCI's arrival at Telefónica Internacional and the joint strategy in Europe works," says Vicente Castellano of Ibersecurities.

Ebbers admits signing up Telefónica as a partner is a new approach. "WorldCom has had a kind of go-it-alone strategy until now, and we have been very committed to it. But you always have to back off from what you plan to do or be open minded when you have a partner of the calibre of Telefónica."

So do Telefónica, a veteran of two earlier alliances, and WorldCom have it right this time? Villalonga says: "We've chosen the best partners for expanding our European activities and consolidating our leadership in the Spanish-speaking world." He says the alliance will also open up new investment opportunities in Latin America, particularly in Brazil, "which is the market where we plan to concentrate our efforts in 1998".

Ebbers says WorldCom will "be able to use Telefónica's expertise and ties into the Spanish community – the fastest-growing part of the marketplace."

But the fundamental problem of phone company alliances has been their lack of direction. Most were formed with a vague idea of self-preservation in home markets. A sweeping vision of providing a vast portfolio of services to business customers has been stymied by the pace of technological change and customers driving down margins in a competitive market. Rather than streamlining operations the tendency has been to entrench costs.

There is also the hurdle of a culture clash between the US telecoms upstarts and the bureaucratic mentality of the sclerotic former monopolies. Villalonga and Ebbers are said to get along well and share similar ideals about boosting shareholder value. With the involvement of Portugal Telecom, Telefónica and WorldCom, it will take more than goodwill between two men to overcome the obstacles. ■

Additional reporting by Giles Tremlett in Madrid

COMPUTING

Is Psion psinking?

Simon Reeve

AFTER years of growth, Psion, the British maker of the eponymous palmtop computer, is now in trouble, with falling sales and profits. Psion has two big problems: first, the stylus-driven Palm Pilot, which has taken 51 per cent of the US market and 33 per cent worldwide by offering consumers a smaller, simpler alternative to Psion's feature-rich but consequently complex machines; and second, the shadow of Bill Gates is looming over the market for handheld and palmtop computers, as Microsoft realises there is money to be made from these machines and prepares to launch its own contender, the Palm PC.

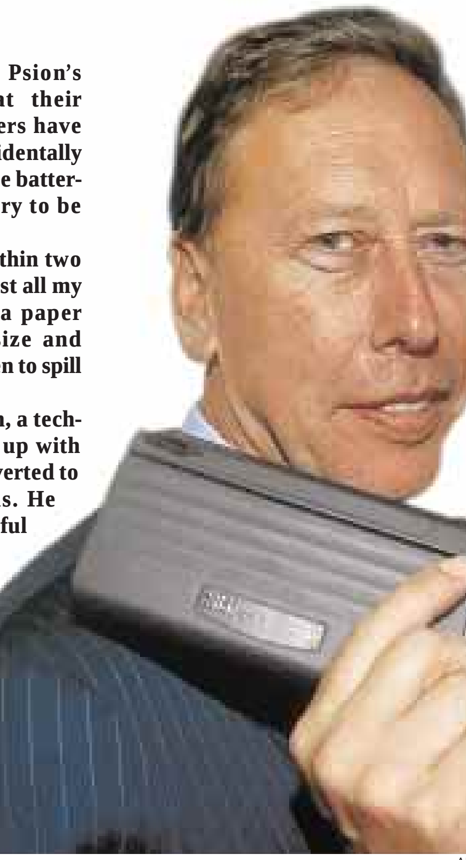
Since Psion launched its first organiser in 1984 it has been Europe's champion in a market which has grown to include the offerings of companies such as Casio, Hewlett-Packard and Sharp. The name Psion has become as synonymous with electronic organisers as Filofax became with the leather-bound paper alternative.

But Psion stands accused of making its new $750 Psion Series 5 too sophisticated for users who want only an electronic diary and address book. The firm is now producing only 30,000 Psion units a month, 25 per cent below capacity and well below the 80,000 a month David Potter, the company's founder and chairman, wants to be making.

Potter has seen his personal fortune fall by an estimated $6 million in the past few weeks, as Psion shares plummeted because of slowing growth. "We look forward to growth, but not as rapid as people have come to expect," Potter admits. With Psion now holding only 2.9 per cent of the US market, according to industry analysts IDC, the slowdown is so great that Psion could go the way of the Apple Newton, the "message pad" which was introduced in 1993 and quietly dropped last month. At the heart of Psion's problems is knowing what their customers really want. Owners have horror stories of how they accidentally knocked the device, causing the batteries to fall out and the memory to be wiped.

"I regretted buying mine within two months," said one owner. "I lost all my contacts and soon realised a paper address book is the same size and doesn't go haywire if you happen to spill a few drops of water on it."

Another user, David Hewson, a technology writer, became so fed up with palmtop computers that he reverted to more old-fashioned methods. He wrote down 20 of his most useful phone numbers on a piece of card and put it in his wallet. "My piece of paper doesn't go blank when the batteries run out. You can read it in a tunnel. It's free," was Hewson's ecstatic verdict on his low-tech palmtop substitute. One of Psion's chief competitors is capturing the market by simplifying its product rather than adding new facilities. 3Com launched its tiny Palm computers two years ago after Jeff Hawkins, chief technologist for Palm, adopted an original approach to product development. Hawkins decided that the next generation of small computers should fit into a shirt pocket. He fashioned a replica from a piece of wood in his garage and carried it around in his pocket for months to see if the size was right.



Portable problems: Psion chairman David Potter
ANDY BAKER

The idea seems to have worked. More than 1.4 million Palm Pilots have been sold in two years. The rapid spread has been helped, perhaps, by photographs of US Vice-President Al Gore wielding one of the devices, and their use in several Hollywood films.

Microsoft thinks it has a better product. In January the company announced an alliance with seven hardware manufacturers, including Samsung, Philips and Casio, which will see the Microsoft operating system CE 2.0 used in a range of palmtop computers under a variety of names. The new Microsoft palmtops will accept a tiny card developed by Motorola which will slot into the side of the computer and enable it to receive messages like a pager. The Microsoft device could take breaking news updates, share prices and Internet pages.

It was almost inevitable that the US software giant would try to muscle in on a market which analysts at Dataquest expect to grow from two million units shipped last year to eight million in 2001. In a direct assault on the Palm III, Microsoft has labelled its new devices Palm PCs, which has led 3Com to start legal action alleging infringement of trademark. But that will not stop Microsoft. The perils of taking on the firm are obvious: Psion is already in trouble, and others who stand in the way of Bill Gates could go the same way. ■

BROADCASTING

London calling: who can tell the BBC how to make money?

Birna Helgadottir

BBC Worldwide is directionless and leaderless. Can it be fixed? The commercial arm of the British Broadcasting Corporation, formerly called BBC Enterprises (something of an oxymoron), has been told to treble its turnover and profits by 2006. So far, it is off target. Profits actually fell from £76.7 million ($125m) in 1995-96 to £73.5m last year. In contrast, a single American hit series, *Friends*, owned by Warner Brothers, makes annual syndication sales of more than $500m a year.

Worldwide has been without a chief executive since September when businessman-turned-BBC-bureaucrat Bob Phillis left to head the Guardian Media Group. The job is something of a poisoned chalice, since Worldwide is not a hard-headed business operation and has to report to the good and the great on the board of governors, not necessarily an apt arrangement given that BBC bosses have an ingrained anti-commercial corporate ethos.

Recruiting for the job has become a matter of rounding up the usual suspects. The former director-general of the British Prison Service, Derek Lewis, is said to be interested. He certainly has plenty of experience in charge of dysfunctional organisations. Before he was sacked by the last Tory government following a series of prison incidents, he was briefly in charge of British Satellite Broadcasting (later taken over by Rupert Murdoch's Sky) and then of UK Gold, a satellite TV channel. Other candidates include Nick Alexander from Pearson, which owns the *Financial Times*, and BBC Worldwide's finance director, Peter Teague.

The new CEO has a huge challenge to push Worldwide into a competitive position. The BBC has never sold a prime-time series to an American broadcast network; its best programmes are often sold at modest prices to public broadcasters. "The BBC has a very good brand name but it has a problem with the big US networks. Its main remit is to produce programmes for UK audiences; companies such as NBC aren't interested," says Tim Westcott, editorial director of *Television Business International*. Even when the BBC makes a hit, it rarely makes enough episodes for a 24-week US network season.

One exception is children's programming. Here, the BBC tends to make programmes in sufficient quantity to be attractive in syndication. The BBC says it wants to establish its children's product as "a key global genre in our new branding strategy". So far it has had success with products such as *Wallace and Gromit*, *Noddy* and *The Animals of Farthing Wood*.

Now it seems it has an international hit in *Teletubbies*. The question is whether the BBC has the business acumen to exploit it. The

REX

Dipsy, Po and co: already sold to 14 countries

series has already been sold to 14 countries and negotiations are well developed with others, such as China (aptly, since Po, the smallest Teletubby, sings to herself in Cantonese).

The BBC has spent £8.5m making 260 half-hour Teletubby episodes, plus £1m on marketing, according to insider estimates. It must be well on the way to recouping the outlay: profits on British merchandising alone exceeds £5m. The problem is that it could have made much more. The first mistake was relinquishing the all-important US rights to the production company, Ragdoll, which made the series. Ragdoll has sold 40 programmes to PBS and now has exclusive access to a merchandising market worth a potential £12 billion. Second, the BBC did not realise the full potential of the Teletubby craze in Britain. Last Christmas stocks of the Teletubby toys in the shops were nowhere close to meeting demand (Harrods had to ration them); the BBC also initially failed to patent the individual names of the characters, which gave unofficial traders a vital few months of legal trafficking in "Laa-Laa T-shirts" and "Dipsy mugs".

BBC Worldwide does not lack ambition; its attitude to consumerism and profit is light years away from the old "Aunty Beeb". The company's licensing department recently beat giants Disney and Time Warner to win International Licenser of the Year award and the BBC-produced chart-topping single, *Perfect Day*, which featured international stars singing lines of the Lou Reed classic, was considered a daring PR coup. New schemes include a joint venture with Flextech to produce commercial TV channels under the UKTV umbrella title, and BBC America, to be launched this year. Previous BBC efforts to launch channels in America have flopped.

It is going to take more than a new leader to fix BBC Worldwide. It needs the parent corporation to redirect its culture towards profits rather than just prestige.

RUSSIA

Boris's bill: pricing the presidents

Inessa Filatova and Yuliya Tikhonova
MOSCOW

Price of power: which president is more expensive, Yeltsin or Clinton?

THE post of head of state is an extraordinary one; it therefore requires extraordinary remuneration. A president's job influences not just the life of the state but that of every individual in it.

Russian President Boris Yeltsin brings home 12,000 roubles ($2,000) a month, according to his press office: approximately 12 times the national average. By contrast, Bill Clinton, the American president, earns $200,000 a year, though that is only eight times the US national average.

But practice has shown that the reward for being president is more commonly expressed not through salary but in the perks of the job. That is what makes being head of state worthwhile. And the perks can be innumerable.

The chief bonus for Russia's boss is a home in the Kremlin. Since 1991 Yeltsin and part of his administrative staff have worked in the first block of the Kremlin, known as the House of the Senate. The building contains 567 rooms. On the third floor you find a working office containing a club room, a study, a bedroom (though we are bound to mention that he has only spent two nights there), two libraries and a small theatre plus two outdoor winter gardens.

How much that costs the state is anybody's guess. Even before they started reconstruction works at the Kremlin, officials talked about "unpredictable final expenses". According to Yeltsin's aide, Pavel Borodin, the bill will run to no less than $250 million, not including expenses for furniture, paintings and sculptures.

Just one plate of a dinner service (for 1,000 people) already costs $2,000. The study has been furnished for $26,000. Altogether 75 people work in the presidential apartments. According to the press service, maintenance of the Kremlin costs $630,000 annually (including salaries for personnel).

In America, living in luxury and comfort is considered to be the president's duty. The head of the United States is expected to live in the White House. America's first family occupies 13 rooms on the second and third floors. The remaining 119 rooms are split between assistants, servants and guards; about 100 people altogether. Their annual salaries add up to $1m. Maintenance of the White House costs the American state $2m a year. Presidents need a country residence too. Russia's president has two dachas in the countryside: Gorki-9 and Rus. They are served by 37 people who earn little more than 1,500 roubles each. Annual expenses for these two residences comes to $250,000.

Additionally there are two government dachas in Sochi and Valdai for other senior members of government. The Americans, on the other hand, decided that their president needs only one country residence: Camp David, Maryland.

Yeltsin's presidential plane, an Ilyushin-96, costs about $400m. An hour's flight swallows $42,000. Altogether expenses for presidential travels last year reached $4m. The American president prefers a Boeing 747-200B, which might be called a "flying White House". Last year it cost more than $200m together with salary for crew, ground staff and spare parts. Presidents, like kings, have retinues who escort them.

Their flights are always accompanied by several more aircraft. The Russian president is escorted by two fighters, one reconnaissance aircraft (Awacs type), one extra presidential plane (just in case) and a cargo freight carrier containing the president's automobiles. The president usually makes his own decisions about road transport. Yeltsin's Zil limousine costs more than $800,000. Usually the president is accompanied by five cars: bodyguards, special service, the president's Zil, more bodyguards and, in case of an emergency, a spare Zil for the president. Such trips, according to his press office, cost the state $34,600 a year.

Clinton travels in an armoured Lincoln limousine worth $500,000. Apart from that, there are always 10 limousines ready for him in his garage. But you have to pay for everything in life. A president pays for power and privileges with his own personal freedom. Day and night, on holiday or at work, at home or travelling: every single step taken by Yeltsin and his family is observed closely. A total of 650 guards work for him for an average monthly salary of $1,000. A further 44 close bodyguards are around him all the time.

In comparison, the American president has 1,500 secret service agents at his disposal. Their remuneration costs the taxpayer $100m per year. The White House is the most dangerous place on earth. Special service agents observe not only the premises but also the air around it. Air is regulated and checked with special apparatus for poisonous substances and bacteria.

So how much do our presidents actually cost when we add up the figures? Altogether in Russia 11,600 billion roubles of the 1997 budget was assigned for governmental costs. It turns out that there is no individual breakdown for the costs of the president alone. So we decided to take the risk and estimate them. Our tally adds up to $6.7m. The American president costs his people $6.3m. The Americans are proud of this, because the president is the representative of their country. They all pay taxes. Everybody able to work – 123 million people – is proud to do his or her bit for the prestige of their country.

Here in Russia 70 million people work. And 42 million of us pay taxes, though only currently 35 million receive their salaries regularly. But we provide our president with a level of material support that is equal to the highest in the world. Or even better. What more proof could we need that Russia is a great country?

This article first appeared in the Russian weekly Argumenty i Fakty

Yeltsin's package is on a par with the best in the world

FROM THE ATLANTIC TO THE URALS

Street drama à la mode sends Armani packing

PIERRE VERDY

Model operation: French riot police keep order after the cancellation of the Armani show

THE PARIS FASHION SHOWS have seen nothing like it. Latecomers turning up for the Giorgio Armani show at the Place Saint Sulpice on the Left Bank found an empty catwalk and a crowd of fashion-watchers, models and photographers milling around on the pavements under the batons of the French riot police, the CRS.

It was like a scene from 30 years ago and *les événements* of May 1968. The Armani show had been cancelled by order of the local town hall on "safety grounds" a couple of hours before it was due to begin and the riot police had been sent in.

Now Armani is set to sue the Paris police authorities not only for the $1 million lost on the show but also for the cost of a failed perfume launch and for the damage to his reputation. "I am shocked by the way the matter was handled by the French authorities," he said, adding that he would now show his collection in New York at the end of the month.

But protesters from the Ecologist Party and residents were delighted the show had been closed down.

"Culture is disappearing completely from this historic area and is being replaced with rich people who come to shop," said Yves Godard, leader of the local ecologists' association.

◆◆◆

THE SHADOW of the long-running dispute over the enclave over Nagorno-Karabakh hangs heavy over the Armenian presidential election on 16 March.

Levon Ter-Petrossian, president of the former Soviet republic since 1991, resigned on 3 February after 40 of the 96 deputies in parliament defected to parties loyal to the prime minister, Robert Kocharian.

Ter-Petrossian, under international pressure to settle the row with Azerbaijan over the enclave, found himself under fire for his decision to accept a peace plan sponsored by the Organisation for Security and Co-operation in Europe (OSCE). Nagorno-Karabakh, populated mainly by Christian Armenians, broke away from Muslim Azerbaijan's rule in 1988. As the major ethnic conflict of the Gorbachev era, costing 25,000 lives, it played a key role in the lead-up to the collapse of the Soviet Union. A ceasefire has held since 1994.

Kocharian, who came to prominence as the leader of ethnic Armenians in Nagorno-Karabakh, is now the favourite to succeed Ter-Petrossian. He has two main rivals: Karen Demirchian, 66, former communist leader of Soviet Armenia from 1974 to 1988, is hoping to capitalise on nostalgia for the "good times" of the past; and Vazgen Manoukian, 52, narrowly lost the last presidential election in September 1996 to Ter-Petrossian – a result which caused street protests over allegations of vote-rigging.

The political situation is still unstable in a country which has been plunged into economic hardship by a blockade by Turkey and Azerbaijan over the Nagorno-Karabakh issue.

◆◆◆

THE FUTURE LOOKS BLEAK for Angelo Giorgianni, an Italian under-secretary of state at the interior ministry. Not that he would admit to any despondency. Giorgianni was named last week by the anti-Mafia commission for dubious connections with a couple of entrepreneurs under investigation for criminal activity. It was suggested that his proper course of action would be to resign.

Even a personal appeal from his *capo*, Lamberto Dini, the defence minister and leader of his party, who told Giorgianni he was risking the party's reputation, had no effect. Now the Italian cabinet has voted to force the stubborn minister to go.

Giorgianni, however, is adamant. "It would be like an admission of guilt, just for being friends with people with no convictions against them," he said. "They want to force me out? Go ahead, then I'll start a real case by telling what I know. "

◆◆◆

BETWEEN 1980 AND 1992 Sweden poured Skr3 billion – about $480 million at the time – into the hunt for foreign submarines in the Baltic. Now it seems, embarrassingly, that it may have been just schools of fish. Three years after Swedish defence forces admitted that they had confused swimming minks with Soviet submarines, a leaked letter from Owe Wiktorin, a defence force chief, to the government reveals that he is no longer sure that the underwater trilling sounds recorded came from submarines. The defence ministry declined to comment. "It's a secret document and we cannot comment on a secret document," a spokeswoman said.

In 1981 Sweden protested formally after a Soviet U-137 Whisky Class submarine ran aground near a top secret naval base at Karlskrona. Moscow blamed a navigational error.

◆◆◆

THE AMERICAN MILITARY investigation into the Cavalese cable-car tragedy in which 20 people died has confirmed that it was caused by aircrew error. The crew of the United States air force EA-6B Prowler aircraft was flying too fast and too low, the leader of the inquiry, Major General Michael DeLong, said.

An Italian inquiry had already come to a similar conclusion. The four-member crew of the jet, commanded by pilot Captain Richard Ashby, now face court martial and possible manslaughter charges. DeLong said the Prowler was flying at least 100kmh above the maximum permitted speed and well below the 325 metres minimum altitude when it hit the ski-lift cable on 3 February.

The tragedy provoked a wave of indignation in Italy and accusations of repeated low flying by jets from the nearby Aviano base. The Italian authorities, while welcoming the results of the inquiry, still want to prosecute the crew under Italian law.

But Massimo Brutti, the deputy defence minister, conceded that normal practice within Nato dictated that any trial should be held in the country of origin of those charged.

◆◆◆

YVES MONTAND, the French film legend who died six years ago, has not been allowed to rest in peace. At dusk on Wednesday 11 March in a drizzly Paris chill, Montand's body was exhumed from Père Lachaise cemetery by order of a judge seeking to settle the claim of a woman who says she is his daughter.

The exhumation for DNA testing is the latest twist in a 10-year legal battle by 22-year-old Aurore Drossart to be recognised as Montand's child. Three experts will compare the samples with those provided by Drossart and her mother, Anne-Gilberte. They have until 30 June to give a verdict.

Drossart insisted it was the only way to unearth the truth despite public shock over the exhumation of one of the country's most popular figures.

PRESSWATCH ON: THE KOSOVO CRISIS

El País

THE international community is beginning to tighten the screw on the Yugoslav president, Slobodan Milosevic, to force him to cease the repression in Kosovo and accord full autonomy to the region with an Albanian ethnic majority. The arms embargo and, above all, economic sanctions should serve to create the conditions to force concessions from Milosevic and make possible the mission of Felipe González as representative of the Contact Group.

The former Spanish prime minister knows well that the first essential is that his mission be accepted by the Serbian leader. It is not only a question of restoring autonomy to Kosovo but also of maintaining the peace process in Bosnia and the operation of the War Crimes Tribunal in The Hague.

Milosevic has little time for a constructive response. As he launches his country into the abyss, the economic weakness of Serbia will only worsen. In a historically unstable zone, the best solution is autonomy for Kosovo, but that also requires economic help from Europe.

Washington Post

THE long-feared "second Bosnia" may be igniting in Kosovo. The Kosovans have been demanding independence from a Belgrade government that has ruled repressively and resisted restoring even the lesser autonomy revoked in 1989. Now a collision of the "Greater Serbia" idea identified with Milosevic and a similarly nationalistic "Greater Albania" could draw in principals and regions alike.

Outsiders must help the parties stop the violence from spinning out of control. Serbia cannot expect to escape from isolation, nor the Albanians from neglect, if others see either as responsible for an escalating war.

Any political change must be made at a table. The sanctions against Serbia cannot be made much tougher, but Nato military options need to be reviewed.

Rzeczpospolita, Russia

TO PUT a stop to the conflict, the international group should push both sides to agree to discussions over a new status for Kosovo. It seems that one solution would be to turn Kosovo into a third, self-governing part of the Yugoslav Federation, which at present comprises only Serbia and Montenegro.

La Repubblica

THE meeting of the Contact Group in London marks a decisive change from the management of preceding Balkan crises, the wars in Slovenia, Croatia and Bosnia.

Mediation by Britain, Germany and Italy managed to reconcile differences, primarily between the United States and Russia, and guaranteed an important achievement: the Contact Group maintained its unity in dealing with the Kosovo problem, a responsible attitude fundamental to maintaining credibility with Serb and Albanian leaders. Another difference from previous crises is that the US has had a leading role from the outset, whereas before it avoided involvement for years in the Balkan miasma.

But the Albanians of Kosovo, the "Palestinians of Europe", must not be encouraged in any way to turn to terrorism.

Kosovo, according to the Contact Group, will remain part of Serbia; that must be clear. An authoritative Italian diplomat speaks of a "slippery slope" that could lead dramatically to a new Balkan war. It is too early to know if this path is inevitable.

Süddeutsche Zeitung

THE result of the London meeting is a case of déjà vu. It is a new version of a play dating from the start of the war in Bosnia. Not even the main actor in Belgrade has changed. Then, as today, the lowest common denominator was the introduction of a weapons embargo. But by now it should have become clear that this is the least effective measure against an extremely well-armed aggressor. Western threats such as the denial of visas and abolition of trade agreements are not likely to end Serbia's violent regime in Kosovo.

Only a united stance by the international community would have made an impression. But almost everybody in the Contact Group has their own ideas and interests. There is not only Russia's particular method but also France's obscure contacts with Belgrade. Milosevic knows how to exploit the situation.

Aktuelt, Denmark

THE Kosovo Albanians have never had more from the West than fine words and restraint. Political support has never been vouchsafed.

Again and again voices have warned: "The wolf will come." Nonetheless the international community was shocked, surprised and left looking on lamely when the wolf showed itself and dug its teeth into the region.

Libération

MILOSEVIC must pull out his special police units and open up Kosovo, in particular to the Red Cross and representatives of the six nations. This last point is fundamental. Knowing what one knows about Milosevic and his methods, one must be able to verify on the spot that he keeps his eventual pledges. Felipe González, who has just been given a mediation mission on behalf of the Organisation for Security and Co-operation in Europe, must not forget it.

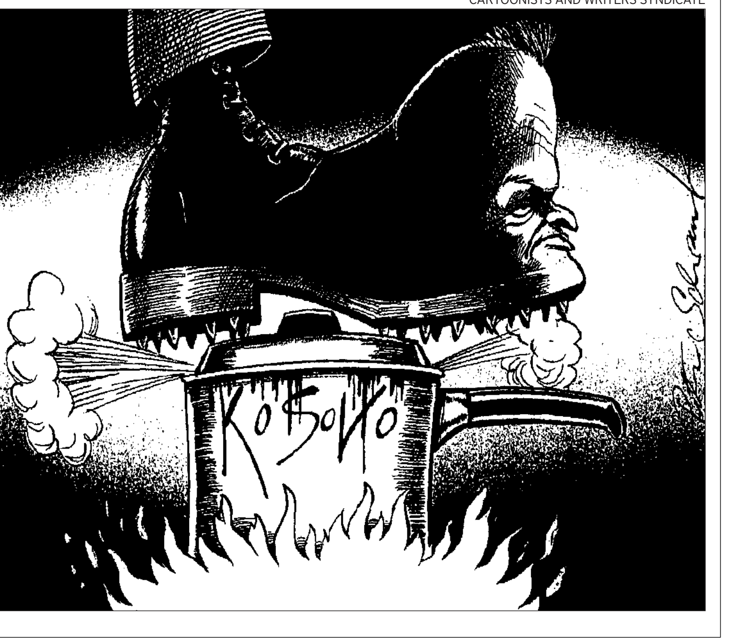
To be content with vague promises and assuaging one's conscience with a few economic and commercial sanctions, with Serbia already close to bankruptcy would be a demonstration of bad faith or even hypocrisy. Because Milosevic is Milosevic, one must anticipate the worst and not get caught up in charades which will be pointless in the event of tragedy. On this depends the credibility of the exercise.

Basler Zeitung

BRUTAL repression by the Serbs is to blame for the escalation. But one should not ignore that among Kosovo Albanians, after a long period of peaceful resistance, advocates of a violent defence are gaining growing support.

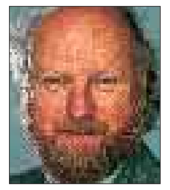
Until now the identity and influence of the Kosovo Liberation Army have not been entirely clear. Reports that they are receiving large numbers of weapons from Albania itself are worrying.

CARTOONISTS AND WRITERS SYNDICATE



IAN MATHER'S

Montenegro



FOR a brief period around the turn of the century the most exotic diplomatic posting in Europe was the tiny Balkan principality of Montenegro. The ruler, Prince Nikola, was a theatrical figure whose court seethed with dynastic feuds, scandals, attempted coups and the machinations of various secret services. Droughts, epidemics and invasions of locusts from Morocco were added to this mixture of operetta and intrigue to ensure lively dispatches back to the foreign ministries of the great powers.

The setting for these diversions was the smallest capital in Europe, Cetinje, which boasted a diminutive royal palace, a theatre, a hotel, a monastery and 13 embassies. The joke was that there were also five houses. In reality, the diplomats lived surrounded by a shanty town of primitive dwellings beside which grazed the mules on which the population went about their business.

Suddenly Cetinje went into decline. Montenegro was deemed to have failed to resist the Austrians with sufficient vigour in the First World War; at its end the victorious allies incorporated it in the nascent Yugoslavia. Prince Nikola went into exile in Paris.

Hidden away 700 metres above the Adriatic Sea among barren mountains, a location designed to protect it from invaders, Cetinje even lost its status as capital of the sparsely populated republic. Instead, the ugly city of Titograd on the plain below, constructed in regulation communist grey concrete and named after the Second World War in honour of the founder of Yugoslavia, took the role.

Today the decline of Cetinje is being reversed. When I last came here six years ago I had to scramble through undergrowth to reach the deserted former British embassy building, its roof rusting, wild flowers flourishing in its gutters. An ageing copper plaque declared in English and Serbo-Croat that the building was "His Majest's (sic) Location, 1878-1916. Protected by Law."

The building and the plaque are still there but the walls have been freshly painted pink and white, the roof repaired and the sound of music students practising their scales is heard from within.

When Yugoslavia disintegrated Montenegro was the only one of its seven former entities to stay in the federation. But the marriage with Serbia remains uneasy and Montenegro is seeking to reassert its identity. In January this year Milo Djukanovic, Montenegro's pro-western reformist prime minister who had just been elected president, held his inauguration ceremony in Cetinje for the first time. Slobodan Milosevic, president of Yugoslavia, furious at having lost part of his fiefdom to an opponent, inspired three nights of rioting. But in a remarkable gesture of support 37 foreign ambassadors made their way up the winding mountain road to attend the ceremony.

"For 50 years Cetinje was in decay. Now the new president is doing something about it," said Petar Cukovic, general director of the National Museum of Montenegro, which is housed in the former residence of Prince Nikola. "Three years ago the constitution was changed to make it the honorary capital and parliament has decreed that from now on every president will be inaugurated here. The president plans to move some ministries here. Podgorica [formerly Titograd] remains the administrative centre but Cetinje is the metaphysical and spiritual capital."

The government is restoring the elegant embassy buildings. The neoclassical Russian legation, the largest, reflecting the Orthodox republic's homage to Mother Russia, still has its plaque announcing the "Imperial Russian Mission"; but it is now the fine arts academy. The whitewashed "Royal Italian Legation" is the national library. The Austro-Hungarian legation is the headquarters of the association for the protection of national monuments. The Bulgarian embassy is a restaurant. The Turkish legation is the drama school. The old royal Blue Palace is being converted into the presidential residence. Even Nikola has returned: in 1989 his remains were reburied in Cetinje. His petty and unreliable character, which let down Montenegro in the First World War, was conveniently forgotten.

ZORAN JOVANOVIC

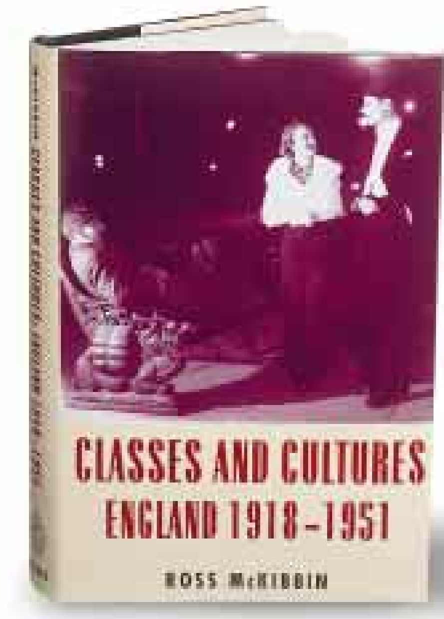
VENTURE CAPITAL: DJUKANOVIC PUTS MONTENEGRO'S HEART BACK ON THE MAP

The re-interment was attended by his great grandson and heir apparent, Prince Nicholas, a Paris architect, and Princess Frans, his fashion-designer wife. It was the first time they had set foot in the former principality. "I am really not *au fait* with the dynasty," remarked Nicholas, somewhat taken aback by all the acclaim.

One explanation for Cetinje's diplomatic heyday between 1878 and 1916 was that Nikola had married five of his nine daughters to royal families, gaining for himself the nickname of Europe's royal father-in-law. One became the last queen of Italy.

That self-confident era was destroyed for ever by the 1914-18 war. Yet apart from its fractious relationship with Milosevic, Montenegro is again at peace with the world. Except for Japan. During the Russo-Japanese war of 1904-5 it declared war on Japan out of loyalty to Russia. The Japanese, not knowing where Montenegro was, failed to reply. Officially the war continues.

BOOKS



Classes and Cultures England 1918-1951
by Ross McKibbin
Oxford University Press, $40

ENGLAND – as distinct from the United Kingdom – is often presented by outsiders as *the* paradigm of antique class values. The English, it is assumed, build their entire society around accident of birth, a preternatural state reinforced by education, general upbringing and economic reward.

Thus the classes, in relation to each other, are popularly held to be immutable. Their behaviour may alter over the generations, but the distinctions remain. There is the upper class, the middle class and the working class, and the frictions between them have, it is said, done much to hamstring Britain's entry into the modern world.

There is much truth in this simple analysis, but a great deal is left out. It is true that it can be hard to breathe in English society. The potential of the individual can be shut down by class origins as surely as by physical handicap; the reverse synergy of class conflict has overall proved an enervating factor in national development.

Yet a new Britain has emerged and continues to emerge. The straitjacket has been loosened. If we may, for a moment, expand England to embrace the rest of the UK, we have had prime ministers this century of working class origin, including John Major and Margaret Thatcher. Today's Labour government, while scarcely proletarian in outlook, is a combination of class talents.

British industry has thrived on newcomers, a trend rooted in the university expansion of the 1960s. Even the City of London, hidebound for a century or more, has been enlivened in recent years by an infusion of new blood from the lower orders. British popular culture is largely a working class phenomenon, but is admired, even idolised, around the world.

Ross McKibbin, a fellow and tutor in modern history at St John's College, Oxford examines in this essentially academic volume how the present cultural and class system developed in England from 1918 to 1951, a period that, for all its global horror and economic dislocation, has taken on a rosy glow in the recollection of the English people as a time when people respected one another and, allegedly, could leave their doors unlocked.

The opening year, 1918, was marked by the end of the First World War. This was when the poor old working class, who had given so much, were promised a "land fit for heroes". It might have been thought neat had McKibbin concluded her study in 1945, with the end of the Second World War and the triumph of Clement Attlee's Labour government. Instead, wisely, she included the Attlee years as seminal in relation to what was to come. Public ownership of the means of production and distribution, the National Health Service, improved universal education – each was created in a period of astonishing legislative energy during the six years ending in 1951.

Without the Attlee government, it is arguable there would have been no Beatles, no Mary Quant, no "Swinging London", perhaps even no "Cool Britannia". Either there would have been blood on the streets or else the old England, with all its class-based injustices, would have quietly gone on, languishing in an increasingly stagnant backwater of history.

***Classes and Cultures* covers much of the same ground famously essayed by Orwell and Richard Hoggart; but while academically impeccable it is inevitably less entertaining, less obviously polemical and, one suspects, less enduring. McKibbin looks at the growth of football, popular music and the media. Changes in education, religion and belief and the growth of the universities are examined, as is the stumbling progress of sexuality and sexual morality. Though she adds little to our store of knowledge, she does bring the strands together and subjects them to fresh analysis.**

Most of all, she lays the classes out for our inspection, like corpses on a pathologist's table. The point is made that the aristocracy was never static. True, there were Wodehousian earls and dukes, living in a seemingly perpetual never-never land. But new peers were created, from industry and the legal profession, so that new blood was injected into, most obviously, the House of Lords, now threatened with dismemberment.

More interesting, though, was the position of the middle classes, to which, according to Thatcher, we will all ultimately belong. McKibbin argues that there never was a single middle class. Rather, as a result of suburbanisation, new towns and labour mobility, the middle classes were everywhere, fulfilling roles that had previously not existed or establishing them from scratch in virgin territory. In identifying class as an obvious impediment to social and economic progress, she points out an apparent paradox: while the middle classes were struggling to keep up appearances, the working classes were beginning to race ahead. England – Britain – was keyed up for the 1960s.

Not all the resulting changes have been for the good. Today there is a new arrival on the class scene: the underclass, lacklustre and lacking, motivated by resentment and inclined to violence. There is chronic friction between the native English and ethnic minorities and a shortage of appropriate skills in key industrial sectors. England also boasts a greedy, shortsighted middle class – everyone from "barrow boys" to barristers – that has no wish to see any of its privileges eroded. Finally, there is the residual upper class, in bastard form, refusing, like the Cheshire Cat, to disappear entirely, presided over by an increasingly distraught and neurotic royal family.

Ross McKibbin does not indulge in easy hindsights. Yet what she depicts – an England in which the 1951 Festival of Britain and the coronation of Queen Elizabeth II two years later could be celebrated as evidence of a "uniquely harmonious society" – contrasts rather cruelly with our own times. The Millennium Experience planned for Greenwich in the year 2000 may be many things, but evidence of a uniquely harmonious society is not one of them.

WALTER ELLIS

Art historian Federico Zeri calls them 'hateful and vulgar'. Who does he mean? PAGE 36

TRAVEL ■ Homeless, eternally restless, a special breed of executive inhabits a community of the air, serving companies more powerful than some nation-states

The business of being a global nomad

Pico Iyer

IN HONG KONG recently I spent a stopover with one of my closest friends from school in England. The guest room in his modest, functional apartment was furnished almost entirely with suitcases. On the desk sat a Hewlett-Packard Desk Jet printer, a box of Chinese Standard Version 3.2 diskettes and some personalised stationery (for someone I'd never heard of) from the Oberoi hotel, Bombay.

Against the wall were a travel iron, a worldwide power adaptor and a timetable for Dragonair Systems, a Hong Kong airline. In the bathroom I found a bottle of Thai Air hair treatment, a Delta Airlines business class toilet kit and a British Airways towelette, some toothpaste from an Imperial Hotel, a bottle of conditioner from the Westin Tai Ping Yang, Shanghai, and some Princess Cruises French formula shampoo. Otherwise, nothing.

The apartment was part of a four-storey shopping complex (called simply – definitively – the Mall) linked to three luxury 500-room hotels. It had a Cathay Pacific check-in counter downstairs and 97 high-fashion boutiques further down. Two other guests, who had just flown in for the weekend from Los Angeles on our host's unused frequent-flyer awards, now consulted a room-service menu.

"It's an odd life you lead here," I told my friend, Richard Rawlinson, whom I habitually think of as a Victorian district officer transferred to a digital age. "It is," he said. "Look at this" – and he opened out his wallet to display a rainbow spread of cards: for the Red Carpet Club and Passages membership, for Marriott Miles and Singapore Airlines. He had a Europlus card and a Priority Passenger Service card, as well as 12 different telephone cards, "and, of course, an ETI – you know, Executive Telephone International – and a GSM phone with two SIM cards". He pulled out a mobile phone to demonstrate how the card could be slipped in or out, depending on whether he was in Asia or Europe. All the cards were linked to a credit card for which he got air miles – miles enough, in fact, to send his wife around the world every month free.

I was still taking in the SIM (subscriber identity module) cards when Richard began pulling out envelopes from his briefcase – I counted 27 in all – thick with bus tokens, coins and banknotes for the 27 countries he was likeliest to find himself in the next day. Then he began extracting a stash of crumpled, half-used plane tickets for Hong Kong-London, Hong Kong-Madrid, Boston-Tokyo and all his other regular itineraries. He actually had to petition Britain's Foreign Office to get permission to carry two passports simultaneously, he filled up their pages so quickly. Last year alone – here he checked his laptop – he crossed borders 139 times.

Today's borderless economy means that senior people in business must live everywhere at once

Richard is not extravagantly rich and is certainly no captive to luxury or ambition; he's just an extremely hard-working management consultant in his late thirties who lives and works in a global marketplace that asks him to move as fast as it does. He flies more than most flight attendants do, and courted his wife while she was at business school by flying around the world – London-San Francisco-Tokyo-London – almost every weekend for two years.

He could be reached, he assured me, at 14 telephone numbers on three continents. When we went for a walk in the hills, he pulled out a cellphone and asked his secretary to fix up an appointment for breakfast with his wife. He would, after all, be in 13 different countries in the next 13 days.

Richard is, as it happens, one of the most settled and loyal people I know, but all around us are tens of thousands of other members of a new floating class who may be very much up in the air. The "borderless economy" we hear trumpeted so often means that today's businessmen and women have to live everywhere at once and the speed of global communications means that they can be anywhere tomorrow. Frequent Business Travellers (or FBTs) are the new breed for whom "globalisation" takes root in the stomach and the heart.

Everyone and everything is moving more than ever; in San Francisco International Airport last year I came upon an exhibition on the history of airports – wheels within wheels. It informed me that in 1932, Berlin's Tempelhof, then the busiest air facility in the world, processed 34,000 passengers a year. Now Chicago's O'Hare sees that many in three hours. FBTs could, therefore, be seen as just the travelling salesmen of a multinational age, aero-commuters carrying their personal digital assistants and laptops to intercontinental meetings and clients in Turkmenistan. Not the movie star checking in 40 pieces of luggage to first class, but, equally, not the man in a coach, holding his daughter's hand.

Yet I suspect that they are something more than just supersonic versions of the Phoenician traders or Bedouin merchants of old.

For one thing, these new ungrounded bodies operate in a world where many companies are richer than most countries and the very notion of the nation-state – like loyalty – has been privatised. In a post-ideological world, they cannot know, as easily as the encyclopaedia salesman surely did, exactly where they stand. Flying from winter to summer in an afternoon – or waking up alone in 14th-century Nepal and sitting down for dinner that night with the family in Century City, in Los Angeles – they face, and are forced to find new answers for, the most basic human questions: where do they belong, what is their community and to whom are they most responsible?

The business-class world affects us all, moreover, because it exists as much on the ground as in the air. My friend Richard in Hong Kong, for example, has no car and no real office (save for a tiny desk jammed against a window); his service apartment allows him to function as if he were in a semi-permanent hotel on the rare days when he is not orbiting the globe.

More and more of us are apt to find ourselves, in Robert Kaplan's pregnant phrase, "resident expatriates" living as if we were abroad even when we are at home, in gated communities, with hired housewives, enjoying the quality services of a "concierge lifestyle". For expat traders at least, a city like Hong Kong is a business class writ large, a huge convenience store cum stock exchange cum conference-centre, where the lingua franca is the dollar. There are few taxes and no government and you can do business around the clock. From my friend's $7,000-a-month apartment, it was hard to recall that the place is 98 per cent Chinese.

I describe these decentred souls as "they" because it's easier than saying "we". I choose to fly economy even when I'm on business trips and in any case I hardly leave my apartment for months on end; as a writer, I am free to stay in the middle of the Japanese countryside with nothing more complex than pen, desk and paper. Yet after I visited Richard, I realised, with a shock, how many symptoms of Global Man I share.

On a superficial level, I find myself reflexively checking for Cirrus signs and hunting for lunch, all too often, at 4am. Larry King is the only newsman I know because CNN is the only English-language station available in the hotel rooms of Havana and Hanoi. At a deeper level, I realise that I live in a country where I've never had a job and rely often on World Phones to keep me in touch with a partner 17 time zones away. When I need to see a dentist, I get on an 11-hour flight; when asked to identify myself, sometimes I key in a 16-digit number.

Some time ago, when I realised that I had accumulated 1.2 million miles (1.9m km) on one airline alone and was paying $823 for just one of my monthly telephone bills, I decided to take concrete measures to remind myself of silence and stillness and space – all the steadying essentials obscured in the FBT rush.

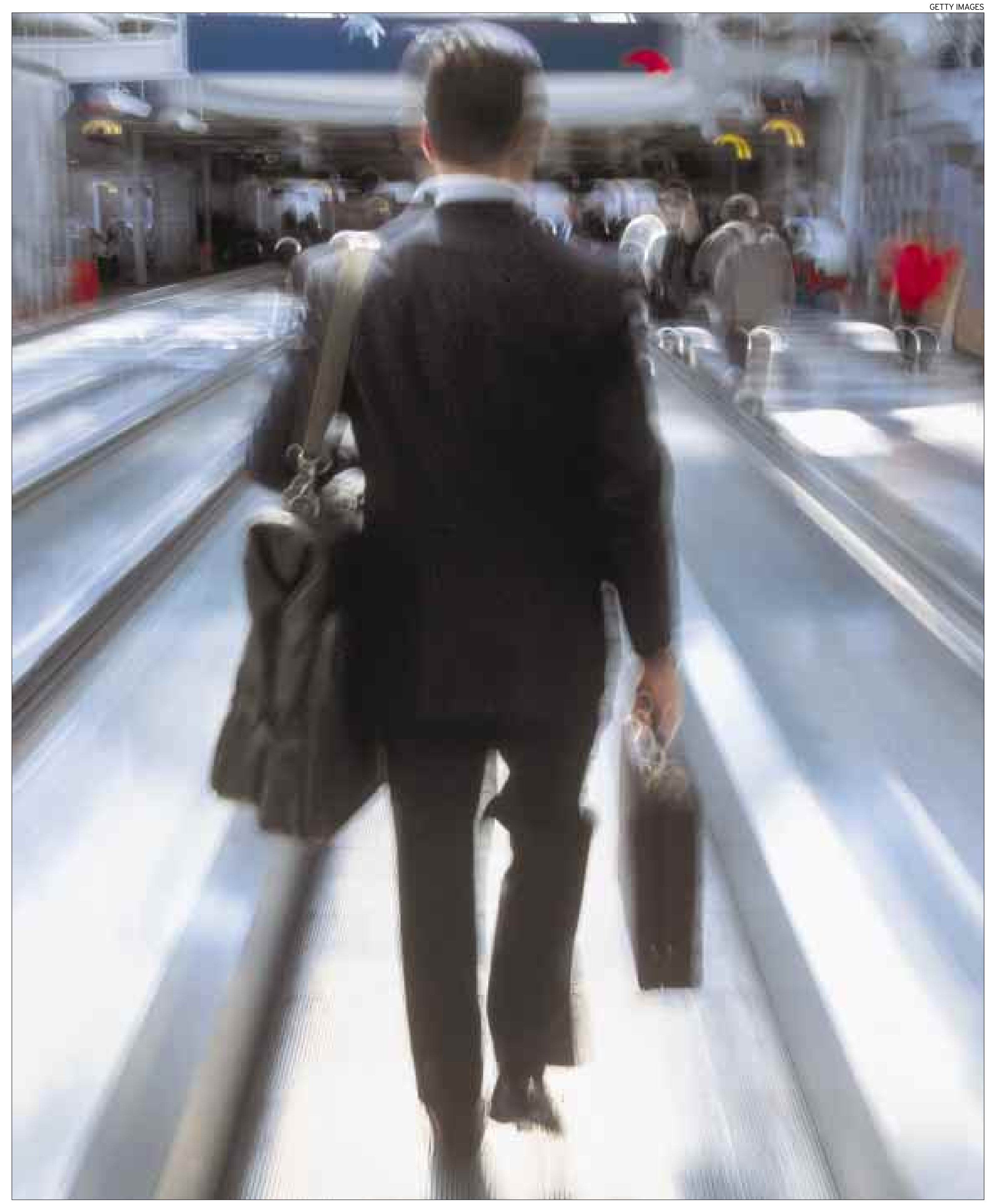
Nowadays, like more and more people, I retreat several times a year to a monastery. But even for those of us who try to resist the accelerating pressures of the age, the very conveniences that make our ease and even our quiet possible propel us into the fast-forward orbit of the world-perks being. Flying into Hong Kong this year, I noticed that even in economy class there was a video monitor on my armrest, and the entertainment guide outlining my options for the three-hour flight was a 64-page glossy magazine. I could send faxes from the plane, receive calls, even draw cash from an ATM.

When I opened the in-flight magazine I felt, as I do more and more often these days, as if I were an alien in need of a new kind of dictionary. The ads sang of Skytel alphanumeric paging services, videophones, voice-file portable IC chip recorders and digital cameras with "built-in pc cards".

At my friend's breakfast table I picked up the daily newspaper and read that British Airways offered 282 flights to Europe. There is a putting green in Palm Springs Airport, the international paper told me, and a casino in Amsterdam's Schiphol airport. You can go bowling in Frankfurt Airport, or do your dry cleaning, or take in a racy movie. A small guidebook has been written on how to live while between planes at O'Hare.

We are almost accustomed now to the fact that airports, with their discos, dental clinics, in-house wineries and 120-store sky malls, are often as compendious as cities. Dallas-Fort Worth International Airport is larger than Manhattan. But that sometimes obscures how many cities, set up for speed and convenience and catering to a swirl of tongues and tribes from somewhere very distant, now look more and more like airports, with their food courts, chain stores and signs for Pizza Hut Express. The practical assumption is that everyone's just passing through.

GETTY IMAGES



The paradox is, of course, that so much of our technology – fax machines, modems, e-mail, video-conferencing – is designed to help us get around the distances of space. I can sit here in Japan and transmit this article to editors 6,000 miles away with an ease almost unimaginable even a decade ago. Yet somehow all our new opportunities seem to run ahead of our understanding of them. We spend more and more time fixing timesaving devices and our communications facilities are adept at communicating communications glitches.

Business class belongs to a globe where passengers are separated from the less fortunate by barbed wire and guards

The very efficiency with which we have eliminated the need to meet face to face has made "the human touch" all the more precious. Study after study shows that now that we can get from Hong Kong to New York in 14 hours, instead of 21 days, we are not using those extra 20 days for doing something useful; we are just moving back and forth more and recovering from the flights.

If the first rule of technology is that nothing, once discovered, can be undiscovered, the second, more troubling, is that no device, once created, will go unused. Doctors warn us that frequent flying can lead to severe back injuries and hearing loss, to moodiness and divorce. But the moral and emotional effects of jet lag have not yet been gauged or do not show up on screen.

We are not ourselves when we are up high. The FBT has all his needs taken care of, except the ones that really matter. When Richard's wife and I waited for him to come home for dinner, we had to turn on the television set. (International arrivals were shown on Channel 6.) The trouble was, neither of us knew which country he would be coming from.

The brave new world of frequent business travellers represents, of course, only a tiny fraction of a planet in which something like half of all people have never used a telephone. But it is a highly visible and influential fraction that is in a position to design a world according to its needs.

Global technology has already doubled the gap between the richest and the poorest in the past 30 years. The very point of business class is that it allows you to be screened off from the world at large, behind a curtain; we will pay – or, better yet, let the company pay – $1,800 extra for just six hours free from the clamouring riff-raff (with a different counter at which to check in, a separate lounge in which to wait).

That such divisions are increasingly popular in a world where other borders are collapsing is evident from the fact that connoisseur class services are booming and have spun off cousins in hotels (with their executive floors) and car-rental agencies (with their gold card lines). Virgin Atlantic, incorrigibly cheeky, calls its top-deck and front-of-the-plane seats "upper class".

Business class belongs, I suspect, to a globe in which, in many cities from Addis Ababa to Port-au-Prince, passengers in the air are literally separated from the less fortunate by huge barbed-wire fences and armed guards. If its driving truth is the line delivered by a Russian en route to Kazakhstan at the end of Don DeLillo's *Underworld* – "Geography has moved inward and smallward" – its consequence is given voice by DeLillo's literary cousin, Haruki Murakami, in *The Wind-Up Bird Chronicle*, in which the out-of-body narrator amiably reports: "My reality seemed to have left me and now was wandering around nearby."

"Perhaps the strangest thing," Richard told me just before I left Hong Kong, "is when I'm sitting here next to my wife and I'll call up her voice mail in Massachusetts to leave a message."

"Because she can listen to it repeatedly and take down all the details ?"

"Yes," he said, sounding almost as bemused as I was.

What a terrifying thought, I reflected – until, a few weeks later, I found myself doing exactly the same thing. ■

Pico Iyer writes for The New York Times Magazine. *He is completing a book on the global soul*

ART HISTORY

The angry old man of Europe

Dalbert Hallenstein

FEDERICO ZERI, one of Europe's most distinguished living art historians, is also one of the continent's angriest men. His anger is directed exclusively at one country and one people: Italy, where he was born 77 years ago, and at his fellow citizens. "Italians are suffering a terrible identity crisis," he said. "I feel that the country is degenerating day by day: the trains don't work, the streets are full of holes, the cultural heritage is virtually abandoned. Every day innumerable works of art are being exported illegally. The destruction of our art heritage is a vast crime; it is eating up almost everything, especially in the provinces and in the south."

Zeri was John Paul Getty's art consultant for many years and helped create his celebrated Californian collection. Sharon Fermor, head of painting and a specialist in Italian art at Britain's Victoria & Albert Museum, calls Zeri one of the world's "very best art historians. His writings on 17th-century Italian art are of major importance and are very highly considered in international academic circles."

But Zeri is unhappy: he is convinced that the reason for the appalling condition of Italy's heritage is what he considers the indifference of its dominant middle class, whom he describes as "hateful, vulgar and without any real culture".

"After the fall of the Roman Empire Italy was a country in which culture and wealth were in the hands of the nobility: that is, a very small fraction, three or four per cent, of the population," Zeri said.

"It never developed a cultivated burgher class as in England or Germany. The remaining part of the population consisted of peasants on the verge of starvation.

"After the collapse of the old aristocracy in 1797 with the arrival of Napoleon, a real middle class never emerged. The reason goes back to the Counter Reformation: the Church never wanted an Italian bourgeoisie to emerge because of its capacity for criticism and revolutionary ideas. After Italy's lightning industrial revolution in the 1950s, agriculture ended and the peasants came to the cities and rapidly became the middle class of today. But it's a middle class whose culture has been created almost exclusively by Italian television (the worst in Europe), by the newspapers and by weekly magazines. The result is a crass and vulgar middle class.

"Just look at the squalor around here where I live," he said, pointing out of his library window at the shabby concrete houses and sheds intruding on the borders of the lush grounds of his luxurious villa, crammed with Greek and Roman statues and Renaissance pictures and tapestries. He lives alone in the countryside outside Rome with a housekeeper and gardeners.

"My fellow Italians are even destroying the ancient monuments," he continued. "You should see most of Italy's parks: the statuary is without heads, smashed with hammers. It's a tragedy. What can you do? When you ask the politicians and art authorities they say that these things were not masterpieces. Nothing is considered important unless it is a great and acknowledged masterpiece.

"There is a project to pave part of the piazza of the Basilica of San Francesco in Assisi with multicoloured stones from various countries, China, India, Israel and so on, to symbolise the universality of Assisi. One could vomit at the thought of the disharmony with the great church. But this vulgar, ruinous project has been approved by the fine arts authorities.

"Not far from here," he said, "there is a little country church. It had a Roman urn in the sacristy of the greatest beauty. In the church there was a huge niche with 10 statues in terracotta from between the 15th and 16th centuries. Recently all were smashed by vandals. There are no photographs of them because the art authorities didn't consider them important enough. The truth is that they couldn't care less. Such things happen every night. There are entire regions of Italy without catalogues of what is in them, including Lazio and Tuscany."

Zeri has spent much of his career working outside Italy. His happiest years were the 1960s and 1970s, spent working in Britain and America as art consultant to John Paul Getty. He was also teaching at Harvard and Columbia universities. He was a passionate socialite, moving freely between the worlds of Rome's aristocratic drawing rooms and Getty's extensive circle of lovers, many of them Hollywood stars. He became friends with Bette Davis, Joan Crawford and, in particular, Greta Garbo. "Yes, she was sad and lonely," he said. "But she could also be incredibly funny. Her speciality was imitating other Hollywood stars."

Around this time he began to make himself extremely unpopular in art and museum circles by identifying embarrassing fakes in important collections. Two of these were the so-called fifth-century BC Ludovisi throne, owned by the Italian state, and the throne of the same period now in the Boston Museum. Both, he claims, are masterpieces of a late 19th-century Roman falsifier who has also contributed works of ancient Greek art to museums throughout the world.

"Fakes," he said "are fascinating. People like in a fake what is fake. No one is capable of escaping his own time: in every fake there is a trace of the period when the painting was painted. What people subconsciously like are exactly those contemporary hints and clues. The Ludovisi throne in Rome has about 30 such mistakes. Some are preposterous."

He eventually fell out with the management of the Getty Museum in Malibu because of what he was convinced was a fake ancient Greek statue of a male figure. The museum insisted on acquiring it and he resigned. "I don't want to talk about the museum; it was a great sorrow."

Zeri is also convinced that the Giotto cycle of the life of Saint Francis in the upper basilica of St Francis in Assisi (which includes the famous *St Francis preaching to the birds*) is not by Giotto at all. "They are wonderful paintings, but not in the style of Giotto. They are important but they are by 13th-century Roman painters."

His capacity for making enemies is insatiable. Earlier this month he was awarded an honorary doctorate by Bologna University, Europe's oldest. He characteristically thanked the assembled academics by condemning Italian universities as corrupt and mediocre, thus adding scores more to his long list of enemies.

In his old age he continues to work every day in his vast library, receiving dozens of requests to identify statues and paintings.

"I live here in fear," he said, "barricaded in during the night. I have suffered six assaults. They even made a hole in my library wall and stole an important picture, all my Italian majolica and Greek and Roman statuary. But the *carabinieri* found the statuary in Modena with a dealer. The *carabinieri* is one of the few Italian institutions which functions well. I have great faith in them."

Since 1969 a special branch of the *carabinieri* has been dedicated to the rescue of stolen works of art, recovering 36,531 pieces in 1996.

"There are still things that work in Italy: the *carabinieri* work, certain university professors work, some dealers are honest, a few hospitals work well, certain publishers too. But otherwise there is nothing." ■

FSP

Federico Zeri: 'The destruction of Italy's art heritage is a vast crime'

PAINTING

The fine art of faking it – legally

Lee Marshall
ROME

WITH Van Goghs, Renoirs and Picassos regularly topping the $10 million mark at auction, the search for the right piece of art can be an expensive proposition. If you have your heart set on an original work by a big-name artist but are reluctant to cash in share options, help is at hand.

Daniele Ermes Dondé sells an original Van Gogh *Sunflowers* for around $10,000. Of course, "original" is a relative concept: Dondé sells original fakes. *Legal* fakes, he is keen to point out – complete with a certificate of authenticity which solemnly declares that this *falso d'autore* (master forgery) is "a work valued and authenticated by artistic researcher Daniele Ermes Dondé". Based in the north Italian town of Cremona, Dondé has a stable of around a dozen artists working for him, scattered all over Europe, each specialising in a period or even a single artist.

Italian Giorgio Dalla Zorza is a Van Gogh specialist. In England, Fleur Beverley is a dab hand at Gauguin. Hungarian forger Ravasz Lajos is more versatile, equally happy to take on Rembrandt, Renoir or Cézanne. Painting "in at least 50 per cent of cases" in front of the originals (whether they hang in museums or private homes), Dondé's collaborators take time over their masterpieces, choosing canvas, paints and brushes carefully and reproducing the cracked glaze of a Rembrandt or the thick furrows of a Van Gogh.

Robert Pastor, a Flemish specialist, says that the challenge is to "show that although these great painters had the idea, the inspiration, you can match them at least on a technical level". But he also admits that tricking the experts is "an extra thrill".

The law of supply and demand is as relevant here as in any business. "I have two painters capable of producing truly great Van Goghs," says Dondé. "Each turns out maybe 40 a year, and given the demand for Van Goghs that is what sets the price at $10,000 to $15,000. I started out with the idea of bringing art to the people, but it hasn't turned out that way."

It certainly hasn't. The glossy catalogue produced by his Accademia Arte dealership opens with dozens of photographs of Dondé posing with the rich and famous. Here he is with blow-dried hair and a solarium tan, presenting a Van Gogh self-portrait to Arnold Schwarzenegger. Other photographs show him with Sophia Loren and Prince Albert of Monaco.

Is Dondé, like Zelig, some huge fake? After all, this is a man who until 15 years ago was selling shoes. But for Dondé, selling fakes is not just a way of hanging out with the stars; it is also a serious business. His company, Accademia Arte, generates an average annual income of L5 billion ($2.8m) in foreign sales alone.

The idea came to Dondé when he became the victim of a forgery. He bought a painting by Italian artist Aligi Sassu from a bona fide gallery. A few years later he showed the painting to Sassu. The painter was taken aback. "I never painted this," he told Dondé. "But it is not a straight copy of one of my paintings either."

So fascinated was Sassu by the unknown forger's ability to capture his style that he made a perfect copy of the forgery – which he presented to Dondé. It was then, says Dondé, that he realised that forging is a creative activity in its own right.

In 1984, having put together a team of forgers who he considers "among the best in the business", Dondé started organising exhibitions in galleries and hotels around Europe. "People threw stones at the gallery windows, I was arrested and I lost most of my friends. They treated me as if I was a drug dealer."

But gradually the idea of the "legal fake" began to catch on. Today it has become a status symbol. The Sultan of Brunei snapped up 70 of Dondés fakes when he saw them on display at Harrods in London. Diana, Princess of Wales owned seven Dondé Impressionists, most of which were Degas ballerinas. Frank Sinatra has a room in his Palm Springs villa for his 12 fake Modiglianis, and he owns 10 other Dondé fakes, including a number of Van Goghs.

The prices of Dondé fakes vary from a few thousand dollars up to as much as $40,000 for a specially commissioned oil painting. But some will pay even more.

"A Swiss millionaire asked if we could copy an 18th-century Venetian landscape his wife was crazy about; he wanted to give it to her as a birthday present. He offered us a Sfr100,000 [about $67,000] on condition that his wife never suspected the trick. It goes without saying that he never had to ask for a refund."

Dondé believes that the authority of the original is finally being challenged. "Many of my clients commission copies of paintings they own. The original goes back into the safe, the copy on the wall. Now, let's say there is a robbery. That Cézanne still life goes on to the black market as an original. Or, say, a famous collector leaves a number of his paintings to a museum – something which is encouraged by generous tax incentives. How can we be sure there aren't copies in among the originals?"

The Kunsthaus museum in Zürich is already interested in opening a special pavilion dedicated to Dondé fakes. He predicts that legal fakes will soon start to replace the originals in the world's museums. "They'll put the originals in bank vaults, but sooner or later the original and the fake will have the same value." ■

Daniele Dondé's Accademia Arte is at Via Palestro 1, 26100 Cremona, Italy (tel +39 372 33920). Dondé's website is reached at: http://www.museeimaginaire.it

OLYMPIA

The original with one of his fakes: Daniele Dondé

Channel coast marks gap in the market

Galina Slepneva

ONLY 34 kilometres separate the property markets of England and France and the two countries are now linked by the Channel Tunnel. Yet a gulf still divides them.

The Nord-pas-de-Calais region of France has reinvented itself as a transport hub in northwest Europe; 100 million of the world's richest consumers – the Ruhr, Brussels, Greater London and Paris – are within a 300km radius and can now be reached within minutes. Brussels is only 38 minutes away by TGV fast train.

According to Datar, the French inward investment agency, one-third of France's inward investment flows into the region. On the French side of the Channel the market for residential property is secondary to the commercial/industrial sector.

On the other side it's a different story. Whereas Lille-Metropole was desperate to obtain an international railway station and French towns in the Nord-pas-de-Calais lobbied for the Channel Tunnel rail link to run through their territory, on the British side attitudes to the tunnel and high-speed link were less enthusiastic.

"A vociferous minority", according to Sandy Bruce-Lockhart, leader of Kent County Council, opposed the tunnel and the rail link to London. In 1989 10,000 marched to "Sink the Link." The protesters, many natural supporters of the Thatcher government, feared that rabid dogs and unwanted foreigners would slip through the tunnel, their property values would be blighted and the environment damaged.

As well as this opposition, the prevailing Thatcher orthodoxy required that private capital should pay for the infrastructure project.

The political and financial climate was never right for the high-speed link to London, which is why it has not yet been started. London & Continental Railways (LCR), which was planning to build the link, has run out of money. LCR has been given until 31 March to come up with a viable financial solution.

The effect on Britain's wider economic interests is most keenly felt in the commercial/industrial property market, where construction projects at King's Cross, Stratford and Ebbsfleet predicated on the rail link remain on the drawing board. A study undertaken on behalf of the Fast Tracks to Europe Alliance says the absence of the link has cost 50,000 new homes, £500 million ($820m) and 100,000 jobs in regeneration value. Meanwhile, the presence of the international station at Ashford, Kent, has attracted SBE, the French mobile telecommunications repair company and K'NEX, the American toy maker whose European distribution is centred there.

The property market in Kent is dominated by the residential sector. Foxtons, the estate agency, explains that the priorities for residential buyers in Kent are not access to the Channel Tunnel and Europe but commuting times to London, good schools for the children (of which there are many) and the country-side; Kent is known as "the Garden of England".

British homes have cost more than their French counterparts. In Maidstone, Kent, a newly built 200 square metre home with five bedrooms and three bathrooms costs £275,000 ($450,000, or $2,250 per sqm). A similar sized property in Lille-Metropole costs Ffr2.4 million ($391,200, or $1,956 per sqm). The French buy new, resolutely modern apartments. British buyers aspire to detached properties, many built in the spirit of ersatz ruralism.

Lille-Metropole has understood its unique selling proposition at the core of a frontierless Europe. Toyota chose Nord-pas-de-Calais to locate its new car plant, the largest built by a Japanese company in Europe. The components come from the British side, as suppliers have daily uninterrupted access through the tunnel, but the Japanese were deterred from locating in the UK because of its negative attitude to the single currency, according to Bruno Bonduelle, a leading local politician in France and businessman who met Toyota top brass in Tokyo last year.

In the European Union, member states fight hard to secure inward investment for their less well-off regions. Planned as a boost to infrastructure, making such investment more likely, the tunnel and its high-speed link is bringing wealth to the Nord-pas-de-Calais while Kent misses out.

KATZ

Not in my farmyard: an early British protest at the Channel Tunnel link

For more information or to advertise in the classified pages, please contact us on
Tel: +44 171 7883, Fax: +44 171 713 1835, E-mail: classified@the-european.com

BUSINESS TO BUSINESS

BUSINESS SERVICES

BUSINESS TO BUSINESS

BUSINESS TO BUSINESS

BUSINESS SERVICES

READERS' NOTICE

Readers are advised to seek appropriate professional advice before sending any money or entering into any commitments. *The European* cannot be held responsible for loss or damages incurred as a result of responding to advertisements.

CONFERENCES & EXHIBITIONS

BUSINESS FINANCE & INVESTMENTS

BUSINESS DIRECTORY

BUSINESS FINANCE & INVESTMENTS

GLOBAL PROJECT FUNDING

VENTURE CAPITAL – JOINT VENTURES – PROJECT FINANCING

ABS

INTERNATIONAL VENTURES

TEL: +44 113 2727 550
FAX: +44 113 2727 560

FINANCIAL GUARANTEES

Insurance/Reinsurance guarantees as credit enhancement for international business projects.

Tel. +1 561 998 3222
Fax +1 561 998 3226
USA

http://www.northcorp@worldnett.att.net

If you require venture capital, project finance, bank or insurance guarantees, offshore bank accounts or import/export leads, you need World Money Exchange.

Call +44(0)1494 483 728, (FAX 484039).

E-Mail:
WME@Estelle-Alan.Com
Web site
WWW.Estelle-Alan.Com

INVESTMENT PROGRAM MANAGEMENT INC.

THE OBJECTIVE

over **30%** p.a

A PROGRAM DESIGNED SPECIALLY FOR THE PRIVATE INVESTOR

FUNDS DEPOSITED IN YOUR OWN ACCOUNT WITH A LEADING LONDON STOCKBROKER

MONTHLY PAYMENTS IF REQUIRED

INCOME PAID TAX-FREE

ALL MAJOR CURRENCIES

There is a strictly limited capital risk which is fully described in the Prospectus.

The minimum investment is $40,000 or the equivalent.

IPM Inc specialises in high-return limited-risk investment programs for the private investor.

Send for the Prospectus without cost or obligation.

Your name and mailing address in confidence to:

Tel: +34 5277 3500 Fax: +34 5282 5498
e.mail: york@arrakis.es

ARE "YOU" LOOKING FOR FUNDING?

- Property Finance
- Venture Capital
- Equity Participation
- Worldwide Project Finance

As a successful Lending House we provide funding on a status and semi-status basis worldwide without delay.

For a fast decision "In Principle" Tel +44 (0)161 792 4444 Or Fax brief details to +44(0)161 792 4400

ALLIANCE INTERNATIONAL VENTURES

International Finance and Equity Funders

COMMERCIAL & JOINT VENTURE Funding. Projects over US$1,000,000 considered, we are also able to assist with Leasing and Private Placements. Tel +44 1222 397793 Fax: +44 1222 221128

CORPORATIONS with bank accounts immediate transfer merchant facilities private numbered accounts +44-(0)151-920-2455 Fax 2457.

INTERNATIONAL FINANCE AVAILABLE For all types of projects world-wide. Very competitive rates. Acceptance within 7 days. Initial enquiries by fax to +44 (0) 141-339 8298 or e-mail global.capital@virgin.net

IMMEDIATE & UNLIMITED

Capital available for ALL viable commercial projects! Minimum U.S. $1 million - NO maximum.

Tel: 717-397-7777
Fax: 717-397-7490
(USA)

INTERNET
http://www. intbuscon.com

Int'l Accountants, Corporate Finance Investment & Tax Consultants

www.the-european.com/icr/html
e-mail: icrltd@rocketmail.com

Tel/Fax: (44) 1245 348 668
Tel/Fax: (47) 22 421 322

Funds Required

Funds required on a secured and guaranteed basis for property developments, higher rate of interest together with bonus to lender, through emission payment on funding of agreed loan.

Full details of available funds to **Box No. P500 The European, or Facsimile 0181 295 0621**

BUSINESS FINANCE AVAILABLE

- for any viable projects worldwide. Fax brief synopsis in English to: Corporate Advances UK on

+44 1273-621300

PROJECT/CORPORATE FINANCE available, world-wide coverage. V.C also available, broker eng welcome Tel:00+44(0)161 909 1012 Fx:00+44(0) 161 909 1013

FRANCHISING

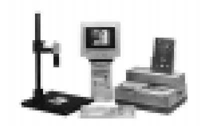
Can a one time investment of $25,000 generate a monthly income of $10,000?

Yes, it is possible!

With Kema's
GOLD AND CASH MACHINES!

Produce instant portrait fotos on T-Shirts, Coffee Mugs and Gold Medallions. Operate from home and deliver to dealers or set up in foot traffic areas where customers come to you. No direct selling involved. Simple to operate and transport with average car.

KEMA SYSTEM,



Box 5564, D-65730 Eschborn, Germany.
Tel: +49-6173-32 20 32
Fax: 32 20 37 or 32 20 34

LANGUAGE SCHOOL FRANCHISE

ALEXANDER/ATHENA LANGUAGE SCHOOLS

ALS

Seeking Franchisees to set up schools in any country. Also Development Agents, Representatives. More than 30 years in operation. Over 100 units/language schools.

Alexander Int'l, 2 Lansdowne Row, Suite 288, Berkeley Sq. London W1X 8HL England
Fax+44-171-493-4935 E-mail:Interalex@hol.gr

SUBWAY

Sandwiches and Salads

13,000 + Stores in 64 Countries

Opportunities available for area developers and individual franchisees.

- **Low start-up costs**
- **Simple operation (no cooking involved)**
- **We bake our own bread!**
- **Complete training**
- **Continued support**

For Franchise and Development Information
Contact the U.S.A. Headquarters
Mr. Keith Cross 1-203-876-6622 or
Mr. Moussa Ndiaye
1-203-877-4281 ext. 1314
fax: 1-203-876-6688
Write: 325 Bic Drive
Milford, CT 06460 U.S.A.
http://www.subway.com
e-mail: franchise@subway.com

Patented Long Crack Windscreen Repair

National Licensees Wanted 9 years success in the US, unique patented process, realistic costs, huge market.

Fax CrackMaster
+44 1203 350870

BUSINESS OPPORTUNITIES

HOTEL EXPRESS
INTERNATIONAL

Sales Agents and Distributors

Hotel Express International, among the world's leading hotel discount programmes offering great discounts at more than 3,000 hotels worldwide, invites regional and national agents to join us on a franchise basis.

Call Tom on tel: *+47 38 07 01 77*, or fax us on *+47 38 07 07 42*.
www.hotel-express-int.com

#1 Home Business In USA

Cash in with your phone and a computer!

AutoDialer VoiceMail
Fax On Demand
Matchmaker Chatline
Yellow Pages

VoiceWorld
THE CHOICE FOR VOICE

Get started from $1998

Evaluation Demo - $50 (+ ship)

602.922.5500 VoiceWorld.com

SELF-MADE MILLIONAIRE

...reveals streetwise money-making secrets others won't tell. Send for FREE details - you won't be disappointed - to: JOHN SCOTT, DEPT EUR, P.O. BOX 40, Gateshead NE8 1PD
Or phone +44 (0)191 487 4087 anytime

'International Opportunity for Ambitious people

6 figure income potential

Call +44 181 2364833

(Not MLM or Franchising)

START YOUR OWN IMPORT/EXPORT AGENCY

No capital or experience req. No risk. Work from home. Part/Full time. Help desk incl. Est. 1946. Clients in 120 countries. FREE BOOKLET

WADE WORLD TRADE

Dept 2C34 50 Burnhill Road Beckenham, Kent, BR3 3LA
Tel: +44 (0) 181 650 0180 (24hrs)
Fax: +44 (0) 181 663 3212
http://www.wadetrade.com

Become an
OFFSHORE FINANCIAL ADVISOR

Six-figure potential
(702) 883-1944
Fax:(702) 883-0267

COMMODITY DEALERS & STOCK FOR SALE

STOCK PLC

GROUP OF WORLDWIDE COMPANIES OFFER THE CHEAPEST STOCK ON THE WORLD MARKET.

WE ARE LOADING DAILY CONTAINERS FROM INDONESIA

DUE TO THE CURRENCY SITUATION WE CAN OFFER VERY CHEAP STOCK NOW

BRANDED TOILETRIES

CONTAINERS OF ADULT CLOTHING

EVERYTHING IMAGINABLE 98p

CHILDREN'S CLOTHING 60p

FOOTWEAR

ELECTRICALS

CAN SHIP ANY COUNTRY WORLDWIDE ALSO

VAST STOCKS AVAILABLE UK FROM OUR WAREHOUSE

PLUS LOADS OF BANKRUPTCY & LIQUIDATION DISPOSALS

44-121-552-5522
FAX 44-121-544-0444
E-MAIL: stock@dial.pipex.com
http://www.stock.plc.uk

MAIL ORDER COMPUTER MANUFACTURER

has excess stock. Full P200+MX IBM Multimedia Systems excluding monitor, GBP 5+349, 1+379.

Also available competitively priced components/builds

MOC LTD.

Tel: +44 1254 388350
Fax: +44 1254 388351

GENERIC CIGARETTES American blend tobacco, lowest prices, private labelling available. FAX USA: 1 (954) 474-3866

LEVI'S 501 AND other brand names on a regular basis Tel:514-845-2204 Fax:514-845-3834 Canada

SUGAR, UREA, CEMENT & PETROLEUM PRODUCTS available. Large volumes. Fax: +46-31-263173

LIQUIDATION OF CONSUMER goods made in Canada/USA on a regular basis. Canada T. 514-845-2204, F. 514-845-3834

PERFUMES, TOILETRIES, TOOTHPASTE. Lowest Prices. Fax: +44 (0) 1273 606924

ROBUSTA COFFEE BEANS, African origin, lowest prices, telefax USA+954-474-3866

SCRAP METAL #HMS-1, lowest prices volume only, Fax USA+954-474-3866

UNINTERRUPTED POWER SUPPLY units 250VA-2KVA. Ideal computers, telephone systems, office equipment, brand new. USA manufactured. Spare batteries included. Telexport Trading Company. Tel: +44(0)1233 756564 Fax: +44(0)1233 756511

USA COMPANY seeks to purchase rough diamonds, african origin, gems quality, large volume only. Fax USA: (954) 474 3866

WANTED ARMANI, VERSACE CK, Helmut Lang and other designer labels; for further information please fax: +44 1274 200061

BUSINESS OPPORTUNITIES

AN INCREDIBLE INVENTION Proven to cut electricity costs by up to 40%. Manufacturer seeks UK and overseas distributors for this top quality high tech product with amazing cost saving results. Initial investment £20,000 (FAX: 264325) for info pack.

EARNINGS POTENTIAL £600 - £2,000 per month. F/P TIME. CALL: +44 (0)1737 507 695 (24 HRS INFO LINE)

U.K COMPANY LOOKING for healthcare products to sell to retail pharmacy stores Tel/Fax +44 161 282 1285

USA COMPANY inventors of world's easiest "diet" seeks distributors. Unique lifetime opportunity. CRA-Dept 505, PO Box 720250, Miami, FL 33172-0005 USA fax (305) 591-9043

BUSINESSES FOR SALE

Newly formed

(UK) PLC Company

FOR SALE

£100,000,000

One Hundred Million

Share Capital Company

High Credit Rating

unencumbered "clean" company

perfect as vehicle for acquisitions,

the package includes US$ 100M Bearer Bonds

for discounting in the future

For further information

Phone: 01273 239240
Fax: 01273 239241
Quote Ref SB1

DIAMONDS

DIAMONDS SPECIAL OFFERS

Investment with no risk

Call Belgium
Tel:+32-7595-1023
Fax:+32-3213-0857

OFFSHORE BANK FOR SALE

Call:(USA)
310-376-3480

Fax: (USA)
310-798-3842

Worldwide Business Consultants, Inc

To advertise in THE BUSINESS DIRECTORY or to reply to box numbers, please contact us on
+44 (0)171 418 7876

EDUCATION

UNIVERSITY OF SOUTHERN EUROPE MONACO

In a class of its own

Call Ms. Grisel Damgaard at
Tel: +377 92 057 057
Fax: +377 92 052 830
e-mail: use@monaco.mc
Campus address: Stade Louis II
2, av. Prince Héréditaire Albert
MC 98000 MONACO

U.S.E. is fully accredited in the United States and the Principality of Monaco

U.S.E., located in the heart of Monte-Carlo`s bustling Fontvielle business district, offers a wide range of programs and enjoys a world-wide reputation for academic excellence.

UNDERGRADUATE

- BSBA - Bachelor of Science in **Business Administration** Degree in Monaco (4 years)
- Dual Bachelor Degree in **International Business or in Engineering** with the University of Southern Carolina (2 years in Monaco, 2 years in Columbia, USA)

GRADUATE

- **MBA** - Master of Business Administration (1year)
- **Executive MBA** (2 years)
- **International MBA** (1 year)
- Master in **Financial Management** with the S.A.A of the University of Torino, Italy and the Leonard Stern Business School, New York University, USA (1 year)
- **DEA/PhD** with the C.R.R.M of the University of Aix Marseilles III, France

University College Dublin

An Coláiste Ollscoile Baile Átha Cliath

MASTER'S DEGREE PROGRAMME IN EUROPEAN ECONOMIC AND PUBLIC AFFAIRS

The Centre for European Economic and Public Affairs (CEEPA) at University College Dublin offers a Master's programme dealing with the European Union. The programme is interdisciplinary (Economics, Business Administration, Political Science and Law), has a strong policy orientation and includes study visits to Brussels and Florence.

For further information and application forms contact:

The Director, Centre for European Economic and Public Affairs, (Ref: EUR98), University College Dublin, Belfield, Dublin 4, Ireland. Telephone: (+ 353 1) 706 7634. Fax: **(+ 353 1) 269 2589.** Email: **Dolores.Burke@ucd.ie**

Website Address: http://www.ucd.ie/~ceepa

LEARN COMPLETE GREEK

Reading, Pronunciation, Vocabulary, Grammar and Sentence Generation on your computer from our Read and Speak Greek CDROM.

Website:
http://www.anotek.com
E-mail:
georgeb@anotek.com
Fax: (310) 450-0867 in USA

Institute of Commonwealth Studies
School of Advanced Study
University of London

MA in Understanding and Securing Human Rights

The Institute of Commonwealth Studies offers a 12-month MA in Understanding and Securing Human Rights open to both full and part-time students.

The degree, which is interdisciplinary in nature, is open to holders of a good honours degree in any subject and is intended both for aspiring academics and for persons who are or wish to be human rights professionals.

Leading authorities analyse human rights from the perspective of history, philosophy, law and the social sciences. Serving professionals from human rights agencies based in London analyse the practicalities of their work and explain their techniques. Placements with human rights agencies can be arranged.

For further information contact: Mrs Rowena Kochanowska, Institute of Commonwealth Studies, 28 Russell Square, London WC1B 5DS.

Closing date: 31 May 1998.

What`s the difference between a 590 GMAT* score and a 670 GMAT score?

Simply 80 points?
Or acceptance to a great Business school rather than a good Business school?

According to the 1996 US News and World Report on Best Graduate Schools, the difference in starting salaries within the top 25 business schools is £15,000

And remember, the GMAT is now only available on computer - why take your chances with outdated books, and old released examinations

Kaplan is the World Leader in GMAT-CAT test preparation, with the resources, facilities, and proven results that can only come from 57 years of test prep expertise

We will teach you what to study, when to study, and how to study; so come test day, the GMAT-CAT will be second nature

......just 80 points really can make the difference, and 80 points is our GUARANTEED score improvement

Choose the course that means business....choose Kaplan

Call about our free, monthly GMAT CAT seminars...

KAPLAN®

3-5 Charing Cross Road, London, WC2 OHA
Tel: 0171 930 3130 Fax: 0171 930 8009
Email: gmat@kaplan.demon.co.uk

★ GMAT is a registered trademark of the Graduate Management Admissions Council which is not affiliated with this programme.

Freelance Journalism

Diploma courses for freelance and news journalism by distance learning. Benefit from our 78 years of teaching success and build a new and rewarding part-time or full-time career in this profitable area. Prospectus from:

LONDON SCHOOL OF JOURNALISM
EP, 22 Upbrook Mews, London W2 3HG
Tel: 0171 706 3790 Email: EU@LSJ.org

PRESTON UNIVERSITY

Cheyenne, Wyoming, USA

BBA • MBA • MS • PhD

Distance Learning

Business Administration • Computer Science • Education

Accredited • Licensed by State Dept. of Education

Also on-campus programs available at Cheyenne campus in USA and at 22 affiliated centers worldwide

Preston University, Dept. EU398
1204 Airport Parkway • Cheyenne, WY 82001 • USA
Tel: + 1 (307) 634 1440 • Fax: + 1 (307) 634 3091
Email: admissions@preston.edu • www.preston.edu

interested in
Art & Design?

highly renowned international design practice chosen for the Millennium Dome

has exclusive summer course for visitors to the UK

Colour Prospectus
tel 01483 458003
message/fax 458002
e-mail
design-management@lineone.net

BBA Bachelor of Business Administration
MBA Master of Business Administration

BBA: four-year undergraduate degree (full-time) starting October or March.

MBA: one or two-year graduate degree (evening classes) starting October, January or April.

Strong academic course of study plus practical training, including yearly in-company internships arranged for undergraduates.

THE NUMBER ONE BUSINESS SCHOOL IN BRUSSELS
Global programs for ambitious students

Official affiliation with: Mercer University, USA

UNITED BUSINESS INSTITUTES

Avenue Marnix 20
1000 Brussels - BELGIUM
Phone: 32 2/548 04 80
Fax: 32 2/548 04 89
E-mail:info@ubi.edu
http://www.ubi.edu

Study Law with the University of Northumbria...
...anywhere

LLB (Honours)
Open Learning

- Open Learning study with a wide range of subjects.
- Structured study materials and guidance manuals.
- Optional attendance on study sessions.

LLM in Advanced Legal Practice
Distance Learning

- An opportunity for qualified lawyers to develop their professional knowledge and expertise.
- Project only route.
- Expert supervision.

Common Professional Examination/Diploma in Law
Distance Learning

- The course for non-law graduates who wish to qualify as solicitors or barristers.
- Study materials provided.
- Study days.
- Guaranteed places on our Legal Practice Course or Bar Vocational Course for Successful students.

For more information please contact:
Tel. **(0191) 227 4494**
E-mail: **david.stabler@unn.ac.uk**
http://www.unn.ac.uk

UNIVERSITY of NORTHUMBRIA at NEWCASTLE
Promoting Excellence in Higher Education

THE EUROPEAN

MBA/BUSINESS MANAGEMENT SPECIAL REPORT
23rd March

SUMMER SCHOOLS SPECIAL FOCUS
20th April

To Advertise contact:
Fleur Terrin or Jon Murphy

Tel: +44 171 418 7747
Fax: +44 171 713 1835

APPOINTMENTS

For more information or to advertise in the classified pages, please contact us on
Tel: +44 171 7883, Fax: +44 171 713 1835, E-mail: classified@the-european.com

Leading Investment Bank
INVESTMENT ANALYST

MIDDLE EAST AND NORTH AFRICA–LONDON BASED

Our client is a global market leader in investment banking and securities, with a reputation for delivering high-value equity investment ideas to major financial institutions around the world. The Bank's global equity sector research teams are top ranked in a large number of sectors. One of these is the Middle East and North Africa team, who now wish to appoint an additional Investment Analyst, based in London.

THE POSITION

- Analysis and marketing of a range of Middle East and North African companies.
- Prepare regular research reports on these economies; monitoring economic and stock market developments in these markets.
- Sell product to institutional clients throughout Europe.

QUALIFICATIONS

- Experienced analyst with demonstrable ability to sell products and services and to interact with clients effectively.
- Substantial knowledge of Middle East and/or North Africa cultures and markets. Flexibility to travel frequently.
- Graduate, with first-class numeracy and computer skills. MBA highly desirable. Fluent in Arabic and French. Working knowledge of Spanish useful.

SAINTY HIRD & PARTNERS

SHP ASSOCIATES

Please send a full cv and current salary details, quoting reference 980307, to John Ellis, SHP Associates, Aldermary House, 10-15 Queen Street, London EC4N 1TX. Tel: 0171 815 8888. Fax: 0171 815 8800. E-mail: shpa@shpa.co.uk

UNIVERSITY OF GREENWICH
WOOLWICH CAMPUS/BRUSSELS

EUROPEAN OFFICER (FIXED-TERM)

To support the university's European funding initiatives and the development of channels of communication with the European Union.

Applicants should be fluent in French and would preferably be able to use one other European language. Excellent communication and networking skills together with a high level of IT skills and the capacity to absorb large amounts of information are essential.

Salary £18,156 - £21,583 inclusive.

Some provision will also be made available to cover the cost of residing in Brussels.

Further particulars and application form for the above post from the Personnel Manager, University of Greenwich, Avery Hill Road, London SE9 2UG (E-mail: Jobs@gre.ac.uk) to whom completed applications should be returned by 25th March 1998.

the UNIVERSITY of GREENWICH

Providing Higher Education in London and in Kent for over 100 years.

SENIOR MANAGER

CASTer (Conference and Association of Steel Territories) is a European network of steel regions set up in February 1995 in partnership with the European Commission. Its main aims are:

• operationally, to set up a broad programme of inter-regional co-operation between European steel regions;
• politically, to provide a voice for European steel regions in the European institutions.

It will be the responsibility of the Senior Manager to progress these activities. More specifically, the job will include:

• Manage a broad inter-regional co-operation programme between steel regions, organise meetings of the Steering Group, Management Group, General Assembly and Strategic Forum • Provide a voice for steel regions in the European institutions • Co-ordinate and exchange experience and best practice in relation to programmes of relevance to steel regions • Generally progress the work of CASTer, raise the profile of the network and operate with other agencies as appropriate.

Applicants should fulfill the following requirements:

• Relevant university degree or equivalent practical experience • Good knowledge of project management and public relations work • Good knowledge of English, French and German • Pro-active approach • Good knowledge of EU policies, esp. Structural Funds.

The job as a contractual free-lance worker is offered for a preliminary period of one year, based in Brussels. A good salary package is available. Those interested should send a full CV with a one page statement outlining relevant experience, why the post attracts them and how they would progress the above activities, by 30 March to:

**S Connolly, CASTer Office,
7 avenue de la Chevalerie, 1040 Brussels, Belgium
Tel: +32 2 742 2580, Fax: +32 2 742 2581,
e-mail: yorkshire@arcadis.be**

EXPERIENCED *IT* CONSULTANTS & DEVELOPERS

We are looking for self-motivated, bright and articulate professionals to join our expanding team of highly skilled IT Consultants & Developers.

You must have a good complement of the following skills & acumen:

- Windows (NT), UNIX
- C, C++, VB, Java, ActiveX
- SQL Databases/ODBC
- COM/DCOM, OLE Automation
- Structured Development Methodology
- Analytical & Design Skills
- EDI/EC Experience
- Comms/Messaging Experience
- Object Oriented Analysis/Development
- Unisys - LINC/UFSS
- Financial/Commercial Systems Development
- Drive to Succeed
- A Good Degree
- 2-3 years of Commercial/Project Experience
- Excellent Interpersonal Skills
- Team Oriented

We offer a highly attractive compensation package. Please send, fax or email CV to:
**Gamcom Systems Ltd, AMC House, 12 Cumberland Avenue, London NW10 7QL (UK)
Fax: +44 (0)181 795 1257 email: Gamcom@dial.pipex.com**

COMMERCIAL SOFTWARE SALES SPECIALIST

France

Minitab, the developer of MINITAB Statistical Software, one of the world's leading statistical packages, is expanding again & offers an exciting career sales opportunity to start our new subsidiary in Paris. This position involves developing & expanding customer relationships & cultivating new ones primarily by telephone, electronic communication, & customer visits. Domestic & some international travel can be expected.

Our ideal candidate has 5 years of progressive experience in a business sales environment complemented by appropriate academic credentials: must be completely bilingual (French-English) with excellent oral & written communication skills, possess knowledge of statistics: & the ability to work independently.

Minitab offers an attractive salary & benefits programme. Please send CV & cover letter detailing relevant details by Wednesday 1 April 1998 to: The General Manager, Minitab Ltd, 3 Mercia Business Village, Westwood Business Park, Coventry CV4 8HX, United Kingdom.

Models Agency
Director of Men required.

*Must have experience in the European and American Model Industry Market. Spanish Speaking helpful. Further experience within the TV and Film Industry required. Starting salary **£20,000.00 pa.***

Please send CV to:
Personnel Department, 7 Berners Mews, London, W1P 3DG, United Kingdom or Fax +44 171 580 2007.

Capital Markets Lawyer

The Capital Markets group at Lovell White Durrant is highly successful and fast growing. Our client base is diverse and includes many leading investment banks. Much of the work has an international aspect and requires close contact with our overseas office network. The department undertakes a significant amount of work in Eastern Europe, Asia and Latin America.

We are now seeking to recruit a senior lawyer at the 3-4 years qualified level (or equivalent) to contribute to the success of our practice and help us achieve our ambitious business objectives.

We are looking for a lawyer who has preferably trained with a major law firm, either in the UK or in a jurisdiction with similar legal characteristics such as Australia, New Zealand or Canada, with excellent experience in capital markets. The ability to speak Mandarin and Cantonese would be an advantage.

If you wish to be considered for the above position, please write, enclosing a curriculum vitae to: Mrs Corinne Johnson, Personnel Department, Lovell White Durrant, 65 Holborn Viaduct, London EC1A 2DY. The closing date for applications is Friday 17 April 1998.

BOX NUMBERS

All box number replies prefixed by the letter "P" should be sent to:

Classified Sales Department
THE EUROPEAN, 200 Gray's Inn Road, London WC1X 8NE

Please mark clearly the box number you are replying to.

Business School in Tuscany

Seeks English-speaking temporary assistant lecturers in Accounting, Financial Management and Financial Mathematics.

Applicants should have a BA and Masters degree

Please send CV to:
fax +39 584 915 384
e-mail lucca@telcen.caen.it

- Urgently Required -

GROUP LIAISON MANAGER

A graduate candidate experienced in direct client liaison to the Far East and skilled in the preparation of company reports and data on financial statistics. The candidate will take charge of this busy division and good command of spoken and written Japanese are essential.

Salary circa £30,000.00

Please send CV's to Box No. P508

EUROPEAN PRODUCT MARKETING MANAGER — SURREY
GRAPHICS SOFTWARE — INCOME c.£60K

VISIO, the industry standard for creating, storing and exchanging drawings and diagrams in business, is currently seeking a European Product Marketing Manager who will be responsible for managing and planning Visio's Product Marketing activities across Europe.

The role will involve monitoring market requirements, adapting product strategy and planning for the continued growth and expansion of the Visio product range.

Your responsibilities will include:

• Implementing product directions • new product introductions • liaison with US HQ • devising product marketing plans • developing relationships with industry and technology partners.

The following qualifications are essential:

A proven track record of at least 6 years in European Product Marketing • solid experience of the software/high-tech market • excellent communication and inter-personal skills • a second European language would be a major asset.

For further details please send your CV to:

Champion & Partners Ltd, Palladium House, 141 Worcester Road, Hagley, West Midlands, DY9 0NW, UK. Or please contact Richard Champion or Susan Parry on Tel: +44 1562 883838, Fax: +44 1562 885941.
E-mail: championpartners@compuserve.com

Please quote Job Reference 647

Visualise your business™ VISIO®

Senior Account Manager - Marketing and Sponsorship Department

Senior manager required for Marketing and Sponsorship Department working to service commercial partners as well as building relationships between existing and new sponsors raised in the Asia Pacific and/or North America regions.

Applicants must be graduates and have in-depth experience of the Asia Pacific and/or North American commercial environment; a professional event management background including experience with an international sporting organisation and a substantial international client base spanning Europe, North America and Asia Pacific. We require in-depth experience of working with senior marketing directors including experience of reporting to the Managing Director directly, experience of providing analysis of marketing briefs and the construction of objective orientated solutions.

Because of the uniqueness of the environment, it is essential that the candidate also has a detailed knowledge of and an employment history in the motor sport environment in terms of both the technical and commercial aspects of the industry.

Significant experience in public speaking and presentations at a senior level with strong language skills in particular German and French. Substantial computer literacy skills are required in terms of software, hardware and systems implementation.
Salary in the region of **£30,000** according to the level of experience.

All applicants must be in writing to Box No. P507

EQUESTRIAN MANAGER

An established building refurbishment and property development company based in the South West of England require an experienced and competent person to manage our rapidly expanding equestrian interests.

The successful applicant's responsibilities will include the independent management of all equestrian investments which currently include race horses, point to point/hunters, dressage horses plus sires and mares. In addition, sponsorship negotiation and organising corporate hospitality is required. The position involves extensive UK travel plus some overseas travel.

The salary will be commensurate with the high level of responsibility and commitment demanded by this position.

Please apply in writing enclosing CV to the Personnel Director, RSW PLC, 11 Manvers Street, Bath, BA1 1JQ, UK.

EURO JOB SEARCH

EXPERIENCED PERSONAL ASSISTANT

seeks work anywhere in Europe.
Fluent in Spanish, English and Italian, computer literate and full driving licence.

For more information please contact
Carlos on: +44 (0)181-452 0147
or e-mail: rlara@westminster.ac.uk

Psychologist/Economist

Ph.D., 20 yrs exp. strong in psychopathology, Forensics, HR/Org., proven leadership, looks for new environment with intern. police/investigative/gov.org.

**Chiffre: Dr Richard Keller, Eichliweg 36, 5103 Moeriken, Switzerland.
Tel/Fax: +41 62 893 2026.**

NEW APPOINTMENTS IN FINANCE AND RISK CONTROL

IBJ THE INDUSTRIAL BANK OF JAPAN

The Industrial Bank of Japan, Limited is one of the world's leading financial institutions with a successful and expanding London Branch based in the City.

The Bank is committed to enhancing our risk controls on a global basis and to assist in this process we have created a number of new opportunities for ambitious Banking professionals to fulfil vital and wide ranging roles.

RISK MANAGEMENT

Based in the middle office these positions are directly related to the Bank's success and growth. It is a challenging responsibility requiring someone with either risk or treasury experience. This appointment plays an important role in liaison with Head Office on all risk management issues and planning.

ADMINISTRATION/FINANCIAL CONTROL

We are seeking excellent administrators to be responsible for the Branch Policies and Procedures; assistance with Budget planning and Management Information preparation.

These appointments play an important role in liaison with Head Office for branch day-to-day Management Information.

The assignments are varied, but both involve a large amount of liaison and co-ordination with our Head Office and will require the following minimum skills:

- Fluency in both English and Japanese (written and oral)
- Graduate of equivalent academic record
- Some accountancy knowledge or experience
- Computer literacy
- Quantitative analytical skills
- Ideally some previous banking experience

These are exciting opportunities which offer attractive salaries, complemented by a comprehensive range of banking benefits and career development prospects.

Please write enclosing your full CV to:
Kim Cowling, Head of Personnel,
The Industrial Bank of Japan, Limited,
Bracken House, One Friday Street,
London EC4M 9JA.

Australia, New Zealand, Canada & USA

If you have a skilled trade or profession you may be eligible to emigrate. For information and an eligibility assessment contact;

Four Corners emigration

Registered Migration Agent: 89880

*Four Corners Emigration
St. Maartenslaan 26-7, 6221 AX,
Maastricht, Netherlands.
Tel:- +31 (0) 43 325 8080
Fax:-+31 (0) 43 326 0060
E-Mail: 4comers@nex-us.com*

CRUISESHIP JOBS & WORKING HOLIDAYS

Visit USA, Australia, The Caribbean, Mediterranean, Far East...and get paid for it while meeting people, having fun & adventure of a lifetime. Earn up to $6,000 pm tax-free. All nationalities welcome.

For details send 2x26p stamps or 2 Int'l Reply Coupons to:

Transitions Overseas (N1), 197 North End Road, London W14 9NL.

Leading international law firm HAMMOND SUDDARDS seeks three additions to its thriving European law unit in Brussels.

EU LAWYERS

- Qualified lawyer with at least 1-2 years specialist work experience in **EU TRADE** matters (in particular anti-dumping) and with knowledge of **EU COMPETITION LAW.**
- Qualified lawyer with at least 1-2 years specialist experience in **EU ENVIRONMENT/REGULATORY** matters, again with knowledge of **EU COMPETITION LAW.**

All applicants must have an excellent command of written and spoken English. Knowledge of other languages, particularly Spanish, will also be an asset. Familiarity with Windows 95 and Microsoft Office (Word, Excel, etc.) or similar word processing programme is also required.

INFORMATION OFFICER & LIBRARIAN/IT ADMINISTRATOR

- With direct responsibility for maintenance of the office IT resources and liaison with the firm's UK network base; research on Community databases and the Internet; maintenance of library and databases.

Application letters, supported by a Curriculum Vitae, should be sent, in English to Dr. Konstantinos Adamantopoulos at Hammond Suddards, 250 Avenue Louise, Box 65, 1050 Brussels; or by fax to +32 2 627 7686
All applications will be treated in the strictest of confidence.

HAMMOND SUDDARDS
SOLICITORS

To advertise in the **APPOINTMENTS SECTION** please contact Charlie Attenborough, Sam Harvey or Peter Aplin on:
**Tel: +44 (0)171 418 7883
Fax: +44 (0)171 713 1835
E-mail: classified@the-european.com**

Can Europeans learn to stop worrying about financial risks? PAGE 50

FRANCE

Auxerre profits from snail's pace

Dominic O'Reilly

LIKE the snails for which the town is famous, Auxerre Football Club has taken a slow route to the last stages of the Uefa Cup. The team from the Bourgogne region hosts Lazio of Rome in the quarterfinal on 17 March, with an excellent chance of overturning a one-goal deficit from the first leg.

The team began its European campaign last June, toiling away in obscure matches in Switzerland, Northern Ireland and Cyprus as most footballers were sunning themselves on beaches. Having missed out on automatic qualification for the major European competitions, Auxerre went into the InterToto Cup.

This is a tournament for also-rans, designed to keep football pools and lottery companies in business over the summer. English, Italian and Spanish sides rarely bother to compete. They prefer to tour the Scandinavian summer leagues or play lucrative exhibition matches in the Middle East or Far East, but the French have realised the potential of the tournament.

The top four teams qualify for the Uefa Cup which, while not producing the serious money of the Champions League, is a useful source of income for clubs of relatively modest means, such as Auxerre.

Girondins Bordeaux was the first side to make an impression on Europe via the InterToto. In 1996 the team reached the Uefa Cup final after a marathon 18 games. Bordeaux lost the final to Bayern Munich but the $9 million in prize money and television revenue were a godsend to a club which has long had financial problems. Although tickets for the final cost up to $190, there were 100,000 applications for the 32,000 seats at the Bordeaux stadium.

The club enjoyed a further windfall: Europe's top sides were so impressed with Bordeaux's progress that they rushed to snap up its players. AC Milan, Ajax Amsterdam and Juventus got out their cheque books, earning Bordeaux hundreds of millions of francs in transfer fees.

Now it is Auxerre's turn to profit. Coach Guy Roux, currently in his 37th season in charge at the club, is famous in France for his shrewdness and ingenuity, transforming an obscure side into champions. The distraction of a Champions League run meant that the team failed to qualify for Europe automatically last season, but Roux was aware of the possibility of entry through the InterToto's back door.

He has been rewarded with attractive fixtures against Spain's Deportivo La Coruña and OFI Crete; the visit of Lazio, Italy's in-form club, is guaranteed to draw a full house of 22,000 at the Abbé-Deschamps stadium. Should Auxerre make it into the semifinals, they could well face Inter Milan, Ajax or Atletico Madrid, all of whom will also draw big crowds.

Like Bordeaux, the team comes from an area well known for wines, among them Chablis. Doubtless a few bottles will be raised if the players can topple Lazio. Those who admire awareness of a business opportunity should join the toast, particularly if Auxerre can match Bordeaux's achievement and make it through to the Uefa Cup final in Paris on 6 May. ■

On the up: Auxerre (red) take on Lazio in a lucrative quarterfinal

ACTION PLUS

FOOTBALL ■ Software program teaches players to outwit opponents' tactics

Computer coaches boot up for World Cup

Marcel van der Kraan
ROTTERDAM

GONE are the days when a football manager would get his message across with a blackboard and a piece of chalk; now it is the computer which dispenses tactical advice. Technology has finally entered the football world and could be the decisive factor in this summer's World Cup.

Norway, the Netherlands and the United States are the first three teams to have admitted that they are heavily reliant on specially developed computer hardware and software.

Its use was demonstrated at last month's Gold Cup in the United States. Every corner, every free kick – basically the entire attacking and defensive systems of the United States and Mexico, the teams the Dutch were facing – was analysed to the last detail.

The system involves a huge amount of video material, which includes footage of every nation involved in the World Cup. The tapes have been transferred into computer images, with arrows, statistics and other aids.

Each player in the Netherlands' national team will get his own computer program to watch, so that he knows everything about the player he has to mark, about the defence, midfield or strikers he will face on the pitch.The computer, for instance, could show how strikers prefer to take on defenders and what would be the best way to stop them. Different playing styles can be analysed in record time.

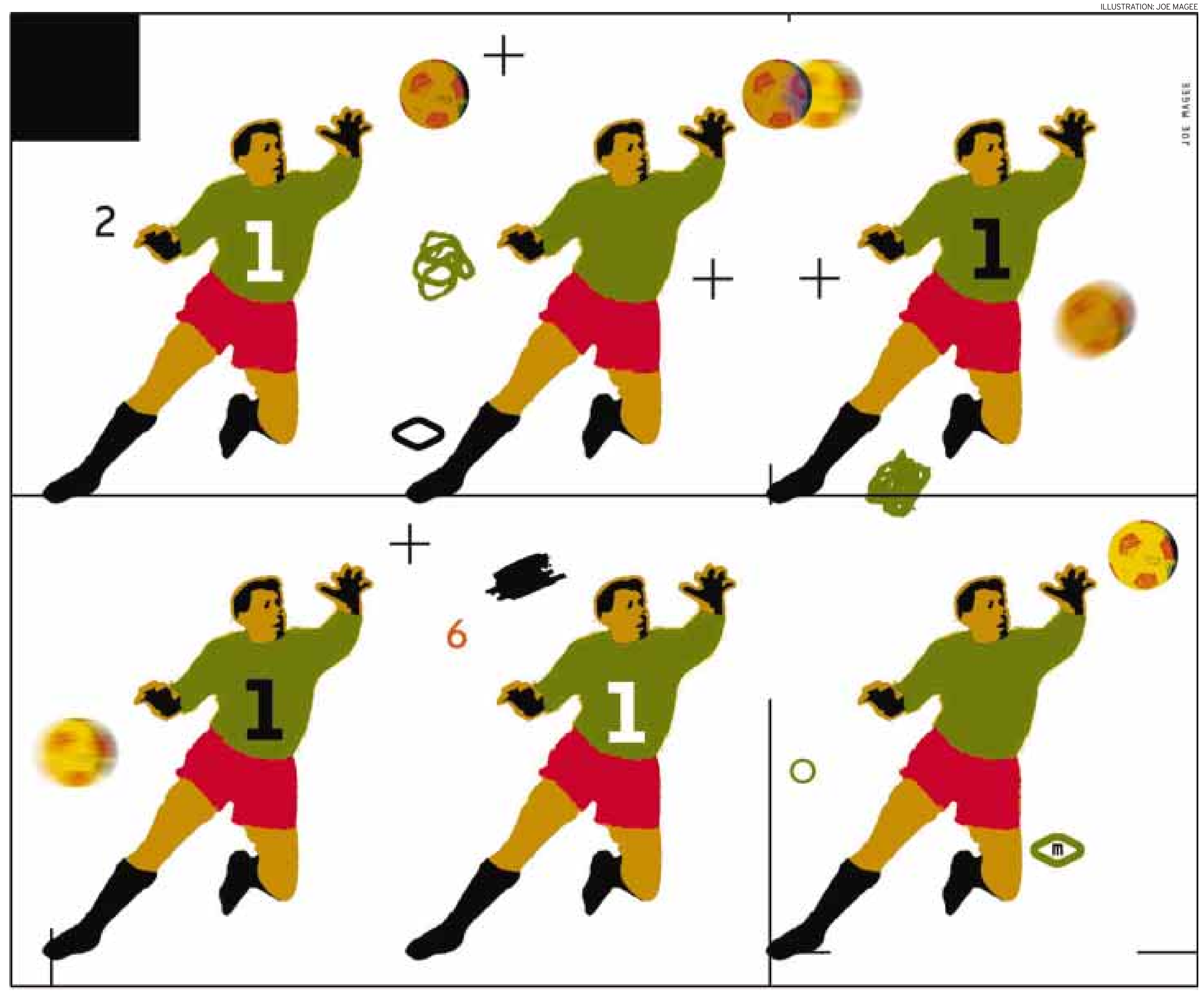
Guus Hiddink, the Dutch coach, says his preparations for the World Cup are being greatly assisted by the new technology.

"No other coach has ever done this before this World Cup," he said. "I see the video and computer technology as a vital part of our strategy and our efforts to win the World Cup. We are making sure that nothing and no one can surprise us. Of course, the players still have to do their job on the pitch, but we try to help them prepare for every situation. The players have shown great interest in the use of the computer. They are keen to get all the information which it can give to them."

Hiddink has had positive feedback from his players, which prompted him to integrate their new computer and video expert into the coaching staff. "Some people might say that this is going too far, but times have changed. Today's players are a whole new generation of footballers. They grew up with computers and video games."

The Dutch, Norwegians and Americans are the pioneers, but their coaches and players are so enthusiastic that they are sure many more leading football nations and clubs will soon follow. Behind the scenes other countries are thought to be experimenting with their own ideas, although the Dutch and Norwegians both claim to have the best system.

ILLUSTRATION: JOE MAGEE



'Today's players are from a whole generation who grew up with computers'

Norway's national coach, Egil Olsen, has been a computer enthusiast ever since he took charge of his country's international players. He has been compiling exhaustive statistics on every opponent, feeding his computers with details of games and individual players. Olsen now has so much information, linked to video material, that it can be used by any international team.

After the Gold Cup, a Norwegian delegation visited the United States management. Thomas Rongen, a member of the coaching staff of the American football team, says: "Olsen's assistant showed us the system and our football federation paid $50,000 for it."

Where the Norwegians have developed a program for commercial gain, the Dutch are keeping their own system a secret. They are working with Roberto Tollentino, an Italian who introduced computer-programmed information and the analysing of opponents with the Dutch national hockey team.

His experiments led to a part-time job with the country's hockey federation and, with his help, the Dutch became the world's best team. They won the World Championships and Olympic gold and had the answer to any tactics used by their opponents. Often the Dutch seemed to know what the other side was going to do before they did.

Tollentino was given a full-time job and last year he moved to the Netherlands Football Federation. The Dutch first introduced the Italian's systems to the players at the Gold Cup, where the team had their warm-up tour for the World Cup.

After training sessions the players went into the hotel's conference rooms, where Tollentino would show them all the material he had about the team's next opponents and their rivals in France. It obviously worked well: the Dutch beat the Americans 2-0 and Mexico 3-2.

Players may rely on it too heavily and forget to use their initiative

What will be fascinating in the World Cup is how much of a psychological weapon the computer program proves to be. Teams facing the Dutch, Americans and Norwegians will know that their every move has been scrutinised.

A winger may think twice about using his favourite trick to take on a full back, a playmaker may worry that the opposing goalkeeper will know just where he will put a free kick. It will be a game of bluff.

One potential drawback of the system is that players may rely on it too heavily and forget to use their own initiative. When they encounter sides such as Brazil or Romania, which have the ability to improvise, like jazz musicians, they may be unable to respond. Football is an essentially simple game that is continually evolving. Only time will tell how teams react to computerised coaching. ■

Oh, what a phoney war

ENGLAND and Germany have wasted huge amounts of time and energy in worrying over which country the current head of world football wants to see hosting the 2006 World Cup. Both countries seem unaware that they are being used as pawns in a game between two of football's most powerful men.

João Havelange, the Brazilian president of Fifa, the sport's world governing body, caused a fuss when he said he wanted to see the World Cup return to England, or as he put it, "the cradle of football".

Havelange was invited to Downing Street and was praised by Prime Minister Tony Blair and Tony Banks, Britain's sports minister. The country's newspapers lapped up the photo-opportunity; they seemed to think that the World Cup was as good as theirs and Blair made a speech in the House of Commons saying pretty much that.

The Germans immediately cried "foul" and dragged out Lennart Johansson, the head of Uefa, which runs the sport in Europe. Johansson called Havelange "a dictator", labelled his conduct "unacceptable" and claimed that he had personally witnessed the Brazilian pledge his support to the Germans in 1993.

The English and the Germans have been blustering back and forth, ignoring the fact that the vote on who gets the tournament will not be made until 2000. Havelange stands down after this summer's World Cup and will not have a vote.

The irrelevance of his view was shown by the total absence of any press coverage outside Britain and Germany. The rest of Europe realised this is merely a skirmish in a phoney war which will not become serious until next year at the earliest.

What the English and Germans have also failed to realise is that the row is not about them at all. There is much antipathy between Havelange and Johansson; the pair love getting one over the other.

Havelange's 24-year reign comes to an end this summer and he will almost certainly be succeeded by Johansson. Like an outgoing head of state, he is doing his best to leave a few unexploded bombs for the man who will take his place.

Johansson has long backed the Germans' bid. He intervened on their behalf when they claimed England had backtracked on a promise to support the German bid for the World Cup, accusing the English of acting "without honour". He was also critical of Havelange's decision to award the 2002 World Cup to a joint bid by Japan and South Korea. Now it seems the Brazilian is getting his own back.

This squabble is nothing more than a run-of-the-mill piece of football politics, but it seems that England and Germany have forgotten all reason. Otherwise they would consider that, by splitting the European vote, they may let in Brazil. Perhaps that was what Havelange wanted all along.

DOMINIC O'REILLY

ICE HOCKEY

Russian's millions for nothing

Paul Gains
DETROIT

RUSSIAN winger Sergei Federov has received a $14 million fee from his American club despite sitting out almost the entire season. Performance-related bonuses could lift Federov's overall pay packet for the year to $28m. His team, the National Hockey League's Detroit Red Wings, is trying to offset this huge sum by increasing the price of beer and hot dogs in its stadium.

However, the club will have to sell vast quantities of food and drink to recover the $38m it will pay out over the next five years to Federov, who last season helped Detroit win its first Stanley Cup in 42 years. The success put an end to mockery from rival fans, who had dubbed the team "Detroit Dead Things"; it also established Federov as a huge star. He had previously been as well known for his high-profile relationship with the 15-year-old Russian tennis pin-up, Anna Kournikova.

Federov's contract expired immediately after the Stanley Cup triumph and he demanded a salary increase commensurate with the success he had helped to bring.

Negotiations broke down and Federov, 29, was reduced to training with a minor club, vowing he would never play for Detroit again.

As a free agent who was not receiving a cent from Detroit, he could entertain approaches from anyone else. Under the NHL collective bargaining agreement, however, Detroit had the right to match any offer.

Federov and his agent Mike Barnett arranged a deal with the Carolina Hurricanes, a club which only joined the NHL a year ago and was desperate to sign a big player to help boost poor attendances. When the Hurricanes made a $38m offer during the Olympics, it seemed certain that Federov would move south.

But against all expectations, Detroit matched the offer, and Federov had to stay in the Motor City. There were suggestions that because of fierce rivalry between the owners of the clubs, capturing Federov had become a matter of pride.

Detroit won this struggle, but it may prove a Pyrrhic victory since it is unclear where the management will find the money to pay for their prize. On signing, Federov received $14m and collects a further $2m annual salary for this season. Should the Red Wings reach the Stanley Cup play-offs he will earn another $12m as a bonus. Even if the team fails to qualify, Federov will still collect this last payment, but it will be spread over his contract. Not bad for someone who missed more than two-thirds of this season. The $28m Federov could earn this year alone would virtually double the club's annual salary budget.

The Red Wings' home games are already sold out for this year, so unless they increase prices substantially next year they will not recoup much through ticket revenue. The increase in beer and hot dog prices came the day after Federov signed his new contract. Fans have already dubbed this rise the "Sergei tax" but the price rises on their own will not be enough.

It has led many observers to wonder if it will spark inflation which will ruin the sport. "Someone has to look at what is feasible in terms of players' salary structure," one agent told *The European*. "All of the general managers in the league have to take responsibility. NHL salaries are starting to match those in football, basketball and baseball, but the sport does not have their enormous television deals. It is only natural to ask where the money will come from."

This concern is not being heeded by his fellow agents. They are too busy counting their commissions and believe players' demands are justified. "The elite players in the league are getting $8.5m annual compensation packages because they put people on the seats," says Mike Barnett. "Sergei, as a Stanley Cup winner, falls into that category."

Barnett is hailed as a genius by the NHL Players' Association but is unpopular with owners. That is not surprising. It was Barnett who won Jaromir Jagr his $50m contract extension with the Pittsburgh Penguins.

Such deals are great for the players but costly for fans who ultimately end up paying for them. This cannot go much further; players such as Federov may be making fortunes in the short term, but in the long term they are in danger of pricing themselves out of a job. ■

ALLSPORT

Value added: Federov lifts the Stanley Cup; helping Detroit win ice hockey's biggest prize made the Russian a superstar

EXODUS

Europe gets cold shoulder

EUROPE has the best ice hockey players in the world, but is destined never to see them. In this year's Olympics, European nations won all three medals. The Canadian team could claim to have been unlucky, having lost to the Czechs on penalties in the semifinal, but the woeful performances of the Americans showed why the National Hockey League is so dependent on Europeans.

But while the North Americans find their player base eroding, European ice hockey is unable to organise a tournament rich enough to hang on to its own talent. The European Champions League was beset with disasters. Sparta Prague came down with dysentery after playing in Moscow, while crowds were so poor that teams lost money.

It is little wonder that Europe's best players flee to North America. Czech superstar Jaromir Jagr is a case in point. He has just become the highest paid player in the NHL, with a contract worth $48 million. Slavomir Lener, Czech head coach, is pessimistic about being able to reproduce that kind of backing in Europe. He is also depressed about the consequences. "You cannot motivate your players when there are no financial incentives."

Lener is critical of the way the Champions League is organised. For him it is too infrequent. "It's played once every two weeks. To get into the swing of it you need to play once or twice a week. You must concentrate on your own league, then you have to switch to the European league. That is not the way it should go."

MICHAEL BUTCHER

HORSE RACING

Cheltenham festival leads in the hospitality stakes

David Meilton

TWO weeks ago the countryside came to London; this week the cities pay a return visit. In their tens of thousands city-dwellers from Britain, Ireland and even France and Germany will converge on the elegant West Country town of Cheltenham for the most important steeplechasing event of the year.

The National Hunt festival is also one of the high points of the sporting winter for corporate entertaining. The prestigious racecourse, a natural amphitheatre nestling in the Cotswold hills, will host around 9,000 corporate guests – company chairmen, executives, their guests and families – in specially created facilities over the three-day meeting which starts on 17 March.

As the cream of British and Irish hurdlers and steeplechasers bid for 20 championship prizes around the demanding course, these business high-flyers will be taking a break from the dealing floor and the boardroom to quaff champagne – 14,000 bottles go down during the three days – and munch five-course lunches in a variety of restaurants and marquees in the tented village.

On the opening day of the meeting – budget day in Britain – the racecourse will echo to the sound of company budgets taking a substantial hit. A freebie day out at the festival is an offer few favoured clients are likely to resist.

The easiest, if not the cheapest, way for a firm to procure a privileged location in the packed stands is to sponsor a race.

Citroën, the French car manufacturer, and Royal Sun Alliance, the insurance group, are long-standing fixtures at the festival. Along with the rampant publicity and guaranteed television exposure, attaching the company name to a race for an investment of up to £50,000 ($82,000) brings with it a hospitality package to die for in one of the 200 private boxes with a panoramic view of the course. Most are reserved on a long-term basis.

"You have to put your name down for a box at Cheltenham before you put your son's name down for a place at Eton," says Peter McNeile, Cheltenham's commercial manager and the man responsible for making sure that everything runs smoothly.

A day out at the festival is an offer few favoured clients are likely to resist

Several hundred companies take advantage of the other facilities on offer, ranging from a glass-fronted box with a view of the races for £3,500 ($5,700) on Tuesday or Wednesday or £5,000 on Gold Cup day, a table in the panoramic restaurant in the stands – £395 per person, excluding drinks and VAT – to more modest marquees seating 24 people at £750 per day.

"They don't all fill just like that," says McNeile. "At £11,500 ($19,000) for a box for the three days, plus £60 ($98) per person for a club enclosure badge and £39.50 per person for morning coffee, lunch and afternoon tea, it is a significant investment, even before you start talking about drinks."

The Irish connection is an institutionalised part of the festival, exemplified by the permanently seething Guinness Village down the course by the final hurdle, and the 63,000 pints of the dark brew consumed over the three days. St Patrick's Day, 17 March, coincides with the festival one year in three. It is the only race meeting in Britain where the Allied Irish Bank sets up its own branch on site. The thousands who travel across the water will expect to go home with full pockets after backing a hatful of winners, especially given the outbreak of equine coughing at Lambourn, the principal British training centre.

Istabraq, favourite for the Smurfit Champion Hurdle, His Song in the opening Citroën Supreme Novices Hurdle, Doran's Pride in the Gold Cup and Joe Mac in the Festival Bumper are among the top-rated hopes from across the Irish Sea.

It may not be Royal Ascot (which, as it happens, is the one remaining race meeting in Britain where company race sponsorship is still not permitted), but the Cheltenham festival is never likely to lack for support from the public, despite the threat of rain, hail or snow in March. It was the first meeting to impose an attendance limit – 50,000 people on Gold Cup day.

"It was getting too crowded to be comfortable," says McNeile. "We did some market research and people told us that it was impossible to place a bet, have a drink, go to the loo and still see the races."

But beneath this aura of prosperity lies a question mark. Some of the most important races of the year still lack sponsors as company accountants question the publicity and entertainment value in today's more cautious economic climate.

Even in Britain, where horse-racing ranks fifth in the list of most popular corporate entertainments, racecourse executives are struggling to attract the interest from business that seemed there for the taking five or 10 years ago.

They are not alone. In several other European countries the situation is close to desperate. Classic French races such as the Prix du Jockey-Club (French Derby), formerly backed by car firm Lancia, its fillies equivalent, the Prix de Diane, and the most important championship race in Europe, the Prix de l'Arc de Triomphe at Longchamp in October, still lack sponsors. In Germany the recently refurbished Hoppegarten track in Berlin has had to cancel four of its planned 15 days' racing this year because of its financial worries.

The Cheltenham festival may turn out to be the exception that proves the rule. ■

SNOWMOBILE

Wizards in a blizzard

CREATE a machine which can move and people will soon be racing one another. The European Snowmobile Championship, which took place on 14-15 March near the Arctic Circle in Rovaniemi, Finland, is an annual gathering for those who prefer their action to be on snow and ice, rather than gravel and dust.

The championship started 10 years ago and has become a business, with sponsorship and professional drivers. Most of the teams come from northern Europe, but the Italians, who seem attracted to any sport based around petrol, are among the true Snowmobile pioneers. The French have also taken part in the past.

For practical reasons, the number of drivers is limited to four per country: the snowmobile is a beast of a vehicle with the engine of a sports car, a maximum speed of 200kmh and the capacity to jump 20 metres. Overtaking is as much a matter of luck as skill; if there are too many snowmobiles on the one-kilometre track, the result is a huge traffic jam.

Next year's championship will be held in St Petersburg where the home drivers are likely to be strong. The Russian team is traditionally based around Siberian drivers, for whom snowmobile races are just about the only chance they get to enjoy motorsport.

The Russians are all professionals, thanks to sponsorship by the oil and gas giant, Gazprom. As with any motor sport, snowmobile racing is driven by sponsorship. This year's European Championship was backed by a soft drinks firm, Canadian and Finnish snowmobile manufacturers and a company which imports the vehicles into Finland.

In the United States and Canada snowmobiles are big business, with sales of around 250,000 a year. Money and marketing strategies are perhaps to blame for the lack of communication between the Europeans and the North Americans which has prevented a world championship from being set up. Both have been keen to concentrate on their home markets.

"In European events the sporting side is on top, while in the States the business side has been more dominant. The biggest commercial interests are over there," says Erik Ahmasalo, director of the European Championship.

PEKKA VÄNTTINEN

Which is the cheapest city in Europe to do business? PAGE 62

RISK ■ From act of God bonds to Bermudan callables, futures and options contracts are infiltrating every aspect of the financial markets

Derivatives whip up a storm

IMAGE BANK

Paula Hawkins

IS there nowhere a derivative won't go? Nothing illustrates the hubris of the financial world more than the millennium butterfly spreads being hawked around Europe's financial centres over the past few weeks. The trades, which use derivative contracts to link money market rates in December 1999 with rates of September 1999 and March 2000, offer investors the opportunity to bet on the possibility of the millennium bug spiriting money away into cyberspace.

The world's fastest-growing financial instrument is developing into a diverse portfolio of techniques for managing risk. But there are growing fears that derivatives are taking banking to a level beyond its competence or understanding. SBC and UBS's results were poor due to derivatives losses: never trust a banker who tells you he can make money without risk.

The latest brainwaves of the boffins are disaster derivatives and credit derivatives. Credit derivatives may be the most exciting growth market but it is disaster derivatives which raise most concerns. Otherwise known as "cat bonds" (catastrophe bonds) or "act of God bonds", disaster derivatives blur the line between banking and insurance by stripping out the worst part of an insurer's risk. Investment funds can include these bonds in their portfolios, giving themselves access to yields which can be twice as high as plain bonds. The drawback is that they are taking on the risk of midwestern tornados, east African floods or Russian nuclear disasters.

For the insurer, the benefit of cat bonds is clear: instead of bearing all the risk of a given catastrophe, they can spread it out in the capital markets. Cat bonds were first issued after Hurricane Andrew hit Florida in 1992, causing massive damage to property and wiping out many insurance firms' profits.

There are gains to be made by investment banks too: they shoulder only a part of the risk but stand to earn considerable yields. But as more and more pension funds buy up cat bonds, investment consultants are waving red flags."We hold the view that an investor in a pension fund should be protected from huge losses," says Chris Erwin, an associate at Bacon & Woodrow, an investment consultancy in London.

European mutual funds are coy about the extent of their holdings in disaster derivatives. "The alternative risk transfer market is relatively new," says spokesman for Lloyd's. "We have a working party looking at the issue." Until the working party reports, Lloyd's is not commenting on the implications. Erwin at Bacon & Woodrow points out that some pension providers have internal rules prohibiting them from buying any sort of derivatives. For those that don't have such internal restrictions, Erwin issues a warning. "We do not advise funds to use derivatives aggressively," he says. Aggressive use means taking on risk, not just hedging against it. And the risk on cat bonds, though remote, could in theory entail losses running into hundreds of billions, if for example, there were a major shift in the San Andreas fault. Analysts say a repeat of an earthquake on the scale of the 1906 San Francisco quake could wipe out the capital held by the American insurance industry.

Derivatives are like fast cars: only dangerous when in the wrong hands

Traders claim the riskiness of derivatives is generally exaggerated. Derivatives have a certain notoriety in Europe, thanks mainly to scandals such as the Nick Leeson affair at Barings. But is their risky image deserved? "Nick Leeson could have been trading anything," says one trader. Those in the business liken derivatives to fast cars: they are only dangerous in the wrong hands – such as Leeson's. With a good driver behind the wheel, they point out, a Porsche is safer than a Lada.

Few derivatives are based on the remote possibility of nuclear disasters. The truth is that derivatives are becoming commonplace. Governments use them to protect themselves from currency fluctuations and boost the liquidity of bond markets. There are benefits, too, for ordinary investors who can now buy products with derivatives packaged in, promising no loss of capital. This is conservative usage: the derivative protects against downside volatility, it does not try to boost returns.

The cutting edge of the derivatives market is on the institutional side. At the forefront of the boom are credit derivatives, which were invented by the rocket scientists at Bankers Trust to help the bank hedge against its positions in Japanese bonds. From these humble beginnings, they have developed into a revolutionary instrument. "Credit derivatives radically change the relationship between banks and borrowers," says one trader. "They divorce the credit risk from the loan, so the relationship between the bank and its client is no longer of primary importance."

Although the mechanics of individual credit derivative products are complex, the idea behind them is simple: if a bank believes it is over-exposed to one large borrower, it can use a credit swap to reduce the risk. For example, a Dutch bank with heavy exposure to Philips Electronics can swap that risk with Deutsche Bank for its exposure to Siemens. Banks also use them to hedge their exposure to an industry or country.

It is difficult to gauge the size of the business but estimates put notional volume at more than $100 billion, about half of which is written out of London. The growth in credit derivatives is explained partly by the normal process of finding new ways to manage risk but it is also due to sustained rallies in Group of Seven currencies which have meant plummeting interest rates. Investors are always on the lookout for a pick-up over these levels. This has led to the growing popularity of instruments such as repackaged Brady bonds, which give investors exposure to emerging market risk in a currency of their choice. Another driver of growth is the increased use of credit derivatives by hedge funds hungry to get exposure to assets other than equities and bonds.

Institutional use of derivatives is not just growing but metamorphosing all the time. Tailored transactions are constantly being developed. Spread trades become calendar spreads, which become tandems or turtles or tailed (*see box*).

"The real market is just the banks making things up," says one trader. "All the creativity goes into the OTC market." Aside from credit derivatives, the next big thing from an institutional point of view is the exotic-sounding Bermudan callable bond, which is another means of letting institutional investors get their hands on higher yields. Bermudan options allow institutions to issue callable bonds, with the rate of interest varying with the number of calls allowed. They are Bermudan because they are a cross between European and American-style options. "Bermuda was just somewhere in between the States and Europe," says one trader.

Less noticeable than the institutional derivatives boom is the fact that derivative products are moving into mainstream financial services. Many mortgages have a derivative element, although the end user is not always aware of this. The possibility of a mortgage being paid off early by the lender is often hedged with a derivative. Retail funds, which offer investors exposure to an index or basket of indices, are very popular in Europe where an equity culture is growing rapidly. The attraction of these funds is that, because of the derivative element, usually a put option, investors are only exposed to any upside; the initial capital investment is protected. Retail funds can also use derivatives to manage large capital flows. If the market is moving rapidly, it is not always easy for fund managers to find stocks to buy. Instead they can put excess cash into index futures, safe in the knowledge that money will flow into underlying stocks. ■

BLUFFER'S GUIDE

THE AURA of mystique which surrounds derivatives is partly due to the jargon traders use. Cut though the lingo and you're halfway to understanding derivatives (a really thorough knowledge requires an understanding of complex mathematical formulae).

BINARY OPTION: an option with a payoff function that has two levels, such as $0 and $1m.

BUTTERFLY SPREAD: a highly complex trade which entails selling two calls (or puts) and buying two calls (or puts) on the same or different markets, where one option has a higher exercise price, the other a lower exercise price than the other two options.

CALENDAR SPREAD: a spread trade which has one long and one short option.

KNOCK-INS and knock-outs: options which come to life (knock-ins) and die (knock-outs) when a certain trigger (usually a certain price level) happens.

SPREAD TRADE: a trade that profits from a positive move in one risk factor and a negative move in another.

TAILED SPREAD: a calendar which has long and short positions of differing sizes.

TANDEM SPREAD: calendar spreads in two commodities.

TURTLE SPREAD: a tailed spread in a commodity coupled with a position in an interest rate future.

FUTURES

It's Liffe, but not as we know it

Melanie Bien

THE historic fruit and vegetable market at Spitalfields to the east of the City of London looks as if it might survive intact after all. It was earmarked for redevelopment by the London International Financial Futures and Options Exchange (Liffe) as a massive open outcry trading floor for 10,000 traders and back office settlement staff, but the rumour is that Liffe may have to abandon pit trading and with it the planned development.

It was only a matter of time before Liffe was forced to admit that to compete effectively with its rivals, especially the aggressive Deutsche Terminbörse (DTB) in Frankfurt, it has to go electronic. Despite protests from its chief executive, Daniel Hodson, that the exchange's commitment to open outcry comes from the increased liquidity provided by locals – self-employed speculators who bet their own money – Liffe is shifting its equity options to a new electronic platform, Connect, from the end of next year.

Many traders are unhappy, fearing inevitable job losses. "We face stiff competition," says Hodson. "We have to make sure that we listen very carefully to what the market wants." Electronic trading, championed by the continental European Euro-Alliance of Germany, Switzerland and France, is cheaper than open outcry. The DTB charges less (50 pfennigs a transaction), while its London rival charges roughly three times as much for the same deal.

Marketmakers are attracted by cheaper deals and are shifting their trades to the DTB; earlier this year, it overtook Liffe trading in the 10-year German government bond, the Bund, claiming 56.5 per cent of the market in January. Frankfurt's international expansion – which includes installing trade screens in all main overseas financial centres – is damaging Liffe's business. Overall trading was down in February to 17.49 million contracts, from January's 20.8m. Trading on the benchmark 10-year Bund continued to fall by more than 20 per cent.

This is bad news for the traders. One trader said: "A lot of locals could afford to retire early on the money they've saved. The others will probably end up as taxi drivers or estate agents."

Connect will run alongside the traditional floor trading operation, turning Liffe into a hybrid exchange. But this is too little, too late. The new system will allow investors to trade all its major futures and options contracts electronically or through open outcry. Liffe has pledged £100 million ($165m) during the next two years to build an electronic system and improve its floor system. The London exchange is also cutting transaction fees from the beginning of April, paying for these by reducing its budget for 1998 by £30m to £40m.

With the onset of EMU, pressure is on Europe's exchanges to set the benchmark for euro-traded products after 4 January 1999. Monetary union will shrink the European derivatives markets by reducing fluctuations in currencies and interest rates. Winning liquidity in the ecu is considered vital in the battle for products denominated in euros. Liffe is aiming to become the first exchange to list futures contracts on a pan-European stockmarket index, the Eurotop 100.

Liffe should be well placed to compete in this market, despite Britain being outside the first wave of EMU. Its dominance in euro products until now should hold it in good stead. But Liffe's tendency to react to events, following the DTB rather than setting its own agenda, has meant that the exchange looks tired and left behind.

In an attempt to make up lost ground, Liffe is launching a global marketing drive to woo investors. A roadshow, taking in American and European financial centres, will tour from the end of the month, along with the launch of products related to euro-denominated interest rate contracts.

The indication of a move to battle is encouraging, suggesting Liffe has realised that it needs to fight to retain its position. But there are already signs of stiff opposition ahead from some of the members who own the exchange, particularly locals, at the 12 May meeting to vote on the change. A move to electronic trading is likely to be accompanied by discounts offered to tempt locals but they will be no pushover. Support for Connect is likely to come from multinational banks and brokers, who are increasingly under pressure to cut costs. Lloyds TSB pulled out of floor trading last year and Nikko has reduced its floor presence by two-thirds. Liffe is keen to halt this trend.

Longer term, the scene is set for consolidation. "With monetary union approaching, the derivatives market is going to shrink, especially on the fixed income side," said Jörg Franke, chairman of Eurex. "It makes sense for Liffe to team up with us." Liffe has already backed down, partly at least, on electronic trading. In future it will have to work more closely with its German rival. ■

FINANCE

VENTURE CAPITAL

Where America pushes Europe fears to tread

Louise Bowman and Doug Cameron

TO SEE "push" capitalism in action, take a drive through California's Silicon Valley. This is American innovation at its best. The buzz generated by hundreds of computer and technology firms has created a virtuous circle of investment, job creation and creativity. Europe has to learn to mimic the American appetite for risk capitalism if it is to avoid falling behind in the technologies of the 21st century.

The driving force for the American success story goes beyond the glass-and-steel business parks of the country's booming Sun Belt, stretching from Phoenix, Arizona to Atlanta, Georgia. It lies behind the white picket fences of the suburbs in the shape of the doctors and dentists who are prepared to risk their savings to fund the launch and expansion of new companies. Without a sea-change in cultural attitudes towards launching small businesses, Europe risks becoming caught in an innovation trap.

Push capitalism is alive and well in America. The country has grasped the opportunity to fuel a high-technology revolution by accepting that rewards carry risks. A record $12.8 billion in venture capital was ploughed into new companies last year, a jump of 50 per cent on 1996, according to the latest survey by consultants Price Waterhouse. Silicon Valley alone attracted $1bn, making it the leading destination for venture capital funds. But it was closely followed by the teeming research labs which dot New England and the booming southeast of the country. "It's technology that's driving the dollars," says Don Almeida, managing partner at the Price Waterhouse technology industry group.

Europe desperately needs more companies to compete on the global stage and contribute to the continent's economic revival as it faces up to the challenges of structural unemployment and sluggish growth. Europe's potential technology leaders still face the cold shoulder from investors. The money is there but is heading in the wrong direction in pursuit of short-term gains. Venture capital funds employed have climbed sharply in line with the growth in America – from Ecu4.1bn ($4.4bn) in 1993 to Ecu6.8bn in 1996, the latest figures available from the European Venture Capital Association. However, while American investors are very sophisticated at spotting future-facing opportunities, Europe's investors, by contrast, are ultra-cautious and risk-averse, even if it means cutting themselves off from the upside.

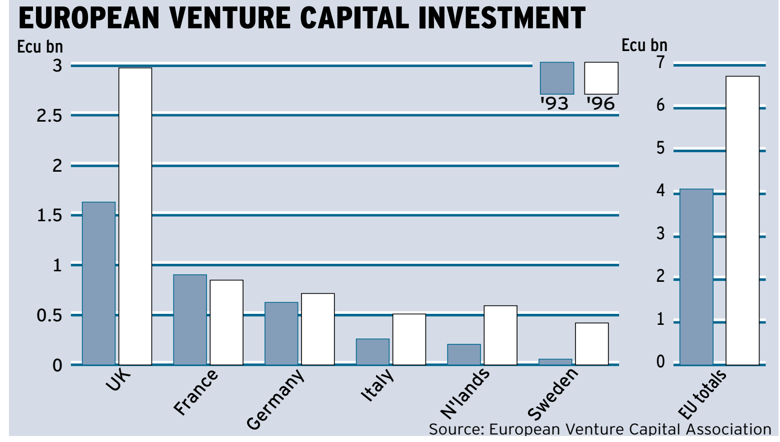
"Europe invests in old industries, not new," Peter Sutherland, chairman of Goldman Sachs International, told *The European*. "We have not enhanced Europe's venture capital markets sufficiently." He says just 12 per cent of venture capital in Europe is directed at start-up businesses. "The private equity market has not evolved to the extent that it has in America. Over the past six years there were 7,000 IPOs [initial public offerings] in America." In Europe, the equivalent statistic is damning: just 720 new businesses have floated.

In America, start-ups are claiming an increasing share of the venture capital pie – almost a third of total funds – though expanding companies still command the largest percentage. High-tech firms are the clear favourite among risk-aware investors. They have seen earlier bets soar when listed on New York's Nasdaq stock exchange, which has surged on the back of mainstream investor appetite for technology firms. Biotechnology, media and computer firms swallowed 68 per cent of venture capital funds last year.

A trip through the Price Waterhouse survey (*available at http://www.pw.com/vc*) illustrates what European investors are missing. The report is teeming with the kind of high-tech innovation that Europe needs to pull itself out of its current sclerosis. "Investments in formative stage companies are not subsiding – in fact, the reverse is true," says Almeida. American investors have taken a shine to projects which would not stand a chance of finding backing in Europe. E-Loan, a Californian start-up, secured $5 million to launch an online mortgage broker. New York-based Minrad attracted $2.25m to develop a laser-powered surgical scalpel. These are just a fraction of the potential success stories on display. In the last quarter of 1997 alone, 749 companies raised $3.7bn from venture capitalists. The inventor of one of the UK's most innovative recent exports, the Baygen clockwork radio, aimed at the Third World, couldn't even find backing for this basic device in Europe and had to go to South Africa to get it made.

It is not that there is a shortage of capital in Europe.

EUROPEAN VENTURE CAPITAL INVESTMENT



Source: European Venture Capital Association

WHAT EUROPE INVESTS IN

SECTOR	AMOUNT	PER CENT	NUMBER	PER CENT
Communications	298.2	4.4	197	3.8
Computer-related	336.6	5	512	9.9
Other electronics	272	4	286	5.5
Biotechnology	180.6	2.7	266	5.1
Medical/health-related	242	3.6	250	4.8
Energy	73.6	1.1	67	1.3
Consumer-related	1,231.4	18.2	777	15
Industrial products and services	1,028	15.2	807	15.6
Chemicals and materials	216.1	3.2	176	3.4
Industrial automation	128	1.9	59	1.1
Transport	197.3	2.9	127	2.5
Financial services	430.8	6.4	114	2.2
Other services	805.8	11.9	606	11.7
Other manufacturing	655	9.7	456	8.8
Agriculture	107	1.6	64	1.2
Construction	255	3.8	165	3.2
Other	249.8	3.7	252	4.9
TOTAL	6,751	100	5,181	100

Sectoral distribution of venture capital investments in Europe in 1996 (Ecu million)

SOURCE: EUROPEAN VENTURE CAPITAL ASSOCIATION

The money is there but it is heading in pursuit of short-term gains

The region's booming stockmarkets are sucking in private equity funds that would be better directed towards kick-starting small businesses, which historically support greater job creation. But the current trend is towards large-scale leveraged and management buyouts which, if anything, will lead to job losses. The restructuring of traditional industrial sectors in Europe is seeing divisions spun off and sold to managers and funds aiming to secure large profits when they float them as separate companies.

Europe's business has gone through a gradual transformation even to reach this backward stage. In the 1970s the bedrock of venture capital business was family-owned businesses looking for long-term commitments and providing unspectacular returns of 10 per cent a year. Management buyouts started to emerge in the mid-1970s and quickly grew to account for two-thirds of venture capital expenditure in the UK. Britain accounts for 50 per cent of total venture capital investment in Europe. UK investment in the continent takes the total up to almost two-thirds, including UK funds invested abroad

But where financing is concerned, Europe's high-tech industries remain poor cousins of those in America. Many are paying the price of past mistakes. "There used to be 100 funds devoted to investing in IT in Europe," says Diederik Heyning at the Dutch venture capital firm, Gile, "but there are now only about 12." Investors were badly burned in the mid-1980s by poor returns generated by inexperienced management. "Only a few venture capitalists survived the learning curve in the IT market," agrees Jan Stolker, managing director of corporate investment at ABN-Amro. "And a lot of government support that was well-intentioned has now gone away." This is an alarming illustration of the European reaction towards bankruptcy compared with that in the US.

Once bitten, twice shy, funds in Europe are being driven towards economies of scale, with half-a-dozen companies targeting billions of dollars exclusively at large-scale transactions. The boffins in Europe's poorly funded science parks don't stand a chance against the quick-rich pickings on offer through a stock listing of a buyout after two or three years. Large UK funds such as BZW Private Equity and Innisfree have targeted soft areas such as the government's private sector finance initiative. By ploughing capital into hospital and transport projects they are risking no more than that illness will go out of fashion or that people will stop travelling to work.

There are cultural factors underpinning the European attitude to risk. One financier recalls asking German students to describe a typical venture capitalist. Not for them the computer wizards of California and Seattle. They pinpointed shopkeepers as the cutting edge of capitalism. But can entrepreneurship be taught? The British prime minister, Tony Blair, thinks so and has floated the idea of teaching entrepreneurship in schools. The UK venture capital firm 3i, which has supported the launch of small projects, is funding a research project at Insead, the European business school, into what makes a venture capitalist.

The cultural factors in play are also evident in Israel, which (despite its socialist origins) has a strong entrepreneurial tradition, illustrated by the proliferation of Israeli biotech and computer software firms, many of which have found their way on to European stockmarkets after a period of rapid growth.

The intellectual gap is driven wider by the sheer scale of the American equity market compared with Europe and the appetite of investors for IPOs. Investors on the other side of the Atlantic can fund start-ups in the knowledge that they have a far better chance of coming to the market and securing large gains on their original outlay.

Superior American intellectual infrastructure supports its technology growth. America boasts 15 world leading technological universities turning out technology-friendly business graduates eager to enter the start-up fray. There are only four UK technological universities. "The main difference is the attitude towards failure," says Clive Sherling of Apax Partners, a UK venture capital firm. "In the UK, failure is met with admonishment and constriction. In America it is seen as part of the learning process."

So what can be done to stimulate the venture capital industry in continental Europe? The biggest hurdle has been the lack of good secondary markets providing good exit routes for investors. The more exit options there are on the table, the more chance you have for people to enter in the first place. The contrast between the runaway growth of the Nasdaq stockmarket, which deals almost exclusively in technology stocks, and Europe's fledgling alternative stockmarkets highlights the scale of the problem.

Britain does have the Alternative Investment Market but the absence of continental equivalents – the year-old Neuemarket in Frankfurt is one exception – is stifling innovation. Easdaq, Europe's attempt to drive technology investment, has grown slowly. It has nowhere near the liquidity and coverage of Nasdaq, and has not been tested in a bear market.

"Venture capital activity in Europe is stifled by the lack of good secondary markets," says William Stevens at IPS Strategies, a Brussels-based investment consultant. "You have to have an attractive exit route for investors before they will go in. You need secondary markets to encourage investment in general and push people to be more entrepreneurial." Stolker at ABN-Amro sees the need for a total change in outlook. "In Germany, France and Italy people are rarely prepared even to sell their company," he says. "They simply do not see it as an asset that can be disposed of."

The second problem is the lack of long-term capital prepared to stick with the innovators for 10 years or more. In the US and UK it has been the pension funds and insurance companies that have been the powerhouses for market growth, providing long-term funds to non-quoted businesses. But with the exception of Scandinavia and the Netherlands, this type of capital is not available elsewhere in Europe. The alternatives – life companies and banks – can provide only short-term funds of three to five years which is simply not long enough. Legislation has been introduced in France to try to rectify the situation.

European know-how: but the inventor of the Baygen clockwork radio had to go elsewhere for backing

The biggest hurdle has been the lack of secondary markets

Tax breaks available to pension funds were previously dependent on 90 per cent of funds being in bonds. This has now been changed to 50 per cent investment in equities, with 10 per cent of that in private equity. But some dismiss any impact this will have. French pension funds support current benefit payments, not future flows, and are not sitting on large pools of funds.

European governments have woken up to the problem, and are trying to stimulate activity through that most anti-entrepreneurial of measures: subsidies. In Germany, a subsidy specifically targeted at life science biotechnology start-ups, known as Technologie Beteilingings Gesellschaft, has been established to stimulate private equity investment in the sector. Investors with the "right" credentials can now see their investment matched two or threefold by the government. For example, the Aachen-based medical device company Impella was spun off from Helmotz Institute. Atlas Venture Capital put $2.5m into the deal and as a result the company will now receive $6.5m from the German government in grants and soft monies. This is a world away from the Germany of five years ago where the commercial development of modern biotechnology was actually illegal. "There is a controlled explosion going on in Germany," enthuses Atlas's Rob Seigler. With this level of government support, no wonder.

But deals like this are still a far cry from the kind of risk-taking that is commonplace in America. "Everything is now in place for venture capital to take off in Europe," says Clive Sherling of Apax Partners, a UK venture capital firm. "You are now getting role models for people to follow – people coming out of academe and making a lot of money," says Sherling.

But not enough and not always doing the right things. In a recent survey of European start-ups, one American business magazine features TelePizza, the Spanish stockmarket sensation, as an example of the best of Europe. A decent pizza is nothing to be ashamed of. But the growth of smaller and medium-sized business in Europe is often a triumph of perseverance, not of the push capitalism that America has spawned.

FINANCE

JAPAN

Gangster economy comes under siege

Brian Reading
Tokyo

THE DEPTH of the crisis at the heart of the Japanese economy is on all-too public display. The raids last week by the massed ranks of the Tokyo public prosecutor's office on the Bank of Japan, the Treasury and the Stock Exchange Council are symptomatic

Prosecutors were looking for evidence that officials had been bribed by stockbrokers. The wives of senior company officials are followed to their children's schools by Yakuza gangsters, particularly Sokaiya members who specialise in extorting money from companies. Their activities are treated lightly. The gangs are legal, their members registered with the police. Officially, they bribe to prevent awkward questions being asked at company shareholders' meetings. Nonsense. They get their money by threatening company executives and their families.

Corruption has been rife among Japanese bureaucrats for decades; until now everyone turned a blind eye. The system is to blame, as much of Japanese law is extremely vague. It gives ministries general regulatory powers, under a system known as administrative guidance. Bureaucrats make up the law case by case and convey their decisions verbally. They do not apply any openly available set of rules. So they can and do perform favours. They can also refuse them. Understandably companies spend lavishly on entertaining them, which is the main form the bribery takes.

Japan is still more of a command than a market economy: communism with beauty spots rather than capitalism with warts. The system worked magnificently in the past to produce economic growth. Its seamy side could then be ignored, but that no longer works as the economy heads south. Efforts are being made to clean it up. But by whom?

The finance ministry is losing its regulatory grip on the banking system. But the new supervisory body threatens to offer the same people running things in the same way. Eisuke Sakakibara, a finance ministry official who briefed journalists against the prime minister's promise to boost the economy through spending and tax cuts, explains the problem.

Officials tell ministers what to do. The position of Japanese politicians is controlled by the political funds they can amass. Bureaucrats do businessmen favours, businessmen contribute to politicians' funds and politicians heed their bureaucrats. This is the iron triangle which has dominated Japanese money politics throughout the postwar years.

There are demands for reforms but little gets done, for one simple reason. All cabinet decisions must by law be unanimous. Any minister can veto any reform to his own ministry and the way it acts. Reform would weaken or break the power of bureaucrats and is vigorously resisted. The prime minister may wish to introduce a fiscal stimulus but, unless the ministry of finance agrees, it can't be done.

But ministry officials will not say so until the regular budget for fiscal 1998 passes through the Diet – the Japanese parliament – in April. Any admission would concede that tightening in the regular budget is a mistake.

The Japanese government risks plunging into recession unless it rapidly reforms the banking system, stimulates and deregulates the economy and tames the bureaucrats. Japan will be lucky to average annual growth of one per cent.

The Asian crisis threatens to be a mortal blow. Japan's exports to South Korea, Indonesia, Malaysia, Thailand and the Philippines in 1996 equalled those of America, Germany, France and Britain taken together. It stands to lose most as these collapse. Slow growth will then become no growth.

Its banks have lent $100 billion to these five countries, again almost as much as all the others put together. Potential losses equal the planned injection of ¥2,000 billion ($16bn) of public funds into the capital of 21 leading banks. The banks' bad loan crisis, caused when the financial bubble of the late 1980s burst in 1990, has still to be tackled eight years later.

The use of public funds to rebuild banks' capital will merely prevent the Asian crisis from making matters worse. The fiscal stimulus which is expected after the regular budget has been passed could be ¥10,000bn of extra public spending (two per cent of GDP). But these demand-side measures are merely a palliative to a supply-side problem. The money is a pork barrel to be shared among politicians. It will be used once more to build roads from nowhere to nowhere which nobody will use.

This will raise demand. After being spent it will do nothing to increase output and incomes but will leave a further burden of debt on the diminishing number of future taxpayers. Japan's gross public sector debt is approaching 100 per cent of GDP.

The promise of big-bang financial deregulation is rapidly turning into a nightmare. The Japanese are sliding back into their bad habits. The banking bailout has become a return to the old bad ways, the convoy system under which the strong bail out the weak instead of allowing them to go to the wall. Banks can value assets at cost or market price, whichever is the higher. Losses can be hidden while profits are declared. The move to the "prompt action programme", under which undercapitalised and insolvent banks would rapidly have to restructure or be closed, has been delayed for a year. Once again symptoms, not causes, are being treated.

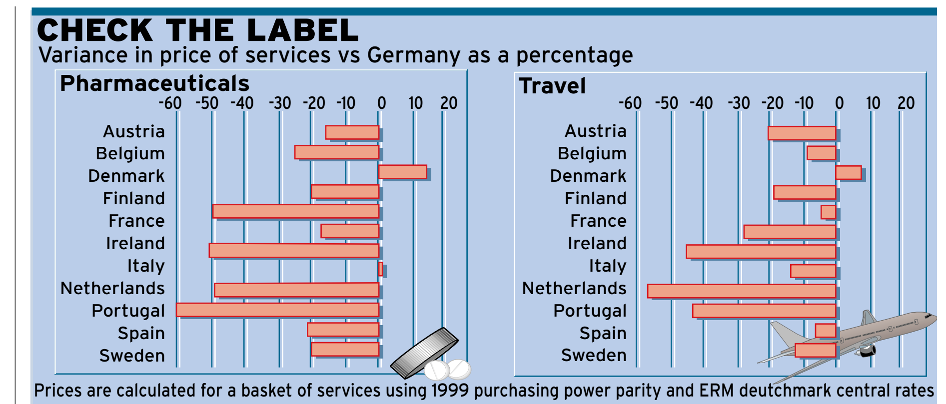
Net public sector debts are less than 20 per cent of GDP. The difference between this and the 100 per cent of GDP for public sector gross debts are the assets owned by public sector financial corporations. These are surrogate banks, lending postal savings and pension fund money to small businesses, local authorities, home-buyers and utilities. Most of the public sector financial corporation loans are as dud as the banks'. In an effort to clear up the private sector's financial mess, the government is creating a monumental mess of the public sector's finances.

Another stimulative fiscal package may help to avoid recession. But it will do little to self-start the economy on a sound growth path. Japan, with a current account surplus approaching $100bn, could well afford to take the knock from the Asian crisis which reduced this. But it cannot afford the damage a deteriorating balance of payments will do to growth.

The Asian crisis is a real threat to world growth. Japan has a duty to see that it does not make matters worse. This means it must correct, not neglect, its fundamental structural problems. There are few signs that it is able and willing to do so. We may pay the price in the short term, but Japan will in the long. The destruction of Japan's public finances can lead to only one ominous conclusion: runaway inflation within a decade. ■

Regulation, Tokyo-style: prosecutors arrive at the Bank of Japan to investigate allegations of corruption

KYODO / REUTERS



Prices are calculated for a basket of services using 1999 purchasing power parity and ERM deutchmark central rates

Source: Dresdner Kleinwort Benson

ECONOMICS

Is it sale time in the euro shopping arcade?

Doug Cameron

EUROPEAN companies are facing a showdown with regulators and consumers from 1 January when the introduction of the euro promises to blow apart the chronic price discrimination within the European Union.

The promise of a single market has been denied as manufacturers maintain different price lists, squeezing what they can from customers and blaming exchange rate movements. The greatest differences are in goods which are not easily tradable, such as education, medical services, restaurants and travel.

The two largest problem areas are pharmaceuticals and transport, notably auto prices and airline tickets, according to two recent studies by Price Waterhouse and Dresdner Kleinwort Benson. These show a deviation of 20.9 per cent in the price of pharmaceuticals among the 15 EU states and 14.3 per cent for transport.

Tax and labour cost differences explain only a part of the story, particularly for imported or commodity goods. For example, drugs prices in France are just half the level in Germany, consistently Europe's most expensive country. "The ability of multinationals to segment the market through transfer pricing, blaming foreign exchange movements, will disappear," says Nick Crosby, EMU specialist at Price Waterhouse.

The launch of the euro will eliminate companies' ability to hoodwink customers by masking price differences in national currencies; the euro will provide buyers with a clear benchmark to compare what they are paying for, say, a McDonald's hamburger at home compared with the price charged in the neighbouring country.

Although euro notes and coins do not come into circulation until 2002, companies are slowly facing up to the challenge of having to price goods in the national currencies and euros during the transition period. This is posing serious challenges for pricing strategy which also threatens to slash profits as national price margins are eroded.

Some sectors have already started a charm offensive either to justify differential pricing – citing wage and tax differences – or attempting to steal a march on competitors by accepting the changes. Pan-European auto brokers will emerge to take advantage of car prices arbitrage opportunities. Computer manufacturers face a similar threat from Internet selling.

The airline sector uses some of the most complex pricing technology in the world. Yield management systems are used to squeeze every last cent from each aircraft seat with an array of prices targeted at different types of traveller and what each market will bear.

The price of any airline ticket in Europe depends on where you buy it. For example, a standard economy return from Helsinki to Lisbon costs Mk5,500 ($989) on Finnair and TAP. The same routing bought in Lisbon will cost Esc150,000 ($800). Using ERM central rates the price translates as Ecu919 ($850) and Ecu742. Passengers will not tolerate this clear discrimination once the euro makes it transparent

Airlines have agreed to display prices in euros and national currencies from 1 January next year. That will expose the price discrimination in the market and threatens to erode millions of dollars from carriers' profits as they find themselves unable to charge extra depending on where passengers live. There are also strategic challenges when reviewing pricing. Companies use the concept of "price point psychology" to lure customers. An airline knows that a ticket priced at DM199 ($109) is more attractive than one sold at DM205.

The auto sector has been defensive in the wake of EU scrutiny of its pricing practices. Karl Hahn, former chairman of VW, accepts that EMU will be "enormously deflationary" for the auto sector, with "prices harmonised" at the lower end of the range.

Car prices have been among the most controversial examples of price discrimination, rising to prominence when VW was fined Ecu100m earlier this year for preventing Swiss and German drivers from picking up a Golf in Italy, which offers the lowest car prices in Europe. There is nothing to stop customers shopping around in other countries but manufacturers have worked hard to discourage the practice.

The pharmaceuticals sector faces an even greater challenge as it wrestles with parallel importing and regulatory action against anti-competitive behaviour.

"All these remaining barriers will be attacked and governments will start comparing prices with each other," says Crosby.

Pricing in the drugs sector is influenced by the public sector but, given that drugs are licensed at an EU level, there is little to stop them from being imported from the cheapest EU country.

Datamonitor estimates that if prices converged at the lowest EU level, drugs companies would lose $100m a year. The euro is sour medicine for some. ■

Top scorer this summer? Scotland's Gallagher

GAMBLING

The lads gave 110 per cent. You can win or lose even more

Conal Gregory

SCOTLAND striker Kevin Gallagher tore through the heart of the Brazilian defence to register the first goal of the 1998 World Cup and secure victory for the doughty Scots. If you believe this notion of fantasy football you can put your money where your nationalist heart is or risk losing your shirt

Spread betting has emerged as the premier discipline for armchair fans. This offers gamblers the opportunity to wager on more than a single match with the potential for greater rewards – or losses. It is the sporting equivalent of derivatives trading, with the opportunity to multiply your money or take the route to penury pioneered by Nick Leeson, the disgraced former Barings trader.

The concept is easy to master but devilishly tricky to practise. For example, you can forecast the total number of goals scored over the 64 World Cup matches taking place in France this summer – the bookies are offering average spreads of 168 to 172 goals. If you place a $10 bet on, say 170 goals (opting to back a high total) and the actual number scored is 180, you stand to make a 10-fold profit on the deal, $100.

Conversely, if the absence of larger goals – an option considered but thankfully rejected by the organisers – fails to create a tidal wave of scoring opportunities and teams manage just 140 goals, you will have to pay out $300. The loss multiplies with each unconverted half-chance. Bets are always bought at the upper end of the quote and sold at the lower end of the spread.

The roots of spread betting lie in the financial markets where bored traders combined a passion for sport with their skills in risk-taking and analysis. The crucial difference between spread and fixed-odds betting is that the former is fluid: gamblers can change their position during a tournament or even a single match. Hence, if you gamble on a nil-nil thriller and the score has reached 5–0 after 25 minutes, the rational player may choose to close the position before suffering more losses.

The practice can offer rich rewards. IG Index, a spread-betting company in London, has paid out more than $1.6 million to a single client over the past 18 months. City Index, another bookmaker, estimates more than $300m will be placed on spread bets during the World Cup, triple the total during Euro 96. The clear parallel with the financial markets is reflected in the market's regulation by the UK Securities and Futures Authority, which insists on bookmakers segregating client funds and holding sufficient liquidity to pay out bets. There are also stop-loss mechanisms to prevent losses on either side spiralling out of control, similar to the halt on share trades at most stock exchanges.

The practice is well suited to drawn out tournaments such as the World Cup where only short odds are on offer for favourites such as Brazil, offered at 3-1 to win. Loyal Scotland fans may plump for the number of points their country secures in qualifying for the second stage rather than the tally of Brazil's World Footballer of the Year, Ronaldo. More esoteric wagers can be placed, such as the total sum of goalscorers' shirt numbers in a match or the number of successful shoot-out penalties. ■

ALLSPORT

Ronaldo: hero or villain for gamblers

Why the dollar is not yet ready to take-off against the yen PAGE 61

THE EUROPEAN 500

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

STOCK PICKS

No news is not good news

THERE is usually some activity in the media sector to stoke up investor interest. But the flurry of financial results and the compulsory tale of another merger which didn't quite make it are ensuring even more speculation than usual. The earnings are a mixed bag – shares in France's Canal Plus are off their highs after the company posted lower-than-expected earnings, while United News and Media, the British media group, saw net income up 12 per cent. Reed Elsevier also saw a profit, but it was only one per cent higher than 1996, as it became the latest British company to be battered by a strong pound. Dutch publisher Wolters Kluwer saw a 20.9 per cent increase in profits last year, after acquisitions and a favourable currency climate boosted earnings growth. Reed Elsevier abandoned its $9 billion takeover of Wolters Kluwer after the latter demanded a larger stake in the merged business. Had it gone ahead, the dealwould have created one of the world's biggest trade-magazine publishers. Analysts are not ruling out a hostile bid, so investors are advised to watch the shares closely.

Wolters Kluwer

NOW the company has upended the planned takeover by Reed Elsevier by demanding a larger stake in the merged business to ensure the 15 per cent growth in earnings per share promised to shareholders, all eyes will be watching the Dutch publisher. Henk Slotboom, analyst at Amstgeld in the Netherlands, says: "They haven't got a problem because nothing has changed for them in the shortterm. They can continue to show 15 per cent earnings growth until 1999. But in the long term, they are running behind in developing electronic formats." To keep the 15 per cent, it will have to make more acquisitions. The company said earnings last year and in coming years will be influenced by the cost of financing the $1.9bn purchase of Illinois-based CCH, a provider of tax and business law information.

Pearson

FORMER management at the British media group tended to misallocate capital yielded by successful parts of the business. This month Pearson sold Mindscape, a computer software developer, for $150m. In 1994 it paid $503m for the company. But Marjorie Scardino, chief executive since 1996, and new personnel settling into key operational roles have begun to refocus the business and use £500m from disposals to strengthen core areas generating good returns, especially in publishing and TV. Pearson is still a ragbag of interests. Its portfolio includes visitor attractions such as the waxworks at Madame Tussaud's in London and the Alton Towers theme park in north England, as well as its Penguin publishing arm and the *Financial Times*, its flagship British publication, *Les Echos* in France and *Recoletos*, a Spanish sports daily. The prudent reorganisation needs to continue. Pearson is by no means cheap and the stock has already rallied ahead of expected strong results out this week. But according to an analyst at Deutsche Morgan Grenfell, Pearson "should emerge more focused and in a stronger market position in its key business areas".

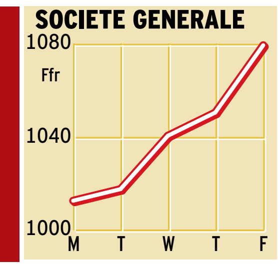
Newsquest

THE English regional newspaper group has been left behind by the rest of the media sector which has begun to rise after a period of lacklustre performance. Part of the sector's poor showing was the result of a bearish view on advertising revenues. But Neil Blackley, analyst at Merrill Lynch in London, says the forecast cyclical slowdown has not materialised. Newsquest's advertising revenues since the beginning of the year have been excellent and the stock, still on a low rating, should rise with a strong profits showing for 1997 to be released at the end of March. Merrill Lynch jointly floated Newsquest last year at 250 pence ($4.09). It has done little since then, hovering around 260p. But as well as good management there is scope for Newsquest to benefit from consolidation in the regional press. Now may be the time to buy.

Canal Plus

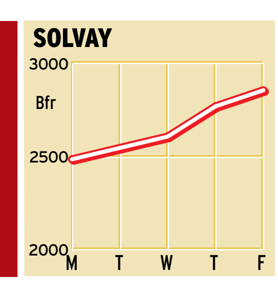
DISAPPOINTING 1997 earnings from Europe's largest pay television company knocked 10 per cent off the share price over three days last week. The French company can expect to see a further decline in the share price this week, but the shares will continue to remain expensive. Before the financial report, shares were at a 12-month high of Ffr1,377 ($224) amid speculation that water utility Générale des Eaux could buy shares as part of an offer for media company Havas, which owns 34 per cent of Canal Plus. On 9 March Générale des Eaux offered $5.6bn for Havas without saying it would raise its Canal Plus stake, disappointing investors. More gloom was generated by news that earnings more than doubled to Ffr1.53bn amid gains on asset sales, but without one-time gains and goodwill increments the company lost Ffr611m.

Banks



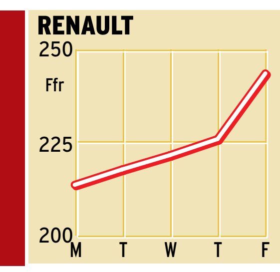
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Abbey National	UK	1160.0	17.7	−0.4	3.3
ABN Amro	Neth	46.3	0.7	0.4	2.6
Alliance & Leicester	UK	915.0	14.0	1.3	2.8
Allied Irish	Ire	9.3	0.1	1.7	1.9
Alpha Credit Bank	Gre	17005.0	259.7	2.8	5.4
Banca Commerciale It	Ita	8277.0	126.4	−1.0	2.0
Banca di Roma	Ita	2755.0	42.1	10.2	–
Banca Fideuram	Ita	13226.0	202.0	1.2	0.8
Banco Bilbao Vizcaya	Spa	6920.0	105.7	−4.0	1.3
Banco Central His	Spa	4970.0	75.9	0.0	–
Banca Intesa	It	4696.0	71.7	10.7	1.6
Banco Com Portugues	Port	6030.0	92.1	−1.9	1.2
Banco Esp Credito	Spa	2225.0	34.0	−0.2	–
Banco Espirito Santo	Port	7570.0	115.6	−0.8	1.7
Banco Popular Espanol	Spa	13310.0	203.3	−3.1	2.1
Banco Santander	Spa	7220.0	110.3	0.6	1.7
Bank Austria	Aus	914.0	14.0	6.0	1.3
Bank Fuer Intl Zah-Belg	Swi	8850.0	135.2	−0.6	3.2
Bank Fuer Intl Zahlungs	Swi	9300.0	142.0	1.1	3.0
Bank Of Ireland	Ire	14.4	0.2	4.0	1.3
Bank Of Scotland	UK	662.5	10.1	−0.2	1.7
Bankgesellschaft Berlin	Ger	39.8	0.6	0.8	3.9
Bankinter	Spa	9910.0	151.4	−2.2	2.9
Banque Gen Du Lux	Lux	–	–	1.4	1.9
Banque Nat de Paris	Fr	439.0	6.7	6.3	1.8
Barclays	UK	1755.0	26.8	−0.7	2.6
Bayerische Vereinsbank	Ger	113.7	1.7	2.0	2.0
BBL	Bel	9200.0	140.5	2.3	2.8
BG Bank	Den	420.0	6.4	−1.4	4.8
BHF-Bank	Ger	54.0	0.8	−1.6	3.8
Christiania Bank	Nor	33.7	0.5	0.3	3.6
Cie Financiere De Paribas	Fr	565.0	8.6	−2.1	3.5
Commerzbank	Ger	68.1	1.0	3.3	3.1
Compagnie Bancaire	Fr	990.0	15.1	−2.6	1.5
Corp Bancaria De Esp	Spa	11490.0	175.5	−2.5	2.6
Den Danske Bank	Den	870.0	13.3	0.0	2.1
Den Norske Bank	Nor	42.0	0.6	−1.2	3.2
Deutsche Bank	Ger	132.1	2.0	7.0	1.9
Deutsche Pfandbrief	Ger	142.0	2.2	5.2	1.5
Dexia Belgium	Bel	5330.0	81.4	0.4	2.2
Dexia France	Fr	–	–	–	–
Dresdner Bank	Ger	89.6	1.4	2.9	2.5
Generale De Banque	Bel	18975.0	289.8	5.6	2.8
Halifax	UK	911.5	13.9	−2.9	–
HSBC	UK	1738.0	26.5	−1.3	3.6
Istituto Banc San Paolo	Ita	20566.0	314.1	−3.0	1.4
Kredietbank	Bel	17650.0	269.6	1.1	2.0
Lloyds TSB	UK	913.5	14.0	0.7	2.4
Mediobanca	Ita	20162.0	307.9	5.2	1.0
Merita	Fin	30.8	0.5	1.0	2.9
National Bank of Greece	Gre	22770.0	347.8	3.1	–
National Westminster	UK	1052.5	16.1	−2.5	3.8
Rolo Banca	Ita	37106.0	566.7	−1.0	1.6
Royal Bank of Scotland	UK	912.0	13.9	1.0	2.9
Schroders	UK	2287.0	34.9	−5.1	1.3
Schweizerischer Bank	Swi	501.0	7.7	2.1	9.6
Skandi Enskilda Banken	Swe	104.0	1.6	1.5	2.9
Societe Generale	Fr	1080.0	16.5	10.8	2.4
Standard Chartered	UK	904.0	13.8	5.1	2.6
Svenska Handelsbanken	Swe	322.0	4.9	1.6	2.0
UBS	Swi	2323.0	35.5	2.1	8.6
Unidanmark	Den	545.0	8.3	3.8	2.8
Woolwich	UK	371.5	5.7	0.0	3.2
Worms et Compagnie	Fr	370.5	5.7	−2.6	19.4

Basic Materials



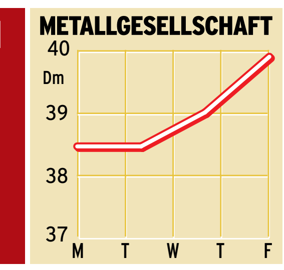
Company	Country	Price (local)	Price (Ecu)	%change	Yield
AGA	Swe	112.5	1.7	5.6	2.7
Akzo Nobel	Neth	432.3	6.6	−2.0	2.0
Allied Colloids	UK	203.5	3.1	0.0	2.0
Alusuisse Lonza	Swi	1795.0	27.4	6.7	0.5
Arjo Wiggins Appleton	UK	195.0	3.0	−3.0	7.1
Assidoman	Swe	219.5	3.4	7.9	2.5
Basf	Ger	72.0	1.1	6.4	3.4
Bayer	Ger	79.2	1.2	0.8	3.4
Billiton	UK	168.3	2.6	1.3	–
Boc	UK	951.5	14.5	−3.3	3.5
British Steel	UK	140.3	2.1	−8.5	8.9
Ciba Specialty Chems	Swi	191.0	2.9	6.7	–
Clariant	Swi	1538.0	23.5	4.3	0.7
Courtaulds	UK	363.0	5.5	−0.5	4.6
Degussa	Ger	105.5	1.6	0.2	2.7
DSM	Neth	216.0	3.3	−2.0	4.3
Enso	Fin	54.0	0.8	9.1	4.1
FPB	Ger	–	4.9	0.0	7.8
Henkel Kgaa	Ger	113.0	1.7	2.7	1.5
Hoechst	Ger	68.8	1.1	2.4	2.6
Imperial Chemical	UK	1106.0	16.9	−0.4	2.9
Johnson Matthey	UK	535.5	8.2	−2.5	3.0
Koninklijke Knp	Neth	54.6	0.8	1.1	2.0
L'air Liquide	Fr	1091.0	16.7	6.5	1.9
Laporte	UK	755.0	11.5	4.2	3.4
Minorco-Bearer	Lux	590.0	9.0	–	0.1
Mo Och Domsjoe	Swe	252.0	3.8	4.1	3.6
Pechiney	Fr	275.0	4.2	−3.2	1.8
Preussag	Ger	649.0	9.9	2.6	2.6
Rio Tinto	UK	826.0	12.6	−0.5	3.9
SGL Carbon	Ger	230.5	3.5	9.9	1.5
Skw Trostberg	Ger	62.7	1.0	−1.1	2.7
Solvay	Bel	2840.0	43.4	17.8	2.6
Ssab Svenskt Stal	Swe	149.0	2.3	2.1	3.0
Stora Kopparbergs	Swe	122.5	1.9	5.6	3.1
Svenska Cellulosa	Swe	210.0	3.2	7.7	2.7
Upm-Kymmene	Fin	156.5	2.4	7.6	3.5
Usinor	Fr	98.9	1.5	3.3	4.6

Consumer



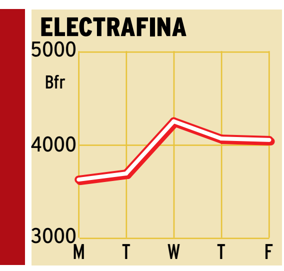
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Accor	Fr	1410.0	–	0.0	–
Adidas	Ger	299.0	4.6	1.4	–
Airtours	UK	499.0	7.6	4.1	–
Alitalia	Ita	20876.0	318.8	11.7	–
Allied Domecq	UK	568.5	371.8	2.2	4.3
Altana	Ger	153.0	100.1	3.4	1.4
Associated British Foods	UK	651.0	425.8	3.0	1.9
Astra	Swe	163.0	106.6	−0.6	1.1
Audi	Ger	–	–	2.5	–
Autopistas Con	Spa	2385.0	1559.8	0.6	3.1
BAT	UK	632.0	413.3	−2.2	4.5
Bass	UK	1075.5	703.4	7.8	3.6
BMW	Ger	1893.5	–	–	–
Beiersdorf	Ger	92.1	60.2	7.8	1.6
Bic	Fr	452.5	295.9	−9.5	2.0
British Airways	UK	574.0	8.8	0.2	3.4
Cadbury Schweppes	UK	820.0	12.3	4.7	2.2
Carlsberg	Den	444.0	290.4	11.0	0.8
Castorama Dubuis Inv	Fr	1035.0	15.8	6.2	1.6
CCP	Spa	2570.0	39.3	−0.8	2.5
Christian Dior	Fr	728.0	476.1	−2.7	3.2
Cie Ffinanc Richemont	Swi	1946.0	1272.7	12.4	–
Cie Generale Des Eaux	Fr	984.0	643.5	−2.8	1.8
Colruyt	Bel	24050.0	15728.9	−1.1	0.7
Compass	UK	964.5	14.7	5.1	1.3
Continental	Ger	47.4	0.7	2.9	1.8
Daimler-Benz	Ger	160.6	2.5	0.7	1.4
Danisco	Den	449.9	294.2	3.4	1.1
Deutsche Lufthansa	Ger	39.6	0.6	8.8	3.2
Diageo	UK	682.0	10.2	3.2	3.3
Elan	Ire	44.0	28.8	−1.8	–
Electrolux	Fr	635.0	9.7	4.1	2.0
EMI	UK	526.5	8.0	−3.5	3.1
Eridania Beghin-Say	Fr	1126.0	736.4	1.1	4.4
Essilor International	Fr	2137.0	1397.6	14.3	1.2
Fiat	Ita	7075.0	108.1	0.2	–
Fresenius Medical Care	Ger	133.5	87.3	1.9	–
Gallaher	UK	320.0	4.8	2.6	6.8
Gehe	Ger	106.8	69.8	7.9	1.3
GKN	UK	1540.0	23.5	−0.6	1.9
Glaxo Wellcome	UK	1624.0	24.3	−0.5	2.4
Granada	UK	967.5	14.5	1.9	1.9
Groupe Danone	Fr	1260.0	824.0	2.6	2.0
Hays	UK	970.0	14.5	3.7	1.3
Heineken	Neth	454.4	297.2	8.7	0.8
Imperial Tobacco	UK	412.0	6.2	−1.9	6.5
Jeronimo Martins	Port	6720.0	102.6	2.8	0.6
Klm-Konin Luchtvaart	Neth	83.6	1.3	2.6	1.2
Koninklijke Ahold	Neth	66.6	43.6	5.4	1.1
La Rinascente	Ita	18047.0	11802.9	2.8	1.1
Ladbroke	UK	326.5	5.0	3.0	2.8
L'Oreal	Fr	2730.0	1785.4	−1.1	0.8
LucasVarity	UK	230.0	3.6	−0.6	2.4
LVMH	Fr	1219.0	797.2	−2.5	2.6
Michelin	Fr	392.0	6.0	1.6	1.3
Montedison	Ita	2270.0	1484.6	13.2	0.9
Nestle	Swi	2597.0	1698.5	0.9	1.2
Northern Foods	UK	290.5	4.4	0.3	4.2
Novartis-Bearer	Swi	2716.0	1776.3	1.0	0.7
Nutricia Verenigde Bed	Neth	68.5	44.8	0.1	1.0
Nycomed Amersham	UK	2280.0	4.2	1.1	0.9
Orkla	Nor	771.0	504.2	4.3	1.1
Parmalat Finanziaria	Ita	3502.0	2290.3	11.5	0.4
Pernod-Ricard	Fr	404.1	264.3	−0.5	3.2
Pharmacia & Upjohn	Swe	341.5	223.3	2.2	2.6
Pilkington	UK	121.5	1.9	0.0	4.8
Pirelli	Ita	5436.0	83.0	2.6	1.8
Pirelli Spa-rnc	Ita	4333.0	66.2	5.9	2.8
Promodes	Fr	2628.0	1718.7	−7.6	0.8
PSA Peugeot Citroën	Fr	893.0	13.6	5.7	0.5
Raisio	Fin	880.0	575.5	−4.3	0.3
Randstad	Neth	91.7	60.0	8.3	1.0
Reckitt & Colman	UK	1096.5	16.4	3.6	2.2
Renault	Fr	248.5	3.8	17.5	–
Rentokil Initial	UK	303.3	4.6	3.2	1.2
Rhone-Poulenc	Fr	286.0	43.3	1.7	1.8
Roche Holding-bearer	Swi	27000.0	17658.2	5.7	0.3
SMH-Bearer	Swi	994.0	15.2	4.1	0.5
Sairgroup	Swi	2070.0	31.6	6.0	–
Sanofi	Fr	683.0	446.7	−2.1	1.4
Scania	Swe	195.0	3.0	9.6	2.8
Schering	Ger	215.0	140.6	5.1	1.7
Scottish & Newcastle	UK	872.5	13.1	1.4	3.2
Seb	Fr	954.0	14.6	2.9	1.8
Securicor	UK	389.5	5.8	12.4	0.6
Seita	Fr	265.5	173.6	6.6	3.7
Sgs Soc Gen de Surv	Swi	2700.0	1765.8	−1.8	2.4
Smith & Nephew	UK	180.5	2.7	2.0	3.4
Smithkline Beecham	UK	751.5	11.2	−6.7	1.9
Sodexho Alliance	Fr	3840.0	58.6	−0.2	1.4
Sophus Berendsen	Den	–	–	–	–
Springer (axel) Verlag	Ger	–	–	−1.9	1.9
Suedzucker	Ger	900.0	588.6	8.0	2.7
Synthelabo	Fr	857.0	560.5	2.0	0.9
T & N	UK	257.5	3.9	0.2	–
Tabacalera	Sp	16070.0	10509.9	1.1	1.3
Tate & Lyle	UK	509.0	7.6	−0.3	3.6
UCB	Bel	157100.0	102744.5	−1.1	0.6
Unigate	UK	675.5	10.1	6.2	3.8
Unilever-CVA	Neth	140.5	91.9	2.6	1.6
Unilever	UK	561.5	8.4	−2.1	1.9
United Biscuits	UK	252.0	3.9	−4.8	5.0
Valeo	Fr	520.0	7.9	1.2	1.2
Volkswagen	Ger	1301.1	19.9	2.4	1.3
Volvo	Swe	249.5	3.8	11.9	2.0
Whitbread	UK	1067.5	16.0	4.2	2.9
Wolseley	UK	529.0	8.1	−4.9	2.7
Zeneca	UK	2681.0	40.2	1.9	1.8

Diversified



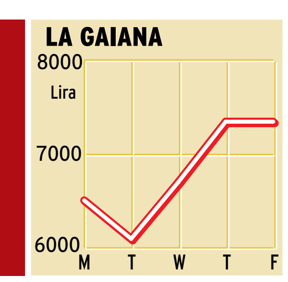
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Barco	Bel	8420.0	204.5	3.1	0.7
BTR	UK	195.8	4.8	2.9	4.9
Gevaert	Bel	2100.0	51.0	7.1	–
Industrivarden	Swe	531.0	12.9	4.1	2.8
Lagardere	Fr	231.0	5.6	−0.6	2.4
Metallgesellschaft	Ger	40.3	1.0	6.5	0.7
Montaigne Participat	Fr	–	–	–	0.4
Ste Gen de Belgique	Bel	4475.0	108.7	0.7	2.6
Tomkins	UK	369.5	9.0	1.7	3.3

Energy



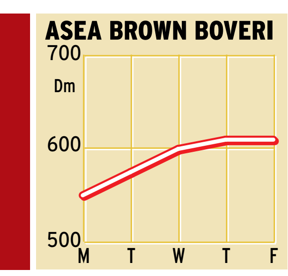
Company	Country	Price (local)	Price (Ecu)	%change	Yield
British Petroleum	UK	829.5	12.7	−4.0	3.5
Burmah Castrol	UK	1048.0	16.0	0.4	5.3
Cia Espanola de Pet	Spa	5000.0	76.4	1.4	2.4
Electrafina	Bel	4090.0	62.5	12.2	3.5
Elf Aquitaine	Fr	680.0	10.4	−3.4	3.1
Eni	Ita	11286.0	172.4	3.6	2.1
Enterprise Oil	UK	552.5	8.4	−4.2	4.0
Lasmo	UK	274.0	4.2	−6.2	0.8
Neste	Fin	148.5	2.3	3.8	2.0
Petrofina	Bel	13125.0	200.5	2.5	3.5
Petroleum Geo-Services	Nor	459.5	7.0	−0.8	–
Repsol	Spa	7020.0	107.2	−3.7	2.7
Royal Dutch Petroleum	Neth	112.4	1.7	−0.4	2.8
RWE-DEA	Ger	–	–	−0.1	5.2
Saga Petroleum	Nor	116.0	1.8	0.0	3.0
Saipem	It	10272.0	156.9	−4.4	1.5
Shell Transprt&tradng	UK	425.3	6.5	−2.1	3.4
OMV	Aus	1570.5	24.0	−2.5	1.7
Total	Fr	651.0	9.9	−4.7	2.4

Financial



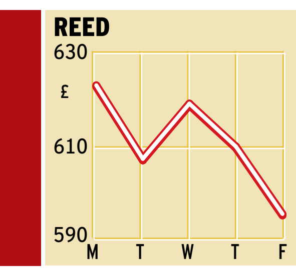
Company	Country	Price (local)	Price (Ecu)	%change	Yield
3I	UK	546.0	8.3	2.6	2.0
Aegon	Neth	249.3	3.8	2.8	1.2
AGF	Fr	331.4	5.1	−0.2	2.3
Alleanza Assicurazioni	Ita	23687.0	361.8	−2.4	0.6
Alliance Trust	UK	2850.0	43.5	0.5	2.5
Allianz	Ger	569.5	8.7	1.5	0.5
Allianz Lebensversich	Ger	–	–	−5.0	0.9
Almanij	Bel	2485.0	38.0	14.3	1.3
Amvescap	UK	588.5	9.0	−3.3	1.2
Asr Verzekeringsgroep	Neth	145.9	2.2	−1.3	1.8
Assicurazioni Generali	Ita	52312.0	799.0	−1.2	0.7
Axa-UAP	Fr	606.0	9.3	1.8	1.9
Axa Colonia Konzern	Ger	229.5	3.5	6.5	1.2
Baloise	Swi	3238.0	49.5	1.2	–
Bayer Hypo-Und Wech	Ger	85.7	1.3	1.6	2.4
BHW	Ger	30.8	0.5	−3.1	4.2
BK Vision	Swi	1704.0	26.0	2.2	–
Britannic Assurance	UK	1272.5	19.4	5.7	3.2
British Land	UK	759.5	11.6	2.7	1.4
CCF	Fr	461.2	7.0	0.3	2.2
Cetelem	Fr	721.0	11.0	−5.9	2.1
Cobepa	Bel	2125.0	32.5	8.4	5.4
Commercial Union	UK	1103.0	16.8	1.6	2.9
Credit Suisse	Swi	270.0	4.1	0.7	1.5
Credito Italiano	Ita	7133.0	108.9	2.5	0.8
Ea-Generali	Aus	4150.0	63.4	0.5	0.3
Edinburgh Investment	UK	491.0	7.5	2.0	2.8
Ewart	Ire	1.0	0.0	–	–
Exor	Lux	93.0	1.4	–	3.1
Finaxa	Fr	499.0	7.6	6.2	2.0
Foreign & Colonial	UK	195.5	3.0	2.1	1.5
Forenings Sparbanken	Swe	250.0	3.8	3.1	2.4
Fortis	Bel	10450.0	159.6	4.6	1.2
Fortis Amev	Neth	119.7	1.8	3.8	1.7
Gan Assurances	Fr	169.9	2.6	13.9	–
General Accident	UK	1378.0	21.0	3.7	3.4
Groupe Brux. Lambert	Bel	6200.0	94.7	5.6	3.2
Guardian Royal	UK	438.3	6.7	7.7	2.5
Hammerson	UK	502.5	7.7	1.8	2.8
Ifil	Ita	8884.0	135.7	1.7	1.5
INA	Ita	5475.0	83.6	1.8	1.2
Incentive	Swe	785.0	12.0	2.7	1.3
ING Groep	Neth	114.2	1.7	3.2	1.9
Insinger	Lux	–	–	–	–
Investor	Swe	425.0	6.5	3.9	2.4
Istituto Mobiliare It	Ita	25484.0	389.2	−3.7	2.2
La Fondiaria Ass	Ita	11960.0	182.7	4.4	1.1
La Gaiana	Ita	7350.0	112.3	19.7	1.6
Land Securities	UK	1087.0	16.6	−0.5	3.1
Legal & General	UK	662.5	10.1	0.3	2.4
Liberty Int	UK	603.5	9.2	1.8	3.7
Liechtenstein Global	Swi	1304.0	19.9	7.1	7.7
Mediolanum	Ita	45999.0	702.5	−1.1	0.8
Mepc	UK	574.0	8.8	1.2	3.7
MAM	UK	1691.0	25.8	–	3.5
Muenchener Rueckver	Ger	–	–	2.9	0.5
Norwich Union	UK	460.5	7.0	−6.9	–
Pharma Vision 2000	Swi	1070.0	16.3	1.9	–
Provident Financial	UK	990.5	15.1	3.0	2.5
Prudential	UK	856.0	13.1	−1.8	2.2
Ras	Ita	22066.0	337.0	0.5	1.5
Royal & Sun Alliance	UK	764.0	11.7	1.0	3.0
Royale Belge	Bel	12775.0	195.1	4.7	3.5
Safra Republic	Lux	–	–	−0.7	1.8
Sampo Insurance	Fin	211.0	3.2	−1.2	1.4
Schw lebensv & Rent	Swi	1293.0	19.7	3.8	0.5
Schw Rueckversich	Swi	3180.9	48.6	3.4	0.9
Scottish Mort &Ttrust	UK	367.0	5.6	−0.4	1.8
Skandia Forsakrings	Swe	530.0	8.1	15.0	0.7
Slough Estates	UK	398.5	6.1	1.0	2.1
Stillhalter Vision	Swi	910.0	13.9	3.1	–
Storebrand	Nor	66.0	1.0	10.0	–
Sun Life & Provincial	UK	568.0	8.7	−3.4	2.4
Trygg-Hansa	Swe	–	–	–	–
United Assurance	UK	593.0	9.1	−1.4	4.1
Victoria	Ger	–	–	–	0.9
Volksfuersorge	Ger	850.0	13.0	−0.6	2.3
Witan Investment	UK	362.5	5.5	0.8	2.4
Wuertt Versich-Beteil	Ger	–	–	−0.8	0.7
Zürich Versicherungs	Swi	833.0	12.7	4.0	0.9

Industrial



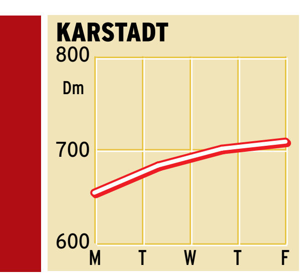
Company	Country	Price (local)	Price (Ecu)	%change	Yield
ABB-B	Swe	107.5	12.3	4.9	2.0
ABB-Bearer	Swi	2197.0	251.8	5.1	1.8
Asea Brown Boveri	Ger	–	–	11.3	1.5
Associated British Ports	UK	373.5	5.6	6.1	3.0
Atlas Copco	Swe	231.0	26.5	5.5	1.8
BAA	UK	596.0	8.9	6.1	2.7
BBA	UK	425.0	6.4	0.0	1.9
Blue Circle	UK	359.8	5.4	−3.2	4.4
Bouygues	Fr	907.0	104.0	1.7	2.8
BPB	UK	362.0	5.4	3.4	3.4
CGIP-Gen d'ind & de Par	Fr	2550.0	292.3	−0.2	2.4
Cimenteries CBR Cement	Bel	3640.0	417.2	8.3	2.6
Cimpor Cim de Port	Port	6229.0	714.0	2.4	2.0
Compagnie de Saint	Fr	897.0	102.8	−0.3	2.8
Cookson	UK	242.0	3.6	5.5	3.8
D/S Svendborg	Den	475000.0	54443.3	3.3	0.2
Electrocomponents	UK	486.5	7.3	−3.3	2.1
FKI	UK	205.5	3.1	7.0	3.3
Fomento de Con Constru	Spa	7190.0	824.1	4.2	0.6
Fried.Krupp Hoesch	Ger	327.0	37.5	−2.7	2.2
General Electric	UK	424.3	6.4	0.7	3.9
Hanson	UK	351.5	5.3	5.9	–
Heidelberger Druck	Ger	124.5	14.3	7.2	–
Heidelberger Zement	Ger	144.5	16.6	9.1	1.7
Hochtief	Ger	76.0	8.7	13.9	2.3
Holderbank Fin Glarus	Swi	1455.0	166.8	1.5	1.2
Imetal	Fr	821.0	94.1	−1.1	2.9
Imi	UK	452.0	6.9	1.0	3.1
Kvaerner	Nor	305.0	35.0	8.9	2.3
Lafarge	Fr	496.0	56.9	3.7	3.0
Lahmeyer aktiengesell	Ger	85.4	9.8	9.8	1.6
Legrand	Fr	1522.0	174.4	−0.6	0.4
Linde	Ger	1284.0	147.2	1.9	2.2
Man	Ger	577.0	66.1	2.9	2.4
Mannesmann	Ger	1320.0	151.3	11.1	1.1
Norsk Hydro	Nor	362.5	41.5	2.4	2.1
Peninsular & Orient	UK	864.0	12.9	6.6	4.4
Philips Electronics	Neth	154.9	17.8	2.7	1.3
Railtrack	UK	972.0	14.5	5.5	2.9
Rexam	UK	289.0	4.3	9.4	–
Rexel	Fr	2270.0	260.2	7.2	1.3
RMC	UK	967.5	14.5	−2.4	3.3
Rolls-Royce	UK	275.0	4.1	2.7	2.7
Rwe	Ger	97.7	11.2	−0.2	2.3
SKF	Swe	178.5	20.5	8.8	2.9
Sandvik	Swe	231.5	26.5	3.4	3.1
Scancem	Swe	340.0	39.0	3.0	2.2
Schneider	Fr	391.0	44.8	3.9	1.9
Sidel	Fr	435.0	49.9	0.0	1.6
Siebe	UK	1233.0	18.5	−4.3	1.2
Siemens	Ger	114.5	13.1	3.9	1.9
Skanska	Swe	378.0	43.3	3.8	2.9
Smiths Industries	UK	858.5	12.8	−3.9	2.6
Smurfit	Ire	2.2	0.2	9.7	2.0
Stagecoach	UK	865.0	12.9	4.5	1.4
Suez Lyonnaise Des E	Fr	839.0	96.2	1.2	2.1
Thyssen	Ger	410.0	47.0	0.2	3.5
Ti	UK	505.0	7.5	−8.0	3.1
Va Technologie	Ger	1803.0	206.7	3.4	1.7
Valenciana De Cem Port	Por	2945.0	337.5	−1.2	–
Veba	Ger	125.9	14.4	3.9	2.2
Viag	Ger	969.0	111.1	2.0	2.1
Williams	UK	419.0	6.3	14.8	3.7

Media



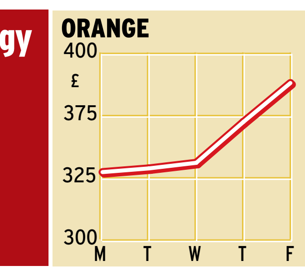
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Audiofina	Lux	1476.0	22.5	3.2	1476.0
British Sky Broadcasting	UK	444.5	6.8	2.3	1.7
Canal Plus	Fr	1258.0	19.2	−8.6	2.4
Carlton Communications	UK	469.5	7.2	5.6	3.4
Daily Mail&General	UK	2450.0	37.4	−0.2	1.2
Elsevier	Neth	34.2	0.5	−9.0	2.8
Emap	UK	1077.0	16.4	1.9	1.6
Havas	Fr	507.0	7.7	0.8	2.5
Mediaset	Ita	12311.0	188.0	7.6	1.6
Pearson	UK	961.0	14.7	2.4	2.4
Polygram	Neth	108.8	1.7	−0.8	0.9
Rank	UK	345.3	5.3	4.2	6.5
Reed International	UK	599.0	9.1	−11.5	3.0
Reuters	UK	635.0	9.7	−1.2	2.7
Télévision Française TF1	Fr	745.0	11.4	−2.5	3.2
United News & Media	UK	779.0	11.9	8.0	3.1
VNU	Neth	69.0	1.1	4.2	0.9
Wolters Kluwer	Neth	304.9	4.7	−0.7	0.8
WPP	UK	309.5	4.7	9.7	0.7

Retail



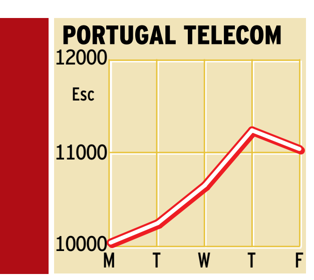
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Adecco	Swi	536.0	350.5	10.7	0.9
Argos	UK	611.0	9.3	0.4	98.9
Asda	UK	192.0	2.9	2.7	2.0
Benetton	Ita	34765.0	531.0	−3.7	1.4
Boots	UK	931.0	14.2	1.7	2.9
Burton	UK	–	–	–	–
Carrefour	Fr	3615.0	2364.2	−1.2	1.1
Casino Guichard Per	Fr	399.9	261.5	3.3	1.7
Comptoirs	Fr	3248.0	2124.2	−3.0	1.2
Delhaize-le lion	Bel	2545.0	1664.4	7.6	1.4
Dixons	UK	484.5	7.4	−6.4	2.9
Great Universal	UK	782.5	12.0	−2.9	3.0
Greenalls	UK	471.5	7.2	8.4	4.4
Hagemeyer	Neth	94.0	61.5	−1.6	1.4
Hermes	Fr	480.0	7.3	1.1	0.8
Karstadt	Ger	720.5	11.0	11.8	2.0
Kingfisher	UK	1046.0	16.0	4.3	2.4
Marks & Spencer	UK	566.5	8.7	0.0	2.9
Metro	Ger	84.8	1.3	1.0	1.4
Morrison	UK	242.5	158.6	−0.8	0.9
Next	UK	733.5	11.2	−2.5	2.7
Pinault-Printemps	Fr	4325.0	66.1	8.1	1.1
Safeway	UK	360.0	5.4	−1.7	4.8
Sainsbury	UK	506.5	7.6	4.4	3.2
Tesco	UK	530.5	7.9	1.0	2.5
Vendex Intl	Neth	137.4	2.1	4.6	1.5

Technology



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Alcatel Alsthom	Fr	882.0	132.5	8.4	1.7
Ares-Serono	Swi	2440.0	366.6	4.7	0.3
ASM Lithography	Neth	197.5	29.7	8.5	–
Baan	Neth	93.3	14.0	3.6	–
British Aerospace	UK	1951.0	29.3	0.9	1.3
British Telecom	UK	616.0	9.2	5.1	3.9
Cable & Wireless	UK	701.0	10.5	6.4	1.9
Cap Gemini	Fr	660.0	99.2	5.8	0.5
Dassault Aviation	Fr	1600.0	240.4	1.4	3.0
Dassault	Fr	237.3	35.6	−0.3	0.5
Ericsson	Swe	370.5	55.7	3.5	0.9
Getronics	Neth	84.2	12.6	−0.9	0.5
Misys	UK	2767.5	41.6	3.8	0.6
Nokia	Fin	563.0	84.6	5.8	1.3
Novo-Nordisk	Den	1105.0	166.0	11.1	0.5
Oce	Neth	305.6	45.9	5.9	1.2
Orange	UK	373.0	5.6	14.8	–
Premier Farnell	UK	410.0	6.2	1.4	3.8
Sap	Ger	704.5	105.8	3.0	0.4
Sema	UK	2145.0	32.2	4.3	0.4
Sgs-Thomson	Fr	428.3	64.3	2.0	–
Telecel-Com Pessoai	Port	27790.0	4174.9	9.0	–
Thomson	Fr	226.0	34.0	−0.4	1.9
TIM	It	8567.0	1287.0	3.9	0.6
Vodafone	UK	549.8	8.2	2.9	1.2

Utilities



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Aguas De Barcelona	Spa	7210.0	42.6	0.3	1.3
Anglian Water	UK	848.0	5.0	2.2	5.3
Berliner Kraft Und Licht	Ger	74.0	0.4	−4.5	1.9
BG	UK	301.3	1.8	−2.3	3.5
British Energy	UK	488.5	2.9	14.2	3.6
Centrica	UK	107.3	0.6	−3.6	–
Deutsche Telekom	Ger	38.9	0.2	6.1	4.4
Edison	It	13739.0	81.2	0.6	1.5
Electrabel	Bel	9480.0	56.1	3.5	5.0
Electricidade De Port	Port	4305.0	25.5	5.5	2.9
Elektrowatt	Swi	560.0	3.3	1.8	1.4
Endesa	Spa	3775.0	22.3	9.4	1.9
Energy	UK	836.0	4.9	−0.4	2.0
France Telecom	Fr	318.0	1.9	7.6	–
Gas Natural	Spa	7600.0	44.9	0.3	0.9
Hellenic Tel	Gr	6750.0	39.9	3.8	2.4
Hyder	UK	940.0	5.6	−0.4	6.1
Iberdrola	Spa	2405.0	14.2	2.1	3.0
Italgas	Ita	7501.0	44.4	3.1	1.7
Koninklijke PTT Ned	Neth	109.0	0.6	2.2	2.7
National Grid	UK	338.0	2.0	2.1	5.0
National Power	UK	579.0	3.4	−0.6	6.0
Neckarwerke Stuttgart	Ger	–	–	2.8	2.2
Oest Elektrizatswirt	Aus	1342.4	7.9	−0.2	1.2
Portugal Telecomister	Port	11040.0	65.3	10.9	1.3
Powerfin	Bel	6500.0	38.4	2.4	2.5
Powergen	UK	844.0	5.0	4.8	3.9
Scottish Hydro-Electric	UK	554.0	3.3	5.7	4.1
Scottish Power	UK	495.0	2.9	−4.3	4.9
Severn Trent	UK	935.0	5.5	2.4	5.2
Sevillana De Electric	Spa	1695.0	10.0	−2.0	3.0
South West Water	UK	893.0	5.3	0.7	5.3
Southern Electric	UK	535.0	3.2	4.7	5.2
Sydkraft	Swe	205.0	1.2	−3.3	2.1
Tele Danmark	Den	518.0	3.1	9.1	3.3
Telecom Italia	Ita	12927.0	76.4	3.5	1.0
Telefonica De España	Spa	6400.0	37.8	16.4	1.6
Thames Water	UK	893.0	5.3	−0.3	5.0
Tractebel	Bel	3915.0	23.1	1.0	2.6
Union Electrica Fenosa	Spa	2015.0	11.9	−9.8	2.7
United Utilities	UK	810.0	4.8	3.4	5.9
Vew	Ger	–	–	2.0	2.3
Yorkshire Water	UK	508.00	3.00	−0.88	4.83

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

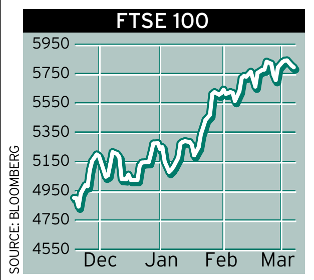
KEY

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		

SOURCE: Bloomberg The information is derived from sources believed to be accurate but neither *The European* nor Bloomberg warrant that the information is accurate or complete and it should not be relied upon as such; nor do they accept any responsibility for errors, inaccuracies, omissions or any inconsistencies therein

ROUND-UP

London



LONDON faces one of its most uncertain weeks of the year with a host of blue chips due to report against the backdrop of the second budget by the British finance minister, Gordon Brown.

Among the corporates due to release figures are media group Pearson (16 March), drinks group Diageo (17 March) and retail giant Kingfisher (18 March). These will test the robustness of domestic demand and the strength of export earnings in the face of sterling's strength.

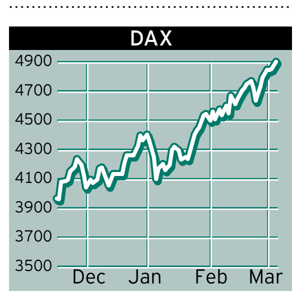
The effect of the budget on the FTSE index is expected to be muted. "Gordon Brown has changed the style of the budget announcement slightly," says one UK strategist. "He is less likely to pull a rabbit out of a hat."

Brown's plans come against a backdrop of a government budget surplus following strong tax revenues after rate hikes over the past four years. There will be some further tax rises on alcohol and tobacco but the net effect is likely to be neutral.

Overall, the market will be looking for a tightening of fiscal policy to take the onus off the Bank of England. Anything that restricts consumer spending will hurt retail stocks but will be welcomed by the market which still fears more interest rate rises by the bank. Investors would also like to see some heat taken out of the pound to reduce pressure on exporters.

But the government's options are limited. It may fail to raise some allowances in line with inflation but this will have little impact. The abolition of tax relief on mortgages is another possibility. The government is further constrained by its commitment to stick to the previous administration's spending targets.

Frankfurt



CYCLICAL stocks have been driving the German market in the absence of decisive economic data. Analysts expect the next test to be an assault on the 5,000 barrier on the DAX as money continues to shift from low-yielding bonds into equities. Friday the 13th proved lucky for investors, with the index crossing the 4,900 threshold during floor trading and closing at 4,889.65, the second record high of the past week.

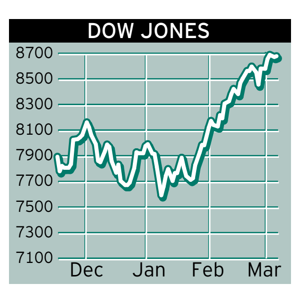
In the struggling chemicals sector, Bayer will unveil its results for the past fiscal year and is expected to focus on predictions for the next 12 months. Schering and Henkel will also announce their numbers late in the week. But while the DAX was testing the top end, Hoechst's share price was hammered after a downgrade by Goldman Sachs and a Bavarian bank report saying the stock was risky.

The CeBIT technology show starts on 19 March in Hannover, focusing attention on new products and financial data from high-tech companies. Siemens and its Nixdorf division are expected to discuss technology trends. Analysts say Siemens' share price is due to climb after underperforming the rest of the market this year. SAP, the volatile software maker, could also move on news from the show. Mobilcom, a telephone service provider listed on the Neuer Markt, leapt more than 30 per cent on 13 March; the share will receive more scrutiny this week.

The choice of the week will be whether Volkswagen or BMW wins control of Rolls-Royce. Continental is also expected to show strong numbers next week.

On the macroeconomic side, figures for February retail sales and January import and export numbers will be revealed.

New York



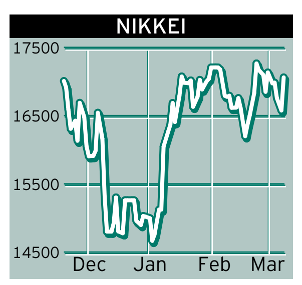
ATTENTION will be focused on the tobacco industry this week after President Bill Clinton's endorsement of Congress's tobacco bill. This is designed to penalise the industry by up to $600 billion over the next 25 years and increase cigarette packet prices by more than $1.50 in the next two years.

Despite the Clinton endorsement, the bill faces problems. Analysts say it will not be passed as it stands because it does not offer any kind of immunity for the tobacco companies. "They have enough legal standing and enough political clout to get a deal that is good for their shareholders," says one analyst.

Smoking aside, the more bullish stock-watchers are predicting that the Dow Jones Industrial Average will continue its upward curve and hit a 10,000-point peak this year, after a week where the index scaled another historic high. This was despite the start of profit-taking which resulted in a fall of 16.2 points on 12 March.

News of a proposed merger of the American Stock Exchange (Amex) with technology-driven Nasdaq provided the prospect of a rival of size for the New York Stock Exchange. Views on the merger between the number two and three trading systems were mixed; the general feeling was positive, although some strategists expressed concerns about how the two trading systems would fit. Mid-April is seen as the earliest date for a vote on the merger. Economic data bolstered the market last week. Retail sales figures showed increased spending, while a steady decline in the jobless added to a healthy picture. Next week sees the release of consumer price index data. The market is looking for a slowdown in production, and expecting to see a deterioration in trade figures.

Tokyo



THE CHILLY outlook forecast for Japan may be a little too icy. The Nikkei 250 closed on 13 March at 17,060, up 2.93 per cent on the day and down only 114 points on the previous week.

Sceptics claim the country is racing into recession but GDP figures released on 13 March for the fourth quarter of 1997 showed a year-on-year fall of just 0.2 per cent, far better than the market had expected.

There is further good news for the manufacturing sector, with the yen continuing to fall against the dollar. On 13 March it was trading at around ¥127 to ¥128 against the dollar. This is likely to boost the export sector, and with it the share prices of international brand names such as Toyota and Sony.

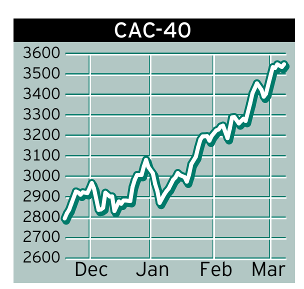
Prospects for the banking and financial sector are also looking positive. Over the next few weeks, public funds will be injected into these sectors through preference share issues. This should push the premium over interbank rates back further, making it cheaper for Japanese institutions to borrow on the international money markets. The premium has already fallen back from its high of about one per cent over the dollar interbank rate to between 40 and 60 basis points. If the rate falls further as a result of a cash injection from preference shares, it will re-ignite the flow of funds into Japanese firms.

Watch out for the government's reflation package expected in April. Analysts predict tax cuts and a ¥10,000bn ($77.4bn) public spending initiative, equivalent to two per cent of GDP. This will reverse earlier fiscal tightening initiatives and counter the impact of recession. However, in the long term it is no remedy for Japan's fiscal ills.

STOCKMARKETS						
MARKET	**INDEX**	**Latest**	**% change Week ago**	**% change Year ago**	**12 month High**	**12 month Low**
Amsterdam	AEX	1108.8	1.8	46.3	1108.8	702.1
Athens	General	1537.4	2.5	20.3	1794.1	1268.1
Brussels	Bel-20	2819.3	2.0	28.6	2824.7	2077.9
Budapest	BTI	8424.0	1.0	64.6	8483.8	4992.4
Copenhagen	Stock Market	715.4	2.5	30.3	715.4	520.5
Dublin	Ireland SE	5102.5	1.9	25.9	5105.4	2923.6
Frankfurt	Dax	4889.7	3.7	46.0	4889.7	3215.2
Helsinki	Hex	4274.3	5.1	45.1	4274.3	2734.4
London	FTSE 100	5782.3	0.0	31.5	5829.8	4214.6
Madrid	Madrid SE	823.1	2.7	69.7	823.1	461.7
Milan	Mibtel	21759.0	3.9	83.1	21759.0	11551.0
Oslo	OBX	729.0	3.2	7.8	758.5	566.0
Paris	CAC-40	3540.2	1.6	34.5	3540.2	2514.5
Prague	Stock Market	484.1	0.6	2.3	574.6	452.4
Stockholm	Affarsvarlden	3473.7	3.1	24.0	3473.7	2610.5
Vienna	Credit Aktien	507.2	2.0	22.5	507.2	392.8
Warsaw	WIG-20	1926.2	11.0	10.3	1928.0	1312.9
Zürich	SPI	4566.3	2.4	56.2	4566.3	2828.7
New York	Dow Jones	8666.3	1.1	26.0	8675.8	6391.7
Tokyo	Nikkei	17060.1	−0.4	−4.7	20681.1	14664.4
Hong Kong	Hang Seng	11057.0	1.3	−14.4	16673.3	8121.1

SOURCE: DATASTREAM, BLOOMBERG

Paris



THE PARIS stock exchange's meteoric rise shows no signs of slowing. This week should see CAC-40 blue chip index continue to break records: market sentiment is strong, and – barring major economic upheaval in America or Asia – analysts predict that the positive trend will continue until the end of May. Last week saw the index rising 53 points, or 1.5 per cent, to yet another historic high of 3,579.

Despite the French market's excellent performance, analysts claim it has not reached its real value, with room for growth of 10 to 15 per cent before a correction. These bullish forecasts have been boosted by a fall in key interest rates and more positive global economic trends.

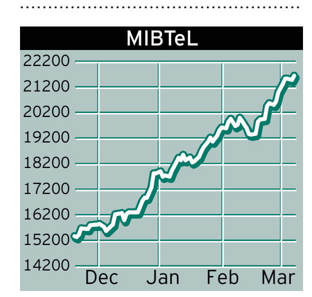
But the CAC-40's growth is also linked to microeconomic fundamentals: a string of strong corporate results has lifted the market mood. Investors are eagerly anticipating more good figures.

The stock to watch is France Telecom, which is enjoying a much higher than expected level of cellular phone subscriptions in the domestic market. The company's share price rose 10 per cent last week as a growing number of investors bought into the telecoms group, positioning themselves ahead of the annual results expected this week, which are generally forecast to be positive.

Another climber will be Assystem, the oil services consultant, whose services are increasingly in demand following a spate of mergers in the oil services industry.

Last week saw car manufacturer Renault return to profit, reporting net income rising to Ffr5.43bn ($884 million), in contrast to the Ffr5.2bn loss suffered last year. Renault's share price rose seven per cent on the news.

Milan



EQUITY PRICES are expected to build on last week's record gains as a cash influx into Italian investment funds swells stock values. A small correction, perhaps pulling the market back a percentage point or two, is possible. But Milan is still a liquidity-driven bull market; last week it was one of the best performing European bourses, and the trend is clearly upwards.

ENI will be among the companies reporting results this week. Italy's largest energy company retreated from earlier gains on 13 March amid speculation that the Organisation of Petroleum Exporting Countries will delay a meeting to discuss a possible cut in oil production which would lift prices .

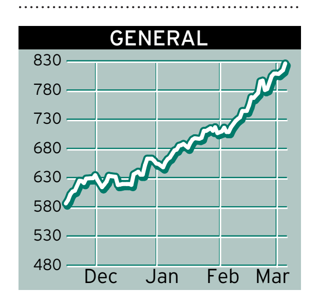
Banca Commerciale Italiana and Interpump, the pump and piston manufacturer, are also due to report earnings and will be heavily traded.

Final GDP figures for the 1997 fourth quarter will be out on 17 March instead of 31 March, because of pressure from Brussels to release the breakdown of figures from last week. The numbers are likely to confirm the overall rise of 0.2 per cent on the quarter and 2.8 per cent on the year.

Last week the all-share MIBTel index rose 3.9 per cent to hit a record high. The smaller index of Italy's most traded 30 shares rose 2.8 per cent. Telecom Italia Mobile lifted the market most ahead of its earnings report. The mobile phone unit of Telecom Italia rose 4.7 per cent.

Olivetti, the much maligned telecoms and office equipment firm, rose more than 13 per cent because of speculation that it may be acquired by telecoms partner Mannesmann. The German engineering giant will raise DM3bn ($1.6bn) to help it expand its phone business in Europe.

Madrid

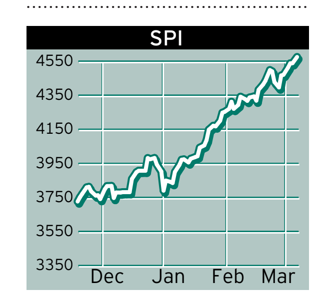


HOW HIGH can the Madrid index go? It continued its upward ride last week, rising from 779 to 811, but while banks had been the motor behind the previous week's rise, Telefónica led the market last week with a 14 per cent jump in just three days. Analysts say the Telefónica boom may not be over. The company's management says it is thinking of floating at least part of its booming international branch, TISA. Analysts are speculating on the possibility of more surprises at the annual general meeting on 17 March. They are also waiting for the government to approve a rise in tariffs for local calls, a move that is rumoured to be in the offing and is considered crucial to the company's share value.

Electricity firm Endesa is another share that continues to drive the market. Endesa's agreement with Chile's Enersis gave the stock a boost – a welcome bonus, since the company is about to enter the next phase of its privatisation.

This week's best performers will be found among those industrials that can play catch-up with the banks and utilities. Food producer Oscar Mayer is one of the strongest contenders. Construction company Dragados joined the big gainers last week, adding 4.5 per cent to its share price. It may see its domestic competitor, FCC, announcing the sale of a quarter share in the company. Dragados and Banco Central Hispano are rumoured to be the best placed companies to pick up this share, individually or in a joint deal. This would give a further push to the value of all three companies, although FCC has more room for share growth than the other two. The deal will also unleash a bout of takeover fever in the market, with the whole construction sector set to benefit.

Zürich



THE BULLS will be roaming free of their corrals in Zürich again this week. Most of the laggards among the larger capitalised stocks have been bought up, but there is plenty of scope for growth from the ranks of small and medium-sized stocks.

Investors will also be targeting cyclicals. Among them, the Swiss parent of Swiss-Swedish engineering company Asea Brown Boveri (ABB), mechanical engineering company Sulzer, and the speciality chemicals, aluminium and packaging conglomerate Alusuisse, put in good shows last week. Sulzer was the week's biggest gainer, rising 6.7 per cent ahead of earnings released this week. ABB exceeded market forecasts when it reported 1997 earnings, as did Georg Fischer.

Investor appetite will be far from dulled by the excellent two per cent growth in Swiss GDP figures – the best numbers for about seven years – released on 13 March. Smaller companies, oriented more towards the domestic economy, should especially benefit.

Results in line with expectations from Sulzer on 18 March should keep the market's steep climb on track, although more attention will be focused on Novartis, the Basel-based pharmaceuticals giant. Net income is forecast to be up by as much 48 per cent – fuelled by the synergy benefits of its creative merger between Ciba and Sandoz coming through – and is unlikely to deviate much from analysts' expectations.

Last week a fall in the yield on 10-year bonds helped push the market to new highs. The SMI index closed at a record 7,328. The broader SPI ended the week up 2.4 per cent at 4,566.

Moscow

AN UNUSUAL buying opportunity presents itself this week with the illness of President Boris Yeltsin. In the past, every time the often ailing president falls sick, stocks plummet, then rally as everyone realises he is not, as they had first thought, at death's door. This time looks no different. The market took fright on 12 March with news of Yeltsin's respiratory infection, with the Russian Trading System index losing 1.51 per cent on the news, but was soon regretting its overreaction, and prices were rising again.

The market will be boosted further by a cut in key interest rates, from 36 per cent to 30 per cent, on 16 March, announced last week by the central bank. "There's been a long rally in the bond market, but it's time some of that money moved to equities," says a trader in Moscow.

Tips for this week include Lukoil, the oil giant, which signed a multi-billion dollar agreement with Conoco, the American firm, to develop oil and gas fields in the Timan-Pechora region in Russia's northern territories. An agreement was also signed between a metallurgical firm, Verkhnaya Saida, and Boeing.

Another riser will be Izhorsky Works, a mid-cap sized steel and machinery producer, which is the target of a $192m takeover bid by Uralmash.

The market's performance has been mixed of late, and last week was no exception, with good news from Fitch-IBCA, that it had decided not to downgrade debt ratings, tempered by the announcement from Moody's Investors Service that it was downgrading foreign currency bonds. Market players were pleased that weeks of speculation have finally been ended.

Amsterdam

AMSTERDAM's strong rally will continue this week, buoyed by Heineken's announcement of better than expected results for 1997. Analysts had forecast an increase in net profits of 14 per cent; in fact, the brewer outperformed expectations rising 16 per cent to Nfl 761m ($376m). "Heineken's results are always important for the market's mood," says one analyst in Amsterdam. The stock was reiterated as a "buy" by ING Barings.

Annual results are due next week from VNU, the publishing company, as well as Grölsch, the brewery, which analysts predict will see earnings per share up 30 per cent on 1996 levels.

Fortis, the Belgo-Dutch financial services group, saw its plans to buy John Alden Financial Corporation, an American health insurance firm, thrown into disarray. A John Alden shareholder, Stephen Hanf, has filed a lawsuit against the American firm claiming that the price agreed with Fortis – $600m – is too low. Analysts following the stock are advising investors to hold on to their shares until the issue is settled.

Stocks expected to underperform this week are Akzo Nobel and Royal PTT, both of which saw strong rallies last week – too strong to justify their fundamentals.

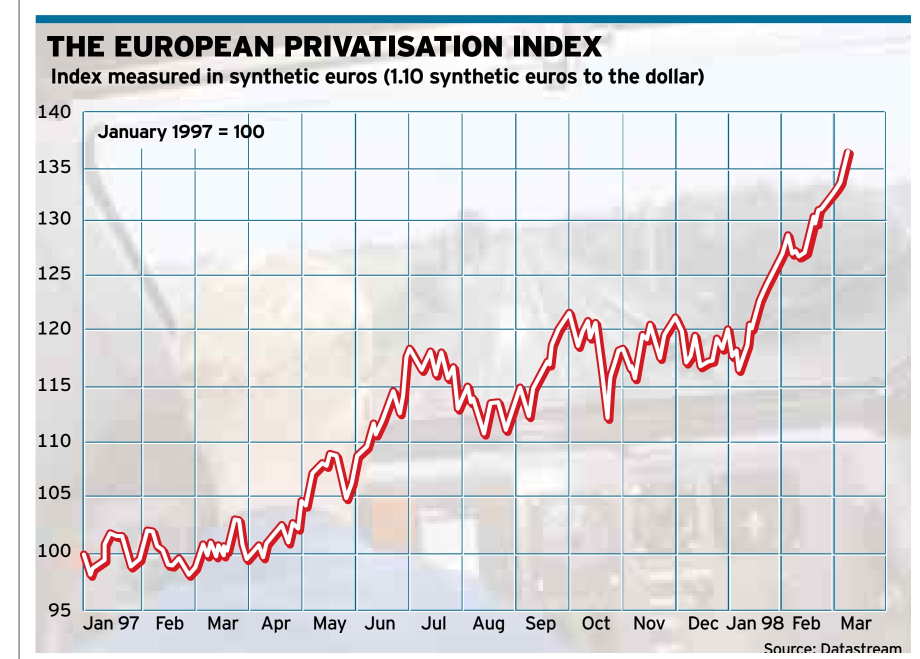
On the macroeconomic front, retail sales figures will be published on 16 March, followed by unemployment figures on 18 March.

"These will have a limited impact on the market," says one analyst. "Even if the numbers are weaker than forecast, I think it will take more than that to dampen the mood in Amsterdam at the moment."

Cath Blackledge, Eric Culp, Paula Hawkins, Nicholas Moss, Susie Pine-Coffin, Giles Tremlett

Who can you trust to rate Russia? PAGE 60

SELL-OFFS



Turks aim to silence cynics

THE TURKISH government has announced plans to raise $12.2 billion through a wide-ranging privatisation programme in an attempt to reduce its huge budget deficit, which reached nine per cent of GDP last year. The announcement will create little excitement among investors, though: this is not the first time such a programme has been promised.

Successive Turkish governments have promised to privatise, but when it came to the crunch they preferred to to reward their cronies with lucrative positions within overstaffed state-owned firms. Over the past 12 years, a mere $3.5bn has been raised through sell-offs. Last year's sales brought just $465 million to the government's coffers, well short of announced targets.

Investors may be prepared to give the current government, led by the conservative Mesut Yilmaz, a little more benefit of the doubt.

Among the companies slated for sale is a majority stake in Petrol Ofisi, the petroleum retailer, which should be sold by the end of June. The remaining shares in the company will be offered on the stock exchange later in the year.

An offering which attracted domestic institutional investors would certainly be welcomed by Istanbul. To date, the stock exchange has managed to attract mainly volatile overseas funds. Local institutional investment is virtually non-existent.

Two oil refineries, Aliaga and Yarimca, belonging to the state-owned oil-refiner Tupras, will be offered to strategic investors. Also slated are stakes in Emlak Bankasi, Turkey's largest public bank, and several of its subsidiaries involved in real estate development and specialist finance. Petkim, a petrochemicals firm, Sivas Demir Celik, a steel firm and Havas, the airport ground handling company, have also been approved for sale by the Turkish privatisation agency, OYK. THY Turkish Airlines remains off the list.

Turkey will need more than a credible privatisation strategy if it is to extract itself from the fiscal mire. Radical fiscal measures, including tax and social security reform, will have to complement the sales.

Another privatisation laggard is Albania – hardly surprising given the political and economic turmoil of the past two years. The start of an IMF restructuring programme, scheduled for April, has given fresh impetus to the need for sales. The first company to be put firmly on the block is Kesh, the electricity utility.

The Albanian government plans to award a management contract to an overseas group and follow this with a privatisation plan staged over three to five years. But a capital injection is needed urgently: existing energy infrastructure is appalling.

PAULA HAWKINS

TOP 40 PRIVATISED STOCKS									
COMPANY	**Country**	**Sector**	**Closing Price**	**Change 5 days**	**COMPANY**	**Country**	**Sector**	**Closing Price**	**Change 5 days**
AGF	Fra	Insurance	5.1	−0.2	Istituto Mobiliare It	Ita	Financial	389.2	−3.7
BAA	UK	Airport	8.9	5.9	INA	Ita	Insurance	83.6	1.8
Banca di Roma	Ita	Banks	42.1	10.2	Koninklijke PTT	Neths	Telecoms	0.6	2.2
Banca Commerciale It	Ita	Banks	126.4	−1.0	Lufthansa	Ger	Airline	0.6	8.8
Banque Nat de Paris	Fra	Banks	6.7	6.3	National Power	UK	Elec	3.4	−0.6
British Airways	UK	Airline	8.8	0.2	Portugal Telecom	Port	Telecoms	65.3	10.9
British Energy	UK	Elec	2.9	14.4	PowerGen	UK	Elec	5.0	4.8
British Gas	UK	Gas	1.8	−2.2	Railtrack	UK	Transport	14.5	5.5
British Petroleum	UK	Oil/Gas	12.5	−4.2	Renault	Fra	Motors	3.8	17.5
British Steel	UK	Industrial	2.1	−8.8	Repsol	Spa	Oil/Gas	107.2	−3.7
British Telecom	UK	Telecoms	9.3	4.9	Rhône-Poulenc	Fra	Chems	43.3	1.7
Cable and Wireless	UK	Telecoms	10.5	6.9	Rolls-Royce	UK	Aerospace	4.1	2.7
Cie Financière de Paribas	Fra	Banks	8.6	−2.1	Scottish Hydro Electric	UK	Elec	3.3	5.7
Deutsche Telekom	Ger	Telecoms	0.2	6.1	Scottish Power	UK	Elec	2.9	−4.3
Electricidade de Port	Port	Elec	25.5	5.5	Société Générale	Fra	Banks	16.5	10.8
Elf Aquitaine	Fra	Oil/Gas	10.4	−3.4	Telecom Italia	Ita	Telecoms	76.4	3.5
ENI	Ita	Oil/Gas	172.4	3.6	TeleDanmark	Den	Telecoms	3.1	9.1
Endesa	Spa	Elec	22.3	9.4	Telefónica	Spa	Telecoms	37.8	16.4
France Telecom	Fra	Telecoms	1.9	7.6	UAP	Fra	Insurance	9.1	−1.4
Istituto Banco Paolo Tori	Ita	Banks	314.1	−3.0	Usinor	Fra	Industrial	1.5	3.3

Closing prices expressed in ecus

SOURCE: PRIVATISATION INTERNATIONAL

BONDS

RUSSIA

Never mind poor ratings, buy paper

Susie Pine-Coffin

THE Russian government is pressing ahead with plans to launch a Eurobond issue despite conflicting reports from the rating agencies. Last week Moody's Investors Service downgraded a number of Russian bonds from Ba2 to Ba3. Fitch-IBCA, another agency, was more hopeful, announcing that Russia was no longer under review for a downgrade.

The market is putting the nervousness of the rating agencies down to their misreading of the Asian crisis. However, with a number of corporate issues back in the pipeline there is a need for consensus to dampen investor concerns. "Moody's got caught out and failed to predict a potential meltdown until after the event," said a London-based banker. "To compensate for its earlier embarrassment it is taking an extra-conservative approach." Some bankers think that Moody's called it wrong on Russia from the outset. "Moody's was too optimistic about Russia at the beginning," said Robin Hubbard, head of emerging market research at Chase Manhattan in London. "Now they are downgrading the country when things are improving. Their credibility has already been hit by what happened in Asia. The market is rallying in Russia so doesn't pay Moody's much notice. Besides, Russian paper is cheap."

A spokesman for Moody's said the Russians – and the markets – were being disingenuous if they blamed the downgrading on Asia. "Russia remains vulnerable to the increased international investor volatility which will continue to characterise global capital markets," said the agency in a statement. "Both external and internal phenomena contribute to this new situation. Rapidly growing domestic debt on the treasury bill market has complicated the debt servicing position of the federal government and has placed increasing pressure on an already difficult fiscal position. A sharp drop in foreign exchange reserves juxtaposed with increasing short-term debt has worsened the country's creditworthiness. High domestic interest rates are prompting attempts to increase international debt issuance by all levels of government and by private sector entities. Russia's performance in terms of external debt ratios will deteriorate."

While painting a gloomy picture for Russia's progress, Moody's does acknowledge that it has made progress in its efforts to trim the federal deficit and is showing signs of economic growth. However, the rating agency is nervous about its long term commitment to its stringent economic policy. Particularly as it is unlikely to be a vote-winner when it comes to the parliamentary election next year.

Fitch-IBCA announced last week that it was taking Russia off its rating alert as a vote of confidence in the country. While recognising that Russia remains a high-risk investment opportunity, Lionel Price, managing director of sovereign ratings at Fitch, said: "1998 for Russia is a window of opportunity to get things right. The presidential election in 2000 and the parliamentary election next year could be helpful at this stage."

"Nobody knows who will be running for the presidential election but if Viktor Chernomyrdin is a candidate, he will want to put himself forward as the man who built up a robust economy, not one that's falling apart." On that basis, Price remains optimistic that there won't be a pre-election binge to woo investors in the forthcoming parliamentary election.

Earlier this year Russian treasury bill yields shot up to 40 per cent. This high interest rate was very costly for the government. However, yields have come down and concerns about Boris Yeltsin's health are less of an issue. "Democracy in the country is maturing all the time and if Yeltsin's health did fail, I don't think it will risk the future of the democratic constitution. Anyway, a BB+ rating is not tremendously high, it is still a speculative investment," said Price.

The market showed how much attention it paid to comments from Moody's by piling into Moscow City Telephone Network's $150 million three-year bond. Despite the Moody's downgrade, the bond was trading at 650 basis points over the three-year US Treasury Bond at the end of last week. This is up from an issue price of 690 basis points over Treasuries.

Another sign of investor confidence can be seen in the performance of the Russian Federation's 10-year US dollar Eurobond. It was launched in June last year at 375bp over US Treasuries. During August and September it tightened to around 340bp, hitting 300bp at the beginning of October. When Asian flu hit the market, the spread widened to 580, at one point hitting 800bp. Since then it has been tightening, between 10bp to 20bp each week, and now stands at 519bp, and is heading back to where it was before the Asian crash.

Moody's called it wrong on Russia from the start of last year's crisis

"All Russian paper continues to do well," said Mark Watson, managing director of fixed income at Salomon Smith Barney. "Asia highlighted in people's minds that rating agencies were not at the cutting edge of sovereign analysis and investors have been beefing up resources to do their own credit analysis. Russia is still very volatile but it probably offers the biggest opportunity for investors over the next few years. If Korea was too big and important to fail, Russia certainly falls into that category."

This is dangerous talk. Bankers in the 1970s thought that countries could not go bust. They lent them petrodollars that they could not repay. This time round may not be different.

WHAT RUSSIA OWES

Issuer	Currency	Amount	Launch	Coupon	Launch spread	Spread (12/3/98)
Russia	$	1bn	Nov 96	9.25	345	450
Russia	Dm	2bn	Mar 97	9.00	370	n/a
Russia	$	2bn	Jun 97	10.00	375	535
City of Moscow	$	500m	May 97	9.50	315	519
City of St Petersburg	$	300m	Jun 97	9.50	312.5	616
Nizhni Novgorod	$	100m	Sep 97	8.75	280	628
Unexim Bank	$	250m	Jul 97	9.875	400	1102
Alfa Bank	$	175m	Jul 97	10.375	425	1100
SBS-AGRO	$	250m	Jul 97	10.25	425	1027
VTB	$	200m	Sep 97	L+2.20*	L+220	L+650
Rossiyskiy Kredit	$	200m	Sep 97	10.25	490	1900
Tatneft	$	300m	Oct 97	9.00	310	612
Sibneft	$	150m	Aug 97	L+4.00	L+400	L+593
Mosenergo	$	200m	Oct 97	8.375	250	642
MGTS	$	150m	Mar 98	12.50	690	683

*L= London Interbank offered rate (7⅞)

Source: Chase Manhattan

BENCHMARK INTERNATIONAL BONDS

ISSUER	RATING	AMOUNT (mil)	MATURITY	COUPON	PRICE	YIELD	WEEK AGO
$							
Rhône-Poulenc	Baa3/BBB–	500	1/02	7.750	104.35	6.445	6.489
Bayer Corp	Aa2/Aa2	400	10/02	6.500	99.99	6.502	6.501
MEPC Finance	A3/A–	225	6/03	7.500	105.08	6.320	6.347
BAT Capital	A2/A–	500	11/03	6.500	102.51	5.958	5.896
Siebe plc	A2/A+	250	1/07	7.125	99.99	7.124	7.125
DM							
Volkswagen Finance	A1/A+	1,000	5/03	7.000	109.78	4.819	4.877
ITT Promedia	Ba3	575	9/07	9.125	99.99	9.126	9.125
£							
BOC Group	A1/A+	150	7/02	7.250	101.33	6.866	6.937
Stagecoach Holdings	NA	125	10/07	7.625	100.28	7.573	7.676
Cable & Wireless	A3	150	3/02	10.375	111.26	7.061	7.145
Diamond Holdings	NA	135	2/08	10.000	100.33	9.935	9.125
Tesco	Aa3	250	7/07	10.375	106.51	6.540	6.638
Ffr							
Usinor Sacilor	Baa2/BBB	1,800	3/02	8.500	99.99	8.499	8.496
Aérospatiale	AA–	1,500	7/03	7.000	110.81	4.653	4.696
Alcatel Alsthom	A1/A+	2,000	10/03	7.000	106.98	4.909	4.957
LVMH	A1+	1,500	11/02	5.250	99.99	5.245	5.245
Sfr							
Merck KGaA	NA	300	11/02	3.500	99.99	3.499	3.499
Nestlé Holdings	NA	300	2/02	6.750	99.99	6.749	6.752

Closing prices at 13 March 1998

SOURCE: SALOMON SMITH BARNEY/IMV DATASTREAM, BLOOMBERG; RATINGS FROM MOODY'S AND S&P

MARKET PREVIEW

ONE of the most testing deals of this week may come from an EU sovereign government: Greece. Although it is not participating in the first wave of monetary union, Greece is planning to become the latest EU government to issue a deal in euros. It hopes to raise E1 billion ($1.1bn) at a 10-year maturity and it wants to pay less than one per cent over the French government benchmark. Bankers are already suggesting that may be too greedy and that the deal could come badly unstuck.

Central and east European borrowers are expected to make a splash this week. Hungary intends to issue a $300 million five-year Eurobond to refinance a $670m debt owed to the World Bank, with a deal expected shortly. It is likely to be priced at around 80 basis points (bp) over US Treasuries.

Ukraine is also talking about launching its third Eurobond of the year following recent issues in deutschmarks and euros that offered investors coupons in the mid-teens. Investment bankers are also expecting at least one more bond issue linked to the Turkish lira this week – a relatively novel concept for the Euromarkets. Last week the European Bank for Reconstruction and Development issued one of the first such deals, borrowing TL11,800 billion ($50m) in a six-month issue which bankers said offered the EBRD funding at below market cost – and appealed to investors who are relatively risk insensitive.

These transactions signal that the European debt markets are regaining some of their 1997 momentum. But we should also see the return of another feature of 1997 this week: debt issues from blue-chip European corporates. British Gas is likely to issue a $500m five-year deal, while Endesa, the Spanish utility company, has hired Morgan Stanley Dean Witter for its first ever bond issue in US dollars. The company is aiming to borrow $500m with the same five-year maturity.

Merrill Lynch is due to launch a rare securitisation transaction in deutschmarks this Tuesday. The DM1bn ($1.85bn) deal will have a 10-year maturity. It will repackage cash-flows from a credit card portfolio managed by MBNA, an American credit card company. The deal is expected to be priced at a spread of 32bp to 35bp over German government bonds.

GAVIN GRAY

CURRENCIES

FORECAST

Investors like the taste of exotic currencies

Avinash Persaud

THE PERFORMANCE of the dollar/yen exchange rate over the past fortnight has been disappointing. When the 21 February G7 meeting passed without capping the dollar/yen rate, as G7 finance ministers focused on admonishing Japan for not doing enough to support economic recovery, and as the rumoured fiscal package failed to materialise on 20 February, we thought the obstacles blocking a dollar/yen rally had been removed.

Not so. The dollar/yen rate has been held back by the repatriation of overseas assets by financial corporations ahead of Japan's fiscal year-end in order to windowdress balance sheets. This inflow normally reaches its zenith in the last fortnight of March. Over the past five years, Japanese sales of foreign bonds have averaged ¥634 billion ($4.9bn), ranging from a high ¥1,434bn in 1994 to ¥54bn in 1995.

Additional support for the yen has come amid speculation that another fiscal package will appear but only as a temporary relief. Once these rumours are disappointed, we expect the dollar to break for the year's high of ¥134.5. Even if a fiscal package as large as the rumoured ¥20,000bn did appear, because inflation is non-existent and consumption falling off a cliff, the outlook will not change near-term. The strength of the dollar versus the yen will be discomforting for the Korean won and other Asian currencies. But now their pegs to the dollar have been broken and they have fallen to super-competitive levels, the degree of discomfort will be modest.

The main risk to our weak yen view is that it is a position shared by many. Indeed, if dollar/yen fails to make headway in the days after fiscal year-end, the dollar could drop sharply in the face of substantial yen-buying by investors bailing out of short-yen positions. But the role that overseas investor positions play on the outlook for dollar/yen can be exaggerated. Japanese institutional and retail investors are waiting to sell yen themselves once fiscal year-end is over. The continual creation of yen liquidity by a central bank keeping short interest rate near-zero suggests the market is not as short-yen as it thinks it is.

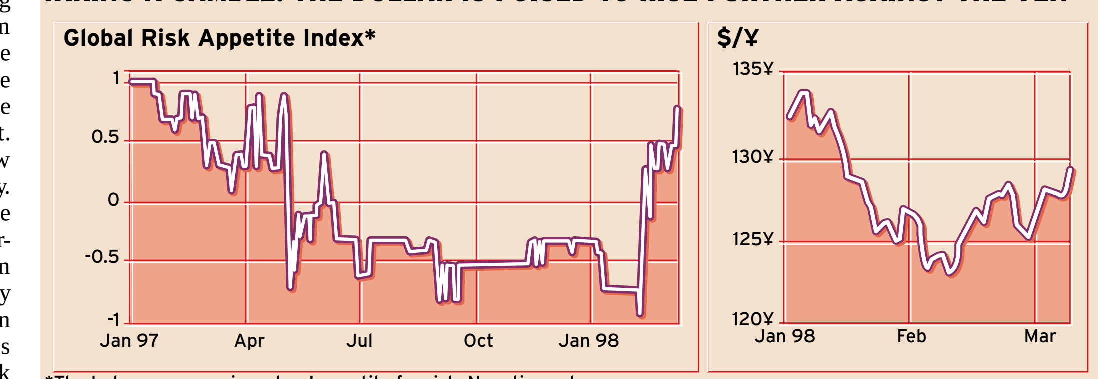
While the Japanese economy stagnates, a strengthening recovery is emerging in Germany. We expect the dollar to prove far stronger against the yen than the deutschmark and we look for DM/yen to rise above ¥75 by the summer. There is still some headroom for $/DM. European rate expectations are more influenced by the absence of inflation and the political desire for a smooth transition to EMU than signs of economic recovery. The maintenance of a 200-basis-point short-rate differential between America and Germany in a period of modest volatility and sizeable uncertainty surrounding the euro should lift $/DM above DM1.85 in the weeks ahead. The dollar will be supported by the relative shortage of American government securities compared with new net issuance of government debt in Germany and Japan. Similar arguments will buoy £/DM in the short term, with sterling scaling DM3.03.

With modest volatility and significant rate differentials between America and core Europe, dollar/Swiss franc often leads $/DM higher as investors take advantage of the cheaper Swiss franc. Greater stability in Asia will undermine the Swiss franc, as will an environment of low inflation and falling commodity prices. We forecast $/Sfr to scale Sfr1.5 soon. A bearish commodity price outlook will strain other currencies, including the Norwegian krone, Venezuelan bolivar, Mexican peso and South African rand. An appetite for risk is returning among investors. Despite the Asian crisis, they are once more favouring high-yield "risky" markets, especially eastern Europe, focusing on high yields delivered by independent monetary authorities. The Polish zloty should be a big winner, along with the Greek drachma and Czech koruna. The Canadian dollar may also benefit from a return of risk appetite, especially given failing expectations of a Quebec referendum.

The zloty should be a big winner, along with the drachma and koruna

The author is JP Morgan's head of currency research

TAKING A GAMBLE: THE DOLLAR IS POISED TO RISE FURTHER AGAINST THE YEN



*The Index measures investors' appetite for risk. Negative values mean they are risk-averse, while positive values reflect risk-loving behaviour

Source: JP Morgan

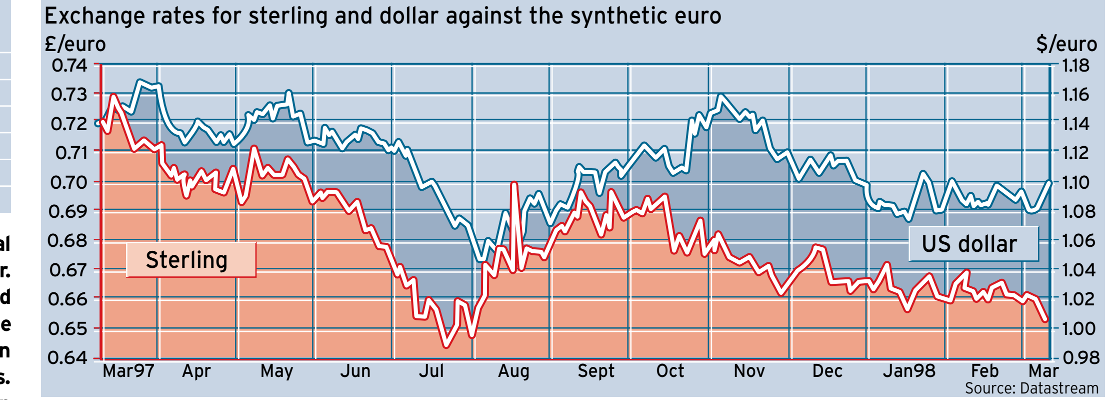
SYNTHETIC EURO

Currency	Latest	% Change on a week ago	% Change on a year ago	High	Low
British pound	0.65	−1.51	−11.24	0.74	0.65
French franc	6.71	0.75	2.39	6.71	6.53
German mark	2.00	0.50	3.05	2.00	1.93
Italian lira	1969.90	0.89	1.75	1969.87	1910.60
Japanese yen	141.85	2.34	1.36	145.71	122.46
US dollar	1.09	4.39	−4.08	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.

EURO RATES

Exchange rates for sterling and dollar against the synthetic euro



Source: Datastream

EAST EUROPEAN CURRENCIES

COUNTRY	US$	DM	UK£	Ffr	Ecu
Albania Lek	158.0	86.5	261.8	25.8	171.5
Belarus Rouble	58800.0	32177.6	97446.4	9599.9	63827.4
Bulgaria Lev	1819.1	995.5	3014.6	297.0	1974.6
Croatia Kuna	6.5	3.5	10.7	1.1	7.0
Czech Rep Koruna	34.2	18.7	56.6	5.6	37.1
Estonia Kroon	14.6	8.0	24.2	2.4	15.9
Hungary Forint	210.6	115.3	349.0	34.4	228.6
Latvia Lat	0.6	0.3	1.0	0.1	0.6
Lithuania Litas	4.0	2.2	6.6	0.7	4.3
Macedonia Denar	56.5	31.0	93.7	9.2	61.4
Moldova Leu	4.7	2.6	7.8	0.8	5.1
Poland Zloty	3.5	1.9	5.7	0.6	3.7
Russia Rouble	6.1	3.3	10.1	1.0	6.6
Romania Leu	8082.5	4423.1	13394.7	1319.6	8773.6
Slovakia Koruna	35.2	19.3	58.3	5.7	38.2
Slovenia Tolar	171.1	93.6	283.5	28.0	185.7
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

EUROPEAN CROSS RATES

16 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	1.845	7.031	6.240	2.315	2.098	0.045	17.45	7.144	1.691	0.069	0.083	1.608	8.653	21.29	12.85	0.100	9.125	13.95
Belgium Franc	2.932	–	5.410	20.62	18.30	6.790	6.151	0.131	51.18	20.95	4.959	0.202	0.243	4.716	25.37	62.44	37.68	0.293	26.75	40.90
Denmark Krone	0.542	0.185	–	3.811	3.382	1.255	1.137	0.024	9.460	3.872	0.917	0.037	0.045	0.872	4.690	11.54	6.964	0.054	4.945	7.559
Germany Deutschmark	0.142	0.049	0.262	–	0.887	0.329	0.298	0.006	2.482	1.016	0.241	0.010	0.012	0.229	1.231	3.028	1.827	0.014	1.298	1.984
Netherlands Guilder	0.160	0.055	0.296	1.127	–	0.371	0.336	0.007	2.797	1.145	0.271	0.011	0.013	0.258	1.387	3.413	2.059	0.016	1.462	2.235
Finland Markka	0.432	0.147	0.797	3.037	2.695	–	0.906	0.019	7.538	3.086	0.730	0.030	0.036	0.695	3.737	9.196	5.549	0.043	3.941	6.024
France Franc	0.477	0.163	0.880	3.352	2.974	1.104	–	0.021	8.321	3.406	0.806	0.033	0.040	0.767	4.125	10.15	6.125	0.048	4.350	6.649
Greece Drachma	22.44	7.654	41.41	157.8	140.0	51.97	47.08	–	391.7	160.3	37.95	1.544	1.862	36.10	194.2	477.9	288.4	2.246	204.7	313.0
Ireland Punt	0.057	0.020	0.106	0.403	0.357	0.133	0.120	0.003	–	0.409	0.097	0.004	0.005	0.092	0.496	1.220	0.736	0.006	0.523	0.799
Italy Lira*	140.0	47.73	258.2	984.1	873.3	324.1	293.6	6.236	2443	–	236.7	9.630	11.61	225.1	1211	2980	1798	14.00	1277	1952
Norway Krone	0.591	0.202	1.091	4.158	3.690	1.369	1.240	0.026	10.32	4.225	–	0.041	0.049	0.951	5.117	12.59	7.598	0.059	5.396	8.248
Portugal Escudo	14.53	4.956	26.82	102.1	90.69	33.65	30.49	0.648	253.7	103.8	24.58	–	1.206	23.38	125.8	309.5	186.7	1.454	132.6	202.7
Spain Peseta	12.05	4.110	22.24	84.75	75.21	27.91	25.28	0.537	210.4	86.12	20.38	0.829	–	19.39	104.3	256.7	154.9	1.206	109.9	168.1
Sweden Krona	0.622	0.212	1.147	4.372	3.880	1.440	1.304	0.028	10.85	4.442	1.051	0.043	0.052	–	5.380	13.24	7.989	0.062	5.674	8.672
Switzerland Franc	0.116	0.039	0.213	0.813	0.721	0.268	0.242	0.005	2.017	0.826	0.195	0.008	0.010	0.186	–	2.461	1.485	0.012	1.055	1.612
UK Pound	0.047	0.016	0.087	0.330	0.293	0.109	0.099	0.002	0.820	0.336	0.079	0.003	0.004	0.076	0.406	–	0.603	0.005	0.429	0.655
US Dollar	0.078	0.027	0.144	0.547	0.486	0.180	0.163	0.003	1.358	0.556	0.132	0.005	0.006	0.125	0.673	1.657	–	0.008	0.710	1.086
Japan Yen	9.995	3.408	18.44	70.27	62.36	23.14	20.97	0.445	174.5	71.41	16.90	0.688	0.829	16.07	86.48	212.8	128.4	–	91.19	139.4
Canada Dollar	0.110	0.037	0.202	0.771	0.684	0.254	0.230	0.005	1.913	0.783	0.185	0.008	0.009	0.176	0.948	2.334	1.408	0.011	–	1.53
Europe Ecu	0.072	0.024	0.132	0.504	0.447	0.166	0.150	0.003	1.251	0.512	0.121	0.005	0.006	0.115	0.620	1.527	0.921	0.007	0.654	–

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

SOURCE: BZW

INDICATORS

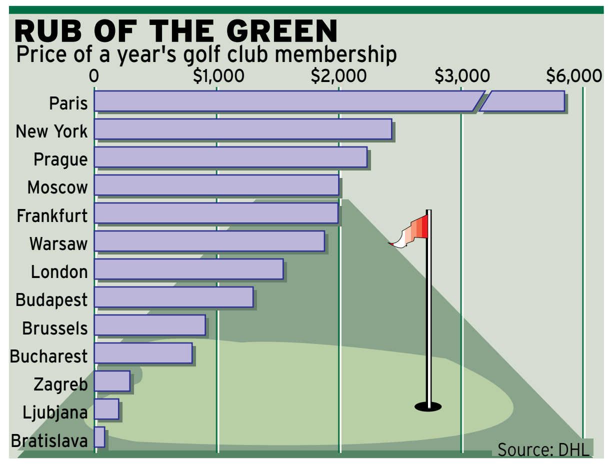
BUSINESS COSTS

Office in Slovakia, phone in Baku

WHERE IS the cheapest location in Europe to run a business? Office space in Bratislava, Slovakia, is the most reasonable – only $30,000 for a five-year lease of 186 square metres. The problem is that the economy is in free fall and there is no work.

The most expensive is Kiev, Ukraine – around $450,000 for a five-year lease – where there's also little work and the economy is stalled. A tribute perhaps to its entrepreneurs, who have convinced foreign businessmen, mainly Russian, that there is a fortune to be made in Ukraine. Kiev is now the dearest capital in Europe, according to the DHL Price of Business Index. The cost of having a phone line fitted is around $1,500 – 35 times the cost in Paris.

The survey is ideal reading matter for beancounters. It allows them to assemble their dream business plan: offices in Slovakia, phone calls in Baku, the capital of Azerbaijan, where local calls are free; corporate hospitality in Tirana, Albania, where tickets to the opera cost only $1, and taxi rides in Bucharest, where a 3km journey should cost only $2. Only possible perhaps, if you are a company doing business on the Internet – but it would be cheaper to be based in New York, where a month's Internet connection costs only $10.



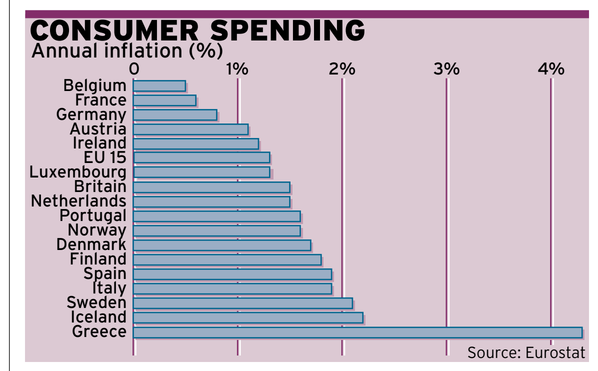
Obviously one of the key concerns is the cost of golf club membership. Lithuania's new president, Valdas Adamkus, who spent most of his life in America, complained bitterly that there are no golf courses in Lithuania.

Adamkus said he would help any company willing to build one. According to the survey, membership of a club in Prague, Moscow or Warsaw saw costs more than in London. Golfers will pay more than $2,200 to join a Prague club; in London the cost is around $1,500. This is partly because London is littered with courses. The only drawback is that money is not the only requisite to join the best courses in London. Years of waiting, a good education and the recommendation of the members are essential.

It is always reassuring to have your prejudices confirmed: Moscow's hotels are still the most expensive in Europe; a taxi ride in Moscow is twice the cost of one in London. Moscow's mafia may not be making the headlines any more, but they are still making money. Businessmen who remember the days when a bottle of Johnnie Walker Black Label was the most valuable currency of all will study the cost of a glass of single malt in a hotel bar with nostalgia.

RUPERT WRIGHT

INFLATION



AS MEMBERS of the European Union struggle to meet the Maastricht requirements ahead of economic and monetary union (EMU), it is not surprising that they are working hard to rein in inflation.

Eurostat, the statistical office of the European Communities, announced that inflation fell to 1.3 per cent in January, down from 1.6 per cent the previous month.

The inflation rate has almost halved from a year ago, when the average was 2.2 per cent across Europe. In January this year, the lowest rates were recorded in Belgium (0.5 per cent), France (0.6 per cent) and Germany (0.8 per cent).

Unsurprisingly, Greece recorded the highest inflation, at 4.3 per cent, and automatically failed to qualify for the first wave of EMU.

America and Japan recorded higher rates of inflation than Europe, with 1.6 per cent for the US and 1.8 per cent in Japan.

The more promising inflation situation has been accompanied by a falling jobless rate. Europe's average unemployment rate fell from 10.8 per cent in December to 10.4 per cent in January.

INTEREST AND MONEY MARKET RATES

COUNTRY	OFFICIAL INTEREST RATES				MONEY MARKET RATES 3 months			Benchmark bond			
	Rate	Previous rate	Date of change	Name	This week	Week ago	Year ago	This week	Week ago	Year ago	Name
Austria	2.50	3.00	18.4.96	Discount	3.60	3.60	3.30	5.13	5.02	5.66	Oest Bund
Belgium	3.30	3.00	9.10.97	Central	3.69	3.69	3.44	5.15	5.06	5.73	OLO
Denmark	3.75	3.50	9.10.97	Repo	3.88	3.87	3.63	5.31	5.22	5.34	DGB
Finland	3.25	3.00	15.09.97	Tender	3.43	3.42	3.07	5.15	5.07	5.94	FGB
France	3.30	3.10	9.10.97	Intervention	3.56	3.56	3.36	5.06	4.95	5.49	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.52	3.52	3.25	5.04	4.93	5.69	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	5.94	6.06	5.81	5.21	5.17	6.49	Gilt
Italy	5.50	6.25	23.12.97	Discount	5.78	6.05	5.31	5.32	5.34	7.36	BTP
Luxembourg	3.30	3.00	9.10.97	effective rate*	3.69	3.69	3.44	5.15	5.06	5.73	related to OLO
Netherlands	3.30	3.00	9.10.97	Special Adv.	3.44	3.43	3.16	5.02	4.98	5.58	DSL
Norway	5.50	5.25	16.7.97	Overnight	4.07	3.96	3.58	5.32	5.24	5.89	NGB
Portugal	4.90	5.20	18.11.97	Discount	4.63	4.62	6.27	5.16	5.14	6.84	OT
Spain	4.50	4.75	13.2.98	Repo	4.50	4.68	5.85	5.23	5.14	6.96	Bono
Sweden	4.35	4.10	16.12.97	Repo	4.66	4.65	4.27	5.53	5.48	6.91	SGB
Switzerland	1.00	1.50	27.9.96	Discount	0.94	0.95	1.82	2.93	2.78	3.52	Swap rate
UK	7.25	7.00	6.11.97	Base	7.44	7.47	6.20	6.04	6.10	7.30	Gilt
US	5.00	5.25	31.1.96	Discount	5.59	5.59	5.48	5.72	5.70	6.56	Treasury
US	5.50	5.25	25.3.97	Fed Funds	n/a	n/a	n/a	n/a	n/a	n/a	
Japan	0.50	1.00	9.7.95	Discount	0.89	1.08	0.56	1.68	1.73	2.40	JGB
Canada	4.70	4.65	03.3.98	Call Loan	4.94	4.88	3.12	5.60	5.49	6.40	CGB

* Tied to Belgian Franc

SOURCE: STANDARD & POOR'S MMS

ECONOMIC DATA

COUNTRY	INDUSTRIAL OUTPUT*			INFLATION†			UNEMPLOYMENT††		
	Latest quarter	Previous quarter	Year ago	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago
Austria	3.9[5]	n/a	3.7	Jan 1.2	1.0	1.7	Feb 4.5	4.4	4.1
Belgium	1.7[2]	1.9	0.7	Feb 0.7	0.4	2.0	Feb 12.9	13.1	13.4
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 0.6	1.1	1.8	Jan 12.1	12.2	12.7
Germany	2.6[2]	2.4	2.2	Feb 1.1	1.3	1.7	Feb 11.5	11.6	11.2
Greece	10.6[5]	n/a	11.3	Feb 4.3	4.4	6.5	Dec 8.7	8.4	8.4
Ireland	7.8	n/a	10.1[3]	Feb 1.7	1.8	n/a	Feb 9.7	9.7	10.6
Italy	2.1	1.9	0.7	Feb 1.8	1.6	2.4	11.7[4]	12.2[5]	11.7
Luxembourg	5.5[1]	3.8[3]	12.4	Feb 1.1	1.4	1.5	Nov 3.7	3.6	3.6
Netherlands	2.9	3.1	3.0	Feb 2.2	1.8	2.2	Jan 5.0	4.9	6.5
Norway	4.4[2]	2.3	4.3	Feb 2.0	2.0	3.3	Jan 3.0	2.6	4.1
Portugal	3.0[1]	2.3	2.0	Jan 1.9	2.3	3.3	6.5	6.5	7.1
Spain	3.6[2]	3.5	2.6	Feb 1.8	2.0	2.5	Jan 12.9	12.8	14.1
Sweden	3.3[2]	2.7	1.8	Feb 1.2	1.3	−0.4	Feb 6.7	2.4	8.4
Switzerland	2.0[2]	1.1	−0.6	Jan 0.0	0.4	0.9	Feb 4.9	5.0	5.7
Turkey	6.6[4]	6.6	8.1	Feb 99.3	101.6	77.7	5.8[6]	6.3[7]	6.6
UK	2.9[2]	3.0	2.7	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	Feb 4.6	4.7	5.3
Japan	−0.2[2]	1.0	3.2	Jan 1.8	1.8	0.6	Jan 3.5	3.5	3.3
Canada	4.3	3.9	1.8	Jan 1.1	0.7	2.1	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*			INFLATION†			UNEMPLOYMENT††		
	Latest month	Month ago	Year ago	Latest month	Month ago	Year ago	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

SPANISH consumer prices fell last month, helped by falling food and energy prices, pushing inflation to its lowest level in six months and leaving the door open for more interest rate cuts. Consumer prices fell 0.2 per cent, leaving annual inflation at 1.8 per cent, the lowest since August.

IRISH consumer prices rose 0.5 per cent in the month to mid-February as clothing and footwear prices rebounded after post-Christmas sales. The figures reverse the 0.6 per cent slide in January and show year-on-year inflation at 1.7 per cent.

GERMAN car production rose seven per cent in February to 414,400 units from a year ago, owing to the popularity of new models. Total vehicle production, including cars, lorries and heavy commercial vehicles, rose eight per cent to 445,400 units in February from last year. Daimler-Benz's new A-class subcompact and an updated version of Volkswagen's Golf are among the new models helping boost production.

FRENCH employment rose 0.5 per cent in the fourth quarter of last year from the third. The number of employed was 1.2 per cent higher than the same quarter last year. France's unemployment rate fell to 12.2 per cent in December from 12.5 per cent in the third quarter and June's record high of 12.6 per cent.

DUTCH unemployment is forecast to pick up this year as exports become the driving force of expansion, according to the Organisation for Economic Co-operation and Development.

LETTERS

Letters to the Editor, The European, 200 Gray's Inn Road, London WC1X 8NE, England.
Fax: +(44) (0)171-713 1840. E-mail: letters@the-european.com
Shorter letters are preferred. Letters may be edited for clarity

Little Englanders sniping over La Manche

BRITAIN has neglected its duties as president of the European Union Council in its determination to win favour with Washington. Most European countries favoured a diplomatic solution to the recent crisis in the Gulf, whereas Britain and America would have sent in the bombers. It was France which acted as the real president of the Union, taking the lead in urging diplomacy and giving its full backing and support to the UN secretary-general's mission to Iraq.

Britain stands on the sidelines of Europe, sniping over *La Manche*. Its Little Englanders believe that the European Union is disastrous for Britain. They are against further integration.

The British foreign secretary, Robin Cook, said that Britain's six months at the helm would lay a firm foundation for the policy of "putting Britain at the heart of Europe". In reality, Britain has been sidelined in the key issue of economic policy-making. The British presidency is being excluded from the key decisions over the euro. Having declined to commit itself to the single currency, Britain cannot now complain about being excluded from the key Euro-X group meetings. Euro-X needs to be a tightly knit club. Non-members are not welcome.

Frédéric Olivier
Strasbourg, France

DUNCAN SMITH (Letters, issue 407) argues that Britain is playing a clever game in its relationship with the United States, "pursuing policies to which the continent is opposed" and "simply advertising its incompatibility with any pan-European foreign or defence policy". Such an analysis is misguided and dangerous.

Britain's "special relationship" with America is that of a crony seeking to gain advantage from the boss. Certainly, Tony Blair and Bill Clinton speak the same language and share a common culture, but the relationship is very peculiarly one-sided. Blair is like an ingratiating courtier of old, wanting to please King Clinton and curry favour but losing all self-respect in the process. Today's Britain is like Finland during Soviet times, a minnow existing alongside a shark.

Serafino Iudica
Rome, Italy

THE rather condescending editorial ("Germany's Clinton", issue 407) on the character and motives of Gerhard Schröder would have provided a far more cautionary tale had it drawn a more realistic and less sycophantic contrast with Tony Blair.

The British prime minister talks the talk and walks the walk but his avoidance of the real "tough choices" facing the UK, and his preference for most soft targets in an attempt to please most of the people most of the time, shows that he too can be "an opportunist tactician who believes in very little bar his own election". Indeed, it is an overriding ambition of Blair to achieve the elusive second term for Labour.

Far from being "the man with a mission", Blair has substituted a suitably vague "vision" for strategy, making policy on the hoof and heavily reliant on spin doctors. His election, like Schröder's, if it happens, may come to represent the triumph of image over substance.

David Wilson
Ellon, Scotland

Kosovo is a step too far

SERBIA is a pariah state at the heart of Europe. We have known this for years and done little about it, but Kosovo is a step too far. We have to act. Even Russia, the Serbs' traditional ally, has reacted with horror to the massacres. The only way to stop ethnic cleansing in Kosovo is with Nato-led military action.

Throughout the wars in Bosnia and Croatia a package of sanctions much tougher than the one agreed this week failed to end the ethnic violence. An arms embargo, a ban on Serb exports, visa restrictions and delegations to assess the situation are merely substitutes for action.

Stefan Lovas
Budapest, Hungary

CALLS for the restoration of Kosovo's autonomy (Letters, issue 407) come too late. As Theodor Spälti points out, Serbia has no intention of restoring Kosovo's local self-government, revoked in 1989. Despite a system of ethnic apartheid unimaginable elsewhere in Europe, Kosovo has been viewed as an internal Serb problem.

The international community should guarantee full independence for Kosovo.

Walter Krolak
Heidelberg, Germany

IAN MATHER ("Serious hard ball play in the Balkans", issue 406) presents the new president of Montenegro, Milo Djukanovic, as a thoroughly positive alternative to Yugoslav Federal President Slobodan Milosevic. Certainly, Milosevic bears the main responsibility for the mayhem in ex-Yugoslavia since 1991, but it is naive to see his protégés-turned-enemies as the natural friends of western values.

As an election observer in Montenegro last autumn, I witnessed intimidation, blanket media control and irregularities which in any other state – Serbia for instance – would have led the OSCE monitors to cry foul.

As prime minister, Djukanovic controlled the secret police and organised much of the sanctions-busting that was a lifeline for Milosevic's regime.

Djukanovic's repackaging as a western-style liberal is a triumph of cynicism similar to the reinvention of that *Passionaria* of ethnic cleansing, Biljana Plavsic, as the voice of reason in the Bosnian Serb Republic.

Mark Almond
Oriel College, Oxford, England

On target for a flop?

HOW APT that the announcement from Brussels that all 11 euro candidates are on target for the single currency appeared in *The European* alongside recent research showing that corporate mergers which fail to recognise differences of corporate culture usually fail to deliver anticipated benefits ("Most mergers simply don't work", issue 406).

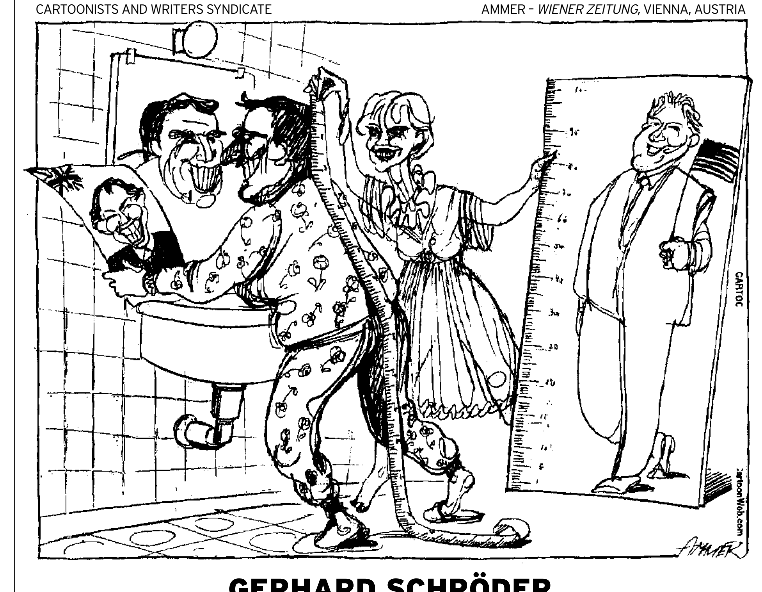
Corporate mergers, having briefly given way to de-mergers, are now back in vogue. The merger of 11 national economies into a single euro zone must be the big daddy of all mergers, and could be the biggest flop.

The new euro zone, like an enlarged post-merger corporation, may turn out to be less, not more, than the sum of its parts. If so, just as it is the shareholders and employees, not the directors and merchant bankers, who pick up the tab for unproductive mergers, so it will be the citizens, not the politicians and bureaucrats, who will carry the can for a failed euro.

John Roberts
Labastide-Paumes, France

DRAWN FROM EUROPE

CARTOONISTS AND WRITERS SYNDICATE — AMMER – *WIENER ZEITUNG*, VIENNA, AUSTRIA



GERHARD SCHRÖDER

Sinn Fein's mandate

THE comments made by Colum Hand on the Irish peace talks (Letters, issue 406) simply do not add up or make any sense. Sinn Fein is a democratic party representing about 17 per cent of the Northern Ireland electorate. Two of its representatives, Gerry Adams and Martin McGuinness, have been democratically elected to the Westminster parliament. Natural justice alone demands that Sinn Fein should not have been expelled from the peace talks at such a crucial stage.

Despite a spate of senseless killings by loyalists – 13 Catholics murdered recently – the IRA response in kind has been exceptionally restrained. The real problem now is the negative behaviour of David Trimble and the Ulster Unionist Party. Trimble has refused to begin face-to-face negotiations with Sinn Fein and his attitude has often been arrogant and unhelpful at the talks.

It is time that the Unionists turned over a new leaf and adopted a policy of reconciliation, not confrontation. The British prime minister, Tony Blair, has a duty to see that they do so, quickly.

Michael J Cassidy
Dublin, Ireland

"A MOTHER will not be comforted." Nor many a father, I imagine. However, perhaps David Trimble will take the opportunity to extend to the father of the young Protestant friend murdered by a psychopathic bigot an invitation to accompany him at the head of the next Drumcree parade in the place of the late "King Rat", with whom Mr Trimble was able to commune last year.

It's an ill wind …

P Becke
Edinburgh, Scotland

Turkey at arm's length

IN "Turkey: multiple voices, multiple problems" (issue 405), Norman Stone, writing from Ankara, states: "Quite why the Greeks have landed themselves with this anti-Turkish stance is a mystery."

The solution to this "mystery" can be found quite simply by asking any Greek. Roughly 400 years of occupation, Cyprus, aggressive claims against Greek territory, constant threats of war and daily violations of Greek airspace are just a few reasons why Greeks remain deeply suspicious and resentful of Turkey.

Furthermore, Turkey has been kept at arm's length from the European Union because of its refusal to abide by the rules that govern civilised European states and not by an "unjustified" Greek-inspired policy.

Anwar Soussa
Baie D'Urfe, Quebec, Canada

World Cup tickets

AS reported in recent issues, non-French football fans justifiably feel angry and frustrated at the number of World Cup tickets being allocated to supporters unlucky enough not to have a French address or bank account. The authorities in France must realise that arrangements restricting foreign fans following their teams will not hurt only those desperate for tickets. Businesses and communities where the matches will be played will also be hit. Hoteliers, restaurateurs and bar owners will all lose out.

The opening game at St Denis is a case in point. Despite the Stade de France having a capacity of 80,000, Brazilian and Scottish fans will receive only 5,000 tickets each, the rest going to corporate interests and the French public – a dream scenario for ticket touts. Football used to be known as the people's game; no longer.

If this year's World Cup is to be played in an atmosphere of international sporting friendship, the French authorities should release more tickets for their guests.

James Cormack
Dumbarton, Scotland

Tobacco Formula

IN "Europe swallows Ecclestone's bluff" (issue 406), Jonathan Noble states: "Belgium's parliament altered its anti-tobacco legislation to ensure that the Spa-Francorchamps circuit remained on the Formula One list." This is not true. The Formula One lobby has lost two court cases in its attempt to overrule the law. A similar law has been in force in France since 1993.

Luk Joossens
Spokesperson for the Belgian Coalition against Tobacco
Leuven, Belgium

Moon for sale

THE discovery of water on the Moon has triggered feverish speculation about lunar settlement and future space exploration. This raises the question of ownership of extraterrestrial resources. We propose that property rights be handed over to a Galactic Property Agency (GPA) that would handle attribution of lunar exploitation rights by auction etc. This could be modelled on similar lines to the emission allocations at the recent Kyoto conference.

By giving space entrepreneurs a private identity, their status in space would become independent of their national status on Earth. If we want to avoid star wars, we need to privatise the Moon.

Yoruk Isik
Istanbul, Turkey
Rainer Emschermann
Brussels, Belgium

BusinessWeek
The Economist
EUROPEAN
FORTUNE
Herald Tribune
Newsweek
TIME

With seven prestigious publications distributed across five continents and over two hundred countries, there can be little doubting the reach and power of the

World Press Group

Our titles are required reading for all the people at the top. So, if you really want to get your message over to them, place it in the pages with more power.

Find us on +44 (0) 181 840 5882 or worldpressgroup@msn.com

THE EUROPEAN

SURVIVAL GUIDE TO THE FUTURE

SPECIAL SECTION FOR

CeBIT98

INFORMATION TECHNOLOGY CONFERENCE

THE PACE of change in the information age increases every year. Just keeping up with the latest developments is proving a challenge, and most of us could do with a little guidance on the way future technology will affect our lives.

In the run-up to CeBIT 98, the world's largest trade fair for the communications and computer industries, this special report provides a taste of future innovations combined with analysis of some of the most important issues already facing the two industries.

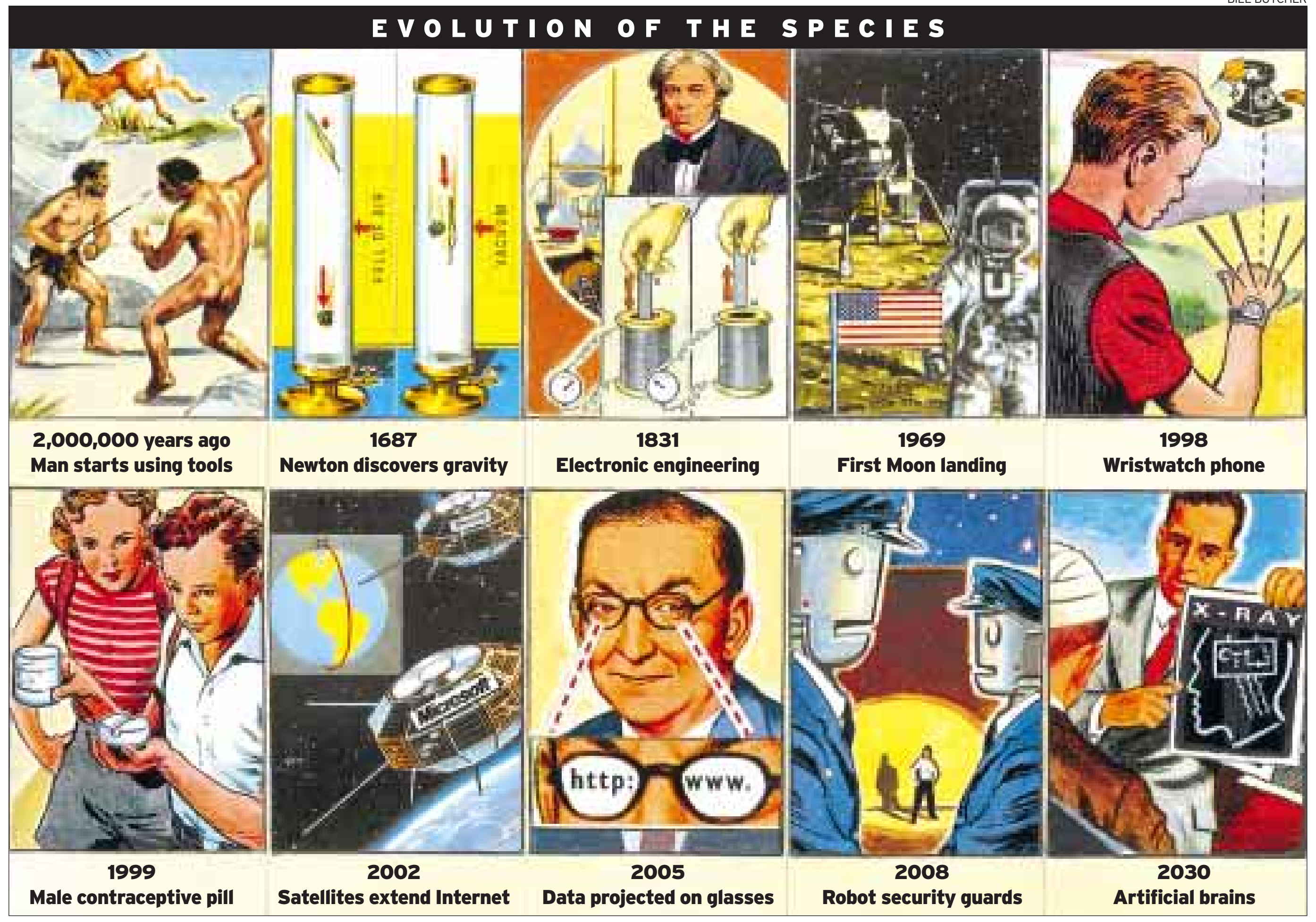
As the Internet transforms the way we communicate, shop and do business, it is guaranteed to be the key theme of CeBIT this year. More than 600,000 engineers, scientists and business people visiting Hannover from around the world will see dozens of Internet firms.

New ideas will be discussed during the week-long fair, products will be launched, and for those not too exhausted from walking around the cavernous halls there will be lucrative deals to be signed.

CeBIT acts as an accelerator for the IT industry. It encourages firms to push forward with development of products, to claim headlines during the trade fair and scupper the opposition. Monitoring the latest offerings from the world's most important and influential new industry is like reading signposts to the future – because the IT industry is now changing for ever the way we live, work and do business.

SIMON REEVE
Writer, CeBIT Special Report

BILL BUTCHER



GLOBAL INFORMATION SOCIETY

Nation shall speak unto nation – and do some deals

WHEN future generations look back on the last years of the 20th century, they may see them as the early years of an information revolution rivalling the industrial revolution in historical importance. Explosive growth in the information technology industry is gradually giving birth to new ways of living and working. Distance is becoming irrelevant and a global information society beckons where commuting is reduced, the office is no longer the primary place of work and access to knowledge is available to all.

Ultimately, it is all thanks to digital technology, the means by which text, moving images, sound and pictures is converted into code and stored and transmitted down wires. This, in turn, has allowed the development of the Internet and broken down barriers to trade and communication, allowing millions to shop online, work from home or hold video conferences rather than travel to meetings.

The next stage in development of the global information society is the integration and then convergence of computing, consumer electronics and communications (the three Cs). Soon no distinction will be made between phones, computers and even calculators. Large consortiums will evolve offering products which perform a number of different tasks. For example, a small phone could be a powerful PC using voice-recognition software. It could also be an address book, calculator, cashless wallet, and hold electronic house keys, car keys and health records. When you are bored, you will be able to watch TV or play music on it – all through a device smaller than your hand.

But this will all be at a price. We will almost certainly see a consolidation of power in the information technology industry over the next few years, with mega-mergers and takeovers between some of the large corporations leaving just a few giants left standing – IBM and Microsoft among them. The preparations are already being made. Compaq, the world's leading PC company, has announced it is linking-up with Intel, the largest manufacturer of microchips, and Microsoft, the world's largest software supplier, to develop jointly "the full potential of digital television across a range of PCs, hybrid PCTVs and digital TV appliances".

According to the Ovum research firm, convergence of the IT, telecoms and broadcasting industries "means that many different organisations are positioning themselves to provide multimedia products and services".

There is further evidence of consolidation by major players elsewhere in the IT industry. Sun Microsystems, best known for powerful computer workstations, is now an important firm in the software industry, with the Java language. Microsoft is looking at "content providers", and has invested heavily in television for the Internet while Bill Gates has been buying up electronic rights to works of art, allowing him to offer them on full-length wall displays.

Gates should do some good, however. His plan to put scores of low-Earth orbit satellites into space over the next few years should allow those in less-developed countries the same access to information as is currently available in the West. With low-cost satellite Internet access through a cheap computer, a farmer or accountant in central Africa will soon be able to access the same information as their western counterparts, dragging the Third World into the cyber-age overnight.

Perhaps the most significant development of the global information society is the way it is breaking down national borders: already companies in India fix the software of US firms, while English accountants handle finances for Russian corporations. Citizens of one country already spend much of their time in the virtual world of another via the Net, accessing information which is censored in their own country.

Global online trading is already a reality, and many want it left well alone by regulators. To this end 100 European companies, including ABN-Amro bank, BT and IBM, together with trade bodies, are joining together to further encourage international electronic commerce; others want cyberspace to be a free-trade zone.

With proposals like these under serious consideration, society is not only being changed by the new information age but the Internet is fast-becoming a social entity in its own right.

NEXT GENERATION MOBILES

The latest phones can go anywhere ... unfortunately

RONALD GRANT ARCHIVE

FOR those who savour their independence and precious moments spent away from the office and work, the world is about to change. In the next few years, your office and home phones will be replaced with a single mobile handset which can be used to make and receive calls anywhere in the world. Wherever you are, whatever you are doing, the office will be able to contact you.

Like it or not, this communications revolution is under way, and promises to change the nature of the phone industry for ever. Even now, European mobile phone companies are developing the next generation of phones, a Universal Mobile Telecommunications System (UMTS) which will have a screen and an Internet connection, enabling you to view pictures, video footage or even watch the television as you travel across the globe.

With mobile calls across the globe eventually being routed through the Internet at a local rate *(see panel, right)*, call charges on the new-generation mobiles will be far cheaper than existing prices. Demand is expected to be high, not only from business people travelling the world but from the millions who already own existing mobiles and will want the multimedia capability of the new so-called third-generation phones.

Before work could really begin on the phones, the industry had been waiting for a final decision on international standards from the European Telecommunications Standards Institute (Etsi). In the best European traditions, Etsi has been forced to make a decision between two rivals, one a consortium including Ericsson of Sweden and Nokia of Finland which backed a system called WB-CDMA, and a group including Germany's Siemens, France's Alcatel, Italy's Italtel and Canada's Northern Telecom, which were backing the alternative TD-CDMA.

The result, decided at an Etsi meeting in Paris last month, was a compromise called UMTS Terrestrial Radio Access (Utra) which emphasises WB-CDMA but includes the best bits of the alternative system. By favouring the WB-CDMA standard, Etsi will enable companies such as Ericsson and Nokia to sell their handsets into the Far East market, where the highly influential Japanese mobile operator NTT DoCoMo has plumped for an almost identical system. The decision of Etsi will also allow Europe to retain its relative control of the mobile phone market: a European Union decision several years ago chose GSM as the Europe-wide standard for international mobile phones. This allowed European handset manufacturers to export their GSM phones globally as the rest of the world adopted the same standard.

Those same European manufacturers are now preparing to capture a large chunk of the market for the new Utra phones. Ericsson, Europe's leading supplier of telecoms equipment, is already joining Nokia and Motorola of the US to invest in the high-tech Yokosuka Research Park southwest of Tokyo, where 10,000 scientists and technicians from around the world are already working to develop next generation mobiles.

The revolution will really begin this summer, when the final few satellites will be launched into orbit by Iridium, a consortium backed by Motorola, to complete a global web of more than 60 satellites offering true mobile satellite communications. Other satellite networks will soon be completed by Global Star, a group including Loral Space and Vodaphone, and ICO, a consortium headquartered in Hammersmith, west London.

Existing mobile phones are already as small as a palm and NTT of Japan have made a fully functioning "Dick Tracy" wristwatch phone. One of the main problems for manufacturers of the next generation phones will be how to make a small phone with a screen large enough for viewing of the world wide web or BBC news. Fold-out, or even roll-out, screens are being considered. Battery strength should increase, so even the first of the new phones should need recharging only once a week.

The British government will be among the first to issue operator licences for the new phones in 2002, and officials seem confident the technology will be widely available three years later. The Utra phones will be able to roam between satellites, the conventional mobile system and fixed access (when connected to a land line at home or in the office).

The new handsets will be more expensive than current phones, but only by approximately 15 per cent. With healthy competition, prices are expected to drop quickly until a truly global mobile phone is within the reach of almost all of us. There can be little doubt many will shudder at the prospect.

INTERNET PHONES

Using the Net cuts the cost of calls

USING the Internet to make a phone call used to be a tedious business. Characterised by poor quality and distortion, it was viewed as an exciting experiment for the die-hards of the online community. No longer.

The technology to make cheap calls across the globe is now widely available. Soon callers will not even need a PC, just a "smart" box and a phone. With the necessary software from a company such as VocalTec of Israel, callers can ring anywhere in the world, provided the recipient has the same technology to take the call.

The Net works by sending data in blocks, or "packets", which are often sent by a different route and then reassembled at their destination. This is perfect for data and text, but not so good for voice calls, and companies such as Ericsson and Lucent have had to develop ingenious technology for cutting conversations into packets and rebuilding them almost immediately at the other end of the line.

Action Information Services, the telecoms analyst, has conservatively suggested revenue for the Internet telephony industry will rise to $3.5 billion annually by 2001. Even a municipal council is getting in on the act. Sunderland City Council in the northeast of England, has awarded grants of more than $250,000 to a project to allow businesses and schools in the region to make calls on the Internet at a saving of 50 per cent. Sunderland is hoping to become a regional telecommunications hub, and TCI, the firm managing the project, is planning to expand its scheme to other cities in Britain.

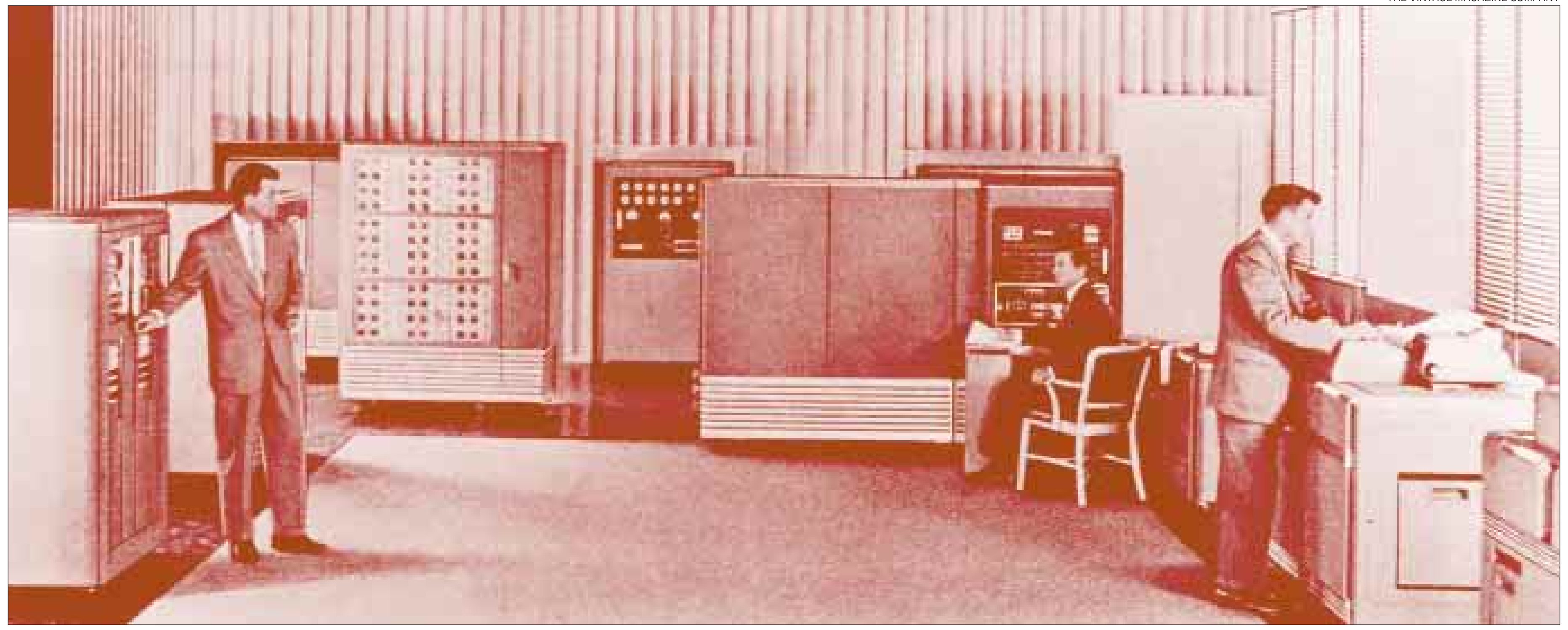
In Germany, Bertelsmann AG is preparing to take a large slice of business by undercutting everyone else's charges with cheap calls on the Net. The telecoms dinosaurs are under siege: the consultancy Philips Tarifica estimates Deutsche Telekom's revenues will be cut by more than $100 million in 2001 because of Internet telephony; North American operators will lose $8bn in revenue by 2002, according to Action Information Services.

Executives in the Internet telephone industry can barely contain their excitement. John Sidgmore, chief executive of WorldCom's Internet subsidiary, is forecasting that as fax and telephone calls migrate to the Internet, traditional voice calls will represent just one per cent of total traffic by 2003. Even if this forecast errs on the side of optimism, dramatic changes are clearly on the way.

While some are trying to paint a picture of one system being supplanted by another, the reality is more of a merger between the old networks and the Net.

By the end of this year Internet telephony could be commonplace, as the benefits of cheap global calls become obvious to customers who have spent decades filling the pockets of pricey state-run phone companies.

THE VINTAGE MAGAZINE COMPANY



CHIP SPEED

Moore's Law doesn't work any more

IT HAS proved to be one of the most accurate predictions of the digital age. In 1965 Dr Gordon Moore, the co-founder of Intel, now the world's biggest chip-maker, stated that the power of a microchip would double every 18 months. His comments became known as Moore's Law, and as chips have driven the technological revolution forward with their use in consumer goods, communications and computers, the law has held true.

Recently, however, Moore has started having second thoughts over how long the development of chips can continue. He now believes that microchips will soon reach a point where they can no longer be made more powerful. According to Moore, the size of atomic particles will get in the way of the process of miniaturisation, slowing down computer technology and possibly preventing the development of new products.

Although the computer world is not ignoring this warning from one of the architects of the industry, it is certainly not planning to stop research and development.

Further advances in chip speed have been made in the last year, and the benefits will soon feed through to customers. IBM recently announced that, after a decade of research, its scientists have discovered how to use microscopic copper rather than aluminium wiring inside microchips, thus allowing the building of cheaper and faster chips. According to Rupert Deighton of IBM Microelectronics in Europe, copper will allow IBM to build chips with 150 million transistors, giving roughly 30 times the power of an existing Pentium. In the short term, the chips will be roughly 40 per cent more powerful than existing technology; IBM has already begun small-scale manufacture and says it will begin selling the chips this summer.

IBM has also made major advances in the development of computer memory, creating a magnetic disk drive with a storage capacity of 10 billion bits of data per 6.5 square centimetres , enabling the development of ultra-thin lap-top computers with memories of 6.5 gigabytes of data, equivalent to nearly half a million double-spaced pages of typewritten text.

But creating memory is not the real challenge: speed is. A consortium including Intel and Motorola is beginning work with three American department of energy laboratories on the next-generation of microchips: devices which will be as different to existing technology as comparing the Pentium II processor with an old 386. The consortium will spend more than $250 million developing new lithography technology, by which circuits are etched on chips, called Extreme Ultra Violet (EUV) light. With EUV, scientists believe it will be possible to draw circuit lines thinner than 0.1 microns wide (1/100th the thickness of human hair), significantly increasing performance.

Attention is focusing on the factories needed to make the chips as much as the technology itself, with a fabrication plant – or "fab", as they are known – now requiring an investment of several billion dollars. Few companies can afford this type of investment on their own, and companies will need to bury old differences and work together if new chips are to be developed.

The first microprocessors containing a billion transistors are expected to come into play in 10 years, and promise to revolutionise our lives further. With a power 100 times greater than the most advanced existing microchips, the new devices should push forward development of advanced computers which understand complicated vocal instructions, and recognise their users' faces and commands.

But then soon after, according to Gordon Moore's new theory, they will reach a plateau beyond which it is nigh impossible to proceed. If this is true, it will have huge implications for the technological revolution, suggesting computer power can go so far and no further.

Other scientists, however, are confident progress will continue and point to research now starting on so-called "bio-chips", which could use organic material to increase power. Another way round the problem may be to "high-rise" – stack transistors on top of one another – although chip speed would no longer increase at the rate of Moore's Law.

The problem of chip speed could also be solved at a stroke with fully optical computers using light *(see below)*, but these are still the stuff of dreams, and will not become a reality for decades.

OPTICAL

And now, the wireless computer

THE need for increased speed within computers is encouraging some highly innovative research. A team of scientists at Heriot-Watt University in Edinburgh is leading the world in the development of optical computers, in which data is transferred at incredibly fast speeds via light.

As microchips get faster and the speeds at which a computer processes data increase, normal copper wires will not be able to cope. So scientists are now developing computers with super-fast silicon chips linked by ultra-thin laser beams of light.

Forget any traditional ideas you may have of the inner workings of a computer. Wires will be redundant in these next-generation machines, which will rely instead on prisms, mirrors and hundreds of lenses to move data from chip to chip.

"The speeds that will be possible will be incredible," said Julian Dines of the optoelectronics team at Heriot-Watt.

Today's computers move information at the rate of millions of bytes per second, a combination of silicon and optical computing would enable machines to move trillions of bytes per second.

These machines, called terabyte and petabyte computers, will be of use initially for such difficult tasks as weather forecasting and searching for oil deposits. "But the benefits will flow down the scale to normal computers within a few years," said Dines.

Similar research is under way in Japan, where a team working under Professor Mizumoto of the department of physical electronics at the Tokyo Institute of Technology has also succeeded in making a simple optical computer. A consortium of the Japanese Agency of Industrial Science and Technology, Dainichiseika Colour and Chemicals and electronics giant JVC is also racing ahead with optical research.

Nasa will be one of the first customers for this technology. Its project – called PetaFLOPS – is a plan to build a huge computer by the year 2010 which will be able to make a million billion calculations a second. Nasa engineers have accepted that such speeds will require optical links in the computer, which will be designed to process 10 petabytes of data a second. A single petabyte is equivalent to one billion books or 2,300 years of video footage.

Super-fast optical computers will be useful in the development of neural networks, where computers are modelled on the human brain. This will take time: Professor Peter Cochrane, the head of research for Britain's BT, estimates our brains are capable of making 1,000 million million operations per second (one petaops), with a memory of 10 terabytes. Even with the aid of lasers, computers have some way to go before they equal that sort of performance.

HELLENIC TELECOMMUNICATIONS ORGANISATION S.A.

OTE, the largest Greek company, ranking 108 by market captilisation (FT500), is rapidly being modernised in the fast-changing environment of the international telecoms market. Publicly trading 25% of its stocks on the stock exchanges, OTE is dramatically transforming from a monopolistic state-owned organisation into a structure capable of surviving competition while maintaining its present high profitability.

THROUGH an international selection procedure, OTE has appointed as Managing Director a man who not only has an appropriate background but has proved to be exceptionally quick and efficient. The new Managing Director, Professor George Chrysolouris, accelerates the "gigantic vehicle" of OTE by smoothly and steadily redirecting it towards:

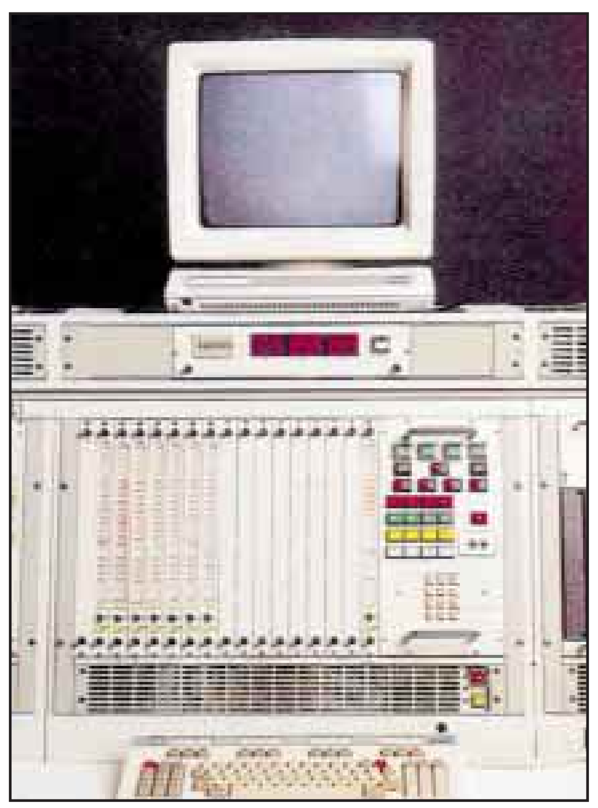
- modernising its network
- managing and re-engineering
- introducing new products and value added services and
- focusing on investments outside Greece into the broader area of Southern Europe and through the Balkans

Business Opportunities

The intense trading anxiety that has seized the international markets after the end of the Cold War has universally affected the telecommunications sector. That period was characterised as a preparatory stage; that of businessmen in the telecoms field who were rushing to claim a share of the "telecoms pie". The league of eastern states, among others, recognised the need to embrace technological modernisation in order to be competitive with the West.

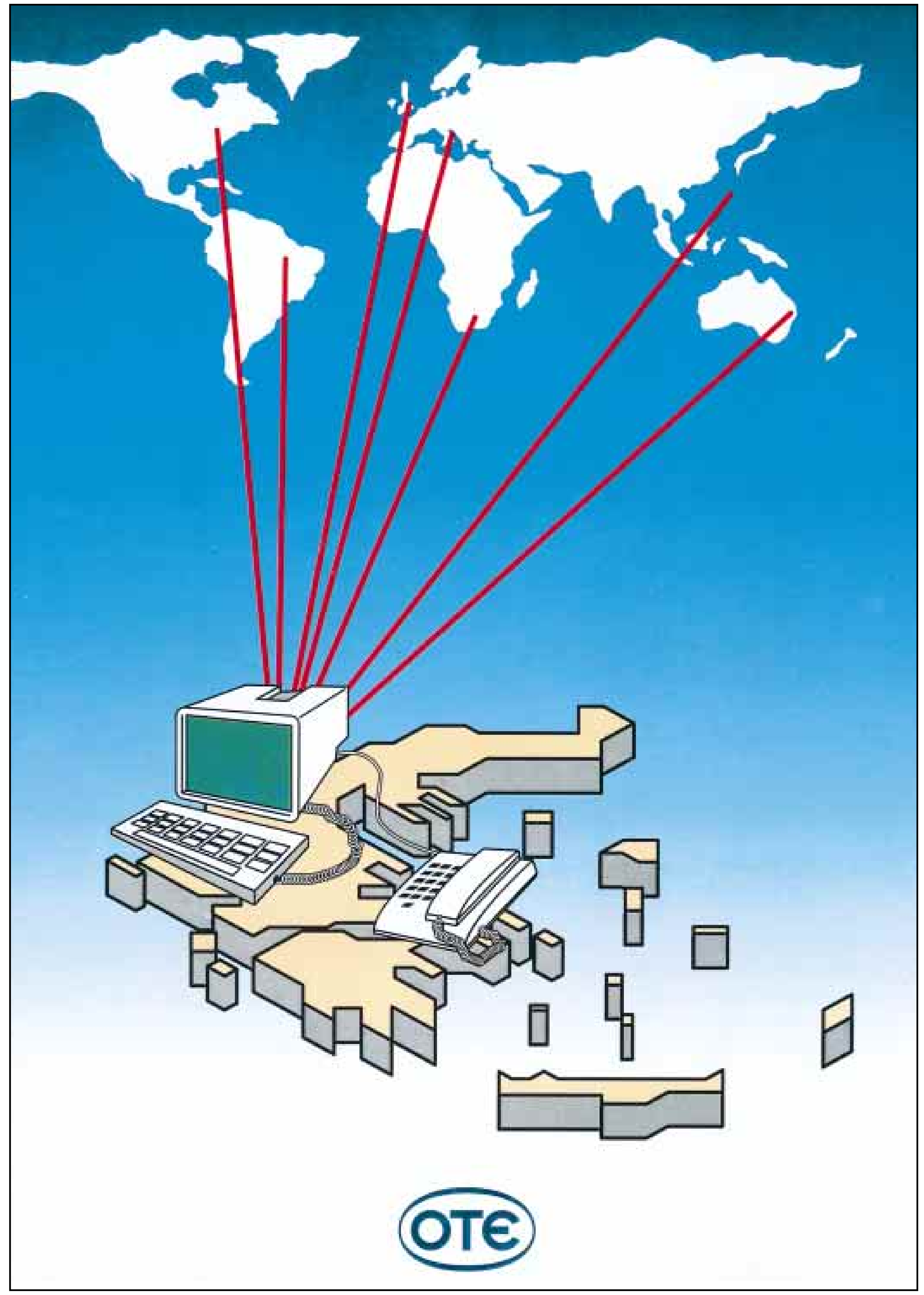
Since then, telecommunications have been a dream and an expensive commodity for new subscribers. It became apparent quite soon that without the support of technologically advanced systems, any attempt at development would create a perfect business opportunity. At that point, corporations in the West attempted to acquire the maximum possible share of the telecoms market in east European countries.

For Greece, neighbouring countries posed a business challenge. OTE decided to claim a share from organisations seeking investment. The buying out of 20% of the Serbian telecom organisation, Telecom Srbija, was the first step to signal for OTE the abandonment of a 50-year introversion.



OTE, urged by advisory experts from recognised firms who have specialised in international markets, is focusing its investment interest on the Balkans. The recent negative example, concerning the opening of Deutsche Telekom towards Third World markets at a great distance from Germany, has acted as an important lesson for the Greek Telecoms Organisation. The target market for Greece should be its broader geographic area, the Balkans.

Having offered two blocks of OTE's shares for private consumption, and with regular coverage of its activities by the international news agencies and in the mass media, the Greek Telecoms Organisation has won an international reputation. For the first time in its history, the company was under the international financial microscope, conscious of the fact that from now on serious financial experts would be watching its every move. OTE's shares are now listed on the stock markets of Greece, Britain and the United States of America. OTE's ambitions are increasing in parallel with its need for modernisation, the acceleration of its growth rate as well as the change in its corporate structure.



Transparency

Minority stock holders are represented on the present board of directors of the organisation by individual businessmen, one more factor which leads the organisation to adopting a client-centred philosophy. All procedures for the selection of executives, who take the responsibility of important sectors, are done through rigorous procedures or meritocracy, starting from the appointment of Professor George Chrysolouris.

Professor George Chrysolouris

The period up to the year 2001 will be utilised by OTE to develop momentum and to deal with the anticipated competition.

OTE's Leadership

Professor Chrysolouris studied in Greece, Germany and the United States of America. He was professor for 13 years of M.I.T, where he established two high technology companies. He has also advised, among others, Boeing and BMW prior to returning to Greece as professor at the University of Patras and as director of a multi-faceted laboratory. During Costas Simitis's premiership in Greece, Prof Chrysolouris acted as government special adviser on technology matters.

During the past two years, Prof Chrysolouris has been a member of the board of directors of OTE and an active executive on the committees for the negotiations of the organisation with the Greek telecoms corporations for the conclusion of framework contracts.

However, his expertise in the subject, his experience in the Greek Telecom Organisation, in conjunction with his natural clear-sightedness, take away from him the right to ask for more time or to fail in his responsibilities, namely to lead OTE into the new international competitive environment.

In conjunction with the basic strategic development keystones, a second important factor is the continuous training and specialisation of personnel in the technological systems. This is referred to as an "ongoing procedure" by the Managing Director of OTE.

Research Centre

Within the framework of the new structure adopted by OTE, a new research centre is being set up which targets the thorough investigation of all new technology and the development of innovations in collaboration with industry. This way the organisation itself will be capable of assessing the usefulness of specific technology, and to configure the technological specifications of all products which will be given as orders to OTE's suppliers.

OTE's understanding of its clients' needs, combined with the know-how of private Greek businesses and research activity, creates the most favourable possible basis for the development of technologically innovative telecoms products. At the same time it will act as a technological catalyst for the Greek industry of telecoms and data processing. This research centre will be manned by Greek scientists with reputations established abroad.

Greek Aptitude for Technology

Prof Chrysolouris knows from his own experience that a number of international universities and research centres are staffed with "Greek brains". His personal vision is based on this reality. He says: "It is about time Greek scientists produced innovative technologies in their own country as well."

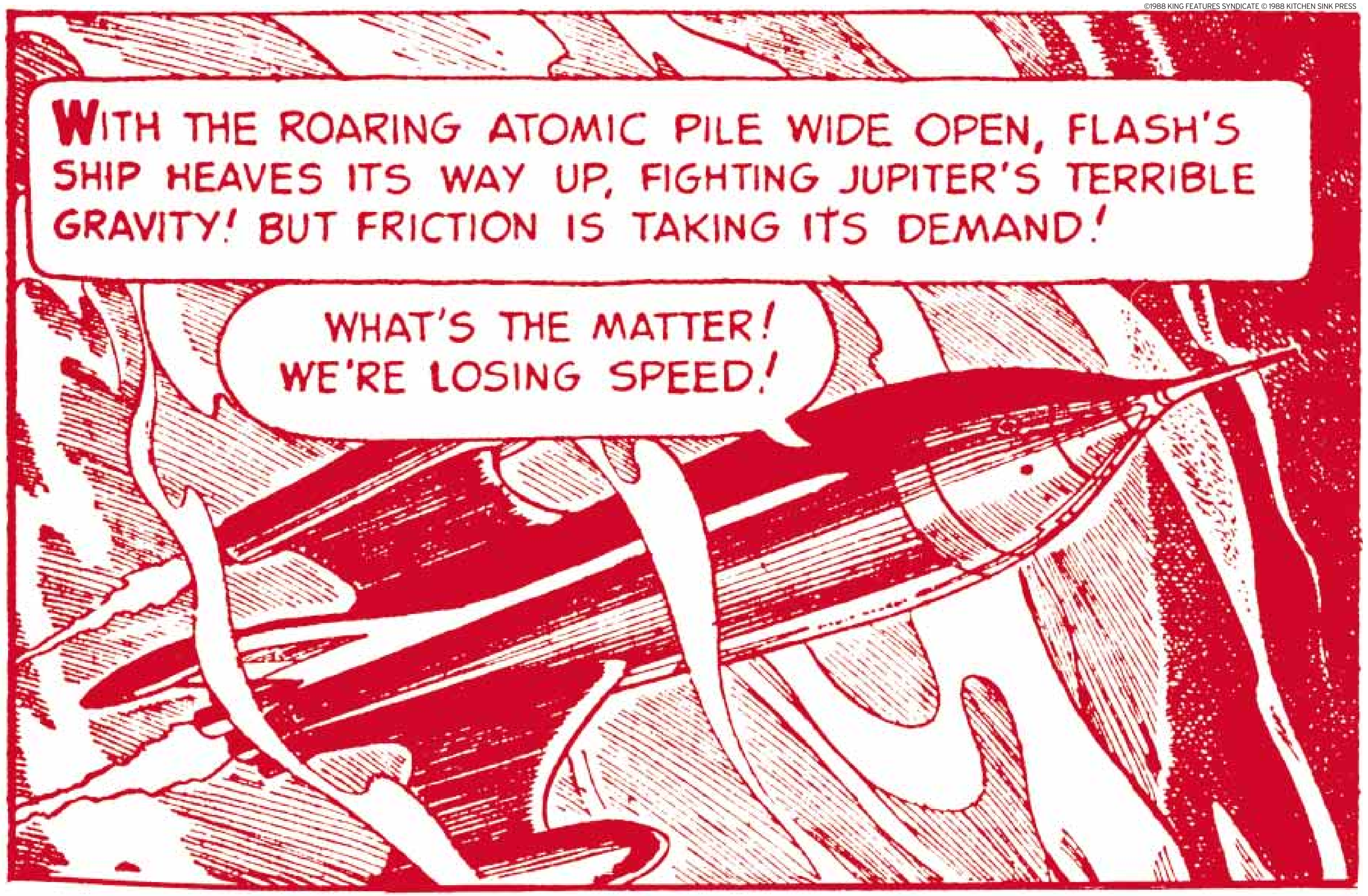
With this specific aim, Prof Chrysolouris states quite clearly his intention to link Greek industry with science, so as to promote innovative research results nationally and to international markets.

Recently, the first meeting was held at OTE of those scientists who make up the core of those implementing this ambitious, scientific yet enterprising dream.

At the same time, with Prof Chrysolouris's initiative, the first exploratory contacts of the Telecoms Organisation of Greece have been made with major international research centres, all of which are staffed with Greek executives in the field of advanced telecoms technology.

ACCESS SPEED

They call it the World Wide Web. But it's more like a World Wide Wait



IT MAY be the most significant technological development of the century but the Internet is still demanding a huge amount of patience from its users. Low access speeds mean millions of "surfers" are spending hours every week waiting for images and text to download.

This is a cause for concern, because many future developments will be wholly dependent on a fast Net if they are to change radically the way we live and work.

There is already a huge demand for speed among the inhabitants of the Internet. "Netizens", as they are known, already number perhaps 60 million, the population of a medium-size country, and are growing at a rate of 20 per cent every year. Until now, however, the options for fast Internet access were limited. For those who can afford it, an ISDN line is a possibility, offering four times the speed of a conventional modem, but with a high monthly rental charge.

Problems with access speed largely stem from the "last mile" of a user's connection to the Internet. Much of the backbone of the network is now super-fast. For example, data will race through Gemini, a new transatlantic fibre-optic cable being developed by WorldCom and Cable & Wireless, at a rate of 30 gigabits per second. However, it is the link from a PC or laptop to a local telephone exchange which is letting down the side. Access speed for most users is still a paltry 28.8 thousand bits per second.

At that rate, the real benefits of the Internet and true multi-media will never be appreciated. Businesses should be concerned, because consumers are unlikely to want to indulge in a spot of online trading if it takes them a few minutes to access a site. The rewards of winning their attention are obvious: a report from Datamonitor, the technology analyst, predicts Internet commerce will explode over the next four years, with annual spending in Europe and America of approximately $16 billion by 2002.

At current speeds, the real benefits of the Internet can't be appreciated

There is some cause for optimism. Instead of tweaking existing modems (even the fastest will receive data only at 56kbps) to get more speed, new technology could offer the answer. Competition between cable, telephone and satellite companies is throwing up a range of innovative ways of accessing the Net. At a research plant in Essex, England, for example, Norweb Communications and Canada's Northern Telecom have developed a way of accessing the Net at high speed through domestic electricity lines. High-speed access without having to dig up streets to lay new fibre-optic lines would seem to be a winner but the technology is still in its infancy, and seems to have little marketing backing.

Cable companies are offering an alternative, with most planning to deliver Internet access at a whopping 10 mbps. Cable, however, does have some obvious disadvantages: with several customers sharing the same local cables, as more people use it during the day, speeds will drop accordingly. In the short term, Netizens will probably need to stick with a normal modem.

This need not be so bad. Compaq, Microsoft and Intel are leading a consortium of firms now pooling resources to develop new modems which will turbo-charge the Net. The consortium, which includes Alcatel, Rockwell, Texas Instruments and phone companies such as Bell Atlantic and MCI, are working on a technology standard called Digital Subscriber Line (DSL), and aim to have new DSL modems in American shops this Christmas.

The DSL modems are a huge leap forward over existing technology: an improvement of a factor of almost 30 (it is even 10 times faster than ISDN). Users of DSL will be able to whizz through the Internet at speeds not previously available to the general public.

DSL allows the Internet to show television programmes and transmit live music. Add a videophone and you would be able to transmit moving images to a friend or relative and enjoy better quality than a television. It gets better: variations on DSL allow a permanent Internet connection and normal phone calls on the same line. Even the price would not be too exorbitant. American operators believe that they can offer the system for an initial charge of approximately $300 and a rental of perhaps $60 a month, with unlimited access.

The downside of the technology is that phone exchanges will need to be modified, and, while downloading (surfing the Internet, for example) is extremely fast, uploading (sending messages) is significantly slower.

But even Telecom Italia has recognised the potential of DSL, and is planning to shift the emphasis of its $1 billion national Project Socrate, which was to have seen 10 million Italian homes wired to fibre-optic cables by early next decade, away from fibre optics to developing DSL technology. BT, the leading telecoms firm in Europe, is investigating the potential benefits of DSL and will conduct a trial of DSL modems in 2,000 homes and businesses in Ealing, west London, this summer to test public demand for the service.

The big question now is how quickly DSL technology can be introduced. While America steams ahead with large-scale testing of the system, Europe seems to be waiting for decisions on standards, but the International Telecommunications Union does not plan to finalise global standards for DSL Lite, the most promising DSL technology, until October.

Yet while DSL is probably the best short-term answer to the problem of Internet access, it lacks the mobility – in the long term – to allow people to roam around and retain fast Internet access. Satellite connection could be the answer. Existing satellite technology, which offers download speeds of 400kbps, is just a foretaste of the future. Speed will improve in the next few years as hundreds of satellites are launched into space.

The new broad-band satellite services will carry huge amounts of data, as well as voice traffic. Skybridge, backed by France's Alcatel Alsthom, is in the running for business but, as ever, Bill Gates got in early through Microsoft's involvement with Craig McCaw, the American telecoms entrepreneur. The two men are backing a firm called Teledesic, which from early in 2000 will spend two years and $9 billion putting 324 satellites in orbit 700 kilometres above Earth.

Gates and McCaw, who sold his firm to AT&T in 1994 for $11.5bn, are calculating there will be huge demand from developing countries for cheap, fast, fixed access to the Internet.

Schools in sub-Saharan Africa and accountants in Ulan Bator will be offered the same chance to link to the Internet and hold video-conferences as their counterparts in western cities. The plan could revolutionise the way the world works.

RETAIL

End checkout queues with shopping that pays for itself

LONG queues at a supermarket checkout could soon be a thing of the past. New technology will soon make it possible for customers to wander around a store, select the items they want and then simply walk out.

While this may sound like a quick and easy way of getting arrested for shoplifting, it would be perfectly legal if every item in the shop were fitted with a special tag which "tells" a supermarket checkout it is being taken, while a till machine "reads" details of the customer's credit card and debits the total sum – all without the customer removing his wallet or opening her purse.

It may just sound like a futuristic answer to every shoppers' dream but the technology is already available. Radio frequency identification (RFID) tags, which would replace the eponymous bar code, are being tested by Sainsbury, the leading British supermarket group, the American military and a host of stores and companies. It should be in widespread use by the end of next year.

Simplicity is the key to the RFID system. The tags contain a tiny chip and antennae – some of which are now being made smaller than a single letter on this page – which "talk" to an RFID computer reader when a radio signal is directed at the tag.

The RFID tags have no power source, instead they "grab" power from their radio interrogator. The technology includes sophisticated "anti-collision" algorithms to prevent confusion between tags, and readers are now being made which can check more than 300 tags in one minute. While the price is still relatively high, between $2-$3 for an "intelligent" tag, it is expected to fall to less than 20 cents by next year.

When RFID tags are being churned out cheaply, they can be stuck on anything from a tin of biscuits to a new suit; the market is expected to be worth a potential $10-$15 billion a year. Certainly there is no shortage of possible uses for RFID tags, a primitive version of which can be found protecting clothes and high-value items in shops: alarms sound if the tags pass through the shop's exit before they are deactivated.

Sainsbury is excited by the RFID system, according to a spokesman, and the firm is one of several dozen across Europe assessing the ability of RFID to track supplies and crates of goods from their destination to the supermarket shelves. Similar tests have already been conducted by the US military, which proclaimed itself a convert to the system. If only it had had access to such innovation before the Gulf War when Pentagon quarter-masters "lost" or "mislaid" millions of dollars worth of equipment for weeks on end.

RFID would have almost certainly prevented such a farce by informing the central supply computer immediately of the location of any particular consignment of gas masks or toilet paper.

Swiss watch manufacturer Swatch was among the first to spot the potential of RFID, and has already created a watch which can be used as an electronic debit system to pay for admissions to ski resorts and concert halls in Switzerland and hotels and restaurants in Salzburg, Austria.

The trendy watch was enormously successful, with several hundred thousand sold to customers who would preload the watch with points. A Swatch Adamastor RFID watch is now on sale with a microchip allowing access to Portugal's Expo '98.

RFID tags are also being used to pay for road tolls in Sydney, Melbourne and California, monitor the efficiency of national postal services, track migrating salmon, and pay for petrol at filling stations in Pennsylvania without the need for wallets to be opened. Swedish drivers will soon have the same privilege, as AdvantEdge of Canada is working with Norway's Statoil to develop the technology for Scandinavia. AdvantEdge is also working on RFID development with Total Petroleum in France and BP in the UK.

The more worrying side of RFID is the power it will give companies to construct a picture of consumer spending habits, enabling near-instant analysis of what specific individuals or social groups spend their money on. Your individual buying patterns will be available to the highest bidder, enabling firms to target their products directly at you. Worse still, anyone monitoring your spending habits would instantly be able to locate you; and an RFID tag that you are carrying could trigger personalised adverts on small television screens as you move around a supermarket.

THE VINTAGE MAGAZINE COMPANY

THE INTEL INSIDE LOGO AND PENTIUM ARE REGISTERED TRADEMARKS AND MMX IS A TRADEMARK OF THE INTEL CORPORATION.

The Fujitsu LifeBook 900 series

The ultimate desktop replacement. All the power at a fraction of the size, the LifeBook 900 series redraws the boundaries of what notebook computers can do. With features that put it well above the rest in its class.

The Fujitsu LifeBook 700 series

A high-end notebook in everything but price, the LifeBook 700 series has all it takes to become the standard notebook for business professionals. Offering a wide choice of features, the versatile LifeBook 700 can be customized to fit just about any use. Or user.

The Fujitsu LifeBook 600 series

Whether you travel for a living or live to travel, the LifeBook 600 series with its unique sliced design offers everything you'd expect from a high-end notebook except the weight and price.

FUJITSU

PCs • NOTEBOOKS • SERVERS

SMART HOMES

Remember the days when we had to use keyboards?

THE RONALD GRANT ARCHIVE

WITH keys, dials and passwords, the computer age is still in its infancy and technology retains its ability to baffle and quite often infuriate us. The answer could be "ubiquitous computing", when computers move off our desktops and take up residence everywhere around us, embedded in everyday objects from cups to clothes.

These smart little machines will take care of themselves and perform simple chores to make our lives easier. Communication with computers will no longer be through an antiquated keyboard – first it will be vocal, and eventually just mental.

Scientists are now developing houses where computers have been completely absorbed into domestic space. They plan tiny sensors which can read the body chemicals of an individual being monitored: if we have a bad day the coffee percolator will make us a cup of coffee and the stereo will put on a soothing CD. "The home of the future is not a vision of dials and buttons," says Neil Gershenfeld of the Massachusetts Institute of Technology's (MIT) Media Laboratory. "It is an environment in which the objects that surround you have an awareness."

Preparing for what consumers will demand from the age of ubiquitous computing is crucial for European firms. Most of the research is under way in America and Japan, but companies such as Swatch and Lego are among a consortium of 41 firms funding a team at MIT called Things That Think, which is giving household objects cheap electronic tags to give them an identity. So a wristwatch, for example, could open a door, or a tiny computer tag in a leg of lamb would set an oven to the desired temperature and turn it off when the meat was cooked.

Even clothes could benefit, with tiny microphones and radio modems now under development which could lead to small phones which can be woven into fabric. The gurus of this new age for technology are planning shoes with tiny microchips that "tell" our house we are home, and doorknobs which recognise our touch, instantly separating an owner from an intruder and allowing access to those with authorisation. A small computer in the knob could even turn on the house lights and play music on a stereo.

Mark Weiser, the chief technologist at the Xerox research laboratory in California, is credited with inventing the term "ubiquitous computing". He says the goal is to make technology invisible.

IBM has acknowledged that computers will soon be everywhere and is developing its own ubiquitous computing strategy, which it calls "Pervasive Computing". With little fanfare, the American giant bought a firm called Commquest last month for nearly $200 million, in a bid to get its hands on satellite and wireless communication technology which will be needed to put computers closer to their users.

Research on ubiquitous computing enables the development of offices and homes which have hundreds of wireless computers, ranging from tiny devices to displays the size of an entire wall. Through the Internet, these devices will all be able to interact, talking to each other and their owners.

One of the most promising new developments in the life of the Net is the increased use of so-called "thin servers", which are similar to the large computer servers which run office networks and communicate with the global Internet, but which require little power or memory space and can be embedded in smaller household and office objects, such as photocopiers, kettles and cookers. Although it currently costs about $20 to put a Web server inside a piece of household equipment, the price should tumble to less than $5 by the end of this year, and drop to just a few cents within another five. When a tiny Web server can be built inside a household object this cheaply, ubiquitous computing will truly begin, with photocopiers ordering new supplies of paper and toner and cookers which can be e-mailed with instructions to start cooking dinner.

One of the crucial barriers to this brave new world is now falling with the potential for a huge increase in the number of Internet addresses through the introduction of Version 6, a new Internet protocol. This will allow the creation of an almost infinite number of new Internet addresses. It will be possible for blocks of addresses to be given to each house, and for hundreds of household items to have their own access to the Internet.

An important element of ubiquitous computing will be our ability to talk to computers and tell them what to do, rather than being forced to tap away on a keyboard for several minutes. According to Vinton Cerf, a scientist often described as the "father of the Internet", people will soon expect to talk to their home when they wake up, asking kettles to boil and baths to fill. Voice-recognition software is improving all the time, and Bill Gates, head of Microsoft, believes: "We may look back on the computers of today and say, 'Oh, they were the computers you couldn't talk to'."

Giving computers a conscious understanding of the world is further in the distance, but for those with plenty of patience, existing computer technology already enables the dictation of a simple letter straight into a laptop or desk-top computer, albeit with more than a few typing errors. More expensive voice-recognition software makes fewer mistakes, while machine vision systems can already track and understand human movement and gestures.

Greater developments remain little more than predictions, a business where reputations are often broken: Ken Olsen, the founder of computer giant Digital, famously predicted in 1977 that there would never be a reason for using computers in the home (apart from the vast number of domestic PCs, computing devices are already found in anything from cars to dishwashers).

What must be most worrying for technophobes, however, is that much of the technology needed for ubiquitous computing has already been developed, or is in the final stages of testing.

The American MIT Laboratory developed software several years ago which can tell us if there is milk in the fridge or the cupboards are bare, while in Japan, for example, simple computer games can be controlled by thought and intelligent lavatories which analyse human waste are widely available.

FRIENDLY

Cuddle up to your computer

IF YOU harbour a secret desire to pour coffee over your office computer and return to the days of a typewriter and notepad, the age of ubiquitous computing will seem daunting. With computers embedded in everyday objects and full voice interaction between man and machine, a solution must be found to the natural antipathy many humans have for technology and any kind of machinery.

BT, the British telecoms giant, is one of the world leaders in designing tomorrow's technology, with plans for body-worn and arm computers powered by our natural static energy. Their scientists believe they have a solution to "computer-fear" which will enable us to enjoy the full benefits of new technology.

According to Dr Ian Pearson of BT's Advanced Research Department, domestic robots should be small, specialised and attractive (eg, cuddly). "You will be able to buy a computer in whatever shape or form you feel most comfortable with," he said. "It could even be a furry, cat-shaped thing that leaps up on to your sofa, cuddles up to you, listens to your instructions and then passes them on to the washing machine."

VINTAGE

Philips, the European electronics corporation, is working along similar lines. Under the direction of Dr Stefano Marzano, its senior director of design, a team of futurologists already has proposals for a range of small electronic pets called Ludic robots.

These "friendly computers", according to Pearson, "could be your personal butler, sorting out your flights and holiday arrangements, booking taxis and theatres, doing your home shopping and arranging your taxes and accounts. The rest of the time it would be a cute family pet."

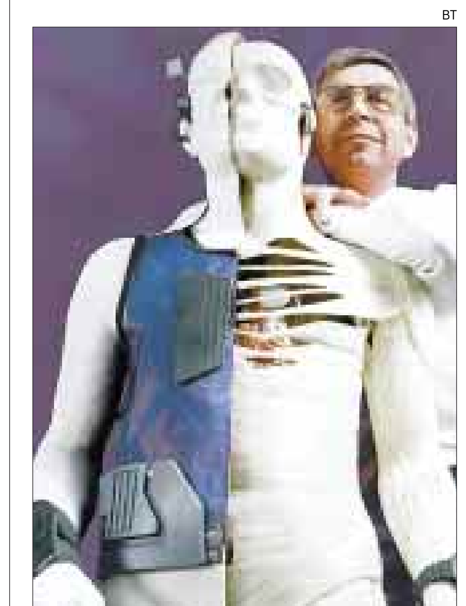
And one that would feed itself from the electricity supply and could be guaranteed not to bring home dead mice.

PULL-OUT TRAVEL GUIDE: with a flexible screen and a powerful computer, travel information can be requested as well as details of hotels and tourist sites

MULTIMEDIA CLOTHING: Philips has designed clothing with an integrated mobile phone, music and entertainment. Tracking devices to monitor children could be included

VIDEO-PHONE WATCHES: a global mobile video-phone the same size as a normal watch, with a digital or traditional clock face

BT



WIRED MAN: scientists at BT have developed a body-worn computer with 'distributed body furniture' such as a watch-phone and arm computer

RONALD GRANT ARCHIVE

FUTURE PERFECTIONS

The shape of things to come

CEBIT 98 will see the launch of a range of new products to help us in business and at home. Two new hand-held computers will be revealed in Hannover, promising to bite into the market share for electronic organisers offered by companies such as Psion. One of the new gadgets, the IBM Workpad, will be aimed at the business market, while the other is a sophisticated new version of the Palm Pilot from 3Com.

Ericsson is expected to launch a new device enabling computer users to send data over a mobile phone while still using the voice line. A similar gadget has also been developed by Finnish rivals Nokia. Siemens will reveal a new PCTV which can be controlled by another central computer, and which comes with advanced electronics to support high-speed communications and connect to a conventional or a digital TV set. Toshiba will launch its Libretto 100 mini notebook computer, offering an Intel Pentium processor and full audio capacity, enabling the device to be used as a mobile phone with a special GSM card.

The products on this page, however, are still at least a few years in the future. Although much of the technology is already available to manufacture such revolutionary devices as the "Wired Man" prototype developed by BT, inadequate battery strength is thwarting development. To counter this, Professor Peter Cochrane *(pictured left)*, BT's head of research, believes tapping into our body's natural static energy could open the way for a range of body-worn products powered by humans.

THE ULTIMATE WALLET: all personal identification, medical and financial data stored on a single smart card. Coins and notes may become redundant as shops scan your wallet to debit money

LUDIC ROBOTS (above and below left): the first generation of cuddly, friendly electronic pets, these could be followed by e-pets that jump and run and act as an intermediary between you and your 'electronic house'

BT

SMART SPACE: the office workstation of the future, as designed by BT. Wrap-around screen for video-conferencing and touch-sensitive computer keyboard

DISPLAY GLASSES: Philips believes these could project the Net, TV programmes or even a road map on to the wearers' glasses, complementing natural sight with a layer of information