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MURDOCH WANTS THE WHOLE WORLD IN HIS HANDS

With a little help from friends in high places

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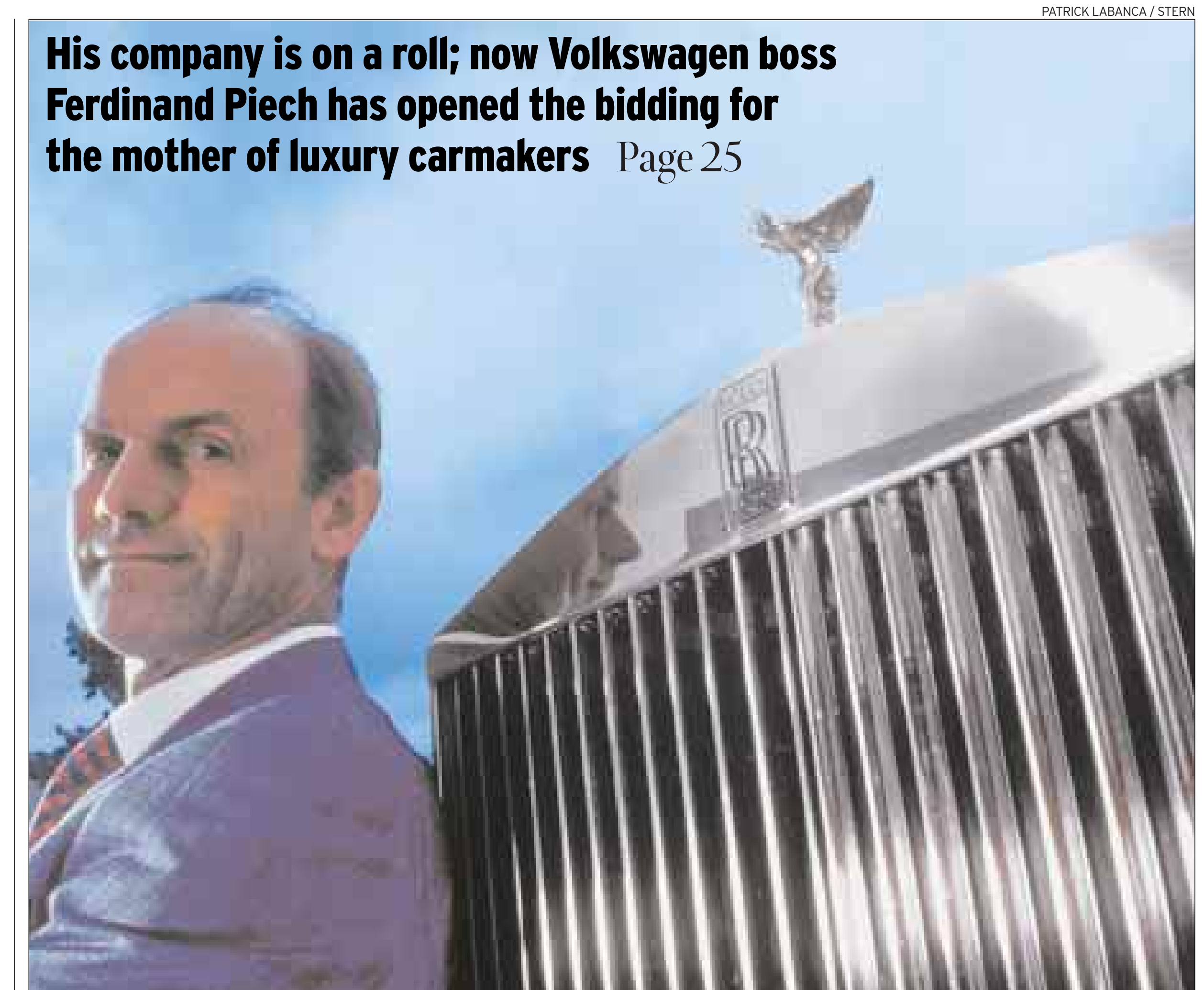

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30 MARCH–5 APRIL 1998

Sold on a false prospectus

IT IS a document of understated authority. The Bundesbank, Germany's much-vaunted central bank, could give lessons in diplomacy to the French. "The selection of the participants," it concludes, with classic understatement, "ultimately remains a political decision." These are the final words of its review of those eligible to join the single European currency after it has made clear, with devastating clarity, that, on purely economic grounds, very few countries – not even Germany – have managed to meet the Maastricht convergence criteria. The Bundesbank is enough of a realist to know that even its sober assessment could not stop the rush to the euro. But it has laid down a formidable marker, and also something of a cop-out, to exonerate itself should the great project end in tears.

The Bundesbank is unexpectedly frank about Italy and Belgium: their accumulated national debt – twice what Maastricht demands – is beyond the pale. The Bundesbank knows that there is too much political momentum behind their membership for economics to matter. But it is scathing in its condemnation of their fiscal profligacy: "The high government debt in a number of member states represents a major burden: this applies in particular to Belgium and Italy, which have a government debt-to-GDP ratio which is twice as high as the reference value provided for in the [Maastricht] treaty."

It is not news, of course, that Italy and Belgium (which will certainly be in the first wave of euro-joiners) have hopelessly bust a key condition supposedly strictly laid down by Maastricht. But the Bundesbank, with the quiet authority which underlines why it has been such a successful defender of German financial probity for four decades, goes further: it explains why this blatant breach of the criteria has huge significance for the course of the European currency.

For over a year, as it became clear to all that Italy and Belgium would never meet the 60 per cent rule in time, Europe's elite has played down that condition and emphasised the budget deficit rule instead. The treaty says that annual budget deficits must be no more than three per cent of GDP to qualify for euro-entry. Most of the 11 hopefuls (*but see later*) have apparently met that hurdle. The 60 per cent condition was dismissed as a vague aspiration. But the Bundesbank is more hard-headed. Its says, unequivocally, that in determining the ability of countries to sustain the Maastricht criteria over the long term, the 60 per cent rule is by far the more important.

"There has been much disagreement," says the bank, "on the question of which of the two criteria is the more important. The debt-to-GDP ratio is a much better indicator of the risk of conflicts of interest between monetary and fiscal policy than the deficit ratio." This is because any country's sustainable fiscal policy is inextricably linked to the accumulated national debt it owes: the bigger the national debt, the less room it has for fiscal policy manoeuvre and the more its public finances are vulnerable to changes in interest rates. "The higher the level of government debt," says the bank, "the lower its budgetary deficit needs to be or the larger the surpluses it has to generate."

Countries with huge national debts will always have a bias in favour of inflation; they will also have a need to run tight fiscal policies. The opposite is true of those which have curtailed their national debt. It is hard to see how these conflicting requirements can be met by one pan-European interest rate and monetary policy. This is a problem not just for the worst offenders. The Bundesbank points out that only four EU members (Finland, France, Luxembourg and the UK, which has excluded itself from the first euro-wave) have met the debt ratio requirements; even Germany, which is just above the 60 per cent rule, is moving in the wrong direction.

Yet the treaty is quite clear that overshooting the 60 per cent rule is permissible only if the debt ratio is sufficiently diminishing to be approaching it at a satisfactory pace. Even on a generous 10-year projection, many of those poised to join the euro will not meet the conditions of Maastricht. Thus does Europe embark on its historic single currency on a false prospectus.

Without the shock absorber of interest rate changes, joblessness is bound to climb even higher

The Bundesbank is just as blunt when it comes to the three per cent budget deficit rule. It is too diplomatic to point out that many who aspire to the euro have fudged and fiddled their tax-and-spend policies to fall below it. But it does point out that many have qualified only because of temporary expedients: "These measures were on such a scale in Italy, at one per cent of GDP, and in France, at 0.6 per cent of GDP, that they were instrumental in enabling those countries to meet the reference value in 1997."

The Bundesbank also has a more general point to make: the benefits of the single currency will be realised only if Europe embarks on the supply-side reforms that will free up its labour and capital markets to allow the extra efficiency which the increased competition should bring. True enough. But while France and Italy legislate for a 35-hour week and Germany prepares for a Social Democratic government, the reforms that the Bundesbank wants are unlikely. Instead, without the shock absorbers of currency and interest rate changes, many countries can expect even higher unemployment.

Much of the Bundesbank report, despite is elegant simplicity, will be arcane economics to most folk – and to the Euro-elite determined to carry on regardless. But if Brussels and the German public are, in their own fashion, prepared to look the other way, we can be sure that the unforgiving markets will not. The euro will emerge through an impressive demonstration of Franco-German political will, but not as the hard euro promised by its supporters: it will be a camembert currency and Europe will have to live with the consequences.

Thus spake the Buba: page 50

SNAPSHOTS

Fishermen founder on Norman law lurking off France

THE European Commission is to be asked again to rule on a claim that Guernsey, in the Channel Islands, has no right to impose island law on French fishermen caught fishing in its waters.

The issue first arose following the arrest of a French fisherman, Jean-Pierre Leverrier, in July 1996. Monique Fauchon, the family's lawyer, protested then to the Commission that, according to the terms of European Union treaties, her client should have been tried under British law, not the law of Guernsey, which imposes harsher penalties and permits detention in custody before trial for longer periods. The island denied the French lawyer the right to appear before the court.

The Commission has yet to make a ruling, but a second incident last week when Leverrier's son, Franck, was arrested for illegal fishing, tried in Guernsey and fined £1,500 ($2,560), has prompted Mme Fauchon to approach the Commission again. She argues that her client's rights are enshrined in law defined by EU treaties, the terms of which are persistently ignored by Guernsey courts. The island instead applies its own laws, based on the ancient Norman legal system.

Treaty provisions require that those caught fishing illegally in British waters should be tried in a British court, where Mme Fauchon would have been able to represent them. The nearest to Guernsey is on the south coast of England. But French fishermen, arrested by the Royal Navy for fishing in British territorial waters off Guernsey, are being tried regularly in Guernsey instead. She fears that in such a close-knit community with judges, prosecutors and defence lawyers often linked to the same legal practice, the rights of an accused could be prejudiced.

The British government recently announced a review of the island's status as a tax haven, the clear implication being that it intended to exercise sovereignty to end perceived abuse. Yet legislation framed to incorporate the European Charter of Human Rights into UK law specifically exempts Guernsey from the terms of the charter.

With feelings running high – a French frigate recently intervened on behalf of French fishermen – it is feared that what have been until now local skirmishes could escalate into an ugly confrontation.

Courting securities

THE European Commission has decided to refer Italy to the Court of Justice for maintaining restrictions on access for certain foreign securities to its domestic market, in violation of EU treaty rules on free movement of capital (article 73b). Following sustained pressure from the Commission, the Italian authorities have eliminated some restrictions but left others in place.

What ires the Commission most is an obligation to notify the Bank of Italy in advance of transactions above a certain threshold. The bank has discretionary powers to delay and, if it chooses, forbid certain issues and offerings.

The sort of securities affected are derivatives traded outside organised markets offered by non-official dealers. The bank also discriminates against non-Italian traders. Foreign securities traders not officially qualified to deal in Italy, non-OECD governments and international organisations of which Italy is not a member are not allowed to present an abridged notification of securities issue, forcing them into typical Italian bureaucratic gridlock.

EU member states' public securities must also comply with standards set by the Bank of Italy, which imposes different controls on foreign banks from their domestic counterparts.

The Italian government first attempted to tackle the EU's concerns with liberalising legislation in 1996 but will now be urged to go further. Perhaps the bank's remaining regulations will help stoke Prime Minister Romano Prodi's promised bonfire of red tape.

Opec scrapes the barrel

OPEC is a busted flush. In spite of its bout of self-congratulation at having hiked the price of crude by $2 a barrel by reining in Venezuela, the bad-boy producer forever overshooting quotas and damping prices, the benchmark price is still a miserable $14, down a third from the November $19 price when production controls were relaxed.

His Excellency Dr Rilwan Lukman, Opec's Nigerian general secretary (*pictured*), finds himself in a different universe compared with his 1970s predecessors, who dominated world markets and threatened a shift of economic power from the West to the Middle East.

Why? Because a cartel which now controls only 41 per cent of production is a cartel in name only. Ever since 1986, when non-Opec members had to be called in to help bolster prices, the free market in oil has held increasing sway. Add to that producers such as Iraq and Russia, which need to bump up production simply to survive and the scene is set for Opec to move even more decisively from centre stage.

Which is good news for manufacturing nations, heavily dependent on cheap oil to remain competitive. In Asia, where currency devaluation has wiped out the benefit of lower prices, a return to $20 oil would make a bad situation worse, delaying recovery.

Green lobbyists who clamour for high oil prices should note that in the United States, still low-price and dubbed a gas-guzzler nation, oil use has been cut by 80 per cent since 1973.

Opec's trump card may be that it still controls 80 per cent of known reserves. In the latest issue of *Scientific American* it is argued that an official US estimate, that production will rise by two-thirds by 2020, is wrong. The authors predict a drop starting in 2010 instead.

Could they be the same folk who told us in 1973 that oil would run out by 1990 and that North Sea production would peak in 1985? The same folk whose grandfathers predicted a decline in output after 1920?

ANYONE FOR DENIS?

Boris Nemtsov, Russian first deputy prime minister (only just), smartens his image on a personal website launched just days before the mass sackings and reinstatements. Perhaps Boris Yeltsin should click to find more on: My favourite Internet pages; My collection of caricatures; or My photo album. The last boasts a shot with Margaret and Denis Thatcher. Nemtsov, a New Russian indeed.

Whacko!

THE early hours of Wednesday morning will be marked with sadness by apologists for one of England's more arcane public-school traditions. British MPs, ever unruly in defiance of Commons authority themselves, outlawed the practice of caning ill-disciplined pupils in independent schools.

A backbench amendment to the School Standards Bill, supported principally by high-minded Liberal and Labour MPs, most of whom were state-sector educated, where the practice is already banned, ensured that masters in the 200 or so remaining schools which maintain the practice will have to hang up their canes and Lochgellies (murderous leather straps) for good.

Outrage from a former assistant chief constable of Bedfordshire police, who wrote to *The Daily Telegraph*, reflecting that a sound beating had set him on the straight and narrow, subsequently propelling him towards his career in the constabulary.

Those EU countries long denied the benefits of corporal punishment in schools can only wonder at the losses they must have sustained as potential public servants fell by an undisciplined wayside in early youth.

Perhaps even France's énarques would be less haughty had cane met trouser at school. Now Britain, on matters European always flying by the seat of its pants, is condemned to share in their loss.

The hatchet buried

HAS the European Union lion, Karel Van Miert, its competition commissioner, lain down with the British Airways lamb, Bob Ayling?

Famed for always being at each others' throats – the BA chief executive (*pictured*) has been thwarted so far by Van Miert in his efforts to form an alliance with American Airlines – the duelling twosome found common cause in opposing state subsidies to European airlines. Van Miert, a man who fights the evils of state subsidies with a new-found conviction common to all converts, is trying to undo the damage caused in 1994 when the Commission allowed France to bail out its troubled national flag carrier, Air France, to the tune of Ffr20 billion ($3.3bn) and cleared similar deals for other state airlines.

Could Ayling, with the street credibility of being boss of an airline that has enjoyed the benefits of privatisation for 14 years, be hoping to soften Van Miert on the American Airlines deal by praising his tough stance on subsidies? Perish the thought.

BRITAIN

Welfare fails to feel benefit

FRANK FIELD, new Labour's much-vaunted minister for welfare reform, is proving something of a disappointment. Heralded in May as the star striker on the team put together by the British premier, Tony Blair, to recast the postwar social settlement, he has instead proved to be one of those players who finds the net regularly in training only to dry up on match day. When it counts, he has produced precious little of substance.

Field's latest opportunity to impress came on 26 March when he finally presented his Green Paper on welfare reform, a document which should have seen the light of day last autumn.

Back then the minister was privately told to go back to the drawing board and tone down some of his ideas, partly at the insistence of Gordon Brown, the finance minister, who has made welfare his own "big idea". Having been told by Blair to "think the unthinkable", a task he appeared to undertake with relish, he was then told by Brown and the Treasury to unthink a good deal of it all over again.

The result is *New Ambitions for our Country: A New Contract for Welfare*. It deserves to go down as a new Labour classic, combining as it does a taste for grand rhetoric with a talent for vacuity. For the main part a romp over by now tediously familiar ideological ground, the *New Contract* refuses to enlighten the reader on how general principles can be turned into practical policies and targets.

Thus Field tells us that "the *New Contract* is about duty". He gives assurances that the new arrangements will "help people to help themselves". He attacks a "culture of dependency" which has encouraged citizens to live off the state rather than seek work. "We want to move the focus from what people cannot do to what they can," he says.

He laments the breakdown of family structures which turns the state into a parent of last (or even first) resort. He argues that the state cannot continue to bankroll the retirement of an ageing population. But these are arguments that Field and new Labour modernisers have been making since the British election in May. Where's the detail?

On secondary pensions there is no attempt to specify the role of compulsion in easing the burden on the state safety net, while the fate of those who refuse to, or cannot, save privately is left up in the air.

On proposals to reduce the proportion of jobless families, Field is similarly vague. One spokeswoman for the Child Poverty Action Group (CPAG) commented in exasperation: "The Green Paper states that success will be measured by a reduction in the proportion of children living in workless households. But for this to be meaningful we need to know by how much."

It is ironic that the CPAG should be among the first into the lists to point out the shortcomings of Field's grand scheme. The minister made his name with his courageous defence of the disadvantaged as director of that very organisation from 1969.

And so the list of empty principles goes on. This unsatisfactory state of affairs is far from being entirely Field's fault. There is no doubt that the minister for welfare reform has genuinely radical intentions to shake up a social security system which eats up £83.6 billion ($137bn) of public money – nearly a third of total government spending.

In his days as an ordinary member of the parliamentary opposition, Field used to take visiting journalists around his constituency in Birkenhead near Liverpool and point angrily to examples of the passive squalor to which lives had been reduced by the bureaucratic welfare state. He would like to be more radical and more practical. But two major obstacles stand in his way.

First, it is Field's misfortune to be part of a government which is trying to think many things at once about welfare reform and uses bland generalities to mask the inevitable contradictions and confusions which result. New Labour is a practised presenter of the united front but, in private, arguments over the aims of welfare reform are growing more, not less, fierce.

Egalitarians in favour of significant redistribution of wealth still tussle with cost-cutters who suggest that the state's largesse should be diverted to education and health, not idleness.

Means testers, who want benefits to be targeted to the poor, still bicker with universalists who fear the resentful backlash of middle England if the affluent are excluded from subsidies such as child benefit.

Field himself takes a slightly different line, arguing that means tests amount to an incentive to lie to the state about one's financial position and discourage people from working. He has argued that means tests should be replaced by a contributory insurance system, with people receiving bigger benefits the more money they pay in.

This explains his disappointment that the government budget which preceded his own paper chose to expand means testing via a tax credit designed for low-paid working families, which will cost an extra £1.4bn ($2.29bn).

Which brings us to Field's second problem: Gordon Brown. Field may be minister for welfare reform but Brown is minister for the New Deal, the welfare-to-work programme which formed the centrepiece of his budget.

The finance minister sees the reshaping of Britain's social settlement as his vocation. It has become clear that his more cautious thinking on reform will take precedence over Field's radicalism, as was indicated by the rather rum decision to schedule the presentation of the postponed welfare *New Contract* one week after the welfare budget.

Neither has Field's struggle for hegemony with Brown been helped by the fact that Harriet Harman, his boss at the department of social security, is a close ally of the finance minister, though she herself has been under fire for alleged incompetence and is widely rumoured to be the likely first victim of a government reshuffle.

So after all the hype, and all the radical talk, Field found that a few general principles everybody has heard before was all he was allowed to come up with.

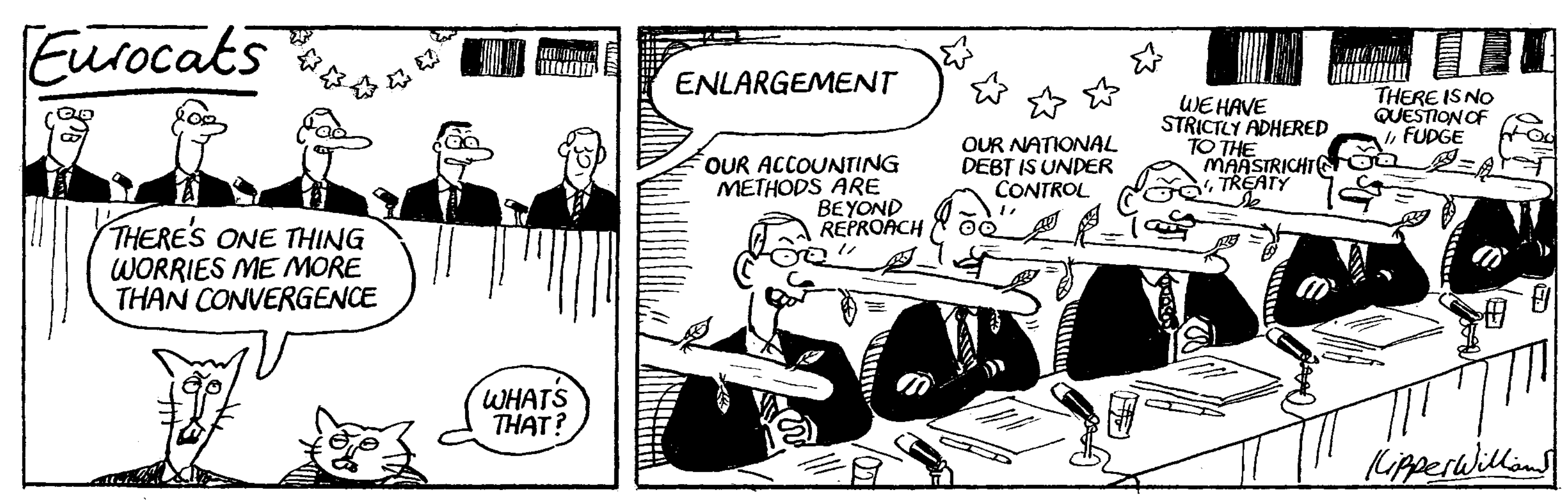
He could not even identify a meaningful target for future welfare spending, previously identified by Blair as one of the points of the whole exercise, although he did say that more money would be spent, which was certainly not in Blair's original script.

Last week the prime minister said that Field's paper was "the beginning of a debate, not its conclusion". But it now begins to look as if no one in new Labour, including Field, is ever going to draw any of those conclusions.

JULIAN COMAN

ADDING UP THE BILL

- **THE British social security budget is £83.6bn ($137bn) for 1998-99, or almost a third of all government spending.**
- **ONE in five people lives on less than half the average income today, compared with one in 10 in 1979.**
- **SINCE 1979 the proportion of households with no one working has doubled to one in five.**
- **THE number of people claiming incapacity benefit has tripled to 1.75 million claimants over the past 20 years. The government wants to introduce a sliding scale to reflect the fact that some disabled people can work.**
- **FRAUD accounts for up to £4bn of the total funds spent on welfare, according to government estimates.**
- **SINGLE parents are to be encouraged – though not compelled – to work, and reform is planned of the Child Support Agency to ensure that separated parents meet their financial responsibilities to their children.**
- **THE basic state retirement pension costs the government £30bn a year; the burden is set to increase as the result of an ageing population.**
- **THE poorest 20 per cent receive a lower share of social security benefits than they did in 1979.**



KOSOVO

Milosevic marches in

EMBOLDENED by the decision of the major powers to back away from threatening sanctions, Slobodan Milosevic, president of Yugoslavia, is stepping up the armed campaign against Albanian separatists in Kosovo.

Thousands of Serb special units are hunting for dissidents, despite Milosevic's pledge to remove them from the region. Serb police, backed by blue-painted tanks, have sealed off an enclave of fortified villages in the central Drenica region, 20 kilometres from Pristina, the stronghold of the Kosovo Liberation Army.

The violence in Kosovo shows no sign of abating. Clashes between Serb police and ethnic Albanians last week sent panicked villagers fleeing from machine-gun fire and rocket launchers. Two ethnic Albanians and one Serbian policeman died, adding to more than 80 people killed in recent weeks after Serbian security forces clamped down on ethnic Albanians.

In Belgrade, where the media crowed over the soft approach taken by the international Contact Group, Milosevic felt sufficiently buoyed to snub the top American envoy to the Balkans, Robert Gelbard, refusing to meet him.

In Bonn on 25 March the six-nation Contact Group rejected a call from the US secretary of state, Madeleine Albright, for tougher sanctions against Yugoslavia, including a freeze on Yugoslav assets abroad. Instead it gave Milosevic a four-week period of grace in which to open unconditional negotations with Kosovo's ever more restive ethnic Albanians.

Earlier in the month the group had appeared to be ready to take tough action when it agreed a package of sanctions, which included freezing Serbian assets abroad and imposing a United Nations arms embargo, now successfully blocked by Russia.

Russia is to start deliveries to Yugoslavia of tanks, helicopters, ground-to-air missiles and MiG-29s worth $1.5 billion under a deal struck last year.

IAN MATHER

FOUR MEN, THREE TV NETWORKS AND A PHONE CALL

KARL GRANT

THE BATTLE FOR MEDIASET ■ Murdoch's business plans coincided with Blair's vaulting political ambition but neither had counted on the Italians' capacity for intrigue

Julian Coman and Chris Endean
ROME

A 10-minute phone-call from London to Rome at peak time costs £2.80 ($4.60). Politically, as the British prime minister, Tony Blair, can now testify, the price can be much higher, especially when a media mogul's ambitions for European expansion are at stake.

Rarely can a telephone chat between two prime ministers have generated so many hours of debate, denial and recrimination as Blair's recent exchange of views with his Italian counterpart, Romano Prodi. At first there was a moment of stunned silence when sketchy details emerged of their secret conversation concerning Rupert Murdoch's bid for Silvio Berlusconi's TV company, Mediaset. Then everyone started shouting at once.

In London, accusations that the British prime minister – a supposedly social democratic prime minister at that – was acting on behalf of an Australian tycoon sent Downing Street spokesmen spinning for cover. Truth was the first casualty.

The phone-call story was "a complete joke", blustered Blair's aggressive media minder, Alastair Campbell, while his colleagues spent two days shouting "no comment" (or worse) down their telephones. What Tony and Romano said to each other on their private lines, they sniffed, was their own affair, even if the British taxpayer was footing the bill. Meanwhile *The Times*, Murdoch's flagship daily in Britain, studiously looked the other way.

But Rome was reading a different script: a more honest one. Diplomats in the British embassy were happy to confirm that Blair had indeed made inquiries on Murdoch's behalf. Italian government officials leaked more detail. Blair had placed the call: he had wanted to know of any legal obstacles to a Murdoch bid and of possible hostility from the centre-left government to the arrival on their shores of the world's number one capitalist.

Back in Britain these revelations were quickly followed by widespread backtracking through a political minefield. Even if this alleged conversation had taken place (which could not be confirmed or denied), Blair told the House of Commons that "there was no question of offering assistance to anybody". He treated Murdoch "no differently from anyone else in respect of any business with British interests".

In other words, if Blair had gone to bat for anybody (which could not be confirmed or denied), it would have been in the colours of BSkyB, the British satellite company dominated by Murdoch and the vehicle he was using to make the £4 billion bid for Mediaset. News Corp issued a statement asserting that "it is perfectly common for major businesses to enlist heads of government on issues of this sort".

Even the previously recalcitrant *Times* got in on the act revealing, much to 10 Downing Street's embarrassment, that Blair had indeed intervened on Murdoch's behalf and that it was as a result of information gleaned by the British prime minister that Murdoch had decided not to up the price of his bid. This confirmed that Blair's spin-doctors had been more than economical with the truth. Campbell will now be hauled before a parliamentary committee to explain himself.

Disentangling this web of half-truths and evasions is worth the effort, even though the deal is going nowhere for the time being. For what emerges is a morality tale for the global economy in which strange bedfellows make common cause for complex motives. When Blair phoned Prodi to discuss Murdoch and Berlusconi, at least four vital sets of interests were at stake. They covered matters as diverse as the future of the European digital TV market, the outcome of Italy's corruption trials, Blair's place in history and the final growth plan of the world's biggest media mogul. Politics don't come any higher than this; double-dealing doesn't come much lower. No wonder there was an attempted cover-up.

At least the business logic which tempted Murdoch to use BSkyB to buy Mediaset was clear. Murdoch's final unconquered frontier is Europe and BSkyB is his chosen instrument of conquest. Acquiring Berlusconi's network, which comprises three channels, Italia Uno, Canale 5 and Rete 4, would at last give Murdoch an entrée to the continental market which he covets but has yet to penetrate. It represents a final entrepreneurial frontier to a businessman whose taste for expansion is inexhaustible.

This at a time when News Corp's room for manoeuvre elsewhere on the globe appears limited. Murdoch's empire is still, infuriatingly for him, largely confined to America, Australia and Britain. His room to expand further in these markets looks limited. Regulators in Australia and Britain now believe Murdoch's share of the media market is large enough; the Australians have kept him out of digital television and in Britain he was ordered out of a terrestrial digital consortium (although he will still be allowed to launch digital satellite broadcasting).

In America, facing tough competition, Murdoch's efforts to expand into satellite broadcasting have not gone well and his Fox Network remains stubbornly in fourth place. South America is developing well if slowly for News Corp, but his investments in Asia have yet to pay off, although he is well positioned if China opens up to western media.

So Murdoch is out to "do Europe". BSkyB's great advantage is that technically, at least, it is a European company, even if it is entirely dominated by an Australian tycoon who is a naturalised American living in Los Angeles and New York. Yet BSkyB is traded on the London Stock Exchange, is subject to UK laws and has more than half its capital in European hands (News Corp's holding amounts to 40 per cent). Legally, this would appear to make BSkyB impossible to exclude from making acquisitions in other European countries under single market and television-without-frontiers rules, even if politically there would be plenty determined to obstruct him.

Murdoch's final frontier is Europe and BSkyB is his instrument of conquest

In addition to giving Murdoch a vital European foothold outside Britain, a deal with Berlusconi's Mediaset would have given BSkyB the opportunity of developing into a continental media colossus in its own right and expanding its cash flow by means of the enlarged group. Crucially, the deal would also create a broader platform for European digital television development: the next phase of Europe's TV wars and one in which competitors to BSkyB such as Bertelsmann (*see page 22*) and Cable & Wireless look well armed.

A foray into Europe would also provide welcome distraction for BSkyB from a miserable year at home where the uncertainties, expense and risk associated with digital development have made steady inroads into the company's share price. As a pan-European player of substance, BSkyB would allow Murdoch, who celebrated his 67th birthday in March, to cement his position in history as the architect of a truly global media empire. From every angle Mediaset was an attractive proposition.

So when Berlusconi announced that he was ready to listen to offers – and made sure that Murdoch knew via the investment bank, Morgan Stanley – the head of News Corp was on his private Gulfstream jet, bound for Milan's Linate airport. He arrived in the early morning of 16 March hoping for a quick and easy kill. "Let's forget everything that everyone else has done and said," he told Berlusconi. "If we cover every single detail we won't get anywhere. Here is my final proposal. I'll buy you out at 10,000 lire per share." In total he offered $6.6bn for the Italian mogul's 50.6 per cent controlling stake in Mediaset. But then it all became complicated.

Berlusconi, at whose instigation the talks were taking place, became unaccountably hesitant. He wasn't sure about the share price offer and he was beginning to listen to dissenting voices. Having called a meeting on 19 March of the strategic committee of Fininvest, the holding company of which Mediaset is a part, he found all 12 members (known as the Apostles) vehemently opposed to the deal.

Where will it end, they asked? They then offered their own prediction.

continued on page 10

Crossed lines: Prodi, Murdoch, Berlusconi and Blair made common cause but soon fell out

STEFANO MICOZZI

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Murdoch, having bitten off one operation, would have a taste for Italian business blood which would eventually put their own jobs and influence at risk. He would not stop until he had bought up all Berlusconi's empire.

It was also reported to the meeting that at Mediaset headquarters in Cologno, just north of Milan, the staff were in ferment. Employees had even revived an old Italian First World War song, *Il Piave mormoro, non passa lo straniero* ("The river Piave murmured: the foreigner shall not pass"). Originally targeted at invading Austrian soldiers, it was being deployed against the Australian mogul. Explaining the febrile atmosphere, one Mediaset source commented: "Even senior people are aware that with a shark like Murdoch around, no one would last five minutes."

Worse, and of more direct concern to the shark, TV stars on Mediaset channels such as Maurizio Costanzo, the talk-show host, were beginning to echo the First World War rhetoric, arguing that the Italian media should never be allowed to become the plaything of foreign corporations, particularly ones owned by Anglo-Saxon business brawlers like Murdoch. Having come to clinch a media deal, Murdoch found that as the most famous world representative of international capital, he risked provoking a phenomenon normally only witnessed at Italy's international football matches: nationalism.

As Berlusconi apparently wavered, the situation was becoming uncomfortably reminiscent of Murdoch's failed attempt to buy into Fininvest in 1995, when he had faced concerted left-wing opposition. Not surprisingly, at the exclusive Villa d'Este hotel, half an hour outside Milan, Murdoch was growing restive.

Unlike 1995, however, this time around he had a potentially crucial political ally: Blair. Here was a man of the centre-left who had a warm relationship with Prodi and who had also assiduously cultivated an unlikely understanding with the most powerful media mogul in Britain. Blair was a born go-between in an ever more difficult deal. The centre of gravity of the Mediaset deal shifted to London.

As one News Corp executive commented last week: "Rupert's access to the British prime minister is pretty amazing." Now was the perfect opportunity to put it to amazingly good use. Murdoch knew that Prodi himself was, in the jargon, a "moderniser" who had no truck with protectionist attitudes associated with the old left. He spoke the same language as Blair. If Tony gave Romano a ring, Rupert could get a good idea of how serious the obstacles to the deal were and how much the Italian prime minister could and would do to smooth its path.

The British prime minister had his own reasons for going along with this idea, even at the risk of further enraging the growing numbers within his party who see his easygoing relationship with Murdoch as tantamount to political treason. First, he could justify his unpaid consultancy role by pointing to the British status of BSkyB.

Populist face: Mediaset shows such as *Non e la Rai* would have come under BSkyB's wing

Blair thinks *The Sun* stands between him and a place in history

As a self-professed lobbyist, advertiser and strategist for UK plc, Blair could argue that in taking an interest he was only fulfilling his brief in helping a British company expand abroad at a crucial competitive juncture. Britain lacks a media company of global stature: if BSkyB acquired Mediaset it would have one.

But the most important reason was far less straightforward, although easily encapsulated in one word: Europe. According to one dedicated new Labour insider, Blair is a "destiny politician" and that destiny lies across the Channel. "The most important political consideration for Blair is how history will eventually judge him; he believes that the kind of positive judgment he craves is dependent on Britain playing centre stage in Europe. That has become his absolute priority to which almost anything will be subordinated."

It has become clear, at least in Downing Street, that the central step towards that end will be made when Britain joins the single currency. In Blair's estimation there is no more influential opponent of that course of action (including William Hague, leader of the parliamentary opposition) than Murdoch and his tabloid newspaper, *The Sun*. Murdoch's visceral dislike of European economic and monetary union (EMU) and the potent media platform from which he can air it (*The Sun* is Britain's biggest-selling daily), has sent new Labour ducking and diving on the EMU question from its first day in office.

The British government knows only too well how powerful *The Sun* is. Many of its members believe that the tabloid's remarkable endorsement of Blair at the last election was a major factor in clinching Labour's triumph. But *The Sun* is not exactly *communautaire*. If the Murdoch-Blair romance was not to end in divorce over Europe, Blair had to plot a path around the Australian iceberg.

Until now new Labour tactics have been mainly defensive and placatory. When the House of Lords, Britain's upper chamber, voted that Murdoch should not be allowed to set his newspaper prices so low that it drove competitors out of business, the government disagreed. When Murdoch, in his capacity as owner of the HarperCollins publishing house, refused to publish a book by the former British governor of Hong Kong, Chris Patten, on the ground that he did not want to harm his Chinese business interests, the government refused to join in the general uproar. When Murdoch warned on forthcoming union legislation, the government listened respectfully. But none of this was going to change Murdoch's mind on EMU.

The Mediaset deal was different. Blair had been advised that if he could "get Murdoch involved in Europe" the outlook when it came to the mogul and monetary union may start to brighten; the "destiny politician" would get one step closer to a glittering posterity.

So Blair bowed to Murdoch's wishes and spoke to Prodi on the phone on 18 March. In the words of a source close to the Italian government, the British premier asked bluntly whether there would be uproar in the Italian establishment if News Corp, via BSkyB, stretched its tentacles into Italy. And was Prodi onside with the deal?

The Italian prime minister was conciliatory. After all, Ulivo (Olive Tree), the coalition government Prodi leads, has been as vociferous as new Labour in its determination to cut a political deal with the new global economy. Antipathy towards foreign capital was an outdated sentiment.

Prodi told Blair: "As far as my friends are concerned there's nothing to worry about." But he also said: "I can't guarantee the others."

What Prodi meant by "the others" was Il Partito Democratico della Sinistra (PDS), the reformed communists who are the biggest party within Ulivo, and Rifondazione Comunista, the hard-left thorn in the coalition's side. Suddenly the centre of gravity shifted back to Rome and Milan, where it took an unexpected twist.

Maurizio Costanzo was only a talk-show host but among left-wing refugees from the Cold War his diatribes had struck a chord. As soon as he heard that Mediaset might be on its way to Murdoch, Massimo D'Alema, the leader of the PDS and the most powerful man in the government alongside Prodi, began to talk tough. "It is desirable that Mediaset remain in Italian hands," he stated. Then he touched on something that, for all their nous and subtlety, neither Blair nor Murdoch had taken sufficient account of: "Berlusconi can always resolve his conflict of interest problems by selling out to other Italian partners."

Who cares what an ex-communist thinks? But what the Anglo-Australian alliance had not realised was that the thoughts of D'Alema, chairman of Italy's constitutional committee, on conflicts of interest are more important to Berlusconi than the ambitions of Murdoch in Europe. An old-fashioned Anglo-Saxon smash-and-grab had unwittingly become embroiled in a Latin game of political poker.

Berlusconi's "conflict of interests" goes back to 1993, when the Clean Hands corruption judges were laying waste to corrupt Italian business practices and homing in on Fininvest.

Playing to the gallery: regulators are a bar to Murdoch's expansion in Britain but $6.6bn could have opened up continental Europe

The raiders became embroiled in a Latin game of poker

Berlusconi decided to take evasive action by jumping into politics and forming the Forza Italia party, which won parliamentary elections the following year. He became premier and campaigned against the alleged excesses of *Tangentopoli*, Italy's culture of bribery. But in doing so, this media mogul turned prime minister had created arguably the clearest case of role confusion in European political history. Berlusconi ran the government and ran its critics in the

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CyanMagYelloKey

CyanMagYelloKey

COVER STORY

REA / KATZ

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media at the same time, creating a lasting resentment on the left which only now is it in a position to avenge.

A parliamentary committee, dominated by the centre-left, will shortly rule on proposals over how Berlusconi could solve his conflict of interests between politics and media. The most favourable option would allow him to entrust his businesses to a fellow director. According to Massimo Mucchetti, economics editor of *L'Espresso* magazine: "Any such figure would be hopelessly dominated by his former boss." Berlusconi is in favour of this solution but he has to persuade D'Alema and his allies to agree.

The long-running constitutional committee, chaired by D'Alema, is about to give judgment on whether, and on what terms, an amnesty for corruption crimes in the *Tangentopoli* era could be considered. Berlusconi, first officially accused of corruption in 1994, has an obvious interest.

The Italian upper house of parliament is about to change the rules on advertising on the state television network, Rai. More advertising on Rai will mean less of a market share for Mediaset's channels, which at the moment carry a 15 per cent share to Rai's four per cent. Berlusconi wants the measure postponed.

Finally, the centre-left government will decide later this year on the recipients of a third mobile telephone licence. Mediaset has a 25 per cent holding in Picienne, a telecommunications joint venture deliberately set up to bid for that licence. Berlusconi wants that green light.

D'Alema and the PDS could make life very difficult or very easy for Berlusconi. So perhaps it should come as no surprise that Berlusconi, after saying he wanted to sell and invoking the spectre of the biggest capitalist of them all, should then change his mind. Did he really want to sell now, when Mediaset, given a fair wind, stands to increase its market capitalisation of L11,200bn ($6.2bn)? Or did he want to frighten D'Alema by pointing to a figure even more likely than himself to keep the left awake at night, in order to enhance his own lobbying position with the government?

CAROFFEI / SINTESI

Deals to do: Berlusconi has much to gain from Prodi (right) and his government as he awaits a possible amnesty on corruption charges and opportunities for more business licences

According to Sergio Romano, a political commentator with *La Stampa*: "To understand the left's hostility to a foreign takeover, you must remember that the PDS has been forcibly converted to privatisation; it was not spontaneous. The mentality is still what it was."

The smart money says Berlusconi used talk of a deal to wring concessions from D'Alema

The smart money in Rome now bets on Berlusconi having exploited that mentality by negotiating with Murdoch in order to extract concessions from D'Alema. Mucchetti says bluntly: "In these circumstances an eventual underhand agreement between the leader of the opposition and the government is highly probable." Berlusconi, he said, had winked at Murdoch but he was really trying to seduce D'Alema.

The Mediaset deal foundered, despite the fierce European ambitions of Murdoch and the allied political aspirations of Blair. After his sudden bout of "angst" over the deal, Berlusconi rejected Murdoch's offer of L10,000 per share and asked for L12,000. Murdoch rejected the proposal. According to one source: "He pays top dollar but he's not crazy." A grateful D'Alema got his way as Prodi looked on from the sidelines.

But it will take more than a minor setback of this kind to end Murdoch's European ambitions. While specialists in Machiavellian intrigue deconstructed the Mediaset plot, Murdoch was back in America, planning his next assault on the old continent.

At a Twentieth Century Fox post-Oscar party to celebrate the success of News Corp's latest blockbuster film, *Titanic*, Murdoch had eyes only for Friede Springer, widow of Axel and now the driving force in the media company, Springer Verlag. The company has big plans for digital and satellite expansion. "I'd like to be part of that," said Murdoch, closing his Italian chapter and opening a German one. She spurned his advances but Murdoch still has hopes of some kind of German involvement. But having taken so much heat from the failed Italian job, don't expect Blair to be on the front line, helping with a future Springer deal.

Additional reporting by Michele Puccioni and Delfina Ratazzi

BVD CHARLEMAGNE

It's a gas

EUROPEAN car manufacturers appear to have won their game of bluff and counter-bluff with European Union environment ministers over reducing carbon dioxide emissions.

The ministers and the European Commission had been demanding that average CO_2 emissions from new cars should be reduced to 120 grams per kilometre from their current level of 186 grams. Carmakers were threatened with legislation unless they came up with a respectable offer for a voluntary agreement.

The ensuing process resembles the sort of negotiations needed to buy a Turkish carpet in a souk. After much procrastination the European Automobile Manufacturers' Association came up with a proposal for 140g/km, improving its previous offer of 155g/km. The EU environment ministers, who met last week, "noted with interest" the proposal. The haggling continues.

The environment ministers feel that this, *pace* Jack Nicholson, is as good as it gets. MEPs would beg to differ. They would much rather that the Commission and Council ditched a voluntary agreement and resorted to legislation. They may yet get the chance. European car manufacturers are split: the makers of the heavier gas-guzzlers do not want to support an agreement that would give a competitive advantage to their rivals. So the association may not be able to deliver on the offer.

For the moment, though, it has bought itself more time. It is almost two years since the Council and Commission agreed to seek a voluntary agreement and seven years since the Council committed itself to deciding on measures to limit CO_2 emissions from cars. Who said the EU was all about hot air?

Discordant instruments

TOEING the party line in the European Parliament has never been easy, given the multinational membership of political groups. With parliamentary elections now little more than a year away and MEPs beginning to adopt campaigning postures, maintaining even the appearance of unity is becoming ever more difficult.

Alexander Falconer, a Scottish MEP and a member of the PSE transnational socialist group, last week called on Margaret Beckett, president of the British board of trade, to use a $1.7 billion IMF loan to South Korea as "a lever" to force the car manufacturer, Hyundai, to resume work on building its factory in Dunfermline in Scotland which was halted following last year's Asian currency crisis.

Mr Falconer wants "assurances that will give workers in Fife and beyond a much-needed boost"; and, incidentally, give himself a chance of being re-elected.

Compare and contrast: Alman Metten, a Dutch MEP and another member of the PSE, has asked the Commission to take action against France for using debt rescheduling as leverage to bully Vietnam Airlines into buying French-made jets instead of the Dutch Fokkers initially ordered.

In other words, the socialists' position is simple: whether using financial instruments to twist arms is a good move or against the rules simply depends on your point of view. Referee, please!

Cheap thrills?

NEED a thrill? Turn to the European Investment Bank. The EIB, the financcing institution of the European Union, has been kind enough to donate Ecu31 million ($33.6m) to upgrade a theme park at Castelnuovo del Garda in the province of Verona, Italy.

The existing park will, the EIB tells us, be given a new brief, to move away from mainly child-oriented activities towards "thrills and education". Nice to know the bankers have a sense of fun.

Human zoo

THE BRITISH enthusiasm for animal welfare has raised a nice constitutional point for the European institutions' lawyers.

The British want to see EU legislation introduced to set minimum standards for Europe's zoos. But the advice of the lawyers is that the EU has no competence to legislate on animal welfare, a matter currently left to individual member states.

Last week, with the cunning of a rat, the deviousness of a serpent and all the subtlety of an elephant, Angela Eagle, the UK junior environment minister, proposed deploying the EU's accepted responsibility for ensuring biodiversity – the protection of endangered species – as grounds to push through *communautaire* legislation on zoos. Ritt Bjerregaard, the European commissioner for the environment, raised her well-plucked eyebrows at such obvious duplicity. It was clear, she said, that the point of the proposed framework directive setting up licensing procedures for zoos was primarily to improve animal welfare rather than biodiversity.

So it is left to the Commission's lawyers to argue for a month or two over whether the EU can get away with it. In Brussels, lawyers will never be an endangered species.

Mission: control

NEIL KINNOCK, the European Commissioner for transport, will get a decision in June from EU member states on whether to let him seek EU membership of Eurocontrol, the Brussels-based European Organisation for the Safety of Air Navigation. Making Eurocontrol work properly is a vital part of Mr Kinnock's plans to improve air travel in Europe.

Founded in the 1960s and one of the surprisingly still numerous pan-European bodies that is not coterminous with the EU's frontiers, Eurocontrol has been responsible since the mid-1990s for traffic flow management and for the harmonisation of air traffic control procedures for 36 countries.

Eurocontrol's new convention, adopted last year, has further extended its geographical spread as it shapes up to be a proper Europe-wide regulator.

Mr Kinnock would like to speed up that process. But Parliament warns that Eurocontrol's debt has risen to Ecu400m over the past five years after it took out huge bank loans to cover the cost of its additional responsibilities. External contractors have been used liberally, fuelling allegations that officials have diverted funds.

Since EU membership will be accompanied by a hefty contribution from the EU budget, Eurocontrol's management will have good reason to welcome Mr Kinnock's advances.

All that glisters

WHEN the economics and finance ministers of the 15 European Union countries ran a gauntlet of 400 booing anti-EMU protesters at their summit meeting in the northern English city of York, the response of some of the eminent politicians should have had their spin doctors cringing. As the crowd below York's elegant Mansion House waved their Union Jacks and "Save the Pound" banners, hurling abuse at the great and good inside, some ministers could be seen upstairs, peering out of the windows in amusement, their champagne glasses in hand. The anger of the *sans culottes* outside was being a trifle too ostentatiously ignored for the good of the ministers' reputation.

To paraphrase Marie Antoinette, let them eat Yorkshire pudding. Still, at least none of them were losing their heads.

Talks with carmakers over CO_2 resemble the haggling needed to buy a Turkish carpet in a souk

Catch 22

FISHERIES ministers are, perhaps appropriately, drifting slowly towards outlawing the use of drift nets – an unsubtle fishing technique which catches birds, dolphins and whales as well as fish.

Ireland, Italy and France, who care about their fishermen more than about dolphins, all voiced opposition to the ban but look likely to be outvoted at a fisheries council meeting in June. The Italians use the nets to catch swordfish. The French, who have a large drift-net fleet, seek mainly tuna. The problem is that the nets do not distinguish what kinds of fish, wanted or unwanted, they trap.

The UK-led proposal would still allow drift nets for salmon fishing in the Baltic. The Commission says that is because the nets there don't catch dolphins; the real reason is because it hauls aboard the support of Sweden, Denmark and Finland.

Jack Cunningham, the UK minister chairing the fisheries council, tried to plead the self-sacrificial line by declaring that Britain too would suffer from a ban. But Mr Cunningham was prevented from claiming that he had already secured qualified majority support for the proposals by the worrying silence of the Belgians.

Belgium has no drift-net trawlers and so is unlikely to oppose the ban when a vote is called. But while every other country expressed an opinion , the Belgian delegation kept curiously quiet, possibly because the country was represented at the meeting only by a civil servant. No minister attended. Too far to travel, perhaps.

Justus Lipsius

Bertelsmann boosts its book value with another acquisition PAGE 22

RUSSIA ■ Presidential race opens early with mass sacking

Doing the Kremlin shuffle

Askold Krushelnycky
MOSCOW

BREAKFAST with Boris is a sober affair. The man in the Kremlin may be famous for his love of the hard stuff but his namesake, who enjoys discreetly denying that he really runs the country, prefers to sip mineral water. At least when he is courting his public.

Within days of Boris Yeltsin's shock decision to sack his entire government, Boris Berezovsky, rumoured to be the richest man in Russia and certainly one of the most controversial, was holding court over breakfast in the Gogol Room of Moscow's luxuriously restored Metropole Hotel – and claiming virtue in an innocence which might even be genuine but would embarrass him if it were.

"You can believe me or not but I did not play a role in the dismissal of the cabinet," he insisted, as if daring his audience to doubt. Ostentatiously ignoring the piping-hot coffee served from silver pots, the toast, jam, hot croissants and the sinful extravagance of strawberries at the fag end of the Moscow winter, Berezovsky – one of the few men in Russia who can afford to disregard such splendour – admitted only that the dismissals "happily coincided" with his advice.

Berezovsky is endowed with the sort of modesty that comes naturally to the really rich and powerful, those who don't need to boast. A short, balding man with exquisitely good manners, dressed in black brogues and a dark grey pinstriped suit, he was at pains to make clear that he did not want to be seen as someone who pulls the president's strings. At the same time it is clear that he would hate anyone to think he did not hold them.

Berezovsky is great friends, he reminds us, with Valentin Yumashev, Yeltsin's ghost writer and now chief of the Kremlin staff, as well as Tatyana Dyachenko, the president's daughter, who has no objection whatsoever to anyone thinking daddy does exactly what she wants.

Although he had no ambitions for elected office himself, Berezovsky felt obliged, he said, to let it be known he considered it his "duty" to play a role on the public stage. What mattered was ensuring the election, in succession to Yeltsin, of a figure who would recognise the necessity of "big capital's consolidation which is essential for the development of Russia".

But the truth, as often in politics and more often than not in Russia, may be more complicated than what the rich and powerful would have the world believe. Rather than once again doing what he was told, Yeltsin may have done the exact opposite.

"For Yeltsin, life is power," said Andrei Piontkovsky, head of the Moscow-based Centre for Strategic Studies. "Talking about succession is like talking about his death. This is an issue of great emotional dimension for him."

"Yeltsin is a jealous person," agreed Yuri Korgunyuk, a political analyst at the Indem think tank in Moscow. "He doesn't like it when people around him act as if they don't depend on him." Until Monday 23 March it appeared that the question of succession was being decided without the ailing Yeltsin. Tsar Boris felt forgotten.

Berezovksy and the other influential tycoons who control most of Russia's media and much of its industry have for months felt confident enough in the president's weakness and their own power openly to support Russia's uninspiring prime minister, Viktor Chernomyrdin, who they believed would do their bidding as president.

A grey bureaucrat, former boss of Gazprom and Yeltsin's faithful number two since December 1995, Chernomyrdin had already started to show his presidential ambitions, speaking his mind on policy issues and answering Russians' questions on a weekly television show.

His reward was lightning from a clear blue sky. Suddenly emerging from what was officially a "heavy cold" and unofficially a deep depression, Yeltsin sent Chernomyrdin to political Siberia. But other big heads rolled as well. Anatoly Kulikov, the hawkish but ineffective interior minister, paid with his job for his close association with Chernomyrdin. Market reformer Anatoly Chubais, tainted by a bribery scandal and longing for a career in private business, used the opportunity to take his leave. But most other cabinet members, including the former first deputy prime minister, Boris Nemtsov, are expected to return.

Ironically, Berezovsky may well be telling the truth when he claims to have been caught unawares by the actual event: only on the Saturday before the sackings did he fly back from Switzerland, where he was receiving minor medical treatment. There again, one of the first things he did on his return was to give a television interview on Sunday night in which he sought to distance himself from Chernomyrdin.

The prime minister's reward was a bolt of lightning from a clear blue sky

Yeltsin may have been mulling the sackings for some time. The moment was politically opportune, preempting a possible no-confidence vote in parliament and nationwide strikes that the communist opposition had scheduled for April.

For months Yeltsin had publicly criticised his government for failing to improve the disastrous economy, which has left millions of state employees without pay for up to half a year, for huge shortfalls in tax collection which has led to huge budget deficits and for failing to curb rampant crime and corruption. The government's inertia, compounded by a hostile parliament dominated by communists and neo-fascist nationalists, has seen Yeltsin's ratings plunge in opinion polls.

What emerges is the picture of a subtle game marking the beginning of the contest for presidential elections in 2000. What is at stake is the course that Russia will chart in the next century: a deepening of democracy and market reform; a further descent to the crony capitalism of the Berezovskys; or backsliding into authoritarianism and attempts to reinstate a command economy.

The outcome is vital for Berezovsky and the others like him who have acquired fabulous fortunes in the often shady dealings in which well-connected insiders, alliances of business tycoons, bankers and Soviet-era top bureaucrats have plucked the plums of state industry privatisation, most prominently in the energy sector.

Berezovsky would hate anyone to think he did not hold the president's strings

They are widely hated by the majority of impoverished Russians, who have felt little benefit from market reforms, and reviled by the still powerful communists. Unsurprisingly, they now want to safeguard their wealth and personal safety by ensuring that the next president will not roll back the privatisations or ask too many awkward questions about how the rich elite attained their wealth.

A positive side-effect of the sackings, from Yeltsin's point of view, is that the move has been popularly seen as striking a serious blow to the business oligarchs' influence, which had become a major obstacle to reform policies that would benefit the nation as a whole.

On the day of his departure, Chubais declared, with more than a touch of *Schadenfreude*: "The oligarchs woke up in a cold sweat." Maybe, but if they did, by breakfast time four days later, Berezovsky for one was over it.

Chubais, however, despite being popular with western investors as a champion of reform, remains the most loathed man in Russia because ordinary people blame his privatisation policies for their impoverishment. He is also a personal enemy of Berezovsky.

Chernomyrdin, who immediately restaked his claim to leadership of his weak and tiny Our Home is Russia party, may now have a chance to distance himself from the government's perceived failures and recast his staid and lacklustre image to make him an electable candidate.

But some members of the party which likes to style itself "the party of power" are still worried that the ex-prime minister, whose lack of charisma and soporific speaking style are legendary, will do them more harm than good. "You should think carefully about what your future role in our organisation should be," Alexander Shokhin, Our Home's leader in parliament, told Chernomyrdin at a party meeting.

The real winner of the tumultuous events may yet be Boris Nemtsov, Chubais's closest pro-reform ally in the government and a charismatic politician who is a known favourite and tennis-playing pal of the president. His return is already assured, as deputy prime minister in the new cabinet, the same role in which he left the old one. But the manoeuvrings to come over the next weeks could yet see him become prime minister.

That would effectively endorse him as Yeltsin's anointed successor for the presidency. It might even explain why Yeltsin put forward the inexperienced and unknown Kiriyenko as candidate for prime minister. A former fuel and energy industry minister with a low profile, he is, at 35, too young and inexperienced – after only seven months as a minister – to stay afloat long among the circling sharks. Under the constitution the Russian parliament can reject the president's candidate three times. After that Yeltsin can dissolve the parliament and hold elections. The biggest parliamentary factions have already threatened to reject Kiriyenko.

That may be just what Yeltsin wants so that he can then put forward Nemtsov. The parliament, itself poorly regarded by most people, would then risk further condemnation as being destructively obstructionist if it did not confirm Nemtsov. In addition, many parliamentary deputies know that they would not be re-elected in fresh elections.

But that analysis too might still prove too subtle. "I think [Yeltsin] doesn't know what to do – he has no well-prepared strategic plan," said Piontkovsky. "This opens a new period of instability in Russian political life."

Meanwhile, it is not just the political and financial analysts who have been reconverted to the arcane – once thought moribund – science of Kremlinology. Vasily Grigoryev, producer of *Kukly* (The Dolls), a satirical television programme using puppet politicians based on the much-imitated British show *Spitting Image*, is counting the cost of having had to ditch his entire latex cast, at a cost of $6,000 per puppet, thanks to Yeltsin's mass ministerial redundancy programme.

"I think the best idea would be to turn them all into condoms to promote the anti-Aids campaign. At least then they would serve a useful purpose for once in their lives," he joked.

But Russia's young incumbent premier, Kiriyenko, will find only cold comfort in the satirists' more clinical calculations: "Until we are sure he has a permanent position in the cabinet, we will not make a puppet for him." ■

Gorbachev on Yeltsin: page 30

REUTERS

Hot seat: President Yeltsin (left) introduces the acting premier, Sergei Kiriyenko, to his desk. But is Berezovsky (above) still calling the shots?

NEWS

GERMANY

No Oskar as Hollywood glitz lifts SPD attack

Vera Blei

HELMUT KOHL might not be everybody's idea of a film star but the opposition Social Democrats are hoping for a big box office by casting the Chancellor in a few unflattering roles. Mounting a political publicity campaign that breaks with anything ever seen on German hoardings, the Social Democrats (SPD) have hired a top-notch Hamburg advertising agency to poke fun at Kohl's long-running government by depicting it as a parody of venerable Hollywood classics.

Take *For Whom the Bell Tolls*, for example, featuring Kohl's head as the clapper with the publicity line "Eagerly awaited by all Germany" and the sticker "Running only until 27 September" – the date of the election.

Or how about *Gone with the Wind*, rendered in a rhyming play on words with the film's German title, *Vom Winde Verweht*, as "Scorned by the voter"? The poster depicts Kohl in the role of Clark Gable's Rhett Butler holding the voluptuous body of Scarlett O'Hara but with the bushy-browed features of the finance minister, Theo Waigel, improbably pasted above Vivien Leigh's cleavage. "A sad drama in 3-D," reads the blurb.

The third poster in the campaign features James Dean's legendary *Rebel Without a Cause*, but witht the poster adulterated to include both Kohl as Dean and Waigel as co-star Sal Mineo to match the German title of the 1955 film: "For they know not what they do". The publicity line reads: "Already 70 million frustrated viewers."

"Our aim is to have a dig at Chancellor Kohl and his government, not in an offensive but in an intelligent and ironic way," says the SPD spokesman, Michael Donnermeyer.

The agency responsible for the campaign is KNSK, BBDO in Hamburg, which counts Lucky Strike, Expo 2000 and Wella among its clients. For the past 18 months it has also been handling the SPD, preparing a long propaganda run-up to the election. Andreas Geyer, the art director whose team created the posters, feels that change is on the way in German politics and society. "This year's election campaign will be much more open," he says. "The SPD is more willing to take courageous steps. I am only surprised that the Christian Democratic Union (CDU) has not reacted yet."

The SPD is attempting to capitalise on the recent groundswell of public support and positive publicity following its sweeping success in Lower Saxony, where Gerhard Schröder was adopted as the candidate to challenge Kohl rather than his more traditional left-wing rival, Oskar Lafontaine. With Schröder's image riding high in the opinion polls, Lafontaine has been sidelined.

With six months to go, the SPD believes the general election is still too far away to campaign on serious issues such as unemployment, pensions and the national debt: potentially dangerous issues given that the CDU claims that it has no real policies on them. The CDU says it is keeping its powder dry until August when it will tackle the real issues, presumably in its usual sober fashion. Until then Schröder and his election team plan to provoke and react quickly to current affairs. In order to take decisions swiftly the team structure has been changed and responsibilities divided. Full-time communication channels have been opened between the advertising agency and party headquarters.

In comparison with the last election in 1994, this year offers what looks like role-reversal between the two major parties. Four years ago Kohl sat firmly in his post; the SPD in contrast was divided and indecisive over its candidate and consequently lost. Today the Social Democrats have managed to sort out their inner rivalries. Schröder is their new and only man.

On the other side Kohl's 15-year reign, together with high unemployment and an ailing economy, weigh heavily on his party. Clearly it is too late for the conservatives to send a new candidate into the race. Although discussions about a last-minute change of horses to the parliamentary party leader, Wolfgang Schäuble, flare up regularly, it looks more like panic than politics.

An equally large budget of some DM40 million ($22m) has been set aside for Kohl and Co to hit back. But so far the CDU has not reacted to the SPD's direct provocation, preferring to focus on the opposition's most likely junior coalition partner: the Greens. After years on the fringes of mainstream politics, the environmentalist-alternative party had until recently been tipped as showing signs of late maturity under its pragmatic leader, Joschka Fischer. A real grasp of power in Bonn no longer seemed a pipe dream.

But the proximity to power is proving too heady a brew for the grassroots. No sooner had Schröder promised that the Greens would be his first choice for an alliance if the SPD – as, despite its current victory roll, still seems probable – fails to win an outright majority, than the ecologists reverted to type. Their party conference caused a public outcry with plans to triple petrol prices.

Kohl's team reacted quickly. A few days later they handed out stickers and flyers at petrol stations all over the country. "DM5 per litre – No to red-green". A recent poll shows that 65 per cent of people questioned associate the Greens with an increase in petrol prices. As a result the Greens' support has plunged from 12 to seven per cent, and late last week they decided to shelve the price rise plan. A collapse of support on that scale would take them out of the power-broking stakes and leave them relegated back to the fringes.

Schröder and his allies have already signalled that they will not step in to rescue the Greens. They want to make their own SPD as strong as possible and do not completely rule out a grand coalition with the CDU.

The Greens' more realistic leaders now seem doomed to sit and watch the political climate changing. A few weeks ago it looked as though they were going to enter federal government for the first time, but now it is more likely to be them for whom the bell tolls.

Movie magic: the SPD has broken the traditionally conservative mould of German electioneering with its cheeky approach

CDU talk of a change of horses looks like panic rather than politics

ELECTION

Fire still burns in old liberal volcano

Clive Freeman
HALLE

IF IN trouble, wheel out the old heroes. With no charismatic young political personalities in sight, Bonn's embattled Free Democrats (FDP) are relying on their most famous veteran, Hans-Dietrich Genscher, to help them win votes in the key state election in Saxony-Anhalt next month.

Germany's durable former foreign minister, who will not seek re-election to the Bundestag in September after 33 years as a parliamentary deputy, plans to make no fewer than 70 appearances in his old hometown region in what will be his last political campaign.

By supporting Cornelia Pieper, the state's top FDP candidate, Genscher hopes he can boost the liberal vote in the 26 April election and help the party hurdle the five per cent barrier needed to win seats in the state legislature. Latest opinion polls predict that the FDP is likely to secure only up to four per cent.

In the early 1990s, after he persuaded the former Soviet leader, Mikhail Gorbachev, and Henry Kissinger, the former United States secretary of state, to visit Halle – the city where Genscher was born in 1927– Saxony-Anhalt turned into a mini-heartland for the FDP.

But by 1994 a slump had set in. Whereas in the first year after German unification in October 1990 the Free Democrats boasted more than 20,000 party members, now the figure is barely 4,000. For the past four years Saxony-Anhalt has been ruled by a Social Democrat-Green coalition – the FDP was kicked out of parliamentat the 1994 state election.

Genscher knows that another bad result here could signal serious danger for the party nationwide. "If the FDP doesn't make it here, our chances in the rest of the east are practically zero," observes Pieper, 37.

When the party's election campaign formally got under way at a rally in Halle on 22 March, Genscher was the star attraction despite the presence of Guido Westerwelle, the FDP's general secretary in Bonn.

"Westerwelle is young and has a lot of drive, but here in the east he's pretty much an unknown face," said a policeman in Halle's main square. "Genscher is a known quantity, someone we can relate to."

COMMENTARY

Front National sets sights on takeover

IN THE 15 years since it appeared on the French political stage, France's Front National (FN) has never scored as great a victory as in France's recent regional and departmental elections. It did not win control of any region or department, but instead wrought near-fatal havoc on its main enemy, the centre-right.

For years the FN's central strategy has been to smash the centre-right alliance between the Gaullist RPR and the liberal UDF. Ultimately it wants to supplant the centre-right parties altogether as France's main right-wing force. The fact that the FN is within a whisker of replacing the RPR as the country's second-largest party shows that neither goal is unrealistic. Indeed the FN has now become the single most important internal issue in French politics, and it is in many respects already its arbiter.

This is because, only four days after five UDF politicians were elected presidents of their regions with FN votes, their heteroclite and artificial party effectively fell apart. One if its main leaders, François Bayrou, the former education minister, broke ranks and proposed the creation of a new formation whose sole raison d'être would be opposition to the FN.

But the Gaullist RPR is no less holed below the water-line. Because none of its members allowed themselves to be elected presidents of regions with FN votes, control of several regions won by the right was handed to the Socialists. Even more grave for the RPR is the fact that the steady growth in Jean-Marie Le Pen's electoral support has been almost entirely due to an unstoppable haemorrhage of disenchanted Gaullist voters.

This explains one of the key phenomena of recent days: the severe collapse of confidence between grassroots activists in the centre-right parties and their Parisian leaderships. The leaders are furious that their instructions not to sup with Le Pen were ignored, while the party militants are incensed that lofty orders are handed down from ivory towers in Paris which seem to bear no relation to the intense problems they are encountering on the doorsteps.

The greatest of those is the sheer power of the FN to attract conservative voters. As one RPR activist moaned: "My colleagues at work vote FN but they don't like the FN. But there is a crisis, and people have to defend themselves. The only way is through the ballot box. People are afraid, and they want to scare us politicians."

In particular, people are afraid of going out of their homes at night because of rising crime, and of the unemployment which ravages their families. Their fear turns to anger when they hear an alien, self-serving and often corrupt technocratic clique in Paris piously excusing all this in the name of internationalist dogma while neglecting all the more solid, old-fashioned values of family, honour and country.

So thoroughly have the centre-right parties vacated this conservative political territory that it is almost as if they were inviting the FN to park their tanks on their lawn – as it has duly done. Many militants are thus convinced that the best way to neutralise the FN is to embrace it and some of its values, instead of boosting its support by diabolising it. They think that you cannot make the FN disappear from the political stage by exclusively combating it.

There is a very poignant precedent for their tactic. In 1971 the then Socialist leader, François Mitterrand, decided to form an alliance with the French Communist Party (PCF). At the time the PCF was one of the most Stalinist parties in the whole of Europe (including the Soviet bloc), and thus officially committed to the destruction of bourgeois democracy. It was also directly in the pay of Moscow.

Mitterrand realised that he could never defeat the Communists, whose electoral support was then very powerful, by combating them. So he decided to situate himself on their political terrain and to propagate the same illusions as they did. This tactic is pursued to this day by Mitterrand's successor, Lionel Jospin, who governs only with Communist support and their alliance ensures that a basically right-wing country nearly always has a left-wing government.

The Socialists complement this tactic by encouraging the rise of the FN itself. As is widely admitted, Le Pen's rise in the mid-1980s was facilitated by Mitterrand, who introduced proportional representation. This allowed 35 FN deputies to be elected to the National Assembly in 1986. Jospin has adopted the same tactic.

The Socialists' calculation is simple: the more the centre-right is in disarray and the more the Socialists can appear to be the only reliable bastion against Le Pen, the better.

But as one embittered centre-right politician commented, they might one day regret the tactic if they ever found themselves with the FN as the only opposition party. Then they might get beaten by it themselves as well.

JOHN LAUGHLAND

FRANCE

Gnashing of teeth as the right takes stock of rout

Edith Coron
PARIS

THE mainstream right is in disarray and crisis because, in the wake of the regional elections, the neo-fascist Front National (FN) has become kingmaker in those regions where it holds the balance of power. As regional right-wingers do deals with the Front and national leaders demand resignations from those who do, the French centre-right threatens to split, implode – or do both.

The FN had laid the ambush after the regional elections of 15 March , offering its support to the right-wing candidates for the regional presidencies who had found themselves in second-round run-offs against the unified left. Five UDF (Union pour la Démocratie Française) councillors seized on the FN's offer, immediately blurring the lines between the mainstream parliamentary right and the extreme right.

Bayrou may have acted precipitately but Madelin could be accused of waiting too long

The Front is causing havoc with the mainstream right even though the 15 per cent of the vote it won was no better than last year's parliamentary elections and the 36 per cent which went to the mainstream right was no worse – and only one point behind the ruling Socialist-led coalition. Yet such is the frenetic state of the French right that some say that the UDF, one of two major right-wing French parties, will not recover.

François Bayrou, the former education minister, banged the final nail in its coffin when he announced the creation of a new offshoot from the UDF on 25 March. He was taking this step, he explained, because "French democracy needs a strong, large, united and responsible party of the centre or centre-right" to keep the FN at bay. It was at best a disingenuous explanation. Bayrou headed Force Démocratie, one of the groups gathered under the UDF umbrella. But the UDF has never truly succeeded in becoming homogeneous since its creation in 1978 by the former president, Valéry Giscard d'Estaing, although the fact that it did establish itself in the middle ground showed that it struck some sort of chord with the voters.

Bayrou was seeking to seize the initiative and effectively bid for the leadership of a restructured centre-right. He took some of his potential rivals by surprise. Alain Madelin, the leader of Démocratie Libérale, the ultra-liberal branch of the UDF, along with François Léotard, the current UDF group leader, opposed Bayrou's initiative. Léotard may be an extinct volcano politically after his own defeat in the Provence-Alpes-Côte d'Azur region, but Madelin, a former minister of industry, has long been the man in the shadows waiting for his moment to arrive. He was sacked by Alain Juppé, the then Gaullist prime minister, for espousing views seen as too pro-market for the sensitive centre-right but has remained a loose cannon.

That is why he dragged his feet in backing the expulsion of the five UDF regional leaders allied with the FN. Madelin has taken full account of the FN's appeal and the potential for exploiting it.

"Fifty per cent of the local leaders and 30 per cent of the voters" are tempted by the FN's siren song, he estimated. "One must be neither deaf nor blind nor passive in the face of the pressure coming from one's constituency," added Madelin, anxious not to alienate any of his potential supporters. His problem, as with the other potential leaders on the centre-right, is attracting a broad enough swathe of support to make his leadership bid credible. Bayrou may have acted precipitately but Madelin can be accused of keeping his powder dry for too long.

He was initially inclined to seek excuses for the five regional presidents labelled traitors by the other party leaders. But eventually even Madelin had to support the threat to expel them from the UDF on 30 March if, by then, they had not resigned their presidencies. Jean-Pierre Soisson in Burgundy and Bernard Harang in Centre have already done just that; the other three are resisting, particularly Charles Millon, the former minister of defence and newly elected president of Rhône-Alpes.

The disciplinary measures imposed from Paris had more effect in the ranks of the neo-Gaullist RPR party (Rassemblement Pour la République). Philippe Séguin, its leader, has thrown all his weight into the battle and announced last week that he was calling time on the 20-year-old coalition of the UDF and the RPR. Séguin knows that a growing number of Gaullist voters find it hard to visualise the FN as enemy number one. The left – nowadays the *gauche plurielle* in government – has always been the main antagonist.

Séguin believes that the best protection against the spread of the FN's venom is to keep the RPR structure intact. He repeatedly opposed a "restructuring" of the right-wing parties, to the dismay of Jacques Chirac.

The French president, once the RPR's leader, dreams of campaigning for re-election to the Elysée with the support of a single all-encompassing and reinvigorated conservative party. But this hope has clearly been undermined by the two currents over which the French right is disintegrating: only a minority are susceptible directly to the FN's siren songs, though that is bad enough; but even those on the right who have rallied to the defence of the Republic and its institutions are lacking a philosophy. In his national televised address last week Chirac reminded French conservatives that the Front remains a "racist and xenophobic" party and should be kept beyond the political pale.

To ensure that, and in an attempt to take the political initiative in his complex and competitive relationship with his Socialist prime minister, Lionel Jospin, he proposed a major reform of France's electoral laws. The system of proportional representation which favours small parties was established under President François Mitterrand and is largely blamed for the electoral growth of the FN.

The government coalition of Socialists, Communists and Greens, despite, or even because of, the FN's deadly embrace of the right -wing parties, has slipped through the ever-widening gap between the divergent centre-right factions to score points in these elections. The *gauche plurielle* owes the presidency of several regions, particularly in Provence-Alpes-Côte d'Azur (Paca) and Ile-de-France, to right-wing votes.

Paradoxically, Jean-Marie Le Pen himself ended up by helping the left and allowing the centre-right to regain some composure. Last week he made the arrogant error of asking the conservative parties, in repayment for the FN's earlier support, to back him for the presidency of the Paca region. The wounded and humiliated right refused to go that far and elected a Socialist, Alain Vauzelle, instead.

Le Pen's crude and cynical manoeuvre backfired – a double blow for the FN leader who hoped at the same time to re-establish his ascendancy over his number two, Bruno Mégret.

The right-wing tragedy playing on the French political stage has many scenes to get through before its denouement; it will take months to complete its course. Act two, regeneration, has not even begun.

This will not happen until France's centre-right works out what it stands for, eschews factionalism for a united entity, finds a credible leader (Chirac should not apply) and begins to rebuild its prestige in voters' eyes. That would be its uphill task even if the Front did not exist.

DANIEL GIRY / EDITING

Waiting in the wings: Alain Madelin, leader of Démocratie Libérale, may now seize his chance to bid for the leadership of the right

EU ACCESSION

Easterners start on long and winding road

Tim King
BRUSSELS

VERY much in the shadow of last week's single currency mania, the European Union opens talks this week with six countries seeking to join the present club of 15. But as the negotiations begin, the big question is: when will they ever end? The road ahead looks a long one.

In theory, enlargement of the EU will take place within the next budget cycle of 2000-2006. The European Commission's financial forecasts envisage that the first admissions will happen in 2002. But the applicants fear that the negotiations will be spun out for much longer.

Accession talks are beginning 10 days after the European Commission tabled contentious proposals for reform of the Common Agricultural Policy (CAP) and of regional aid. In a month's time the EU will formalise which member states are to join the first wave of the single European currency. Both those projects loom larger on the EU's agenda than admitting new members.

Partly that is a reflection of who the new applicants are: five relatively poor ex-communist countries – the Czech Republic, Estonia, Hungary, Poland and Slovenia – plus the politically-divided Cyprus. Balázs Pócs, the Brussels correspondent of Hungary's largest political daily newspaper, *Népszabadság*, thinks Hungarian politicians are raising unrealistic expectations for 2002. "The thing that is missing is political will from the EU," he said.

Last time the EU admitted new members it was negotiating with Austria, Finland, Sweden and Norway (the first three joined in 1995; Norway fell at the referendum hurdle), countries wealthy enough to put more into the EU's coffers than they take out.

The opening of enlargement talks on 30 March, which was more about television coverage than meaningful discussion, actually included 11 applicants. Latvia, Lithuania, Bulgaria, Romania and Slovakia were allowed on to the stage to receive a few limited words of encouragement. But when things got serious later, the second rank were shown the door.

The applicants will, during the negotiations, ask for temporary exemptions from the EU's rules during the early years of membership. But Marija Adanja, Slovenia's state under-secretary for European affairs, says they have been advised: "Don't ask for too many." Otherwise accession itself may be delayed.

Accession negotiations begin with a lengthy process of comparing EU legislation with the applicant country's laws. Even before the detailed comparison of legislation begins, the sheer economic disparities between East and West are an obstacle to early admission. Austria fears that with the free movement of labour it will be swamped with migrants from new EU members.

The club of 15, who are already squabbling about how to divide up regional aid and farm subsidies, are not ready to welcome newcomers. There are doubts too about how secure will be the new eastern borders of the EU along Hungary, the Czech Republic and Poland. Adanja says Slovenia will be ready for 2002. Pócs says he does not expect to see admission before 2003-4 at the earliest.

HEALTH

Are phosphates the real se cret of mad cow disease?

Neville Hodgkinson
LONDON

A SINGLE scientific theory has for 10 years dominated Britain's response to mad cow disease – the most disturbing farmyard epidemic to have hit Europe in a generation, and a disease which has been responsible for the virtual elimination of the UK as a beef exporting nation.

The theory maintains that the epidemic was caused by an infectious agent, known as a prion protein, that spread among cattle as a result of their being fed recycled sheep and cow brains and other animal parts to improve their milk yields. It was a compelling hypothesis that struck a chord of public concern over modern agricultural practices.

Yet as time passed, predictions about how the epidemic would develop based on this theory turned out to be wide of the mark. British governments lurched from one embarrassing crisis to another, while throughout Europe bovine spongiform encephalopathy (BSE) became an enduring political, biological and economic disaster.

Now a dramatically different theory about the nature of the disease is gaining ground. It is to be explored in London this week at a judicial inquiry into the handling of the BSE epidemic. It argues that BSE is not, after all, an infectious disease and that cattle, in turn, may not present any risk of infection to humans.

Instead, it states that a toxic chemical – one or more of the organophosphate (OP) group of pesticides – is the most likely cause both of BSE and of a new variant of Creutzfeldt-Jakob disease (CJD), a rare, but fatal, brain disorder affecting humans which has been linked to BSE.

The potential implications are staggering. The current effort to counter BSE and the human disease is entirely based on the infectious agent hypothesis. Billions of pounds have been spent by Britain on the precautionary slaughter of hundreds of thousands of cows that, arguably, were in perfect health. The fear of eating tainted beef spread throughout Europe.

The originator of the OP theory, Mark Purdey, an organic farmer in the west of England, is to give evidence this week to the official British BSE inquiry in London. An entire day has been set aside for the inquiry team to question him about his work.

Officials from the inquiry, which is headed by Sir Nicholas Phillips, a leading British appeal court judge, have already spent several days studying mountains of papers at Purdey's Somerset farm.

It is a breakthrough for Purdey, whose theory has repeatedly been dismissed as groundless by leading scientists who insist, with a rare unanimity, that malign feeding practices are at the root of the problem.

If the theory proves true it would turn a decade of exhaustive specialist research on its head

As long ago as 1984 Purdey predicted that heavy use of OPs in cattle would cause neurological damage of the kind seen soon afterwards in BSE cases. He had researched the toxicity of the drugs in the course of a successful court action he had taken out against the Ministry of Agriculture, Fisheries and Food in London.

He successfully challenged the legality of an order compelling farmers to pour OP-based chemicals on cows' backs in what was to prove a failed attempt to eradicate warble fly, a parasite affecting a tiny percentage of animals.

Since BSE was recognised as a new disease in the mid-1980s the infected animal feed theory has dominated scientific thinking. The fact that the warble fly campaign continued intensively until the early 1990s has barely been considered.

The recycling of animal waste into a rich food concentrate is believed by most specialists to have transmitted to cows a condition similar to scrapie, a centuries-old disease of sheep in which a normal protein constituent of brain cells accumulates abnormally in the brain and nervous system.

According to majority opinion, once this malformed protein becomes established it gradually infects its regular counterparts so that they too become malformed. Eventually, they accumulate so much of the abnormal protein as to cause the severe brain and nervous system damage characteristic of spongiform diseases.

British officials, faced with a seemingly overwhelming weight of scientific evidence, concluded that the disease had jumped from sheep to cows as a result of changes in feed processing. As early as 1987 epidemiological studies had pinpointed ruminant-derived meat and bone meal as "the only viable hypothesis" for the cause of BSE.

Experts predicted that the disease would rapidly die out as a result of a ban, introduced in 1988, on the supply or use in cattle of food concentrates made from animal remains. They also argued that since there was no evidence of people coming to any harm from eating scrapie-infected meat, it was still safe to eat beef.

But as BSE cases continued to rise way beyond early predictions, doubts over the official line increased. The doubts grew stronger when more than 35,000 cows born after the feed ban was introduced developed BSE. Now, it was revealed, the disease was not merely infectious, but capable of being passed down the generations. Governments were driven into an escalating series of measures to stop BSE-contaminated meat from entering the food chain. Panic spread to the Continent, where the European Commission in Brussels introduced a ban on the import of British beef and beef derivatives after new studies confirmed close links between BSE, a similar condition in cats and the "new variant" strain of CJD. Scientists advising London felt forced to disclose that the condition had almost certainly been transmitted from cows to people.

But had it? Purdey argues that the primary trigger of the BSE epidemic was damage from OP poisoning suffered by unborn calves, exposed at a critical stage of development. This, he says, fits the facts of the epidemic much better than the animal feed theory. Large quantities of the same animal feed ingredients incriminated in the UK were simultaneously marketed to animal foodstuff manufacturers in other countries, yet these had stayed free of BSE. So too had UK cattle herds on which OPs had rarely if ever been used, such as in home-reared cattle from organic farms.

Evidence points to an increase in exposure to OPs during the mid-1980s, shortly before BSE erupted. The warble fly eradication campaign continued until the early 1990s, and so did the epidemic, which started to decline from 1994. Furthermore, English counties most heavily hit by BSE correlate with the number of years that warble fly eradication zones were declared within them.

Purdey has also argued that although OPs were used on cattle in other countries that remained free of BSE, they were never applied with the same intensity or in the same compulsory manner. In particular, he points to the specific potential for harm of phosmet, a pesticide used to a unique degree and in a highly specific way in the warble fly campaign. It was painted on the cows' backs so as to ensure that it would penetrate throughout the animal's system, and hence remove all larvae.

It is also unique among OPs in that it includes a phthalimide, a member of the same family of chemicals as thalidomide, the infamous mutagenic human drug. Because of fears over phosmet's long-term toxic potential, many countries have refused to license it for veterinary use. Russia, not known for its reticence over chemical use, would not even allow women to handle the chemical because it was considered so toxic.

Phosmet came into almost exclusive use by UK dairy farmers in 1985, following alterations in the licensing criteria which made it more difficult to use a previously popular non-mutagenic OP under the eradication programme. The BSE epidemic followed. Then, after the warble fly campaign was run down and three of the most high-dose phosmet preparations were withdrawn, the epidemic waned.

These timings, Purdey argues, fit the OP theory much better than the infected feed hypothesis. British officials, however, insisted that traces of infected material must have continued to enter the food chain.

In the absence of official support for the OP hypothesis, Purdey and another organic farmer, Joanna Wheatley of Maidenhead in Berkshire, raised £14,000 ($23,000) for a study at London's Institute of Psychiatry to test his idea that phosmet could be a prime culprit.

The aim of the trial, of which details are to be put before the BSE inquiry by researcher Dr Stephen Whatley, was to expose living nerve cells to very low doses of phosmet to simulate what happens after a cow is treated on the farm.

Purdey said last week: "Some of the changes which occur in the early stages of prion disease were induced in the phosmet-treated cells. It was a very dramatic reaction, proportional to the dose of phosmet added, which was as low as two parts per million."

The latest issue of the scientific journal *Medical Hypotheses* carries a further article supportive of the OP theory. Janie Axelrad, a toxicologist who worked for 10 years testing pesticides on animals, argues that rather than causing the spongiform diseases, the so-called prion protein seen to accumulate in these illnesses is the result of an auto-immune process triggered by the OPs. Cells of the immune system become programmed to attack normal protein constituents of nerve cells after these have been damaged by OPs, initiating a vicious circle that culminates in spongiform disease.

Her article proposes that just as OPs initiated this process in cattle, the chemicals also caused the still very rare "new variant" CJD cases in genetically susceptible people. The use of OP-based lice lotion and flea treatments for animals and the accidental ingestion of the pesticides, especially through contaminated vegetables or exposure to crop-spraying, were possible sources.

Yet another radical challenge has been put to the BSE inquiry by the immunologist, Professor Alan Ebringer, and the microbiologist, Professor John Pirt, both of King's College, London. They too believe that spongiform encephalopathies are at root auto-immune, not infectious, diseases, although they think the trigger for the auto-immune reaction could be a bacterial infection.

In their submission they challenged claims by BSE scientists that injection of brain tissues from diseased animals into experimental animals had demonstrated the transmissibility of BSE and therefore of an infectious agent. It has been known in immunology for more than 120 years, they say, that injection of healthy brain tissue into another animal causes BSE-like symptoms.

A fresh political climate, the evidence-sifting capabilities of legal minds and use of advanced information technology are all contributing to the new flow of ideas.

Since opening on 9 March the British inquiry has received hundreds of submissions. Originally asked to report by 31 December, it was readily granted a six-month extension after Lord Justice Phillips, heading the inquiry, said he did not wish to sacrifice thoroughness for speed.

The inquiry has heard how cutbacks in British government spending initially hindered efforts to begin investigating the outbreak. The scientist who headed the first independent advisory body claimed that a senior civil servant tried to persuade him not to recommend expensive measures to deal with the problem.

Other witnesses described how ministry officials, perhaps still smarting from previous food scares, refused to share findings and specimens or to allow others to obtain data where information was lacking.

Examples have also been offered of ministry vets appearing unwilling to accept data reported to them by farmers that did not fit the regulation view of what was going on.

Purdey is critical of the role of big chemical and pharmaceuticals companies marketing the OP pesticides. It is their huge influence, he believes, that causes what he calls a kind of medical split personality in which doctors and scientists are sometimes privately supportive of his efforts, but publicly scornful.

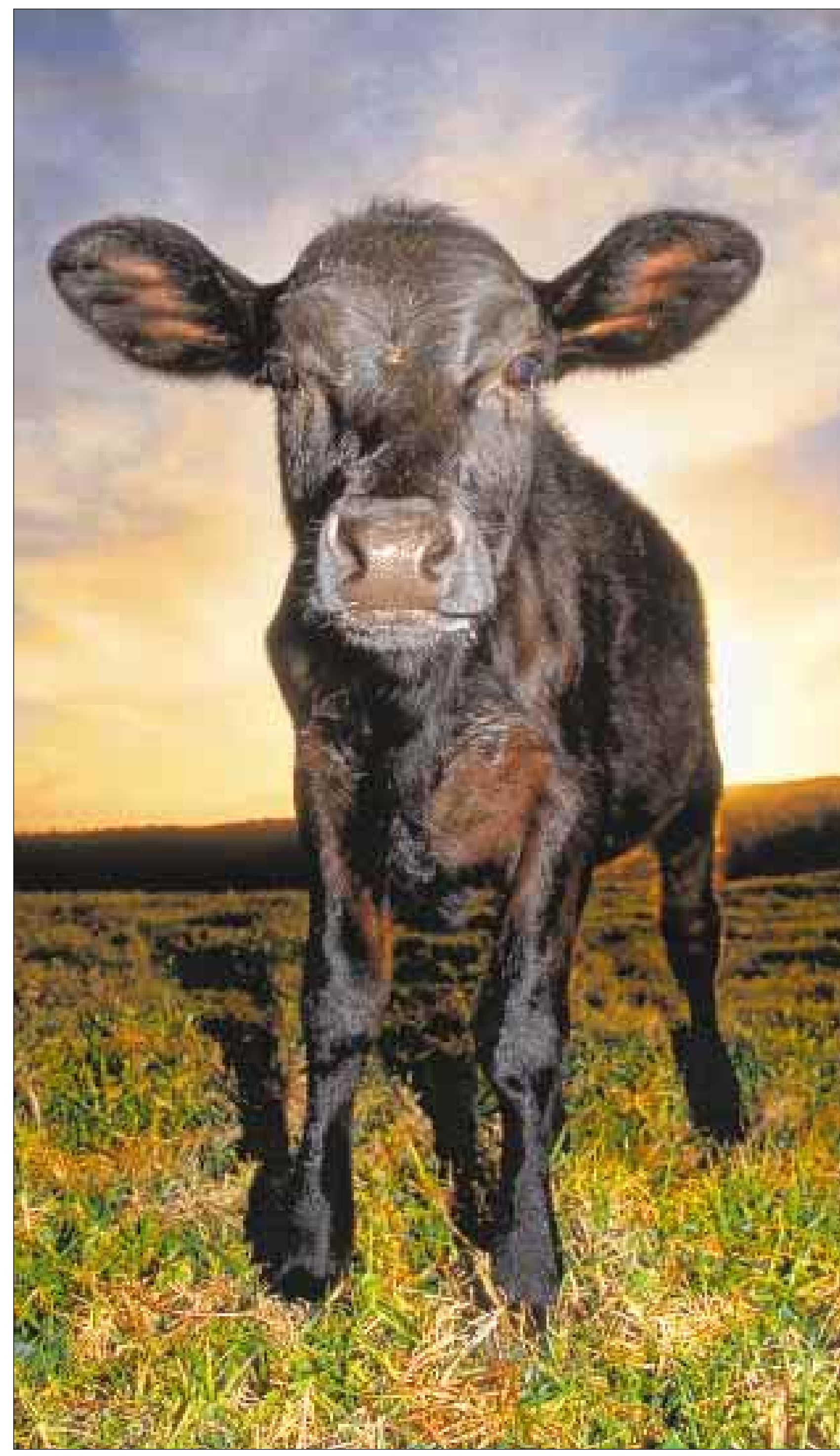
It has to be stressed that most scientists, including eminent experts in the field, do not accept Purdey's findings. To them, the evidence continues to point unerringly towards recycled animal proteins as the clear source of the BSE "contagion".

But if the Somerset farmer turns out to be right the shock waves would extend far beyond the Channel. British beef exports would have been halted and whole herds wiped out for no good reason at enormous cost to farmers, the EU agricultural budget and the British taxpayer.

At the same time, an outsider would have confounded the politico-scientific establishment and turned a decade of exhaustive, if underfunded, specialist research on its head.

Little wonder that Lord Justice Phillips has decided to take his time over his inquiry. ■

PHOTOGRAPHS TONY STONE / REX



Terminal progression: the human equivalent of mad cow disease has struck down more than 20 victims, including Donna Mellowship (above). But is it linked to the use of chemicals as a veterinary treatment rather than to infected cattle feed?

PUBLISHING ■ Europe's leading media company buys another American house

BIG, BIGGER BERTELSMANN

Eric Culp
GÜTERSLOH

WELCOME to Europe's Media mecca. It's not London, Paris or Hamburg but Gütersloh. Gütersloh? This provincial German town is the improbable headquarters of Europe's largest media company, Bertelsmann, which has just snapped up America's premier publisher, Random House.

Sitting in his third-floor office overlooking a small man-made pond, the chairman and CEO, Mark Wössner, says the set of boxy buildings "function like Mecca. Here, the company's philosophy is formed, the basic concepts are devised and the strategy is thought through". His grasp of the role of the holy city in Islam may be rather shaky but his conviction that Gütersloh should remain central to Bertelsmann's global empire is fundamental.

Other directors are stationed around the world but they stop work daily and turn towards the spiritual home, communicating via telephone or video link. Two executive jets "which are constantly in use, like taxis" are stationed nearby. Directors return each month to report to headquarters.

With revenues of DM22.4 billion ($12bn) last year, Bertelsmann has come a long way since its founding in 1835. Before the Second World War the company had 300 workers and was the publisher of *Grimm's Fairy Tales* and theological works. In 1945 most of the company's facilities were flattened by a British bombing raid.

The rebirth of Bertelsmann began two years later, after Reinhard Mohn, a descendent of the founder, Carl Bertelsmann, returned from internment in an American prisoner-of-war camp. Today the 77-year-old is the company's supervisory board chairman emeritus, holder of nearly 90 per cent of stock through his own holdings and through his control of the Bertelsmann Foundation, a non-profit organisation. The Zeit Foundation controls the remaining 10.7 per cent of stock.

Mohn built Bertelsmann into the third-largest media company in the world on the principle that employees should also be bosses, relatively free to control their own domain within a decentralised conglomerate. While the foundation, which currently sits on almost 70 per cent of Bertelsmann's stock, was designed to further democratic principles, Mohn balanced this altruism with the economic carrot of keeping workers happy through profit-sharing.

Investors wanting their own slice of the Bertelsmann pie are in for a long wait. The firm says it "will never issue stock on the open market". The only way for an investor to buy into Bertelsmann's success is to buy a "profit-participation certificate". With a nominal value of DM100, the certificates are priced at more than DM200 on the Frankfurt market; half are held by employees. During the last fiscal year the company paid out DM15 per certificate, its annual goal.

True to its ink-on-paper roots, Bertelsmann announced last week that it is acquiring Random House, one of the world's largest book publishers with operations in 50 countries. Its authors include Gore Vidal, Anne Rice, Norman Mailer, Michael Crichton and Toni Morrison. Although the purchase price has not been released, it is thought to be between $1.2bn and $1.4 bn; industry insiders say it will add $900 million in annual revenue to Bertelsmann's book division, which last year had DM7.1bn in sales.

According to Wössner, Random House closes the circle for the company: "This purchase will round out the company's book concept." It already owns America's Bantam Doubleday Dell; Wössner's brother Frank, a member of the management board, controls book operations from Munich.

"Books are the foundation of our house," says Wössner but the CEO is not an avid reader of the company's products, because of time constraints. He leaves that to the publishing heads. His broad desk, however, is covered with stacks of reports ranging from studies of digital pay-TV in Germany to papers on social and economic developments around the world: information needed by the firm and the foundation. On Wössner's wish list is a fivefold increase in his reading speed. The last book he finished was the memoirs of the former Daimler-Benz chairman, Edzard Reuter, a Bertelsmann title.

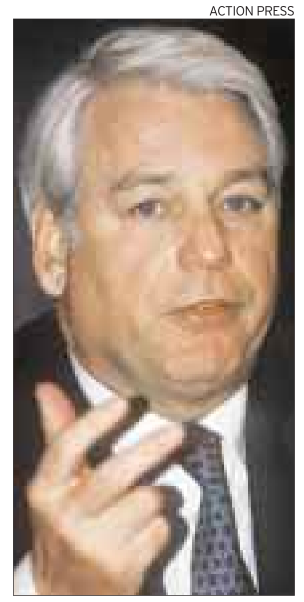
At first blush, it is easy to think that Wössner with his deep tan and talkative manner is a dyed-in-the-wool media man. Not so: his undergraduate degree from Karlsruhe Technical University is in mechanical engineering and precision technology, which he later turned into a doctorate at the University of Stuttgart while working as an assistant lecturer. In 1968 he came to Bertelsmann as an assistant to the management in charge of technical operations; two years later he was running production at the largest offset printer in Europe. By 1983 he was running the company.

For a technician, Gütersloh is the perfect spot. Bertelsmann's central administration employs only 600 of the firm's 60,000 workers but it is where the buttons and levers are. However, having its headquarters away from frenetic media capitals is a double-edged sword. "We know that Gütersloh is not the centre of the world," acknowledges Wössner. He created a company legend when he used to catch the Concorde in Paris for his twice-weekly trips to New York but has since slowed down to make room for his heir apparent, Thomas Middelhoff, an architect of the Random House deal.

The geography downside has created what the company calls a "European-American media company with German roots". It has given management enough annual air miles to break the bank of any frequent-flyer programme. The upside is that the serenity of Gütersloh has provided the company with a perfect breeding ground for a number of shrewd business decisions that raised its net income from DM159m in the 1981/82 reporting period to slightly more than DM1bn last year. "Here you aren't rushed from one meal to the next or from one party to another; we think that is a major advantage."

Despite its remoteness, Bertelsmann headquarters has played host to some of the world's biggest media luminaries, including Jerry Levin, the Time Warner boss, and Rupert Murdoch. When asked if his company can compete from the hinterlands with Time Warner, Disney, News Corp and Viacom, Wössner points to Bertelsmann's postwar record: "None of these companies has grown faster than us."

KOBAL



ACTION PRESS

Another bite: Wössner's acquisition of Random House gives the German giant a portfolio of bankable authors such as Anne Rice, whose *Interview with the Vampire* (top) was made into a film with Tom Cruise

Wössner is not afraid to compare his record to Murdoch's, who, he notes, has had to cut back his personal stake in News Corp over the past 15 years, while Mohn has retained his near 90 per cent of Bertelsmann during Wössner's watch. Murdoch's operation is only two-thirds as large as that of Mohn and Wössner's, just as it was a decade and a half ago.

In addition to acquiring Bantam Doubleday Dell, Bertelsmann also bought RCA and built up its television operations through a 50-50 partnership in CLT-UFA with Audiofina. The firm's ability to expand is the best in the media sector; he says Time Warner's merger with Turner doesn't qualify as "growth". After voicing his respect for Disney, he questions its number-two media ranking (Time Warner is the biggest) when theme park revenue is discounted.

But all is not calm on the outskirts of this quiet little town. One wound has been opened by Karel Van Miert, the European competition commissioner, who is threatening to stop the German digital pay-TV union between Bertelsmann and Leo Kirch. Wössner, who smiles often while talking about Bertelsmann's successes, does not smile when Van Miert's name is mentioned. The commissioner's policy of leaking information ahead of a decision has left Wössner confused and even angry: "If this were a court, he would be removed for prejudice."

Bertelsmann and Kirch control 90 per cent of Germany's commercial television market. Brussels believes that, given the publisher's contracts for broadcasting live sports, such as the German Bundesliga, and Kirch's film and television archive, a union of the two in digital pay-TV could create a monopoly. Wössner agrees; but it is his contention that it is the only way to compete with state-run television stations. The monopoly would anyway disappear once other companies jump in to digital services. With 18 stations and a DM12bn budget, German public TV controls 45 per cent of the market, says Wössner, adding that regional channels are being secretly turned into national networks. "No one in Hamburg needs to be able to see Bavarian TV."

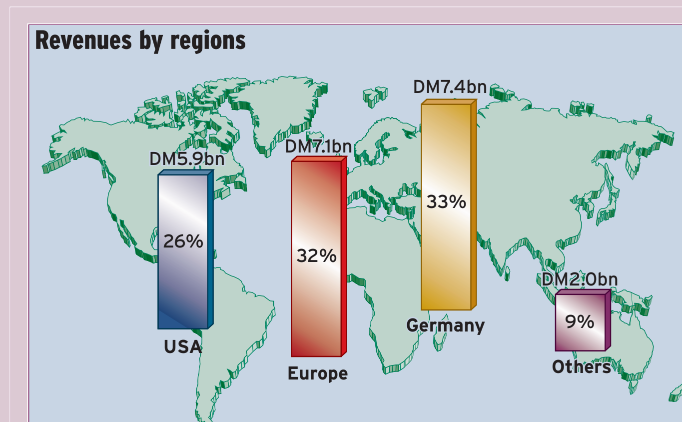
Only two of Germany's private stations are making money and public television saturation in Germany is unique. Wössner believes a scaling-down would be right. "If we can't do it as well as in England, we can at least do it better than we are now."

BERTELSMANN'S WIDE WORLD

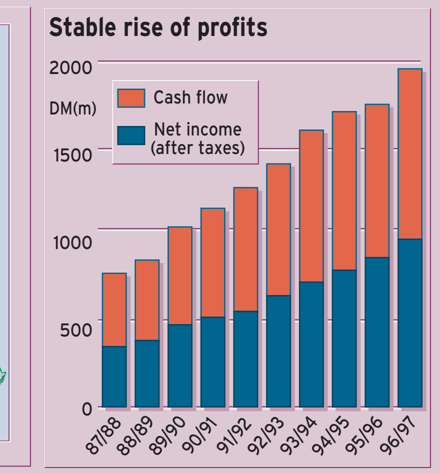
Revenues: DM22.4Bn Cashflow: DM1.9Bn Employees: 57,173

Book	BMG Entertainment	CLT-UFA	Gruner & Jahr (Press)	Industry	Multimedia
• Publishing in Germany, Austria, eastern Europe and North America	• Music • Music publishing • Video & other activities • Storage media	• TV Networks (free-TV/pay-TV) • Radio stations	• Magazines • Newspapers • Printing/technical companies • Electronic	• Printing/technical companies • Services • Specialist Publishing	• Online-services • Interactive studios • Information technology/Networks (mediaWays)
Revenues DM7.1 billion 31% of total sales 68% international 17,770 employees	Revenues DM 7.3 billion 32% of total sales 68% international 11,740 employees	Revenues are not consolidated	Revenues DM4.8 billion 21% of total sales 53% international 12,432 employees	Revenues DM3.5 billion 16% of total sales 47% international 13,846 employees	Revenues and staff will be shown in 1997/98 for the first time

Revenues by regions



Stable rise of profits



Source: Bertelsman 1996-97, reporting data

Wherever they are in the world, Bertelsmann executives check in daily with headquarters by telephone or video link

According to Wössner, Van Miert is also governing Germany's high-tech motor with threats that he will put the kibosh on the Bertelsmann-Kirch venture. Instead of developing its own set-top technology and a pan-European standard, Van Miert's interference will leave Europe with a slew of disparate technologies that allow America to take the lead yet again.

In the end, Van Miert's verdict will not end Bertelsmann's digital drive: Wössner believes that even if Brussels blocks the venture, his pay-TV channel, Premiere, will retrofit its analogue equipment and expand into digital TV. Premiere's growth has been lagging behind that of BSkyB and Canal Plus, with only 1.7m subscribers.

The digital TV row has not stopped the company from seeking to extend its grasp. Although Random House's titles will help Bertelsmann increase its trade publication impact, it may not be enough. Wössner indicated that he would like to expand his company's business in that direction. Rumours surface periodically about taking over the American publisher, McGraw-Hill, a trade publication powerhouse and owner of *Business Week*; Bertelsmann has flatly denied such a deal.

The company's film production will be expanded one day but it is not a strategic goal, says Wössner. That squelches any rumour that Bertelsmann might be shopping around in Tinseltown. America is still high on the priority list, with the firm aiming to have 40 per cent of its sales there by 2001, an increase on the 35 per cent that Random House's library will bring if American competition authorities approve the deal. One way to reach that level is yet another takeover.

Asia is a further hole to fill, with Bertelsmann aiming to raise its market share. Wössner would also like to see BMG Entertainment, the music and video division, move higher than its number five position in the world market.

This desire to move up the ladder in music is not indicative of the group's business plans. Bertelsmann was the largest media company in the world after buying Bantam Doubleday Dell in the late 1980s but primacy is not Wössner's ultimate goal. "We don't sell one CD more if we are number one." The target is to become the dominant force in a number of markets; whether that adds up to number one, three or five does not matter.

Although Wössner plans to pass the reins on to his protégé, Middelhoff, in November, Mohn's active role in Bertelsmann's strategy has set the precedent for supervisory board chairmen: Wössner's hand will continue to guide for at least the next decade.

Once Mohn decides to extricate himself completely, the Bertelsmann Property Management Company will take charge of the foundation and thus most of the publisher's assets. It will be run by the supervisory and management board chairmen, their deputies, a member of Mohn's family, a labour representative and a lawyer.

That means Mohn and Wössner's hand-picked management will lead Bertelsmann through the beginning of the next millennium from the media mecca called Gütersloh. ■

CyanMagYelloKey

BUSINESS

FOOTWEAR

Shoe giants are caught on the hop

Nicholas Moss

THERE is trouble in shoeland. Nike, once the *ne plus ultra* for athletic feet, is losing the fight to stay on top of a global branded footwear market worth $18 billion. Phil Knight, Nike's 60-year-old founder and chief executive, is pulling no punches. "This is a dark day around these halls," he told analysts at the company's Oregon headquarters. Nike's stock price has followed a downward swoosh, as have profits. Warehouses are full of shoes that aren't running anywhere. Nike's "Just do it" slogan has been watered down to "I can" while industry watchers counter with a chant of: "You can't".

The global sports and leisure footwear market is entering a period of unprecedented restructuring. Market leader Nike is cutting 450 workers in America and expects to slash its workforce in Europe and Asia.

Customers were far from impressed by the performance of Nike-sponsored boxer Mike Tyson during his championship bout with Evander Holyfield, abandoned after Tyson bit off a piece of Holyfield's ear. It did little to boost Nike's already tarnished image following a media campaign, fought most heavily on the Internet, against the conditions in Nike's Asian production centres and accusations, which the company denies, of employing child workers.

Nike has also become a victim of its success. When Knight founded the company in 1972 he contended that if "five cool guys" – the most popular athletes – wore his shoes, other people would want to as well. The strategy worked. Nike more than doubled sales in the three years to 1996, when the Atlanta Olympics signalled the industry's peak. Since then demand has been sluggish and the company has had repeated profit warnings. "There is a glut of shoe products on the market, mainly from Nike. It's very difficult to sell new products especially at the high-yield end of the market," says John Wardley, director of global advertising for Reebok.

Nike's travails have pulled down the whole sector, including rival Reebok. Biella-based Fila, the Italian sponsor of slalom skier, Alberto Tomba, reported a $31.1 million fourth-quarter loss. Intense competition for stars has pushed the costs of high-profile sponsorship deals to uneconomic levels. Wardley says companies are running into conflicts of interest by sponsoring players who compete for teams sponsored by rival shoe makers, diluting the benefits.

The Asian crisis is also hurting. Nike's third-quarter 1997 profit fell 69 per cent to $73m, mostly because of declining orders from Asian retailers. Markdowns on shoes in an attempt to shift a massive stockpile have done little to help. Excess inventory rose to $1.45bn in the second quarter from $981m in the same period a year earlier.

TONY MARSHALL / EMPICS

Just blew it: inflated sponsorship deals with stars such as Michael Johnson bring uncertain rewards

Consumers are moving to leather shoes and workboots

More worryingly for Knight, the Nike brand has become too common to be cool. Brand-literate consumers have moved towards "brown shoes" – more traditional leather shoes as well as workboots made by manufacturers such as Timberland, Hush Puppies and Doc Martens, according to Rolf Stromeyer, analyst at ABN Amro. Smaller European shoe manufacturers, following a trend towards more rugged extreme-wear boots, are beginning to walk all over it.

Hot labels for the summer include Spanish ecologically-sound manufacturer Camper, beloved of pop stars such as Oasis. Flat shoes are also replacing the trainer. Clubbers are favouring brogues, Doc Martens, Clarks' Desert Boots and lots of simple, leather, nerdy-looking shoes. Clarks, a British family-run business, has rebranded its school lines as Clarks Originals and sales of its Wallabees, Desert Boot and Desert Trek shoes were up 50 per cent during the past year. Hush Puppies, the American brand, fell out of favour in the 1980s but has managed to cash in on an image which is hip rather than down-at-heel and it sold 20m pairs last year.

The main beneficiary has been Adidas. The German manufacturer has enjoyed a renaissance in its street credibility and the company's finances have followed. Its European footwear sales rose by 42 per cent last year and its stock price has soared. Its acquisition of the French ski maker, Salomon, will help it exploit the latest trend for extreme sports-related wear.

For Nike all may not be lost. One possible solution may be to play down the omnipresent swoosh. Its new Michael Jordan line does just that. And its ACG (All Condition Gear) line capitalises on the craze for hiking and outdoor styles. ■

TAX

Ericsson threatens to hang up on Sweden

Nicholas Moss
STOCKHOLM

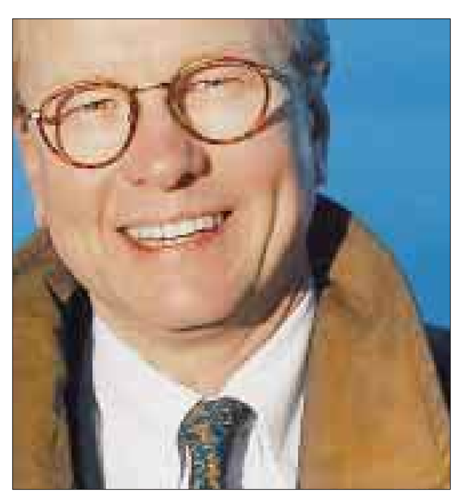
WILL the last company to leave Sweden please turn off the lights? Lars Ramqvist, the departing chief executive of Ericsson, the telecommunications group that is Sweden's largest company, is threatening to launch a stampede from Sweden of its biggest enterprises, or at least of their highest-paid executives, battered by Sweden's punitive personal taxes.

Ramqvist and other Swedish industrialists have decided to play hard ball and administer an economics lesson to a government that behaves as if its nation's best brains were dairy cows fit only for milking by the taxman. With a general election due in September, Ramqvist has become the most prominent spokesman for a coalition of industrialists who think the bloated Swedish state is strangling enterprise, and forcing its smartest to seek their fortunes abroad. Swedish politicians had better take seriously his threat to pull out of Sweden unless he gets big reductions on personal taxation, especially for foreign nationals working for a limited period in the country (who currently have to subject themselves to Sweden's avaricious tax collectors).

Sweden ranks behind only Denmark in the OECD for taxation. The bloated state takes tax revenue equal to 49.7 per cent of gross domestic product, compared with an OECD average of 37.4 per cent. The lowest rate of income tax is 31.7 per cent; a higher rate that slides up to 59 per cent kicks in on those who make a modest Skr209,100 ($26,500).

Last week Ramqvist appeared before parliament's cross-party industry committee. His message was simple: Ericsson might announce before September's general election whether it would move some headquarters functions from Stockholm. He said the tax burden was "far too high, especially for people on lower incomes". But it won't necessarily be Sweden's poorer paid whose jobs move offshore. The first to decamp, for Britain or New Jersey, are more likely to be the top executives.

This strategy was confirmed last week by Ericsson's new chief executive, Sven-Christer Nilsson, in an interview with *The European*. "If we look at an eventual move, then a decision would be based on a move for a few top executives," he said. It wouldn't be that surprising if Nilsson, 53, did want to move. He will lose more than half his salary in tax if he remains in his Swedish homeland. Nilsson's Skr7 million ($875,000) salary before bonuses is liable to the highest tax rate.



Nilsson: won't rule out a move abroad

If the company were to move, it could trigger a mass exodus of Sweden's best and brightest. A fifth of Sweden's largest companies could move abroad within five years, according to a survey by a government think-tank. Only four years ago the prediction was that just four per cent could leave.

Many are not delaying. Astra, the Swedish pharmaceuticals giant, maker of the Losec ulcer treatment, is already moving research activities abroad. Pharmacia packed its bags and left its Swedish headquarters for America last year after its merger with US company Upjohn. Hennes & Mauritz, the retail group, is a main candidate for setting up abroad. Stefan Persson, its chief executive and largest shareholder, has already expressed his anger at changes to wealth tax rules.

Despite the vicious treatment given to its executives' pay cheques, Ericsson is doing well. It reported 1997 pre-tax profits of Skr17.2 billion – the highest ever for a Swedish company. Order backlog and invoiced sales continue to show strong growth. The share price has soared on the back of a continuing explosion in the mobile telephony industry. Ericsson raised its forecast for the global cellular subscriber population by 2001 to 605m. ■

AUTOS

Walnut dash for British heritage on wheels

Andrew Garfield

THE bidding for Rolls-Royce and the top end of the European luxury car market has started in earnest. After months of sparring between potential British and German buyers, the serious money is on the table. Volkswagen, Europe's largest car producer, last week submitted its sealed offer for Rolls-Royce, put up for sale last year by Vickers, its beleaguered UK parent. The move immediately prompted BMW to follow suit on Friday 27 March.

BMW already provides the engines for the new Rolls-Royce, unveiled at the Geneva motorshow in February, and has been regarded as the front-runner to extend its joint ventures into a full-scale takeover. But the decision by VW to up the ante finally put paid to the hopes of the BMW chairman, Bernd Pischetsrieder, of getting a clear run at Rolls-Royce.

VW has refused to confirm or deny German press reports that is is offering around £500 million ($825m) for Rolls-Royce, of which half would be new investment to modernise the marque's rather limited model range. BMW had already offered to put in £1 billion of new money on top of the £250m purchase price.

Either way it is all working out quite nicely for the Vickers chairman, Sir Colin Chandler. A month ago Vickers' share price was falling like a stone as City analysts in London confidently predicted that BMW would have the field to itself and could virtually name its price.

Rival bids from American producers such as General Motors and Chrysler were seen as unlikely because they believed that Ford was badly stung over its purchase of Jaguar and were keen not to repeat the mistake.

But analysts seem not to have reckoned with the depth of rivalry between the three big German carmakers, which seem ready to let their common sense take a back seat to pride. The auction that Chandler hoped to spark when he put Rolls up for sale last year seems well and truly under way.

Lazard Brothers, Vickers' bankers, is expecting a further bid from Kevin Morley, a former executive at Rover, the British car manufacturer now owned by BMW. While Mercedes, the other potential German contender, appears to have dropped the idea of submitting a bid in tandem with Goldman Sachs, the US investment bank, there is still the strong possibility that Doughty Hanson, a venture capital group, might also table an outsider. Vickers believes that the kind of investment and technology Rolls needs to guarantee its future can be provided only by a mainstream car producer.

REX

Yesterday's model: Rolls wants to play on the kudos which attracted customers such as John Lennon

Industry experts still reckon BMW is the favourite. It certainly holds most of the cards. First, the new Rolls-Royce uses a BMW engine and drive trains from BMW's new 7-Series. Pischetsrieder has made it clear that if he does not get Rolls he will walk away, taking his technology with him. That would force whoever did emerge as the buyer in BMW's place to spend a great deal of time and money trying to replicate the work BMW had already done.

Second, there is the question of the Rolls name. By a quirk of history, the right to the Rolls-Royce name is owned not by Vickers but by Rolls-Royce plc, the aero-engine company. Rolls-Royce has an aircraft engine joint venture with BMW in Germany which, after years of investment, is about to start paying off – and paying off big. The company has let it be understood that it is backing the BMW bid and would make life difficult for anyone else.

The only way around this is for VW to offer to pay more – much more. A price of £500m plus now looks likely. Vickers wants to prove to its shareholders that it can get a good deal. But it also wants to be seen to be behaving responsibly with what remains to many in Britain a precious national asset. As things stand, it looks

DIGITAL RADIO

Less crackle, more pop


GETTY

Out of tune: next door may have digital technology but at least we can afford to eat

Simon Reeve

RADIO is enjoying a renaissance. European broadcasters are tapping into healthy advertising revenues and buoyant audiences. Now they are about to take a leap into the unknown as radio broadcasting takes the biggest technical step forward since the introduction of FM.

Amid the hype surrounding the launch of digital television, less attention has focused on the digital revolution in radio. It is a mistake to ignore it, because as the first digital radio stations go on the air in Europe it is apparent that the business implications are enormous.

The same digital technology that allows dozens of new television channels to spring up will also catapult radio, the oldest broadcasting medium, into a new era of extra stations, improved sound quality and the possibility for a number of innovative data broadcasting services.

But digital audio broadcasting (DAB) sounds better than it sells; few of the special radios needed to pick up the signals are available in the shops. Those that are available are blisteringly expensive. Manufacturers have had problems developing the equipment for the marketplace and are a long way from building a digital radio at a realistic price: the sets can cost up to $3,000. Some without all the add-ons will go on sale for around $750. Even if mass-manufacturing were to allow economies of scale, a drop to a level which would take DAB into the cars and homes of the millions that radio stations and their advertisers want is still years away.

The technology cannot be faulted. DAB provides a stellar leap in quality from traditional analogue radio broadcasts. The latter rely on technology first developed a century ago, with electronic circuits mimicking sounds directly from the radio studio. DAB works by digitising sounds before transmission and converting them back to the original in the receiver. This is cloning rather than mimicry. The result is that digital signals do not suffer from the fading and interference that can be so annoying for listeners to existing FM and AM bands. Sound quality is close to that of a compact disc.

DAB, which developed from a European technology project known as Eureka 147, can also carry data and even pictures on a small screen on the front of the radio just like a mobile phone. Supporters of DAB view this as a "killer application" that should have advertisers lining up to pay for adverts linked to songs playing on the radio. Graphics that change every 10 seconds could be used to illustrate a news story. Data could also be transmitted, offering listeners everything from stock exchange prices to sports results. European technology firms such as Bosch and Deutsche Telekom have been testing DAB signals and technology for several years. But national DAB services have been introduced only in Belgium, Scandinavia and Britain, and then only as part of a test project or small-scale trial.

Graphics will appear on radio sets just as they do on mobile phones

In the Berlin-Brandenburg region of Germany, DAB has been used to transmit tourist information to computer terminals. In Sweden, Teracom, the national radio broadcaster, has sent DAB information on parking and travel conditions to cars equipped with receivers.

In the UK, the BBC has been among the pioneers of DAB, spending nearly $17 million on installing new digital transmitters that beam DAB to most of Britain. Other radio companies are wary of the high cost of transmitting digital signals.

Sceptics warn that without heavy discounting few will be prepared to pay the heady prices for a new digital set. This will prevent economies of scale. David Mansfield, chief executive of London-based Capital Radio, says his company would have to invest $45m before it saw financial returns from advertising or special subscribers. Capital has conducted research into the potential audience for DAB which suggests that only 15 per cent of adults will have digital radio by 2005.

There is clearly a long way to go before digital signals can be enjoyed by all. In Britain, for example, even though the BBC has been broadcasting its five national radio stations in the digital format since September 1995, the only receivers available are prototypes made by Kenwood, Bosch and Grundig. Only a select group of 230 experts and media executives, including Queen Elizabeth and John Birt, the head of the BBC, have been issued with the sets. The radios are still not in the shops and it seems unlikely that they will appear – at a reasonable price – in the immediate future.

Many of the early predictions for digital radio now seem somewhat optimistic. Last year David Witherow, a former BBC World Service executive who heads the World DAB Forum, said that within 10 years he expects digital radio to be in 40 to 50 per cent of homes. If this rate of growth is to be achieved, DAB needs something dramatic, a "programme driver" such as exclusive rights to broadcast certain sports or live news coverage, to attract audiences.

Until manufacturers manage to attract gadget-hungry western consumers, the real winners in the digital radio revolution might be the developing world. Noah Samara, a Washington-based lawyer, has spent the past seven years securing $1bn to expand WorldSpace, which will soon offer a $200 radio and 75 channels of digital-quality music and news to listeners in Africa. Samara's sets are cut-price because they will not offer the graphics. Manufacturers are betting that European listeners will want the added benefit of graphics.

"Our mission is to deliver information, education and entertainment to the 80 per cent of the world's population that today suffer from a dearth of information," says Samara.

In September the AfriStar satellite will go into orbit 35,700 kilometres above Africa. Two more satellites, AsiaStar and AmeriStar, will be launched over Asia and America next year.

The radios were designed by the Japanese giants JVC, Hitachi, Sanyo and Panasonic and manufactured by the Franco-Italian group SGS-Thomson Microelectronics and ITT Intermetall. They will be cheaper than digital radio sets offered in Europe because they will be stripped of high technology and their capacity to receive data and pictures. Samara is confident the price will fall by as much as half within a few years. ■

RICHARD BAKER / KATZ

DUTY FREE

Losing their bottle

Lois Jones

WELCOME to the hangover from hell. The protracted battle to save Europe's duty free industry is making the decision over Europe's central bank president or first-round EMU entrants look like the simple toss of a coin.

Duty and tax-free sales at airports and on aircraft and ferries for journeys within the European Union will end on 30 June next year. Opponents from all corners of the European travel industry are making a last-ditch attempt to stave off the inevitable with a wave of action that, by disrupting passengers, threatens to alienate the one community which can possibly save them from extinction.

Duty free sales are one of the largest anachronisms in the single market in goods and services, which was introduced in 1993. Its supporters claim whole swathes of the 140,000 workers in transport and manufacturing are staring at redundancy if duty free is discontinued, adding that passengers will lose their favourite perk and travel prices will soar. This is self-serving nonsense.

Mario Monti, the EU's internal market commissioner, has had to fight against a public relations offensive from the $6 billion-a-year business. "Seldom in the history of the EU has so much money and time been spent by such a wide coalition of interests on trying to reverse a Council decision," he says. "As for their unsubstantiated claims of a doomsday scenario with massive job cuts and bankrupt airlines and ferries, it could only happen if they failed to act responsibly now."

American transport companies would agree. Go through Chicago O'Hare – the world's busiest airport – after your flight and you won't crash into hordes of passengers clutching cut-price Gucci bags and 400 Marlboro Lights. European airports have been turned into huge shopping malls and passenger ferries into floating cash-and-carries. BAA, the UK airport operator, makes more money from shopping and car park charges than it does from handling aircraft. Heathrow has become a shopping mall with runways attached.

The only American airport to go down the shopping mall route is Indianapolis, which is managed by BAA. While Monti accepts that there will be a substantial loss of income to European operators, he argues that they have to learn to live without what is, in effect, a state subsidy.

There is also a clear competitive distortion within the EU, with duty free providing an incentive for air and sea travel over rail. Attempts to shift travellers from congested roads and airways are stymied by the long-term exclusion of rail from duty free supplies.

Monti points out that the industry has had seven years to prepare itself for the once-and-for-all shock of losing duty free income. The European Union's Council of Ministers decided unanimously in 1991 to abolish duty free sales for travellers within the EU as part of the taxation and excise measures to make the single market. There have been years of horse trading since, including a two-year extension beyond the original 1997 implementation date.

In any case, duty free will continue for travellers leaving the EU; a market worth Ecu2.7bn ($2.93bn) a year will be maintained, putting EU companies on a par with overseas rivals and clawing back some of the revenue they would have lost had the ban been made universal. This concession dilutes some of Monti's intellectual argument. Duty free sales are an anomaly in a European single market and also represent a distortive transfer of funds to travellers rather than to those who stay at home. This distortion will be maintained, though to a lesser degree.

The final gasps of protest from the industry are starting to emerge ahead of next year's bargain cull. French ferry workers struck – again – early in March in an attempt to highlight the impact on jobs. Scandinavians, who consume vats of duty free drink on booze cruises across the Baltic, have lined up in their thousands to sign petitions in an attempt to save their last shot of cheap alcohol to escape prohibitive sales taxes at home.

The protest has certainly shifted north from its roots in emotional appeals to the Mediterranean holiday set stocking up for the beach and the grim skies when they return home. Politicians in Germany's north, which has cross-Baltic ferry links, have started to call for yet another extension to the ban, this time until 2005.

Monti's mission to harmonise tax regimes throughout the EU has caused a storm of outrage from the travel industry and concerted campaigns to overturn the demise of the passenger's favourite perk. The European Travel Research Foundation says it will add $92 to the average cost of a European holiday for a family of four to a European destination as airports and carriers raise ticket prices to recoup money previously accrued through duty free sales. Charter airlines, which rely heavily on in-flight sales to make their tiny profit margins, say they will have to raise fares by 3.5 per cent, according to the International Air Carriers Association.

Drink and tobacco accounts for 50 per cent of duty free revenues in Europe, but luxury goods manufacturers who sell their wares tax free are equally worried, especially given the decline of their core growth markets in Asia.

Lobbyists can shout as loud as they want and stamp their feet as long as they care, but for the abolition of duty free sales to be overturned the EU must put forward a proposal that would then need to be unanimously agreed by the member nations. The Commission is not likely to budge.

The concept of duty free represents an anomaly in the single market: you can't buy duty free goods if you are travelling from Paris to Marseille, so why should you be able to do so on a trip from Paris to London? Moreover, duty free sales enjoy an annual tax advantage worth Ecu2bn ($2.2bn), give rise to a number of distortions of competition and represent unfair advantages, financed by taxpayers, for regular air and ferry travellers.

Duty free lobbies may declare that they are acting in the interests of the man in the street rather than their own extraordinary profit margins but, in fact, all taxpayers are bearing the burden of a vast subsidy to certain sections of the travel industry that benefits a few travellers. The traveller does not get the full benefit from the lack of tax and duty because of high margins. The abolition of duty free sales is just another excuse for airports to overcharge their users.

Airlines operating in the EU earned $1bn from this concession in 1996 and the scrapping of duty free could be the death penalty for weaker charter carriers; but the move should force the industry to shape up and restructure.

"Duty free has been an absolute money-spinner for ferries and charters; it's more or less pure profit. But the less efficient ones have been shifting value from what they should be doing to selling duty free," says Monti.

The end of duty free in Europe should mean the end of airline stewardesses thrusting goods in your face instead of attending to passenger needs. It will also compel inefficient ferries and airlines to shape up or ship out. The benefits of crossborder shopping and broader single market gains will far outweigh the advantages of being able to buy cheap spirits from a duty free shop. ■

DEFENCE

Feeding time for Europe's arms contractors

Ian Mather

DEFENCE contractors are on the march. After five years of restructuring and shedding jobs to match shrinking national budgets, arms manufacturers are gearing up for an all-out attack on export markets and a surge in domestic contracts.

The European defence industry is in disarray. It remains grossly overstaffed and fragmented compared with the American sector. But contractors feeding at the trough of government arms budgets are looking forward to bidding for contracts worth $56 billion as demand grows for high-technology weapons suited to modern warfare.

Nato's new "Strategic Concept" is the harbinger of this growth binge. It seeks to enable European troops to be dispatched rapidly on peacekeeping and crisis management missions anywhere in the world. At present it involves four key weapons procurement programmes:

- Future Large Aircraft (FLA): a $27bn project by five European countries to transport troops and equipment on non-stop long-haul flights.
- Aircraft carriers: the British and French governments are spending $13.2bn on new ships.
- Project Horizon: Britain, France and Italy are investing $11bn to produce 22 frigates.
- Battlefield taxis: a $4.8bn programme to develop and build 6,000 multi-role armoured vehicles for the British, French and German armies.

British Aerospace, Europe's largest defence contractor, is in buoyant mood. It says that its order book is strong enough to fuel growth for the next 50 years. "When you look at the programmes we are working on, the outlook is beginning to look very, very long-term," said BAe's chief executive, Sir Richard Evans. "We are beginning to see revenue streams running out into the middle of the next millennium. It is the first time we have ever been able to project so far forward."

This optimism begs three questions: are the weapons needed, do they work, and will the taxpayers footing the bill get value for money? The archaic structure of the European defence industry means that the answer to the last two is a resounding "no". The fragmented nature of the business and the survival of national defence industry champions have adversely affected quality and pushed up prices. Attempts at collaboration dictated by politicians rather than the defence marketplace, notably the Eurofighter, have flirted with technical and economic disaster.

THE MILITARY PICTURE LIBRARY

Big noise: Antonov is close to satisfying Europe's need for a long-range transport aircraft

EUROPE'S WEAPONS GIANTS

Company	Country	Defence sales(bn)	Specialities
British Aerospace	UK	6.47	Aerospace/munitions
Thomson CSF	France	4.68	Missiles/electronics
GEC	UK	4.12	Defence electronics
Dassault	France	4.15	Military aircraft
Lagardère	France	3.29	Missiles
DASA	Germany	3.25	Aerospace/missiles
DCN International	France	3.07	Naval technology
Aérospatiale	France	2.85	Aerospace/missiles
Finmeccanica	Italy	2.59	Aerospace
Dassault	France	2.50	Military aircraft

SOURCE: COMPANY REPORTS. SALES FIGURES ARE FOR 1996

The European defence industry is stuck where its American counterparts were five years ago. Since then, America has been through a breathtaking round of consolidation, cutting the number of players by two-thirds in just about every segment. Two giants – Boeing and Lockheed Martin – have emerged to lay claim to rising American defence spending and the rich export markets developing in Europe, Asia and Latin America. The American government is seeking to end further shrinkage in the industry by blocking Lockheed's bid for Northrop.

For European companies to compete in these markets they will require wholesale restructuring. The French, German and UK governments called on their main contractors to formalise a plan to create pan-European alliances and mergers and break the political logjam that has prevented consolidation. The report is due on 31 March.

The battlefield taxi contract encapsulates Europe's problem: it has 23 different manufacturers in the sector. America has two. The European industry has split into three camps bidding to emerge as the dominant armoured car producer in a slimmed-down industry. GKN, the British engineering group, is allied with Krauss Maffei of Germany and Giat of France, plus two other German companies. They face competition from two British manufacturers, Vickers and Alvis, and their respective European partners.

The row is reaching fever pitch as the German procurement authority, BWB, nears a decision. Vickers argues that it is being cheated on a change in the specification from a six-wheel to an eight-wheel vehicle. It fears that the British government will automatically follow the German decision, threatening the security of 1,500 jobs at two UK factories. It argues that there is a German plot to dominate the land systems in the European defence industry.

The potential order for 300 long-range transport aircraft by six European governments highlights the level of international competition and the reliance on export sales to turn programmes into profit.

The European FLA is pitted against Boeing's C-17 Globemaster and the Russo-Ukrainian Antonov-77. Antonov is talking about selling 350 aircraft in Europe and 350 to its home countries' armed forces. "They might sell 20, and if the planes are really cheap they might sell 50. But to think they can supply 100 per cent of the market is optimistic," says Chris Avery, aerospace analyst at Paribas.

However, the response to the Antonov, particularly from Germany, has been encouraging. Eberhard Birke, chief executive of the Federation of German Aerospace Industry (BDLI), does not rule out co-operation over the FLA. But he says it must become clear this year whether "it is possible to involve Russian and Ukrainian businesses in long-term, viable and financially secure co-operation with the FLA partners".

The return of the aircraft carrier highlights the strategic shift in European defence priorities. Britain's strategic interests have moved away from central Europe to the Mediterranean and beyond and no modern forces can be credible without air support.

It is funding two new $4.8bn carriers, twice as big as the present Invincible-class vessels and carrying 30 to 40 aircraft. But which planes? One possibility is a naval version of the Eurofighter, but many experts believe it would be too heavy.

Again, an American alternative is at hand in the form of the next-generation Joint Strike Fighter, being developed as the successor to the Harrier. The Royal Navy is so keen that it has already put down a marker to buy 80.

The new ships will act as floating command and control centres for large-scale peacekeeping or rescue operations. Yet the extra spending that will go into providing large platforms will be at the expense of sophisticated on-board systems.

The concept of an austerity-driven floating platform for aircraft is risky. Without sophisticated early warning against attack, defences against missiles and anti-submarine warfare protection, the ships are unlikely to be able to go anywhere dangerous without massive support from accompanying frigates, which Britain does not presently possess

The gap could be filled by Project Horizon, a three-nation programme for 22 air defence ships for the UK, Italy and France.

But the partners cannot agree on the ship's role. Britain, with experience of the Falklands, wants a ship capable of defending a convoy spread over a wide area. France wants escort ships that can defend a specific target. Italy has a similar aim.

The biggest sticking point is the main weapons system, the Principal Anti-Air Missile System. Its complexity requires that it is built by a single industry consortium. But no agreement has been reached between Britain, which wants more powerful battle computers and command and control systems, and the other countries. As a result, three countries are running two project offices to meet two separate operational needs.

With no agreement in sight, France will soon have to start building its own frigates. If Horizon collapses, Britain could be forced into manufacturing American destroyers under licence, which would result in Europe's defence manufacturers falling even further behind America.

On 10 March European defence collaboration took a small step forward with the signing by the British, French and German governments of a $560 million contract for the Cobra battlefield surveillance radar system, which detects and locates artillery fire, to be developed by a consortium of Thomson CSF of France, Siemens of Germany and Racal of Britain.

But ad hoc consortia for specific projects have a chequered history, none more so than the Eurofighter, which has provoked fierce opposition on the grounds that its mission no longer exists, that national jealousies have produced wasteful duplication and run-away costs and that it is little more than a job-creation scheme.

However, the multinational project, which links Germany's Daimler-Benz Aerospace (Dasa), Britain's BAe, Italy's Alenia and Spain's Casa, cleared the last political hurdle when the Bundestag gave its approval, guaranteeing that $72bn, already earmarked and which is in addition to the totals for future projects, will cascade into the coffers of the defence contractors.

The blueprint for European defence consolidation due at the end of the month is vital. Yet the word from the inside is that it will fall far short of what is needed to fight off the American challenge. Alain Richard, the French defence minister, has already revealed the gulf between his government's thinking and that of Britain and Germany. He expressed his reluctance to privatise France's premier defence company, Aérospatiale, leaving in place one of the main obstacles to a corporate pan-European restructuring. He plans instead to separate its defence and commercial businesses at the end of the year.

Commercial applications of military technology – notably in space and transport equipment – have become the cornerstone of growth projections in defence companies on both sides of the Atlantic. While European firms struggle to rationalise, Europe's leading defence executives have identified North America as their number one export target over the next 10 years, followed by Asia and Latin America.

Exports account for more than 30 per cent of European defence sales.

But unless the European defence industry can counter the American challenge, it faces a slow death and the loss of hundreds of thousands of jobs, which it has been carefully cosseting at an artificially high cost.

CyanMagYelloKey

SEVEN DAYS A selection of European perspectives

RUSSIA

Gorbachev: Yeltsin's dead-end deal

Mark Deich interviews **Mikhail Gorbachev**, the former Soviet president

MIKHAIL SERGEYEVICH, was the recent dismissal of the government a result of a thought-out plan or done on impulse?
IT SEEMS that among Yeltsin and his closest advisers the impression arose that the president was losing control of the situation in the country. Viktor Chernomyrdin [the sacked prime minister] goes to Washington, holds successful negotiations, settles agreements, talks with Clinton. They treat the prime minister as if he were the head of state. On the other hand, the Commonwealth of Independent States [CIS] has one foot in the grave and many believe that the government is to blame. On top of that there is one strike after another.

But only now did it lead to dismissals?
That's right. Formerly the call was: "Give back our money"; today it is "Down with the government". Additionally, there is the struggle between the clans surrounding Yeltsin. Boris Berezovsky [business tycoon and political fixer], Valentin Yumashev [Kremlin chief of staff] and Tatyana Dyachenko [Yeltsin's daughter] form one clan. Boris Nemtsov and Anatoly Chubais are looking for their niches. Chernomyrdin has got his inner circle already. All this weakens the president.

On top of it all there is talk that the president is no longer fit for the job. I believe that the true underlying reason for the change of government was for Yeltsin to demonstrate decisiveness and control over the situation. To his friends, Helmut Kohl, the German Chancellor, and Jacques Chirac, the French president, he could show he was welcoming them not as a lame duck but as a host firmly in charge.

And do you believe that Yeltsin is fit for the job?
Let me put it this way: he has difficulties fulfilling his duties. Yeltsin reminds me of Leonid Brezhnev. I worked closely with the general secretary for four years from 1978. Before I joined him I had heard that he was highly energetic and that he achieved a lot. The economic reforms of Kosygin were part of Brezhnev's "good" period. After 1968 and the invasion of Czechoslovakia he changed. Ideology gained the upper hand, stagnation began. Kosygin's reforms were buried. I well remember the plenary session of the central committee. Afterwards I asked Kosygin: why did you not stick to your undertakings? He answered: why did you vote like everybody else?

In 1978 Brezhnev was already seriously ill. By the way, he himself asked to be freed from his duties as general secretary. But the situation was not right; his request was ignored.

So you see a parallel between the late years of Brezhnev and Yeltsin today?
There are similarities. But today the situation is more serious than it was then. At a time of dynamic political change the country needs an active leader. A change of government helps to gain time, but no more than that.

The president explained: "We will continue our policies." That raises the question: why then change the government? He works hard pursuing his policies that seem to lead into a dead end. Yes, the reforms move on, but we pay too high a price for them. In addition to all this we now have a new government that will answer all demands by saying: "Give us 100, 200 days, until the end of the year." And then the year is gone.

In your view, is Sergei Kiryenko, Yeltsin's new potential prime minister, firm in his post or is he only a temporary figure?
He is a temporary figure. Even if parliament supports him, he is a kamikaze politician. The situation is not right; he does not have experience. For Yeltsin, of course, it is convenient. It is much easier to let him go than it was with Chernomyrdin.


BORIS YURCHENKO

Past and future: Gorbachev and Yeltsin clash in August 1991

'Today the situation is more serious than under Brezhnev'

You speak without hope about today's situation in Russia. Why?
I had illusions. For example, after 1993 I thought: how is the president going to see the previous policy through that led to the clash between the legislative and executive powers? Nothing changed. And was it not necessary in 1996 to change the course of reforms that led 60 per cent of the population to the brink of, or straight into, poverty? But Yeltsin continued his policies.

Today I have no illusions any more. My hopes lie in the next parliamentary and presidential elections. There is a connection to the recent shake-up. I am sure that Berezovsky was involved in the changes. I was told that apparently shortly before he announced his final decision on the dismissals, Yeltsin met a group of bankers and afterwards with Chernomyrdin and Chubais.

Can you name the bankers involved?
I could, but I will not name them.

Everything you say implies we are in a dead end?
We could get out of it with a new combination of policies. I believe that three people could bring them in: Yuri Luzhkov [the mayor of Moscow], Yegor Stroyev [the speaker of the upper house of parliament] and Grigory Yavlinsky [leader of the Yabloko bloc in the Duma].

They could unite on a programme that would represent Russia's interests. Yavlinsky has such a programme, but he lacks the ability to implement it on his own. Only Yavlinsky has made his ambitions clear.

With regard to the latest changes in government, how do you see Russia's immediate future?
I do not rule out a dissolution of parliament. In such a case Yeltsin would remain president, but elections might not take place. Such situations are familiar: a temporary government is formed and than stays on for 10 to 15 years, until the situation in the country is stable and normal elections can be conducted. In this period political parties are highly restricted or even forbidden and other restrictions are introduced.

There is irony in your voice.
I do not believe that will happen. I believe Yeltsin is afraid of losing power. But there is nothing for him to worry about. I have had seven years out of power and I am fine. ■

This article first appeared in the newspaper Moskovsky Komsomolets

FROM THE ATLANTIC TO THE URALS

Norway finds safe haven for its barrels of cash

THE BIG PROBLEM facing Norway in recent years has been that, thanks to the revenues flowing from its offshore oilfields, it is just too wealthy. What to do with all these riches of which other European countries can only dream?

Now, quietly and without fanfare, it seems to have found a way to stash its oil wealth in safe havens abroad. It has bought stakes in 2,000 foreign firms, it emerged last week. Knut Kjaer, head of the state Petroleum Fund project at Norges Bank, said: "We have one main goal at the moment and that is to go over softly into the equities market, without getting the prices to increase, and in the most cost-efficient way."

The fund totalled Nkr113 billion ($15bn) at the end of 1997. Kjaer said that investments in equities so far were "very broadly diversified" around the world but declined to give details. Norway is the biggest oil exporter in the world behind Saudi Arabia, producing about 3.2 million barrels per day.

According to projections in the 1998 budget, the fund would total Nkr570bn by 2001: an agreeable nest egg to protect Norway against the problems of an ageing population when oil runs out.

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ANY HOPES THE ITALIANS had of an early spring were dashed in the most unexpected manner last week when the country was gripped by strong winds, rough seas and snowstorms in a sudden return to winter.

Around half a metre of snow fell in mountainous parts of Umbria, where villagers are still living in caravans and prefabs following a series of earthquakes last October.

The army was drafted in to clear roads and ensure supplies reached caravans cut off by drifts. Snow fell on the volcano Vesuvius in March for the first time in years, prompting some Neapolitans to ski down its slopes. Even the south was not spared. The main southern highway between the west coast town of Salerno and Reggio Calabria was navigable only with extreme caution.

Force six winds whipped up seas, wreaking havoc on ferry services from Naples to the islands. Capri was virtually inaccessible by sea for a couple of days. But if March did go out like a lion, the weathermen promised a few warmer zephyrs to begin April.

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TWO HUNDRED YEARS before the dawn of political correctness, Samuel Johnson, the great sage of 18th-century London, observed that a woman's preaching was like a dog walking on its hind legs. "It is not done well; but you are surprised to find it done at all."

The same might be said of a British prime minister speaking French. When Tony Blair addressed the Assemblée Nationale in Paris last week, he did so in the language of Johnson's great contemporary, Voltaire.

Changed times. Britain's prophet of *la troisième voie* was in full voice, hitting out at old-fashioned socialism and the all-too-frequent remoteness and incomprehensibility of European institutions. But while it was the right, ironically, that cheered the loudest, it was less the message that struck a chord in French hearts than the medium in which it was couched. Blair, with a few well-chosen anecdotes and linguistic flourishes, undid at a stroke all the years of opprobrium heaped on France by British leaders. He showed not only that he respected France and its traditions but that he wished to help it find a new sense of direction.

He even had the courage to make jokes at his hosts' expense. When he had been a barman in Paris in the 1970s, he said, Jacques Chirac had been prime minister of France. Now he was a prime minister and Chirac had become president. *"Lui aussi a fait des progrès, mais moins que moi."*

Sir Edward Heath, Britain's premier Europhile, who took the UK into Europe in 1972, used to speak French like a cement mixer. Margaret Thatcher, her trusty *sac à main* by her side, notoriously regarded foreign languages as a sign of weakness. Churchill struggled manfully; Harold Wilson merely looked embarrassed.


AFP / PIERRE VERDY

Are you talking my language? Blair spells out *la troisième voie* to French deputies

Now, at last, Tony Blair has "come out" and monoglot Britons can take pride in their leader's confident command of the language of their nearest neighbours. If only he could manage a few words of German too.

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FINLAND IS NOT normally seen as the heart of the international drugs plague, but even the Arctic north has now, it appears, become infected. Police in the northwestern town of Vaasa said they were holding three suspects and had questioned more than 90 people during the past three months.

They said they had confiscated a few hundred kilograms of amphetamines, half a kilogram of hashish and some cocaine.

A week ago, police at Helsinki-Vantaa airport caught an Estonian policeman trying to smuggle two kilos of cocaine on to a flight to Estonia. It was the biggest drug haul in the airport's history.

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THE VERDICT in the long-running trial of he former Paris police chief, Maurice Papon, accused of wartime collaboration with the Nazis, will now be delayed at least until 1 April following the death of his wife. Paulette Papon, 88, died of cancer on 24 March at the couple's home in Gretz-Armainvilliers, east of Paris, prompting Jean-Louis Castagnède, the presiding judge at the trial in Bordeaux, to order an immediate five-day adjournment. The Papons were married in August 1932. They had three children.

Papon, who served as Paris police chief and budget minister after the war, is accused of ordering the arrest for deportation of 1,560 Jews, including 223 children, in 1942-1944 when he was secretary-general of the Bordeaux region prefect's office. The trial, which began last year on 8 October, has revived French unease over events during the Nazi occupation in the 1940s.

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FOUR UNITED STATES marines involved in February's ski-lift accident at Cavalese in the Italian Alps in which 20 people died have been charged with negligent homicide and involuntary manslaughter.

A hearing to determine whether there is sufficient evidence to warrant a court martial will now be held. The charges also included damage to property and dereliction of duty. Washington turned down a request by Italy for jurisdiction over the crew of the EA-6B Prowler aircraft that clipped the ski-lift cable on 3 February and caused a gondola to plunge 80 metres to the ground.

A US military commission blamed the crew for the disaster, saying that the aircraft was flying too low and too fast.

PRESSWATCH ON: THE CRISIS OF THE FRENCH RIGHT

La Stampa

FRENCH right-wingers, blinded by the Front National (FN) and wishing to sup with the devil, often talk of Italy. They put their faith in Bruno Mégret [the FN's deputy leader], who simply offers the hand of friendship to centrist and Gaullist candidates and wants to be recognised as a legitimate player. They hope that Mégret will transform himself, that he will become the Gianfranco Fini of France and engineer an official break with fascism as Fini did in Italy.

But in the current era France and Italy are absolutely not comparable, and it is because of this that the right's catastrophe seems so total, fatal and tragic. First, French society is in a much worse state, a society which tends to turn in on itself, especially now with the approach of European economic and monetary union. It is a society incapable of recognising Italy's international overtures, incapable of optimism.

The second difference concerns the power of the state, weak in Italy but without parallel in France. It is this strength of the state which makes any Italian-style metamorphosis by Le Pen's party highly unlikely.

Le Figaro

HAS François Bayrou found a way out of the war of nerves which is convulsing the Union pour la Démocratie Française (UDF)? By announcing that he is going to create a new party, the former education minister has stolen a march on his rival, Alain Madelin.

The UDF had become a group where everyone believed the way to salvation was through division. Suddenly we are getting away from that. Until now one of the consequences of the regional election alarums has been the condemnation of the method of voting for the regional assemblies. After Jacques Chirac's address on television and Lionel Jospin's declaration to parliament, we now know that this method has had its time.

But the obvious consequence of this reform is the obligation for groupings on the right and left to reorganise before elections. Is this the moment to break up the UDF? Constructed by Valéry Giscard d'Estaing in 1978 out of old moribund parties, it has never managed to achieve a realistic structure. It was an uneasy social, liberal and pro-European confederation. Nonetheless it succeeded in occupying an important place on the political map, which proves that it appealed to voters.

There are moments in politics when one must act quickly. We hope Bayrou has thought long and hard before crossing this small Rubicon which seems to fascinate him.

Die Tageszeitung

THE civilised French right has lost its decency. It has put itself into a position of depending on the FN of Jean-Marie Le Pen, which is counting on swallowing up and suppressing the Fifth Republic.

The postwar consensus in France is breaking up. From the Communist Party through the neo-Gaullists to the liberal conservatives, passing through the Socialists, all the parties until now have been based on the values of the Resistance. The only exception was the FN.

The alliances made by right-wingers with the FN eclipse this divide. That this collapse of the right coincides with the end of the Maurice Papon trial is not an accident. The Papon trial, like the new alliances, shows that ancient taboos in France are being broken down.

Le Soir, Brussels

IT IS clearly the UDF which has suffered the worst damage from this political nuclear bomb. The liberal confederation's president, himself defeated in Provence-Alpes-Côte d'Azur, has shown that he no longer has any authority over his troops.

The right is in a position into which the FN dreamed of putting it. The right is weakened to the point where the mildest flirtation is enough to dictate its policy – or to make it disappear.

"No written deal has been signed," say men such as Jacques Blanc in Languedoc-Roussillon. Which allows Le Pen to respond with this dreadful *bon mot*: "Those who say they have benefited from FN votes without a deal are a bit like those women of easy virtue who walk the streets while still claiming to be virgins."

Kronen-Zeitung, Austria

WITHOUT needing to like Le Pen, it has to be admitted that he has played his cards in a masterly fashion. With his offers of help to the beleaguered conservatives in the second round of regional elections, without setting conditions that were impossible to accept, he has propelled them into an identity crisis.

Regional, city and town leaders are still bitter over President Jacques Chirac's catastrophic election error last year; their own power and influence is at stake. Who would not look for a way out in that situation?

El Periodico de Catalunya

THE alliance of one part of the French right with the FN could provoke a restructuring of the right, which has lost its way since the last elections. But from a moral point of view, such a restructuring could be accomplished only by expelling those who have done deals with the fascism of Le Pen. If the right gives way to electoral arithmetic and prefers to ally itself with the FN, the result could be catastrophic.

Cuddling up to the FN can only benefit that party. Its strength and discipline will allow it to swallow the disunited right whole.

Libération

NOTHING will be as it was before, those in charge on the right in France keep repeating. Indeed, not even the resignation of party membership by the five regional presidents elected with FN support will return things to the status quo ante. The shadow of Le Pen's influence will remain.

But the fact of having its back to the wall may help the right to find a solution. Because it is in pieces, it has an unprecedented chance to reinvent itself, once and for all. That's what Le Pen is dreaming of, but it could also work against him.

The parties of the right have known since their defeat in the 1975 legislative elections that reform was essential. Now it can no longer be a case of just a quick coat of paint. They must start by rebuilding the walls.

CARTOONISTS AND WRITERS SYNDICATE — AMMER – *WIENER ZEITUNG*, VIENNA, AUSTRIA

Barbaric no-holds-barred boxing proves popular but deadly PAGE 46

TRADE TALKS ■ Keeping in touch in the bad times will pay dividends for Europe when the economic tide turns

Asian tigers forge no bond with fair-weather friends

Martin Jacques
LONDON

WHEN European Union political leaders meet their Asian counterparts in London on Friday and Saturday, 3 and 4 April, at Asem2, the second round-table conference between the trading blocs, the atmosphere could hardly be more different from that at the first meeting in Bangkok in March 1996. Then, the Asian tigers were riding high, their economic achievements the envy of the world.

From being the stage for the most spectacularly successful economies the world has ever seen, East Asia has witnessed, over eight months, one of the biggest financial crises since 1945. The Indonesian rupiah has declined in value by more than 80 per cent since last July. The Malaysian, Thai, South Korean and Filipino currencies have all fallen by 35 to 40 per cent.

The stockmarkets of all five – the biggest casualties of the Asian contagion – have dropped by at least 60 per cent in dollar terms since the beginning of 1997. No country has escaped unscathed, with currencies and stock exchanges suffering in Singapore, Hong Kong and Taiwan.

Nor is it over yet. The real effects, in terms of unemployment, lower growth, falling demand and reduced expectations, are only just being felt. South Korea, a country used to virtually zero unemployment, could have one million out of work by the end of the year.

The forecast for Malaysia's growth rate in 1998, already reduced from eight per cent to four or five per cent, has just been lowered yet again, this time to two or three per cent. Nine were killed in a riot last week when Malaysian police tried to send back illegal Indonesian immigrants. Retail sales in Hong Kong have slumped: 60 per cent price discounts are common.

In this uncertain atmosphere Robin Cook, the British foreign secretary, has described Asem2 as "a unique opportunity for wide-ranging, informal and productive discussions". He said the meeting was to cover financial turbulence in the region, measures to improve business and trade links and co-operation in response to environmental threats. As with Asem1, representation on the European and Asian sides will be at the highest level: head of state or prime minister. The agenda encompasses a series of bilateral meetings and sessions covering trade, global and security issues of interest to the two sides.

Asem, however, has no authority to seek or negotiate tariff reductions, which could conflict with deals brokered at separate World Trade Organisation talks. At Asem1, the only significant decision was to organise student exchanges. Given this and the fact that East Asia is in disarray, it might have been tempting for the Europeans to downgrade the significance of Asem2 and treat it as little more than a formality.

The Asian crisis has so far had little impact on the European economy. Ray Barrell and Nigel Pain, two economists at the National Institute for Economic and Social Research in London, have calculated that the Asian crisis will reduce EU growth by only 0.4 per cent this year (compared with 0.5 per cent for the US and 0.9 per cent for Japan), though some sectors have been more seriously affected. As one leading pro-European British industrialist rather smugly observed in a conversation: "It shows how strong the American and European economies are: we have hardly felt the effects."

So, why bother? The Europeans may have felt that they needed the Asians in 1996 when they were riding high, but in 1998 they can afford to turn their backs. Or can they?

While the US has been deeply immersed in the crisis from the outset, with the US Treasury acting in concert with the IMF and the World Bank as impresarios, European countries have been largely spectators, participating as and when required as junior partners in IMF rescue packages for Indonesia, South Korea and Thailand.

But Europe cannot afford to remain aloof. East Asia's troubles cannot be used as a reason to return to the isolationist stance that preceded Asem1, or allowed to justify a process of disengagement. East Asia does not matter any the less for what has happened over the past eight months. There are strong reasons to suggest that this summit, coming at a moment of weakness in Asia, can be productive.

The tiger economies' crisis is not yet over. The reason why damage has been limited so far is that the five countries that have suffered most account for only about 7.5 per cent of gross world product. If China and Japan should become embroiled, then a full-blown global crisis could erupt and Europe would be profoundly

RADU SIGHETI

George Soros (*above*) is back in action, picking up bargains at knockdown prices

affected. But short of this, there is the ongoing instability in Indonesia, where European banks are set to lose more than $10 billion compared with the US's $2bn-3bn and the Japanese's $15bn-25bn.

With the currency in freefall, most companies technically bankrupt, the prices of some staple foodstuffs doubling since the beginning of the year and a government refusing to accept the conditions of the IMF loan, the Indonesian crisis is by far the most dangerous in East Asia. Unlike anywhere else in the region, it has led to ethnic violence – against the Chinese – and could result in a military coup or revolution. Given that it is the fourth most populous country in the world and that the consequences of an economic and political meltdown would be dire for its southeast Asian neighbours, Europe can hardly turn a blind eye to events there.

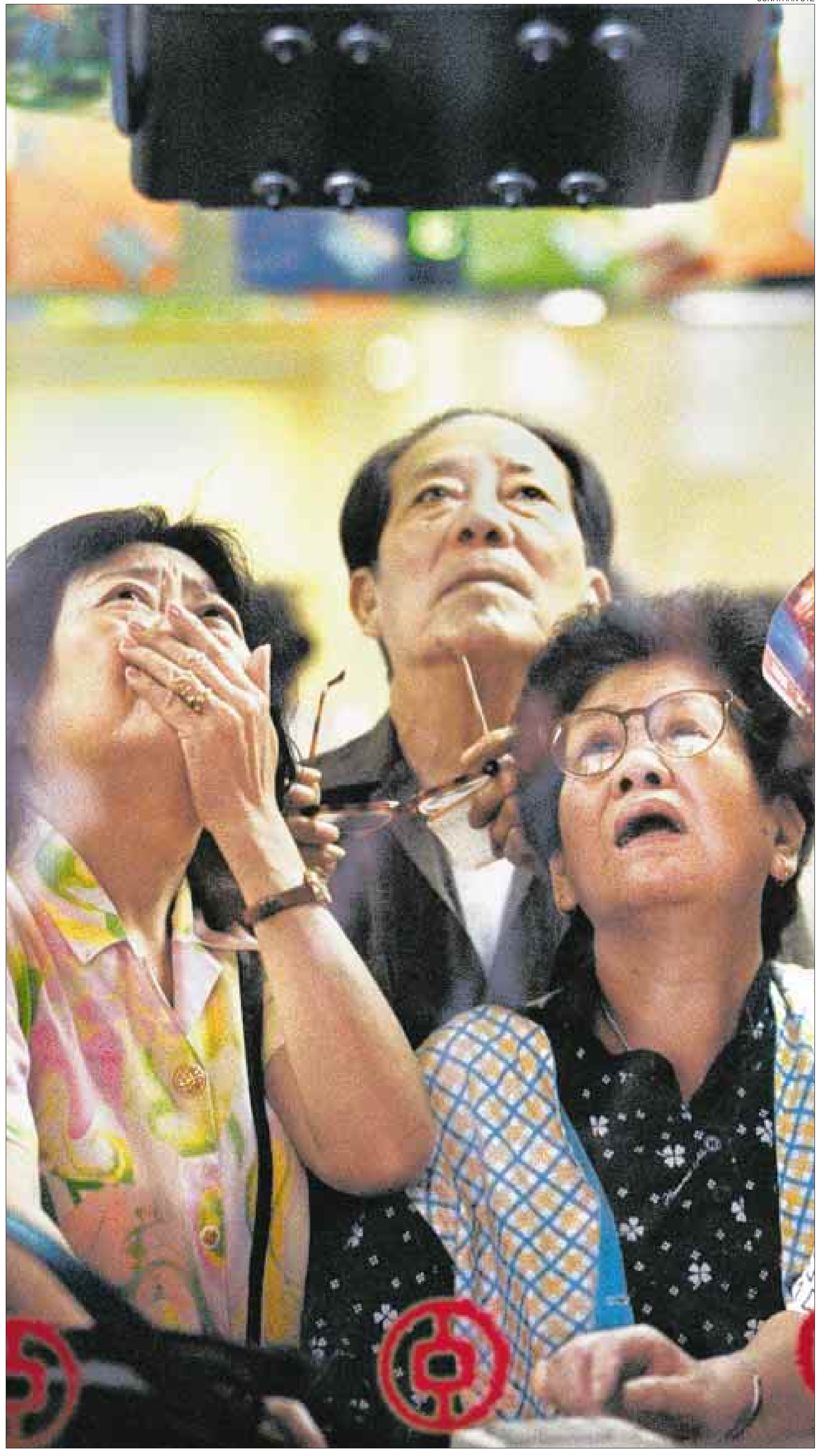
Crises are a source of opportunity. In the worst-affected economies, many companies have gone bankrupt and are looking for saviours, while others, short of capital, are anxiously looking around for partners. Many large American companies recognise that there is now a window of opportunity for buying up large slices of Asian business, an opening which did not exist before and which may not exist in a year's time.

Delphi Automotive, the components subsidiary of General Motors, is considering buying its Korean counterpart. Intel, the US microprocessor maker, is discussing wide-ranging co-operation with Samsung Electronics. Merrill Lynch is buying up part of the brokerage operations of the bankrupt Yamaichi Securities in Japan, showing that in the present circumstances even the unthinkable is now thinkable, namely, prising open hitherto closed financial sectors.

The Americans have a head start precisely because their government has taken the lead in organising the rescue packages for the countries in the region. That has created a fund of goodwill as well as a basis of knowledge and intelligence about economic conditions.

George Soros is also back in action, picking up bargains at knockdown prices. He has invested $650 million in Thailand's Nakornthai Strip Mill and taken a stake in electronics company, GSS Array Technology. There is a mood among investors that, having been forced to restructure inefficient businesses, East Asia's economy is set to rebound. Smart operators in a bull market climb on at the ground floor.

JONATHAN UTZ



Down in the mouth: investors suffer a nasty fall while riding the Asian tiger

That is why European governments should persist in becoming more intimately involved in seeking to find ways out of the crisis, an interest strongly welcomed by East Asian governments which prefer not to be wholly dependent on the US. This is a moment of opportunity for European companies as much as their American counterparts; government involvement can help create a more favourable environment.

Although the world blithely talks in terms of an Asian crisis, this conceals the fact that its severity has varied enormously across the region. Key casualties have been Indonesia, Malaysia, Thailand, South Korea and the Philippines; three sought IMF help.

In contrast, Taiwan, Singapore, Hong Kong and China have survived relatively unscathed. The former two have experienced a depreciation in the value of their currencies and a decline in their stockmarkets but they remain strong and reasonably buoyant. They have suffered mainly because of the regional nature of the crisis. Taiwan, buoyed up by huge gold reserves, has gone on a major buying spree in southeast Asia and is eyeing up potential acquisitions in Europe, particularly the UK.

The biggest winner of all would appear to be China. It has been largely unaffected by the crisis, though its exports are now facing much stiffer competition in western markets from those Asian countries which have devalued. Despite this, there is no sign that it will devalue the yuan. In contrast to Japan, which seems paralysed in the face of its own difficulties and those of its neighbours, the Chinese government is displaying remarkable dynamism, announcing enormous cuts in the government machine, a big programme of infrastructure spending and a scheme to encourage home ownership.

This, together with its refusal to devalue and its growing involvement in seeking to find a solution to the region's economic difficulties, suggests that China is emerging as a potential regional leader rather sooner than anyone anticipated. The fact that Asem2 will be the occasion for the first EU-China summit is highly appropriate and the presence of the new Chinese prime minister, Zhu Rongji, adds particular significance.

This crisis is neither permanent nor terminal. For most countries the worst is already probably over. South Korea has already embarked on a big export drive: sales of Korean cars in western Europe increased by 22 per cent in February compared with a year ago. In January the US trade deficit with South Korea more than doubled compared with the previous month and the same trend is apparent with Hong Kong, Singapore, Taiwan and China. Within two or three years most will have fully recovered; the old growth rates may be beyond most of them, but many will probably continue to grow at five to seven per cent. The crisis of 1997-98 should be seen as a catalyst for reform and future growth rather than the end of the Asian challenge.

Which is why Asem2, ill-defined though it may be, is an earnest of good intent that could repay Europe dividends when the upturn comes. ■

CHINA

Deng's dour successor enjoys the last laugh

Walter Ellis

ZHU RONGJI, like Deng Xiaoping before him, knows the meaning of pain and suffering, Chinese-style. Twice in his long political career he has been purged and forced to endure ritual humiliation.

In 1957 Mao Tse-tung launched a campaign to flush "rightist" snakes out of the communist undergrowth. Zhu found himself condemned to four years of agricultural labour. Rehabilitated in 1962, he began to rise once more in the party, only to find himself a victim of Mao's Cultural Revolution in 1970 and banished once more to the countryside, where he tended pigs and goats and cleaned the lavatories of more fortunate party dignatories.

Deng's response to similar treatment, once he had assumed absolute power, was ruthlessly to settle scores. Zhu prefers to get on with the job. During his rise to the top of the unwieldy party machine he has been remarkable for his political moderation and financial probity. While others around him have grown rich through corruption and graft, he has appeared satisfied to be the moderniser of his country, with an eye on history rather than property acquisitions in Shanghai and Hong Kong.

As mayor of Shanghai in the 1980s he cut a swathe through that city's notorious bureaucracy, earning the nickname "One Chop Zhu" for eliminating multiple stamps of approval for – and multiple kickbacks from – foreign contracts in the Pudong industrial area. In 1989 he took steps to ensure that the government repression that led to the Tiananmen Square massacre did not recur in Shanghai. The people's army, he announced, with considerable courage, would not be turned against the people so long as he was in charge.

Zhu, aged 69 but looking years younger, is an engineer by training, whose experience as a production manager in the early 1950s convinced him of China's need to increase manufacturing efficiency and not use industry as a crude tool of communist ideology. This attitude made him suspect among the Cadre of State Planning under Mao, ever on the look-out for "capitalist roaders". But it looks as though he may have the last laugh.

Zhu profited from economic openness under Deng, persuading his peers that he could expand the economy and help China achieve its true place as a great power without endangering the communist order. In 1982 he became director of the Technology Upgrading Bureau of the State Economic Commission; a year later he was vice-minister at the commission and a deputy secretary of the party committee. In 1987 he took control of Shanghai, liberalising the city's industry and encouraging foreign businessmen and bankers to set up shop.

By 1993 he had become a grand panjandrum: vice-premier of the State Council and governor of the People's Bank of China; alternate member of the party Central Committee and deputy to the National People's Congress. He knew, however, that nothing is ever secure in China. Joking about the number of corrupt careers he was determined to end, he told a meeting of apparatchiks to go out and buy him a hundred coffins. "But don't forget," he added, "one of them will be for me."

Perhaps. But not yet. Zhu's election earlier this month to the coveted job of state premier was by the suspicious margin of 2,890 votes to 29, with 31 abstentions. Those gathered in Beijing's Great Hall of the People were letting it be known that the dour technocrat who has presided over a rate of economic growth approaching 10 per cent per annum was the man in charge. He can now set about his central task: ridding the bureaucracy of 4m place-holders and introducing thoroughgoing economic and political reforms. ■

Don't look back: probity and moderation are Zhu's specialities

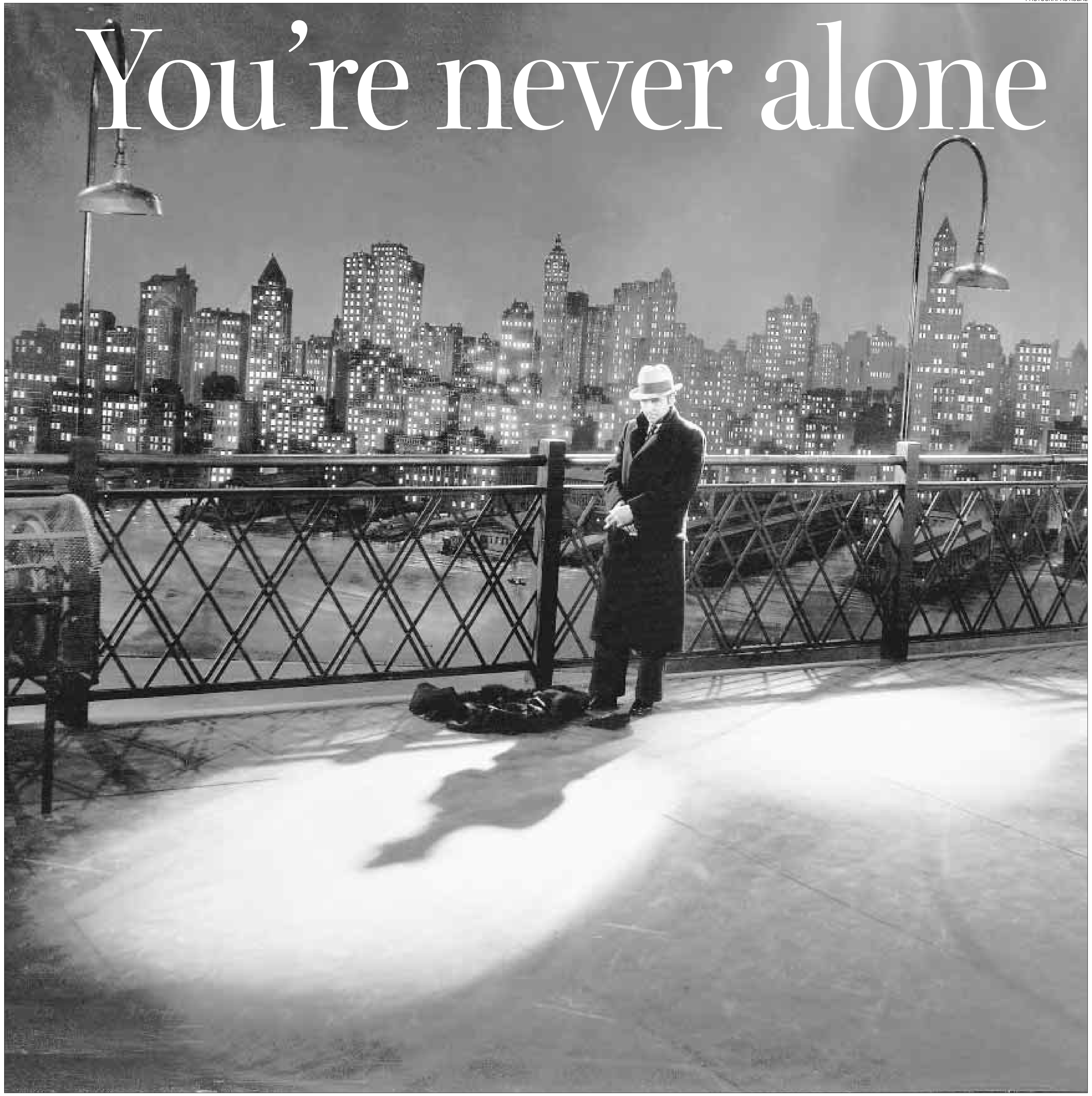
AP

Are you suffering from tanorexia? PAGE 36

PRIVACY ■ Own a mobile phone, surf the Net or send faxes? Then your personal details are half way around the globe

You're never alone

PHOTOGRAPHS KOBAL



Mark Edwards

BIG BROTHER isn't just watching you; he is also tapping all your phone calls, reading faxes and intercepting e-mails. Earlier this year a European Commission report, *Assessing the Technologies of Political Control*, finally confirmed what privacy campaigners have been telling us for years: that "within Europe all e-mail, telephone and fax communications are routinely intercepted by the United States National Security Agency (NSA)".

The NSA's Echelon system bounces the data down a chain of satellite links via Britain to its headquarters in Fort Meade, Maryland, where it has the awesome data-processing power needed to sift digitally through this mountain of communications looking for "keywords" that suggest a particular conversation might be worthy of further investigation.

The report also urges a fundamental review of the involvement of the NSA in Europe, suggesting that its activities be either scaled down or become more open and accountable.

Of course, everybody has known for years that privacy is constantly under threat. Government agencies and companies have been steadily amassing more and more data on individuals. But technological advances now allow far more comprehensive monitoring, both by Big Brother and by a whole family of Little Brothers: employers, shops, banks, Internet service providers and about half the websites visited by the public. Russia's original Internet site, Relcom, has had a reportedly close relationship with the KGB.

> Almost every new piece of technology brings with it a new threat to your privacy

According to Glyn Ford, MEP for Greater Manchester and a driving force behind the report: "There are times in history when technology helps democratise and times when it helps centralise. This is a time of centralisation."

Indeed, almost every new piece of technology seems to bring with it a new threat to privacy, opening up another way for information to be gathered by someone, somewhere. Earlier this year *Sonntags Zeitung*, the Zürich-based newspaper, revealed that Swiss police had been secretly tracking the locations of mobile phone users on the computers of the state-owned telephone company, Swisscom.

Similar systems are being used in other countries. If a mobile phone is switched on, the police can pinpoint its location and even establish the exact movements of the user retrospectively. In fact, they can get a pretty good idea of where mobile phones are even when they are switched off, as they still send out a signal every half hour.

This technology is a boon for police – they use it to place suspects at crime scenes – but a worry for the public. When this method of tracking was revealed in Australia, Chris Puplick, chairman of the New South Wales Council for Civil Liberties, likened carrying a phone to "walking around with a beeper or an implanted transmitter". Privacy campaigners in America have started calling mobile phones "ankle bracelets".

Not only does Big Brother know your location, he is probably literally watching on the ever-growing network of closed-circuit television cameras (CCTV) that watch over towns and cities. While those used by shops are deliberately visible, those installed by town and city councils are usually hidden. In the UK, where CCTV is most prevalent, it would be safe (and not at all paranoid) to assume that in a built-up area, people are being filmed constantly.

You don't have to be out and about to be on camera. Five hotel workers at the Sheraton Boston Hotel in America won a $200,000 settlement because their employer routinely filmed them while they were on a break (including while they were getting changed) in their locker room.

Even locked safely in the apparent privacy of the home, habits, interests and lifestyle are under close scrutiny if you happen to be surfing the Web. Sometimes it is apparent that personal information is being given out, such as on the increasing number of websites that offer "free" registration: it is free if the user hands over some personal demographic data. More insidious is the increasing use of "cookies": software that tracks movements on the Web without anyone knowing about it. A report by a privacy pressure group, Epic, said half the 100 most popular websites use "cookies" that monitor every page visited.

The value of the information that websites and Internet providers hold is proved by the increasingly frequent police requests for it. A Dutch Internet service provider last month filed a complaint with the chief public prosecutor in Amsterdam against an examining magistrate who ordered the service provider to hand over details of one of its users' Internet traffic to the police.

In America a naval officer alleges that he faces discharge because an online service provider, AOL, gave information about him to the United States navy. A senior chief petty officer entered "gay" in the marital status section of his AOL members' directory entry. The officer, however, says his entry does not include his last name and alleges that the navy rang AOL, where a representative confirmed his identity. But perhaps the greatest threat to privacy is even now sitting only inches from your heart: the contents of your wallet. Citizens of Greece have details of their religion entered on their national identity cards – a potentially dangerous piece of data, given Europe's history of conflict.

In 1996 Spain began introducing a new social security card, the first "smartcard" in Europe to employ biometric technology; that is, it stores details of fingerprints. Instead of using a PIN number or password, cardholders place a finger on a "reader" to confirm their identity.

The collection of credit cards and store loyalty cards kept in a wallet also contains a full (and for others, easily accessible) portrait of an individual's life. The public may not be concerned that a supermarket is building up a comprehensive file on wealth, habits and leisure interests by monitoring all purchases via their loyalty cards, but they might worry if they realised that the store is selling the data to a "look-up service", which in turn will happily sell it to a private investigator.

Any company that stores data has to register what it intends to do with it. The British supermarket chain, Sainsbury, for example, says in its registration form that it may give the information to "private detective agencies" and "security organisations" or sell it to "traders in personal data".

Here is where the dangerous area known as "function creep" enters the debate – where data collected for one reason is used for another. People may think it reasonable that the shops they patronise store their personal data; they may not even mind if they sell that data to other companies that then send junk mail. But it is disturbing that they can sell the information to firms that simply broker data and that thanks to the burgeoning "individual reference services" industry, two or three transactions down the line anyone could buy the data for a few hundred dollars.

They can then augment that data with even more personal information. Remember the television police show *The Rockford Files*, where Jim Rockford would ask his mate in the police force to run something through the police computer for him? It could not happen in real life, could it – people using government computers for private purposes? Of course it could.

In America, for example, 4,500 Internal Revenue Service employees were investigated for improperly examining files over four years. Most of that improperly obtained information was heading for the individual reference service industry. Just think for a moment of all the questions a bank typically asks in order to verify a customer's identity: date of birth, mother's maiden name or the date of purchase of your home. All that data is now flying around the individual reference services industry right now.

So what can any of us do to protect our privacy? The flip answer is that it isn't about what we do, it is about what we don't do. If you want to retain some vestige of privacy in the modern world, then don't have any credit cards, don't have any store loyalty cards, don't have an account anywhere, don't borrow money, don't have a mortgage, don't have a bank account, don't surf the Web and don't leave your own front door. ■

KEEPING A LOW PROFILE

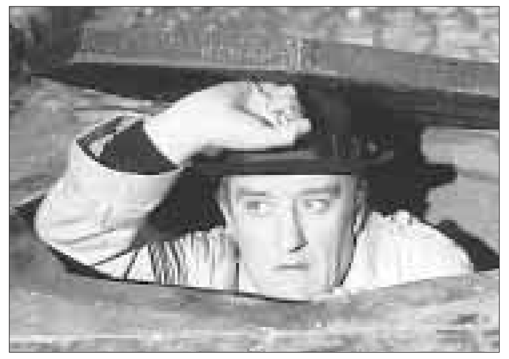
There are a few practical steps you can take to safeguard your privacy.

Get the Anonymizer. This software will help you surf the Internet without leaving telltale digital footprints all over the information superhighway.
Download it from www.anonymizer.com

Use Pretty Good Privacy (PGP) software, which will allow you to encrypt your e-mail.
Download it from www.pgpi.com.

Wait until October. By then all European Union countries will have to bring in legislation in accordance with the European directive on the protection of individuals with regard to the processing of personal data. But don't hold your breath waiting: countries that already recognise the importance of privacy, such as Germany, will continue to develop the idea of data protection, but countries such as the UK, which favour the concept of freedom of information over the privacy of the individual, will comply only with the directive's minimum requirements.

Contact pressure group Junkbusters (www.junkbusters.com). They provide what is, in essence, an all-purpose "leave me alone" form. You fill it in once and they will send it to everyone, telling them not to call you, not to junk-mail you and not to store or sell any information about you. It sounds fine, except for the worrying fact that when you enter your Junkbusters password, they tell you: "Do not use a password that you use for another purpose, as we cannot guarantee its security." Sadly, in this day and age even organisations that are set up to protect your privacy cannot guarantee your privacy.



ELFIE SIEGL'S

Yekaterinburg

DRIVING out of town from Lenin-Prospekt to the Uralmash machinery factory requires patience: most of the time is spent in traffic jams. Two years ago the streets were not jammed. Yekaterinburg, centre of the Urals industrial area at the junction of Europe and Asia, is groaning under the weight of traffic crawling at snail's pace along streets littered with potholes. A 20 per cent annual increase in cars has taken its toll.

But for Sergei Cherkasov, mayor of the Ordzhonikidze district, the car explosion is no proof that living standards are rising. The town has no money for parking places or new road surfaces, tunnels and bypasses. In early March the chaos was worse because, day and night, heavy trucks, cranes and diggers were clearing the streets of snow.

Thursday 19 March was the deadline for the removal of all traces of winter in time for the three-way summit between Jacques Chirac, Boris Yeltsin and Helmut Kohl. But Yeltsin's fragile health meant the summit was moved to Moscow. This was a blow: Yekaterinburg had wanted the summit to put the formerly closed city in the spotlight. It also offered Yeltsin a chance to do something for his home town, which is hoping for 16 new directives promoting regional development.

The summit had been a long time in preparation. Of the three guest-houses needed, only Yeltsin's was in good condition: renovation of houses for Kohl and Chirac was a last-minute panic. Locals told German visitors that Kohl would be in a house built by German prisoners of war brought here in 1943 to work in the factories

Yekaterinburg was founded by Peter the Great in 1723 and named after his wife, Yekaterina. In 1924 it was renamed Sverdlovsk by the Bolsheviks after Sverdlov, one of Lenin's comrades. Seven years ago the citizens petitioned to change the name back.

Disappointment over the summit followed perhaps an even bigger setback: the decision that the bones of the tsar's family are to be buried in St Petersburg and not here. Mayor Cherkasov has a practical view of the government's decision: "If the tsar's family had been buried here we'd have had an extra tourist attraction. The people don't care too much, but the political élite does."

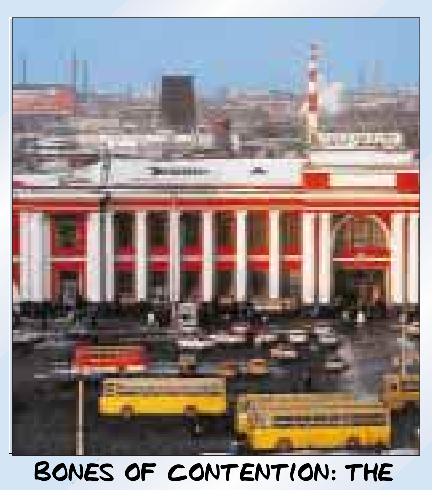
Moscow, St Petersburg and Yekaterinburg were rivals for the tsar's bones. If the Urals had got them, Yekaterinburg could have styled itself as Russia's third capital and perhaps even the idea of an autonomous Urals republic would have been strengthened.

But things worked out differently and the most popular site in the city continues to be a plot of land in Karl Liebknecht Street where the house of a railway engineer called Ipatyev stood until 1977. Today there is a wooden cross there, decorated with plastic flowers and a little model of a church. There are plans to build a church on the site.

In Ipatyev's house, on the night of 16 July 1918, the head of the Romanovs and his family were executed. Tsar Nicholas II, his wife, four daughters and heir Alexei had been brought there a few weeks earlier. They hoped to wait until being allowed to emigrate.

After the executions the Bolsheviks left the Ipatyev house alone. Under Stalin and Khrushchev nothing was done. But Brezhnev, who worked here as a surveyor in the 1930s and built his career in the local party, gave orders in 1977 for the house to be blown up. The man who did his bidding had been elected a year earlier as local party boss – Boris Yeltsin. In 1990, when Yeltsin stood for congress, he was criticised by voters for being too passive in defence of the house.

The Urals became the arms factory of Russia after weapons plants moved here in the Second World War. The area was closed to foreigners and natives, unless they had special documents; the city was reopened only in 1991. The museum of the history of the Communist Youth League, opened by Yeltsin in the 1980s, changed under Mikhail Gorbachev from a boring exhibition into an avant-garde arts centre, bravely tackling topics of past and present. Victims of Stalin's purges are remembered here; mass graves containing up to 70,000 bodies have been found nearby.



NETWORK

BONES OF CONTENTION: THE TSAR'S GRAVE GOES WEST

The entrenched overlord of the Yekaterinburg region is 62-year-old Eduard Rossel, who is of German origin. In 1993 Yeltsin fired him for trying to set up a Urals republic, supported by 84 per cent of voters in a referendum. Two years later Rossel was back after convincingly winning the poll for governor. He still wants his republic. "I'm chief here, so why should I keep having to run to Moscow?" He is proud of foreign investment and insists that the criminal gang wars that had blighted the city are over. "Now the markets are working and people have stopped shooting."

Maybe not. In February he almost died when a bomb exploded near his Lincoln limousine. On 3 March Georgiy Stepanenko, a well-known lawyer and local politician, was shot on the steps of his house. He was killed for economic rather than political reasons, some think. The lawyer had brought many cases of fraud and economic crimes. "Whatever way you look at it," says Cherkasov, "life around here has been pretty stormy."

This article is extracted from a feature in the Frankfurter Allgemeine Zeitung

HEALTH

Burn baby burn

Cath Blackledge

TANOREXICS – that clique of Europeans who think they're never brown enough – should take note and find another fix because the notion that slapping on suntan lotion protects against skin cancers is starting to melt in the heat.

The message about sunscreens is changing. Now it is: don't rely on them to protect you against melanoma, the most deadly form of skin cancer. Paradoxically, those most at risk of contracting melanoma are fair-skinned north European aged between 20 and 40 who use sunscreens slavishly, have never had sunburn and yet are fixated on maintaining the depth of their tan. Tanorexics can be spotted regularly on the beaches of St Tropez and Marbella and on the slopes of Gstaad and St Moritz. If not out in the sun, they are sitting on a plane complaining how their tan has faded in just one day out of the sun and figuring out where the next top-up is coming from. They are probably British, Dutch, Swedish, Belgian or French.

Since the end of the 1930s, when Europeans started to rely on an annual holiday in search of the sun, the incidence of melanoma has been on the increase, despite the liberal use of sunscreen products. In northern Europe (including northern Italy), the number of cases of melanoma is doubling every 15 years, with the annual increase between three and seven per cent. One male out of 10,000 will develop melanoma each year, with the incidence slightly higher in women and most frequent in the 20-40 age group. Melanoma is the cancer from which fair-skinned north Europeans are most at risk and it is a risk that can be altered by changing our attitudes to exposure to the sun.

Estonia provides an example of how differing social behaviour can alter the epidemiology of disease. The population of Estonia and Scandinavia is exactly the same in terms of genetic make-up and geography. The risk of Scandinavians developing melanoma has tripled in the past 30 years, whereas it has remained exactly the same in Estonia. The difference is that Scandinavians can afford to go skiing and sunbathing, exposing their fair skin at least three times a year to the sun's damaging ultraviolet – UV – rays; the Torremolinos tanorexic effect.

"The sunseeker is likely to take long holidays, likes to tan, uses very good, expensive sunscreens and never burns, just gets very tanned. These are the target people for melanoma," says Philippe Autier of the Milan-based European Institute of Oncology, who is investigating the relationship between excessive sun exposure using sunscreens and the risk of developing melanoma. He plans to publish definitive results supporting a link between the two next month.

Most good sunscreens – those with sun protection factors (SPFs) of 15 or greater, if applied liberally and at least 30 minutes before basking in the sun – screen out UVA and UVB rays, which are believed to be capable of causing cancer by directly or indirectly damaging genetic material. Such sunscreens are frequently promoted on the grounds that they allow a person to stay in the sun for longer than they can tolerate without a protective product. But the number of cases of melanoma continues to rise, prompting the theory that it is excessive sun exposure, with or without sunburn, that is the problem.

"Sunscreens are not protecting and they could even be a risk factor," says Autier. "Sunscreens have allowed people to change their behaviour to excess sun exposure. There is no natural alarm and no sense of the amount of UV radiation that has been absorbed. What is dangerous about sunscreens is the behaviour they allow. If it's a question of exposure it is better to go in the sun without a sunscreen."

Autier advocates avoiding sunburn by staying in the shade and wearing suitable clothing, rather than slapping on the sun-cream. He believes that the sun care industry and consumers need to recognise that promoting sunscreens as need to protect from the harmful effects of the sun was probably a big mistake. Boycotting sunscreens in favour of staying out of the sun is not likely to please the major sun care manufacturers, such as L'Oréal with Ambre Solaire, Schering-Plough with Coppertone and Beiersdorf with Nivea, which glean enormous profits from sun care products. In 1995 Europeans spent $1.4 billion on something for the sun; that figure is expected to rise to $2bn by 2000 – an increase of more than 40 per cent.

Sunscreen companies have shown previously that they can respond to change, usually by finding new markets to target, such as after-sun moisturisers, total sunblocks and skin bronzers.

Thirty years ago sunscreen products were sold on the basis that they helped in gaining a suntan, with many sun care products containing photosensitisers designed to speed up the tanning process. Ten years later the message changed: in the late 1980s sunscreens were marketed on the premise that they protected the user against the damaging effects of the sun by preventing sunburn, while achieving the perfect suntan. The message is now a bit more ambiguous: sunscreens are cancer protecting but could also be cancer enhancing by allowing excessive sun exposure.

Children are one new focus for sunscreen manufacturers. It is estimated that 80 per cent of a person's total lifetime sunshine intake happens in the first 18 years, with protection against sunburn and excessive sun exposure believed to be critical under the age of 10. The focus on children's skincare products also highlights another change in the attitude of sun-care manufacturers. At the first level, protective clothing and playing in the shade are being promoted, with sunscreen to be slapped on the parts clothes do not cover. A start has been made in promoting the use of sun-protective clothing, which can block between 90 and 100 per cent of UV light.

Changing the habits of children playing in the sun is likely to be a lot easier than altering the social behaviour of their parents, especially if they are among the diehard European tanorexics. Alexander Eggermont, chairman of the European Organisation's melanoma research group, is concerned. "Wanting to be tanned to look healthy, or to have the hallmark of success, is high-risk behaviour," he warns.

The skin shade sensible north Europeans should be sporting this summer is white – not pink and definitely not brown.

IMAGE BANK

DARKER SHADES OF PALE

English rose It is strange how the English rose is supposed to be a delicate white colour. She turns bright scarlet throughout the summer because she is under the impression that she must suffer third-degree ultraviolet burns before she can get a tan.

Yellow rose The hazards of cheap, do-it-yourself tan creams. It doesn't take an expert to spot the yellow hew that shines from the surface of those people with all-year-round tans. Careful about application to the face: strange white moustaches easily appear around the nose and mouth area.

Dark roast Only a year ago the Latin lover tan on north Europeans was considered deeply unfashionable; see actor George Hamil*tan*. The latest fashion campaigns for Guess and Chanel recognise that the tanorexic has brown skin because it makes the body look more skinny.

The Ultimate North Europeans talk about the perfection of the light honey brown tan only because they are envious they don't go Mediterranean olive. The truth is that people with tans look richer, sexier and more successful than pasty-faced Anglo-Saxons who spend their lives sitting under trees obsessing about SPF factors.

BOOKS

Man who fell to Earth

Starman: The Truth Behind the Legend of Yuri Gagarin
by Jamie Doran and Piers Bizony
Bloomsbury, £17.99

YURI GAGARIN was the first human being in space. Just as the first subjects of literature were legendary heroes whose normal occupation was war or life-threatening adventure, Gagarin assumed mythic status by travelling into a realm where nobody was sure that human life could survive.

Gagarin also played an important role in the earthly matters of the mid-20th century. His flight symbolised the Soviet Union's self-confidence during the late 1950s and early 1960s when it seemed that communism would overtake capitalism. The tractor driver who was the first to find Gagarin in a Russian meadow after his epic 108-minute journey on 12 April 1961 summed it up: "America is a mighty country but they didn't quite make it to be first. As they say: 'It's important who crosses the bog first.'"

Like Icarus, Gagarin also crashed to Earth after standing up for himself and his friends in a system that destroyed individuality. Gagarin was an official hero of the system. Schoolchildren saw his beaming face in Soviet textbooks while their parents worked on components for the space programme. The space race was a political initiative benefiting bureaucratic empire-builders on both sides in the Cold War. A few weeks after President John F Kennedy was absorbing the shock of Gagarin's flight, Nasa put forward a budget proposal that was to consume five per cent of the American economy and employ 250,000 people in 40 states. In the USSR Nikita Khrushchev succeeded in downplaying the shortage of consumer goods by appealing to patriotism.

Icon: like Diana, Gagarin realised potent fantasies

Starman is a riveting account of Gagarin's life. It could not have been written until the Cold War was over. Gagarin's drinking, womanising and deeply human yet redeeming failings remained hidden. It is only now revealed that Gagarin's most serious accident before his fatal plane crash came at a Black Sea resort when he threw himself from a second-floor window after his wife caught him with a nurse.

Trained for solitude in space, Gagarin was not psychologically equipped to deal with the demands of 20th-century celebrity. General Nikolai Kamanin, head of cosmonaut training, who accompanied Gagarin on his tours to non-aligned countries, recalls how the Soviet ambassador to Colombo insisted that Gagarin made as many appearances as possible: "They are doing their best to squeeze the maximum possible use out of Gagarin to make the government look good. They have no interest in how all this affects him." Responding to endless toasts on publicity tours "inadvertently led [Gagarin] towards excessive drinking".

Gagarin was the Princess Diana of the Soviet Union. Both were plucked from obscurity to become media icons. Both realised potent fantasies that have exercised the imagination since ancient times (to fly into space and to marry a prince). Yet, unlike Diana, whose private life was lived in the public domain, Gagarin was at the apex of one of the most secretive social machines of the 20th century.

Both Gagarin and Diana had youth and physical beauty; commentators focused on their smiles, which seemed to betoken an inner goodness. Both were perceived as people's heroes and had the ability to put people at their ease. Both took up the cause of the dispossessed: in Diana's case, Aids sufferers; in Gagarin's, young people in prison.

Sergei Belotserkovsky, who trained the early cosmonauts, said: "Letters – dreadful letters – were pouring into Gagarin's office. He was an emotional person and felt upset when he couldn't help. He didn't fit into the lifestyle of the party elite … of the Brezhnev system. He was alien to them so they rejected him. He was too honest, too self-willed and independent." Both Diana and Gagarin died young in unexplained circumstances.

The book is co-authored by Jamie Doran, a documentary film-maker experienced in teasing information out of Russian interviewees, and by Piers Bizony, a specialist in space-related subjects. They gained the trust of the surviving players in the space race, hitherto sworn to secrecy. They give horrific accounts of the human guinea pigs subjected to intense G-force pressure to test the body's reaction to space. *Starman* brilliantly captures the atmosphere of the time: an unmistakable blend of sustained impersonal cruelty and last-minute Russian humanity, as exemplified in the moment just before blast-off when a technician, Oleg Ivanovsky, signalled to Gagarin to open his visor so they could talk without the radio link. Risking prison, he informed the cosmonaut of the "Big Secret": the three-number code that would allow Gagarin control over his own craft in an emergency. Otherwise he would have been left as powerless as Laika, the first dog in space.

On the American side, Nasa's cautious rocket engineers also wanted to prevent astronauts from controlling their own craft. The astronauts refused, exploiting their high profile in *Life* magazine to lobby for command of their flights. The book also reveals vivid details of the futuristic surroundings of Russia's Space City and the way they were affected by folk customs: when the Vostok space capsule was shown for the first time to 20 trainee cosmonauts vying to be the first man in space, Gagarin asked permission to climb aboard. He took off his boots to enter the capsule. "They take off their shoes in Russian villages when they go into a house as a sign of respect. Gagarin became 'the one' from that moment," recalls a fellow cosmonaut.

For the propaganda machine, Gagarin personified the socialist realist ideal: a dauntless and purposeful "space hero". He was portrayed as the son of peasants even though his father had been an oil technician and his mother highly literate. As his biographers say, he was "an essentially decent and brave man giving his best in extraordinary circumstances … a hero in the best and most honest sense of the word".

GALINA SLEPNEVA

CENTRAL EUROPE

Eastern promise from Ukraine with Lviv

Galina Slepneva

AS TRADE between Poland and Ukraine increases and the long-awaited motorway between Gdynia in Poland and Vienna nears completion, Lviv and Krakow are set to regain their position as top trading centres. So, for the brave, now is the moment to look at the property markets in the two cities.

Beautiful and architecturally well formed, Krakow and Lviv are on the threshold of commercial greatness in central Europe.

Krakow is an unspoilt baroque city with a population of 740,000. It is the ancient capital of Poland and the city centre is on the Unesco World Culture Heritage List as one of the world's 12 most significant architectural complexes. Last year tourism earned the city about $160 million and there were 3.7m visitors.

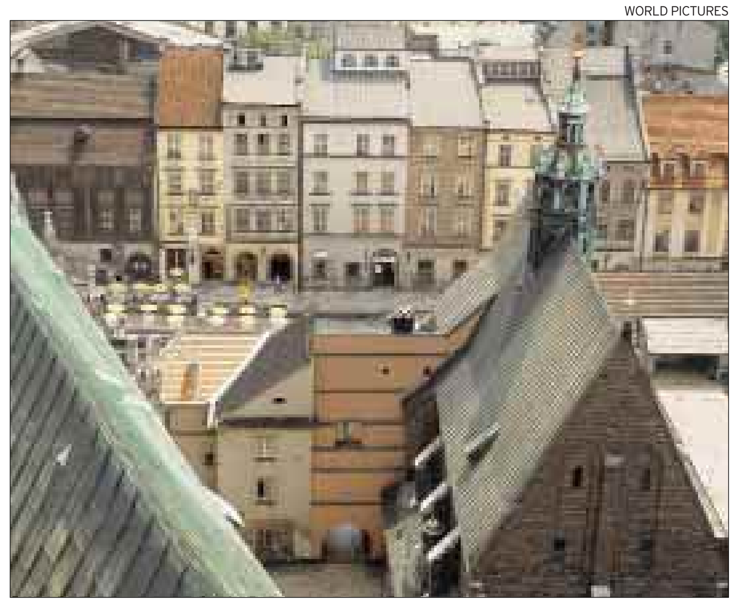
Lviv – formerly known as Lvov – is on the other side of the Ukrainian/Polish border from Krakow. It was the 13th-century capital of Galicia, a region now divided between Poland and Ukraine.

Lviv reached its cultural apogee under the Habsburgs between 1772 and 1914. The city's impressive opera house is by Siccardsburg and Van der Nüll, the architects who designed and built the Vienna opera, and the cobbled streets resemble Prague without tourists. The Viennese influence is best felt in the unspoilt Sezessionstil, whose art nouveau buildings are unlike anything else to be found in Ukraine. A further positive point for the city is that it has its own power supply: natural gas from the Carpathians.

Krakow has little in the way of retail property and the shortage is acute in the old town. Prime retail rents on Floreanski Street are $70/$80 per square metre per month, as against $25 per month out of town.

In July a 20-floor, purpose-built class A office building called the Krakovia Business Centre will open. Space will cost $26 per sqm per month and 80 per cent is already leased to the Polish Bank BPH. Old office space costs $20 per sqm per month. Poland's largest mixed use development is a $480m project around Krakow railway station. Tishman Spayer has an exclusive option on the deal due to be completed in 2001.

WORLD PICTURES



Unspoilt: Krakow's city centre is one of Unesco's top 12 heritage sites

To the north of the city the French Casino group is opening a 6,000sqm extension to its Géant hypermarket. The group promises that 80 per cent of the goods sold in its stores will be Polish-produced.

Historic residential property is in short supply. A 7,000sqm historic building with the possibility of conversion to retail and office space sold for $1m in 1997. A 180sqm apartment close to the medieval market square sold for $120,000, according to a local agency, Firma Project.

The Polish property market has yields of around 14 per cent. In Ukraine yields are a mind-blowing 35-50 per cent. But there are risks. To obtain Ukrainian domestic freehold you have hazardous alternatives: either discreetly buy out all existing occupiers of a building, convert it to office accommodation and form a company in order to buy the common areas of the building from the city (this process costs about $1,000 per sqm in Kiev, less in Lviv); or, a cheaper route – at $500 per sqm – is to do a deal with the city, but approval must be obtained at every stage: 100 per cent ownership requires 20 signatures.

"Effectively, developer must pay upfront before full ownership is obtained," warns Jason Sharman of DTZ-Debenham Zadelhoff in Kiev.

The office market in Lviv follows Kiev, which is itself three years behind Moscow. Poland is the front-runner, outstripping Russia by five years. However, Lviv is the first place of importance reached after crossing the border from Krakow.

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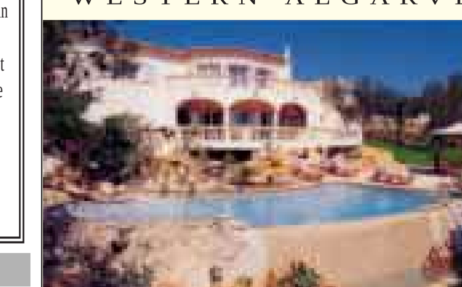

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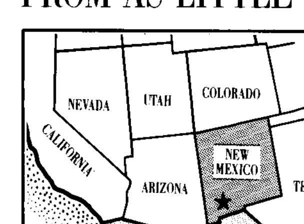

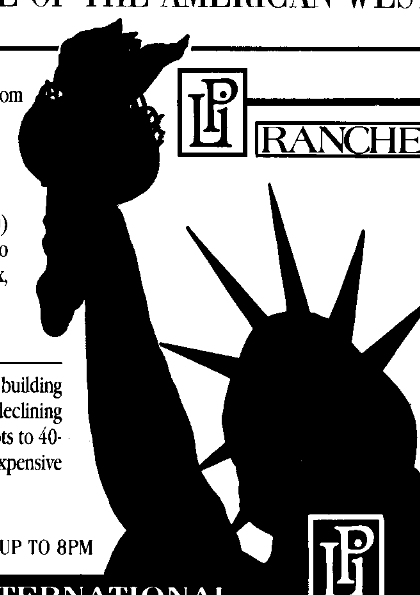

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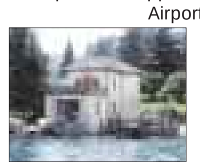

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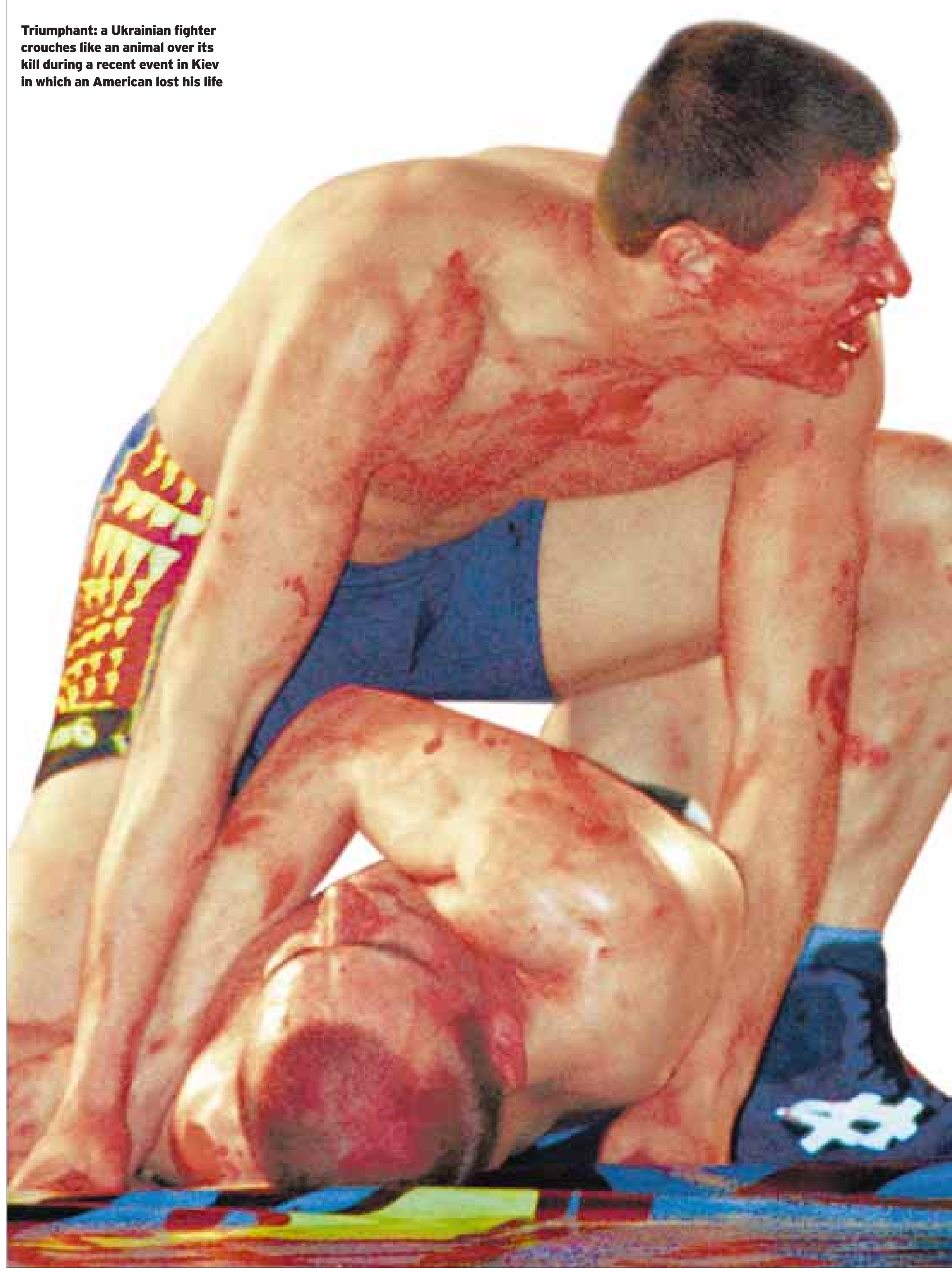
NO HOLDS BARRED ■ Under pressure in America, the sport is chasing new markets

‘Human cockfighting’ hits Europe



Triumphant: a Ukrainian fighter crouches like an animal over its kill during a recent event in Kiev in which an American lost his life

EVGENY KRAUS

Michael Butcher

BANNED in more than 40 American states, No Holds Barred fighting is taking a grip on Europe. The death this month of a fighter in Kiev brought home to a worldwide audience just how gruesome this sport is. But while it is perhaps unsurprising that these barbaric events should flourish amid the chaos of the former Soviet Union, it is also making incursions into Sweden, Finland and the Netherlands.

As the name suggests, No Holds Barred (NHB), also known as cage fighting or extreme, is legitimised brawling where anything goes bar eye gouging and biting.

One significant clause in what passes for a rule book baldly pronounces that any fighting which does not allow hitting an opponent while on the ground is not NHB. Another section details the hold of fish-hooking, a grim euphemism for ripping an opponent's cheek with the fingers.

With such brutal options available, it was surely only a matter of time before someone died as a result of a fight. Now that has happened. In what is thought to have been the first fatality, a former American NHB champion, Douglas Dedge, died in Kiev. He had been beaten while unconscious during a contest billed as Ukraine versus the World. Dedge's death has added strength to the campaign in the United States to ban such events, which the sport's opponents have called “human cockfighting”.

NHB originated in America and was an instant success. In 1993 a New York television producer had the idea of putting two martial arts experts into a ring surrounded by a two-metre-high cage and throwing away the rule book. At its peak, competitions on pay-per-view television were bringing in about $5.25 million from an average of 200,000 subscribers.

Backed by Bob Guccione, the owner of *Penthouse* magazine, Battlecade Productions quickly became the leading promoter. Donald Zuckerman, head of Battlecade, boasted that the sport would soon become bigger than boxing.

Zuckerman denied that his events were barbaric but there were plenty of people who disagreed with him. With the authorities moving to ban the sport, venues often had to be switched at the last minute; laxer licensing on native American reservations provided promoters with venues. But they seem to have hit an insurmountable obstacle after TCI, the largest American cable network, refused to carry NHB. Now Guccione has pulled out. The latest fight was put on the Internet but flopped; promoters are now looking busily for alternative markets.

Interest has spread to Japan, Brazil and particularly Europe. Videos of bouts are available in Austria, Germany, Switzerland and Britain. Promoters see Europe as the market to exploit now that the Americans are cracking down.

The events have proved extremely popular in the former Soviet Union. During fights in Moscow mafia bosses sit ringside crying “kill him” and “finish him off” like Roman emperors watching circus gladiators.

What is more unexpected is that the sport has arrived in Sweden, a country with impeccable social democratic credentials. Tommy Torstensson of the Swedish boxing federation sees it as a sign of the times. “We became brutalised in the 1970s and 1980s when the me-first philosophy took hold,” he said. “This sport is brutal and inhuman; we are turning the clock back.”

Professional boxing has been outlawed in Sweden since 1970, which makes it all the odder that NHB is permitted. But there are doubts about its legal status. “It certainly sounds illegal, but because it is not strictly speaking boxing there is no explicit law against it. It is a grey area which has yet to be tested in the courts,” said Torstensson.

What no one can doubt is that the sport has a following. When a Swedish newspaper named Lars Wallin as the country's best exponent there were protests from NHB fans, putting forward the names of rival contenders.

One fighter, a former professional boxer whose identity Torstensson would not disclose, has fought two matches in the Netherlands and organises matches in Sweden. He makes about Skr150,000 ($18,800) from each match.

In Finland the next event is advertised as taking place in Åbo on 9 May. Fighters from all over Scandinavia and the former Soviet Union are expected to converge on the Finnish port.

But not every European country is permitting the savagery. Traditional Dutch permissiveness has given way to a swift clampdown. The ministry for sport has banned NHB and in January the police broke up a scheduled match in 's Hertogenbosch. But there is concern, according to Paul Hertog of the Dutch boxing federation, that the authorities will succeed only in forcing the sport underground: “And then it really will be hard to know what is going on.” ■

Stop start: last year's postponed race was eventually a big success

JULIAN HERBERT / ALLSPORT

HORSE RACING

National sets fences higher for spectators

David Meilton

THE world's greatest steeplechase, the Martell Grand National, has now become the greatest security headache as well. On the first Saturday in April the eyes of the planet – and several million dollars of its money – are focused on a patch of green dotted with forbidding birch and spruce obstacles in the Liverpool suburb of Aintree in northwest England.

But twice in recent years Aintree has made a spectacle of itself in ways which no one connected with course or race wanted to see.

Time has softened to a degree the embarrassment of “the race that never was” in 1993. That year antiquated technology and disorganisation produced two false starts and total confusion, with half the field completing the course as officials scurried around like panicked rabbits. The race had to be declared void.

But last year's forced evacuation of the racecourse as the result of a bomb scare remains fresh in the memory. Once again Aintree was in the headlines around the world for the wrong reasons, although this time embarrassment was minimised by the efficiency with which the emergency was handled by the course managing director, Charles Barnett, and his staff.

The events of that day – jockeys and racegoers crowded into nearby terraced homes to be served cups of tea and cake, riders in racing colours danced the night away in city-centre hotels – have entered the canon of Aintree myth. The race was run on the following Monday, in front of an unexpectedly large crowd imbued with the “we shall not be moved” blitz spirit so beloved of the British, and won in spectacular front-running style by New Zealand-bred Lord Gyllene.

This year Barnett and his staff are taking no chances. On National day, Saturday 5 April, Aintree will bear more resemblance to a prison camp than to open heath. The only people allowed to park at the course will be owners, trainers and jockeys; all must carry a special pass. Buses will bring racegoers from offsite car parks. Everyone attending the meeting will be subject to security scanning.

“We are installing 55 airport-style archways and X-ray machines to help the process, but we still want people to come early,” said Barnett. “Our research suggests people don't mind being searched unless they have to queue for a long time.”

Once they do gain entrance, racegoers will – assuming that building work finishes on time – have access to a new £6 million ($10m) grandstand, further evidence that Aintree, not so long ago a dilapidated shadow of its former grandeur, is getting ready for the 21st century. “We always have to work the night before we open,” said Lord Daresbury, the course chairman. “The stand will be ready.”

On the horse front, a lot of old favourites will be back, as is the way with the National, a specialist's race if ever there was one. But last year's winner Lord Gyllene, and his jockey, Tony Dobbin, will be absentees; both are injured.

Few horses win the great race twice and none has done so since the Aintree hero of heroes, Red Rum, scored for an unprecedented third time in 1977. But the 1996 winner, Rough Quest, will be back; although nearing pensionable age at 12 years old, he is no back number. If he does complete the double, jockey Mick Fitzgerald will surely avoid repeating his post-race indiscretion of two years ago when he said winning the National was better than sex, much to the embarrassment of his girlfriend.

François Doumen, the most adventurous of the French jump trainers, aims to repatriate the Martell sponsorship money by sending over the useful Ciel de Brion, with his son Thierry in the saddle.

But the Irish, who had a splendid Cheltenham, will be hoping to follow up their successes at Aintree. They have not taken the National trophy home to Erin in living memory (well, not since L'Escargot in 1975 anyway). Their best hopes are Wylde Hyde and Time for a Run, both owned by legendary punter JP McManus, on offer at 25/1.

Neither Irish champion jockey Charlie Swan nor record-breaking British champion Tony McCoy, who shattered Peter Scudamore's all-time record of 221 winners in a season last week and is now aiming at an incredible 300, have yet won the race. Both will be extremely keen to set the record straight. ■

TENNIS

Becker's national service

BORIS BECKER and Steffi Graf together launched a golden age of German tennis. Now the men's champion may be forced out of semi-retirement to help save it.

Becker, who turned 30 last November, has hardly played this year but may be called into action for Germany's Davis Cup tie against South Africa between 3 and 5 April because of an injury crisis. The final decision is in the hands of Carl-Ewe Steeb, team captain and a close friend of Becker, who knows that the financial consequences of defeat in Bremen would be severe.

With Becker winding down, Michael Stich retired and Graf plagued by injury, German tennis is at a crossroads. The success of this triumvirate inspired millions of Germans to take up the sport and their television networks to devote more hours of television time to tennis than in any European country. There are also more ATP Tour and WTA Tour events in Germany than anywhere else in Europe. They include the world's two most lucrative tournaments: the Grand Slam Cup and the ATP Tour Championship.

But last year the 2.3 million-strong German tennis federation (DTB) lost 29,000 members, its first drop since 1950. The DTB's television contract also specifies that Germany must remain in the elite World Group of Davis Cup nations. Defeat against South Africa would force the Germans into a relegation play-off.

Kevin-Marc Göllner was the original choice to partner David Prinosil for the doubles, but he pulled out with a shoulder injury. Becker stands by to replace him. He has led Germany to three Davis Cup wins but since the beginning of 1997 has pulled out of a dozen events through injury. So far this year he has played only three matches; last month he tore an abdominal muscle.

Becker is moving away from a playing career to an off-court role. Last August he helped set up a Mercedes-funded junior team with the aim of grooming successors to himself and Stich. Becker and his old friend Steeb also engineered themselves into effective command of the Davis Cup squad.

But this smooth transition into management has been interrupted. Germany needs his services on court once more and Becker has never been one to shy away from a challenge. The presence that has so often intimidated opponents has raised morale ahead of the clash with South Africa.

“Boris is a big hero,” said Nicholas Kiefer who, at 21, has just become Germany's Nº1. “He is a good motivation for us to try to do well. With Boris, we have what our opponents don't have: the experience and knowledge of a true global star.”

BILL SCOTT

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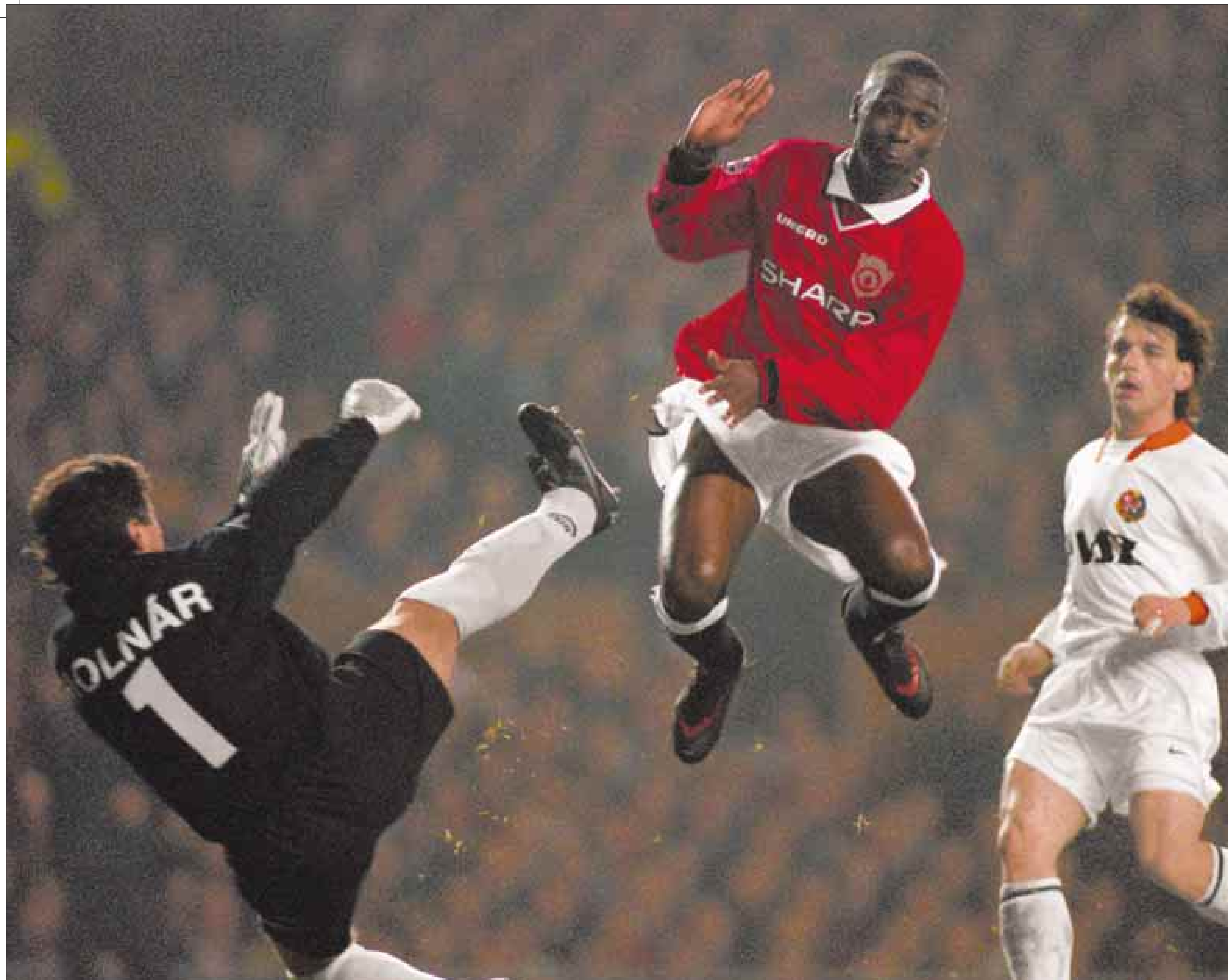


EMPICS

SUPER LEAGUE

Football set for great leap forward

Dominic O'Reilly

A EUROPEAN football super league will be up and running within three years, according to a survey by a leading management consultancy firm.

The report, prepared by KPMG, canvassed leading football clubs, financial institutions and the sports business media. Former European Champions' Cup winners AC Milan, Ajax Amsterdam and Liverpool and financial backers of the sport such as Deutsche Morgan Grenfell and ING Barings were among those consulted.

More than three-quarters of the respondents thought a super league would definitely happen within the next five years; the consensus was for a competition with matches to be played on Wednesday nights, probably launched in time for the 2001/2002 season. The league, which would almost certainly be run by Uefa, the sport's European governing body, would feature two divisions of 16 clubs playing each other home and away with either two or three being relegated each season. Italy, Germany and Spain would be best represented with four clubs each, followed by England, France, Portugal and the Netherlands with three.

Qualification would be principally through winning domestic leagues but the clubs were in favour of the biggest sides being guaranteed places. The names most often mentioned were Manchester United, Barcelona, Real Madrid, AC Milan, Bayern Munich and Liverpool.

Such a competition is a natural progression from Uefa's European Champions League which was set up in 1991 to prevent leading clubs from forming their own breakaway competition. Now featuring 24 teams, it has evolved into European sport's richest club tournament with profits likely to reach $200 million this season. Even reaching the quarterfinals will guarantee most clubs $15m; 80 per cent of those surveyed by KPMG believed that a new competition would be even more lucrative.

A super league has been mooted for more than a decade but was always seen as impractical. The success of the Champions League and football's financial revolution now make the opposite appear true. The sport has become a globally important industry on the back of television money and the networks would be falling over one another to pay for the right to show Europe's top teams in regular competition.

The clubs need the money. Player salaries are now topping $5m a year and rising all the time. Despite their new-found wealth, football clubs will soon need to find extra funds to meet the cost, so commercial possibilities will be the deciding factor in any new league.

David Murray, chairman of Glasgow Rangers, which would be likely to feature in a new competition, said: "A super league is badly needed. You cannot ask individuals and supporters to invest more and more money in players and stadiums without having the opportunity to maximise your income."

There are those who oppose such a move. Graham Kelly, chief executive of the English Football Association, which runs the country's Premiership, believes that it would have a detrimental effect on domestic leagues.

He is behind the times. According to KMPG's survey, over half of Europe's top clubs already feel that the Champions League is more important than domestic competitions. If a super league is set up then all of Europe's top sides would have to join. The risks of being left behind are too great. ■

On the up: the Champions League has been Europe's richest sporting event

Television networks would be falling over each other

PATRONAGE

Monaco scores with royals

Dominique Baldy
MONTE CARLO

MONACO's presence in the Champions' Cup semifinal symbolises football's transformation from the preserve of the proletariat to a billion-dollar industry loved by the bourgeoisie.

The Mediterranean principality, famous for its casinos and millionaire residents, is best known in sporting circles for the Grand Prix which winds its way through the city streets and past luxury yachts moored in the harbour. But thanks to Prince Rainier's generosity, Monaco has become a name to be reckoned with in football.

Following its elimination of Manchester United in the last round, no one can dismiss Monaco's chances against Italian champions Juventus in the semifinals. The first leg is in Turin on 1 April with the return match two weeks later.

The Grimaldis are keenly aware of the public relations and promotional benefits brought by football; through the municipal council they back the club with an annual subsidy believed to be Ffr50 million ($8.15m). George Weah, Jürgen Klinsmann and Glenn Hoddle have all graced the 18,500-capacity Stade Louis II, a stunning edifice dominated by nine Romanesque arches, erected in 1985 to provide a fitting arena for one of Europe's strongest teams.

The Grimaldi family's patronage is acknowledged before every home game, when the team salute the royal box. There is generally at least one member of the royal family present at fixtures, with Prince Albert a particularly keen fan.

The club has won the French championship six times and there are no signs of that success ending. Coached by Jean Tigana, a member of France's 1984 European Championship-winning side, Monaco is currently chasing a domestic league-and-cup double in addition to its European dreams. It underlined its ambition by breaking the French transfer record with the signing of midfielder Ludovic Giuly from Lyon for Ffr42m.

And yet, despite the quality of the fare on offer at the Louis II, the residents of Monaco are picky, with attendances averaging barely 5,000. Raymond Ginutti, head of the supporters' club, explained the apathy.

"The average inhabitant of Monaco does not fit the usual social profile of football supporters," he said with considerable understatement. "Many have second homes outside the Principality and are away at weekends when most matches are played."

Those fans who do attend matches have the novelty of being invited by an attendant to take a lift to their seats: the pitch is 12 metres above ground level. The design enabled a car park and swimming pool to be built underneath, but the lack of depth for the soil has affected the pitch's quality.

The meagre attendances make the atmosphere at matches reminiscent of a training session. It is the main reason why the best players tend to seek out cities where the locals are more passionate about their football: Brazilian striker Sonny Anderson moved to Barcelona last summer and French international midfielder Youri Djorkaeff went to Inter Milan the year before.

But the mood may be changing. Tickets for the match with Juventus are selling fast. Perhaps Monaco is finally being seduced by the world's most popular game. ■

ACTION PLUS

Royal appointment: the princes Albert and Rainier watch a match from their private box

Sports gang up against EU

Dominic O'Reilly

A N alliance of the most powerful figures in international sport has been formed to take on the European Union. The International Olympic Committee announced that Juan Antonio Samaranch, its president, will head a working group, set up "to confer on areas of common interest with a view to seeking the best solutions to the problems raised".

This is being taken as meaning tackling the increasing interference of Brussels bureaucrats in sport.

The move follows clashes between Brussels and sporting organisations on issues ranging from football transfers to sponsorship. The most notable was the Bosman judgment, which guaranteed athletes freedom of movement and contract, against the wishes of Uefa, European football's governing body. The European Commission has also threatened to ban all tobacco advertising in sport, thus depriving Formula One of an estimated $300 million a year in revenue. The sports bodies are seeking safety in numbers to oppose future interference.

Members of the new working group include Primo Nebiolo, president of the International Amateur Athletic Federation; Marc Hodler, International Ski Federation president; Max Mosley, president of the International Automobile Federation, which runs Formula One; and Gerhard Aigner, secretary-general of Uefa. The IOC organised the inaugural meeting at its Lausanne headquarters which was also attended by representatives of public television networks grouped in the European Broadcasting Union.

SPAIN

Madrid coach to go despite Euro success

Michael Butcher

REAL MADRID coach Jupp Heynckes looks certain to get the sack after less than a year in charge, despite taking the club into its first Champions' Cup semifinal in nine years.

The German spent the past four years coaching Athletic Bilbao and Tenerife. Last season he took the island club to the semifinal of the Uefa Cup and was chosen to replace Italy's Fabio Capello at Real. Taking over one of the world's biggest clubs when it has just won the league title would be many coaches' dream come true. Not at Real.

For most clubs, second place in the league and a semifinal place in the world's richest tournament would be a sign that the coach had got it right. But ever since it lifted the trophy five times in the 1950s and was adopted by Franco as a sporting ambassador, Real has seen itself more as an institution than a mere football club.

Heynckes' precarious situation is due in part to Barcelona's success. Real is so far behind its arch-rival that the club has all but conceded the league title; playing second fiddle is never an option for Real.

Heynckes has also lost control of his players. Golden boy Raúl stormed off the pitch in a gesture of defiance when he was substituted during the recent 3-0 defeat at Barcelona. His fellow forwards, Yugoslav Predrag Mijatovic and Croatian Davor Suker, have also criticised the coach.

Heynckes might have expected the support of the men who hired him, but they have given up on their appointment. On the eve of the Champions' Cup quarterfinal with Germany's Bayer Leverkusen, Real vice-president Juan Onieva travelled to Italy to seek a replacement for Heynckes. The frontrunners are Marcelo Lippi of Juventus, Udinese's Alberto Zaccheroni and former Real star José Antonio Camacho.

Even Real's comfortable win over Leverkusen did not ease the pressure. When asked whether Heynckes would stay if Madrid won the cup, president Lorenzo Sanz would only say: "It would be a delicate situation."

Heynckes has also had to contend with the Spanish press. At a recent press conference he referred to a perceived plot by two newspapers, *El País* and *As*, to get rid of him. These are owned by the Prisa empire which also has the television company Canal Plus and the radio station Cadena Ser.

Prisa has acquired the television rights to Real and wants its product, players such as Raúl and Suker, on the pitch not the bench. Prisa also helped to clear the club's crippling debts of Pts12.5 billion ($80.5 million). In short, Prisa is a force within Real's Bernabeu Stadium.

Heynckes will be out once the season ends. And if the team flops against Dortmund in the home leg of the Champions' Cup semifinal on 1 April, the end may come sooner. But despite the treatment the German has suffered, there will be no shortage of applicants to take his place. ■

Heynckes has lost control of his players

Fight is on for top football job

T HE serene passage of Lennart Johansson to the top job in world football is about to hit choppy waters. The Swede, head of Uefa, European football's governing body, had expected to be the only candidate to replace João Havelange as president of Fifa, which runs the world game. The walkover will become a fight if, as strongly expected, Fifa's general secretary, Sepp Blatter, announces that he will run.

A further setback for Johansson is in store: Blatter is likely to be nominated by the French football federation. Johansson chairs the 1998 World Cup organising committee; to have the host nation back his rival would be a humiliating rebuke.

Johansson is further hampered by the opposition of Havelange. The Brazilian has pledged to support Blatter, his right-hand man for the past 16 years. Even a failed attempt by Blatter in 1994 to oust Havelange has been forgiven. The vote for Havelange's successor will be made on 8 June. ■

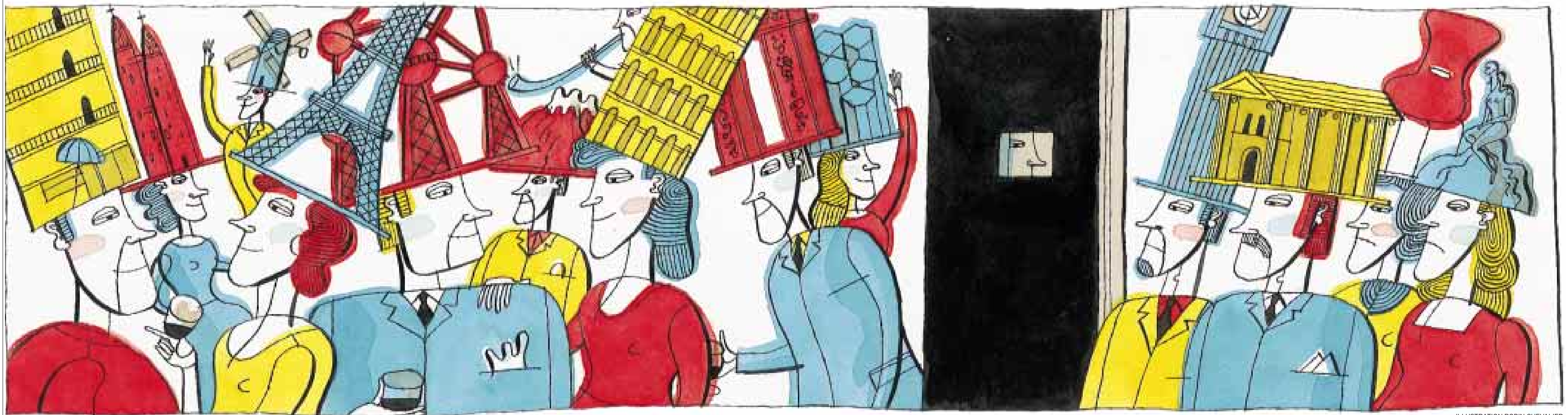


ILLUSTRATION ROBIN CHEVALIER

THE VERDICT ■ Economic reality takes a back seat as politics decides who will take part in monetary union

WELCOME TO EUROLAND

Marc Champion and Eric Culp
BRUSSELS & FRANKFURT

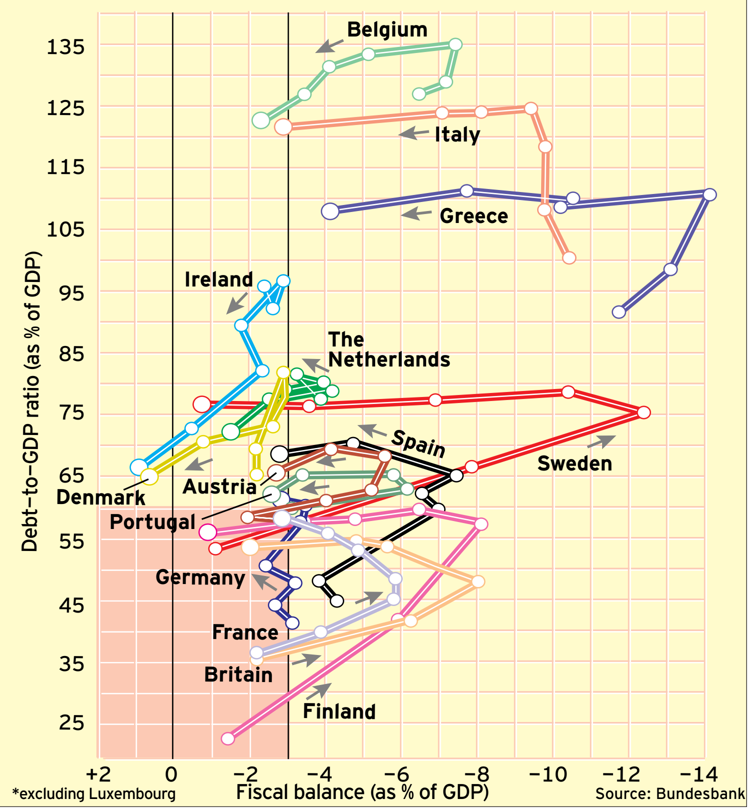
AND the Bundesbank looked at economic and monetary union and it saw that it was not so good. And the Bundesbank spake: "Entry into monetary union will have significant economic implications which must be given careful consideration when the decision is taken. The selection of the participants ultimately remains a political decision."

With these words, the Bundesbank (Buba) delivered its verdict on the birth of the euro. The document is a masterwork of understatement that protects the Buba's reputation whatever happens. If the euro is a terrible flop then the Buba can pull out its document and say: "We told you so." On the other hand, if the euro is a success, the bank can claim the credit. It has signalled the appropriate warnings and puts the pressure on governments to take remedial action.

Much gnashing of teeth will have gone into the drafting of the Bundesbank's opus. But readers did not have to delve deeply between the lines to recognise the Bundesbank's extreme disquiet. It provided its own chart of how far countries are from the convergence criteria – and more ammunition besides:

■ Page 13: very high and persistent unemployment throughout the Union (except Britain) reflects rigidities which are a long-term burden for the future stability policy.

CONVERGENCE! WHAT CONVERGENCE?
Government fiscal balances and debt-to-GDP ratios in the EU states*



*excluding Luxembourg

Source: Bundesbank

■ Page 15: government financial positions present a very disparate picture. Measures with a temporary effect have been used by Italy and France to enable them to meet Maastricht reference values.

■ Page 16: only four member states meet the Maastricht debt ratio (Finland, France, Luxembourg and Britain).

■ Page 19: Denmark, Finland, Ireland, Luxembourg and the UK have achieved a sustainable fiscal position.

Everyone else has failed. But no matter, the Buba cheerfully continues, in a display of German understatement that becomes an instant classic in the annals of European economic history. As if it knew how tasty a confection it had produced, the bank took the precaution of literally locking journalists into the bank and confiscating their mobile phones.

To its credit, the Buba has exposed the phoniness of the criteria used by the EMU eleven

This was the most dramatic report in a week when anybody with European aspirations delivered their own verdict on the run-up to the euro. First, the European Commission let fly with a predictable load of bombastic drivel: "Economic and monetary union will revitalise the European economy and the single market, foster investment, boost business competitiveness, benefit consumers and savers and make life easier for citizens where both work and travel are concerned." Maybe, if the euro doesn't expose the fault lines in phony convergence data and irreconcilable economies.

Then the European Monetary Institute (EMI) delivered its equally sanguine view. Its president, Wim Duisenberg, who hopes to be president of the European Central Bank (ECB), said that convergence has been achieved. Next the Banque de France and the Dutch central bank delivered their take on proceedings, but nobody paid them much notice.

The Big One was the Buba report, especially in a week when the man who would be the next German chancellor, Gerhard Schröder, outed himself as a sceptic (although not enough actually to demand that the project be delayed). "The euro has produced a sickly birth and could increase unemployment," he warned in an interview with *Das Bild*. He went on to advocate the further harmonisation of social and working conditions inside the EU, to avoid some countries undercutting others on labour costs.

While all the politicians and central bankers were running their printers at high speed to produce reports, the financial markets took not the slightest notice. Equity and bond markets have taken the coming of the euro as gospel for many months now and took their lead from Wall Street rather than Boulevard Charlemagne in Brussels.

But not so fast. The Bundesbank report, for all that its literary style is not exactly on a par with an airport thriller, remains a seminal document of its time. Its forensic quality demolishes most of the fantasy economics that has surrounded the euro's birthing thus far.

Its substance is unarguable. It says that while things look tranquil at the moment, dark clouds are on the horizon. The document's bullets are fired with deadly effect on almost every page. "All in all, it is becoming evident that the majority of the member states will not achieve the aim of the stability and growth pact in the medium term ... Most member states are not, to date, sufficiently geared to the future obligations arising from the stability and growth act, which requires them largely to have a budgetary position that is close to balance or in surplus from 1999 onwards given a normal cyclical situation."

Naming names, the Buba declares that in France, Greece and Spain, state-owned companies will continue to burden government budgets in the medium term. EU subsides are also supporting a number of economies. "In assessing the budgetary situation in Greece, Ireland, Portugal and Spain, it needs to be remembered that these countries are receiving substantial net payments from the EU budget. Pension insurance systems and other demographic trends are expected to drag on the financial positions of virtually all member states. In addition an excessive level of debt will restrict the future scope of fiscal policy action and will easily come into conflict with monetary policy – especially if short-term borrowing or borrowing at variable rates of interest have a large share in financing.

On 2 May the European Council of Ministers will approve the euro and set euro conversion exchange rates. They are also to appoint a president and executive council for the ECB, which will start work on 1 July. This looks unlikely to be achieved. But the turbulence will not stop the euro now. Might it actually work after all?

The truth is that the sceptics have been outmanoeuvred. Even John Redwood, the sceptical British Conservative politician, was last week opining in *The Times* that it was time for business in the UK to come to grips with the nitty gritty details of implementing the euro.

On German television, even the sceptical Bavarian minister president, Edmund Stoiber, looked ready to jump on the euro train. The euro may not be the hard currency the Germans have been promised to replace the deutschmark, but it has arrived. ■

BUNDESBANK

Tietmeyer washes his hands of final betrayal

John Laughland

TWO YEARS AGO Hans Tietmeyer, the president of the Bundesbank, declared in private that he would never stab Chancellor Helmut Kohl in the back over economic and monetary union (EMU). He thereby revealed that he placed personal fidelity to the German leader above integrity in the fulfilment of his professional duties. And yet, as the report produced by the Bundesbank on EMU on Friday 27 March shows, Tietmeyer's desire not to give the single currency the Judas kiss has made him behave instead like Pontius Pilate: knowing the cause to be unjust, the Bundesbank has decided to wash its hands of it.

It does this with a shameful concluding sentence. The report contains 20 pages of full-blooded denunciation of the inadequate economic preparations for EMU. "The majority of the member states will not achieve the aim of the stability and growth pact in the medium term" (ie, of having very low budget deficits); in many states the deficits can be expected to rise up to the year 2000; out of the 11 member states with debt over Maastricht's permitted level, none can get its debt down to below 60 per cent of GDP in less than 10 years; the hidden pensions' timebomb represents an additional and very considerable danger to financial stability.

Yet, despite all these concerns and more, the report concludes that it is not the Bundesbank's fault if EMU goes ahead. "The selection of the participants ultimately remains a political decision," the report concludes.

The dishonesty lies in the weasel use of the word "political". It is weasel because, strictly speaking, the decision which will be taken on the first weekend in May by the heads of EU states and governments is indeed political. The Maastricht Treaty makes it clear that the "conditions" for EMU entry are not the same as the famous "convergence criteria", the latter being mere guidelines by which to undertake a political appreciation of the opportuneness of introducing a single currency.

But this reading of the treaty is one which the entire German political class, supported by a seminal ruling of the German constitutional court in Karlsruhe in 1993, as well as by the Bundesbank, has spent the past five years strenuously hiding from the German public. They have been hammering away one single message in their attempt to win over an overwhelmingly hostile electorate to the virtues of EMU: that the euro will not be a "political" currency and that the decision on when to adopt it will not be "political" either. Instead, it will be subject to a strict interpretation of the criteria.

Only last month in an interview to celebrate 50 years of the Bundesbank's existence, Tietmeyer reiterated this point himself. "It is one of Germany's greatest achievements to have created an unpolitical currency," he boasted of the deutschmark and of the way the Bundesbank had managed it for the past half century. Moreover, he added, the members of the central council of the future European Central Bank would have to learn that "they are the guardians of an unpolitical supranational currency".

In saying this, Tietmeyer and the German government have not only been acting in conformity with the established and widely admired German tradition that money management should not be subject to political discretion, or made the victim of short-term political gain; they have also been respecting the solemn requirements laid down by the constitutional court which allowed Maastricht to be ratified in 1993 only on the basis that the euro would not be introduced as the result of a political, that is discretionary, decision in 1998 but, instead, only if the process were governed by clear rules which had been agreed in advance.

Karlsruhe thus explicitly forbade Germany from joining a monetary union whose stability could not be guaranteed. It placed its faith in the alleged certainties of economic statistics in order to ensure this. There may be severe difficulties with this decision from the point of view of economic philosophy – statistics are not solid enough to bear the entire weight of a country's constitution – but it is one which has gained wide political currency in Germany.

In other words, it is quite wrong for the Bundesbank to say that the decision on EMU is political. In Germany the bank is constitutionally and legally circumscribed.

The Bundesbank is part of that constitutional structure. It has a specific role, stipulated in the Bundesbank law, to advise the German government when requested. Yet although the bank argues, for instance, that only three potential first-wave EMU members (Ireland, Luxembourg and Finland) have achieved a fiscal position which can be unreservedly classified as sustainable, it shirks any clear statement that EMU should be delayed, or restricted to a very small number of countries.

It contents itself instead with a stern, but ultimately vacuous, exhortation to all those who carry responsibility to take their decisions in compliance with oft-declared principles. This implies that it does not count itself among those who carry responsibility. But the German people might be forgiven for thinking otherwise.

The Bundesbank also wriggles out of the incontrovertible fact, as it admits, regarding serious concern about the sustainable financial position of Belgium and Italy. It says that this concern could be eliminated if additional firm substantive commitments are undertaken. On other occasions it refers to the need for future radical reform in other countries as well, if the euro is to be stable.

But this is a breathtaking infraction of the whole edifice of control which the Maastricht Treaty itself constructed, and in which the German constitutional court placed such faith. For the whole *raison d'être* of this examination procedure was to provide guidelines by which, in the spring of 1998, the past economic record of a country could be assessed.

In saying that past failure can be compensated for with promises about future good behaviour, the Bundesbank is summarily tossing aside this entire procedure and with it the criteria, as if they were irrelevant.

To see the gravity of the situation, perform a little thought experiment. Last year the German government proposed to introduce a legal change in German accounting procedure, in order to be able to revalue the Bundesbank's gold reserves and thus to cash in a hefty benefit for itself in 1997.

As we know, the German government was sent running off with its tail between its legs, with a thunderous rebuke from Frankfurt. But if Tietmeyer had accepted that decision, hinting that it was wrong but concluding that he could not stop it because it was political (as it manifestly was), then he would have rightly been regarded as guilty of a cowardly dereliction of duty. So it is now.

The Bundesbank's report has the sad aura of a document produced under the strain of inner conflict and a bad conscience. It has provided more than ample ammunition for those who have lodged a constitutional objection against EMU with the Karlsruhe court, which would have no difficulty now in striking the project down if it wanted to.

If Karlsruhe does this, it will be a great victory for public honesty and the rule of law; but the victory will not be thanks to Tietmeyer. ■

CINEMA

Investors with a view to a killing

Doug Cameron

FILM MAKERS in Europe take a snobbish attitude to the annual Oscars ceremony, staged last week in Los Angeles. American blockbusters usually sweep the boards while Europe and the rest of the world is marginalised in the Best Foreign Film section. What European auteurs and commercial film makers alike really want is not gold statuettes but access to the same kind of money as the Americans.

Financing the European film industry relies on a patchwork of subsidies, grants, tax breaks and a smattering of private investment. While the industry is notorious for crying out for more handouts to fund its epics and tales of bizarre love triangles, there are signs that it is starting to restructure to become more attractive when trying to raise its own funds.

Attempts to reform the European film industry have been distracted by cultural issues which have sought to promote own-language productions at the expense of attracting a broader investment base to foster the industry. There is still a long way to go before Europe breaks Hollywood's hegemony on the multiplexes which have sprung up and boosted cinema audiences to record levels. The European Union had a balance of payments deficit with America of $7 billion in the film sector in 1997.

However, banks active in the buoyant media sector have recognised that they can use the generous tax breaks offered to European (and American) film makers. A thriving leasing market has emerged and investors are being attracted by returns at venture capital levels – 20 per cent or more – provided that a film is a success.

The historical success of European banks in making money out of film is mixed. Crédit Lyonnais has taken the largest punt on the sector so far but suffered heavy losses on its investment in MGM, the American studio. "Other banks would structure deals but Crédit Lyonnais would just send us the money," recalls one producer. The bank sold the business at a heavy loss.

The competition in the banking sector is hotting up. Société Génerale has just poached the film team from Guinness Mahon, a UK merchant bank, to launch its own pan-European film finance unit. "The big problem in Europe is that film production and distribution are separate," says Premila Hoon, head of media at SocGen. That contrasts with the American industry, where Hollywood studios control production and distribution and can secure funding on the basis of their sound business footing.

The obvious risk to investors is that a movie will flop. Financing the film industry is split into two sectors: pre-production and post-production. Investors are focusing on the latter, when the film is safely in the can. The structure of a film lease is simple. A film company sells distribution rights for a film for, say, $10 million. It banks $9.5m and uses this as security to take out a $10m lease, using the banked funds to pay the interest. Investors receive tax breaks on the cash invested in the lease and are able to pass on part of these to the film company, equivalent to around $0.5m. Hence the film company is able to raise $10.5m to pay for the next production.

Just give me the money: backers are needed for European co-productions such as *Nikita*, the 1990 French-Italian enterprise

Producers don't want Oscars, they want access to the funds Americans already enjoy

Lloyds Leasing is the largest arranger of film-based leases in Europe and moved into the market in 1994 when a series of favourable tax rulings opened up profitable leasing opportunities. Lloyds has financed 25 films at a cost of £600m ($990m) in four years but European producers will be distressed to learn that the bulk are by American studios filming in the UK, eager to take advantage of the tax breaks on offer.

However, while national treasuries have been more generous to the film sector than other asset classes, which are seeing loopholes closed all the time, tax-based deals do not provide a long-term future for the business. Dylan Morris, who manages the film business at Lloyds, admits it is not just the economic returns it looks at. Involvement in the sector is seen as philanthropic and participants are viewed favourably by national tax authorities. That cannot last for ever.

The long-term solution requires access to broader finance markets. The risks inherent in funding a film project – audiences may hate it – mean that mainstream investors remain shy of simply putting up cash before a scene is shot. The European film industry is fragmented – 80 per cent of film makers produce no more than one film a year – and the poorly leveraged companies offer little security.

Film makers cannot escape the drift of Europe's corporate culture towards credit-based funding. Film companies need to be able to tell a story based partly on their acumen as film makers but more importantly on the soundness of their balance sheets. The French film sector has moved further down the integration route than any other; the development of companies such as Canal Plus and Gaumont have blended a mixture of local-language releases which lend themselves to international distribution.

Similarly, PolyGram Films in Britain and Sogepaq in Spain point the way forward for film finance in Europe based on large production companies looking at the American market – which accounts for 50 per cent of sales – with pre-sales and distribution agreements. For example, Merchant-Ivory, which produced adaptations of novels including *A Room With A View* and *Howards End*, financed new films on the basis of exclusive sales rights with Disney. The credit for its financing became a huge American studio rather than a small UK producer. Without more of this type of consolidation there is little prospect of banks being able to launch dedicated film investment funds along the sector-specific lines already developed for other media sectors.

Hoon at SocGen believes there is enough equity available in the industry at present to sustain current production levels, but future growth may point to fund-based finance if banks can manage to structure the risk.

Another option is to take out insurance contracts. Film companies already insure against the additional costs incurred when bad weather delays filming. Insurers have yet to develop models for paying out if a film turns out a stinker, but they will cover financing risks such as changing tax regimes.

More funds will be needed. Film production in Europe has doubled since 1991 and is growing at a little under 10 per cent a year, with more than Ecu2bn ($1.8bn) invested last year. The average budget has remained static at around Ecu2.7m. Investors may not be willing to cough up $200m for a European *Titanic* or *Jurassic Park* but the signs are that medium-budget features offer good potential for those seeking to add glamour to their portfolios. ■

INVESTMENTS

Italians take stocks off the shelf

Melanie Bien

WHO WERE the biggest buyers of mutual funds in Europe over the past 12 months? Surprisingly, it was the Italians, who pumped DM180 billion ($98bn) of new funds into their fledgling market last year, followed by the Spaniards, who bought DM100bn. This compares with the DM30bn invested by German savers, according to figures from Gartmore, a UK-based fund manager.

The boom has continued during the first quarter of 1998. Italians placed another $5bn in mutual funds last month as they gain the same appetite for saving as America, still the largest market with $20bn invested in February. In southern Europe, where enthusiasm for equity investments until a few months ago was weak, burgeoning stockmarket growth is encouraging investment as never before.

Investors are not holding back. "People are greedy and expect markets to keep going up. They don't want to feel left out. Some of the new issues are more than 20 times oversubscribed," says Jan Mantel, chief European investment officer at Dresdner RCM Global Investors.

Investment enthusiasm is not coming from a lack of supply but from low inflation, less central government borrowing, more privatisations and the demographically driven push for people to save more for their own retirement. Investors are moving from bond and money markets into equities. Brokers are taking an unprecedented number of calls from private investors. While institutional investors find shares expensive, retail investors are rushing to cash in on stockmarket appreciations.

Charles Schwab, the world's largest execution-only broker (it does not offer advice), has been expanding into Europe for the past three years after reaching saturation point in the developed American market. Its London office will be followed in late spring by a continental European operation in Scandinavia. "Potential investors with lots of money in Scandinavia makes it a good place to start," says a Schwab official.

The company is hoping to emulate the success it has had in London, where it executes one out of every 10 trades on the London Stock Exchange, usually for retail investors rather than institutional fund managers, executing 400,000 deals a week.

But dabbling directly in the stockmarket, particularly for uncertain investors, is a risky business. This has led to the boom in the growth of mutual funds, investment and unit trusts. Europe is now in the same position as America was a few years ago. The advantage of such funds is that they minimise risk by spreading investment over a wider number of shares. "In principle, investment funds are less risky," says Mantel. "But unit trusts still come down when the market does. There are no guaranteed returns."

Some well-known funds can carry high levels of risk. Investors need to be clear about a fund manager's investment strategy when they place money in a fund. Funds investing in emerging markets, such as the Mercury Select East European fund, may bring higher returns – such as 321.7 per cent in deutschmark terms since launch in 1995 – but there is a risk of greater losses.

Other funds manage to do well with considerably less risk. The Newton Continental European Equity fund, the fifth-best performing in the table, which has enjoyed returns of nearly 60 per cent over the past 12 months, for example, invests mainly in large cap companies (80 per cent), with another 11 per cent in mid-caps and the remaining nine per cent in small-caps, all listed on major European stock exchanges. Companies include Telecom Italia and Novartis, the Swiss pharmaceuticals company, hardly high-risk concerns. Larger companies tend to be more stable. As the fund invests in 35 stocks, about half the number of most funds this size, it is easier to monitor them closely. The minimum investment is $5,000.

"We see Europe as one big market and we buy stocks in industries we like," says Toby Duff Gauvain, business development manager at Newton. "The real growth areas are Italy and Spain, where investment interest is phenomenal. Through funds such as ours, investors can buy shares in foreign companies – a difficult task if they try to do it directly themselves."

At the other end of the scale, the London-based Singer & Friedlander Football fund has performed well below expectations, down eight per cent over the past year. Football shares have proved to be over-hyped. They are highly volatile. Even Manchester United, whose shares have performed well since the club floated, suffered when the team lost to Monaco in the Champions League quarterfinals, dropping 5.2 per cent in the share price in one day. But it could be argued that some of the "poor" performers in our table (*above*) have not done badly, with more than half enjoying returns above 10 per cent.

The growing number of diversified investment funds demonstrates the increasing interest from retail investors. "There is growing retail demand for all our investment trusts over the past few months," says Lough Callahan, director of investment trusts at Mercury Asset Management. "Investors are attracted by the widening discounts available. Statistics show that investors do still have a higher proportion of money in individual shares rather than funds. But this is misleading as most of these include shares they own in the company where they work."

The growing interest in investment trusts is evident from Mercury's European Privatisation Trust, which opened 15 per cent of the fund to retail investors when it was launched in March 1994. When a fee discount was introduced, the number of retail investors soared to make up half of all investors in the fund.

Many of these investors are finding the American market too expensive and are looking to Europe for better value. Investors interested in financial stocks or telecoms can find much better deals on the continent than in America or Britain. "We compare these companies on a global basis to see whether they are good value before investing," says Newton's Duff Gauvain. This means the fund will invest in Poland and Portugal, as well as developed markets such as France and Germany.

But what happens when the correction comes? Dana Moore, investment communications manager at Global Asset Management, says Europeans do not understand the market as well as American investors.

"If there is a major correction, there will be a stumble in growth and quite a lot of divestment," she says. "Americans have been educated to stay put when this happens. The Europeans have only just started this education process." ■

EUROPEAN MUTUAL FUND PERFORMANCE

	Fund	Currency	Launch date	Size of fund ($ mil)	Annual return (%) Year ending 20/3/98
	HIGHEST FUND GAINS				
1	Banque Nationale de Paris Inter Strategic-European	EC	08/10/89	57.6	70.04
2	Carlson Equity-Medit	US	09/04/90	5.1	68.54
3	Skandifd Equity-Medit	US	12/06/88	7.3	67.07
4	DIT-Aktien Europa	DM	12/19/96	79.3	62.93
5	Newton Continental European Equity	US	01/08/88	75.0	59.76
6	UBS Equity Invest-Small Cap European	Sf	10/13/93	183.3	58.48
7	Sun Life GI-Euro Gr	EC	03/30/88	3.4	57.51
8	DIT-Vermogbild European	DM	01/13/97	548.8	54.44
9	ABN Amro Fund-Europe Equity	US	11/24/94	174.3	52.06
10	BfG Invest Europafds	DM	10/02/89	111.4	50.34
11	Fleming Front-European Discovery	US	04/06/95	93.2	50.00
12	Gartmore CS-Cont Europe	DM	10/04/85	219.3	49.15
13	Gartmore CS-Europe	DM	10/16/95	11.3	49.07
14	Legg Mason Glb-Europe Equity	US	04/01/96	0.3	48.90
15	Mees Pierson-European Large Cap	DM	03/01/96	12.2	48.66
	LOWEST FUND GAINS				
1	Singer & Friedlander Football	UK	01/31/97	42.8	−8.36
2	Jupiter Tyndall GF-European Small Company	UK	12/10/93	3.1	−3.94
3	Nurnberger ADIG	DM	02/08/90	21.2	0.36
4	Permal Europe	DM	08/31/89	200.6	9.62
5	AIG Europe Small Companies	US	12/12/92	40.9	12.45
6	Frontrunner-Europe Value	EC	09/15/89	154.6	16.83
7	TT European Fund	US	5/3/96	81.2	18.09
8	DIT-Lux Europa	DM	24/1/94	116.0	18.36
9	SAM Europe	SF	7/3/97	18.3	18.59
10	Unico Equity	DM	25/5/87	21.5	18.60
11	GT EurOpean Small Companies A	US	10/24/84	115.4	19.12
12	Henderson HF-European Small Companies	Nfl	1/8/93	56.5	19.12
13	Merrill Lynch Bank Spec-European Equity B	Sf	26/9//96	90.8	19.26
14	GT European Small Companies B	US	8/3/93	n/a	19.72
15	Merrill Lynch Bank Spec-European A	Sf	26/9/96	41.5	20.09

SOURCE: LIPPER ANALYTICAL

FINANCE

CREDIT LYONNAIS

It's time to buy a used French bank

Paula Hawkins

IT has been another terrible week for Crédit Lyonnais, Europe's most notorious financial institution. Will the French government be able to find any strategic investors willing to buy the ailing bank? Here's the real surprise. They will.

The bank's management proudly announced its annual results on 23 March – net income up more than 400 per cent at Ffr1.1 billion ($172.6 million) – only to have them dismissed as "illegal" by the European Union competition commissioner, Karel Van Miert. The real Crédit Lyonnais income statement, Van Miert claims, should show a loss of nearly Ffr2bn because no agreement has been reached over losses incurred by the bank's non-performing assets which were stripped out in 1993.

Van Miert's attack sparked the latest in a series of rows between the commissioner and his *bête noire*, the chairman of Crédit Lyonnais, Jean Peyrelevade. The chairman retorted that he was "not in the habit of doing illegal things". Not for the first time, Van Miert has given Peyrelevade an ultimatum: submit a revised restructuring plan and a privatisation timetable or face "unspecified action" by the EU.

Last week Van Miert was insisting that Crédit Lyonnais sell its German and Belgian units as an "absolute" condition for Brussels approving the French government's multi-billion dollar bailout of the bank. A 1995 EU-approved rescue plan meant that the bank was supposed to sell only 50 per cent of its non-French European subsidiaries. Van Miert regards this scheme as obsolete since the state has poured more subsidies into the bank since 1995 and so has upped the ante.

Peyrelevade is hanging on for a good price. "Peyrelevade is always stalling for time," says a French banker. "That's been his game all along." It looks as though it is working. The bank's finances have improved dramatically. Peyrelevade estimates that, based on the stock exchange price of the bank's investment certificates, Crédit Lyonnais's value is Ffr40bn. "In a year's time, it could be greater," he says.

The question of how Crédit Lyonnais is to be privatised is still the subject of debate. Not surprisingly, Brussels and Paris also disagree over the method of sale, with Van Miert looking for a fire sale, the French government and Crédit Lyonnais management looking for a public offering combined with a sale to one or two strategic investors.

Despite its disastrous history, Crédit Lyonnais is an attractive prospect for any European bank wanting to develop a regional retail business. With the euro fast approaching, cross-border retail banking promises to be a goldmine. But it requires a massive product infrastructure, which in turn implies high costs. "You need a bank with a good distribution network for your products if you're going to make any money out of a regional network," says one banker in France. Crédit Lyonnais has the distribution capacity with a network of more than 2,000 branches in France, as well as telephone and online banking facilities.

Investors in France looking for a potential takeover target have little alternative to Crédit Lyonnais. Access is limited to a few banks: Paribas, Crédit Commercial de France (CCF) and Banque Nationale de Paris (BNP) are the other potential targets but there are problems with all three.

Paribas is "fully valued", analysts say. CCF is bite-sized, which makes it easier to buy and assimilate with other businesses, but its size makes it less useful at the end of the process. BNP is expensive (with a price/earnings ratio of 16.68, relative to Crédit Lyonnais's 12.61) and its operating businesses are in a similar shape to those of Crédit Lyonnais. There would be no point paying a higher price for BNP when you would be getting much the same product with Crédit Lyonnais.

The price is crucial. "No one knows and it's impossible to guess. They'll all change their minds several times before the sale goes through," says a banking analyst at Fitch-IBCA in Paris. Crédit Lyonnais's book value is Ffr1,618bn. A large chunk of its non-core assets is likely to be disposed of prior to sales. The core of the business – its domestic retail operations – is worth Ffr45bn at most. But the government is unlikely to get that much for it unless it can clear up all the problems related to the bank's non-performing assets.

If the price is right, the queue to buy Crédit Lyonnais will be long. All the large European retail banks – Deutsche Bank, Commerzbank, Barclays, NatWest and Lloyds – would see Crédit Lyonnais as a valuable asset, although none of them is prepared to throw its hat in the ring just yet. Barclays was rumoured to be looking at a bid for Crédit Lyonnais in October last year. The idea was supposedly the brainchild of Barclays' chief executive, Martin Taylor. The rumour was later denied. Sir Brian Pitman, chief executive of Lloyds, was also reported to have expressed an interest in buying Crédit Lyonnais. Pitman's comments were also dismissed as speculative, but the rebuttals are not entirely convincing. "They would not have made these remarks if there was not a grain of truth in them. It certainly shows that Crédit Lyonnais isn't just a basket case," says an analyst.

It is only a profitable prospect, however, because so much money has been thrown at it since 1993. The French taxpayer has contributed as much as $32bn in a series of efforts to save Crédit Lyonnais from bankruptcy. This has outraged its main domestic competitors, Société Générale and BNP. They will also be potential buyers when Crédit Lyonnais is eventually sold. Both are seeking to expand. BNP has been shut out of the sale of CIC, the French insurer.

Gallic shrugs: Jean Peyrelevade, chairman of Crédit Lyonnais, is not selling up yet

The French taxpayer has contributed $32bn to save it from bankruptcy

The outcome of the sale of CIC will be crucial for another reason. "CIC is seen as the big test case," says an analyst. "People will be watching very carefully to see what commitments ABN-Amro [the Dutch bank currently favourite to buy CIC] has to make to the French government." Specifically, they will be looking at commitments on labour policy.

Politics aside, the labour issue could scupper the sale of Crédit Lyonnais. When Pitman expressed his interest in the bank, he did so with the caveat, "but for the French labour laws". Some restructuring of the bank has already been carried out but staffing levels remain high. The bank employs 51,000 people worldwide, 32,000 of whom work in France. They will be difficult to lay off. In Germany, you can at least pay people off to get rid of them. In France you cannot even do that: this is why the French market scares people more than any other in Europe. British institutions in particular will be wary of taking on a bank fraught with potential labour problems. Although Crédit Lyonnais's distribution network is part of its attraction, its number of branches will need to be rationalised; that will be costly.

It is evidence of all that went wrong at Crédit Lyonnais that its retail business is now the focus of a privatisation. Gone is the vast corporate banking business which got Crédit Lyonnais into so much red ink in the 1980s and early 1990s. Much of this has been split off, assigned to the "bad bank", the Caisse des Dépôts et Consignations (CDC). But there remain some profitable businesses which will – or at least should – be offered for sale separately from the bulk of the bank.

Crédit Lyonnais Belgium is likely to be the first on the block. According to the bank's chief executive, Philippe Cloes, this sale is contingent on agreement between Brussels and Paris. Cloes says he has already been approached by several potential bidders although he refuses to disclose names.

As well as the disposal of CL Belgium, the EU is likely to demand the early sale of a number of Crédit Lyonnais's other European subsidiaries. The EU won't specify which bits are to be sold separately but will give a percentage of assets that must be disposed of. The Spanish, Swiss, German and British subsidiaries are likely to be among the first assets to go.

The bank's investment banking operation in Asia, Crédit Lyonnais Securities Asia (CLSA), would be another suitable candidate for an early sale. CLSA is one of the top-ranked Asian brokerages. With strong businesses in China and India, and plans to expand into emerging Europe and Latin America, CLSA is one of Crédit Lyonnais's best assets.

Analysts say that selling CLSA along with the French retail business would make little business sense, but there will be pressure in Paris to keep CLSA on board. "It will be hard for the management of Crédit Lyonnais to let go," says one analyst. "It is one of the only parts of the group which has built up a solid reputation." ■

SWISS BANKS

Banks cave in to American pressure over blood money

John Parry
GENEVA

SWISS banks went eyeball to eyeball with the American financial industry on 26 March and the banks blinked. If they had not, 31 March would have seen the withdrawal of pension fund money totalling as much as $11 billion invested in the American branches of Swiss banks. Five states, plus the City of New York, had threatened the withdrawal unless the major Swiss banks agreed to a "global settlement" of claims against them for money allegedly owing to victims of the Holocaust and their survivors.

With much hand-wringing, the Swiss caved in. The three major banks – Crédit Suisse, Union Bank of Switzerland (UBS) and Swiss Bank Corporation (SBC) – have agreed to a global settlement. In a secret letter to the public finance officials which has not been made public but whose existence has been confirmed by *The European*, the three said they will settle the claim.

The claims, totalling an estimated $200 million, have been the subject of long and wearisome negotiations between the three banks and lawyers representing the survivors over the past two years. Fed up with what they see as time-wasting by the banks, the public finance officials warned the Swiss banks that if they did not agree to the deal by 26 March, the money would start flowing out of their coffers this week.

So that's it then? Not quite. While New York's Comptroller, Alan Hevesi, who has led the boycott movement, has said it will be suspended for a while, the arrangement he has announced has left as many unanswered questions as before.

How much money have the three banks pledged and to whom? The banks have always said a global settlement might still leave them open to individual lawsuits from disgruntled customers; New York lawyers were threatening such action before Hevesi had even finished talking. There is also the question of Holocaust money still on deposit in the cantonal banks and other financial institutions in Switzerland. The reported global deal includes only the big three.

The Hevesi committee has been urging the American and Swiss governments to get involved; both have been adopting a hands-off attitude in the dispute. Edgar Bronfman, president of the World Jewish Congress, has raised the ire of the Swiss president, Flavio Cotti, by saying the government ought to force the banks to pay up to $3bn to the families of Holocaust victims. The banks claim that this is a ridiculous figure but have not come up with a counter-offer of their own.

Another thorn in the side of the Swiss government is Senator Alfonse D'Amato, who has been leading the pressure on the banks for the past two years, to loud hurrahs from his New York constituents. D'Amato says that, while he is pleased that the banks have apparently promised to pay up, pressure ought to be kept on them. He has suggested that all concerned take another look at the matter at the end of April to see whether last week's words have been translated into action.

Hevesi and his committee, which includes such powerful figures as California's state treasurer, Matt Fong, have not abandoned their number one bargaining chip, the threat of a boycott of the banks. Fong, who controls more pension fund money than most finance ministers in independent countries elsewhere in the world, says he will believe the Swiss offer when he sees the details of the deal they have worked out.The Swiss banks have a major part of their business in America. They cannot afford to have it frozen by the Hevesi committee. The merger of UBS and SBC, which is due to take place later this year, has come under fire in New York – again. The New York state banking department has asked the Federal Reserve Bank to block the merger because of possible detrimental effects on depositors. The Federal Reserve has ultimate responsibility for approving the merger.

AKG

Called to account: Swiss banks agree settlement

Swiss banks have bought themselves a little time, but not much else. But Hevesi and D'Amato are not going to go away. There is a strong fear in Switzerland that unless the content of the secret letter from the banks is satisfactory, the boycott may well re-emerge in the next month or so – with potentially disastrous consequences for Switzerland's banks. ■

All eyes on sterling as the euro gains credibility PAGE 60

THE EUROPEAN 500

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

STOCK PICKS

Cars drive stockmarket growth

HIGH unemployment might be plaguing Germany but its leading automobile companies seem able to escape the effects of a weak economy. Daimler-Benz, Volkswagen, BMW and Porsche are earning high profits despite the postwar high of 4.81 million unemployed, as exports remain strong. Last year, sales, volume and profits in autos all hit record levels at Daimler-Benz, encouraging management to grant its first bonuses since the company was founded. Porsche is also recovering from a crisis with the introduction of its popular two-seater sports car. At BMW, net profits were at a 52 per cent high. Its rival Volkswagen also saw record sales last year, as net profits doubled. The two are vying for British carmaker, Rolls-Royce, after BMW announced its rival bid for the company which VW is keen to purchase.

Fiat
AFTER one of the company's best years on record in 1997, with profits before tax of L4,200 billion ($2.3bn), Fiat is ready for another good performance and the company is looking very solid.

The globalisation of the car sector looks set to bring new opportunities for Fiat in Turkey, Russia and India. Fiat expects a good recovery in Brazil, its second most important market. At home, state incentives to buy new cars which proved so effective last year will expire in July, but Fiat is expected to maintain its market share despite a fall in sales from 2.4 million units to 2.2m over the past year.

President and chief executive officer Paolo Cantarella has announced that the company's financial activity will soon enter its "full-gear" phase, predicting that profits for 1998 will be "not dissimilar from the excellent 1997 results", making Fiat a promising investment prospect.

Porsche
THE German sports car manufacturer is expected to continue the roaring success which has seen its share price rise almost five-fold in three years.

The chic producer of the 911 Carrera and, more recently, the highly-successful Boxter model revised upwards its profits growth for the half year to January to 82 per cent.

The chief executive, Wendelin Wiedeking, is bullish about prospects for the Boxter convertible and the development of an off-road car. Mercedes introduced its M-Class vehicle while Audi, BMW and Renault are all studying plans to enter a market which grew 14 per cent in America and eight per cent in Europe last year. A positive decision from Wiedeking had been expected by the end of March but is being delayed for a few months while the Stuttgart-based manufacturer tackles the issue of excessive fuel consumption.

The one point of bad news was the death in his sleep at the age of 88 last week of company founder, Ferdinand Porsche.

Volkswagen
VOLKSWAGEN's share price is on the rise again. Last December its shares plummeted to a low of DM900 ($492) but have risen to DM1,400. This is close to their record high of DM1,500 in July 1997. The reasons for the reversal in its fortunes are not so much due to last week's bid for Rolls-Royce, said Guinness Flight Hambro fund manager David Potts, but more to do with fundamentals.

Last year VW surprised investors by announcing a rights issue which was greeted with a thumbs-down and sent its share price spiralling downwards. The reason for investor disappointment was that the cash-rich company did not explain why it was launching a rights issue.

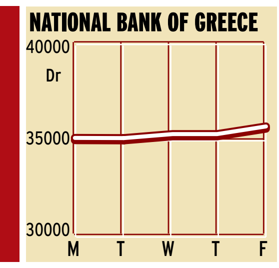
There were rumours that VW was planning a bid for Scandinavian truck-making firm Scania, but that fell by the wayside. The size of the rights issue has since been halved and the deal completed.

But there are other reasons for the shares recovering. 1997 results far exceeded expectations; the consensus was they would lift shares by DM60-65; in fact prices soared by DM81 per share, encouraging analysts to reappraise their opinions of the company. VW is pleased with how its new Golf has been received, with a massive backlog of orders. The Passat and Audi are also going well. The impending relaunch of the Beetle should prove to be a winner.

GAZ
IF YOU fancy an emerging market punt, and can live with political risks, you could do worse than Russian car company Gorkovsky Avtomobilny Zavod (GAZ). Russian cars are not known for their comfort, style or safety, but the deal with Fiat by the GAZ president, Nikolai Pugin, could change that.

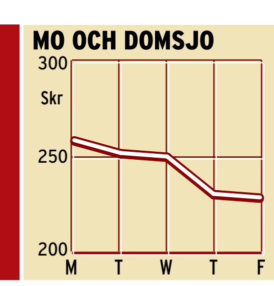
Fiat is investing $610m and the European Bank for Reconstruction and Development another $240m to upgrade production at the company's factory in Nizhny Novgorod. They plan to make 150,000 cars, starting in December. Although Russia's largest car manufacturer, Avtovaz, has also signed a similar deal with General Motors subsidiary Opel, analysts say that GAZ has fewer problems, better management and, for Russia, relatively transparent accounts. The company is debt-free and expected to declare a $180m profit for 1997.

Banks



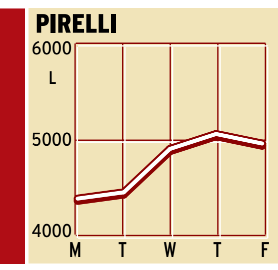
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Abbey National	UK	1187.0	18.4	1.3	3.2
ABN Amro	Neth	48.8	0.8	2.7	2.5
Alliance & Leicester	UK	882.0	13.7	−5.9	3.0
Allied Irish	Ire	9.4	0.1	−1.1	1.9
Alpha Credit Bank	Gre	25225.0	390.5	14.1	3.7
Banca Commerciale It	Ita	8838.0	136.8	2.4	1.9
Banca di Roma	Ita	2992.0	46.3	7.2	–
Banca Fideuram	Ita	12837.0	198.7	−0.7	0.9
Banco Bilbao Vizcaya	Spa	7310.0	113.2	2.7	1.7
Banco Central His	Spa	5150.0	79.7	4.9	1.2
Banca Intesa	It	5200.0	80.5	5.7	1.4
Banco Com Portugues	Port	6940.0	107.4	5.3	1.4
Banco Esp Credito	Spa	2395.0	37.1	1.9	–
Banco Espirito Santo	Port	8700.0	134.7	8.8	1.5
Banco Popular Espanol	Spa	15000.0	232.2	8.0	1.9
Banco Santander	Spa	7800.0	120.8	2.9	1.7
Bank Austria	Aus	901.0	13.9	2.0	1.3
Bank Fuer Intl Zah-Belg	Swi	9100.0	140.9	3.1	3.1
Bank Fuer Intl Zahlungs	Swi	9325.0	144.4	−0.5	3.0
Bank Of Ireland	Ire	15.2	0.2	−2.6	1.2
Bank Of Scotland	UK	701.0	10.9	−3.5	1.6
Bankgesellschaft Berlin	Ger	44.5	0.7	10.7	3.5
Bankinter	Spa	11000.0	170.3	2.7	2.6
Banque Gen Du Lux	Lux	72700.0	1125.5	1.1	1.9
Banque Nat de Paris	Fr	496.0	7.7	10.5	1.6
Barclays	UK	1777.0	27.5	−2.9	2.6
Bayerische Vereinsbank	Ger	134.9	2.1	14.5	1.7
BBL	Bel	10000.0	154.8	6.4	2.5
BG Bank	Den	430.0	6.7	1.9	4.7
BHF-Bank	Ger	57.8	0.9	7.6	3.6
Christiania Bank	Nor	32.5	0.5	−1.8	3.7
Cie Financiere De Paribas	Fr	630.0	9.8	7.3	3.1
Commerzbank	Ger	68.5	1.1	2.7	3.1
Compagnie Bancaire	Fr	1101.0	17.0	7.4	1.3
Corp Bancaria De Esp	Spa	13090.0	202.7	12.1	2.3
Den Danske Bank	Den	940.0	14.6	2.5	1.9
Den Norske Bank	Nor	41.0	0.6	−0.7	3.3
Deutsche Bank	Ger	139.6	2.2	3.0	1.8
Deutsche Pfandbrief	Ger	137.0	2.1	−1.4	1.6
Dexia Belgium	Bel	5510.0	85.3	−0.7	2.1
Dexia France	Fr	–	–	–	–
Dresdner Bank	Ger	86.1	1.3	0.5	2.6
Generale De Banque	Bel	20000.0	309.6	5.0	2.7
Halifax	UK	930.5	14.4	−1.7	–
HSBC	UK	1869.0	28.9	3.0	3.3
Istituto Banc San Paolo	Ita	23866.0	369.5	6.8	1.2
Kredietbank	Bel	20325.0	314.7	3.2	1.7
Lloyds TSB	UK	936.0	14.5	−2.6	2.3
Mediobanca	Ita	23717.0	367.2	6.8	0.8
Merita	Fin	31.7	0.5	3.9	2.8
National Bank of Greece	Gre	35600.0	551.1	17.3	–
National Westminster	UK	1071.0	16.6	−1.5	3.7
Rolo Banca	Ita	39794.0	616.1	5.9	1.4
Royal Bank of Scotland	UK	928.0	14.4	−1.8	2.9
Schroders	UK	2374.0	36.8	−2.6	1.2
Schweizerischer Bank	Swi	525.0	8.1	7.9	2.3
Skandi Enskilda Banken	Swe	110.5	1.7	5.2	2.7
Societe Generale	Fr	1239.0	19.2	9.6	2.1
Standard Chartered	UK	897.0	13.9	−0.9	2.6
Svenska Handelsbanken	Swe	361.0	5.6	7.4	1.8
UBS	Swi	2490.0	38.5	8.1	2.0
Unidanmark	Den	570.0	8.8	2.7	2.6
Woolwich	UK	377.5	5.8	0.4	3.2
Worms et Compagnie	Fr	381.0	5.9	−1.8	18.9

Basic Materials



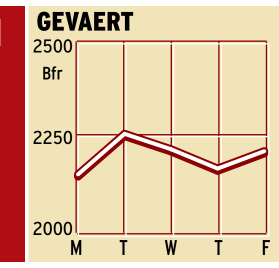
Company	Country	Price (local)	Price (Ecu)	%change	Yield
AGA	Swe	109.0	1.7	1.9	2.8
Akzo Nobel	Neth	432.7	6.7	1.3	2.0
Allied Colloids	UK	203.5	3.2	0.0	2.0
Alusuisse Lonza	Swi	1855.0	28.7	3.1	1.0
Arjo Wiggins Appleton	UK	192.0	3.0	1.1	4.2
Assidoman	Swe	220.0	3.4	−0.9	2.5
Basf	Ger	77.9	1.2	4.4	3.7
Bayer	Ger	82.9	1.3	0.4	3.3
Billiton	UK	166.0	2.6	5.1	–
Boc	UK	992.0	15.4	−2.9	3.4
British Steel	UK	143.3	2.2	−4.2	8.7
Ciba Specialty Chems	Swi	196.8	3.0	4.1	1.0
Clariant	Swi	1645.0	25.5	5.9	0.6
Courtaulds	UK	361.5	5.6	−2.4	4.6
Degussa	Ger	105.9	1.6	1.1	1.4
DSM	Neth	216.3	3.3	0.7	4.3
Enso	Fin	54.7	0.8	−1.4	4.0
FPB	Ger	–	4.9	−2.2	7.9
Henkel Kgaa	Ger	118.7	1.8	−3.1	1.6
Hoechst	Ger	71.3	1.1	−0.2	3.0
Imperial Chemical	UK	1039.0	16.1	−3.2	3.1
Johnson Matthey	UK	619.5	9.6	3.1	2.6
Koninklijke Knp	Neth	54.8	0.8	1.3	2.0
L'air Liquide	Fr	1049.0	16.2	−3.0	2.0
Laporte	UK	779.0	12.1	3.0	3.3
Minorco-Bearer	Lux	600.0	9.3	0.0	–
Mo Och Domsjoe	Swe	230.0	3.6	−8.0	3.9
Pechiney	Fr	273.5	4.2	−1.7	1.8
Preussag	Ger	643.0	10.0	−1.1	2.7
Rio Tinto	UK	799.5	12.4	0.6	4.0
SGL Carbon	Ger	208.0	3.2	−3.3	1.6
Skw Trostberg	Ger	66.2	1.0	−1.9	2.6
Solvay	Bel	2950.0	45.7	7.7	2.5
Ssab Svenskt Stal	Swe	150.0	2.3	−3.8	3.0
Stora Kopparbergs	Swe	122.0	1.9	−4.7	3.1
Svenska Cellulosa	Swe	210.0	3.3	−2.1	2.7
Upm-Kymmene	Fin	145.0	2.2	−4.6	3.8
Usinor	Fr	101.0	1.6	−2.1	4.5

Consumer



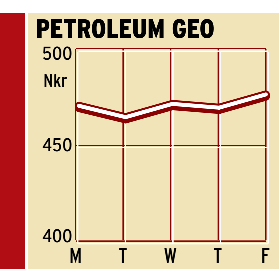
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Accor	Fr	1520.0	–	−0.3	–
Adidas	Ger	318.0	4.9	1.1	–
Airtours	UK	502.5	7.8	0.3	–
Alitalia	Ita	23880.0	369.7	5.7	–
Allied Domecq	UK	592.0	384.6	1.7	4.1
Altana	Ger	140.0	91.0	−8.5	1.7
Associated British Foods	UK	626.5	407.0	1.9	2.0
Astra	Swe	164.5	106.9	−0.6	1.1
Audi	Ger	1898.0	–	11.7	–
Autopistas Con	Spa	2575.0	1672.8	7.1	2.8
BAT	UK	609.0	9.1	−4.8	4.7
Bass	UK	1146.0	17.1	5.1	3.4
BMW	Ger	2100.0	–	–	–
Beiersdorf	Ger	90.2	58.6	−3.0	1.6
Bic	Fr	460.0	298.8	0.5	2.0
British Airways	UK	625.0	9.7	5.4	3.1
Cadbury Schweppes	UK	792.0	11.8	−3.2	2.3
Carlsberg	Den	446.9	290.3	2.0	0.8
Castorama Dubuis Inv	Fr	981.0	15.2	−1.9	1.7
CCP	Spa	2975.0	46.1	7.2	2.2
Christian Dior	Fr	831.0	539.9	4.4	2.8
Cie Ffinanc Richemont	Swi	2025.0	1315.5	2.3	–
Cie Generale Des Eaux	Fr	1001.0	650.3	1.1	1.8
Colruyt	Bel	25150	16338.6	−1.2	0.7
Compass	UK	988.0	15.3	0.0	1.2
Continental	Ger	47.1	0.7	2.0	1.8
Daimler-Benz	Ger	171.0	2.6	0.4	1.3
Danisco	Den	465.0	302.1	2.9	1.1
Deutsche Lufthansa	Ger	38.7	0.6	−1.2	2.3
Diageo	UK	709.0	10.6	2.2	2.6
Elan	Ire	46.1	29.9	−1.5	–
Electrolux	Fr	657.0	10.2	1.4	1.9
EMI	UK	514.5	8.0	−1.2	3.2
Eridania Beghin-Say	Fr	1190.0	773.1	2.1	4.2
Essilor International	Fr	2090.0	1357.8	−0.8	1.2
Fiat	Ita	7535.0	116.7	0.1	–
Fresenius Medical Care	Ger	129.0	83.8	−5.8	1.1
Gallaher	UK	336.8	5.0	−2.7	7.1
Gehe	Ger	102.0	66.3	−2.8	1.8
GKN	UK	1597.0	23.4	−0.7	1.9
Glaxo Wellcome	UK	1538.0	23.2	−5.6	2.5
Granada	UK	1077.0	16.2	4.1	1.7
Groupe Danone	Fr	1453.0	943.9	3.4	1.8
Hays	UK	1032.5	15.4	−4.4	1.2
Heineken	Neth	484.0	314.4	3.7	0.7
Imperial Tobacco	UK	432.8	6.5	5.0	6.2
Jeronimo Martins	Port	7889.0	122.1	11.9	0.5
Klm-Konin Luchtvaart	Neth	84.0	1.3	−3.7	1.2
Koninklijke Ahold	Neth	69.3	45.0	5.2	1.1
La Rinascente	Ita	20022	13007.2	10.0	1.0
Ladbroke	UK	337.3	5.2	1.2	2.6
L'Oreal	Fr	2808.0	1824.2	1.4	0.7
LucasVarity	UK	233.5	3.6	−1.6	2.4
LVMH	Fr	1315.0	854.3	−1.2	2.5
Michelin	Fr	372.0	5.8	3.7	1.3
Montedison	Ita	2573.0	1671.5	5.4	0.8
Nestle	Swi	2900.0	1884.0	7.2	1.2
Northern Foods	UK	301.5	4.5	−4.3	4.1
Novartis-Bearer	Swi	2685.0	1744.3	1.5	0.9
Nutricia Verenigde Bed	Neth	76.2	49.5	5.1	0.9
Nycomed Amersham	UK	2245.0	36.8	−2.2	–
Orkla	Nor	777.0	504.8	3.2	1.1
Parmalat Finanziaria	Ita	3775.0	2452.4	1.3	0.4
Pernod-Ricard	Fr	430.0	279.3	−3.4	3.0
Pharmacia & Upjohn	Swe	351.0	228.0	2.2	2.5
Pilkington	UK	125.5	1.9	−1.2	4.6
Pirelli	Ita	6550.0	101.4	11.7	1.5
Pirelli Spa-rnc	Ita	5072.0	78.5	17.1	2.4
Promodes	Fr	2915.0	1893.7	5.3	0.7
PSA Peugeot Citroën	Fr	1048.0	16.2	6.8	0.4
Raisio	Fin	810.0	526.2	−8.4	0.4
Randstad	Neth	105.0	68.2	9.4	0.9
Reckitt & Colman	UK	1096.0	16.5	−3.9	2.2
Renault	Fr	266.5	4.1	5.0	–
Rentokil Initial	UK	353.5	5.3	3.6	1.1
Rhone-Poulenc	Fr	301.9	196.1	6.4	1.7
Roche Holding-bearer	Swi	26075	16939.6	−0.3	0.3
SMH-Bearer	Swi	990.0	15.3	−2.0	1.0
Sairgroup	Swi	2124.0	32.9	0.7	–
Sanofi	Fr	707.0	459.3	2.2	1.4
Scania	Swe	198.5	3.1	−2.7	2.8
Schering	Ger	222.4	144.5	3.1	1.6
Scottish & Newcastle	UK	909.5	13.6	4.2	3.0
Seb	Fr	920.0	14.2	−5.6	1.8
Securicor	UK	406.5	6.1	−1.6	0.5
Seita	Fr	254.0	165.0	2.3	3.9
Sgs Soc Gen de Surv	Swi	2730.0	1773.5	2.1	2.5
Smith & Nephew	UK	177.0	2.7	−2.9	3.5
Smithkline Beecham	UK	745.5	11.2	−1.2	1.5
Sodexho Alliance	Fr	4150.0	64.2	8.1	1.3
Sophus Berendsen	Den	–	–	–	–
Springer (axel) Verlag	Ger	–	–	0.0	1.8
Suedzucker	Ger	915.0	594.4	−0.1	2.7
Synthelabo	Fr	832.0	540.5	−3.3	1.0
T & N	UK	258.0	4.0	0.2	–
Tabacalera	Sp	17360	11277.9	−1.9	1.2
Tate & Lyle	UK	521.5	7.8	0.9	3.5
UCB	Bel	156400	101604.8	−1.6	0.6
Unigate	UK	719.0	467.1	0.8	3.6
Unilever-CVA	Neth	141.4	91.9	0.5	1.6
Unilever	UK	569.5	8.5	−0.3	1.9
United Biscuits	UK	255.8	3.8	−4.9	5.1
Valeo	Fr	573.0	8.9	7.3	1.0
Volkswagen	Ger	1397.5	21.6	−0.8	1.2
Volvo	Swe	259.0	4.0	1.2	1.9
Whitbread	UK	1104.0	16.5	1.8	2.8
Wolseley	UK	458.5	7.1	8.8	3.2
Zeneca	UK	2503.0	37.5	−0.3	1.9

Diversified



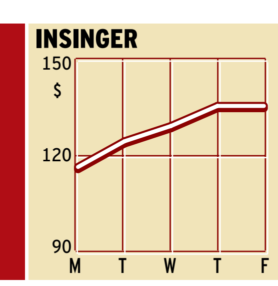
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Barco	Bel	9510.0	232.4	1.5	0.7
BTR	UK	203.0	5.0	2.5	4.7
Gevaert	Bel	2245.0	54.9	3.5	–
Industrivarden	Swe	535.0	13.1	−1.3	2.8
Lagardere	Fr	249.0	6.1	5.5	2.2
Metallgesellschaft	Ger	39.0	1.0	0.1	0.5
Montaigne Participat	Fr	–	–	–	0.4
Ste Gen de Belgique	Bel	4910.0	120.0	−0.2	2.4
Tomkins	UK	361.8	8.8	1.4	3.3

Energy



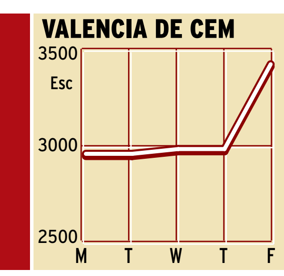
Company	Country	Price (local)	Price (Ecu)	%change	Yield
British Petroleum	UK	878.0	13.6	1.3	3.3
Burmah Castrol	UK	1105.0	17.1	0.5	5.2
Cia Espanola de Pet	Spa	5650.0	87.5	0.9	2.1
Electrafina	Bel	4240.0	65.6	1.0	3.3
Elf Aquitaine	Fr	812.0	12.6	6.0	2.6
Eni	Ita	12774.0	197.8	4.3	1.9
Enterprise Oil	UK	543.0	8.4	−0.2	4.0
Lasmo	UK	284.5	4.4	4.8	0.8
Neste	Fin	168.0	2.6	12.8	1.8
Petrofina	Bel	13900.0	215.2	2.6	3.3
Petroleum Geo-Services	Nor	476.0	7.4	8.9	–
Repsol	Spa	8190.0	126.8	7.1	2.3
Royal Dutch Petroleum	Neth	120.3	1.9	3.7	2.6
RWE-DEA	Ger	–	–	1.1	5.1
Saga Petroleum	Nor	124.0	1.9	7.8	2.8
Saipem	It	10942.0	169.4	−0.6	1.4
Shell Transprt&tradng	UK	445.0	6.9	2.4	3.2
OMV	Aus	1689.0	26.1	4.7	1.5
Total	Fr	757.0	11.7	10.2	2.6

Financial



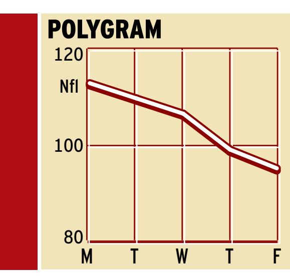
Company	Country	Price (local)	Price (Ecu)	%change	Yield
3I	UK	593.5	9.2	0.4	2.0
Aegon	Neth	255.8	4.0	0.2	1.5
AGF	Fr	344.0	5.3	3.5	2.2
Alleanza Assicurazioni	Ita	28798.0	445.8	11.4	0.5
Alliance Trust	UK	2992.5	46.3	−0.2	2.5
Allianz	Ger	544.0	8.4	−3.7	0.5
Allianz Lebensversich	Ger	–	–	−4.8	1.0
Almanij	Bel	2535.0	39.2	0.4	1.2
Amvescap	UK	656.0	10.2	0.5	1.1
Asr Verzekeringsgroep	Neth	150.2	2.3	−1.1	1.8
Assicurazioni Generali	Ita	57709.0	893.4	6.9	0.6
Axa-UAP	Fr	620.0	9.6	−3.1	2.2
Axa Colonia Konzern	Ger	228.5	3.5	−2.8	1.3
Baloise	Swi	3150.0	48.8	−0.6	–
Bayer Hypo-Und Wech	Ger	101.9	1.6	14.1	2.0
BHW	Ger	30.9	0.5	−5.9	4.2
BK Vision	Swi	1831.0	28.3	4.7	–
Britannic Assurance	UK	1352.5	20.9	4.6	3.1
British Land	UK	739.0	11.4	−5.5	1.5
CCF	Fr	516.0	8.0	4.3	1.9
Cetelem	Fr	755.0	11.7	3.4	2.0
Cobepa	Bel	2080.0	32.2	−1.0	5.5
Commercial Union	UK	1153.0	17.9	−2.1	2.8
Credit Suisse	Swi	300.0	4.6	1.9	1.7
Credito Italiano	Ita	8177.0	126.6	12.3	1.0
Ea-Generali	Aus	4400.0	68.1	3.8	0.3
Edinburgh Investment	UK	508.0	7.9	−1.0	2.7
Ewart	Ire	1.0	0.0	–	–
Exor	Lux	93.4	1.4	0.8	3.1
Finaxa	Fr	508.0	7.9	−1.2	1.9
Foreign & Colonial	UK	200.3	3.1	−0.7	1.5
Forenings Sparbanken	Swe	272.0	4.2	10.1	2.2
Fortis	Bel	10825.0	167.6	−3.1	1.2
Fortis Amev	Neth	124.5	1.9	−1.9	1.6
Gan Assurances	Fr	176.0	2.7	4.1	–
General Accident	UK	1461.0	22.6	−1.5	3.2
Groupe Brux. Lambert	Bel	6470.0	100.2	1.4	3.1
Guardian Royal	UK	427.5	6.6	−3.1	2.7
Hammerson	UK	518.5	8.0	0.8	2.9
Ifil	Ita	9408.0	145.7	2.5	1.4
INA	Ita	6091.0	94.3	9.0	1.1
Incentive	Swe	800.0	12.4	5.5	1.3
ING Groep	Neth	121.1	1.9	2.8	1.8
Insinger	Lux	135.3	2.1	19.2	–
Investor	Swe	426.0	6.6	−0.2	2.3
Istituto Mobiliare It	Ita	27500.0	425.7	3.2	2.5
La Fondiaria Ass	Ita	12989.0	201.1	7.1	1.0
La Gaiana	Ita	6950.0	107.6	−0.7	1.7
Land Securities	UK	1078.0	16.7	−0.7	3.2
Legal & General	UK	740.0	11.5	1.5	2.2
Liberty Int	UK	614.5	9.5	0.3	3.6
Liechtenstein Global	Swi	1385.0	21.4	3.1	1.8
Mediolanum	Ita	55040.0	852.1	6.0	0.8
Mepc	UK	596.0	9.2	0.2	3.6
MAM	UK	1691.0	26.2	–	3.5
Muenchener Rueckver	Ger	–	–	−0.9	0.5
Norwich Union	UK	456.5	7.1	−0.1	–
Pharma Vision 2000	Swi	1035.0	16.0	−0.4	–
Provident Financial	UK	968.0	15.0	−1.0	2.5
Prudential	UK	908.5	14.1	0.9	2.1
Ras	Ita	26808.0	415.0	6.4	1.3
Royal & Sun Alliance	UK	771.0	11.9	−2.2	3.0
Royale Belge	Bel	13325.0	206.3	0.6	3.4
Safra Republic	Lux	145.0	2.2	–	1.6
Sampo Insurance	Fin	221.0	3.4	−1.9	1.4
Schw lebensv & Rent	Swi	1298.0	20.1	4.4	0.5
Schw Rueckversich	Swi	3350.0	51.9	3.0	0.9
Scottish Mort &Ttrust	UK	387.5	6.0	1.3	1.7
Skandia Forsakrings	Swe	526.0	8.1	−5.2	0.7
Slough Estates	UK	410.5	6.4	−1.0	1.5
Stillhalter Vision	Swi	920.0	14.2	−0.2	–
Storebrand	Nor	63.5	1.0	0.0	–
Sun Life & Provincial	UK	582.0	9.0	−4.1	2.6
Trygg-Hansa	Swe	–	–	–	–
United Assurance	UK	618.0	9.6	3.9	4.0
Victoria	Ger	–	–	–	–
Volksfuersorge	Ger	830.0	12.8	−0.8	2.6
Witan Investment	UK	382.5	5.9	1.1	2.3
Wuertt Versich-Beteil	Ger	2730.0	42.3	−0.7	0.7
Zürich Versicherungs	Swi	884.0	13.7	5.6	0.8

Industrial



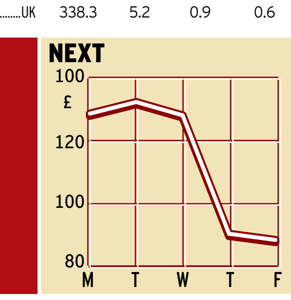
Company	Country	Price (local)	Price (Ecu)	%change	Yield
ABB-B	Swe	109.0	12.7	1.9	1.9
ABB-Bearer	Swi	2258.0	263.7	3.7	1.8
Asea Brown Boveri	Ger	–	–	−1.7	1.6
Associated British Ports	UK	375.5	5.6	−3.2	3.0
Atlas Copco	Swe	240.0	28.0	−4.0	1.8
BAA	UK	590.0	8.9	−3.4	2.8
BBA	UK	455.0	6.8	1.4	1.8
Blue Circle	UK	389.5	5.8	1.5	4.1
Bouygues	Fr	1009.0	117.8	5.7	2.5
BPB	UK	380.5	5.7	−2.0	3.2
CGIP-Gen d'ind & de Par	Fr	2795.0	326.4	4.7	2.1
Cimenteries CBR Cement	Bel	3705.0	432.7	−2.6	2.6
Cimpor Cim de Port	Port	6789.0	792.9	3.7	1.8
Compagnie de Saint	Fr	1006.0	117.5	3.8	2.5
Cookson	UK	229.0	3.4	−7.9	4.0
D/S Svendborg	Den	494000	57697.6	2.2	0.2
Electrocomponents	UK	514.5	7.7	7.5	2.0
FKI	UK	206.5	24.1	1.2	3.2
Fomento de Con Constru	Spa	7800.0	911.0	−1.3	0.5
Fried.Krupp Hoesch	Ger	339.8	39.7	−7.9	3.4
General Electric	UK	449.0	6.7	−2.1	3.7
Hanson	UK	383.0	5.7	1.5	–
Heidelberger Druck	Ger	140.5	16.4	−3.0	–
Heidelberger Zement	Ger	143.0	16.7	5.9	1.7
Hochtief	Ger	75.4	8.8	−0.8	2.3
Holderbank Fin Glarus	Swi	1508.1	176.1	5.7	1.1
Imetal	Fr	815.0	95.2	−4.2	2.9
Imi	UK	447.0	6.7	−1.7	3.1
Kvaerner	Nor	321.0	37.5	3.5	2.2
Lafarge	Fr	517.0	60.4	−1.7	2.8
Lahmeyer aktiengesell	Ger	90.0	10.5	0.6	1.5
Legrand	Fr	1621.0	189.3	−0.2	0.4
Linde	Ger	1314.0	153.5	4.5	2.1
Man	Ger	587.0	68.6	−0.7	2.4
Mannesmann	Ger	1349.5	157.6	4.5	1.1
Norsk Hydro	Nor	389.0	45.4	5.0	1.9
Peninsular & Orient	UK	884.0	13.2	1.0	4.3
Philips Electronics	Neth	156.2	18.2	4.8	1.3
Railtrack	UK	1006.0	15.1	0.9	2.8
Rexam	UK	283.5	4.2	−1.2	3.5
Rexel	Fr	2275.0	265.7	−1.1	1.3
RMC	UK	961.5	14.4	1.2	3.2
Rolls-Royce	UK	286.5	4.3	0.0	2.6
Rwe	Ger	100.5	11.7	0.7	2.3
SKF	Swe	192.0	22.4	1.9	2.7
Sandvik	Swe	230.0	26.9	−4.4	3.0
Scancem	Swe	335.0	39.1	−2.5	2.2
Schneider	Fr	460.8	53.8	11.0	2.1
Sidel	Fr	449.9	52.5	0.1	1.7
Siebe	UK	1312.0	19.7	0.4	1.2
Siemens	Ger	125.0	14.6	5.3	1.7
Skanska	Swe	375.5	43.9	2.5	2.9
Smiths Industries	UK	863.5	12.9	−1.4	2.7
Smurfit	Ire	2.1	0.2	1.0	2.1
Stagecoach	UK	990.0	14.9	0.4	1.3
Suez Lyonnaise Des E	Fr	895.0	104.5	−0.7	2.0
Thyssen	Ger	410.5	47.9	−5.0	3.5
Ti	UK	516.5	7.7	−3.9	3.1
Va Technologie	Ger	2030.0	237.1	11.7	1.5
Valenciana De Cem Port	Por	3420.0	399.4	15.9	–
Veba	Ger	129.2	15.1	3.6	2.3
Viag	Ger	1022.0	119.4	−0.5	2.0
Williams	UK	460.0	6.9	3.2	3.4

Media



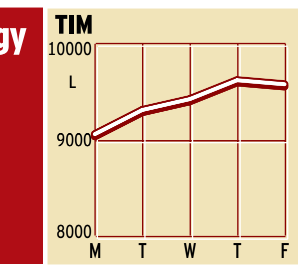
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Audiofina	Lux	1520.0	23.5	–	1520.0
British Sky Broadcasting	UK	456.0	7.1	−0.8	1.7
Canal Plus	Fr	1180.0	18.3	6.5	2.5
Carlton Communications	UK	461.0	7.1	−5.9	3.4
Daily Mail&General	UK	2410.0	37.3	−0.8	1.2
Elsevier	Neth	34.5	0.5	1.2	2.8
Emap	UK	1121.5	17.4	2.0	1.5
Havas	Fr	513.0	7.9	0.8	2.5
Mediaset	Ita	11839.0	183.3	−2.5	1.6
Pearson	UK	972.0	15.0	−1.9	2.5
Polygram	Neth	95.7	1.5	−15.9	1.0
Rank	UK	401.5	6.2	3.4	5.6
Reed International	UK	606.5	9.4	0.3	3.0
Reuters	UK	644.0	10.0	2.7	2.6
Télévision Française TF1	Fr	755.0	11.7	−0.7	3.2
United News & Media	UK	819.0	12.7	−0.1	2.9
VNU	Neth	69.0	1.1	1.9	0.8
Wolters Kluwer	Neth	301.5	4.7	2.3	1.0
WPP	UK	338.3	5.2	0.9	0.6

Retail



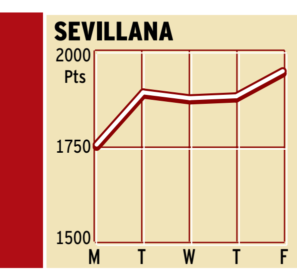
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Adecco	Swi	548.0	356.0	−3.9	0.9
Argos	UK	621.5	9.6	2.9	101.0
Asda	UK	195.3	2.9	−6.3	2.0
Benetton	Ita	38608.0	597.7	3.3	1.2
Boots	UK	951.5	14.7	5.7	2.8
Burton	UK	–	–	–	–
Carrefour	Fr	3611.0	2345.9	0.0	1.1
Casino Guichard Per	Fr	413.2	268.4	−0.6	1.6
Comptoirs	Fr	3190.0	2072.4	0.8	1.3
Delhaize-le lion	Bel	2435.0	1581.9	−3.0	1.5
Dixons	UK	536.3	8.3	7.8	2.6
Great Universal	UK	760.0	11.8	−2.3	3.0
Greenalls	UK	456.5	7.1	−1.6	4.6
Hagemeyer	Neth	103.0	66.9	5.6	1.3
Hermes	Fr	466.0	7.2	−10.2	0.8
Karstadt	Ger	732.0	11.3	−1.3	2.0
Kingfisher	UK	1117.0	17.3	−3.1	2.6
Marks & Spencer	UK	596.5	9.2	2.4	2.8
Metro	Ger	83.6	1.3	−1.2	1.4
Morrison	UK	256.5	3.8	−1.9	1.0
Next	UK	534.5	8.3	−24.9	4.2
Pinault-Printemps	Fr	4392.0	68.0	3.5	1.1
Safeway	UK	373.0	3.6	−1.0	4.7
Sainsbury	UK	517.5	7.8	4.1	3.0
Tesco	UK	583.0	8.7	2.4	2.3
Vendex Intl	Neth	137.3	2.1	2.3	1.5

Technology



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Alcatel Alsthom	Fr	1116.0	167.6	2.7	1.3
Ares-Serono	Swi	2370.0	355.9	−1.7	0.3
ASM Lithography	Neth	192.6	28.9	−0.1	–
Baan	Neth	97.4	14.6	−5.4	–
British Aerospace	UK	2009.0	30.1	2.8	1.2
British Telecom	UK	641.5	9.6	−5.5	3.8
Cable & Wireless	UK	753.0	11.3	−0.1	1.8
Cap Gemini	Fr	748.0	112.3	2.9	0.4
Dassault Aviation	Fr	1781.0	267.4	0.6	2.7
Dassault	Fr	249.5	37.5	3.3	0.5
Ericsson	Swe	377.0	56.6	−0.8	0.9
Getronics	Neth	89.7	13.5	−0.3	0.5
Misys	UK	2993.0	44.9	9.1	0.5
Nokia	Fin	601.0	90.2	0.6	1.2
Novo-Nordisk	Den	1105.0	165.9	4.2	0.5
Oce	Neth	299.8	45.0	−1.1	1.2
Orange	UK	391.0	5.8	−8.6	–
Premier Farnell	UK	385.0	5.8	−4.4	4.0
Sap	Ger	736.0	110.5	−2.3	0.5
Sema	UK	2375.0	35.7	3.7	0.4
Sgs-Thomson	Fr	464.0	69.7	7.0	–
Telecel-Com Pessoai	Port	30000.0	4504.5	3.1	–
Thomson	Fr	247.0	37.1	−2.9	1.7
TIM	It	9626.0	1445.3	6.9	0.9
Vodafone	UK	601.0	9.0	−0.6	1.1

Utilities



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Aguas De Barcelona	Spa	7620.0	45.3	7.6	1.2
Anglian Water	UK	947.0	5.6	4.7	4.7
Berliner Kraft Und Licht	Ger	80.5	0.5	1.9	1.8
BG	UK	312.0	1.9	3.5	3.4
British Energy	UK	526.0	3.1	4.4	3.4
Centrica	UK	114.0	0.7	1.6	–
Deutsche Telekom	Ger	40.8	0.2	0.7	4.2
Edison	It	15537.0	92.4	6.7	1.3
Electrabel	Bel	9720.0	57.8	−0.5	5.0
Electricidade De Port	Port	4560.0	27.1	5.6	2.7
Elektrowatt	Swi	550.0	3.3	−1.8	–
Endesa	Spa	3850.0	22.9	1.9	1.9
Energy	UK	838.5	5.0	−0.2	2.0
France Telecom	Fr	311.0	1.8	0.6	–
Gas Natural	Spa	9780.0	58.1	8.1	0.7
Hellenic Tel	Gr	8200.0	48.8	−1.8	2.0
Hyder	UK	984.0	5.9	−0.4	5.8
Iberdrola	Spa	2465.0	14.7	1.9	2.9
Italgas	Ita	8156.0	48.5	6.2	1.6
Koninklijke PTT Ned	Neth	108.2	0.6	0.8	2.7
National Grid	UK	352.0	2.1	−0.4	4.8
National Power	UK	581.0	3.5	−0.2	6.0
Neckarwerke Stuttgart	Ger	–	–	3.9	2.1
Oest Elektrizatswirt	Aus	1560.0	9.3	10.7	1.0
Portugal Telecomister	Port	10330.0	61.4	−0.9	1.3
Powerfin	Bel	6820.0	40.5	6.6	2.4
Powergen	UK	835.0	5.0	−0.3	4.0
Scottish Hydro-Electric	UK	587.0	3.5	1.5	3.9
Scottish Power	UK	569.3	3.4	−2.9	4.2
Severn Trent	UK	1025.0	6.1	2.6	4.8
Sevillana De Electric	Spa	1945.0	11.6	11.1	2.6
South West Water	UK	978.5	5.8	2.9	4.9
Southern Electric	UK	540.0	3.2	0.2	5.1
Sydkraft	Swe	–	–	0.9	2.0
Tele Danmark	Den	655.0	3.9	6.5	2.7
Telecom Italia	Ita	14162.0	84.2	6.3	0.9
Telefonica De España	Spa	6830.0	40.6	5.4	1.5
Thames Water	UK	953.5	5.7	0.7	4.7
Tractebel	Bel	4005.0	23.8	0.1	2.7
Union Electrica Fenosa	Spa	2065.0	12.3	−1.2	2.7
United Utilities	UK	881.0	13.2	5.9	5.4
Vew	Ger	630.0	3.7	1.0	2.3
Yorkshire Water	UK	537.00	8.1	1.23	4.5

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

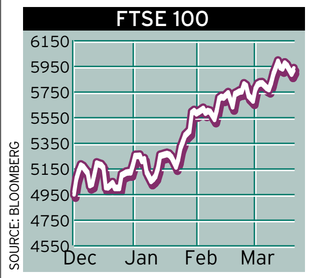
Aus	Austria	**Gr**	Greece	**Port**	Portugal
Bel	Belgium	**Ire**	Ireland	**Spa**	Spain
Den	Denmark	**Ita**	Italy	**Swe**	Sweden
Fin	Finland	**Lux**	Luxembourg	**Swi**	Switzerland
Fr	France	**Neth**	Netherlands	**UK**	United Kingdom
Ger	Germany	**Nor**	Norway		

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

MARKETS

ROUNDUP

London



THE outlook for the London market is poorer than it has been for months, with analysts warning that the UK could underperform relative to continental stockmarkets. Forecasts suggest that the strength of sterling, combined with the Asian crisis, is hitting the manufacturing sector harder than expected.

On 27 March the market closed down 2.9 per cent at 5,939.3 after a week of profits-taking was exacerbated by a profit-warning from the high street retailer, Next. The announcement wiped out recent share gains by most of the large retailers, including stalwarts such as Marks & Spencer.

"We're staying under-weighted in UK equities, we think the UK market is going to under-perform against the rest of Europe," says an analyst.

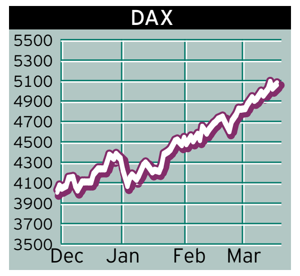
Nerves are also jittery in anticipation of this week's raft of economic data which is likely to suggest that consumer spending is on the increase, fuelling fears of an interest rate hike. Figures due include consumer credit, purchasing surveys for manufacturing and house price data. If all the figures come out strongly, the fight against inflation will be on again.

Economists expect the Bank of England to raise interest rates by 0.25 per cent to 7.5 per cent to keep the lid on inflationary pressure.

The market is also under pressure as a result of the strength of sterling. Last week the pound closed at DM3.07. Market-watchers are hoping for it to fall to about DM3.0.

Companies filing results this week include Burma Oil on 30 March and Highland Distillers on 31 March.

Frankfurt



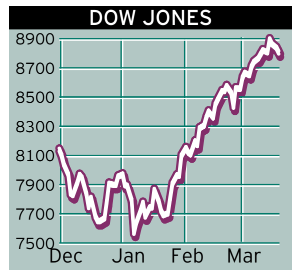
ONCE the economists have crunched the numbers from the Bundesbank, European Commission and European Monetary Institute reports, their recommendations may move German markets next week, especially since the Bundesbank expressed concern over the medium-term success of currency union.

Following recent jumps in automotive and chemical shares, the financial sector takes centre stage. Dresdner Bank released its annual report last week and announced that it plans to increase its investment in America; Deutsche Bank, Commerzbank and Bayerische Vereinsbank are scheduled to present their numbers over the next five days, which will provide stimulus for the shares. One drag could be the ongoing investigation into tax evasion at Dresdner and Commerzbank. Tax authorities have said that they are about to close their investigations and issue arrest warrants.

Automotive stocks have been setting records over the past few weeks. The market is still watching Volkswagen and BMW's battle for Rolls-Royce. Germany's *Bild Zeitung* reported on 26 March that VW is offering DM1.5 billion ($881million), and BMW reportedly handed in its bid on 25 March.

News from Brussels could put pressure on media issues this week. According to several German newspaper reports, the European Union competition commissioner, Karel Van Miert, is close to killing the digital television deal between Bertelsmann and the Kirch Group. The fallout from such a decision is expected to knock TV and other media shares, including that of Pro7.

New York



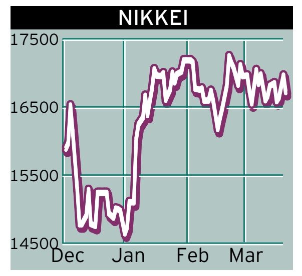
THE New York market will be very volatile for the next few weeks. The bull run on the Dow Jones Industrial Average came to an end last week: after peaking at an all-time high of 8,959 points on 25 March – just short of the magical 9,000 – panic set in. The market started to slide, with the blue chip index ending the day at 8,872.

Further turbulence hit the market later in the week as investors played stock exchange musical chairs, not wanting to be left holding the wrong stocks when the music stopped. By the end of the week the Dow Jones was at 8,832.39 and falling, up only 16 points on the start of the week – its worst performance since the beginning of February.

"We saw a very hot market that got a little cold water dumped on it. It was steaming," says one analyst. The concerns that hit the market include worries that the chairman of the Federal Reserve, Alan Greenspan, may announce a rate hike when the Open Market Committee meets on 31 March. A rise is thought by the bulls to be unlikely, but doubts remain. Concerns about corporate profits not living up to expectations added to the feeling that the market was getting ahead of itself.

End-of-month selling will add to the volatility expected over the next few weeks. The more optimistic stock watchers expect the next round of financial reporting, which begins in the third and fouth weeks of April, to move the index into a higher gear again. The stocks to watch, however, remain those of the technology groups, which continue to put in a solid performance. Software industry leader Microsoft was up five per cent last week on the news that earnings for the period ending 31 March should be positive.

Tokyo



DESPITE the Japanese government's pledge to increase spending with a bigger-than-expected economic package of $124bn to bail out an economy racing towards recession, don't expect any miracles in the Japanese equity market this week.

On 27 March the benchmark Nikkei fell 1.42 per cent to 16,739, despite the ruling Liberal Democratic Party's cash injection. The government was hoping to lift the index above the crucial 18,000 level, below which banks will have to post valuation losses at the close of Japan's fiscal year on 31 March.

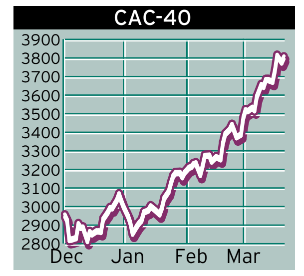
The financial sector is already in turmoil, suffering from the fallout from the Asian economic crisis. Last week saw banking sector stocks fall two per cent and further heavy losses are likely this week.

Analysts remain negative on Japan, citing the government's failure to face up to the need for fundamental reforms such as tax cuts. With an election in the upper house of parliament due in July, it is unlikely the government will take action which could disappoint voters in the interim.

"The government has yet to recognise that it cannot keep propping up parts of industry which should be left to fail," says one analyst. "The fundamentals suggest that the market will fall further as domestic bankruptcies pick up. It's going to get worse before it gets better."

Strategists predict that the market will rise slightly on 31 March before the end of the fiscal year, but that the quarterly Tankan survey of economic data, due out before the market opens on 2 April, will contain bad news. The declines are likely to be led by the financial sector, although car manufacturers are set to fall too.

Paris



THE Paris stock exchange's rise shows no signs of slowing, despite the fact that the bears are predicting that the CAC-40 is beginning to look over-valued, as it powers above the 3,800 peak. The surge upwards continued last week, with the index rising nearly four per cent, over 140 points. In five days both the 3,700 and the 3,800 barriers were broken, despite some jitters which caused mid-week fluctuations.

The financial sector, awash with bid rumours, will continue to drive the CAC-40 index. Last week's comment from the chairman of Banque Nationale de Paris, Michel Pebereau, that links with Société Générale or another partner had not been ruled out, pushed financials upwards.

In other sectors, companies involved in the restructuring of their operations, such as pharmaceuticals and chemicals giant, Rhône-Poulenc, and telecommunications group, Alcatel Alsthom, are also out-performing the market. Rhone-Poulenc pleased the market by announcing a plan to simplify its balance sheet. Holders of "participating shares" can now swap them for basic equity. The firm's share price jumped by Ffr17 to Ffr294.50 on the news.

It is now the turn of consumer-related stocks, such as cosmetics house, L'Oréal, and supermarket chain, Carrefour, to feel the pinch. With their lack of exposure to Asia-Pacific, these firms had done well out of the crisis, but are now finding they lack fresh impetus to push their share prices higher.

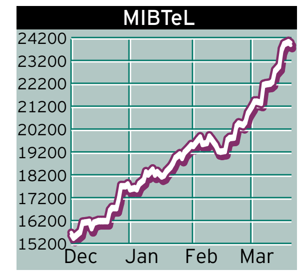
Food products conglomerate, Eridania Beghin-Say, will be among the companies reporting this week. Analysts predict reasonably good figures, which should translate into solid growth for 1998.

STOCKMARKETS

MARKET	INDEX	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	1140.8	1.8	54.0	1141.3	702.1
Athens	General	2063.3	7.5	59.3	2063.3	1331.0
Brussels	Bel-20	2991.9	0.8	39.4	3041.6	2079.3
Budapest	BTI	8667.8	−1.4	59.4	8786.6	5301.1
Copenhagen	Stock Market	761.4	2.3	42.2	763.8	520.5
Dublin	Ireland SE	5299.4	0.2	30.7	5330.4	2923.6
Frankfurt	Dax	5083.2	1.6	48.2	5096.6	3215.2
Helsinki	Hex	4362.9	0.1	53.2	4378.1	2734.4
London	FTSE 100	5939.3	−0.3	37.7	5997.9	4214.6
Madrid	Madrid SE	892.65	5.0	85.8	892.7	461.7
Milan	Mibtel	23987.0	5.2	99.5	24063.0	11609.0
Oslo	OBX	743.2	2.1	9.9	758.5	566.0
Paris	CAC-40	3810.2	3.3	43.4	3818.7	2514.5
Prague	Stock Market	512.0	−0.7	3.4	561.3	452.4
Stockholm	Affarsvarlden	3555.8	0.4	27.8	3599.3	2610.5
Vienna	Credit Aktien	522.6	0.3	27.8	526.9	392.8
Warsaw	WIG-20	1762.4	−5.2	5.8	1928.0	1312.9
Zürich	SPI	4687.3	2.8	59.1	4687.3	2833.9
New York	Dow Jones	8815.3	−1.1	30.7	8906.4	6391.7
Tokyo	Nikkei	16739.3	−0.5	−8.1	20681.1	14664.4
Hong Kong	Hang Seng	11735.5	1.5	−6.4	16673.3	8121.1

SOURCE: DATASTREAM, BLOOMBERG

Milan



ITALY looks set to show a record first quarter with the Milan market rising 40 per cent in dollar terms this year. And analysts are confident that the Italian stockmarket will continue its sizzling performance.

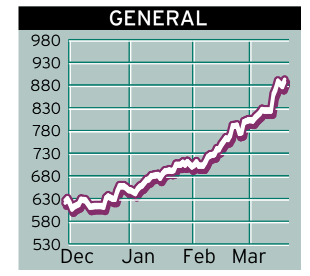
The bubble is not going to burst yet, for several reasons, the most important being that the European Commission has formally recommended Italy's inclusion in EMU. Further interest rate cuts are also expected as Italy tries to bring its key rates – which stand at 5.9 per cent – closer to the target German rate of 3.3 per cent.

In addition, speculation continues over consolidation in the banking sector, with all eyes now on Credito Italiano, Mediobanca and Banco di Napoli. "What is making the rumours so exciting is that there is so much speculation about the possible combinations a merger could take," says one analyst. "The merger may include all three of them, or a combination of two, with the third linking up with another party."

As prices continue to soar, market watchers have also been struck by the level of money going into mutual funds: flows have reached three times last year's level, which was a record year itself. "Any temporary setbacks in the equity market would probably be offset by flows from mutual funds," says an analyst. "This is likely to keep the bears at bay for some time."

The fly in the ointment could be a lack of news to give individual stocks fresh impetus. The reporting season will soon come to an end, and if much-hyped mergers fail to materialise, the market could suffer as a result, since the more bearish analysts argue that prices have risen above levels justified by fundamentals.

Madrid



A SPURT of profit-taking in Madrid has raised fears that the stockmarket, which has gained 40 per cent this year, is starting to slow down. For the first time in months there are no clear reasons for investors to plough their money into specific sectors or into companies expected to announce major deals.

However, Spain's qualification for EMU gave the market a boost, pushing the Madrid index up to 887 from the weeks start at 850.

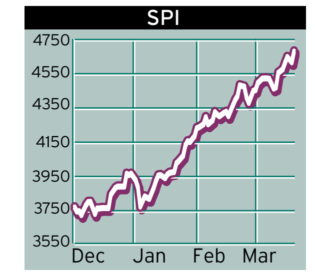
Investors will be looking at the mid-term prospects for the market and individual stocks. Madrid is still attracting new money from abroad and from Spaniards fleeing low bond and bank deposit yields. Interest rates look set to fall further, so equities remain attractive.

Following the hectic climbs of banking stocks and Telefónica over the past few weeks, new investors will spread their portfolios to take advantage of gentler, more evenly spread growth. Stocks such as Aguas de Barcelona, which has underperformed the rest of the market, will start to play catch-up.

The retail sector, following bank deposit figures that show Spaniards are preparing for a spending spree, is particularly attractive.

A few shares are still undervalued. Analysts say that Banco Santander is discounted by up to 15 per cent against other banks, given its growth potential. Argentaria, which is to fuse its component banks; and TelePizza, which is determined to continue its expansion and is aiming for a place amongst the Ibex-35, are also good buys. Asturiana de Zinc, which expects to dou ble profits this year, is also due to rise, while soon-to-be-privatised Tabacalera has potential for growth prior to a share flotation.

Zürich



SWISS stocks are expected to rise in the coming days continuing last week's upward movement as investors mull over the prospect of low interest rates and subdued inflation.

Swiss consumer prices fell 0.1 per cent in March, maintaining the country's annual inflation rate at zero. Switzerland's key discount rate, at a 20-year low of one per cent, is Europe's lowest. With no rises expected this year, it has fed investors' appetite for equities, although with the continued strength of the market, some observers forecast a correction.

SAirgroup, the owner of airline Swissair, kicks off the news stream with a discussion of its 1997 earnings on 30 March. Analysts predict a turnaround in earnings per share from a loss of Sfr216 ($145) to a profit of Sfr164.

Schindler, the lift manufacturer, is due to talk to analysts this week to shed light on its results out earlier in March.

Holderbank, the world's biggest cement company, has convinced analysts at a presentation in Spain that it will avoid most of the negative impact of the Asian crisis. There had been concerns about a flood of producers exporting to western Europe. The shares rose six per cent on 27 March.

UBS and SBC ended the week on highs after they and American officials reached an accord for a settlement of claims by Holocaust survivors. Roche gave the market a slight tremor with news of a larger-than-expected restructuring charge. Roche closed the week down, while the rest of the SPI index finished on a high.

Moscow

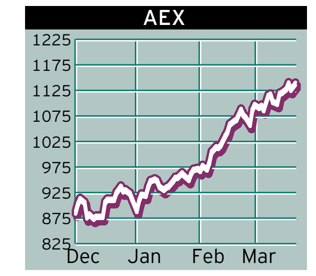
MOSCOW'S battered stockmarket, down by more than 25 per cent since 1 January, starts the week with one thought: who is going to be running the country at the end of the week? Andrei Abramov, an analyst at Moscow Brokerage Rinaco, says that the Duma's acceptance of Sergei Kiriyenko's nomination as prime minister would be seen as "slightly positive" by the market.

Foreign investors have put Russia on hold – most are waiting to see what President Boris Yeltsin does next. No one is willing to speculate on which way political events – which rapidly overtook fundamentals as the key to the market – will turn. "Investors are unlikely to be receptive to corporate earnings announcements in the immediate future," says Abramov, "no matter how good they are."

In addition to a string of corporate governance cases, including the proposed dilution of minority stakes in Moscow telephone company, MGTS, analysts are watching oil stocks closely. Since January collapsing oil prices have been catching up with the Russian market. The meeting of Opec and non-Opec countries to cut back oil supply on 30 March could help the market.

"Higher oil prices would be good news for all stocks," says one oil analyst . At the end of last week, news that the Russian government would cut oil tariffs helped boost the market. This was not enough to convince analysts that the government's $2.3bn starting price in the investment tender for 75 per cent of Rosneft was realistic. In addition to the hefty price tag, investors are being asked to foot the bill for the company's tax arrears which could reach $400m. The tender closes on 26 May.

Amsterdam



BAD news from PolyGram, the Dutch entertainment company, is the only dark cloud on an otherwise sunny horizon for the Amsterdam stock exchange.

The AEX index has recovered from a brief spell of profit-taking, and hit another all-time high of 1,140.84 on March 27.

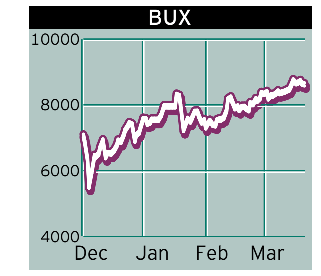
But its performance this week could be hampered by PolyGram's warning that falling music sales would hit first-quarter earnings per share (EPS). PolyGram's EPS would be "sharply lower", the company said, than for the same period last year. The stock was down nearly 16 per cent on the week to 27 March and the news will drag PolyGram's share price lower this week.

There was better news from Heijmans, the construction company, where net income for 1997 rose 32.5 per cent. The stock was upgraded to a "buy" by ABN-Amro. Heijmans' management says it expects a further 20 per cent growth this year, making it one of the market's longer-term top picks. Forits Amev, the financial services firm will also outperform the market on the back of better-than-expected results.

Amsterdam will also benefit this week from Royal Dutch Petroleum's ongoing rally. The stock has gained nearly 10 per cent over the past two weeks and is set to continue its strong performance as oil prices recover. Norway, the world's second-largest oil producer after Saudi Arabia, has announced that it may cut production.

There was good news on the economic front too: retail sales rose 8.7 per cent in January compared with last year's figures, adding to the feel good sentiment in the Dutch economy which has been a prime factor behind the exchange's rise.

Budapest



TRADERS expect a quiet week on Budapest's bourse, the final $300m privatisation tranche of oil company Mol having satisfied foreign investor demand. The market has gained steadily this year, easily surpassing its pre-November level, but dipped at the end of last week as investors took profits.

The telecoms company, Matav, and the car parts manufacturer, Raba, both join the BUX index on 1 April, and will prompt some investors to reweight their portfolios. Expect upward pressure on Matav, which will make up 15 per cent of the index. Mol, OTP Bank and Gideon Richter will be re-weighted to the new 15 per cent ceiling for individual stocks.

Creditanstalt analyst Martin Olah recommends Matav, OTP, BorsodChem and TVK. But other analysts suggest that the market may become overvalued compared to other central European markets, particularly given poor liquidity in many stocks. Daily turnover on the exchange is often less than $50m and large deals still move the market. Although the government's privatisation programme is drawing to a close, many companies have yet to list on the stock exchange.

Analysts expect Magyar Kulkereskedelmi Bank (MKB) to approve a stock exchange listing later this month. The issue could raise $200m, adding much-needed depth to banking stocks.

Warsaw

ALL eyes in Poland will be focused on enlargement negotiations with the European Union this week, with talks beginning on 31 March. The Czech Republic, Hungary, Estonia, Slovenia and Cyprus will join Poland in trying to convince the EU to allow them to join.

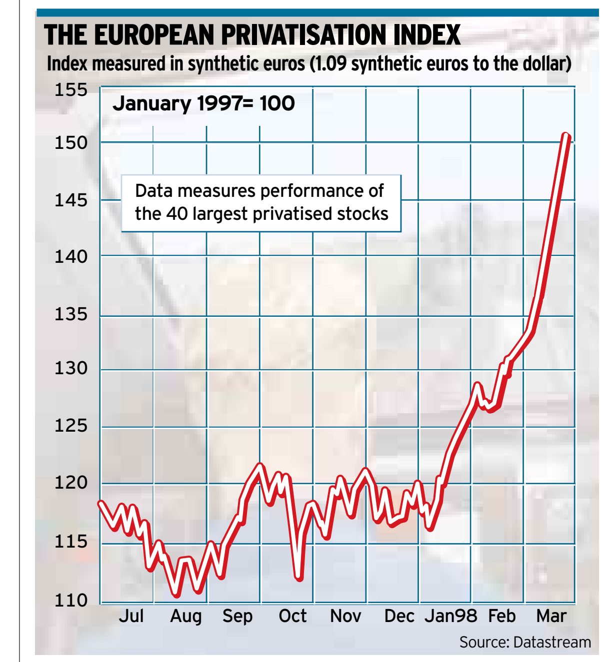
It will be a busy week on the financial results front, with results due from Amica Wronki, a kitchen appliance maker, on 31 March, as well as Agros Holdings and meat trader Animex.

Investors hoping the WIG-20 will be stopped in its current decline – down 5.2 per cent last week – should look to the banking sector where a flurry of 1997 earnings reports should make the week interesting. Bank Handlowy, Poland's biggest privatisation of last year, reports its preliminary earnings, as does Bank Slaski. Bank stocks may see further declines after a rocky few days of trading as investors sell bank stocks to buy construction companies and electrical equipment makers which have greater growth potential.

Power equipment and telecoms company Elektrim may benefit further from a shift in fund managers' priorities after rising 2.4 per cent to Zl 43 ($12) at the end of last week. Shares rose on news that one of its subsidiaries reported a rise in 1997 profits. Its shares have risen a massive 29 per cent this year.

Cath Blackledge, Melanie Bien, Eric Culp, Paula Hawkins, Nicholas Moss, Charles Piggott, Susie Pine-Coffin, Giles Tremlett

SELL OFFS



DESPITE a last-ditch attempt by the left-wing Party of Social Democracy (PSD) to scupper the sale, the privatisation of Romania's telecoms operator, Rom Telecom, looks set to go ahead as planned.

Victor Ciorbea, the country's prime minister, will heave a sigh of relief: failure to keep up with privatisation commitments has already threatened to bring his coalition government down in the past. This will be only the first major sale tackled by the government, which came to power in May last year and was credited with revitalising a moribund privatisation programme after seven years of socialist rule.

The Romanian government, which is being advised on the sale by Goldman Sachs, is likely to value the 35 per cent stake at between $1.4 billion and $2.1bn. Claims from the PSD, a socialist-communist alliance, that the government was undervaluing Rom Telecom and treating the sale with "blithe amateurism" were dismissed as a "joke" by local analysts.

Early indications for the privatisation are positive: six western European and American telecoms consortia, led by America's Southwestern Bell Communications, Deutsche Telekom, the Netherlands' KPN, Telecom Italia, France Telecom and OTE of Greece have emerged as frontrunners to buy a 35 per cent stake in the firm.

The winner of the tender should be announced by June 1998, barring further political difficulties. If there is a change in government, or if Ciorbea is replaced as prime minister, which commentators believe is now likely, the sale could be delayed, although analysts do not expect political change to derail the process completely. "The government is under a lot of pressure from the IMF to keep up the impetus for reform," says Andreas Michel, a Romania economist at UBS in Zürich . "In any case, there is no credible alternative to the current coalition."

The sale will be one of the biggest privatisations in central Europe this year, and is due to be followed by international and domestic public offerings, although these are unlikely to happen until 1999 or 2000. Timing will, in part, be determined by other sales in the region: telecoms privatisations are also planned in Lithuania, Moldova, Bulgaria and Macedonia; as well as in Poland, where the sale of a 20 per cent stake in Telekomunikacja Polska could raise as much as $2bn.

The strategic investor which wins the bid for Rom Telecom will have to part with more than the asking price if the company is going to move into profit. Although Rom Telecom has enormous potential – it serves a market of more than 22 million people – its infrastructure will require massive investments to get it up to speed.

A restructuring programme, partly financed by a $100m loan from the European Bank for Reconstruction and Development, is under way, but more will have to be done. At the moment, Romania has one of the lowest line penetrations in Europe – second only to Albania – with just 15 lines per 100 people. The average for eastern Europe is between 20 and 25 per hundred.

But demand for fixed line services is high. "The waiting list at Rom Telecom is of global renown," says Bogdan Constantinescu at Creditanstalt Financial Advisers in Bucharest. "There are about one million people waiting for a phone line to be installed."

PAULA HAWKINS

CURRENCIES

FORECAST

Sterling will follow in the dollar's footsteps

Avinash Persaud

THE near-term outlook for the dollar against the yen and the dollar against the deutschmark is clouded by the approach of Japan's fiscal year-end, the weight of long $/¥ positions and the run-up to the European Council's European monetary union meeting in May. It is therefore useful to step back and examine the forces that will be acting on the dollar when these near-term issues are behind us.

Every economic release, from fourth-quarter gross domestic product (GDP) to the recent collapse in imports, confirms that the Japanese economy is mired in recession. It is equally clear the policy levers are paralysed from doing anything about it. Monetary policy can hardly be any looser and despite rumours of fiscal stimulus packages, the reality is that the Japanese tax base is too small and the Japanese government is too worried over the size of the fiscal deficit – approaching five per cent of GDP – for there to be a package large enough to alter Japan's current economic malaise.

It may be against the wishes of the G7 finance ministers, but the only route remaining for Japan's economic recovery to emerge is through a more competitive yen. We forecast $/¥ to revisit the year's highs of ¥134.5 before June, but the main risk is for an even higher level of $/¥, perhaps above ¥150.

The danger to the long $/¥ position is that there may need to be a "washout" of long $/¥ positions – that takes $/¥ below 125 – before the dollar can travel higher. But be biased towards expecting only a temporary and modest correction in the dollar. The Bank of Japan's monetary policy is creating so much extra yen liquidity that the only reason why $/¥ is not already at ¥134.5 is because of yen demand by Japanese financial institutions ahead of Japanese fiscal year-end. The long-term outlook for ¥/DM is different. We expect ¥/DM to jump towards ¥80 over the next 12 months.

Roughly half of the dollar's rally from DM1.5 in early 1996 relates to the sharpening contrast between the strength of the American economy and weakness of the German economy. The other half relates to the market belief that the wider EMU is, the weaker the euro will be. These dollar-bullish forces could take $/DM up to DM1.85-1.90 in the weeks ahead, but both forces are slipping.

The contrast between the American and German economies is fading as the German economy slowly recovers – witness the substantial, consecutive declines in seasonally-adjusted unemployment – and the American economy runs out of capacity. The contrast in economic activity is further blurred when taking into account the more robust recovery in the euro area. Recent rate rises in Finland, Norway and the Czech Republic – countries dependent on exports to the rest of Europe – are a harbinger of rate rises in the euro area later this year. It is not clear when the euro will gain market confidence but by early May we will know who the president of the European Central Bank is going to be and which countries will participate in EMU. The end of speculation should help the euro. We forecast $/DM will end 1998 below DM1.7.

A more credible euro will push the Swiss franc towards SFr0.85 against the mark. The general environment is a poor backdrop for the Swiss franc: a preference for yield by investors and low commodity price pressures. As time progresses it will appear that Russian President Boris Yeltsin's decision to sack his cabinet was a symbolic gesture rather than a signal of policy change. As Russian-related risks fall back, so will the Swiss franc.

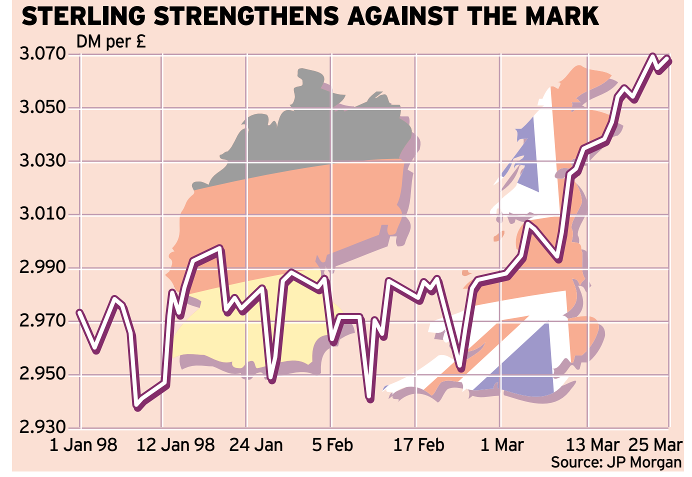
Sterling will follow the path of $/DM, but in more amplified form. Later on it will also suffer from expectations of higher euro rates and a more credible euro. Its eventual fall will be accentuated by two things: a hefty overvaluation today – in real trade-weighted terms sterling is 20 per cent above its long-term average – and a belief, following Greek entry into ERM, that if Britain wishes to be in EMU in 2002, it will have to enter at a more sustainable rate. We forecast £/DM to end 1998 below DM2.8.

The pound will suffer from a more credible euro

Now is not the time to sell. Sterling is not above DM3 on fundamental grounds, but because investors have a huge appetite for yield and it is the G10 country with the highest levels of interest rates and the only country raising rates. It will only weaken when this environment changes. It could strengthen even further, towards DM3.1-3.2. Other notable beneficiaries of this environment are the Polish zloty, the Czech koruna and, bolstered by EMU convergence valuations, the Greek drachma.

The author is head of currency research at JP Morgan

STERLING STRENGTHENS AGAINST THE MARK



Source: JP Morgan

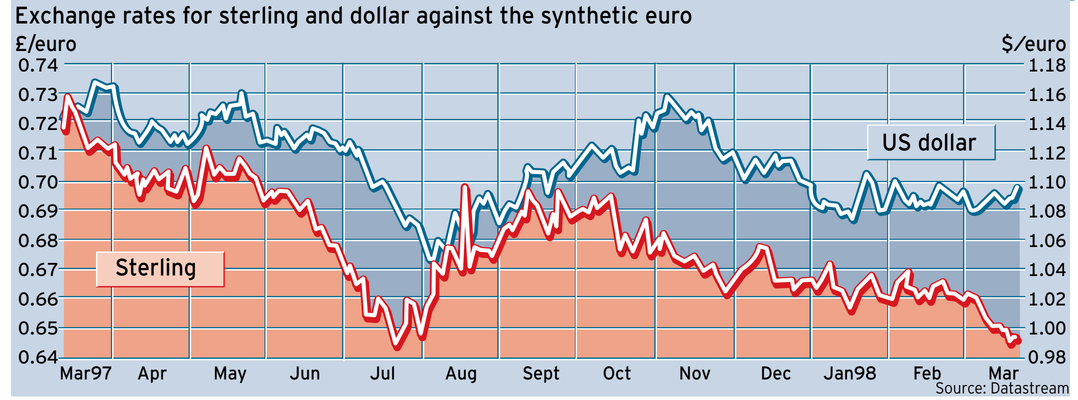
SYNTHETIC EURO

Currency	Latest	% Change on a week ago	% Change on a year ago	High	Low
British pound	0.65	1.5	−8.98	0.71	0.65
French franc	6.68	2.3	1.98	6.69	6.55
German mark	1.99	2.5	2.59	1.99	1.94
Italian lira	1966.67	1.4	1.52	1966.67	1910.60
Japanese yen	140.92	−0.3	−1.15	145.71	122.46
US dollar	1.09	0.0	−4.78	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	158.8	87.2	267.9	26.0	173.3
Belarus Rouble	58000.0	31855.1	97892.1	9505.1	63321.5
Bulgaria Lev	1811.7	995.0	3057.7	296.9	1977.9
Croatia Kuna	6.5	3.6	10.9	1.1	7.1
Czech Rep Koruna	33.7	18.5	56.9	5.5	36.8
Estonia Kroon	14.6	8.0	24.6	2.4	15.9
Hungary Forint	210.8	115.8	355.9	34.6	230.2
Latvia Lat	0.6	0.3	1.0	0.1	0.6
Lithuania Litas	4.0	2.2	6.8	0.7	4.4
Macedonia Denar	56.1	30.8	94.7	9.2	61.3
Moldova Leu	4.7	2.6	8.0	0.8	5.2
Poland Zloty	3.4	1.9	5.8	0.6	3.7
Russia Rouble	6.1	3.4	10.3	1.0	6.7
Romania Leu	8480.0	4657.4	14312.5	1389.7	9258.0
Slovakia Koruna	35.0	19.2	59.1	5.7	38.2
Slovenia Tolar	169.6	93.2	286.3	27.8	185.2
Ukraine Hryvna	2.0	1.1	3.4	0.3	2.2
Yugoslavia New Dinar	4.9	2.7	8.2	0.8	5.3

SOURCE: BZW

EUROPEAN CROSS RATES

30 MARCH 1998	Aust Sch	Belg Fr	Dan Kr	Ger Dm	Neth Fl	Fin Markka	Fr Fr	Grec Drach	IR Punt	Ital Lira*	Nor Kr	Port Esc	Spain Pts	Swe Kr	Swi Fr	UK £	US $	Jpn Yen	Can $	Eur Ecu
Austria Schilling	–	0.341	1.846	7.035	6.243	2.318	2.099	0.040	17.67	7.135	1.706	0.069	0.083	1.627	8.613	21.62	12.81	0.099	9.062	13.98
Belgium Franc	2.934	–	5.415	20.64	18.31	6.802	6.159	0.118	51.85	20.93	5.006	0.202	0.243	4.774	25.27	63.43	37.58	0.291	26.58	41.03
Denmark Krone	0.542	0.185	–	3.812	3.382	1.256	1.137	0.022	9.575	3.866	0.925	0.037	0.045	0.882	4.667	11.71	6.941	0.054	4.910	7.577
Germany Deutschmark	0.142	0.048	0.262	–	0.887	0.330	0.298	0.006	2.512	1.014	0.243	0.010	0.012	0.231	1.224	3.073	1.821	0.014	1.288	1.988
Netherlands Guilder	0.160	0.055	0.296	1.127	–	0.371	0.336	0.006	2.831	1.143	0.273	0.011	0.013	0.261	1.380	3.463	2.052	0.016	1.452	2.240
Finland Markka	0.431	0.147	0.796	3.034	2.693	–	0.905	0.017	7.622	3.077	0.736	0.030	0.036	0.702	3.715	9.325	5.525	0.043	3.909	6.032
France Franc	0.476	0.162	0.879	3.351	2.974	1.104	–	0.019	8.418	3.399	0.813	0.033	0.040	0.775	4.103	10.29	6.102	0.047	4.317	6.662
Greece Drachma	24.77	8.441	45.71	174.2	154.6	57.42	51.99	–	437.7	176.7	42.26	1.703	2.054	40.30	213.3	535.4	317.2	2.456	224.4	346.3
Ireland Punt	0.057	0.019	0.104	0.398	0.353	0.131	0.119	0.002	–	0.404	0.097	0.004	0.005	0.092	0.487	1.223	0.725	0.006	0.513	0.791
Italy Lira*	140.2	47.77	258.7	986.1	875.0	325.0	294.2	5.659	2477	–	239.2	9.636	11.62	228.1	1207	3030	1795	13.90	1270	1960
Norway Krone	0.586	0.200	1.082	4.123	3.658	1.359	1.230	0.024	10.36	4.181	–	0.040	0.049	0.954	5.047	12.67	7.506	0.058	5.310	8.195
Portugal Escudo	14.54	4.958	26.84	102.3	90.80	33.72	30.53	0.587	257.0	103.8	24.82	–	1.206	23.67	125.3	314.5	186.3	1.443	131.8	203.4
Spain Peseta	12.06	4.110	22.26	84.84	75.28	27.96	25.31	0.487	213.1	86.04	20.58	0.829	–	19.62	103.9	260.7	154.5	1.196	109.2	168.6
Sweden Krona	0.614	0.209	1.134	4.323	3.836	1.425	1.290	0.025	10.86	4.384	1.049	0.042	0.051	–	5.293	13.29	7.871	0.061	5.569	8.594
Switzerland Franc	0.116	0.040	0.214	0.817	0.725	0.269	0.244	0.005	2.052	0.828	0.198	0.008	0.010	0.189	–	2.510	1.487	0.012	1.052	1.264
UK Pound	0.046	0.016	0.085	0.325	0.289	0.107	0.097	0.002	0.817	0.330	0.079	0.003	0.004	0.075	0.398	–	0.592	0.005	0.419	0.647
US Dollar	0.078	0.027	0.144	0.549	0.487	0.181	0.164	0.003	1.380	0.557	0.133	0.005	0.006	0.127	0.672	1.688	–	0.008	0.707	1.092
Japan Yen	10.08	3.437	18.61	70.93	62.94	23.37	21.16	0.407	178.2	71.93	17.21	0.693	0.836	16.41	86.84	218.0	129.1	–	91.36	141.0
Canada Dollar	0.110	0.038	0.204	0.776	0.689	0.256	0.232	0.004	1.950	0.787	0.188	0.008	0.009	0.180	0.950	2.386	1.414	0.011	–	1.54
Europe Ecu	0.072	0.024	0.132	0.503	0.446	0.166	0.150	0.003	1.264	0.510	0.122	0.005	0.006	0.116	0.616	1.546	0.916	0.007	0.648	–

*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

RETAIL

Europe wants more food – and fast

Melanie Bien

EUROPEANS still lag behind the fast food kings of America, but Europe's convenience food market is growing rapidly, according to statistics from Euromonitor.

Americans spent almost £180 ($299.5) per person on burgers and pizzas last year, six times the amount per person in Japan and Britain combined. The burger sector dominates America's fast food industry, although fierce competition has led to lower prices and smaller margins for big producers such as McDonald's. Growth in the burger market over the past five years has been remarkable in Italy, Spain, Germany and France, countries which traditionally have a very low tolerance for such food. There is still a way to catch up: there are more than 25 burger outlets for every 100,000 Americans, compared wth 4.2 in Britain.

Regional variations have led to different marketing tactics. In Spain, service stations are the most recent location for expansion of fast food chains. Shopping centres have a high concentration of fast food outlets, with rivals often located in close proximity to each other. In France, McDonald's has opened outlets in provincial areas, which has proved successful. Italian branches of McDonald's extended their menus to include more traditional Italian dishes such as salads and pasta. The Spanish branches sell gazpacho. Growth of the international burger and pizza industry in Italy, Spain and France has been stunted up until now as they already have fast-food cultures of their own. Spanish tapas bars, French *viennoiserie*, selling pastries, and Italian *rosticcerie* selling traditional pizzas, are well-established on their home turf.

The pizza market has struggled to improve quality and introduce new products, such as the stuffed crust pizza produced by Pizza Hut. The sector experienced stronger growth than the burger sector in terms of the number of outlets and turnover over the past five years. Across Europe, the pizza sector is one of the most dynamic in the market. Home delivery and the popularity of the takeaway service have boosted sales.

Even the Japanese, producers of healthy sushi, are starting to catch on to American fast-food. Spending on burgers was £30 per head last year.

The Italians are least keen on fast-food outlets. Not surprisingly, pizza sold from such restaurants has received a poor reception as Italians prefer to eat more traditionally-made versions. Only £5.10 was spent per person there last year on fast-food pizzas and burgers. But the burger market is still undeveloped. McDonald's is hoping it will be able to rectify this, by taking over domestic burger operations and through an aggressive marketing campaign.

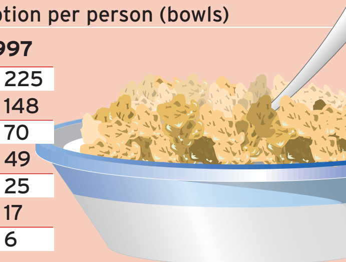
With the internationalisation of eating habits, the growth market in convenience food is in ethnic food, such as Mexican or Japanese. The Germans are particularly keen on ethnic takeaways. The globalisation of the industry comes as people travel more and taste different foods, and also as a result of immigration.

As part of the move towards more convenience, breakfast cereals have become widely accepted across Europe. In Italy, consumption has increased from seven to 17 bowls per person per year over the past five years. Aggressive marketing from Kellogg's and the trend towards healthy eating have encouraged this trend.

SNAP! CRACKLE! POP!

Breakfast cereal consumption per person (bowls)

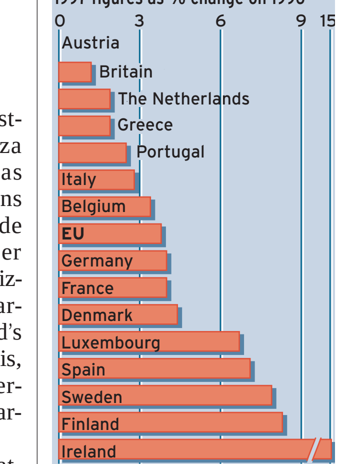
	1993	1997
Britain	223	225
America	134	148
Germany	58	70
France	36	49
Spain	20	25
Italy	7	17
Japan	5	6



Source: Euromonitor

INDUSTRIAL PRODUCTION

1997 figures as % change on 1996



Source: Eurostat

OUTPUT

Heavy work for industry

INDUSTRIAL production in the European Union increased by 3.8 per cent last year, a significant appreciation on the previous year's 0.1 per cent.

Unusually, there was no country which recorded a drop in production. The biggest rises were in Ireland (15 per cent), Finland (8.3 per cent) and Sweden (7.9 per cent). The lowest was Britain, which struggled to record 1.2 per cent growth. Greece and the Netherlands were higher – both 1.9 per cent.

America continues to see stronger industrial growth than Europe – up five per cent in 1997 compared with 3.4 per cent the previous year. Japan's growth was slightly less than America; up 4.3 per cent, against previous growth of 2.4 per cent.

Meanwhile, producer prices, or inflation of industrial output, were 1.1 per cent up compared with 0.8 per cent in 1996. But they were down in seven EU member states – France, Greece, Ireland, Italy, Portugal, Spain and Britain.

In America, producer prices fell by 0.1 per cent, much lower than the 2.3 per cent rise in 1996. Japan's GDP growth rate moved in the opposite direction, up 0.6 per cent from a fall of 1.7 per cent in 1996.

But the job situation in heavy industry gets bleaker each year. Industrial employment, which accounts for a third of all jobs across the European Union, fell by 1.5 per cent in 1997, compared with 1.3 per cent in 1996. It only rose in Spain (3.1 per cent) and Britain (0.5 per cent). The fall accelerated in all other member states; the worst were Germany, down 3.5 per cent and Greece, down 3.4 per cent.

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	3.35	4.95	4.93	5.83	Oest Bund
Belgium	3.30	3.00	9.10.97	Central	3.64	3.63	3.56	5.00	4.98	6.02	OLO
Denmark	3.75	3.50	9.10.97	Repo	3.88	3.88	3.75	5.12	5.11	6.68	DGB
Finland	3.40	3.25	19.03.98	Tender	3.54	3.42	3.07	4.99	5.00	6.27	FGB
France	3.30	3.10	9.10.97	Intervention	3.59	3.52	3.38	4.87	4.92	5.74	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.52	3.51	3.29	4.87	4.86	5.89	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	5.34	5.88	5.75	4.99	5.06	6.80	Gilt
Italy	5.50	6.25	23.12.97	Discount	5.48	5.62	7.44	5.15	5.18	7.77	BTP
Luxembourg	3.30	3.00	9.10.97	effective rate*	3.64	3.63	3.56	5.00	4.98	6.02	related to OLO
Netherlands	3.30	3.00	9.10.97	Special Adv.	3.44	3.44	3.2	4.89	4.92	5.79	DSL
Norway	5.75	5.50	19.3.98	Overnight	4.17	4.13	3.54	5.21	5.22	6.15	NGB
Portugal	4.90	5.20	18.11.97	Discount	4.48	4.61	6.27	5.0	5.02	6.92	OT
Spain	4.50	4.75	13.2.98	Repo	4.45	4.58	5.83	5.05	5.05	7.17	Bono
Sweden	4.35	4.10	16.12.97	Repo	4.64	4.61	4.32	7.35	5.34	5.30	SGB
Switzerland	1.00	1.50	27.9.96	Discount	1.27	1.06	1.94	2.89	2.74	3.74	Swap rate
UK	7.25	7.00	6.11.97	Base	7.48	7.47	6.28	5.90	5.96	7.62	Gilt
US	5.00	5.25	31.1.96	Discount	5.59	5.56	5.81	5.56	5.58	6.73	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	0.76	0.78	0.67	1.60	1.61	2.36	JGB
Canada	4.70	4.65	03.3.98	Call Loan	4.72	4.70	3.25	5.36	5.40	6.62	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	3.9⁵	n/a	3.7	Feb 1.0	1.2	1.8	Feb 4.5	4.4	4.1
Belgium	1.7	1.9	0.7	Feb 0.7	0.4	2.0	Feb 12.9	13.1	13.4
Denmark	4.4	2.2	0.4	Feb 2.1	1.7	2.2	Feb 7.1	7.4	8.1
Finland	6.2	6.0	5.8	Feb 1.9	1.9	0.4	Feb 13.2	13.8	15.8
France	2.6²	2.2	1.7	Feb 0.7	0.5	1.6	Jan 12.1	12.2	12.7
Germany	2.6	2.4	2.2	Feb 1.1	1.3	1.7	Feb 11.5	11.6	11.2
Greece	10.6⁵	n/a	11.3	Feb 4.3	4.4	6.5	Dec 8.7	8.4	8.4
Ireland	7.8¹	n/a	10.1³	Feb 1.7	1.8	n/a	Feb 9.7	9.7	10.6
Italy	2.8	2.1	0.1	Mar 1.8	1.8	2.2	Jan 12.2	11.7	12.4
Luxembourg	5.5¹	3.8³	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	Feb 5.1	5.0	6.4
Norway	4.4	2.3	4.3	Feb 2.0	2.0	3.3	Mar 2.6	2.8	3.4
Portugal	3.0	2.3	2.0	Feb 2.1	1.9	2.9	6.5	6.5²	7.1
Spain	3.6	3.5	2.6	Feb 1.8	2.0	2.5	Jan 12.9	12.8	14.1
Sweden	3.3	2.7	1.8	Feb 1.2	1.3	−0.4	Feb 6.7	2.4	8.8
Switzerland	2.0	1.1	−0.6	Mar 0.0	0.0	0.5	Feb 4.9	5.0	5.7
Turkey	6.6⁴	6.6	8.1	Feb 99.3	101.6	77.7	5.8⁶	6.3⁷	6.6
UK	2.9	3.0	2.7	Jan 3.3	3.5	2.8	Feb 4.9	5.0	6.2
US	3.9	3.9	3.2	Feb 1.4	1.6	3.0	Feb 4.6	4.7	5.3
Japan	−0.2	1.0	3.2	Feb 1.9	1.8	0.6	Feb 3.6	3.5	3.4
Canada	4.5	4.3	2.7	Feb 1.0	1.1	2.2	Feb 8.6	5.9	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

ECONOMIC INDICATORS

FRANCE's trade surplus narrowed six per cent in January as exports fell, reflecting that economic growth this year depends on domestic spending. The difference between exports and imports fell to Ffr16.48bn ($2.7bn) from a revised Ffr17.53bn in December. Exports are expected to decline after surging to a 1997 record owing to the slowdown in Asia and Britain hitting sales of companies such as LVMH Möet Hennessy Louis Vuitton.

GERMAN retail sales rose 4.8 per cent in January from December. Shopkeepers registered a 2.7 per cent drop in January from a year ago, supporting the view that Germany's retail industry will see only limited improvement this year. The Bundesbank's index of retail sales rose to 97.7 in January from 93.2 in December and was down from 100.4 in January last year. Including sales of cars and gas, sales rose 3.6 per cent in January from December.

DUTCH retail sales rose 8.7 per cent in January from the same month a year earlier, owing to strong economic growth. The rise is the largest seen since January 1991. Larger stores were the biggest beneficiaries, with 14.8 per cent growth in sales.

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

EDUCATION FINANCE

Students can run but they can't hide

Doug Cameron

SCHOLARS of booming European bond markets are taking the concept of investing in their children's education to new extremes. The first bond issue based on a portfolio of student loans is scheduled to be launched over the next two weeks. The £1.03 billion ($1.70bn) issue opens up a new form of funding for higher education which shifts the burden from strained national treasuries to the private financial markets.

The breakthrough transaction is the latest asset class to be developed in the securitisation market. This is the process of packaging a series of loans or other assets together and issuing bonds to a deeper (and cheaper) investor base. Interest on the bonds is repaid from the interest on the loans or cash flows generated by the assets.

The inaugural student loans deal is being arranged by Greenwich NatWest, the renamed remnants of NatWest Markets. Greenwich won the mandate for the deal from the UK Department for Education and Employment after a fierce six-month battle, outbidding rivals including Warburg Dillon Read, Crédit Suisse and Barclays Capital.

In tandem with most securitised issues, the students loans deal comes complete with an esoteric name to tempt investors. Mountain and river names are always popular in the market, as are kilometre-long acronyms. The Higher Education Securitised Investments Series – Thesis for short. The arrangers have had to develop a complex structure to avoid the controversial political and financial issues which surrounded the introduction of student loans in 1991 and the dilution of the traditional student grant.

The privatisation of student loans has raised the spectre of iron-fisted debt collectors knocking at the doors of students who fail to meet their repayments. Greenwich has circumvented this issue by selecting the loans included in the Thesis portfolio at random from the larger pool of loans managed by the UK government. Well, almost at random. The Thesis pool does not include any loans in default when the selection was made this month. Hence, student borrowers will not know whether their creditor is the state or an anonymous investor in Verona or Vermont.

Analysis of the broader loan pool shows that the greatest risk of default comes when ex-students have to start making repayments, usually two years after leaving higher education. To diminish this risk for Thesis investors, more than a third of the portfolio is made up of loans which are already being repaid rather than just extended to students still at college.

The introduction of student loans by the last UK government had to be sweetened by charging a low, inflation-linked interest rate. This would obviously translate to low and unattractive yields for investors in Thesis unless additional guarantees and enhancements were provided. The provisions for long-term deferral of loan repayments from, for example, students who are unable to find a job.

The arrangers have boosted the rating of Thesis by securing substantial subsidies from the UK government to boost the yield for investors and cover eventualities such as the death of a student or their disappearance on a long backpacking trip around the Himalayas. The bond market is an unforgiving world. ■


COVER

Marking time: those in higher education may find debt collection becoming tougher

Investors need insurance for students who die

MARKET PREVIEW

HUNGARY's second visit to the market this year, a five-year $300 million eurobond, is likely to set the tone for European fixed-income issuers this week. "We're back to pre-Asian crash levels," says a syndicate member at an American investment bank, signalling the rebound in investor appetite. "The deals in the last few days, particularly from emerging markets, have been well-received."

Investors are again looking to the emerging market issues for higher yields. The Hungarian deal is expected to be priced at 80 basis points over US Treasuries. The terms of the deal, led by ABN-Amro and Salomon Smith Barney, are more favourable than most issues by BBB-/Baa3 rated borrowers and analysts believe it could trigger a ratings upgrade.

Reinforcing the trend, Turkey tapped the market last week to raise DM1 billion ($540m) through an issue of eight-year notes where the coupon drops from 10.5 per cent to seven per cent after the first two years. Even Russia, whose government was sacked *en masse* on Monday, ploughed on with an aggressive eurobond issue to raise $683m, its first debt issue since the Asian financial crisis. Demand was strong enough for Russia to expand the issue by $136m.

European syndicate managers confirm the return to larger, more liquid issues. Improved liquidity in the market should also allow blue chip corporate and AAA-rated government issuers to take advantage of better terms for large deals. The successful launch of issues such as Kreditanstalt für Wiederaufbau's $2.2bn eurobond proved that international investor appetite is healthy. One strategist says this may be part of a trend towards larger corporate and quasi-sovereign issues. As governments scale back on their borrowing, investors are targeting larger, more liquid corporate issues and are willing to pay a premium. "Issues in the $500m and $1bn range used to be something special," he says. "Now they aren't even called jumbo deals."

KfW's issue was helped by the German government's announcement that it would guarantee all KfW bond issues from 1 April. The German government will also guarantee bond issues by Deutsche Ausgleichsbank, which is expected to tap the deutschmark sector this week or next. Other issuers expected in the market include SudWestLB and Ford Motor Company, both in deutschmarks.

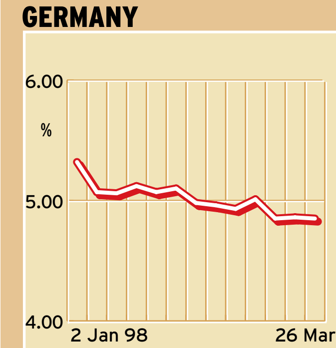
Heavy supply of issues in US dollars could shift the market towards European currencies and away from the dollar. A glut of dollar issues, both by corporates and the US treasury, has been pushing bond prices lower on Wall Street. This could trigger a round of arbitrage borrowing in European currencies by more light-footed borrowers. Last week one of the most experienced borrowers, General Electric Capital Corporation, the funding arm of General Electric, tapped the deutschmark sector for DM250m.

The news that European monetary union will start with 11 members is also good news for the fledgling euro market. "We are going to see a lot more euro issues. It's a new market and people want to get themselves established," says one strategist. Last week, the state-backed French railways company, Reseau Ferre de France, chose the euro for its debut 12-year, Euro 1 billion ($1.1bn) issue. Although the issue needed heavy marketing to get it off the ground, bankers claim it was a success.

At the same time, sterling's record strength against the deutschmark, largely the result of the UK budget and cautious remarks by the finance minister, Gordon Brown, on monetary union, makes sterling an attractive hedge against EMU failure. Last week the Republic of Austria tapped sterling to raise £250m ($416m), as did a string of European banks.

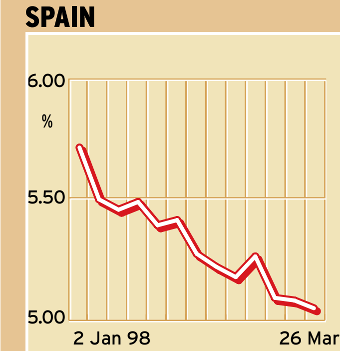
GOVERNMENT BOND YIELDS

GERMANY



ITALY

SPAIN



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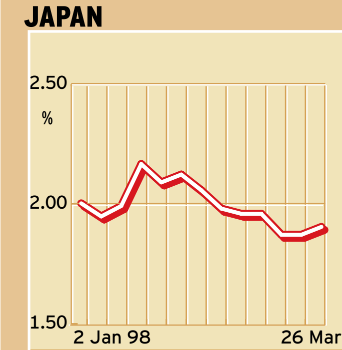
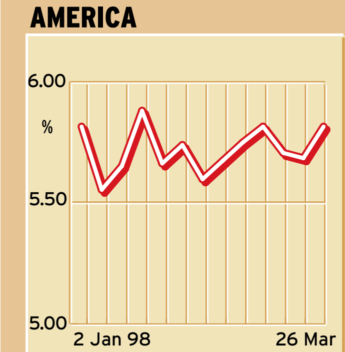


AMERICA



US Treasuries staged a rally on the rising strength of the dollar while Japanese sovereign issues moved upwards with the publication of the government's fiscal stimulus plans. In Europe, German bund yields are expected to remain flat in the absence of economic data this week. Italian bonds are recovering from record lows – they plumbed the five per cent level last week – delivered by optimism that it would make the EMU 11. The market won't go lower.

Source: Bloomberg. Data is for 10-year benchmark bonds

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Shorter letters are preferred. Letters may be edited for clarity

When will Turkey be ready to join the family?

IN ARGUING in favour of Turkey's European vocation ("Neglected suitor knocking on Europe's door cries foul", issue 408), Norman Stone suggests that European leaders should walk around their Eurotowns where they would see more beggars and people sleeping rough than in Ankara and Istanbul. One is tempted to suggest that European leaders (and Mr Stone) should walk in the rough lands of southeast Turkey, in the occupied areas of Cyprus, and in the corridors of Turkish jails to realise that Turkey is far from fulfilling the first (let alone the rest) of the criteria for EU membership as set out by the European Council in Copenhagen in 1993: stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.

Mr Stone's assertion that the wording of the Luxembourg conclusions on Turkey was largely put together by nationalist-minded Greeks is an insult to the Union's institutions, its decision-making processes and the member states themselves. Similarly, his assertion that Turkey is at the same stage that Spain and Greece had reached in their transition from authoritarian rule to democracy is not only an insult to your readers' intelligence but an insult to the Kurds and the Greek and Turkish Cypriots who are still suffering at the hands of Turkish expansionism.

It is ignorance of this kind that breeds the kind of audacity that prompted Mr Yilmaz, the Turkish prime minister, to accuse the German government of a policy of *Lebensraum*.

NK Sebastian
Nicosia, Cyprus

NORMAN STONE's article maintains that the wording of the Luxembourg declaration was "largely put together by nationalist-minded Greeks". However, you pass over in silence that Turkey persistently and defiantly fails to espouse and abide by the rules of behaviour that govern the European family of democratic states and constitute a prerequisite for joining the EU.

The Commission's Agenda 2000 (July 1997) is explicit on this point: "Turkey's record on upholding the rights of the individual and freedom of expression falls well short of standards in the EU. Cases of torture, disappearances and extra-judicial executions persist. Tensions in the Aegean can be overcome in accordance with international law and the rejection of the threat or use of force. Turkey should contribute actively to a just and lasting settlement of the Cyprus question in accordance with the relevant UN resolutions."

Turkey cannot on the one hand turn a blind eye to these irrefutable facts and on the other "knock on Europe's door crying foul".

If indeed there are more beggars and people sleeping in the streets of Strasbourg or London than in Ankara or Istanbul, one may wonder why Turkey wishes to become a member of this dehumanised European community.

Stephane Stathatos
Athens, Greece

Millennium speculation

IN THE interests of clarity I would like to correct the impression given by your correspondent ("Millennium countdown", Letters, issue 409) who stated: "Lloyd's underwriters in London have been told by one bug specialist that claims [relating to the millennium computer bug] are expected to exceed $1,000 billion in the US alone."

A lawyer, specialising in computer law, employed by Le Boeuf, Lamb, Greene & Macrae, Lloyd's' General Counsel in the US, wrote an article in the June 1997 edition of *The Los Angeles Lawyer*. In it he referred to an estimate made by the information technology advisory firm, Giga Information Group, that year 2000 litigation costs will be in the $1,000bn range.

The author was referring to litigation costs, *not* to claims costs, and was citing an estimate by a third party. He also noted that, at this stage, this figure, together with other estimates, could only be regarded as pure speculation.

Peter J Hill
Head of Corporate Communication, Lloyd's, London, England

Monetary disunity

JOHN ROBERTS's letter (Letters, issue 408) makes a very clever analogy between the failure of a corporate merger and the potential failure of imminent economic and monetary union (EMU), and indeed he could be right. However, the cause of failure cannot be put down to differing corporate culture recognition. The meat of the problem lies prominently in your article "When egos collide" (issue 406). Quite simply, it is the power struggle at the top, the clash of egos, that leads to disaster, not a miscalculation of synergy.

EMU and the creation of the euro make sound economic sense. Unfortunately, political success and polishing personal egos will always see to it that economic reality takes a back seat, and as Roberts correctly points out, it is the stakeholders who suffer.

It will be sad to watch the undeniable benefits to European citizens, consumers and firms that EMU would bring being squashed by political issues such as where the European Central Bank should be located and who should be standing at its helm.

Andrew Clapham
Brussels, Belgium

DRAWN FROM EUROPE

CARTOONISTS AND WRITERS SYNDICATE ONG – *BRABANTS DAGBLAD*, 'S HERTOGENBOSCH, THE NETHERLANDS

Greeks need culture

I ENJOYED the hard-hitting, no holds barred reporting on Greece's economic culture as it tries to become a western economy. I am a Greek American and I sincerely doubt that Greece has the spine to solve its economic problems, although the Greeks are smart enough to see it and describe it accurately.

It will take nothing short of a cultural revolution for them to create a labour force worthy of foreign investment.

The EU should place Greece on probation and refuse its full acceptance into monetary union until they learn to operate a market-driven economy along western standards. Continued hard hitting from the developed EU members is their only chance of helping themselves.

William Douskalis
Centreville, Virginia, USA

Don't blame the French

THE Biafra war was certainly horrific, as Roger Faligot states ("Elf's shadowy world of bribes and intelligence", issue 408). It was not, however, caused by "French interference" but by the murderous assaults on the Ibos by their fellow Nigerians.

If the European powers had allowed that conflict to work itself out naturally, instead of intervening massively on the federal Nigerian side in deference to British oil interests, the carnage would have been vastly less.

Douglas Jaggers
Derby, England

Ukraine's feelbad factor

WILLIAM MILLER, until recently US ambassador to Ukraine, predicted gains by left-wing political parties in Ukraine's parliamentary elections on 29 March. With the standard of living having fallen by more than 50 per cent since 1990, the feelgood impact on the Ukrainian national psyche of Dinamo Kiev's successful run in the Champions League cannot be overestimated.

Thus while clubs that also lost in the quarterfinals of the same competition, such as Manchester United, will bemoan the financial impact of their defeats on their club coffers, the impact of Dinamo Kiev's defeat, and the return of the feelbad factor 10 days before the election, could easily have had a more profound effect on the Ukrainian electorate's voting behaviour.

Alan and Irina Szmelskyj
Godmanchester, England

Railways back on track

IN her article on European rail privatisation ("The great train robbery", Insider, issue 407), Louise Bowman concluded that British rail privatisation had only negative messages for other European networks. This is far from true.

For a start, the European Commission, which believes in a revitalised railway industry throughout the Union, strongly endorses the initiatives taken in Britain.

It is clear too that fellow members of the Brussels-based Community of European Railways are often envious of the clear contractual framework for British train operators.

This provides guaranteed investment free from government/treasury interference while at the same time allowing them the commercial freedom to innovate to the benefit of the customer – as exemplified by the success of the recently introduced and unsubsidised Gatwick-Rugby service and the addition of 29,000 extra train services in this timetable compared with a year ago. Fellow European rail operators regularly seek advice from British colleagues on these substantial benefits.

But what matters most is that railways win back passengers. In the past year passenger journeys have grown in Britain by 7.5 per cent.

Independent consultants' forecasts show that rail journeys by 2012 will be back to levels last seen before the rail network was brutally slashed in the 1960s. This is not a robbery, it's a renaissance.

David Campbell Bannerman
Communications Director, Association of Train Operating Companies, London, England

Taken for granted

IN the sudden outcry against the possible cuts in "aid grants" to Britain from the European Union for declining industrial areas such as south Wales and northeast England, a fundamental misapprehension is being made. The EU is not some benign benefactor that hands over large sums of its own money to assist deprived areas in Britain. The EU is financed by taxpayers throughout Europe and to a large extent by British taxpayers. It has no money of its own. Therefore, any aid grants received, or not, as the case may be, are merely Britain's own contributions to the bottomless pit in Brussels being returned or withheld.

For the record, including all "grants" received from Brussels, British taxpayers contribute £3.5 billion ($5.8bn) net per annum to the EU budget. What could the British government do for deprived areas, the health service and education without this colossal bill to pay every year?

Stuart Gulleford
Brentwood, England

APART from encouraging European farmers to produce food, the Common Agricultural Policy was, I understand, originally designed to support, and keep in place, rural communities.

Since this unique industry is subsidised equally throughout the EU against the global market, largely for the purposes of population distribution, this fact alone might explain the queue of applicants wanting to join the EU.

But shouldn't the rationale behind all taxpayer-funded policies be broadcast – first, to ensure that it is still up to date, and second, just in case we disagree?

Ian R Jenkins
Hamilton, Scotland

BRITAIN is pouring billions into the EU. Some of our money comes back to us, but only a fraction of what we pay, and then only on onerous and/or humiliating terms. Furthermore, not all of the money returned to Britain is in the form of grants; some is in the form of loans repayable to Brussels with interest.

Britain should withdraw from the EU and then we would have far more to spend on hospitals, education, pensions etc.

REG Simmerson
London, England

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