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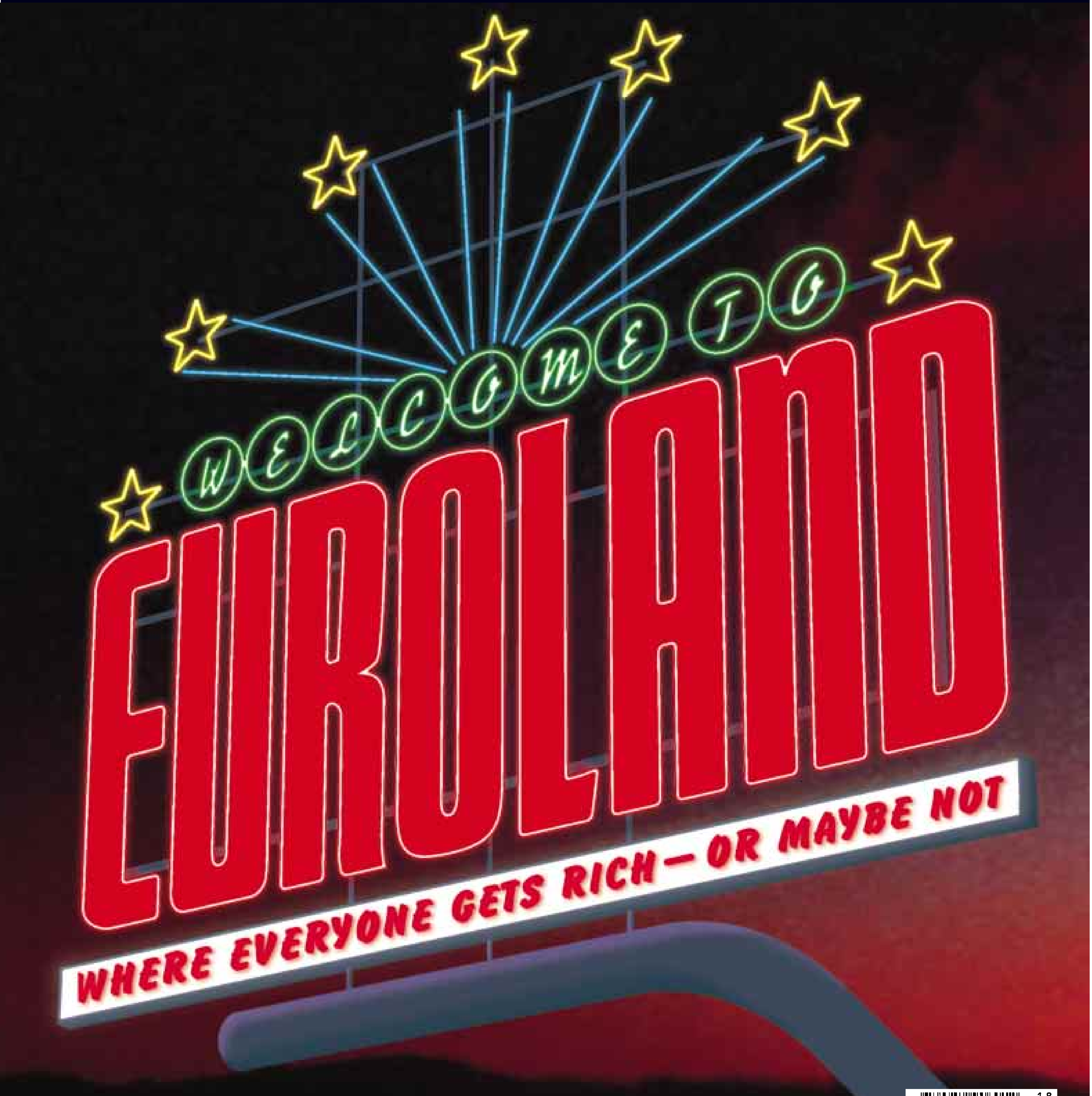

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Cover artwork: Steve Mayer

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27 APRIL-3 MAY 1998

Goodbye to all that?

ECONOMIC and monetary union (EMU) is all but a done deal. On 2 May the 11 participating states will sign up to the single European currency, agreeing to tie their national currencies irrevocably together as a prelude to the introduction of the euro at the start of the next decade. The brave new world of Euroland will have begun. Those who think it is the end of the process are wrong.

The economic and financial implications will be immense, but it is also a significant step on the road to further political integration. Most leading politicians in Germany, France, Italy and Spain understand this, even espouse it. But Britain, the most important of the EU's members not to be among the first wave of euro-members, still persists in discussing the pros and cons of the venture in essentially economic terms. The country is in denial.

For the moment the British prime minister, Tony Blair, can shelter behind the opt-out negotiated by John Major and equivocate. His finance minister, Gordon Brown, can repeat his mantra of the economic tests the euro will have to pass if Britain is eventually to join. But the issue is not fundamentally a matter of economics. If the euro is a success, Britain will seek to opt in. Joining the euro is a surrogate for signing up to far-reaching European political integration. That is the issue the British will have to decide when the time comes.

Those who doubt this should listen to what the architects of the euro are saying, openly, honestly and without equivocation. Consider, for example, the plain spoken language of Germany's Chancellor, Helmut Kohl.

In last Monday's evidence to a Bundesrat committee he made it clear that monetary union is a process which will make European unification irreversible. He sees EMU as the single most significant step on the road to a federal Europe. He even regretted that the Amsterdam Treaty did not take integration further. So much for the British notion, dreamily put about by Robin Cook, the British foreign secretary, that the high-water mark of integration had been reached. None of this should come as a surprise. Mr Kohl and his allies in Paris, Rome, Madrid and Brussels have been saying it for years.

Mr Kohl's vision of a united Europe is based on the German model of a decentralised federal state: "What has been achieved over 40 years in terms of arrangements between the German federation and its constituent *Länder* – and it was no simple process – can nonetheless happen in the development of the EU." There will be substantial devolution of power, as there is to the German *Länder*, but Europe is to have a federal government more powerful than anything admitted to in London.

Nor is it just a matter of emulating German political structures. Mr Kohl sees the euro as the deutschmark by another name and Frankfurt, "one of the leading finance centres on this earth". The Chancellor's gargantuan appetite evidently includes no hankering after humble pie.

Mr Kohl is fired by a sense of his own nation's history. It was the creation of a common currency in the mid-19th century that brought the German state into being, the Chancellor points out. So it will be, in his eyes, with Euroland. Whatever stalling devices reluctant EU members tell their voters they have secured as lifebelts to retain national sovereignty will be swept away before the single currency juggernaut and the fiscal conformity it will bring in its wake.

Mr Kohl's finance minister, Theo Waigel, is already plotting the course to further tax harmonisation. In his vision (backed by France and Italy) tax harmonisation in Euroland means an end to competing tax rates and the sovereignty which levying taxes, even within broader fiscal and budgetary targets set by the EU, implies. This is the federal Europe which Britain must make up its mind about joining early in the next decade. It is not about economics at all: it is about determining the future course of the government of the country for the 21st century. Even if the euro lives up to Mr Brown's vague and flexible tests, Britain might still decide that this is not the route it wishes to go down.

> **The question to be faced is whether Britain wants to join Chancellor Kohl's federal venture**

If the euro is even a modest success there will be powerful pressures on Britain to sign up, however belatedly. The question to be faced then is whether Britain wants to join Mr Kohl's federal venture, with the inevitable loss of nation-state sovereignty it implies. Despite the siren voices of those who will say there is no alternative, Britain, with its unique, historical transatlantic ties, can always look west. Indeed, if Europe continues on its present uncompetitive course, with overregulated labour markets and towering social costs, there will be those who will argue that Britain's future would be brighter with dual membership of the European common market and the North American Free Trade Agreement (Nafta), with only arms-length political ties to both. That could look especially attractive if, by the next decade, a federal Europe also looks like being a French-inspired Fortress Europe.

Hitching Britain's economic wagon to Nafta, the most vibrant free trade area in the world, while still remaining part of the common market arrangements of the EU, could give Britain a pivotal role in the world while still retaining a large degree of national sovereignty. It is probably the only realistic alternative to going down the Euro-federalist route. The choice involves something far more important than the balance of economic advantage: it involves the destiny of a nation. That is why, as the rest of Europe gives birth to EMU, Britain needs to start its own mature debate now.

Cover Story: page 8

SNAPSHOTS

Kosovo's war of words moves closer to the real thing

SLOBODAN MILOSEVIC, the Yugoslav president, is taking the international community to the wire over his country's violent repression of separatists in the troubled Serbian province of Kosovo.

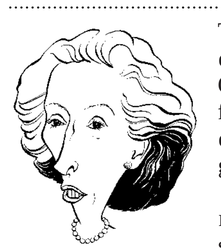
Washington has threatened that at the 29 April meeting of the international Contact Group, it will push for tougher economic sanctions against Yugoslavia, including a stiffer ban on foreign investment and a freeze of Yugoslav assets held overseas. But Moscow is likely to seek to check such a move.

Serb civilians – in the minority within the province – fled from their homes in Kosovo last week as the Yugoslav army launched an offensive, claiming to have killed 23 of Kosovo's separatist ethnic Albanian guerrillas in the mountainous border region with neighbouring Albania. Albanian officials said Yugoslav aircraft intruded into their airspace last week. Yugoslavia's army has said there could be war.

The guerrillas from the Kosovo Liberation Army are gaining strength. They have reaped huge support from expatriate Albanians across Europe. Forward bases have been established in Albania and arms are being shipped from Albanians in Macedonia in the south.

Milosevic has gained domestic political strength by his tough line against the separatists. A 23 April referendum on whether to accept foreign mediation in Kosovo was resoundingly rejected by Serbs. But Yugoslavia would be ill-placed to absorb sanctions. After four years of war, it has less than $200 million in its foreign exchange reserves and is under a continuing World Bank credit freeze.

Sark lark threatened



THE multiple company directors of Sark in the Channel Islands are finally facing a crackdown from the British government.

The four-square-kilometre island's tax haven status has opened up a lucrative trade for many islanders who use their residency as a flag of convenience to front thousands of dubious companies. They are said to earn £50 to £200 ($85-$340) from each company by lending their names as directors. Last year it was alleged that at least 150 of the 400 adults on the self-governing island rented out their names as nominee directors.

But Margaret Beckett, the trade and industry minister (*pictured*), has decided to call time on practices which the Labour government considers unacceptable. The Department of Trade and Industry (DTI), has begun disqualification proceedings against Philip Croshaw, whose 2,400 company directorships make him the record-holder.

In a civil case to be heard on 15 May in Manchester the DTI will accuse Croshaw of acting as a front for the man who was really running an English car sales company, Oldham Vehicle Contracts. The DTI alleges that the real owner broke the law because he was disqualified from being a director and that Croshaw, although appointed sole director in 1994, knew nothing about the company. The DTI also alleges that Croshaw is unfit to be a director because he fronts thousands of other companies. Records at Companies House in London are said to show him as director or company secretary of 2,035 British companies.

Croshaw is expected to contest the case. The DTI says that the action could have implications for other nominee directors on the island. "Our concern is that directors should fulfil their responsibilities," a spokesman said.

Shareholders are revolting

EUROPE's growing band of equity owners are learning to use their new-found financial muscle. Across the continent there are signs of revolt against complacent managers who have often run companies as if they were their own, expecting little protest from placid institutional investors.

The latest spate of activism is faced by Belgium's Kredietbank and CERA Bank, which agreed to amalgamate in January, creating a financial services group with a Bfr480 billion ($13bn) capitalisation. Shareholders in CERA, a co-operative, fear that they are being robbed of assets worth Bfr67bn in the complex deal, which they say undervalues CERA and deprives them of decision-making power in the new conglomerate. Shareholders' representatives have called in Deminor, a firm specialising in representing minority shareholders in disputes with companies. An independent foreign investment bank could be called in to judge whether the takeover terms are fair.

In the Netherlands shareholders are threatening to block a takeover of the Dutch retailer, Koninklijke Bijenkorf, by Vendex International for Nfl 1.7bn ($841.7bn) because the price is too skimpy.

But the Italians got there first when angry shareholders ejected financier Carlo de Benedetti (pictured) as chairman of Olivetti in 1996, when he was embroiled in fraud charges following the collapse of Banco Ambrosiana Veneto. De Benedetti, sentenced to four and a half years' imprisonment, was last week cleared of all charges on appeal, ending a 16-year legal drama.

ILLUSTRATIONS: JOHN MINNION

Bankers' order

FRANCE is theatening to take the European Commission to court if, as expected, it rules on 6 May that the French government must sell a huge chunk of Crédit Lyonnais' assets and move to a quick and clean privatisation.

Karel Van Miert, the competition commissioner, has for weeks been wrestling with Dominique Strauss-Kahn, the French finance minister, over the Crédit Lyonnais case; all sides expect the verdict to go against the bank. Van Miert says state aid given to Crédit worth Ffr100bn-Ffr120bn ($16.7bn-$20bn) is illegal; he is trying to force France to sell Ffr620bn of the bank's assets to make it financially viable, before moving to a quick privatisation.

That, says Strauss-Kahn, is not on the cards. He wants to sell fewer assets and to have more time to package the bank attractively for sale. With Deutsche Bank and ABN-Amro circling, he also wants to ensure that control of the bank stays in France. Otherwise, he said: "I will certainly take the case to the European Court of Justice in Luxembourg."

SERGO DIDISHERASHVILI

Too hot to handle

Work continues at the Tbilisi nuclear plant, Georgia; it was from here that six kilos of highly enriched uranium were taken to the reprocessing plant at Dounreay, Scotland, following a deal between Bill Clinton and Tony Blair to help the former Soviet state dispose of a part of its unwanted heritage.

Banana drama

THE EU's farm commissioner, Franz Fischler, sidestepped a potential banana skin last week when he emerged unharmed from a debate with EU agriculture ministers over a new import regime for bananas.

Banana imports are fraught with politics for the EU. America and various Latin American countries would like to flood the EU with their fruit. But EU member states with traditional trading ties to former colonies in Africa, the Caribbean and the Pacific (ACP) want to protect those economies.

The current regime for regulating banana imports into the EU has been shot down by the World Trade Organisation for discriminating against the Latin American countries. Fischler has tabled new proposals which would abolish the current system of import licences and impose two parallel quotas: one for the ACP producers, which would still get privileged treatment, and one for the rest. A supplementary quota would attract a heavier tariff.

Oiling the wheels

THE valuation of Rosneft, the Russian oil giant, by the investment bank, Dresdner Kleinwort Benson, will be announced this week amid signs that the $2.1bn starting price together with additional commitments to invest $400m is proving hard for investors to swallow whole.

Kremlin officials have conceded that they may be forced to sell the company in parcels, either through auction or tender, which would mean sacrificing the cash premium that a sale of an outright controlling interest was likely to attract. Oil executives have been hinting that the DKB valuation is likely to fall short of expectations by $700m.

There was speculation that the government was back-pedalling in response to pressure from Russian businessmen who had complained over the high asking price in a depressed oil market.

The privatisation minister, Alexander Braverman, denied that the government was bowing to pressure and stressed that the move was not a concession to the tycoon, Boris Berezovsky, who had previously tried to have western bidders excluded from the auction and had asked for the sale of smaller blocks of shares. But this restructured sale will fit in well with Berezovsky's plans. He does seem to enjoy an uncanny knack of securing his objectives.

FISCAL POLICY

Havens of liberalism

HERE is a simple question, the answer to which teaches an important lesson about the nature of the European Union. Why does the European Commission think tax havens such as the Channel Islands are an "obstacle to the European single market" – as it has done in a recent study – and ripe for abolition, when they have never been deemed a threat to the freedom or coherence of the British economy?

It is because the European Union is an illiberal system of governance, at variance with certain European, especially British, traditions of diversity. The suggestion that Europe's tax havens should lose their special status is evidence of Brussels' contempt for the rich quirks of European history – apart from economic common sense.

For tax havens – territories independent of Europe's major states, thus of the EU – exist only as a result of happy historical accident. The Channel Islands are not part of the United Kingdom, but belong to the Crown because the Queen is still Duke of Normandy, while Monaco's independence from France will last only as long as the Grimaldi dynasty survives. These flickerings of independence have been guarded jealously for centuries. It is significant that the Commission wants to stamp them out.

Brussels' desire to abolish such tax havens shows how dangerously anachronistic are its mental reflexes in a modern economy. If this article can be read on a windy railway platform in Cologne, having been written on a secluded hilltop in a Caribbean island, as it has been, then it is obvious that closing a tax loophole on Jersey today can result in a new one opening in the Cayman Islands tomorrow. It would be a strange service to Europe's economy to drive the financial services of, say, Luxembourg, off the European continent.

Yet the Commission does not simply want to iron out little anomalies like Europe's micro-states. Its attack on tax havens is but one element in a far larger raft of fiscal policy proposals of which the present draft directive to harmonise the VAT system across the EU is only a part. The Commission may talk about the Channel Islands of Sark and Alderney, but its ultimate aim is to bring the tax-raising powers of all EU states under its control. Of these, the United Kingdom is, as one City analyst recently said in advice to European financiers, the biggest and best European offshore investment opportunity of all.

This is because Britain's corporate tax rate of 31 per cent (21 per cent for small businesses) is the lowest in the EU (Germany's is 57 per cent); so, the United Kingdom attracts a stupendous 45 per cent of the EU's entire inward investment. European officials who watch in dismay as Britain's low social costs attract investment from the Continent are hardly likely to be more indulgent about the other side of the coin, its slim fiscal base.

Commission functionaries such as the German finance minister, Theo Waigel, who at the weekend also stepped up his calls for tax uniformity, have long convinced themselves that such differences among European states must be eradicated if the single market is to be "perfect". Not only is it deeply regrettable that such harmonisation always means that taxes will be raised rather than cut – tax competition is, after all, one of the best ways to get taxes down – but also, such perfectionism is merely old-fashioned illiberal social engineering in new guise.

CORBIS

Sark: closing one tax loophole will open another

Tax havens and tax breaks (such as the tax-free zone being planned for Corsica, or prudential tax arrangements given by numerous EU member states to certain economic sectors) do not threaten the integrity of national economies, any more than a nought per cent sales tax in Oregon, compared with an eight per cent rate in New York, fans secessionist flames in the USA or compromises the coherence and dynamism of the American economy.

Far from being a "distortion of competition", as the Commission would suggest, such differences are, from a liberal point of view, its very essence.

Yet this absurdity lies at the very heart of the single currency and the single market projects. As a Coopers & Lybrand tax partner has wisely advised: "Inevitably EMU [economic and monetary union] will increase the pressure for, at the very least, tax convergence and possibly a common EU tax system," adding that this pressure will also apply to non-EMU states. The Confédération Fiscale Européenne concurs.

The EU Commissioner responsible for tax matters, Mario Monti, who has long been dropping hints about his desire to introduce a single EU tax system, lifted the veil on his true thinking in March when he told an Italian newspaper that it was "very important" that the Italian presidency had reopened the debate on tax harmonisation. Years of silence have been imposed for fear of offending political sensibilities. At present, the Commission's VAT harmonisation plans are technical and apparently modest. They concentrate on introducing a system whereby VAT would be charged at the rate applicable in the supplier's country and are scheduled for implementation by 2001. But as KPMG, the world's largest tax practice, has argued, such a system would immediately make full-blown VAT harmonisation necessary, because a definitive origin-based VAT system will encourage companies to relocate their registration base to countries with lower VAT rates, opening up a massive new hole which the EU will need to plug.

The key point – which has duped legions of Conservative MPs in Britain and which explains the apparently contradictory hostility of a free market party to the EU's economic integration – is that the single market is not intended to create free trade among countries.

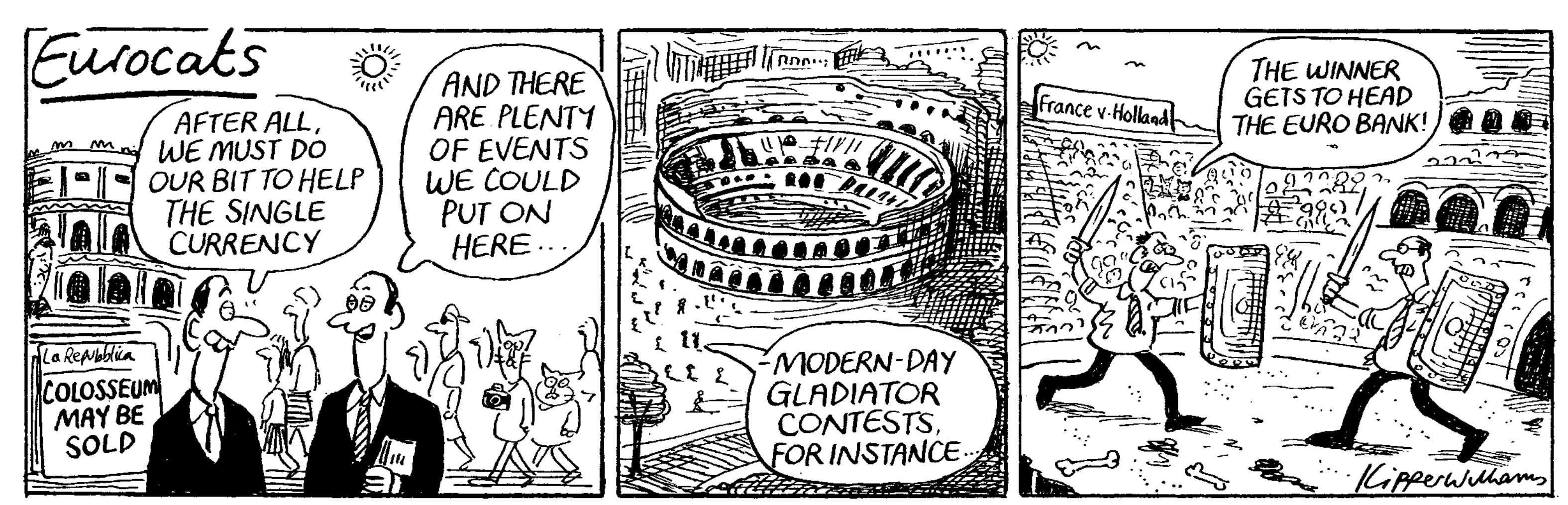
According to free trade along a Smithian or Ricardian model, countries compete with one another to provide those goods and services at which they excel. The European single market is intended to do precisely the opposite, to suppress freedom among EU member states and subsume it instead within the uniformity of one single, centrally-directed economy. This is why the EU commissioner responsible for the single currency, Yves-Thibault de Silguy, has written that if the single currency fails, "then Europe will risk collapsing into a free trade zone, which is exactly what we have been struggling to avoid for the last 25 years".

Above all, these plans show how backward is the state of the European tax debate. In Belgium you have to earn only about $20,000 a year to be taxed at 50 per cent ("social contributions" included). Add 21.5 per cent VAT and you get to a tax rate of over 60 per cent. A Belgian (like many other Europeans) works from January to September for the state, keeping only the fruits of his labour from October to December for himself. Medieval serfdom is a paradigm of Friedmanite libertarianism by comparison.

If the Commission were to devote its efforts to stimulating some ideas generated in the US it might perform a real service by empowering Europe's citizens. Should there be a flat tax? Should income from savings be tax-free, since the income which generated them was taxed when earned? Should the tax system be simplified, enabling – as a Texan Republican first suggested – a tax return to be written on a postcard? How can the overall tax burden be cut?

But the mandarins of Brussels are, as usual, more interested in old-fashioned empire-building instead.

JOHN LAUGHLAND



DEFENCE

A rational solution

EUROPE's piecemeal defence industry is under pressure following a decision by key governments to impose a summer deadline to force consolidation.

Following a flurry of ministerial negotiations last week, five governments urged defence companies to "resolve the outstanding issues among themselves and with shareholders by the summer".

The deadline has been imposed in the wake of a report by industry on plans for consolidation, which the governments consider disappointing.

The report, by British Aerospace, Daimler-Benz Aerospace of Germany and Aérospatiale of France, is secret, but sections have been read out to *The European*. It concludes that while companies agree "in principle" to consolidation, "Europe is not yet ready to move" on either of two options.

The first would be to create one giant defence conglomerate to produce aircraft, helicopters, missiles and other weapons, unofficially named the European Aerospace and Defence Company, with annual sales of $28 billion, This is the "big bang" solution preferred by British Aerospace.

The second is to form producers of categories of weapons into specialised groups, a solution preferred by the French.

Missile manufacturing would be carried out by a company forged from parts of British Aerospace, Daimler-Benz Aerospace, state-run Aérospatiale, Matra of France and Alenia of Italy.

A defence electronics giant would combine French companies Thomson-CSF and Matra, General Electric of Britain and Daimler-Benz.

The biggest prize would be an an aerospace company consisting of British Aerospace, Daimler-Benz and Aérospatiale, along with parts of Dassault, the private French company.

The main stumbling block remains the French Socialist government's adherence to state control of defence industries.

IAN MATHER

COVER STORY

EMU ■ The sceptics said it would never happen; the doubters still predict disaster, but the euro is about to be born. What will it be when it grows up?

LAND OF HOPE AND GLORY?

Julian Coman

ONCE upon a time, just one short year ago, Euroland was a distant and possibly mythical place. The project for economic and monetary union (EMU) was tottering and staggering in the direction of delay and even cancellation.

A desperate German government was found guilty of accounting tricks with its gold reserves in order to meet the convergence criteria for monetary union and a newly elected French Socialist government was dragging its feet over ceding economic sovereignty to an independent European Central Bank (ECB). The single currency began to look like an idea whose time would never come.

No longer. Sheer political will, in particular the dogged determination of the German Chancellor, Helmut Kohl, has proved powerful enough to override even the most compelling of counter-arguments. When on 2 May the British prime minister, Tony Blair, as holder of the EU presidency (but otherwise only an interested bystander) announces the 11 countries which will merge their monies on 1 January 1999, the single currency train will have left the last station on the way towards a new economic entity. The route-map thereafter, however, is anything but clear.

The euro will unite the islands of Aran off Ireland in the west to Syracuse in the Sicilian south and yoke together the urban density and economic prosperity of the Benelux countries with the arid rural poverty of the Italian mezzogiorno. The populations of economically stagnant towns and villages in eastern Germany will fill their wallets with the same notes and coins as the booming Irish and the spending power of a workaholic businessman in Hamburg will be indirectly affected by arguments in Rome over Italian pension reform. "Europe", for decades a nebulous and at times divisive concept, will have taken concrete form in the shape of a 16mm diameter one cent euro coin. Around 290m people will at some point put one in their pockets as they travel and work in a continent already largely borderless as a result of the Schengen agreement. From 1999 on, the citizens of Euroland will be swimming or sinking together. Their myriad and complex economic destinies, from Limerick to Leipzig, will each be subject to the one-size-fits-all decisions of the ECB in Frankfurt.

Speaking to the Bundestag before it voted by a huge majority to allow the demise of the deutschmark and the birth of the euro, Kohl called the creation of the euro "the most important decision since German unification and one of the most important decisions this century".

Its global ramifications can hardly be exaggerated. Euroland is already the world's second-largest economic zone after the United States. Its gross domestic product amounts to $6,400 billion, not far behind the US ($7,400 billion). Its 11 constituent countries will make up the world's largest importer and exporter. Up to 30 per cent of world trade will be conducted in euros and the status of the dollar as the global reserve currency of choice could be about to change.

The intoxicating clout conferred by an entity of this size and scope has already gone to some heads. Kohl has been unable to resist the temptation to launch a beauty contest between the 20th century's traditional economic colossus and its new rival. "Our American friends are having to undertake a major rethink," the Chancellor said last week, "after seeing our comparative figures and realising what is happening in Europe now." But while the revolution is undoubtedly about to take place, its nature and prospects of success are far from clear. What really is happening in Europe now?

The optimistic spin presents a continent on the threshold of radical EMU-inspired liberal reform, which will give Euroland a new competitive edge. As the idiosyncracies and distortions of the nation-state melt into the euro pot and differences in price and productivity become transparent, the result will be economic rationalisation on a grand scale, along with a concerted pursuit of shareholder value across Euroland by a rejuvenated and liberated business class.

High-tax and high-wage economies, so this story goes, will be required to cut costs or risk the haemorrhage of jobs and investment elsewhere in the currency zone. Labour market flexibility will become a matter of necessity rather than choice. Germany and France in particular will be forced to radically reform structures of social protection. Deregulation – the process of dismantling the controls and economic prerogatives of the nation-state and its corporate favourites – will be given a boost.

Euroland business will benefit further from the interest of foreign investors in a euro-zone government bond market which will from now on rival in size its American equivalent. Fewer stock exchanges, perhaps only two or three, will deal with vastly greater inflows and outflows of capital. This huge financial market, rather than national governments, will call the tune when it comes to good economic practice. At the most basic level of all, the consumer will see prices tumble as the euro imposes the discipline of transparency on previously hidden disparities. A bottle of Coca-Cola in the Belgian region of Euroland will soon have to cost the same as a bottle in the neighbouring French region, instead of double.

With exchange rates no longer hiding inequalities and inefficiencies, free continental competition of a kind unimaginable only a few years ago, will lift Euroland from its slough of despond, infusing it with the kind of dynamism which once only seemed possible in America.

A bottle of Coca-Cola in Belgium will have to cost the same as in France – not double

So much for the Utopians. There are grounds for believing that the future of Euroland will be considerably more fraught, and certainly more vulnerable to political and social fallout, with far-reaching consequences. They may be anything but liberal.

By pooling economic sovereignty with regard to interest rates, which will be set by the ECB, and abolishing exchange rates, the new zone's governments have deprived themselves of the shock absorbers traditionally used to realign economies. Devaluation will no longer be an option for a struggling national economy; nor will lower interest rates. The only shock absorbers left are the voters, who will pay the price of divergent economic performance by losing their jobs. This when more than 12 per cent of the euro zone's workforce is already unemployed.

The prospect is of uncompetitive regions with immobile workforces going to the wall, apparently as a result of inappropriate financial decisions taken by bankers in Frankfurt. Booming economies would find themselves equally vulnerable to the diktats coming from central Germany. The last policy Ireland needs at the moment, given a growth rate of 7.5 per cent, is lower interest rates. Yet that is what the Irish will get from the ECB as growth in Germany and France only gradually picks up.

It is enough to set the pulse of every populist politician in Euroland racing. The leader of the French Front National, Jean-Marie Le Pen, has already reaped the benefit of gut working-class instincts towards protectionism as the old securities disappear in the global economy. The first downturn in Euroland will ensure the swift demonisation of the ECB in France and elsewhere, whatever the merits

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STERN

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of its decisions. Political problems could then multiply. The louder the protests from the regional rabble-rousers, the more inclined Euroland leaders will be to devise ways in which to lean politically on the ECB, and plug, in the words of Dominique Strauss-Kahn, the Socialist French finance minister, "the message of social cohesion which has to be propagated in Europe, and applied throughout the 11 euro-countries".

The row over the nationality of the president of the ECB, with France and the Netherlands (backed by Germany) in a nasty war of words over their respective candidates, has already demonstrated how political the issue of its neutrality has become.

The Euro-X committee, an "informal" grouping comprising Euroland's 11 finance ministers, whose future relationship with the ECB is barely clarified and does not form a part of the Maastricht or Amsterdam treaties, could become a Trojan horse for a pan-European social democratic backlash. Calls for political input into ECB policy and fiscal transfers between regions which were never on a level playing field could turn Euro-X into a putative government presiding over Euroland's economic policy.

If the battle between social democrats and economic liberals for the soul of Euroland is only just beginning, its first incarnation will appear in a conflict between Euroland élites and their electorates; something which should give further pause for thought to those currently heralding a liberal revolution via EMU.

Advocates of government interventionism and redistribution, far from having left the Euroland scene, could merely have replaced the failed strategy of social democracy in one country with the battle for a "social Europe". There is little sign that those French and Italians who espouse the "social Europe" ideal wish to call a halt at economic union even if some neo-liberals have begun to celebrate it as an end to big (national) government.

Popular dissatisfaction is the calculated gamble taken by the most senior advocates of full-blown European political integration, such as Jacques Delors, the former president of the European Commission. The more undemocratic a monetary union run by bankers appears, both in origin and in practice, the more attractive the idea of a formal political counterweight will become, especially given the extreme improbability of EMU collapsing altogether.

Many of the new economic region's voters are unhappy. Sixty per cent of Germans polled would prefer to keep the deutschmark. In the words of one French commentator: "The risk is that a call for democracy risks becoming a popular (or populist) revolt against a process in which the citizens of Europe feel they have played no part."

Since the inception of the idea of a European Union, its realisation has been a campaign of calculated escalation in which one gain implies another. From 1 January 1999 those concerned at a democratic deficit in Euroland will have no choice but to sign up for a form of pan-European political integration. From then the only alternative could be that proposed by Jean-Marie Le Pen.

Bank spat or a coup d'état?

Marc Champion and Tim King
BRUSSELS & FRANKFURT

EVEN over the lubrication of lunch, Europe's finance ministers had failed, yet again, to end the corrosive dispute over who should be the first head of Europe's new Central Bank. The Dutch finance minister, Gerrit Zalm, walked into the press room downstairs, squared up to the cameras and let rip.

If his compatriot Wim Duisenberg did not win the nomination, said Zalm, it would be "worse than losing in the World Cup to Germany". If you remember the Munich final in 1974 (West Germany 2, Netherlands 1) those are fighting words, even though in this particular contest the Germans are the Dutchmen's allies.

The battle for the bank has been as hard fought as any in Europe since Margaret Thatcher's wars of attrition over Britain's budgetary contribution in the 1980s. Both Duisenberg, who heads the European Monetary Institute (EMI), precursor of the Central Bank (ECB), and the French candidate, Jean-Claude Trichet, governor of the Banque de France, are impeccably qualified. What, then, is the problem?

As the May Day grand launch of the euro approaches and the risk of last-ditch sabotage grows, the language has only become more harsh. When Jacques Chirac, the French president, insisted he would stick by Trichet, the Dutch prime minister, Wim Kok, threatened a tit-for-tat veto. "We could give them a taste of their own medicine," he warned.

To understand why there has been so much *Sturm und Drang*, it helps to go back to Maastricht in 1991, when the original treaty to establish Europe's economic and monetary union (EMU) was negotiated. At the time Jacques Delors was president of the European Commission and Jacques Attali, another Frenchman, headed the newly created European Bank for Reconstruction and Development (EBRD). When it came to political appointments in Europe, France ruled.

Six years on, we find a Luxembourger, Jacques Santer, heading the Commission, and a Belgian president of the EBRD, replacing Attali, who was forced to resign. With a Dutchman heading the ECB and the bank itself in Frankfurt, French political hegemony in Europe – always the trade-off for Germany's economic dominance – would wither visibly in the face of a German-backed Benelux putsch.

"It's about power; of course it is," said one of few French officials in Brussels willing to speak about the dispute, under condition of anonymity. "But it's also about sovereignty – and in this respect the way Duisenberg was chosen was just unacceptable." Duisenberg was selected in December 1996 when Alexandre Lamfalussy, the Belgian head of the EMI, announced he was resigning halfway through his term of office.

Since the institute is the ECB's forerunner, when the 15 heads of Europe's national central banks – including Trichet – unanimously anointed Duisenberg as Lamfalussy's successor, it made him clear favourite to head the new bank.

Chirac was furious. Both the heads of the EMI and the ECB were appointments supposed to made by heads of government. French diplomats maintain there was a verbal agreement between the late François Mitterrand and German Chancellor Helmut Kohl that if the bank was based in Frankfurt, its first president would be French. Santer described the bankers' deal openly as "a coup d'état".

When Chirac struck back by nominating Trichet late in the day, the Dutch were incandescent. As far as they were concerned, the fact that Duisenberg was chosen by bankers operated in his favour. The Germans were unsurprisingly worried that the ECB was being dragged too far into the realm of politics, exactly what Chirac intended.

This is the heart of the matter. There are disagreements between France and Germany as to how much political control the governments of Euroland should have over their single monetary policy. The Dutch, whose guilder is pegged to the D-mark, believe too much has already been conceded. "Look at the negotiations on the stability pact and the Euro-X council – both ended with concessions to the French," said a Dutch spokesman in Brussels. The Euro-X council, comprising the 11 finance ministers who have signed up to the euro, was engineered by Paris explicitly as a political counterweight to the ECB. Germany, reluctant at first, acquiesced to keep the new French Socialist government on board.

Meanwhile, the agreement now known as the growth and stability pact has been a scene of political carnage. Negotiated in 1996, it is supposed to build-in commitments to fiscal austerity once the euro is born. It responded to German concerns that as soon as the more spendthrift governments were assured of entry to Euroland, they would promptly return to the public trough, like addicts to their fix, and so weaken the euro.

At first it was called just the stability pact. The "growth" part was added last year at French insistence. Lowering unemployment, said Paris, should be just as much a priority of common economic policy as lowering budget deficits. In other words: governments should be able to run up temporary deficits if they need to in order to deal with unemployment. Initially, the Germans acquiesced. Then in March, finance minister, Theo Waigel, fought back. He proposed to add a five-point declaration to this weekend's euro launch that would strengthen the pact and bring it into force immediately, eight months early. The idea was politely received at first, but by last week's meeting of finance ministers it was being watered down under pressure from France, Belgium and Italy. Now Waigel has gone one step further down the uncharted road that the EMU countries have effectively agreed to tread: proposing eventual harmonisation of tax policies.

Within a common currency zone, a system of common taxation makes a certain economic sense. But as the argument over the nationality of a banker supposed to be an impartial technician demonstrates, economic sense and political will do not necessarily answer to the same masters. Most observers believed a deal would be reached over who would run the ECB this weekend. Now the wrangle could drag on until 1 July, when the bank has to be formed.

KAI PFAFFENBACH

CHRISTIAN JUNGEBLODT/SIGNUM

Banking on it: ECB rivals, Duisenberg and Trichet (top) and old bundles of D-marks shredded by the Bundesbank (above)

The ECB has been dragged into the realm of politics – just what Chirac wants

Common factor is the hard sell

Edith Coron and Tony Paterson
PARIS & BERLIN

PRESENTED by its backers as the ultimate unifying force, the euro is wreaking havoc throughout its designated realm. The refusal to join of Britain, Denmark and Sweden along with the desperate efforts by Italy, Portugal and Greece to qualify for admission are part of EU folklore. Now, at the very last minute, it is the reaction in France and Germany that is causing most concern.

In Paris, President Jacques Chirac, a Gaullist, and Prime Minister Lionel Jospin, a Socialist, attempted to take centre stage in the Assemblée Nationale with a harmonious paeon of praise for the single currency, only to be drowned out by noises off. France's parliament eventually registered grudging support, but 49 left-wing deputies voted against while Chirac's own Rassemblement pour la République (RPR) abstained *en masse* to demonstrate their contempt for the government.

In Bonn, Chancellor Helmut Kohl has also been feeling the euro's icy blast. Less than five months away from the federal elections, more than 60 per cent of German voters continue to be sceptical about ditching the deutschmark. Most want the common currency cancelled instead, or at least postponed.

So intense has been the build-up of opposition to Kohl's pet project that, in spite of strong backing from the Bundestag, he has felt it prudent to downgrade it in importance in favour of the domestic economy and continuing high unemployment. In a television interview, given from behind the same desk used by his illustrious predecessor Ludwig Erhard to introduce the D-mark in 1948, Kohl accorded the euro "last but not least" status in his remarks to the nation.

continued on page 12

SUBSCRIPTION OFFER

COVER STORY

Hands on or off? Lionel Jospin (top) and Jacques Chirac can't even match their gestures

continued from page 11

Although unshaken in his conviction that the euro is a necessary cornerstone of European unification, Kohl was forced to backtrack on earlier claims that the single currency was the best news for job-seekers since the early days of the *Wirtschaftswunder*, downgrading his prediction to: "I have no doubt that it will provide jobs in the long term."

In France, last week's assembly debate was a last-ditch effort by the Eurosceptics, which highlighted once again the contradictions plaguing France's main political groups. If the debate was described by some of those taking part – most obviously Chirac and Jospin – as a historic day, many others seemed to be walking backwards towards the future.

The RPR's abstention proved a major embarrassment for the French president, coming only a few days after he had made another impassioned, pro-euro pledge at a news conference. "It is an organised Europe which will give France the strength and the means to defend its interests and to realise its ambitions," he had proclaimed with presidential pomp.

If the "no" vote by Jospin's Communist allies, and several from his own Socialist Party, caused problems on the left, the right had little cause for rejoicing either. Divisions within the RPR over European integration are deep. The party's president, Philippe Séguin, has only recently converted to the cause. Last week his party was swinging like a pendulum.

Kohl was forced to backtrack on claims that the euro was good news

At first, RPR deputies seemed ready to vote for the euro, in a straightforward backing of Chirac's position. Séguin, however, feared that this could be interpreted as support for the Jospin government. He suggested that even though the party, on balance, favours the euro, the RPR should vote against it to register its condemnation of Jospin's national leadership.

This labyrinthine reasoning did not please Chirac, who hung up on Séguin in fury during one of their telephone conversations. His former prime minister, Alain Juppé, eventually came up with a solution worthy of Solomon: to abstain from the vote and introduce a no-confidence motion against the government. It was entertaining politics, but not the kind in which parliament should be indulging on the eve of momentous change.

To RPR strategists, who since last month's regional elections have grown more sensitive to the successes of the Front National in stealing the ground from beneath their feet, the stance appeared eminently sensible. "Every day, we meet voters who tell us about the Front National. We cannot leave the Front to occupy on its own the opposition's ground," said Nicolas Sarkozy, an RPR leading light.

This tactical choice by the party that is heir to Charles de Gaulle left the French president rather lonely, supported primarily by the UDF (Union pour la Démocratie Française). Otherwise in its death throes, the UDF at last succeeded in speaking with one voice.

In Germany, where Kohl has long practised party management with the bludgeon rather than the rapier, the Chancellor secured a resounding parliamentary victory for the pro-euro cause. He may be a dwindling figure in the estimation of voters, improbably overshadowed by Gerhard Schröder, his Social Democrat opponent in the September election, but on his government benches he can still loom as large as any Chancellor since Konrad Adenauer

His veteran ex-foreign minister, Hans-Dietrich Genscher, 71, weighed in with his support from the Free Democrat benches, making his final speech to the Bundestag before going into retirement. But it was Kohl's day. Adopting his European statesman pose and looking fitter than usual after a two-week enforced diet, Kohl sought to convince deputies in the Bundestag and the voters at home that the currency was far too important to leave to economists. Parliamentary discussion over the currency was not "any old debate about any old decision," he said. "Parliament's vote in favour of the euro is one of the most important decisions taken this century."

Kohl insisted that the euro "will strengthen the European Union as an institution that maintains peace and upholds freedom". Public hostility to the project was as good as irrelevant: "Some day, the Germans will have become so used to the euro that they will no longer remember that there used to be many national currencies on the continent. Today's opponents of the euro will in future deny the fact that they were ever against it."

Schröder, in his first confrontation with Kohl in the Bundestag since his nomination as his party's Chancellor candidate, attempted to reflect the mood of the electorate's obdurate Euroscepticism.

"The D-mark is not simply any old currency. In the West, it is a symbol of economic prowess. For east Germans, it is proof of their newly acquired share in freedom and prosperity."

If his intervention was meant as a warning, it came too late. Sixteen years of Helmut Kohl have turned the euro into a foregone conclusion in the minds of most Germans, whatever they might think about it. Parliament backed the government line by 575 votes to 35. Though he may yet lose to Schröder in the autumn, Germany's old warhorse is not ready for the knacker's yard yet. ■

BVD CHARLEMAGNE

A walk on the inside of the EU corridors of power

Strike force for EMU

AFTER months of exhorting member states to create flexible labour forces ready for economic and monetary union (EMU), the European Commission is having a little local difficulty in administering its own medicine. The EU's civil servants are protesting about Commission proposals to revamp their pay and conditions and have threatened a walk out on 30 April – the eve of the EMU summit on 1-2 May.

What has enraged the unions is a report prepared for Erkki Liikanen, the European commissioner for personnel, advocating such heresies as performance-related pay and the freedom to sack underperformers.

Jacques Santer, president of the Commission, committed himself to reform last year after member states protested about excessive pay and poor management. Last month German MPs gave Liikanen a rough ride at a Bundestag hearing. Bonn has called for personnel policy to be transferred to the Council of Ministers if the Commission cannot reform itself.

The staff unions are unlikely to win much public sympathy in Brussels. On average, EU civil servants are paid three times as much as their counterparts in Belgian ministries. Even the lowest-paid Commission employees receive net pay of $3,180 a month and all are protected from Belgium's punitive tax rates. Their basic salary is boosted by a 16 per cent expatriation bonus, a benefit for married couples of five per cent, child benefit of $458 a month and school benefit of $204.5. Things can only get worse.

Fax in an ink fix

FAX machines at Parliament's Brussels buildings ran out of ink recently, victims of an office supply system that would give Byzantium a reputation for simplicity.

Although MEPs were protected from the worst consequences of inklessness, the civil servants went without, as cartridges of fax toner became rarer than a happy French farmer.

One official tried to draw a moral of budgetary discipline from the chaos. "My guess is that there had been too many orders at a time and the administration decided to deliver just the regular amount," she said.

The lack of ink has brought Parliament's daft system of managing office supplies into sharp relief. The Parliament's vast Brussels building, despite being the biggest office development in the self-styled capital of Europe, does not have office stores. Small stocks of supplies are kept in lockers and the keys are usually held by secretaries.

Each time a shortage looms, orders are sent to Parliament's office supply department, conveniently located in Luxembourg. Convoys of relief supplies travel from Luxembourg to Brussels every two weeks but the fortnightly deliveries are limited in cost and space so the quantities delivered do not match those actually ordered. Hence the shortage. Could it happen again? Of course.

Whinges on the increase

A CITIZEN with a complaint about EU institutions can take it to the European Court of Justice, the petition committee of the European Parliament or the European ombudsman.

Presenting his annual 315-page report, Jacob Söderman, the ombudsman, said that complaints sent to him in 1997 had grown by 40 per cent from 1996. The number of complaints has grown from 84 a month in 1995, when the service was created, to 116 a month this year. If complaints kept increasing at this rate, said the Swedish official, his report would be more than 3,000 pages long by 2005.

Söderman paints a bleak picture of the European Commission, which prompted 80 per cent of the complaints. Its officials were found responsible for breaching medical confidentiality, running dubious public tenders and recruitment procedures, refusing to transmit public documents and paying contractors late.

One complaint brought to Mr Söderman may have significant implications. He ruled that despite strict internal procedures, the Commission had no right to bring sanctions against officials who transmit information or give interviews to the press which do not strictly reflect the official line.

Let us hope that the Commission's employees will learn from the case and decide to speak their minds.

Watts in a standby video?

KAREL VAN MIERT, the competition commissioner, is a forgiving man. He has granted 16 manufacturers of televisions and video recorders an exemption from the EU's competition rules so that they can team up for one particular purpose: to reduce the amount of energy used by their machines while in standby mode. The manufacturers have promised that by 2000 no machine will use more than 10 watts and that average power consumption will be less than six watts.

Mr Van Miert has decided that consumers will benefit from an anti-competitive collusion by the television set makers. The Commission estimates that by 2005 the innovation could reduce European electricity consumption by 3.2 million megawatts a year.

Barbecue or cold buffet?

CULINARY snobbery is not uncommon in France but it is not the official reason for the ban on disposable barbecues. French legislation forbids the sale of these portable campfires in order to protect consumers and the environment.

Unhappily for the French, the portable barbecue, which often amounts to little more than an aluminium foil tray and some incendiary material, is sold in ever-growing numbers elsewhere in the EU. So the European Commission is taking legal action against France on the grounds that its ban is a barrier to trade.

The French have two months to respond. In the meantime, anyone contemplating accepting the controversial invitation from Michelle Demessine, the French tourism minister, to "join the party" while the World Cup is on, must adjust their picnic preparations accordingly. Perhaps a cold buffet?

Culinary snobbery is not the official reason for the ban on disposable barbecues

Conserving bad habitats

IN LATE June, the European Commission is supposed to publish a list of nature sites of community-wide importance for preserving animal and plant species.

A noble aspiration but there is as much chance of it happening as of the duck-billed platypus setting up home in the sewage-soaked waterways of Brussels. That's because the list is effectively a compilation of national lists submitted by the member states and then approved or adjusted by the Commission.

Seven member states have still not submitted their lists, a mere three years after the deadline. France, Finland, Denmark, Germany, Luxembourg, the Netherlands and Ireland are all being taken to the European Court of Justice for failing to comply with the EU's habitats directive. The World Wide Fund for Nature blames a lack of political will, ignorance in some countries about what species are where, how they can be conserved and uncertainty about who will pay for the establishment of the protected areas. Endangered species will have to tough it out: the cases won't reach court for two years.

Bye-bye blue angel

TWO OF Europe's endangered species are the Scandinavian Nordic swan and the German blue angel; both are now threatened with extinction by a Brussels-engineered crop, the "eco-flower".

MEPs from Scandinavia and Germany have denounced a Commission plan to replace national schemes for marking environmentally friendly consumer goods with a Europe-wide label, the eco-flower, first introduced in 1992. Environmentally friendly goods would be graded, earning one, two or three such flowers, which would feature on the product label.

Nordic swan is a Scandinavian eco-label covering 360 categories of products from low-energy washing machines to low-phosphate detergents. According to a Commission proposal due to go before Parliament, the eco-flower must replace such regional labels within five years.

MEPs fear that the less than stringent criteria proposed for grading products and the small range of goods covered by the eco-flower will undermine confidence in eco-labels. (Compared with the Nordic bird, Brussels' flower covers only 45 categories of goods.) But a Commission official said five years would be plenty of time for buyers to become familiar with the eco-flower. The Europe-wide label would be imposed for only six groups of goods where the flower overlaps with regional labels.

The swan and the angel can still fly, albeit in a reduced habitat.

** Justus Lipsius likes to get his facts right. In our edition of 30 March, he implied that Alex Falconer, MEP for mid-Scotland and Fife, intended to stand for re-election in 1999. He does not. We wish him a happy retirement.*

Justus Lipsius

Will Gerhard Schröder end up in bed with the CDU? PAGE 18

BELGIUM ■ Political elite humiliated by the escape and recapture of a paedophile killer

Dutroux puts Dehaene on the run

AP / TV

The look of a killer: Marc Dutroux in the back of a police car on his way back to custody

Tim King and Bertrand Benoit
BRUSSELS

AS CRIMINAL dramas go the escape of Marc Dutroux from a courthouse in southern Belgium was more farcical than dangerous. The prisoner knocked over his police guard, stole his (unloaded) gun and ran off. He was arrested three hours later after being spotted by a forest ranger when a car he had hijacked stuck in heavy mud.

With any other prisoner this would have been small Belgian beer, but Dutroux's afternoon in the sun precipitated a political drama which rocked the Belgian government, drew public cries of indignation and exposed a state without authority.

"This is the end," screamed the banner headline on the Flemish daily, *Het Nieuwsblad*, the morning after.

The truth is that this is just what government ministers feared when news of Dutroux's escape was brought to them in the parliamentary chamber, interrupting, of all things, a vote on ministerial responsibility.

"*God verdomme!*" exclaimed Jean-Luc Dehaene, the prime minister, who was answering questions in the senate when telephoned with the news at 3.30pm on Thursday. Although his stocky frame has shrugged off many political crises since he came to power in 1991 he knew immediately that he was in serious trouble. Dehaene fled the parliamentary buildings, taking the justice and interior ministers with him and was holed up in the government offices.

The sitting of the lower house was suspended and for the next three hours deputies milled around in the corridors, swapping speculation and rumour with journalists.

The impression of political incompetence was compounded by the chairman of the upper house, who announced that Dutroux had been recaptured – a claim immediately denied by the police, who were still looking for him. Dutch, French and Luxembourg police mounted checks on the nearby borders. King Albert II cut short his holiday.

At 6.20pm Dehaene returned to parliament to announce the resignation of the justice and interior ministers. He had barely delivered the first sentence of his statement when he was interrupted by news of Dutroux's recapture and retreated once more to the government buildings. An hour later he returned to parliament to describe the day's events as "incomprehensible and inadmissible".

The sacrifice of two ministers was, under the circumstances, the least Dehaene could get away with as members of his own coalition bayed for blood. Ministerial resignations are rare in Belgian politics: there were none over the Heysel football stadium disaster, nor over a succession of corruption scandals in the mid-1990s.

The speaker announced that Dutroux had been recaptured; the police denied it

But Dehaene's socialists are too weak to risk going to the polls before the end of their term in the summer of 1999. Either the two ministers went or the entire government resigned, which is what the opposition parties will be calling for in parliamentary debates this week.

Time and again since the Dutroux affair surfaced in 1996 Dehaene has resisted calls for ministerial resignations, but the escape from the Neufchâteau courthouse of "public enemy number one" made resistance impossible. Dutroux is an improbable threat to the state: an unemployed electrician with a conviction for child rape and a history of car theft and drugs. Yet the "Dutroux affair" that began two years ago has exposed a Belgium rotten to its political core.

Dutroux is awaiting trial for the murder of four girls whose bodies were found at his houses during 1996. The events surrounding his arrest prompted allegations of incompetence and conspiracy against the police, judiciary and politicians and led to a mass demonstration by 250,000 people on the streets of Brussels in October 1996.

The details of his crimes were unpalatable enough but they became mixed with allegations that Dutroux and his associates had benefited from political and police protection. There were rumours that Dutroux and Michel Nihoul, a Belgian businessman with links to organised crime, had organised sex parties attended by politicians and members of the judiciary who were later blackmailed.

It emerged that Dutroux had been released from prison in 1992 after serving only three years of a 13-year sentence for multiple child rape.

The conspiracy allegations were investigated by a parliamentary inquiry which concluded in February that there was insufficient evidence but that Dutroux had benefited from the incompetence of the police and judicial investigations. An earlier report by the same inquiry had highlighted divisions and lack of co-operation between local police, judicial investigators and national police.

The case encapsulates much of the dissatisfaction that many Belgians feel about the way their country is governed. At every level, bad governance is endemic and Belgians get poor returns for some of the highest tax rates in the EU. Reactions to Dutroux's escape from Belgians interviewed on national television formed a litany of discontent with government.

"It happens all the time in Belgium," said one world-weary man, refusing to get caught up in the near-hysteria. "Perhaps it's a bit surprising that it's Dutroux." Violent crime and urban riots are further symptoms of the decline of law and order. Authorities are more concerned with fighting each other for power than with exercising it efficiently or judiciously. Able and ambitious politicians know that their goal is to escape Belgian politics and carve out a career in the EU or Nato.

Dehaene's attempt to escape to the European Commission was thwarted in 1995. Instead, he has been left in the Belgian bear-pit, which is riven by the Flemish-French divide. He presides over a coalition of regional parties: Flemish Socialists and Walloon Socialists, Flemish Christian Socialists and their French-speaking counterparts. Arrayed against them are two regional groups of Liberals, plus the Greens and Flemish separatists. Precisely because of the complexity of Belgium's coalition politics, the national government is unlikely to fall.

On 28 April, Dehaene will face a vote of no confidence. But as the head of a coalition government with poor electoral prospects, MPs in his ruling majority would have to commit political suicide for Dehaene to lose. Assuming they do not, there is still the chief of police, Willy Derrider, to sacrifice to popular outrage, while the government can argue that Belgium needs at least a semblance of political stability as it enters European economic and monetary union.

A semblance is all it is. Dutroux's three-hour bid for freedom has exposed the Belgian government as bankrupt. His recapture has only postponed judgment day. ■

REACTION

'Shameful mirror of a nation's soul held up in public'

DAVID PIERSON

Crime and punishment: an internet 'wanted' poster put out by a child protection group (top); the sacked ministers (above); public protests over the murder of two young girls (left)

BY escaping, Marc Dutroux, the prisoner achieved within a few hours something Marc Dutroux the rapist and murderer never managed in all the preceding months: the sacking of two ministers.

The decision, taken by the prime minister and the party leaders, had been made before the fugitive was recaptured but was not revoked even when Dutroux was once again under lock and key, whatever protest either of the responsible politicians might have raised.

The double sacking was conceived and executed to send an immediate signal to a country fuming with indignation and shock but also to avoid putting the government and the ruling coalition at risk. A recurrent topic ever since the children's bodies were discovered and despite the successive revelations of the commission of inquiry, this secondary motive appeared crudely in the discussions and dealing that went on between the party bosses on Thursday afternoon while Dutroux was still on the run. For this reason the "sacrifice" of two ministers will not have the curative force that such a rare – very rare – acceptance of political responsibility might have had.

The escape – "inconceivable", "incredible", "unimaginable", even intellectually "impossible" – is, without a doubt, the most cruel imaginable symbol of the degeneracy of a crucial element in the apparatus of the state. It is also perhaps the climactic incarnation of the real Belgian sickness which one characterises with a single word – sloppiness – and its definition: the pathological inability to maintain a standard of vigilance the moment external pressure eases off. Add to that the atavistic tendency of the responsible politicians and certain individuals in charge of other institutions to turn their backs until the "normal" run of things is re-established, and you have ingredients which produce an impression, at home and abroad, more normally associated with banana republics.

Last Thursday's tragi-comic episode dramatically rendered null and void the thousands of hours spent by the Verwilghen commission (into the Dutroux affair) in identifying the areas of dysfunction within the system and proposing means to initiate some sort of correction.

Dutroux spent Thursday night back in prison. Two ministers went home enraged at having been sacrificed, unjustly in their own opinion. The magistrates and department chiefs may have spent a sleepless night, gnawed at by their consciences.

Ordinary Belgians, however, woke up last Friday morning far from reassured by the (re)arrest of Dutroux: bitter, indignant, discouraged, revolted, wounded and humiliated by the image that Belgium will once again have presented to the world and above all to its own citizens.

Jean-Paul Duchateau
La libre Belgique

Incompetence abetted rape of innocents

IN JUNE 1995 two eight-year-old girls, Julie Lejeune and Melissa Russo, disappeared while on a short walk near their home in Liège. Two months later two teenagers, An Marchal, 17, and Eefje Lambracks, 19, disappeared while on holiday in Ostend.

Marc Dutroux was first arrested in August 1996 after police carrying out house-to-house inquiries into the abduction of a teenager found someone who remembered part of the licence number of a van seen near the scene of the girls' disappearance. Computer matching led to Dutroux, a convicted paedophile. After hours of interrogation he told police that he would "give" them two girls. He led them to a makeshift dungeon in the basement of one of his houses in the city of Charleroi, where they found Laetitia Delheze, 14, and Sabine Dardenne, 12, abducted three months earlier. They had been sexually abused but were alive.

Dutroux then showed police where he had buried the bodies of Julie and Melissa at a property in a village southwest of Charleroi. The girls had died nine months after being abducted, starved to death and locked in the cell while Dutroux had been in prison for four months on unrelated offences.

The bodies of An Marchal and Eefje Lambracks were found buried under a shed on another of his properties.

A number of alleged associates, including his wife, Michelle Martin, have also been charged. Michel Nihoul, a property developer, is charged with kidnapping one girl and imprisoning two others. Dutroux is also accused of having murdered a suspected accomplice, Bernard Weinstein. Police said he fed barbiturates to the man, with whom he had left money to feed the girls during his imprisonment, and then buried him alive along with the children.

There was public outrage when it was disclosed that police had searched Dutroux's house three times and had even heard the children's cries, but had failed to find them and so save their lives. The authorities had been given warnings about his activities for years and had even had the house under surveillance.

Dutroux had been released in 1992, despite objections by the public prosecutor, after serving only three years of a 13-year sentence for child abuse. In October 1996 more than 250,000 people staged an emotional "White March" through Brussels to demand changes to a police and justice system seen as incompetent and corrupt. But so far, reforms have become bogged down in political wrangles.

RUSSIA

Vote for Kiriyenko or political chaos

Askold Krushelnycky
MOSCOW

AFTER a month of bruising political fighting and intrigue, Russia's president, Boris Yeltsin, finally installed as prime minister his unpopular and inexperienced choice, Sergei Kiriyenko, triumphing over a hostile parliament and the business tycoons who had hoped to manipulate his choice.

The Communist opposition in the Duma chose at the 11th hour to cave in rather than face new elections with an uncertain outcome. Yeltsin treated the Duma members like turkeys: he gave them the choice between Kiriyenko or Christmas.

They chose his man but did so reluctantly: of the 276 who cast their ballots in the 450-seat chamber (only 432 of which are currently filled) 251 supported Kiriyenko, which gave him a comfortable margin over the 226 he needed to win but meant that there had been a substantial number of abstentions.

The stand-off illustrated how unstable Russia remains and leaves the stage set for more debilitating battles in the future. Yeltsin, however, revelled in the outcome as proof that he is still the dominant force in Russian politics.

Smug with success, the president announced on television: "I am glad that we have drawn a line under this matter, that Russia has emerged with honour after such a long government crisis, that it has not lost its authority and that consent and tranquillity have been preserved."

He presented his new prime minister with a gift: a portrait of Yeltsin, which suggests where the president thinks power should lie during Kiriyenko's tenure.

Kiriyenko plans to present Yeltsin with a list of ministerial candidates and a new government structure early this week; a new cabinet should be in place by the end of the week. He has pledged to press on with market reforms in Russia, making fiscal discipline, defence of the rouble and high growth key planks in his administration's economic platform.

The wrangle over his nomination, however, and his own inexperience hardly equip him to preside over a great reforming government. It is not easy to see what has been achieved by the ructions of the last month and until Russia's future becomes more certain foreign investors are likely to steer away from Russian markets.

Yeltsin precipitated the political drama on 23 March when he suddenly dismissed his entire government, supposedly angry at the slow progress being made by the then prime minister, Viktor Chernomyrdin, who he promptly sacked after what had been a routine meeting at Yeltsin's dacha on 21 March. He then plunged into a battle of wills with his Communist-dominated parliament. The Duma rejected him twice before succumbing on 24 April.

Kiriyenko, a 35-year-old former banker and oil company executive with only eight months' government experience, was scorned as a candidate by all sides of the Duma, from the Communists to Yabloko, the most liberal and reform-minded faction in the lower house.

The Communists and their leftist allies in the small Agrarian Party and the People's Power Party have been opposing Yeltsin all the way as he has tried to dismantle the centralised command economy. They saw the Kiriyenko nomination as another opportunity to make life difficult, demanding that he nominate somebody else or that he assign senior positions in the new government to their supporters. Yeltsin refused.

> **Yeltsin's nominee as premier was scorned by communists and liberals**

Both sides played a game of brinkmanship, calculating that neither wanted premature elections 18 months ahead of the scheduled date in 1999. But Yeltsin threw himself into the battle with vigour. The Communists had said that they were confident of keeping their dominant position and even making gains should new elections be called – a possibility that could not be discounted because of the excellent grass-roots organisation the Communists still command and the support they would get from elderly and pensionable voters frightened about their plunging living standards.

But as the crucial vote approached the Communists' allies declared they would back Kiriyenko so as to avoid new elections. They justified the about-turn by saying that dissolution of the Duma would allow Yeltsin free rein to rule by presidential fiat during the interim, up to four months, before a new ballot for the Duma.

The biggest loser in Friday's vote was Gennady Zyuganov, the Communist leader who could not line up his troops to vote against Kiriyenko in the final secret ballot. Too many feared they would not be re-elected and would lose the substantial perks of their current jobs: high salary, free state apartments, travel and the opportunity to make cash by peddling political influence.

Some MPs are even wanted criminals avoiding arrest through the immunity from legal action afforded by their parliamentary status.

Zyuganov, said to be angry and disheartened, described Yeltsin's victory as a "rape of the institutions of government".

In the end just 25 votes of the 450 total were cast against Kiriyenko. The Communist abstentions were joined by Grigory Yavlinsky's Yabloko liberal opposition, which had pledged its members would abstain on principle, but always knew that they were not going to be the pivotal factor.

Everyone claimed they were successful. The Communists claimed a tepid victory, saying they had stuck to their guns, although most turned out to be loaded with blanks.

The political drama has left most Russians mystified and has shown that transparency and accountability are still concepts strange to Russian political life, with the entire system steeped in deception and lies which in turn spawn cynicism and resentment. Few believed Yeltsin's own explanation for firing his government.

The president said it had lost the country's confidence because of its dismal performance in improving the sick economy or in tackling rampant crime and corruption. But how Kiriyenko, a newcomer in government and with few political connections of his own, is supposed to achieve anything better is difficult to understand. He is saddled with the same inefficient and corruption-riddled bureaucracy and law enforcement agencies as his predecessors. Thrusting the mild-mannered Kiriyenko on to the thuggish stage of Russian politics seemed like throwing a Christian to the lions. He then so annoyed Yeltsin by lobbying for jobs in the new government for his own favourites that the president, in a fit of pique, reportedly threatened to exile him.

The post of prime minister is seen as a formidable power base for the 2000 presidential race. Under the constitution the prime minister takes on the president's duties should the incumbent die or become incapacitated – both firm possibilities in Yeltsin's case.

But there had never been anything to suggest that Kiriyenko was the anointed successor. Until now. However, he still seems an improbable successor.

The victory over the Communists was not such a crushing or undignified defeat for them that will prevent them from grasping the first opportunity to attack Yeltsin through his new representatives in the Duma. Of those who voted for his nominee, only the Our Home is Russia, a pro-Yeltsin party now headed by Chernomyrdin, will be a dependable ally.

The others voted in his favour only for their own survival and are inimical to Yeltsin's policies and vision for the country. Some, like the neo-fascists of Vladimir Zhirinovsky's Liberal Democratic Party simply voted for Yeltsin's man to avoid annihilation at elections.

Yeltsin's real motives for plunging the country into crisis remain unclear. The noblest interpretation is that he wanted to give the Communists a decisive drubbing – and failed. Another possibility is that the entire drama was to set the stage for the 2000 presidential elections and to manouevre a candidate of his choosing into pole position.

That may not be Kiriyenko, who could turn out to be a stalking horse for Yeltsin's, acknowledged favourite, the young Boris Nemtsov, the first deputy prime minister in the last government.

Behind the machinations in the Duma and Kremlin lie the rich and influential tycoons who dominate Russia's crony capitalism. There remains a mystery over the role played by Boris Berezovsky, the most crony capitalist of them all.

Berezovsky was rumoured to have, through connections to Yeltsin's chief of staff, Valentin Yumashev, and the President's daughter and influential adviser, Tatyana Dyachenko, precipitated the dismissal of the government. But Berezovsky is adamant in denying that he had anything to do with this.

The other business tycoons whose wealth and support rescued Yeltsin's flagging 1996 presidential campaign are determined to entrench capitalism and their own pre-eminent positions in the system by choreographing the 2000 presidential elections.

Berezovsky has favoured Chernomyrdin as a presidential candidate. However, that may change as his principal loyalty is to his bank account.

In recent days he has been backing the bid of Alexander Lebed, the former general turned hard-right nationalist, to become governor of Siberia.

For the moment, the tycoons have stumbled: the president has been able to ignore their lobbying and appoint the prime minister of his choice. When they decide who their future king should be, however, the backroom plotting will begin again. ■

ALEXANDER NATRUSKIN

Figures of fun: Kiriyenko and Yeltsin puppets shake hands on the *Kukly* TV programme

PARTY LINES

Who's who in the Duma

COMMUNIST PARTY OF THE RUSSIAN FEDERATION which won 147 seats at the last elections in December 1995. It currently holds 133 seats since some members have died, some left for other reasons and by-elections have not taken place yet. Leader: Gennady Zyuganov.

For western audiences the Communist Party and its leader tone down their speeches, but meetings with Russian audiences and its own supporters brim with vintage Soviet rhetoric. Conspiracies by western intelligence agencies are blamed for the collapse of the Soviet Union. Reformist Communist leader and last Soviet president, Mikhail Gorbachev, is reviled as a traitor.

OUR HOME IS RUSSIA with 66 members. Now led by former prime minister Viktor Chernomyrdin, dismissed at the beginning of the present political drama on 23 March. Made up of deputies loyal to Yeltsin: broadly for market reforms.

LIBERAL DEMOCRATIC PARTY OF RUSSIA, an incongruously-named collection of right-wing nationalists led by brazenly neo-fascist Vladimir Zhirinovsky. In 1993 elections it startled the country by winning the largest share of seats, around 40 per cent. In the 1995 elections its popularity fell and it gained 51 seats.

YABLOKO, with its 46 members, is led by the respected liberal and reformist Grigory Yavlinsky, a former Yeltsin supporter. Draws support from liberals, intellectuals, urban dwellers and the new business community.

PEOPLE'S POWER, with 37 members, led by Nikolai Ryzhkov is mostly composed of former Communists, some more orthodox than the CP itself, and usually is aligned with the Communist Party.

AGRARIAN party with 33 (37 after the 1995 elections) members led by Nikolai Kharatinov usually votes the same way as the Communists.

There are also 24 maverick **INDEPENDENTS**.

BRITAIN

Blair faces fall-out from nuclear deal

Walter Ellis
LONDON

POLITICIANS – especially those engaged in the tricky world of international diplomacy – do not like giving hostages to fortune. Thus, when Robin Cook, Britain's foreign secretary, sought to reassure domestic opinion that the former Soviet Union was not awash with unstable nuclear waste, his words evoked some scepticism.

The *New York Times* had revealed that the United States was about to transport five kilograms of highly enriched uranium from the troubled Republic of Georgia to the British nuclear reprocessing plant at Dounreay in Scotland. Washington had been concerned since last summer about the insecure containment of the waste, which it felt could be vulnerable to seizure by terrorists or opportunists and end up in the hands of rogue states, such as Iran, Iraq or Libya. Britain was asked to help and the material was duly delivered overnight on 23 April.

The Dounreay deal had not been made public, so the newspaper article left London facing the political fall-out. Cook fended off allegations that the government was compromising New Labour's policy of open government by arguing that national security demanded that the timing of the lethal cargo's travel route should remain secret.

There would be no more such operations to remove weapons-grade nuclear material from the former Soviet Union, he told the BBC. The material concerned this time was "highly explosive," located in a country riven by civil war, which lacked any facility to deal with it. But, said Cook, "we understand that this is the last such consignment around the countries of the former Soviet Union and this is the end of the story."

End of the story? A big claim. There are at present at least 10 research reactors strung round the Commonwealth of Independent States, plus 36 in Russia. Among the countries concerned are Ukraine – which generates 43 per cent of its electricity from 16 nuclear plants – Kazakhstan and Uzbekistan.

Tony Blair's government maintained that accepting the waste was a responsible action and that the material could be used for medical purposes. Dounreay, currently undergoing safety tests, will need modifications to handle the Georgian cargo, said the UK Atomic Energy Agency, but doubters were assured that it could be processed safely.

Allegations of deception are in the air. The idea of reprocessing weapons-grade waste for medical use has, for example, been described in some quarters as "farcical". France reportedly refused to take the material. If Downing Street had informed parliament of its decision after the event – as it maintained that it planned to do – then all might have been well. Instead, the leaked report has left the impression of a furtive arrangement, organised at President Clinton's behest and without legitimate public discussion. ■

GERMANY

In bed with the man of destiny

Tony Paterson
BERLIN

EVEN before he's had a crack at the top job, much less won it, Germany's Social Democrats (SPD) are starting to get sentimental about Gerhard Schröder.

Bodo Hombach, his bullish campaign manager, ascribes near-Churchillian qualities to the most popular Social Democrat since Helmut Schmidt and the man they pray and believe will lead them back to power.

"Gerhard Schröder is a figure of destiny. He will push the mountains of files on his desk on to the floor and get up and act when the time is right and that time is now," he insisted.

The SPD may like to propagate the idea that it is about to win an absolute majority, but reality suggests otherwise. The unthinkable is slowly surfacing as a distinct possibility: that the conservative Christian Democrats (CDU) could yet cling to power after an election by throwing Helmut Kohl overboard and sailing on under Captain Schröder in the first "grand coalition" since 1969.

Throughout postwar German history, the SPD has either been dependent on the support of the small liberal Free Democratic Party (FDP) to stay in government or has joined in a grand coalition with the CDU.

But 16 years of conservative rule have changed Germany's political map. The once influential FDP has ditched traditional left-oriented liberalism and taken up the American-style free market neo-liberal cause. This has frightened off many old-fashioned liberal voters and caused the party's popularity to nosedive. It can no longer be relied upon as a prospective partner in Bonn. This leaves the SPD with two alternatives after September: join forces with the Greens, which have effectively replaced the FDP as the third party, or opt for a grand coalition with the CDU.

After several recent gaffes by the Greens, Schröder rather let the cat out of the bag. He said the Greens were a "party unfit to govern" and described the possibility of an alliance with the CDU as "not the worst of all worlds". That alone would suggest that privately, he is committed to the idea of a grand coalition with the SPD as senior partner and himself as Chancellor. But he contemplates such an option at his peril. Grand coalitions are, unsurprisingly, messy affairs. Germany's last one was from 1966 to 1969 when the CDU, under Kurt Kiesinger, was the dominant partner.

The coalition collapsed after only three years with the CDU unable to implement most of its policies. Willy Brandt's SPD, having gained from its high-profile junior role, won power in the next polls. The CDU now seems to be rehearsing these same tactics.

Kohl is becoming an increasing liability and the party wants to rid itself of him after the election. The left-wing former CDU general secretary, Heiner Geissler, has even demanded a timetable for the handover to successor designate, the parliamentary leader, Wolfgang Schäuble.

If he gains the Chancellorship, Schröder must then also deal with left-wing party leader Oskar Lafontaine, who still has majority backing in the party and would not sit comfortably in bed with the CDU. Being attacked by CDU grand coalition partners and the left of his own party could make the "man of destiny's" tenure in office surprisingly short. ■


EPA

Smell a rat? Wolfgang Schaüble (left) and Theo Waigel (right) try to drum up support for the CDU

LEIPZIG

Schröder gives party a glimpse of heaven – cash permitting

IT LOOKED good on television: to the strains of a loudly sentimental, American-authored rock music anthem entitled "Ready to go", Germany's Social Democrats (SPD) crowned Gerhard Schröder as chancellor designate in Leipzig earlier this month.

Yet the SPD's programme, with which the party hopes to sweep to a landslide victory in Germany's 27 September general election, is low on content.

It has since emerged that the party's general election signature tune was pinched from the theme music of the Oscar-adorned American blockbuster movie, *Titanic*. Doubtless the party faithful hope that their electoral programme will hit one iceberg fewer than the eponymous ocean liner.

Allen wohl, niemand weh – SPD (Good things for all, nobody gets hurt – SPD) is how one nominally pro-SPD newspaper described the party manifesto outlined by Schröder in a rambling two-hour speech.

The key to this ambitious programme is a catch-all "financability" clause insisted upon by Schröder himself. It stipulates that none of the policies advocated by the party in the run-up to the election will be implemented if there is insufficient cash to fund them.

With that kind of proviso, the SPD is, predictably enough, able to promise voters a social democratic heaven that conveniently blends the traditional socialist philosophy of the party leader Oskar Lafontaine with Schröder's supposedly business-friendly approach. If there is the money to pay for it, it would look like this:

JOBS: the SPD seeks to resurrect the so-called alliance for jobs of unions, employers and the government in an attempt to reverse Germany's worst unemployment level since 1932. The scheme was tried and dropped by Chancellor Helmut Kohl's coalition in 1996. The SPD says it also wants to make job creation a yardstick by which all its policies are measured. The social safety net should function as a "trampoline", bouncing the jobless back into work through retraining.

EMPLOYEE AND PENSION COSTS: the party is committed to restoring employee benefits which were axed under Kohl to cut costs. Full pay will be restored to workers on sick leave; legislation protecting employees from dismissal will be brought back. Companies not taking on sufficient numbers of apprentices will be financially penalised. Planned pension cuts will not be implemented. Curbing existing plans to extend shop opening hours is also hinted at.

UNIT LABOUR COSTS: there is a broad commitment to cut unit labour costs, one of the main reasons for lack of foreign investment in Germany, through a 35 per cent company tax that will apply to all businesses irrespective of size. The aim is to bring company tax down to an "internationally competitive" level.

TAX REFORM: the SPD aims to cut the bottom tax band to leave average families with DM200 ($111) more to spend each month. It is still undecided on top tax rate levels.

ENERGY TAX: the SPD wants to encourage the introduction of the energy-saving vehicles able to travel 100 kilometres on three litres of fuel. But, in deference to the powerful car industry lobby and voter opinion, outraged by the radical proposals of their putative Green partners, it opposes energy taxes that would unjustly "penalise" car owners.

BANKS: the party aims to encourage banks to end their tight-fisted practice of refusing credit to would-be investors under all but the strictest of terms by means of a "venture capital" programme.

THE EURO: the SPD is committed to harmonising taxes and social welfare standards throughout the EU to ensure that the currency and the union itself avoid the collapse they say otherwise threatens.

TONY PATERSON

WORLD CUP

Ticket hotline leaves fans out in the cold

Dominic O'Reilly

IT WAS inevitable that the French would find a way to keep the World Cup tickets for themselves, whatever the pressures from foreign football associations, football's world governing body, Fifa, the European Commission and all.

In a grand gesture, the French organisers, the CFO, magnanimously agreed to put the last 110,000 seats for this summer's football fiesta on open sale by telephone on a first-come first-served basis, at a certain time on a certain day. This was, of course, after they had sold most of the rest of the tickets to the French public on a restricted basis, leaving foreign supporters fuming.

So at 7am on 22 April the lines opened. There were an estimated 20 million calls – 15 million from Britain alone. Almost nobody got through. Those who did felt as though they had won their national lottery; statisticians pointed out that the odds against success were of the same order.

At least the British telecommunications companies had the foresight to set aside a limited number of lines for the calls in order to avoid jamming up phone traffic to France for the day. Only 50,000 calls from Britain were routed to France. The Dutch, on the other hand, did not take any precautions, and by the afternoon their phone system had collapsed under the weight of calls to the designated number.

Then it emerged that of the calls that did get through, 70 per cent were made from France, defeating the whole point of the exercise. It was little wonder that the French once again triumphed. Of the 90 operators handling the calls – considerably fewer than would normally be available for a medium-sized television phone-in – 30 were dedicated to dealing with French customers.

The CFO admitted that most of the 15,000 tickets sold on the first day had gone to French buyers.

The hotline system, they said, was "working very well", in spite of the fact that even when callers did get through to the queuing system, many were cut off before they had a sniff of any tickets.

Predictable huffing and puffing followed. Football supporters felt cheated, and said the hotline was nothing more than a public relations exercise.

Sepp Blatter, secretary general of Fifa, admitted that the system was wrong and that it would be changed before the next World Cup in four years' time.

Karel Van Miert, the European Commission's competition commissioner, whose department approved the distribution system last year, repeated his threat that the CFO could be fined.

A group of MEPs still want to take the organisers to court in Paris. They want 712,484 tickets, earmarked for French football clubs and local authorities, put back on sale. They are also asking for damages and a penalty of Ffr1 million ($166,000) for non-compliance if the CFO refuses to bow. No hearing is likely before 20 May and, given the likelihood of a CFO appeal, there is little chance of anything happening before the tournament kicks off on 10 June. That leaves most of the tickets in French hands while the rest of the world wears out the redial buttons on their telephones. ■


JACK GUEZ

French connection: getting a ticket was as likely as winning a national lottery jackpot

CyanMagYelloKey

MEDIA ■ Gus Fischer, the head of Axel Springer Verlag, plans to overhaul the German publishers. In an exclusive interview he reveals his strategy

REINVENTING SPRINGER

Eric Culp
HAMBURG

STANDING on the bridge of the great ship Axel Springer Verlag, new captain Gus Fischer has a grand view of the Hamburg harbour. His office, which he inherited from his predecessor, not only has a nautical decor. The building itself is famously designed, to the late Axel Springer's specifications, as a great ship. Springer oriented it with its bow pointing inland, but Fischer's office is at the rear of the building, with a commanding view of the Hamburg dockyards and the promise they offer of a world beyond.

Fischer, 59, has been chief executive only since January (he was previously a director of Ringier AG and before that he was a senior courtier at the Court of the Sun King as chief operating officer of Rupert Murdoch's News Corporation) and he has already started rocking the boat. First, Fischer slapped a hiring freeze across the entire operation. He also slashed the court of executives reporting to him directly from 56 to a dozen.

This is only for starters. At an internal management meeting at the beginning of June, Fischer will announce a new vision for Springer to his senior executives. It is to convert the company from a German publisher to a global media company, expanding both to the east and the west. Simultaneously, Fischer also plans to alter the culture of a company that has recently looked staid and strategically confused.

Springer is overdue for a major course correction. Its founding genius, Axel Springer, died in 1985, and little has changed since. Although located in a city that was an integral component of the Hanseatic League, arguably the most outward looking city in Germany, Springer remains a publishing company (and little more) that is quintessentially German (although it has dabbled in France, Poland, Austria and Switzerland). The scale of the lost opportunities is staggering. Building his great publishing empire after the war, Axel Springer turned it into the largest publishing house on the European continent. His flagship publication was the *Bild Zeitung,* a daily tabloid in which the headlines are sometimes bigger than the stories. The paper has a daily circulation of 4.5 million, while its readership is 11 million.

But Springer, although a great journalist and visionary, was perhaps not the best of businessmen. At one time, his company dwarfed Bertelsmann, now it is one-third the size.

Fischer was appointed by Axel's widow (his fifth wife) Friede, 53, who controls the firm with slightly more than 50 per cent of the shares. The remainder are held by members of her family and another German publisher, Leo Kirsch, who has troubles of his own. Fischer is relishing his days in the sun after being banished from the Court of King Rupert.

Within weeks of Fischer's appointment, he was chatting with the Chancellor, Helmut Kohl, and listening to Germany's finance minister, Theo Waigel, on the phone urging Springer publications to back the single currency more enthusiastically. (Swiss-German Fischer is sceptical about the euro, believing it to be a premature step towards a desirable goal.)

Fischer also met Tony Blair, at 10 Downing Street. (He knows the British prime minister from from his days as Murdoch's man in London and facilitated their first meeting.) Fischer lobbied Blair for a more liberal media policy in Europe. But it will take more than good contacts to change Springer's tack.

Springer's non-German sales comprise a mere 12.8 per cent of expected 1997 turnover of DM4.6 billion ($2.5bn). The company is firmly rooted culturally and linguistically in its domestic base. It is late to the game of globalisation, at a time when acquisitions are expensive.

Fischer believes nonetheless that he holds some important cards. One is the fortnightly *Computer Bild,* the largest computer magazine in Europe, with sales of more than 900,000 in Germany. "We think we can duplicate this in France," Fischer says. Springer is also considering a foray with the magazine into Poland in the autumn. Eastern Europe is a priority.

"It's just natural for German companies to go east after the break-up of the USSR," he says. A cloned version of the woman's weekly, *Bild der Frau,* is already the most-read magazine in Poland. Car magazines based on *Auto Bild* are sold in 11 countries; in England the title is called *Auto Express.*

Fischer has not lost his appetite for British newspapers. "I had my eyes on the Express group," Fisher said, perhaps understating his hunger to get his hands on a British tabloid. Lord Hollick's United Media refused to sell because it considers the ageing daily and its Sunday sister to be part of its core business. The purchase of a British tabloid would be ironic: after the war Axel Springer would cut and paste together the *Daily Mirror* in his London hotel room, in the process of inventing *Bild.* Fischer was once chief executive of *The Sun* and *News of the World*, Britain's biggest-selling tabloids.

Electronic media, with non-consolidated sales of only DM66m, is another unexploited opportunity. The company already owns 40 per cent of Sat 1 and a local TV station in Hamburg but Fischer wants to focus on content, not distribution, with talk shows, news and information programming ,perhaps based on successful print titles.

This sounds a good tactic in Germany's media market as Sat 1 continues to lose money: it reported a 1997 loss of DM165m on advertising sales of DM2.6bn, though it is expected to become profitable this year.

Springer's electronic media operations, which include Internet and online production studios in Hamburg and Berlin, are small beer. This is about to change but for the moment, the division head doesn't even sit on the board. By contrast, Springer's newspaper sales in 1996 topped DM2.6bn while magazines generated DM1.2bn.

Fischer is hoping that the EU's competition commissioner, Karel Van Miert, will approve the planned digital joint venture between Bertelsmann and Kirsch, whom he sees as an ally. Despite the recent financial troubles afflicting Kirsch's group, Fischer is unstinting in his admiration for him, describing him as a "pioneer" cut from the same cloth as Murdoch.

But Fischer's support for the digital television alliance is more than personal. He thinks a common digital platform, with access to competitors, is a *sine qua non* for Germany to play in the global media first division. It would be "crazy" to obstruct such a development because only scale can assure that the huge costs of launching digital can be properly absorbed, he argues.

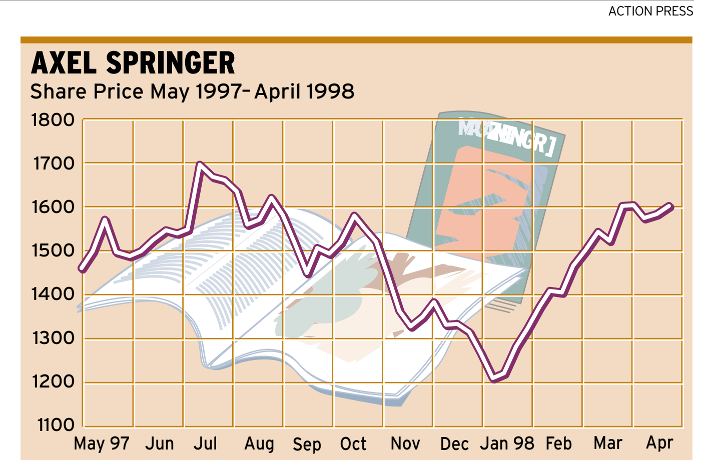
ACTION PRESS

ULLSTEIN

On the town: Friede Springer and Gus Fischer. Founding father: Axel Springer (top right) at the presses

AXEL SPRINGER

	1996	1995	1994
Turnover ($m)	2,456.7	2,297.9	2,201.7
Profit ($m)	91.05	78.9	66.1
Margin (%)	3.7	3.4	3.0



Fischer says the European Commission must allow the creation of a "competitive counterbalance" to American broadcasting power at the European level or, he warns, European Union officials will get exactly what they are fighting against: a continuing Americanisation of media culture across Europe. If Van Miert scuttles the Bertelsmann-Kirsch deal, then Brussels is opening the way for Murdoch, Time-Warner, Viacom and others to link up with Kirsch, Fischer says.

While he plots his campaign to expand the company outwards, Fischer still has a few holes to plug in the existing Springer organisation. He has frozen hiring to reduce the company's 12,000-plus workforce through attrition (British-style mass sackings are not an option in Germany), though he will recruit for new businesses and to plug specific gaps.

"The company needs more competent international managers," Fischer opines. Those who know Fischer expect him to also strengthen the company's financial management team.

Controlling costs will be the less glamorous part of Fischer's job, but it is plainly a high priority to give the company the leverage it needs to grow faster. While Springer has a clean balance sheet and cash in the bank, it also has a prestigious but perennial loss-maker on its product portfolio.

Die Welt, the company's mainstream broadsheet, has a paltry circulation of only 215,000 and has lost money since Axel Springer bought control of it from the British in 1953. Patience may be a virtue but 45 years seems a long time to wait for a profit.

Other traditions of the Axel Springer era also linger, although not all with an impact on the bottom line. Enlisting journalists are still forced to agree in writing to respect the group's policy. A statement of Axel Springer's ideas requires reporters and editors to "further the unification of Europe", "reject all forms of political extremism", "uphold the principles of a free social market economy" and "promote reconciliation of Jews and Germans and support the vital rights of the state of Israel".

How can Fischer fix *Die Welt*? The return of the German capital to Berlin may just be the impetus *Die Welt* needs to mount a serious challenge to *Die Zeit* and the *Frankfurter Allgemeine Zeitung,* its main broadsheet competitors. It claims to be the only national newspaper based in Germany's largest city, and once the politicians move in it will have plenty of grist for the mill.

"Berlin is the future," Fischer says, echoing the sentiments of Axel, who built the company's main headquarters right on the Berlin Wall in the mid-1960s to show his commitment to reunifying the country. Springer already has four newspapers in the city and Fischer said he is also considering participating in television operations there.

Other reforms are designed to improve productivity and profitability across the board. Fischer has ordered his production and distribution divisions to look for "cross-pollination" opportunities and he is changing the company's culture of "upward delegation". He wants to move decisions downwards in the hierarchy, encouraging managers to take decisions for themselves, even if they sometimes turn out to be the wrong ones.

"Germans are afraid to make mistakes," he says. "I would rather have someone make 10 decisions – five good and five bad – than make no decisions at all."

The appointment of Fischer to lead Europe's largest newspaper publisher may not be the best news for Murdoch as he pursues his ambition to expand on the continent. Fischer's relationship with his former boss is strained at best; the two have not spoken since Fischer left News Corp.

Analysts have suggested that if Kirsch fails in his digital link with Bertelsmann, then Murdoch might have an opening. With Fischer steering Springer, and staying close to Kirsch, that seems unlikely.

But Springer has more fundamental problems than seeing off predatory forays by Murdoch. The company looks strong, but not overwhelmingly so. An analyst at a Frankfurt bank says Springer is well-armed for purchases: "The company is cash strong." Yet Springer remains a cruiser in an ocean of battleships.

"It is too small to become a global player," the analyst says, citing Springer's low-growth newspaper and magazine roots. A purchase of a major US publisher, such as Bertelsmann's of Random House, looks far-fetched. A major move into new media, however, could be the way that Springer could put on enough speed to ram its way forward, even though the start-up costs for Internet services will initially drag on the company and risks are high.

The handful of those outside the magic circle of Friede, her family and Kirsch, who own shares in Springer, had better hope that Fischer's energy will be enough to promote the company into a more important league.

Fischer certainly talks the talk and Springer has loads of publishing know-how. *Bild* has 30 editions and 21 offices and set up a Sunday distribution system in Germany from scratch.

Fischer insists these skills remain important even in an age of digital media. Reading is actually increasing in America, he notes, even as television viewing is declining. There is still plenty of life left in the newspaper business, he insists.

But cutting the anchor chains and steering the SS Springer forward will take more than publishing skill. The sailing ahead is going to be rough. ■

GRAHAM TROTT / KATZ

TRANSPORT

Can new Labour make Britain's railway service run on time?

Darius Sanai

IT IS eight o'clock on a rainy Thursday morning in southern England and hundreds of commuters are crammed on to a decrepit railway station platform, waiting for a train that is 15 minutes late and still far from materialising. When it does arrive, 20 minutes late, it is so full that the 45-minute journey to London on the 30-year-old train is a misery of packed bodies.

The train operator offers no apology. There are no staff visible on the train to offer an explanation. On arrival at Waterloo staff appear not to care less about their passengers' plight.

The slackness of the operation, a throwback to the pre-Thatcher days when Britain was in the hands of grim public sector unions, carries all the hallmarks of a shoddy state-run transport service. But the 8.04 from Uckfield is no hostage to nationalisation.

The train is run by Connex South Central, a private company owned by Vevande, formerly France's Compagnie Générale des Eaux. The experiences on this train are grimly typical of Britain's privatised rail network where executives of the train operating companies, receiving huge government subsidies, have become millionaires while their passengers are treated like cattle.

The rail system in Britain, where George Stephenson launched the world's first passenger train, is crumbling. Split up and sold off to private operators by the last Conservative government, most British railway services now offer worse service than they ever did when they were nationalised.

Now the Labour government is about to unveil its proposals for getting Britain's railways back on track. Early in May John Prescott, the deputy prime minister and transport supremo, will propose new legislation announcing the creation of a new strategic rail authority which will oversee the 25 passenger train franchises, three rolling stock companies and single track owner created from the British Rail sell-off.

The question on the minds of the tens of thousands of angry passengers who have flooded rail companies and the Rail Users' Consultative Committee (RUCC), the toothless complaints body created by the Tories, is: will Labour rein in the rail companies or will it avoid offending its business support by changing nothing?

Sources close to Prescott say he is personally sympathetic to the report of the all-party parliamentary committee into the state of the railways that was published last month.

The report urged the government to take back control of the country's trains, oversee regulation, control how much government subsidy the rail companies receive – the industry is currently subsidised to the tune of £2 billion ($3.4bn) a year – and to take back a strategic stake in Railtrack, the publicly quoted company that owns the track and infrastructure.

Government policy is not likely to be so decisive.

Jonathan Bray, campaign director for Save Our Railways, a pressure group with support among local government and rail users, says the government should set itself priorities which could all be achieved without any increase in public spending. "We need to pull the rail system back together so we get seamless service between the different regions, and so trains actually connect with each other," he says.

Bray recommends that the new rail authority should be given the power to control timetables – currently each company sets its own schedules and, with certain exceptions, can cancel trains as it pleases – and says that regulation should be tightened up. When passengers complain they should be listened to, and when operators fail to meet the (already lax) targets for punctuality and service set by the privatisation regulations, there should be the risk of punishment.

"There is no reason why contracts for franchises should not be amended or withdrawn as a last resort," says Bray. When the contracts come up for renewal, local authorities should be able to bid for them at market rates, he adds.

Operating company executives have become millionaires; passengers are treated like cattle

Oxford University's Professor Bill Bradshaw, a special adviser to the parliamentary committee, says many of the problems arose from the Conservatives' hurried privatisation and their anxiety that the markets would not accept anything but the most favourable conditions for investors.

"The franchises [to operate the railways] run for seven years and there is nothing to stop a company using it as a cash cow, letting services run down in the last couple of years and running up huge profits," he says. Already, investors who took a punt on the railways have chalked up enormous returns: Andrew Jukes, managing director of Eversholt, one of three companies which bought the rolling stock from British Rail, personally picked up £16 million from a £110,000 investment when Eversholt was sold last year.

The problem facing Prescott is that his boss, Prime Minister Tony Blair, is anxious not to do anything to alienate the business community – as pulling the railways back under government reins would do. But Blair should not lose sight of the long term. Right now, voters blame the Tories for the great railway debacle. By the time the next election comes around, they will be blaming his government. ■

MEDIA

Murdoch's separation anxiety

Samantha Fairfax
Los Angeles

IS the Court of the Sun King about to undergo its own version of the war of the Spanish succession? If so, will Rupert Murdoch, the media Bourbon, emerge from the fray with his dynasty intact? These are among the questions raised by the surprise separation of Murdoch and his wife, Anna, after 31 years of marriage.

"If you had asked me last week whether I thought such a thing was possible I would have bet everything I owned that it couldn't happen," said one News Corporation man last week. "I'm glad you didn't ask."

In fact, there were clues. Anna Murdoch has long felt uncomfortable at her peripatetic husband's inability to settle down. She has long felt more comfortable at the couple's home in Los Angeles, while he has preferred the restless energy of New York and waking up in a different time zone every morning.

The separation comes at a delicate moment for Murdoch. His grand ambitions to expand into continental Europe have been thwarted for the moment. His recent decision not to publish the memoirs of the former Hong Kong governor, Chris Patten, was a public relations setback that some critics believe has seriously damaged his reputation (though others think he'll shrug this off as he has previous embarrassments).

His efforts to get into satellite broadcasting in America have failed and his satellite ventures in Asia and Latin America have thus far been without profit. Even so, the shares of News Corporation, 30 per cent owned by the Murdoch family, have been performing strongly recently after a long period in the doldrums because its established newspaper, TV and film interests have been generating huge revenues.

But the split with Anna is more than a painful personal setback. It is also a potentially serious business problem.

News Corp has been run by Murdoch as a family business. But what is the future of a family business when the family is divided?

The lethal threat to Murdoch's hegemony at News Corp would be a divorce. Anna is a devout Catholic but were she to overcome her religious scruples, Rupert would be in trouble. Under California law, Anna would be entitled to half of everything in the marriage, which is a lot.

The couple own a luxury yacht, a Spanish-style mountain-top estate in Beverly Hills and other homes in New York, London and Australia. It is not clear, however, if she would walk away with half of the Murdoch share in News Corp itself since most of the family's holdings are in trusts for the benefit of the couple's children.

It had always been assumed that Anna would step into his shoes at News Corp, though only pro tem, were Rupert ever forced to step aside through ill-health or if he died suddenly (he is 67 and takes care of himself). Unless their differences are patched up this must now be unlikely. But few outside shareholders will be ready to put their confidence in a succession by any of Murdoch's children.

There is known to be rivalry (encouraged by Rupert) among the three children of his marriage to Anna, especially between Elisabeth, 30, the daughter based in London at BSkyB, and Lachlan, 26, who runs News Corp's Australian businesses. Lachlan is known to be especially close to his father, while Elisabeth is closer to her mother.

James, 23, who runs News Corp's Internet company in New York, is not yet a significant player in wider company affairs. Rupert has recently made it plain he sees Lachlan as his ultimate successor. He has already referred to him as the "first among equals" in the sibling stakes. Whether his dynastic ambitions can be fulfilled is another matter. Without Rupert Murdoch in charge, however, the very logic of News Corp could be queried, according to many who follow the company.

"There's no doubt," says Gus Fischer, former chief operating officer of News Corp, now chief executive of Axel Springer Verlag, "that News Corp is worth more pulled apart than stuck together."

Other observers agree that News Corp shares are subjected to a "Murdoch discount". The scale of this is difficult to quantify, although JP Morgan has tried. It estimates the demerged value of News Corp's consolidated businesses at $20.3 billion, against News Corp's current market capitalisation of $14bn.

Including other non-consolidated businesses, such as BSkyB, and the total value of News Corp's interests is closer to $32bn. JP Morgan estimates that the 20th Century Fox film studio alone is worth $3.6bn, the television stations $6.5bn and the British newspapers $3.3bn. News Corp's 40 per cent share of BSkyB is worth another $5bn.

"When people talk of the 'Murdoch discount' they are typically referring to the fact that the component parts of the company are worth more than the whole," said Matthew Harrigan, the vice-president of equity research for JP Morgan Securities in New York, who has written three reports on News Corporation since last August. "It reflects confusion about Murdoch," adds Harrigan, who says the undervaluation is caused in part by concerns over some of Murdoch's business practices.

"Some analysts are concerned about his activities and investments, but to defend [Murdoch] a little, most of his deals have actually worked," said Harrigan. "The second element of the 'Murdoch discount' is the dynastic element to the firm and the fact that Lachlan, who is just 26, has been anointed as heir apparent over the heads of senior News Corp colleagues."

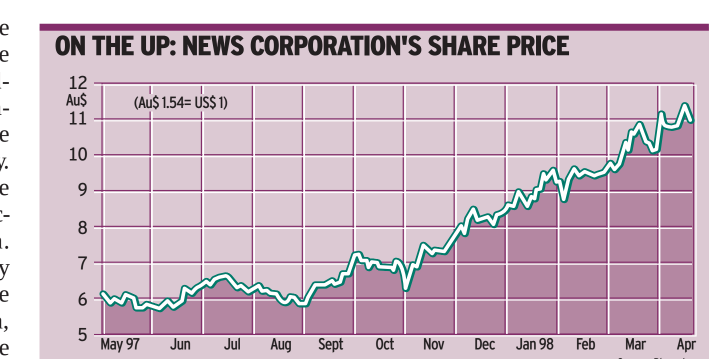
A schism in the family raises a long-shot question about his ability to hang on to control in the shorter term. For the moment, Anna Murdoch is to remain on the News Corp board, suggesting that as far as Murdoch is concerned, expect business as usual. Whether this is a durable foundation for the continuation of the Court of the Sun King of Murdoch could depend on whether the split remains amicable or turns sour.

Last week News Corp was buying into the Russian telecoms market. It was a typical Murdoch move: a bold foray into unknown territory, heedless of those who argued that it carried great risks with little guarantee of an upside.

For Murdoch this is bread and butter stuff. He has made a specialty of going boldly into businesses where others fear to tread and has more often been right than wrong. ■


ALPHA

Partners: Rupert and Anna Murdoch in happier times



ELECTRONIC COMMERCE

Net savings when you buy US goods

Simon Reeve

FEW battles are more important than the one Europe is currently losing to America for control of the Internet. Yet instead of trying to catch up through conventional means, European businesses are crying foul and considering taking legal action in a desperate bid to prevent US retailers from undercutting their prices on the Internet.

The first battle is now being fought over CDs. European record companies, which sell their products in the EU at inflated prices, are furious that American Internet firms such as CDnow and Music Boulevard are taking a growing slice of their business. The British Phonographic Industry has asked lawyers to examine whether legal action can be taken against American firms supplying records to European customers on the grounds of copyright infringement.

The move exposes not only the high prices of consumer goods in Europe, but also the speed with which American business is capturing Internet commerce. A new report by the US Department of Commerce, *The Emerging Digital Economy*, says that the Internet is the new powerhouse of the US economy, and it alone is responsible for a widening of the economic gap between America and the rest of the world.

The report will have come as no surprise to European record companies, but as American firms increase their online presence, European businesses may soon be facing similar price competition on a range of goods such as video cassettes, computers and perhaps even cars, all of which are cheaper in America.

Book sales are already being examined, with the British Publishers' Association warning foreign Internet booksellers that they could be infringing copyright by exporting books to Britain. "They can't beat them on price, so they are trying to close down the market ... we will see more of this protectionism in the Internet age," said one London-based analyst who specialises in electronic commerce.

The cost of CDs in America makes a mockery of European prices. In the space of 10 minutes *The European* bought six new music CDs, including Madonna's new album *Ray of Light* and the latest album from Roni Size, an award-winning musician from Bristol, for $93.79 from CDnow, an American online trader which promotes itself as the "largest music store in the world". Even with a hefty charge for delivery included in the price, the saving was significant: up to $45 on British album prices. Essentially, we bought the CDs at half price.

The attraction of buying music online for European consumers will increase later this year when Music Boulevard opens a new distribution centre in the Netherlands which will lead to lower delivery charges (which constitute a large part of the bill when buying from America).

European businesses should be worried, because the Internet revolution exposes not just transatlantic inequities. Huge price differentials for goods also exist between EU member states. Cars are perhaps the most obvious example: British customers who are prepared to travel to the Netherlands to buy a new Alfa Romeo 156 1.8L can save themselves thousands of dollars. With a Dutch price of $18,734, and an import duty from British Customs & Excise of $3,278, the total cost of the new Alfa would be approximately $22,000, a saving of nearly $9,000 on the British price.

Admittedly, few people would currently be willing to buy a car on the Internet, but this will change as the Internet gradually becomes an accepted part of everyday life. As this happens, the Internet will help to drive down prices, taking over the role of weak regulators. There has only been one recent high-profile case of the European Commission taking action against high car prices: at the beginning of February Volkswagen was fined $108 million by the European Commission for obstructing Germans from buying cheaper VW cars in Italy. VW had told its Italian dealers they would be "punished" if they allowed Germans to buy the cars. The EC's ruling has caused panic among car manufacturers, who have spent years building and protecting an outrageous European pricing system which means cars can be up to 40 per cent cheaper in a neighbouring state.

Many European businesses still have not realised just how the Internet could destroy this type of pricing structure, because Internet consumers have the knowledge and ability to buy products from across the world. European firms still think of the Internet as being the province of computer-philes and students, while in America it is revolutionising business.

According to the Department of Commerce, use of the Internet is doubling every 100 days and electronic business should reach $300 billion by 2002. The report states that there are 100 million Internet users around the globe, of whom 67 million are American. Even with this conservative estimate of the total size of the online cybercommunity, the potential of the Internet is now apparent.

The first users of the Internet delighted in their ability to purchase cigars, flowers and other low-cost goods over the wires. But the Internet is maturing, and the American economic boom is now not only being driven by Internet aficionados, nor are they only buying records and books. Charles Schwab, an American share trading firm which has expanded its business onto the Internet, now has more than 1.4m electronic accounts containing more than $100bn in investments and savings.

American firms are reaping the rewards of their early investment in Internet technology. At the beginning of 1997 Dell computers was selling $1m of computers over the Internet every day. Dell has now confirmed that towards the end of last year the figure had risen to more than $3m and rose to $6m during December. It is a staggering growth in electronic commerce and Dell predicts that more than half its sales will be over the Internet by 2000.

Other benefits for the firm include savings of "many millions of dollars" by having basic customer service and technical support on the Internet, while more than 50 per cent of the small businesses who are using their Internet service have never bought from Dell before: they are capturing the market from their European and other American competitors.

There have been further beneficial effects for the American economy. The Department of Commerce report states that it is thanks to the Internet that American inflation in 1997 was as low as two per cent (without the net it would have been 3.1 per cent, says the report). The IT industry has been responsible for more than a quarter of the real economic growth in America over the past five years .

The report predicts that IT and electronic commerce will drive economic growth for many years to come. While America races ahead, Europe is lagging behind. European firms are not moving quickly enough to capture Internet business and their legal challenges to cheaper American competition are a desperate rearguard action. The Internet is the ultimate buyers' market, and as its use expands, price differences must surely disappear. ■

Sound investment: Europeans buying CDs over the Net from American sites, even paying hefty delivery charges, can save up to 50 per cent of the price

The Internet is doubling every 100 days and turnover will soon reach $300bn

YOU READ IT HERE FIRST

PHARMACEUTICALS

Merger-phobia handicaps French

Cath Blackledge

CAN YOU name a French pharmaceuticals firm in the top ten of global drugs companies? No? But this is a trick question – there aren't any. Switzerland has two, Britain also has a couple and America is dominant with the remaining six. France has none.

French drugs firms are being left behind. They are reluctant to merge with each other, fearing the loss of independence and the ensuing slashing of French jobs. But they are also afraid of the cross-culture clashes that can occur with transnational mergers. However, they stand to find themselves squeezed out of the global drugs industry if they cannot, or will not, operate on a worldwide basis.

At the end of 1996, as the last wave of mega-mergers and acquisitions ebbed, France's second-largest drugs company, Sanofi, timidly announced that, yes, it too needed to find a partner. After Sanofi's bold statements, fellow French drugs firm, Synthélabo came out of the closet, saying that it too could be helped by a partner and for both of the companies the ideal suitor would be French. The spotlight shifted to France's largest drugs company, Rhône-Poulenc: would it get involved? Two years later the rumours rumble on, but the firms can't appear to make their minds up.

It is time they did, because France's drugs firms are too small and too insular to survive alone. For French (and other European) drugs firms the critical issues for long-term survival are significant exposure to the American drugs market – the world's largest – and having a well-stocked portfolio of new drugs in development. France's top three drugs companies – and its smaller players such as Fournier, Pierre Fabre and Servier – all fail on one or both counts.

Rhône-Poulenc's pharmaceuticals arm, Rhône-Poulenc-Rorer, has some exposure to the US market, but with the exception of its new antibiotic, Synercid, its pipeline of drugs in development looks bare. However, the group does appear to acknowledge the need for change, and has said that transforming its pharmaceutical operations is now considered to be a top priority. Rhône-Poulenc's chief, Jean-René Fourtou, says he would prefer that the group merged with a similar sized company rather than make an acquisition – but only if it is necessary.

Synthélabo, 56.6 per cent owned by the beauty group, L'Oréal, is in a worse position. Firmly rooted in France, its only exposure to the American market is through a joint venture with Searle, the drugs arm of life sciences giant Monsanto. It claims it will be able to survive as a niche player – focusing on drugs for the treatment of diseases of the central nervous system. Right now, it says, it is concentrating on the European market, but it will target the American sector in the future – which sounds like procrastination. "Long term, companies such as Synthélabo are probably not sustainable," says Bill Blair, an analyst at Flemings.

Sanofi is in a slightly better position. It has a number of aces up its sleeve in the shape of a promising pipeline of drugs in development. But its lack of world stature forced it to hand over two of its key medicines, in a sales and marketing deal, to the American giant Bristol-Myers Squibb. Sanofi simply did not have the necessary marketing clout to sell the medicines in America, so the forecast $1 billion in sales over the next five years from each of the drugs – Avapro and Plavix – will now be split between the two firms.

A three-way mega-merger between Rhône-Poulenc, Sanofi and Synthélabo has been touted as one way out of their plight. It would create a top ten ranking pharmaceuticals firm, but, critically, it would not significantly strengthen access to the key American market. The best way forward for all three firms would be to find an American partner which is eager to improve its European marketing expertise, gain a strong European sales force and expand its product portfolio. For Synthélabo, extending its sales and marketing partnership with Searle into something more permanent is one possibility.

For Sanofi, the situation is a little trickier. "Sanofi is essentially married to Bristol-Myers Squibb, which would not be terribly happy about Sanofi getting married to someone else," says Blair; but whether or not it would choose to fully consummate its relationship with Sanofi when it already has access to the French firm's key products is uncertain.

The question is: when will France's pharmaceutical firms see sense and take action to control the next period in their histories? Passivity or reliance on a niche position are not recommended. Now is the time to be proactive, carving out their position in next century's top ten drugs league, and redefining the French pharmaceuticals sector. ■

They will be squeezed out if they cannot operate on a worldwide basis

BROADCASTING

Marriage of convenience

Melanie Blen
WARSAW

POLAND has the potential to be one of Europe's biggest television markets. It currently has 12.3 million colour households but the market is growing fast as more Poles upgrade from their communist era black-and-white sets to colour, satellite and video. The country is also making a great leap into digital broadcasting.

Canal Plus, the French pay-television operator, has agreed with @Entertainment to launch a digital venture, Wizja Plus, which will go on air in September. The company refuses to reveal exactly what the line-up will be but the new venture will offer a general mix of foreign and Polish programmes. The cost to subscribers has not yet been set but it is possible that Philips, Canal Plus's biggest equipment supplier, will produce the new systems.

Poland, with a population of 40m, is already Europe's fifth-largest television market. Poles are dedicated viewers, on average watching more than 4.5 hours of television per day, even more than the Americans.

The joint venture makes sense for Canal Plus, Europe's largest pay-television operator, which is facing competition in the French domestic market and sees expansion elsewhere as the way to drive earnings growth and build on its market share – 9.5m subscribers in 13 countries.

It makes sense for @Entertainment, the Nasdaq-listed company based in Hartford, Connecticut. The venture eliminates the risk of destructive competition. Poland is one of the most competitive television markets in Europe but it is not big enough for two digital stations.

"It is better to have a marriage now than a war later," says Jakub Brzeczkowski, project manager at Canal Plus Polska.

The national broadcasting council put pressure on @Entertainment to agree on the joint venture with Canal Plus because the council would prefer to regulate a sole digital broadcaster rather than two competitors. Matgorzata Retei, head of acquisitions at Canal Plus Polska, describes the deal as a "big relief" for the government.

@Entertainment, which in Wizja already owns the biggest cable-TV provider in Poland, with 767,000 subscribers, had earmarked between $375m and $475m over five years for the development of digital broadcasting. The plan was to move quickly to get its launch in ahead of Canal Plus.

Cops and doggies: the sitcom *Police Station 13* could be a mainstay of the Wizja Plus schedule

Poland is already Europe's fifth-largest TV market

It will now pay $112m for 40 per cent of Canal Plus Polska, which has 240,000 subscribers for its existing channel, as well as buying a 40 per cent stake in Telewizja Korporacja Polska (TKP).

TKP will buy all the pay-television assets of Wizja TV for $38m, while assuming "substantially all" of @Entertainment's contracts related to its pay-television operation.

The Polish media authority, the KKRIT, still has to approve the proposal, while Canal Plus has stressed that it is subject to the signing of a definitive agreement.

To meet insatiable Polish demand for even more entertainment programming, two new terrestrial commercial stations have launched in the past year: regional channel TVN, jointly owned by Central European Media Enterprises and the Polish media group, ITI, and Nasza TV. Private station Polsat has added another channel, Polsat 2. But the mixed success of these new ventures indicates a difficult market. TVN was forced to compensate advertisers for failing to reach the audience share promised.

At least with only one digital broadcaster, Canal Plus can be sure of its competition, or lack of it.

GERMANY

Iron Chancellor who would not bend

Wolf Jobst Siedler
BERLIN

WHEN Otto von Bismarck died 100 years ago he was considered a European Caesar, not just in Prussia, but in the whole of Germany and in Austria, which at the battle of Königgrätz he had thrown out of Germany. Today, despite criticisms of some of his achievements, he is considered across the political spectrum the most important German statesman of modern history.

No other statesman, not Talleyrand or Metternich, not Pitt or Castlereagh, has such an unchallenged claim to European stature. Kings and emperors of his century have disappeared into the twilight. But the *Junker* from Schönhausen on the Elbe has remained a figure of historical greatness through the vagaries of events.

That is strange, because throughout his life Bismarck was a controversial figure. In the revolutions of 1848, he stood on the extreme right wing and played with the idea of bringing his workers to help the monarchy put down the rebellion in Berlin. The country was in such an uproar that the future king and Kaiser, Wilhelm I, had to flee to England. But later it was Bismarck, called to the office of the prime minister by Wilhelm I, who forced through reform from above, against the will of the parliament. By strengthening the army, he prepared Prussia for the wars of unification, which ended with the foundation of the German Reich in Versailles.

But he did it carefully. He kept Austria on his side in the row with Denmark for Schleswig and Holstein. He only raised the question of Austrian dominance when France had been neutralised with vague promises and compensations along the Rhine, and Vienna was caught up with Hungarian and Italian revolts. He was at his best dicing with the bonapartist upstart Napoleon III in Paris, forcing him to make the declaration of war and thereby neutralising Vienna and London. His wisdom was to see then that Germany was full. He understood and even said that it could yet lie in God's plans to destroy everything he had built up, including his German Reich. In the end, it wasn't Bismarck but the German people who changed direction. In the mid-1870s and early 1880s he was again in contradiction to the overwhelming mood of most Germans through his bitter battle with the Catholic church and the rising power of social democracy. When the new Kaiser dismissed him in 1890, the nation uttered a sigh of relief: Bismarck had been deified but his time had passed.

Shining knight: a century after his death, Otto von Bismarck's legacy of stability still survives in modern Germany

The German empire had arrived as a power player on the European stage – indeed, as the most powerful. But its position was precarious from the outset. The empire of the tsar to the east was roped into the "three emperors' league" with Austria but pan-Slavism made Russia an uncertain bedmate in the second half of the 19th century. France never acknowledged the loss of Alsace-Lorraine and remained a potential foe. In reality the multi-ethnic Austro-Hungarian Empire was its only true ally. But Austria was as threatened as the Ottoman Empire with collapse from within. Was Bismarck's mutual security treaty really a durable solution to the German dilemma?

The German Reich had to rely on the "normality of the provisional". Perhaps the older Bismarck, who tried to reassure Europe with the continual assurance that Germany had reached its limits, was only trying to win time.

His wisdom might then have been that nothing in history is truly foreseeable and that new constellations on the European stage would offer new chances. Winning time can be winning everything.

His successors tried a different policy. It was only 25 years before the policies of Wilhelm II, then those of Hitler, became globalised in order finally to break free of Germany's encirclement. Today, this striving for a "place in the sun" and the role of global power can be seen as the road to ruin. The result was world war, a first and then a second. The Kaiser's Reich became a republic and, after the second disaster, the federal republic.

Yet even in his fall, Bismarck experienced his last victory. The Reich he created through three wars in just five years has survived every catastrophe to become the most durable creation in German history. It survived a world war, then a second war and long years of occupation, to be reborn a century after his dismissal from office as a reunified state.

Bismarck united contradictory elements. He came from the world of Goethe, with his roots in the European as well as Germanic classics. He loved to cite Latin authors and quotations from Shakespeare flowed through his speeches. With the possible exception of Moltke, nobody between Goethe and Nietzsche wrote such thoroughly German prose as this Pomeranian farmer. There are few speeches of Bismarck that do not impress the reader, even a century later, with the power of his expression, from the phrase, "We will not go to Canossa," to that over-quoted line from the era of nation-states that sounds foreign in our age: "We Germans fear God and nothing else in the world." Germany has had to cope with enough fears since.

This is an edited extract from an article that first appeared in Focus

FROM THE ATLANTIC TO THE URALS

Unholy alliance points Chirac in new direction

A CURIOUS ALLIANCE between Jacques Chirac, the Gaullist president, and Hubert Védrine, foreign minister in the Socialist-led government of Lionel Jospin, has led to a marked change in French strategy in Europe, *writes Roger Faligot in Paris*.

Chirac and Védrine have jointly concluded that the time has come to downgrade the close Franco-German partnership which has been at the centre of European policy for decades and develop closer relations with fellow European Union members in the south, such as Spain and Italy.

The shift is revealed in a new book to be published later this month, *Le Monde de Chirac*, written by Hubert Coudurier, a political columnist and editor of the Brittany newspaper, *Télégramme de Brest*.

Chirac and Védrine have more in common than might be apparent at first sight. Chirac is a mainstream president of the right preoccupied with casting off the long shadow of De Gaulle; Védrine was for years the non-political chief of staff at the Elysée under the presidency of François Mitterrand and, as such was the main intermediary between Mitterrand and Chirac when the latter was prime minister during France's last period of cohabitation.

The two men developed a friendship from which has emerged the shift in policy. Despite Chirac's good personal relationship with Chancellor Helmut Kohl of Germany, the French leaders believe that Germany now wishes to return to a diplomacy more strictly in the national interest, and is coming closer to the British wish to create a vast free trade zone in Europe rather than pursue a pan-European integrationist political approach. Thus, according to Coudurier, they see a need to pursue other alliances.

According to Coudurier, the French president is also keen to foster closer relations with Britain, but is inhibited because of Britain's continuing special relationship with the United States, whose rivalry with France for trade and political influence, particularly in Africa and the Middle East, remains as virulent as ever.

The French President believes that France's position has definitively changed since the end of the Cold War and with the building of the EU. Whereas his predecessor, Mitterrand, adopted the patrician air of a statesman who wanted to teach the world lessons, Chirac is at his best as a supersalesman on behalf of France plc.

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TURKISH ISLAMISTS gathered outside Istanbul city hall in protest after Tayyip Erdogan, the city's mayor, was convicted of inciting hatred. A court handed down a 10-month jail sentence to Erdogan for "provoking hatred among people" in an Islamist speech he made last year. If the appeal court upholds the sentence, Erdogan will be removed from office and banned from running again.

Turkey's secular elite, spearheaded by the powerful military, began an anti-Islamist campaign last year which forced the resignation of the Islamist premier, Necmettin Erbakan.

Erdogan, 43, had been seen as the leading contender to rebuild and lead Turkey's Islamic political movement after the Welfare Party was banned by Turkey's constitutional court for anti-secular activity in January.

Erdogan's speech may have been a fatal tactical error. The military imagery may have inspired the party faithful, but it enabled his opponents to claim that he was prepared to advocate civil war if the Islamist movement failed to realise its objectives through the democratic process.

Up in arms: Turks protest outside Istanbul city hall after their mayor's conviction

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FRENCH INTERFERENCE MAY HAVE wrecked a plan to arrest Radovan Karadzic, the Bosnian Serb leader who has been indicted on war crimes charges. It emerged last week that a senior French officer had secret meetings with Karadzic during which the existence of the plan could have been revealed. American sources said the plan was then dropped. Karadzic is rumoured to be negotiating terms for his surrender.

The French defence ministry rejected "categorically" the allegation that the officer had compromised the operation through "ties which appeared to be questionable" with people accused of war crimes. He had been reassigned to a new posting in France.

A Washington newspaper named the officer as Major Hervé Gourmelon, who was the French military's principal liaison officer to the Serbs within his sector around the town of Mostar, south of Sarajevo.

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A THIRD OPERATION in a week on Vaclav Havel has deepened doubts about whether the Czech president will be able to guide the country through the greatest period of political and economic uncertainty since independence.

Havel, 61, who underwent emergency surgery for an inflamed intestine while on holiday in Switzerland, had a second operation and then a third when his right lung became blocked with fluid. The Czech president had barely recovered from the pneumonia from which he nearly died after undergoing surgery for lung cancer 16 months ago. If Havel, a former dissident and playwright, is forced to leave the stage, there are no successors of equal moral stature to guide the country through a turbulent election at a time of economic decline.

Last December Vaclav Klaus, the pro-market prime minister, resigned amid allegations that his Civic Democratic Party (ODS) had received corrupt donations from beneficiaries of Czech steel privatisation.

Josef Tosovsky, a former Central Bank governor, has been appointed by Havel as caretaker prime minister until June elections. But polls indicate a hung parliament, with the Social Democrats (CSSD) mustering around 27 per cent of the votes as the largest party.

Political instability is accompanied by economic decline as a result of Klaus' failure to restructure companies and dubious privatisation voucher schemes, which have led foreigners to shy away from investing.

There are few obvious contenders for Havel's mantle. One is Jan Sokol, the education minister, a former dissident. Another could be Radim Palous, the former Rector of Charles University in Prague.

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HAVE THE BULGARIANS of all people, solved the problem which has flummoxed the computer-literate civilised world?

Bulgarian computer experts are claiming that they have come up with an antidote to the "millennium bug". The bad news is that without money up front, they're not telling.

"We have cracked the problem but we will keep our findings secret for now," said Evgeni Nikolov, head of the National Laboratory for Computer Viruses in Sofia.

PRESSWATCH ON: THE GERMAN ELECTION CAMPAIGN

Les Echos

THE BEST must win: that was the conclusion of the Social Democrat Party (SPD) congress which confirmed Gerhard Schröder as its candidate for chancellor in this autumn's general election. The SPD surprised everybody by hosting a well-orchestrated US-style show to demonstrate its "force for renewal" slogan.

Schröder made his entrance alongside Oskar Lafontaine, the party president, in a darkened arena and to the echoes of a new anthem, "Ready to Go". The programme distributed to delegates even specified that the two men would continue "waving to the crowd until the music stops".

Schröder, the politician whom 62 per cent of Germans want to be their next chancellor, presented himself in a two-hour speech more as a statesman than a candidate. He notably placed himself in the context of the only two postwar Social Democrat chancellors, Willy Brandt and Helmut Schmidt. The latter, who is still immensely popular in Germany, made the trip to anoint his successor.

Schröder put himself forward as the candidate of the "new centre", announcing that he would fight to win over the small businessmen and skilled workers always seen as the core constituency of Helmut Kohl's Christian Democrats (CDU).

De Telegraaf

WITH AN almost demagogic blast of ceremonial the SPD chose Schröder as its candidate for chancellor at a closely stage-managed conference in Leipzig. Schröder at best provided no more than a rhetorical version of the SPD's election manifesto.

He could hardly hide the poverty of content of this manifesto. There were no dates, no commitments and, if a few of the sentences sounded like promises, they were so cunningly phrased that they bordered on the misleading.

Süddeutsche Zeitung

AFTER the triumphant SPD party conference the government coalition parties can have little hope of another election victory this autumn. The last straw the CDU and Christian Social Union (CSU) can clutch at is the fact that up to now Kohl has always won. Back from his Easter vacation, their champion is ready to attack. The Chancellor produced a five-point programme for the first 100 days after the election but his promises are not very convincing. They are reminiscent of a pupil about to fail an examination and promising to work harder next year. Why should the Chancellor achieve more in 100 days than he has in the past four years? The coalition parties have not faced such a parlous situation since the Konrad Adenauer era.

New policy papers and well-meant declarations will not impress the political opposition but they confuse the CDU's own supporters. Promises from the Chancellor and ambiguous plans cannot break the spell of Schröder, the "media phenomenon".

It is now crucial that the CDU and its Bavarian-based CSU partner agree on some common ground.

There has to be a clear message from the CDU party conference in mid-May in Bremen on policy as well as personnel. But even if they manage to convince the media and, allowing for internal quarrels within the SPD, there is only an outside chance of success for Kohl. The people do not want to see the Schröder spell broken.

Politiken, Denmark

IT IS NOT only on grounds of political weight that Schröder is going to find it hard to push Kohl from his throne. Even with unemployment at a record high of 12 per cent, Kohl has achieved much during his 16 years in power. On top of that, the German electorate is notoriously careful and conservative.

Unemployment and the euro will work against Kohl. Without doubt the SPD has in Schröder chosen the best candidate since it went into opposition. But it is questionable whether he has enough time to convince the voters that he can espouse modern and responsible policies which will combine prosperity with good business sense.

Frankfurter Allgemeine Zeitung

KOHL is back. But it is no easier for him than it was before his break. Ambiguous proposals for eco-taxation from Wolfgang Schäuble, the CDU's deputy leader, have not made the party more popular. The CSU expressed doubts about the man who Kohl wishes to see as his successor.

Kohl's calculations are centred on three elements: the continuity of his coalition, the weak condition of the Greens and the lack of unity within the SPD. Kohl's success or failure depends on whether his challengers manage to win the middle class vote.

How credible is Schröder when he has to bracket his announced fight for "the centre" with the traditional social democratic "comrade" slogan? How much trust will Schröder be accorded as long as Lafontaine determines the party line? Polls prove that Kohl's strength – or rather: weakness – does not depend on his government's achievements but on his rival's image.

Strangely enough, Schröder's style suits Kohl. For those who just want a political or personnel change Kohl has no argument. That is the price for leading such a historically long-lived government. But for those whom Schröder believes have to be ensnared, Kohl has more solid things to offer: concrete aims and the evidence that he managed to achieve such aims up to now to a considerable extent.

How well Kohl will tackle his last big election battle will be revealed only slowly over in the next few months. But right now the Chancellor needs to prove that he can bring back calm and unity into his own house.

Lidovy Noviny, Czech Republic

EVERYTHING indicates that only the SPD itself can stop itself riding to victory. After an immensely successful period Kohl is now on the back foot. He has long ago lost contact with reality and in September he will in all probability lose contact with power.

CARTOONISTS AND WRITERS SYNDICATE

OLIVER – *DER STANDARD*, VIENNA, AUSTRIA

KOHL AND SCHRÖDER

CyanMagYelloKey

CyanMagYelloKey

PHOTOGRAPHS: DAVID BARBOUR & IMAGES

ARCHITECTURE ■ It used to be hip to work from home, until corporate giants won back workers with their glittering new headquarters

New-style offices suit social mixers

Hugh Pearman

FUTUROLOGY can be such a tricky business. Remember all those experts in the early 1980s predicting the imminent arrival of the paperless office – just as we all got computer printers and fax machines to spew out greater quantities of paper than ever before? But everyone soon forgot that: instead, we were told that the office building was obsolete. Everyone would soon be working from home or from cafés, with laptops, modems and mobile phones. Wrong again: the corporate headquarters is still in rude health. But, beneath the skin, it has changed.

British Airways is opening a new-style office village for 3,000 staff near Heathrow airport, London, designed by a Norwegian architect, Niels Torp. The complex is a mark two version of Torp's 10-year-old headquarters for SAS, the Scandinavian airline, outside Stockholm.

Meanwhile in Russelheim, southern Germany, the Chancellor, Helmut Kohl, has just opened the first phase of a mighty new administration township for the Opel car group, designed to be non-monumental and "a place of human interaction". Such is the cross-border trade in European architecture these days, it is by Britain's Building Design Partnership.

In Rennes, France, the high-tech power base of the Banque Populaire de L'Ouest, by Odile Decq and Benoit Cornette, has become a landmark.

Frankfurt is now dominated by Sir Norman Foster's sleek new Commerzbank Tower; Groningen in the Netherlands is marked out by the craggy outcrop of the Gasunie headquarters by Ton Alberts and Max van Huut; and the new Berlin is defined by the gargantuan Potsdamer Platz office development by a pick 'n' mix selection of famous-name designers. Why are people still building these supposedly obsolete places?

Apparently, opposing working methods are not a question of "either-or" but "both". Yes, lots of people work from home; yes, a paper-reduced work environment is becoming a reality as more people talk directly computer to computer. But all this does not do away with the office: it just means that the office changes character. It is now more a social centre than a place full of desks. It is also "democratic" in that the workforce is encouraged to wander around and chat.

Hard-headed companies such as BA do not build such offices simply for the hell of it: the democratic way of working yields productivity benefits because it reinforces the sense of corporate belonging.

Office affair: Opel's new HQ at Russelheim, Germany (above), is designed to be non-monumental – 'a place for human interaction'

Paper-free offices do not mean that people no longer talk to one another

What is happening repeats what happened in the film business. When home video players first became common, futurologists were quick to forecast a cinema-free future: the late Brian Wenham, in his 1980s book, *The Third Age of Broadcasting*, confidently sounded the death knell for picture houses. And then the reverse happened: as home video ownership grew there was a concurrent explosion of multiplex cinemas and giant-screen film palaces. The culture of going out and enjoying an entertainment in public, far from being extinguished by the new technology, appeared in some mysterious way to be revived by it. In the same fashion, white-knuckle theme parks have boomed at a time when logic might suggest they would be killed off by computer games.

Office workers, too, need human contact. Face-to-face chats, meetings at the coffee point or by the photocopier are the modern-day equivalent of the parish pump. Whither the office romance if there is no office and everybody is stuck at home? Offices with the most advanced teleconferencing facilities – supposedly obviating much of the need for travel – are paradoxically always near an airport or a motorway intersection, so that people can get there easily to meet business colleagues. Video screens or Voicemail systems do not gossip.

There is another paradox: often, the big new office blocks, whether stacked up high in cities or spread out low in suburbia, result from restructuring exercises. Typically, a company will have acquired several buildings during piecemeal expansion – buildings that are difficult to adapt, expensive to run and probably with too much space for a trimmed-down workforce.

The answer is to sell them off and bring everyone together into one all-new, efficient building or campus. This way, the firm makes year-on-year savings, is able to introduce new working practices and gets itself a much higher public profile. When IBM introduced "hot desking" in the late 1980s, the idea that everyone on the payroll did not have to have a dedicated desk was revolutionary. Now it is the norm.

The expert most consistently right about trends in office life, through the 1980s and 1990s, is Francis Duffy, the London-based architect and space planner, who acts internationally as a consultant for developers and corporations. Duffy's latest book, *The New Office*, published by Conran Octopus, is both wise and true. He succeeds by considering human factors over and above technological ones. Thus, he characterises offices into types, which he calls "dens", "clubs", "hives" and "cells". The clubs and dens are in the ascendant as the old-fashioned hives and cells fall from fashion. Dens are the kind of jumbly "boutique" offices much favoured by advertising agencies, designers and other "creatives". One of the most extraordinary recent examples (though not in Duffy's book) is the theatrical interior of Kessels-Kramer, the Amsterdam-based advertising agency, which takes the form of a surreal mindscape of seaside, military, suburban and sporting motifs shoehorned into a former church. But then it is an unorthodox agency and so are the British designers, FAT (Fashion, Architecture, Taste).

Village life: wings of offices lead off a central street at the home for 3,000 British Airways staff near London's Heathrow airport. There is even a contemplation area

Staff are free to walk about and chat but the managing director can still see it all

Clubs, however, are the shape of the future for the modem-linked corporate office worker, since these are drop-in places which nonetheless have a strong corporate identity. Just as you find a chair in a club and use whatever facilities the club provides, so it goes in new, clubbish offices. There is always a desk, screen and a phone point – but not for exclusive use, nor is anyone chained to them. In the big sitting areas or the covered street outside with shops and cafés, employees meet people, talk, exchange meaningful glances, decide on a course of action. Then they are off again into the real world.

In the case of Torp's SAS HQ in Sweden and the BA "village" at Harmondsworth near Heathrow, the key to the whole thing is that buzzword: interaction. Wings of offices lead off a central street; outside each cluster of glass-fronted offices is a common area for group meetings. At BA, there is the equivalent of a village green and even a "contemplation area" within a small olive grove: the typing pool it isn't. Everybody is free but at the same time they can all be seen by any managing director taking a stroll through his domain. It is more paternalistic than democratic.

Compared with old-style office blocks, this is a huge step forward. Technology, in the end, liberates people, allowing them to behave more naturally.

The earliest offices were places bagged at random at tables in coffee houses. Clubs then arrived to provide what would now be called central services. The 20th century made office working a much more rigid affair. But today, inside those glittering corporate palaces and quirky boutique office buildings, it is full steam ahead for the 18th century. ■

Hugh Pearman is the architecture and design critic of The Sunday Times

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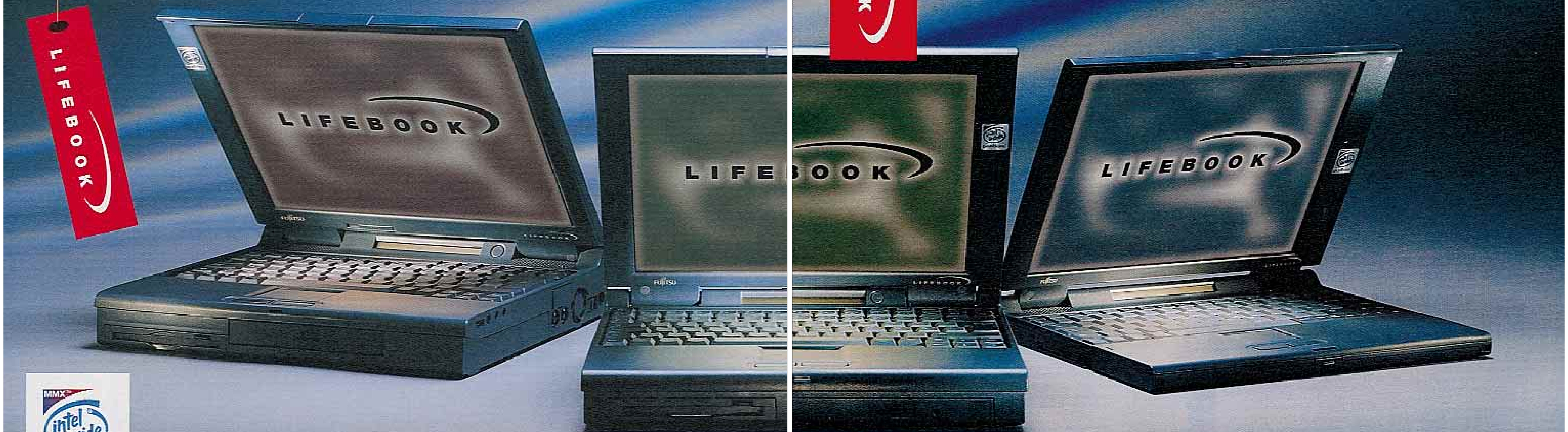

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Zeitgeist

AUCTIONS

To the manor bought

FRITZ VON DER SCHULENBURG

Hammer house: Hackwood Park – the mansion itself – is for sale at around $24 million. Right: a Regency brass library desk sold for $420,000; coat hangers and baskets (bottom right) were among the bargains

Jonathan Margolis

A PATRICIAN English Conservative politician once dismissed Michael Heseltine, then a nouveau riche colleague, as "the kind of chap who bought his own furniture". The grand, aristocratic assumption being, of course, that for a gentleman, furniture is like the ancient trees on his ancestral estate – something that has been in the family for generations and certainly never needs to be crudely acquired.

In reality, however, even relatively well-to-do British families are perfectly willing to buy furniture; and if it is infused with generations of other people's history, so much the better.

So when the entire contents of one of the finest country houses in England went on sale last week, there was no visible reticence among the Barbour and corduroy-wearing set. They raced down to Hampshire to snap up a few thoroughbred bargains, despite a cold wind and rain which made a day out to Hackwood Park, near Basingstoke, less than a picnic.

The house they were flocking to in a blur of Range Rovers, mud, dogs, tweeds and headscarves was a late-17th-century mansion, formerly the home of six Dukes of Bolton. In 1935, Hackwood and its 1,000 hectares were bought – furniture and all – by the media baron William Berry, then proprietor of *The Daily Telegraph*. Berry's son, the Second Viscount Camrose, died without an heir in 1995, leaving the house and contents to be split among nearly 50 beneficiaries.

The house is for sale at around $24 million. As for the contents, months of work by valuers from Christie's in London resulted in a heavy, glossy catalogue of some 500 pages and a total reserve price for the 1,660 lots of $4.8m.

In the event, with this the biggest country house sale in a decade and something like acquisition fever burning in the auction marquee erected outside the old house, the reserve prices turned out to be grossly pessimistic. The entire $4.8m had been raised by the end of the first morning of the three-day sale. Furniture, even when broken or stained, routinely reached three times its reserve. By the end of the sale, on Wednesday night, Christie's had taken $11,741,616.

It was like the mother of all garage sales, with lots ranging from the sumptuous to the insignificant, from major works of art and furniture masterpieces to wastepaper bins and unremarkable old gas cookers and refrigerators.

At the top of the range was lot 21, a Regency brass inlaid rosewood library desk, made specially for the house by Gillows of Lancaster in 1813. An enormous, elegant – if slightly worn – slab of fine wood with a green, leather-lined top and mahogany drawers, the desk had an estimate of $170,000 but went for $380,000. The buyer had to pay an additional premium to the auctioneers of $40,000.

For those unable to part with the price of a decent London apartment for a desk or a couple of exquisite George III giltwood mirrors, there were hundreds of lower-priced mementoes of Hackwood, all catalogued as meticulously as the major lots. A bundle of old eiderdowns was entered with a reserve of $40. "A Quantity of metal Mesh, a length of drainpipe and various other objects" was expected to fetch $50.

"The provenance is what people are particularly attracted to," explained a delighted Victoria Coode of Christie's as the auction proceeded. "A lot of the people bidding will be locals who just want to own something from the Big House.

"But equally, a proportion of the people here are from the antiques trade and what is particularly exciting to them is the fact that this furniture has never been on the market before. It was specially made for the house, has never been anywhere else and is, in a sense, new and virgin."

> It was the mother of all garage sales. Lots ranged from the sumptuous to the insignificant

While a grand country house sale by Christie's may sound like the most intimidating of English events, the Hackwood sale was surprisingly "user friendly"; not at all mysterious or exclusive and even quite entertaining.

For one thing, as Coode pointed out, it is *not* possible at an event to spend hundreds of thousands accidentally by sneezing or scratching at an inopportune moment. You have first to register as a buyer (a procedure which includes a discreet credit check) and then be issued with a large "paddle" – a card displaying your number.

Even if you inadvertently waved that in the sharp-eyed auctioneer's direction, it is a simple matter to gesture that you were not, in fact, bidding $30,000 for a pair of ormolu mounted white marble four-light candelabra or $50 for "A quantity of wooden coathangers".

As might be expected, not all the bidding frenzy at Hackwood was from British buyers. Much of the furniture from the dismembered estate is already crated up and on its way to America, Europe and the Far East, after successful bidding by proxy dealers manning a long line of telephones in the marquee.

Some significant pieces will, however, be staying in Britain – for the time being at least. The $420,000 desk, for example, now resides, albeit temporarily, in the New Bond Street gallery of dealer John Partridge. "I think it's one of the most wonderful pieces of furniture I have ever seen," he said after the sale. "It would be a pity if it had to go across the water, because it's really our national heritage."

Will it be for sale, then? "Oh yes, after repair, very much so." ■

CHRIS ENDEAN'S

Naples

THE story began in 1647 in the suffocating heat of a Neapolitan summer. In the marketplace a group of fishermen refused to pay taxes to the ruling Spanish king. Their protest developed into a bloody revolt with local hero Masaniello seizing control of the world's biggest and richest port.

For 10 days and nights, the fisherman lived like kings, setting rules and banning taxes. Then, suddenly, he was assassinated and the people turned against the memory, parading his severed head through the streets. Within hours, though, the mood swung back and Masaniello took on mythical status.

In the centuries that followed, Masaniello became the symbol of Naples' determination to follow its own path on the edge of Europe – until a second rebellion.

This time, the hero was no humble fisherman but one of the greatest footballers ever. The story of Argentine Diego Maradona's relationship with Naples is a modern-day version of the rise and fall of Masaniello.

ANTONELLO NUSCA

WILD SIDE: EFFIGIES OF A LESSER GOD

When he joined Napoli FC in 1984, the team was the laughing stock of Italy: it had never won a thing.

Every Sunday, though, at the San Paolo stadium Maradona lifted local pride. In six years the team claimed two league titles, an Italian cup and the Uefa Cup. When Silvio Berlusconi's AC Milan ceded the 1990 title to Napoli on the last Sunday of the season, the tumultuous street party lasted five days. If the city had craved a Messiah worthy of Masaniello, it had found one.

Unlike the rich but deeply corrupt politicians who ruled Naples like medieval barons in the 1980s, Maradona had kept his promise. Here was a popular hero, someone the *scugnizzi* – the poor children of Naples – could easily identify with. Had he not also grown up on the crumbs of poverty?

Then, as suddenly as Masaniello lost his head, Maradona lost something equally important to a sportsman's success – his image. He had an illegitimate son and, said the police, he was courting the Camorra and cocaine. Early one May morning in 1991, Maradona flew out of Napoli, never to return. Within months, like Masaniello, his deification had started.

Whenever I take a stroll on the wild side of Napoli, among the alleys that lead to the Spanish Quarter, the Forcella and the Sani, the graffiti and murals resemble early Aztec etchings – primitive effigies of a lesser God.

At the height of his fame, the locals in some districts placed fresh flowers at the feet of Maradona murals, and fans reached out to touch his face. Today the images, like the people's faith, are fading. When Napoli was relegated to Serie B for the first time in 33 years earlier this month, a sombre mood settled over the city. "Everyone's wiping their backside on fresh grass these days," one despondent "ultra" – a hard-core fan – told me, citing a local saying.

In fact, even the Ultras are suffering in silence, perhaps overwhelmed by the personal humiliation of eviction from their usual meeting place. "A kind of silent depression," is how Professor Vittorio Dini, a local philosopher, puts it.

Maradona worshippers hate to admit it but the truth is that these days there are new miracle-makers in Naples. Just as Maradona held his audiences spellbound at the San Paolo, so Neapolitan mayor Antonio Bassolino and his team of councillors are conjuring up their own brand of magic at the city hall. Naples is undergoing a new, more peaceful revolution.

In a perfect example of slick city housekeeping, the city centre has undergone a facelift. The magnificent Piazza del Plebiscito, once a car park, is now a pedestrianised zone. Museums and archaeological ruins, long closed to the public, have been restored and reopened. A new underground railway is under construction.

The cliff road at Posillipo that looks out like a theatre on the most spectacular show in the world – the crystal waters of the Bay of Naples – has also been renovated. Not even local administration is immune to the revolution. The city's airport is in the hands of the British Airports Authority.

The revolution is even changing Neapolitans' perception of their city. "It would be wonderful to have a good football side but, quite frankly, we prefer a decent life," observes Naples councillor Giuliana Parenta.

So do foreigners. Once I never had to worry about booking ahead for Naples. At Easter I could not find a single hotel room.

"Rome has its ruins, Venice its lagoon and Florence its art. Until recently, the only good thing Neapolitans had to show the world was the football team," says Rosella Saverese, a sociologist in communications at the University of Naples.

Yet venture into the barren, peripheral slums of Afragola and Frati Maggiore in the Neapolitan hinterland, where the Bassolino revolution has yet to reach, and the old faith is slow to die.

Remind locals here of the story of Masaniello and his modern-day heir and Napoli fans will sigh and mutter the phrase: *Si viveva meglio quando si stava peggio* – "we were better off when we were worse".

Dead slow: the 'high speed' train operated by BAA and Railtrack which provides the new link to Heathrow airport

TRAVEL

Air link exp ress is off track

IT SEEMED like a good – and environmentally right-on – idea at the time. The flight from London to New York left Heathrow at 6.30pm, which meant crossing the city and crawling along the M4 during the height of rush hour. To avoid this slow, parlous journey my driver dropped me off at Paddington for the new high-speed link to the airport.

The folks who operate this shiny new train set (BAA and Railtrack) admit they can't take you right into Heathrow until the tunnel is finished in July. But they promise to drop you off at a station on the edge of the airport, from which buses will whisk you to your terminal, using their own "dedicated bus lane". The whole journey would take only half an hour. It was obviously the right way to go.

The first sign that the service was not all it was cracked up to be came when I realised the train was waiting at a different platform from the one signposted for Heathrow.

It was only by accident that I caught sight of it, alerted my fellow passengers and scampered across to catch it. There was no need to hurry; what should have been a 5pm departure did not pull out of Paddington until 5.15. I began to feel a little anxious.

I felt a lot more anxious when it became apparent that this was no French TGV or Japanese bullet train. "High speed" proved elusive as we trundled through west London; the train ground to a halt every time it looked like we might exceed 45kph. I glanced regularly at my wristwatch: a promised 11-minute rail journey eventually took half an hour ("signalling problems").

I was getting nervous: my plane left in 45 minutes and I was pulling into a siding called Heathrow Junction. I rushed for my express bus. But there wasn't one for Terminal 3. People heading for Terminals 1, 2 and 4 were fine: but Terminal 3's bus was "stuck in traffic" (so much for the "dedicated bus lane") and I was stranded in the middle of nowhere.

Now I was panicking. When the bus eventually arrived we pulled out into heavy traffic and crawled towards Heathrow: I was stuck in the very rush-hour jam the train was supposed to avoid.

I made the check-in desk 20 minutes before take-off in the sort of dash that gives middle-aged men heart attacks, ulcers – or both.

It was only thanks to the understanding folk at Virgin that I was allowed on. The lesson? Don't touch the Paddington-Heathrow link with a bargepole – at least not until they finish the final tunnel (which will cut out the bus) and sort out the signals.

ANDREW NEIL

PROPERTY

PLEASURE ISLANDS

Rupert Wright

IF YOU really need to get away from everything, why not rent a private island? Preferably, of course, with sandy beaches, palm trees, rolling surf and at least the promise of buried treasure. Walk round the entire island in a day and the only footprints in the sand should be those of your own party.

Not everybody likes desert islands. Ben Gunn, the shipwrecked sailor who was marooned on one in *Treasure Island*, was discovered screaming for toasted cheese. He was unlucky: desert islands are splendid, but you do need luxury. The best of them should offer freshwater swimming pools, cold beer and good food.

Richard Branson, the swashbuckling British tycoon, bought the uninhabited Necker Island, near the Virgin Islands, in the 1970s. The only known previous dwellers were photographer Donald McCullin and his friend Andrew Alexander. They were taking part in a survival test and lasted just 14 days.

But that was before the construction of a Balinese-style house with 10 bedrooms and two guesthouses. The resort accommodates up to 24 guests who will be looked after by a staff of 31; a decent ratio by any standards. Here, there is a feeling of escape coupled with that all-important comfort factor. Many celebrities have visited, Diana, Princess of Wales, George Michael, Harrison Ford and Mel Gibson among them. They come for the privacy, the luxury and the food.

Poor Ben Gunn should have gone to Necker. There, guests breakfast on bagels, croissants, bacon and eggs, orange juice and coffee. Lunch is chicken salad with pine nuts, grapes, chilli peppers and lime juice. After cocktails, dinner is smoked salmon, caviar croutons and tomato tarts followed by whole quail or New England lobster. To finish, iced soufflé or cheese. The only gripe is the wine list: it's long, but unimaginative. The Burgundies, from *negociants* rather than individual growers, are poor. The New World wines are better, but not inspiring. The choice of champagnes is weak: you expect some decent vintages, not just an obscure 1989 Beaumet. However, guests can order their own wine in advance.

By the way, you and a partner could spend a week on Necker for free – sort of. Just accumulate a million air miles on Branson's Virgin Atlantic and you're there …

Shifting from the Caribbean to the Indian Ocean, try Fregate Island in the Seychelles where the beaches are rated among the best in the world. Or Kiwayu Safari Village, a sybaritic pleasure playground off the coast of Kenya. Developed by a former hunter, the Italian Alfredo Pelizolli, this is the finest place to stay in Kenya. It combines great food with exotic accommodation in wonderfully designed *bandas* – traditional Kenyan tented huts – with loungers, hammocks and four-poster beds. Prince Charles took his sons there last year.

Pelizolli and his partner, Stratis Meimaridis, have developed a hideaway, called the Baobabs of Kitangani, on a neighbouring island. Along a path among the mangroves, nestling in the baobabs – the giant bottle-shaped trees so redolent of Africa – are two *makuti* huts decorated with driftwood, hammocks and enormous coloured cushions. There are no staff on the island: food is ferried across by a boatman. Eat lobster with spaghetti and watch the Madagascar bee-eaters.

Back to the Caribbean to perhaps the most exclusive island of all – Little Whale Cay. The owner, a racing driver, is reluctant to rent it out but will do so to the right tenants. Successful candidates are well rewarded: the 38-hectare island is a riot of exotic birds, butterflies and turtles. It was first developed by Wallace Groves, the founder of Freeport in the Bahamas. The house, a two-storey Spanish-style villa, has the relaxed air of a family home, with ceiling fans turning slowly to the sound of cicadas. It has a lighthouse, church, tennis court, fishing and windsurfing. But most guests read, watch butterflies, walk on the beach and plan their next drink. ■

Peak price at Necker Island is $20,500 a day for up to 24 guests. Kiwayu Safari Village retreat costs $1,000 a day for two. Tel: Worldwide Journeys and Expeditions, +44 171 381 8638. Vladi's Private Islands is the leading dealer in the sale or rent of islands, from a $9.99 hammock and a Swiss Army knife experience , to Little Whale Cay from about $40,000 for 12 people for a week. Tel: +49 40 33 89 89.

WORLD PICTURES

Life's a beach: Fregate Island in the Seychelles

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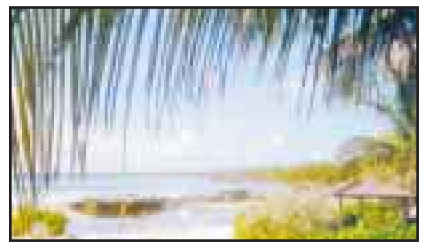

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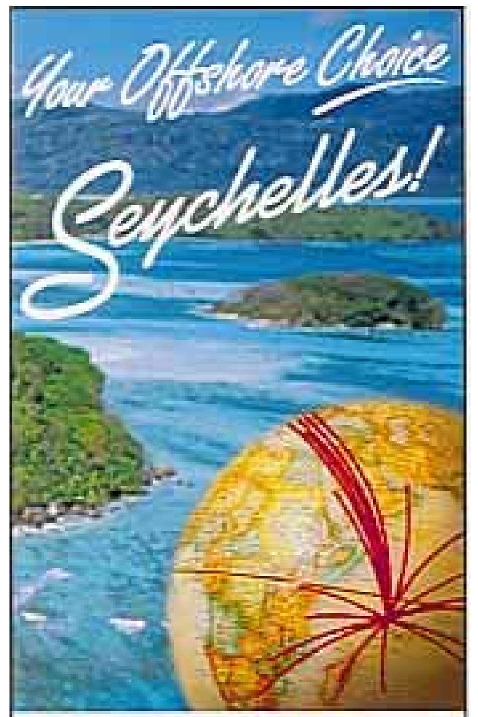

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CyanMagYelloKey CyanMagYelloKey

ITALY ■ Do top sides have the power to pick and choose match officials to suit themselves?

Referees call foul on clubs

Chris Endean
ROME

WHEN Juventus lost last year's Champions' Cup final to Borussia Dortmund, general manager Roberto Bettega immediately blamed the defeat on Uefa, European football's governing body

The referee's failure to give two clear penalties to Juve, said Bettega, demonstrated that the German federation had more weight in higher places than the Italians.

The club later distanced itself from the comments, but niggling questions remained: was Bettega insinuating that the Germans had put pressure on the referee? And, more significantly, what kind of treatment was Juventus used to in Serie A?

It became clearer after Juventus's 1-0 victory at Empoli on 19 April. With the home side pressing for an equaliser, referee Stefano Rodomonti ruled that Juve goalkeeper Angelo Peruzzi had saved a header on his goal line. Television later proved that the ball had crossed the line.

In the Machiavellian world of Italian football conspiracy theorists abound and they were not slow to recall that Rodomonti had made a similar mistake in December 1994, which had penalised Juventus.

The hapless Rodomonti, a member of the international board of referees, had to wait three years to take charge of another Juventus league match.

"It's fair to ask if Rodomonti was conditioned by what happened to him in 1994," said Giorgio Tosatti, Italy's most respected football commentator. "Perhaps he was afraid of repeating the same mistake and paying the consequences."

In Italy, unlike other European football leagues, referees are hand-picked by official selectors and the suspicion is that powerful clubs such as Juventus, Inter Milan and AC Milan exert behind-the-scenes pressure. "The scandal is that a referee who hurts a big team does not get to officiate at their games for years," added Tosatti.

'A referee who hurts a big team does not get to officiate at their games for years'

Any doubts about the psychological damage to an Italian referee who commits a mistake and suffers the consequences, would have been wiped out by Rodomonti's reaction. On hearing that he would not be refereeing a Serie A match until September at the earliest, Rodomonti said: "You can't imagine how we feel in these situations. I have not slept."

Stung by the suggestion of foul play, Italian football authorities are looking at the use of television cameras to ease the pressure on their referees.

Sadly, it was not the first time this season that human error has fuelled rival fans' claims that Juventus, with powerful ties to Fiat, benefit from the unofficial title of "most-favoured status" among Serie A clubs.

A clear "goal" for Udinese against Juve was disallowed; Lazio was denied a penalty when a referee ruled a handball by a Juve defender as "accidental". With Juventus leading Inter Milan in the closest championship race in years, such mistakes will have increasing significance. ■

EMPICS

NETHERLANDS

Dutch united at last to take on the world

Marcel van der Kraan
ROTTERDAM

THE Dutch national team has always had players whose talents and flair have never been in doubt. Temperament is another matter, however.

In 1978 Johan Cruyff refused to go to the World Cup in Argentina. In 1990 the Dutch players kicked out their coach Thijs Libregts a month before the World Cup in Italy. Four years later, Ruud Gullit flounced out of the team's hotel a few weeks before the World Cup. And two years ago, at Euro 96, a dispute between the black and white players resulted in midfielder Edgar Davids being sent home.

It is a catalogue of self-indulgence and petulance but at last one man is determined to stop things from falling apart again. Guus Hiddink, the Dutch national coach, is fed up with his team shooting itself in the foot.

The Netherlands is one of the world's greatest production lines for footballers, but the European Championships in 1988 has been their sole international triumph. They lost the final of the 1974 World Cup by arrogantly toying with West Germany instead of finishing them off; four years later they were beaten by Argentina in the final, but might have won if Cruyff, at the time the world's finest player, had been in the team.

Forceful: Davids (right) shows the passion and strength that make him a major asset to any side

Hiddink is desperate to make history and win the World Cup; he knows that to do so he will need every talented player he can find.

He is even prepared to forgive and forget Davids, the man who accused him of "sticking his head up the backsides of certain players" at Euro 96. Davids was referring to his white team mates Danny Blind and Ronald de Boer.

After being sent home from England, Davids was out in the cold for two years. It was not hard for Hiddink to ignore the combative midfielder as, during his first season with AC Milan, he fractured his hand fighting in the street and later broke his leg.

An exasperated Milan sold Davids to Juventus in January. The fresh start has restored the player, known on and off the pitch as "Pit Bull", to the form that helped Ajax Amsterdam win the 1995 Champions' Cup.

Davids has been one of the most influential players at Juve this season, steering them into the final of the Champions' Cup and the top of the Italian league. With his outstanding performances each week, the Dutch realised that their troublemaker could not be overlooked for this summer's World Cup.

Hiddink decided to avoid an embarrassing situation by inviting the player for peace talks.

Hiddink said: "I have watched Davids several times and he has made fabulous progress. He is a player with tremendous willpower and can bring a lot of fighting spirit to the team. This summer's World Cup will be all about physical battles. Every game I have seen so far involving the top nations has been fierce and tight. If that is the standard for the World Cup finals, I will need players like Davids. We had a good chat and there is no reason why he would not come back in the squad."

By bringing back Davids to the Netherlands national team, Hiddink restores the harmony between his black and white players. The top black players – Clarence Seedorf, Winston Bogarde, Michael Reiziger and Patrick Kluivert – had all demanded Davids' return.

"Edgar is one of the best midfielders in the world," said Seedorf. "If we want to win the World Cup, we should not leave our best players at home. I will be happy for him and for the Netherlands when he starts playing again for us." ■

FRANCE 98
COUPE DU MONDE

Hedge funds can still move mountains – and governments PAGE 50

SPAIN

Spanish title not enough for Barca

Giles Tremlett

AT the top of Las Ramblas, Barcelona's tree-lined central boulevard, the fans were celebrating. For the first time since Johan Cruyff was replaced as manager three years ago, Barcelona is league champion. It claimed the title with four matches still to play; arch-rival Real Madrid had been trounced.

Barca's supporters gathered by a fountain with the claret-and-blue flags of their club and the red-and-gold emblems of Catalonia. Barca, as its directors never cease to proclaim, is more than just a club. Victory over Madrid is a proclamation of Catalan superiority. Never mind if the players speak Portuguese and Dutch better then Catalan or Spanish; they are still foot soldiers in the annual struggle against the Spanish capital.

But even if Dutch coach Louis Van Gaal takes Barca to victory in the Spanish Cup final, its season will be deemed mediocre if Real Madrid wins the Champions' Cup final against Juventus. Should Madrid rule Europe with Barcelona merely champion of Spain, the club's fans will blame Van Gaal. "Could have done better" will be the verdict on his first season.

For Van Gaal this is still good going; three months ago he was one of the most hated men in Barcelona. When Josep Lluís Nuñez, the club president, brought the former Ajax coach to Spain he promised a new era of greatness.

The Dutchman was brought in to replace Bobby Robson, the English coach whose victories last season in the Spanish Cup and the Cup Winners' Cup were not enough to justify his position, because Real Madrid won the league. Robson, one of Europe's most experienced coaches, was demoted to chief scout.

Van Gaal's reign started badly. While Real Madrid prospered in the Champions League, Barcelona was humiliated by Newcastle, PSV Eindhoven and Dinamo Kiev. By December Madrid was seven points ahead in the Spanish league.

GUSTAV NACARINO

Celebration: Robson (left), Van Gaal (centre) and midfielder Oscar Garcia celebrate Barca's league title win

Serious and hard-working, Van Gaal would sit stony faced on the bench, crouched over his notebook. He wanted Barca to play more like Ajax, relying on midfielders and forwards to stick rigidly to their positions. Anyone who could not, or would not, adapt was out. Portugal's goalkeeper Vitor Baia, Spanish international striker Juan Antonio Pizzi and the fans' favourite, creative midfielder Ivan De La Peña, were all left out. France's Cristophe Dugarry went and Bulgaria's Hristo Stoichkov left in a huff.

Brazilian Rivaldo was stuck on the right wing, while Portugal's Figo had to stay on the left. Both spent much of their time helping out the beleaguered defence. The 115,000 capacity Nou Camp stadium is used to seeing flair but was getting drudgery.

Then Van Gaal had a brainwave. If Barca could not do it his way, maybe he should do it the Barca way. Rivaldo, Figo and Anderson, a Brazilian striker, were given freedom to roam the pitch exchanging positions. Luis Enrique and Giovanni were to fill the gaps this created by advancing from midfield.

Louis Van Gaal had changed Barcelona, but Barcelona had also changed Van Gaal

Opponents could not cope. They did not know where the next attack would come from. Figo, Rivaldo or Anderson might pop up on either wing. Luis Enrique and Giovanni would charge up the centre. It resembled the style that under Cruyff's management won the team four league titles in a row.

Van Gaal had changed Barcelona, but Barcelona had also changed Van Gaal. His team was not invincible but Madrid was throwing away the title.

Winning the league has, in the end, been surprisingly simple. Does this mean Barcelona has finally recovered from its post-Cruyff depression? The answer is no. It still depends on Juventus to make its followers happy. ■

Mallorca finally wins its place in the sun

Alex Simpson

OWNED by a media doctor and based on an island better known for package holidays and as an artists' colony, Real Mallorca is an unlikely presence in the Spanish Cup final on 29 April.

Real Mallorca has long been what is known as an "elevator team" – one that goes back and forth between the top two divisions. This lack of achievement throughout eight decades was not expected to change when Bartoleme Beltran took over as president. Beltran is a medical columnist and a doctor on commercial television channel Antena 3; he had never been thought of as a football man.

He is regarded as being little more than a puppet for Antena 3, which is believed to have put up the money for him to buy the club. In return, it has more influence over which channel gets the league's television rights.

Beltran displayed his lack of football knowledge by sacking not one, but two coaches at the end of last season. Somehow the team overcame this instability to win promotion to the top division. Beltran settled on Héctor Cúper, an obscure Argentinian coach recommended by one of Antena 3's football commentators.

Cúper signed six players from Valencia for a total of $10 million, less than a third of what Betis Seville paid to make Denilson, a Brazilian midfielder, the world's most expensive footballer.

Given this lack of investments, the club was expected to carry on its ignoble tradition this season and swiftly drop back into the second division. Instead, it briefly led the league and is now challenging for the runners-up spot, which would mean a place in the Champions League.

Cúper, tipped to be the next coach of the Argentinian national side, attributes the success to a good team spirit, but there is no doubt he has done an excellent job with meagre resources.

The side is one match away from the club's first major honour: it will take on Barcelona at Valencia in the final of the Spanish Cup. Whatever happens there, Mallorca is guaranteed a place in the Cup Winners' Cup, its first appearance in European competition.

Unprecedented numbers of fans want to go to the cup final and witness Real Mallorca's finest hour-and-a-half. A club director, who is also the American consul to the island asked if the American Mediterranean fleet, currently moored just off Mallorca, could ship the fans to the mainland.

The request was turned down. Instead, 35 planes and six boats will take the fans to experience the last twist in a season when the club has amazed everyone, including themselves. ■

SPORT

BANKRUPT

Swiss clubs bottom of league for finances

Michael Butcher

THE financial acumen that has made Switzerland's banks the most famous in the world is clearly lacking in the country's sports clubs. The Swiss ice hockey and football champions are almost certain to be made bankrupt.

Bern ice hockey club is facing closure with debts of Sfr7.45 million ($5m) despite attracting the biggest crowds in Europe. Problems began with the construction of a VIP stand which ultimately cost Sfr3.7m, almost twice the original estimate.

There were unrealistic hopes that the refurbished stadium would make a profit from last year's curling world championships and that Bern would play host to next month's world ice hockey championships.

But the curling was a financial flop, while the ice hockey went to Zürich and Basel. In fairness, this was not all of the club's making. The ice hockey event was lost because the city council, which rents the stadium to the club, demanded too much money from the organisers.

The club was finished off by a disastrous share issue. This was intended to bring in at least Sfr2.5m but produced less than a third of that sum.

Emergency measures have been suggested. The city council has offered to reduce the Sfr800,000 annual rent, the players have volunteered to write off 25 per cent of the Sfr1.2m they are owed in salaries and bonuses and a former president has pitched in with a Sfr1.5m loan. This may not be enough to pacify the creditors.

The situation is no less desperate at FC Sion, last season's league and cup winners. The football side has debts of nearly Sfr10m and looks destined for demotion to the amateur ranks.

Edmond Isoz, Swiss football's licensing commission director, said that Sion had until 10 June to put its financial affairs in order or face demotion. A precedent has been set for this: five years ago FC Wettingen went bust and now languishes in the fifth division.

Eric Comina, Sion's latest finance chief, said that he is finding new evidence of unpaid debts almost every day.

The problems stem from the period when tycoon Christian Constantin was president of the club. Constantin, who relinquished control last year, is being sued by a former Sion player for a tax bill which he maintains the club pledged to pay, and could face further legal action from a number of other former employees.

Additional reporting by Ivar von Rulach

TREVOR JONES

HORSE RACING

Sheikhs' Channel crossing leaves Britain high and dry

David Meilton

IF you have a racecourse going spare, why not get the richest men in the world to rent it as a training centre? That is the coup that France Galop, the French horse racing authority, has pulled off in recent months.

French racing, suffering a decline in attendances and betting revenue, was desperately in need of a shot in the arm to preserve its status in the top flight. The deal to allow the Maktoum family of Dubai, the behemoths of international horse racing, to take over the defunct racecourse at Evry, 20 kilometres south of Paris, could be a lifeline.

No wonder that France Galop and its newly appointed overlord, Louis Romanet, are congratulating themselves. It is also no wonder that the British racing establishment, faced with the departure of one of its most promising young trainers, David Loder, and a stable full of expensively bred two-year-olds across the Channel, has been thrust into headless chicken mode.

The Maktoums, through their racing manager Simon Crisford, have been at pains to suggest that the setting up of an equine nursery in France is not directly related to the threat made last December by Sheikh Mohammed, their *pater familias*, to withdraw from British racing because of poor prize money. This can be taken with more than a spoonful of salt.

Certainly Romanet and the French authorities lost no time in seeking to take advantage with the backing of senior politicians. For all its weaknesses, French racing still has considerably higher prize money than Britain, augmented by generous breeders' premiums to encourage owners to buy and race their stock in France.

Equally importantly, the absence of private bookmakers making incessant demands for racing to be tailored to their profit-making requirements allows the French authorities to pay more attention to other priorities, such as creating a favourable environment for rich and influential owners.

A fresh infusion of Maktoum-owned bluebloods, even if their main Godolphin operation is maintained in Newmarket, the headquarters of British racing, will be a huge boost to the sport in France.

The British Horseracing Board, in charge of racing in Britain, looks set to elect businessman and leading owner Peter Savill as its new chairman rather than yet another politician or banker on the verge of retirement – a move overtly supported by the Maktoums. Savill at least has drive and initiative, if not yet a coherent strategy to attract the necessary finance.

His master's voice: David Loder (left) will move to Evry at the request of Sheikh Mohammed

The French authorities have paid more attention to the needs of rich owners

Once installed, he will need to act quickly if Britain is to retain the loyalty of the Dubai squadrons, who have been the major factor in putting British racing at the top of the tree.

Britain currently supports 59 racecourses with just £50 million ($82m) of revenue garnered from betting. The prize-money allocation – £29m this year – is thus thinly spread. Threats to close racecourses would certainly provoke protests, but a row might have the incidental benefit of persuading the government to look more closely at the return racing receives from betting, which ranks it currently 35th out of 40 racing nations worldwide.

It was, after all, the determination of the French authorities to take drastic action, leading to the closure of Evry racecourse, which helped generate support for saving other threatened tracks such as Maisons-Laffitte and Chantilly, home of the French Derby. There must be a lesson for the British there somewhere.

TENNIS

Russian wild card good bet for future

Michael Butcher

WILD card entry is a way of ensuring that local players, up-and-coming talents and big names down on their luck can take part in a tournament. When it comes to the young players, the hope of the organisers is that they will be the stars of the future and, in return, show loyalty to the tournament once they reach the top.

There can be few shrewder distributors of wild cards than the Barcelona Open. In 1993, Russia's Yevgeny Kafelnikov got the nod. At the time he was struggling to make a name for himself. The high-profile exposure at Barcelona helped: three years later Kafelnikov took the French Open and is now ranked sixth in the world.

Four years ago Marcelo Rios of Chile received the Barcelona blessing. At the time he was an unknown, but last month he became the first South American to be Nº1 in the world.

With these examples to follow, Marat Safin, the latest beneficiary of the Barcelona Open's generosity, has a lot to live up to. The gangling 18-year-old Russian made a good start. This year he was given the event's only wild card and justified the faith shown in him by reaching the quarter-finals, only going out to the experienced Spaniard Carlos Costa in three close sets.

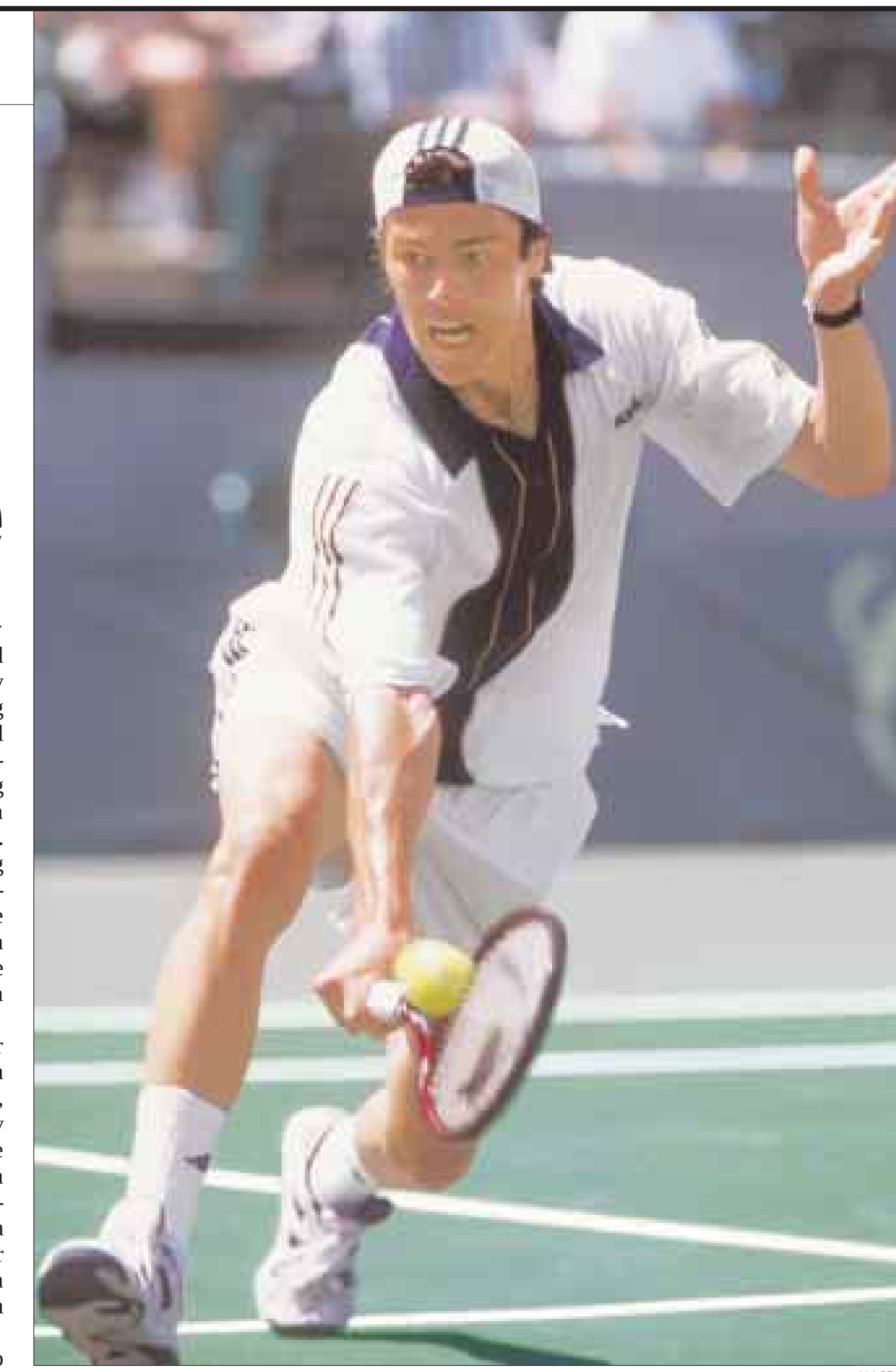
Safin is currently making the sort of strides one would expect from a man 1.94m tall. Last year he became the world's top junior and was ranked 400 among the senior players. This year he has already moved up to 126 and looks a safe bet to break into the top 100 in the second half of the year.

In this month's Davis Cup tie against the US, he took Jim Courier, once the world's Nº1, to five sets and reached the final of the Naples Challenger tournament. Impressed by his potential, the sports management and marketing company IMG has taken him on.

Safin first started playing at the age of six, coached by his mother who runs a Russian tennis school. Four years ago he showed his ambition by moving from Moscow to Valencia to improve his game; Spanish coaches' excellence has long been acknowledged.

Safin is now under the tutelage of Rafael Mensua, who believes he will improve dramatically when he stops growing.

If his prediction comes true then the roll call of Barcelona wild cards who have gone on to greater things will increase in number.



Striding forwards: Safin has made great advances this year

ALLSPORT

ROUNDUP

Sarajevo in Olympic bid

AS Sarajevans rebuild their lives after the siege of the city, local officials are preparing to repeat its finest moment: hosting the 1984 Winter Olympics.

Midhat Haracic, Sarajevo prefect, said the city would formally announce its bid for the 2006 Winter Games next February, when the Bosnian capital plans to celebrate the 15th anniversary of its hosting of the Olympics. Reconstruction of the venues has begun and Sarajevo has staged international football matches this year.

The 2006 Games will almost certainly go to a European city since this year's Winter Games were in Japan and the ones in 2002 will be in the United States. "We know that the competition will be strong," said Haracic, who hopes the Games will reconcile Bosnia's Muslims, Croats and Serbs.

"If we present ourselves as a united country, then we have a chance. We have here the opportunity to re-establish old ties and show the world how far we have come over the past few years."

The statement may come back to haunt him. At the 1984 Olympics, some events were held in Pale, a resort town which served as Radovan Karadzic's stronghold during the war in Bosnia and which now lies in the breakaway Republika Srpska.

The 20-kilometre road between Pale and Sarajevo has numerous checkpoints. The prospect of the two towns being reunited is not an easy one to imagine.

JARED MANASEK

Ban on computer Games

THE International Olympic Committee (IOC) will ban live Internet images of the Sydney Games in two years' time to protect host broadcasters.

IOC marketing executive Michael Payne said the issue of the Internet's threat to the billions of dollars paid by rights holders to the Games was a great concern to them. The various Olympic Internet sites received 600 million hits at the Nagano Winter Games in February, up from less than 200m at the Atlanta Olympics two years earlier.

"The problem is you can no longer control the territorial issues, so you are then breaching other broadcasters' rights," said Payne. "The moment it is on the Net it is worldwide and out of our control. I think the general view is that the technology will not be sufficiently advanced [by 2000] even to consider doing something on a territorial-restricted basis."

The IOC used a system called Video On Demand in Nagano. It allowed users to access footage of action and press conferences at the games, plus archive material.

"I prefer to view the Internet as a great opportunity to help promote the Olympic movement," Payne said.

Australia's senior IOC member, Kevan Gosper, who also chairs the IOC's press commission, said an agreement was imminent between broadcasters and IOC technology partner IBM regarding Internet rights.

"A deal has to be reached soon – the Games are only two years away," he said.

DOMINIC O'REILLY

Slovakia's black market bond baron PAGE 55

HEDGE FUNDS ■ George Soros & Co have been cleared by the IMF of exacerbating financial crises. The report is a whitewash

THE CURRENCY BANDITS

ILLUSTRATION MATTHEW COOPER

Paula Hawkins

FINANCIAL regulators are running scared of the global investment hedge funds which are taking an ever-firmer grip on the world's currency markets. Unable to decide on a workable system of capital controls to protect national sovereignty, central bankers have decided to roll over and let George Soros and his colleagues have their way.

The latest attempt to absolve hedge funds like Jupiter, Quantum and Tiger Management, which control more than $100 billion in assets, comes from the International Monetary Fund (IMF), which has cleared the funds of most of the blame for the Asian financial crisis. Conspiracy theorists who had expected an exposé of the funds' activities were sorely disappointed by the findings of the IMF, published last week in its *World Economic Outlook*.

There were no tales of serious manipulation of emerging market currencies, just a warning that governments need to protect themselves from speculators with a sound regulatory framework. The IMF has produced a classic fudge. It knows that the hedge funds represent a new breed of ultra-opportunistic investor with the power to force a currency to its knees in a matter of days. What the IMF and regulators around the world have not worked out is how to stop them without choking off the supply of inward investment to maintain growth (*see box, page 51*).

Soros' claim that he could have derailed monetary union in Europe by speculative attack provides a chilling reminder of the power of hedge funds. The investors' cash which continues to pour into the sector suggests that the returns available from speculation are too tempting to pass up.

Hedge funds such as the $8bn Jaguar fund and Soros' $6bn Quantum fund, remain charged with manipulating currency markets by taking large positions against selective currencies. Their influence – and the huge profits generated for investors – has created a herd instinct leading other institutional investors to take the same bet. The skill is not necessarily the investment decision being followed. Sheer weight of numbers is at the core of the funds' strategy. Exert enough pressure and central banks will buckle. These all-powerful funds are capable of forcing governments to devalue their currencies, causing widespread financial disarray.

This is not a new accusation: it has been levelled against hedge funds for years, although never quite as explicitly as by the Malaysian prime minister Mahathir Mohamed, who labelled currency speculators "rogues, robbers and brigands" at the height of his country's financial crisis last year.

Soros, the Hungarian-born financier, is a strong defender of the right to speculate. He rebutted Mahathir's accusations as "false" and "vile". But he believes – unlike the IMF – that hedge funds can and do manipulate markets. "I could have made things more difficult, but I didn't want to, because I felt a certain responsibility not the destroy the European monetary system," said Soros. He was widely regarded as responsible for breaking sterling in 1992 during its brief membership of the European exchange rate mechanism.

The IMF report clears hedge funds of most charges, but it fails to say very much that market-watchers and policy markets did not already know. It is vague both in its analysis and recommendations, giving itself an early-exit clause by saying hedge fund "practices vary enormously".

The IMF has its own agenda. The conclusion of its investigation into the Asian crisis is that governments should "protect their economies against uncomfortable market movements" by not "offering one-way bets in the form of inconsistent policies and indefensible currency pegs". In other words, governments should put in place the policies the IMF advocates.

The IMF does not discuss the implications of its report for governments with pegged currencies, many of which have proved very successful. For example, the crawling peg of the Hungarian forint has been crucial in the progress of Hungary's war on inflation. Similarly, the managed float of the Croatian kuna, under which the Croatian national bank intervenes to stabilise the kuna against the deutschmark, has been critical in securing Croatia one of the lowest inflation rates in Europe.

The IMF, however, does raise the issue of increasing supervision of hedge funds, saying that reporting requirements should be applied to all countries so that "market participants who regard reporting as onerous [do not] book their transactions offshore." This is a crucial point. Hedge funds have the freedom to invest in the way

Preventing funds from operating offshore will radically change the way they operate

they do precisely because they are able to register offshore. Requiring uniform reporting requirements would lead to a radical change in the way hedge funds invest.

Faced with embarrassment about its own role in managing the Asian crisis, the IMF report sheds little light on the role of the hedge funds. There is a suggestion of some blame for the collapse of the Thai baht. The IMF senior policy adviser, Barry Eichengreen, admitted that "some macro funds had built up large positions against the Thai baht in the summer of 1997". He added that positions had built up gradually, but that during two months prior to collapse of the currency, huge positions against the currency were taken by hedge funds. Between June and December 1997 the Thai baht depreciated by almost 40 per cent.

Hedge funds cannot be blamed for Thailand's micro and macroeconomic problems. But they do make a significant proportion of their profits by targeting countries with weak economic fundamentals and exploiting them.

There are plenty of European examples too. "Hedge funds took large positions against the Greek drachma and the rouble in the last few months of last year," says the manager of one European hedge fund. "There was also pressure on the Czech koruna for most of last year." While the fund manager admits that this can intensify a country's problems, he argues that it can have beneficial effects. "Financial crises are often the best thing for a country," he says. "It brings out the need for a change in policy, and brings the currency nearer to its real level."

That is why some think Soros did Britain a favour by speculating against sterling and knocking it out of the European exchange-rate mechanism. Not all hedge funds operate speculatively. "Real hedge funds try to minimise risk. They trade in instruments like convertible bonds and treasury bills. Big macro funds, like Soros's funds, are not real hedge funds," says David Friedland at Magnum Fund Management in New York. These funds are usually the smaller, and incidentally the best performing, types of funds, with less than $1m under management.

It is macro funds, estimated to control about $25bn of funds worldwide, that are involved in large-scale speculative attacks on currencies. What large macro funds do is bet against currencies holding a certain position. This puts pressure on the currency, which gradually becomes irresistible as more and more funds take positions against it. Eventually, the government devalues in order to ease the pressure, and the hedge funds win their bets, making off with a large profit.

Soros was singled out because he is the most visible fund manager and the most powerful of the breed. His company, Soros Fund Management, controls five of the world's six largest hedge funds (*see table*). Together, these manage $13bn in assets.

Do other institutional investors follow where Soros leads? The IMF insists that they do not. "Systematic evidence is scanty," states its report. "There is little correlation between the positions of hedge funds and in the immediate past period and current positions of other traders." But the consensus among hedge funds is that they do lead the field. "Hedge fund managers have to be more astute than the big mutuals," says one manager. "We do tend to move more quickly than other institutional investors."

The IMF gives little weight to these arguments. Senior officials already had a clear idea of the party line. In a speech given last November, Michel Camdessus, the boss of the IMF, said that "what we have undertaken to do, is to ask ourselves about the structural changes that may have gone unnoticed, the role of hedge funds, and the possible need for regulatory change". Without regulatory change, the euro had better watch its back. ■

THE FUNDS THAT MOVE MARKETS

FUND	MANAGEMENT COMPANY	ASSETS $M	ANNUAL PERFORMANCE %	REGIONAL FOCUS
Jaguar Fund A	Tiger Management Company	8,335.3	64.0	America
Quantum Fund	Soros Fund Management	5,639.1	25.1	global
Quantum Industrial Holdings	Soros Fund Management	2,771.7	21.6	global
Quantum Emerging Market	Soros Fund Management	1,824.4	−0.03	emerging markets
Quota Fund	Soros Fund Management	1,595.9	59.7	global
Quasar International	Soros Fund Management	1,209.7	18.2	global
Everest Capital International	Everest Capital	1,130.0	27.3	global
Fairfield Sentry A	Farifield Capital management	983.3	13.91	America
Explorer Fund	Santander New World Investment Group	668.0	10.7	emerging markets
Everest Capital Frontier	Everest Capital	660.0	29.6	emerging markets
First Eagle A	IMI	490.5	44.9	global

SOURCE: LIPPER ANALYTICAL

CAPITAL CONTROLS

Finding a stick while keeping a carrot

THE reluctance of the IMF to apportion blame for the Asian financial crisis, bar a sideswipe at lax regulation in the region, raises the question of what governments and supranational agencies can do to control the billions of dollars of capital swishing around the global financial system.

Economists are as one as to the potential for short-term investment inflows and outflows to distort the performance of an economy. Where they do differ sharply is in the necessity, or desirability, of capital controls to choke off volatile fluctuations.

The free market view of lowering the barriers of capital control has long held sway at the IMF. It forms a central plank of their rescue packages and assistance programmes. The logic is simple. Allowing emerging economies to import capital freely will also allow the easy exchange of technology and intellectual property. Together, these resources promote faster economic growth.

The World Bank, in contrast to the IMF, has been more vocal in encouraging emerging market economies to impose systematic regulation of their financial systems to prevent volatile capital flows getting out of hand. Mexico's peso crisis in 1995 is most commonly cited as an example of some types of capital flowing out of the country more quickly than they flowed in.

The logical follow-on is that while free capital flows bring far more benefits than risk to growing economies, some short-term controls on volatile types of investment can be a useful policy tool. The drawback is that simple sounding solutions like the Tobin tax, a flat rate levy proposed by the former Nobel prize-winning economist, often fall down in practice. Estimates of the Tobin tax required to stave off the flow of funds from Mexico three years ago range up to 120 per cent. A clear disincentive to any investor.

Chile provides the best example of temporary capital controls in practice. While the country has followed a free market economic strategy for more than a decade, it employs three types of controls and has seen its reliance on short-term foreign investment fall from 75 per cent of total inward investment in 1992 to just eight per cent in 1996. The explosion of short-term overseas borrowing by Thai companies was clearly to blame for that country's economic malaise.

The most important restrictions for foreign investors are that they must deposit 30 per cent of non-equity capital at the central bank for a year, without interest. If they fail to keep funds in the country for 12 months, they risk losing that deposit. This is effectively a tax on capital and, while it has discouraged hedge funds from targeting Chile, it has put off many mainstream investors as well.

Chile has maintained these controls despite the healthiest economic growth profile in Latin America. It argues that without them it would receive a sudden inflow of short-term capital which would artificially depress real interest rates. This would stoke up a consumption boom and create inflationary pressures.

While Chilean controls have strong merits, they are not for everyone. To work, they require a sound regulatory system to start with. The IMF is right to encourage states to create a regulatory infrastructure, even if it is wrong about what it is protecting economies from, predatory hedge funds.

DOUG CAMERON

BANKS

Is there room for a global watchdog?

Louise Bowman

THE latest bout of merger activity in the international financial services sector is leaving regulators scrambling to keep up. The rise of crossborder deals and the marriage of banking and insurance services under a single corporate umbrella is starting to leave the global regulatory framework behind.

The Swiss Federal Banking Commission has reacted to the reality of Swiss-based superbanks with a planned programme to improve the supervision of the country's financial institutions.

The Swiss reaction comes just two months after the release of a proposal from the Basel Committee on the regulation of financial conglomerates. The committee, a branch of the Bank of International Settlements (BIS), governs institutions in the G10 group of industrial nations.

The Basel proposals focused on two issues: capital regulations and the level of co-ordination between regulators in different countries. Chris Bates, partner at Clifford Chance, the international law firm, says links remain patchy at present. Supervision of banking, investment and insurance services remains split in some countries and unified in others. The rise of crossborder conglomerates is giving rise to serious concerns among regulators. "The sensitive issue remains that of the lead regulator," says Bates.

The Swiss authorities have decided that the Basel committee hasn't gone far enough. Its plans have already upset the Swiss banks which fear they may be hamstrung while trying to secure a position in the global banking elite. "We reject entirely any initiative on a unilateral basis," said United Bank of Switzerland(UBS). "The statement by the Banking Commission was premature." Kurt Hauri, chairman of the Banking Commission, emphasised that a unilateral move on capital adequacy ratios was not being considered and limited his proposals to a closer dialogue with banks and their auditors.

The Swiss commission's move is a clear indication of the country's attitude to bank regulation and raises the question of the extent to which huge banking conglomerates should be subject to national regulation. "The regulatory structures to which they [international banks] are subject do not match the business structures under which they now work," says Tim Polglase, partner at law firm Norton Rose in London. "There is an inherent contradiction in the supervision of global firms and markets on a national basis." His position is enthusiastically supported by UBS. "It is very important for the competitiveness of international banks that we are all bound by the same regulations," says an official.

The advent of economic and monetary union lends this position considerable weight in Europe. But while the Swiss authorities seem prepared to leave capital adequacy requirement directives to the Basel Committee and the BIS, they are determined to flex their muscles in other areas. Sylvia Matil, at the Swiss Banking Association, fully supports this position. "There should be the principle of control of the home country," she says. "It hasn't worked so badly up until now and there is no need to change."

But do bigger banks need new – or different – regulations? The banks will say not, but this is not true. The pace of bank mergers in America is a clear signal of what is likely to happen here. "There will be more mergers in Europe, driven by the banks' desire to be in one of the 'bulge bracket' groups," says Polglase. Market consensus is that five such bulge bracket groups will emerge, dominated by the American players.

Linked groups encompassing all aspects of the financial services industry are a new phenomenon and need to be properly monitored. In Europe, the Swiss banks are at the forefront of this development. The most recent large European merger was between two Swiss banks (SBC and Union Bank of Switzerland), and Credit Suisse is high on the list of merger candidates in the near future.

Existing regulations are simply unable to cope with financial services companies of this size. A report published by the G30 group of industrial nations in 1997 concluded that: "Direct and indirect risk exposures within this group [of international banks] are so complicated and opaque and change so rapidly that it is virtually impossible to monitor them in anything like real time".

The situation is no better in America, where each state has its own insurance regulator. But a small step in the right direction was taken in October 1997, when the Securities and Exchange Commission and the Commodity Futures Trading Commission in America, and the Bank of England and the FSA in Britain, signed a memorandum of information for future cooperation and sharing of supervisory information. They will have their work cut out keeping up with the pace of change. ■

CyanMagYelloKey

HEALTH

Ambulance chasers

Doug Cameron

SOARING healthcare budgets are placing increasing strains on national treasuries throughout Europe. The possibility of attracting private capital into state-run health services for the first time has been a panacea for policy makers seeking to meet the ever rising demand for health services. But just as the initiative is starting to gain momentum, it risks being derailed by the potential conflicts of interest between investors and governments anxious not to be accused of privatising state-supplied care.

Europe's health services remain a mish-mash of public and private provision. The UK has led the way in finally securing private sector funding for new hospital development. The drawback is that investors are choosy about where they risk their funds. The fear among some health service professionals is that the financiers will cherry-pick projects at the expense of communities' broader needs and force down costs and services to meet interest payments. Proponents of the trend contend that compromises can be made to satisfy both sides.

The much-heralded introduction of private funding into the British hospital building programme under the private finance initiative (PFI) is in danger of running out of steam long before it reaches the ambitious targets proposed by the last two governments. Despite some streamlining, the financial community remains frustrated by negotiations which are still seen as overly bureaucratic. The venture capital community, which has underpinned the pilot projects, requires annual investment returns of more than 20 per cent. Some have already pulled back to seek more profitable opportunities elsewhere.

The private sector has intensified its lobbying to become more involved in the management of schemes and offload more project risk to the government. The latter led to a draft report from Britain's Accounting Standards Authority questioning whether PFI deals actually involved a true transfer of risk to the private sector away from the public accounts.

The current British administration has so far cleared 25 hospital projects with an estimated cost of £3 billion ($4.96bn), although only a handful have successfully raised finance and started construction. The consortiums involved – builders, facilities managers and private equity providers – continue to struggle through the minefield of complicated documentation which covers everything from projected patient demand to the type of sheets on the beds.

Private financiers are pushing to provide clinical services

The application of PFI has also raised a storm of protest from community groups concerned that services are being cut to meet the spiralling building costs of new projects. A controversial report by researchers at St George's Hospital in London, commissioned by the British Medical Association, claims the average cost of PFI schemes has risen by 72 per cent above the original business plan. Its authors claim that reliance on private investment has inflated the scale of the schemes as bidders seek to increase their rates of return. At the same time they charge that while more costly, the planned new facilities provide fewer inpatient beds.

The report has been slammed by health authorities involved in the first wave of PFI deals but the researchers at St George's say business plans were flawed in the competition to secure PFI approval. Funding for interest payments is ring fenced and the report says clinical budgets have been raided to pay for additional finance costs.

The charges are rejected by financiers involved in hospital PFIs. "They are right to say that the costs of introducing PFI have been ludicrous," says Matthew Webber, a director at Innisfree, the investment firm which has an £85 million PFI fund. But he cites inflated legal fees and protracted negotiations which will diminish as more deals are done rather than inflated designs.

The landscape of hospital funding under PFI has changed dramatically since the British general election. A review of PFI has scaled down expectations, helped to clear deals awaiting approval and brought some relief to a financial sector which has invested heavily in developing the technology for the first transactions.

"It is wrong to run away with the idea that this is taking a long time," says Malcolm Stamp, chief executive of Norfolk & Norwich National Health Service (NHS) Hospital Trust, one of the first to secure approval and financing. "It is miles quicker than the old system."

But even with construction under way, there are signs of continuing tension between the government and the private consortiums. The former remains sensitive about overplaying the impact of private-led hospitals on the future of the state-run National Health Service after repeatedly accusing the previous administration of privatising the NHS by the back door.

The problem for the Labour government is that the financiers have taken over from the builders who initially led hospital PFI bids. Construction companies and facilities managers are already hamstrung by a shortage of capital and have balked at the cost of sponsoring deals. Moreover, their initial enthusiasm to secure deals has been diluted with the advent of the economic upturn which has allowed them to pursue alternative avenues. Building houses has become a more attractive bet for some.

Alan Milburn, the British health minister, has already declared that clinical services will not be outsourced to private contractors and that some borderline services, including radiology and pathology, are also off the table. The government's insistence that clinical services will not be provided by the private sector will be tested when financiers are faced with less attractive schemes. This division of provision contrasts with, for example, PFI in the transport and prisons sectors, where funding has been raised on a build, own, operate and transfer basis.

ANDREW NORTH / KATZ

Take me to the Hilton: the private finance sector is accused of cherry-picking hospital projects and pushing private beds

For lenders in the health sector this exclusion makes little difference, but for equity and service providers, keen to have more control over the businesses and secure further contracts, it does. "Health is still attractive without clinical services, but not as attractive as it might have been," says a member of the NHS Executive.

Britain's Department of Health has still to issue a precise definition of what clinical services are – ie what the private sector would be allowed to do. But the political capital of keeping NHS provision in public hands stacks uneasily with the demands of the private sector, which require a broadening of provision to maintain their interest. "We are very happy to stop at the clinician's door ... but we can deliver a far better service if we don't," says Webber.

The British schemes under way so far avoided any element of private provision such as private hospital units, pharmacy services or pathology. But as the government seeks to develop less attractive schemes it will be faced with a difficult choice between sweetening the pot for investors and risking political suicide by being seen to go too far. "The delivery of health services over the next 20 years is going to change dramatically. We need to be involved in how these projects are managed," says Chris Elliot, managing director of BZW Private Equity. Elliot says the equity providers want to become more involved in sponsoring and structuring deals rather than coming in at the end, and this could involve a change in the structure of provision, incorporating non-clinical services, including on-site hotel facilities for visiting relatives.

The division of risks and the availability or otherwise of state guarantees has been one of the most time-consuming elements. "The key is to ensure that the appropriate risks are passed to the right service providers. That is where a lot of energy is taken up," says one lawyer. "Clearly risk transfer has been a bit of a problem; government officials have been trying to transfer risks to the private sector they are not capable of taking."

Milburn has yet to secure the full confidence of financiers who, impatient at the delays, may stand back if the next wave of projects is not sweetened to their liking. "It's no good blaming the government – the private sector has still got to get its act together," says Bruce Cornwell, managing director of Serco Investments, the finance arm of the facilities management company involved in several hospital deals. "The reality is: do they want a hospital or not?" ■


FSP

Jon and Hank: Goldman's top men are split, so are their partners

BANKING

Goldman's golden dilemma: to get rich quick, or even quicker?

Paula Hawkins

WHEN Goldman Sachs partners and managing directors held their Christmas party at the Natural History Museum in New York in December, bankers in dinner jackets sipped champagne and nibbled canapés in the great rooms housing the museum's collection of dinosaurs.

It was an appropriate venue for that rare species, the investment bank run as a partnership. Last year was a good one for Goldman Sachs, which turned in a profit of $3.13 billion – a spectacular result given that the bank's partner equity is just $6.1bn. It was an especially pleasing result because it represented a strong comeback after the difficult year that followed the departure of its managing partner, Robert Rubin, to public office as Treasury secretary in Bill Clinton's administration.

The new executive management team of Jon Corzine and Henry Paulson had proved they had the right stuff to lead the firm.

Now Goldman's partners and managing directors are preparing to get together again, in New York on 12 June. The atmosphere may lack conviviality. The renewed debate over whether to go public – it is the seventh time Goldman Sachs has debated the issue – has sparked an unusually tense and divisive mood at the partnership. Supporters of maintaining the status quo argue that Goldman Sachs gets real business advantage, as well as considerable mystique, from continuing as the last big remaining partnership on Wall Street. They say it would be a betrayal of their custody of the 128-year-old firm to abandon its proven business model and become just like any other investment bank.

But the advocates for change have powerful arguments. They say that as banks merge around them, Goldman risks being left out of the global first division. They argue that the firm will never achieve the scale necessary for banking in the new millennium without injecting more capital that can only come from going public.

As advisor to many of the most powerful corporations, individuals and governments in the world, Goldman is used to taking a view on vexing business issues. But it is having a hard time reconciling the arguments about its own future.

A potentially damaging conflict is emerging between those who want to cash in while the going is good – mostly younger partners who see the chance of a once-in-a-lifetime windfall, which could be as much as $80 million each – and those who want to preserve Goldman's unique heritage for the next generation. These individuals, many of them among the firm's most senior members, counsel that eventually the young partners will in any case have more money than they know what to do with. They should just calm down and be patient.

The firm's managing directors (one rank beneath partner) and executive directors are mostly on the side of the old guard. These ranks, whose influence is important because they produce much of the firm's day-to-day profits, fear the company going public not least because it means they can never become partners. Some executive directors argue that this breaks the bargain implicit when they joined the firm, that one day everyone will have the opportunity to join the magic circle.

Ironically, the two men who have been instrumental in expanding Goldman's business and profitability now find themselves on opposite sides of the debate. Corzine, the group's chairman and chief executive, is keen to consider a stock offering or a merger, while president and the chief operating officer, Paulson, allied with his powerful chief financial officer, John Thain, say that breaking up the partnership would be a grave mistake.

Meanwhile, the rest of the banking community is enthralled by the drama. It is not necessary to be a partner or employee of Goldman Sachs to find this debate of interest. If the firm does go public, then potentially everyone will get a chance to own a piece of Goldman. Will the bank's shares be worth a punt? And how price-sensitive would such a flotation prove?

In a firm where it normally rains money, it may soon be about to pour

Valuing Goldman Sachs is a tricky proposition since its partners are not required to disclose a great deal of financial information (another argument for keeping it a partnership). Analysts expect the worldwide group to be worth no less than $20bn – that is 16.3 times net earnings, which are estimated to be about $1.23bn after deductions for tax, compensation costs for partners and interest payments to Goldman's existing inner circle of investors, of which the largest is Sumitomo Bank.

Most bulge bracket banks would be worth slightly less than this. Merrill Lynch, for example, trades at a price-to-earnings ratio of 15.8. Goldman could be worth rather more. Other estimates say it is worth at least $22bn and still others think it could actually be worth even more, especially as the firm is currently making profits at a record rate (more than $1bn in the first quarter of this year alone). This argument is given weight by other recent deals, in which earnings ratios are only half the picture. American bank mergers over the past year have valued institutions at an average of four times book value: on this basis, Goldman Sachs ought to be worth a tasty $28bn. But never mind the price, feel the quality. Analysts expect investors to jump at the opportunity to get their hands on the stock of a firm with such a stellar reputation. "This is the Rolls-Royce of investment banking, the crème de la crème," says one analyst.

But there are caveats. Analysts argue that because of the nature of Goldman's business, its revenue stream is less constant than that of the banks with large asset management divisions, such as Merrill Lynch or Morgan Stanley Dean Witter. There are less tangible – but arguably more important – factors to be taken into consideration too.

The big danger is that Goldman's brightest young things will walk out if they believe they have been betrayed by immediate superiors eager to make a quick fortune. The bank's cohort of non-equity owning managing directors and the top slice of executive directors would presumably need to be compensated handsomely if Goldman is to stay united.

But cash may not be enough to keep Goldman's team glued together. The question is: how much of Goldman's success is due to its unique culture? What will its prospects be if it loses its special magic? Goldman's partnership status has fostered a culture that sets it apart from virtually all of its competitors. Recruits to the firm are made to believe they are joining an institution akin to a monastic order.

Those inside the bank, cautioning against any quick dash for capital, are hoping that their arguments will win through once again. But money talks loudly at Goldman and the partners have never before been tempted by so much of it. In a firm where it normally rains money, the cash may soon be about to pour. ■

CZECH REPUBLIC

State looters held to account by auditors

Francis Harris
PRAGUE

IVAN PILIP, the reformist finance minister, is squaring up to his predecessor in a battle to revive the Czech Republic's battered privatisation programme and rescue assets plundered by a shadowy network of insider trading. To do so, Pilip is having to do the unthinkable: asking the auditors to lie.

Pilip is wrestling for control of Ceska Pojistovna, the country's largest insurer with 61 per cent of the general and life insurance market. A majority stake in the firm, which is valued at $500 million, was hived off in the country's disastrous voucher privatisation scheme. The state retains a minority stake and Pilip wants to sell Pojistovna to an unidentified overseas investor.

Pilip's problem is that Pojistovna is controlled by the former finance minister, Ivan Kocarnik. His emergence as chairman of the company is symptomatic of the corruption endemic in the privatisation programme copioneered with the former premier, Vaclav Klaus. During their period in office, from 1992 to 1997, majority stakes in many nationalised industries were simply handed out to local councils and banks or sold to the public through cheap vouchers that were snapped up by the same banks. Pilip's bid to reclaim the firm is based on a little-known clause in the company's privatisation statute. According to Martin Nejedly at Prague brokers Wood & Co, the state can take control only if Pojistovna made a loss in 1997 or if the auditors refused to give its accounts a clean bill of health.

RICHARD O'ROURKE

By any means: Ivan Pilip is looking to promote capitalism without the cronies

If the accountants have any sense, they will do as Pilip asks and bend the truth

The company has yet to report its full-year results but it is widely expected to record a profit. This has focused attention on the auditors, KPMG. "It is probably the case that the finance ministry has arranged a meeting and strongly implied that it wants a negative audit," says one insider. "If the auditors have any sense, they will deliver one."

If Pilip succeeds it would mark the first victory against a predatory partnership of banks and financial institutions closely tied to Kocarnik. Branded "the heart of darkness" by one broker for their murky origins and secret cross-holdings in one another's firms, the predators have taken control of one state firm after another for well below the market price.

In a recent example, predators took control of the chemicals producer Spolana Neratovice, in which the government had a 37 per cent stake. This forced the government to sell its shares to the new owners for a very low price.

This was a disaster for the state's depleted coffers as the shares were sold on or snapped up by brokerages acting for unknown buyers. This diluted the state's stake in scores of firms to below 50 per cent and once it lost control its remaining shares were massively devalued. If Pilip is to win at Pojistovna, he will have to defeat the most powerful men in the Czech Republic. This new breed of financier with a taste for designer suits and sleek German limousines often wields more power than the government. This has made the Pojistovna battle a brutal affair, with rumours of every sort of behind-the-scenes pressure being applied.

Pilip's opposition is an unofficial alliance of PPF, which manages Ceska Pojistovna, and the heavily indebted bank, IPB, recently taken over by Nomura. The price was described as "bargain basement" after the state again lost its majority stake. Other firms linked to this group include the Chemapol consortium, run by the former Czechoslovak spy, Vaclav Junek. Chemapol and IPB were behind the Spolana Neratovice purchase.

Ministry sources acknowledge that it will try every legal means to regain control of Pojistovna. The same sources deny that Kocarnik and his colleagues from PPF will be sacked if Pilip wins. Even so, one finance ministry official added: "If we win, it's doubtful that the new owner would want Kocarnik or PPF."

That would be appropriate. Analysts say one of Kocarnik's decisions as finance minister was to approve the secret deal with PPF. His dismissal might persuade a cynical public to believe that it is possible to have capitalism without the cronies.

GROWTH

Productivity explosion can bridge the age gap

WHICH countries will do best in the first decade of the next century? Growth prospects for the G7 states reveal surprising results. Britain starts as the favourite. Japan can expect another decade in the doldrums. Continental Europe is the dark horse, whose performance may exceed expectations. America, less handicapped by demography, is the best two-way bet.

Long-term growth forecasts differ from short-term growth, which depends on demand and the business cycle. When there is plenty of slack, an economy can grow rapidly for a year or two. If, however, it is overheating and inflation is accelerating, growth must mark time until the economy cools down. Over a decade, growth depends on supply, not demand. It makes little difference to average GDP growth whether one starts with recession and ends with a boom. An economy's long-term growth rate is determined by demographics: the growth in the labour force and how well it is used.

The population of working age can be forecast with more accuracy than any other economic series. All those who will be in it in 2000 to 2010 are alive today and death rates change slowly. Immigration presents the only forecasting problem. Some people of working age are not available to work – the sick or severely disabled, students and those taking early retirement. The labour force is the population of working age multiplied by the proportion available for work (the participation rate).

Some people in the labour force cannot get jobs, so employment is the labour force less the unemployed. The growth in GDP is therefore determined by the growth in the population, less any changes in participation and unemployment rates, which gives the growth in employment, plus productivity – the growth in output per employee.

All countries are ageing but at different rates. Growth in the population of working age, 15 years to 64 years, is slowing down. In Italy, where it is already falling in the 1990s, it will fall faster. In Germany it stops growing and starts shrinking. The German working-age population falls the fastest between 2000 and 2010, down 0.25 per cent a year. Growth in Britain and Japan is one tenth of one per cent per year. The French working age population increases 0.25 per cent a year between 2000 and 2010, Canada's by 0.5 per cent and America's by 0.75 per cent. American population growth will be boosted by immigration, Japan's won't be, nor probably Europe's. If participation and unemployment rates everywhere are unchanged, America is the favourite in the next decade's growth stakes. Germany is so severely handicapped it could come last.

But if past experience is anything to go by, differences in productivity growth rates will outweigh differences in demography. The best measure of 1990s productivity is GDP growth adjusted for differences in cyclical positions in 1989 and 1999 and divided by labour force growth. Cyclically adjusted GDP growth is likely to be very similar in most countries during the 1990s. All bar Italy and Canada look like achieving two per cent. Italy lags with 1.75 per cent and Canada leads with 2.25 per cent.

Since labour force growth rates differed significantly in the 1990s, so did productivity. America's was less than one per cent. Japan and Canada managed little more than one per cent. France achieved 1.5 per cent, Italy and Britain nearly two per cent and united Germany, from 1992 to forecast 1999, led with 2.25 per cent.

When 1990s productivity performance is combined with demographic forecasts for 2000-2010, Britain is the winner, the only economy likely to notch up more than two per cent a year growth. Germany, with good productivity but bad demography, manages a shade below two per cent and comes second. France, Canada and Italy are in the middle of the field.

America's worst productivity performance in the 1990s, despite the best demographic prospects after 2000, pushes it into second to last place, while poor Japan in last place, which scores badly on both, can hope for little more than one per cent a year growth. But these projections assume no change in participation and unemployment rates or productivity growth rates. They provide the handicaps at the start of the race, indicating betting odds, not results. The American performance is likely to be far better than these odds suggest. Its boom is investment-led, not consumption-fed.

Continental Europe suffers low labour participation rates and high unemployment. In America, Japan and Britain three-quarters of the population of working age is in the labour force and unemployment is low. In Germany and France participation is two-thirds and in Italy less than 60 per cent. Unemployment is twice that in Britain and America and three times its level in Japan. If these differences were eliminated in the next decade, continental European growth could accelerate, German and French to 2.7 per cent, Italian to 3.2 per cent. Italy would then be the top performer.

Better use of the labour force could solve Europe's ageing problem. But there are problems. Can older Germans and Italians be persuaded to retire later? This will require painful changes in pension arrangements. Can young Frenchmen and women be brought back into the labour force? Will lower unemployment lead to faster inflation?

Economists calculate that if unemployment in Germany, France and Italy falls significantly below double digits, inflation will rise. But these are untested predictions. High European unemployment may largely be due to the squeeze on demand from the tight fiscal policies pursued to meet Maastricht budget targets. If demand is let rip it could well be found, as in America and Britain, that European economies can operate with much lower unemployment without resurgent inflation. Even so, continental Europe is unlikely to make full use of its labour force.

Japan has nothing going for it. Bad demography, high participation rates and low unemployment leave little scope for any improvement in the use of labour. Productivity could and should be improved by deregulation. Japan is a command economy, communism with beauty spots, not capitalism with warts. Like eastern Europe, it is in transition to a market economy. More old jobs must be lost before sound parts of the economy provide sufficient new jobs. Japan is a certain loser in this decade's growth stakes.

BRIAN READING

The author is a director of Lombard Street Research

SLOVAKIA

Dirty money wanted here

PAVOL FUNTAL / TASR

Heavy brigade: Vladimir Meciar (centre) wants to encourage Slovak investors who have bundles of illicit cash under their beds

Jeff Lovitt
PRAGUE

VLADIMIR MECIAR, the maverick Slovak premier, has an unconventional way of dealing with political opponents and is about to transfer his unusual tactics to fund reconstruction of his country's moribund economy. Safe in the knowledge that international investors are unwilling to touch Slovak debt, he is turning to the country's burgeoning black economy for help.

Meciar is enmeshed in the murky depths of Slovakia's business underworld and is using his connections to offer criminals and cash-only carpenters alike a way to invest their undeclared earnings. His plan for a general amnesty of the black economy, announced recently by the deputy finance minister, Peter Stanek, is in keeping with Meciar's irreverent humour. When asked by the opposition leader, Michal Kovac, where he was on the night of his son's kidnapping, Meciar told him: "Ask your wife."

The Slovak government is expected to announce plans for a eurobond issue on 28 April to plug holes in the state budget and pay for infrastructure projects in the capital, Bratislava. Meciar was unequivocal about where he expects demand to come from. "These state bonds can be bought by anyone, including any person who has hidden away black market money and doesn't know how to declare it to the tax authorities," he announced to a stunned financial community. "We will give them their chance now."

Meciar needs to raise Sk92 billion ($2.59bn) to cover the Sk51bn budget deficit, equivalent to 6.7 per cent of GDP, and Sk41bn to repay bonds which mature this year. The treasury is planning a two-tier issue of three-year eurobonds, one aimed at international investors and a larger tranche targeted at those who have profited from the black economy.

This would be the first three-year issue by Slovakia since gaining independence; it has been limited so far to one-year issues. It has yet to mandate a lead arranger for the issue and western bankers have already expressed dismay at Meciar's comments, which they fear may derail the planned international issue.

Robert Fekete, a bond salesman at brokerage house Wood & Co, doubts the chances of success of a eurobond issue. "I don't expect the EBRD [European Bank for Reconstruction and Development] or the like will take up the issue." The EBRD sold its 10 per cent stake in the Slovak petrochemicals giant, Slovnaft, when Meciar's government handed a controlling stake to the management at a fraction of the price the EBRD paid.

Slovakia is already having to offer a generous spread of 17 per cent to try and ensure the bonds are taken up. The finance ministry, which estimates that the grey economy accounts for about 20 per cent of GDP, confirmed that no questions will be asked about the origins of domestic investment. Though unstated, this makes them attractive to the increasingly powerful organised crime syndicates in Slovakia – and Meciar's wealthy friends who have benefited from knock-down prices in the country's privatisation programme.

Meciar is turning to the black market for help

Fekete doubts that even Meciar's friends will subscribe when interest rates on three-month money deposits are about 25 per cent. "Clients will not be willing to take the risk in the light of what might happen to the Slovak currency," he says. "Meciar says he won't check where the money comes from because he needs it desperately"

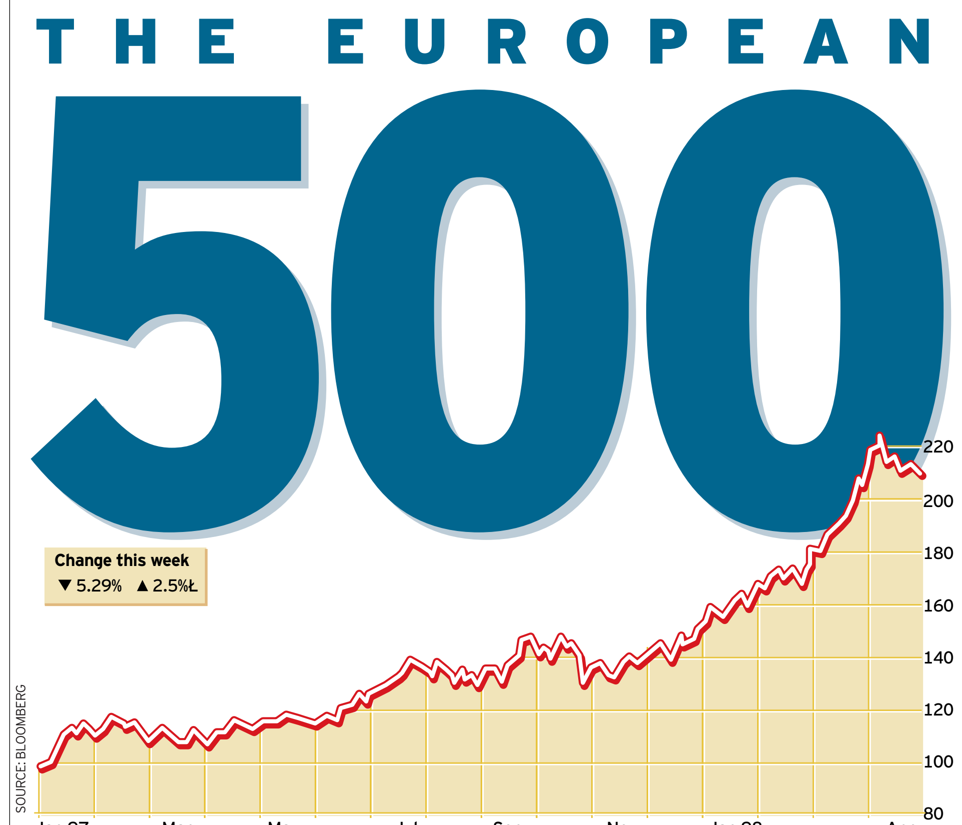
However, some financiers believe the tactic will succeed. "If a dollar eurobond issue is successful, an issue in Slovak crowns could emerge at lower interest rates," says Viktor Strauch, head of treasury at Creditanstalt bank in Bratislava. "Such low yields are not interesting for us. It may be interesting for insurance companies who need long-term assets, but not for banks."

Slovak investors with illicit cash under the bed are also more likely to favour the bond markets when declaring their earnings following the sluggish performance of Bratislava's SAX stock index, which fell 10 per cent in March. Meciar's bid to shore up the economy comes ahead of elections planned for September.

Meciar's government sabotaged a referendum on direct presidential elections last year and one of his first steps after assuming presidential powers on 2 March – parliament has failed to muster the required 60 per cent majority needed to elect a successor to Kovac – was to pardon all those indicted on charges related to the referendum and, even more disturbingly, to pardon those implicated in the kidnapping of Kovac's son in August 1995.

American competitiveness giving business a lift PAGE 62

THE EUROPEAN 500



STOCK PICKS

Investors find food for thought

A SHIFT into financial services by British food retailers is proving to be a prudent move as the big four supermarkets – Tesco, Sainsbury, Asda and Safeway – battle for market share.

Tesco is now the market leader in the £93 billion ($154bn) British market, overtaking rival Sainsbury, the long-term holder of that position, by aggressively cutting prices and improving customer service.

Tesco's strong second-half results, released last week, will not be helped by an aggressive expansionist policy in central and eastern Europe which will hold back short-term profits. But with a saturated home market, the company must look abroad to increase sales.

It looks as though rivals Asda and Safeway will continue to snap at Tesco's heels in the coming year as speculation surrounding their possible merger continues. The new chain, if it materialises, will be a monster in the making, with turnover 60 per cent greater than Sainsbury's and a third bigger than Tesco's. Other European markets do not have this degree of concentration. Dutch food retailer Ahold has a market share of around 40 per cent but nobody else in Europe or North America comes close.

Ahold

HISTORY would be on your side if your investment strategy involved selling the shares of any European retailer that even considered buying in America, for too many of them have either overpaid for American acquisitions or simply misjudged a country where retail depends on detail.

In the much smaller group of successful European invaders, Ahold of the Netherlands stands out. It has made America the centrepiece of its international expansions acquiring a string of supermarket chains on the east coast, most recently the purchase of Stop & Shop in 1996.

Cost control has been the key to Ahold's success in the Netherlands, where it has around a 40 per cent market share in food retailing. According to David Schriver, retail analyst at Credit Suisse First Boston in London, Ahold has successfully lifted profits from the US by cutting costs aggressively – a strategy that has been aided by its increasing economies of scale in America. That should ensure Ahold suffers less than most of its rivals at a time when American growth is about to turn down. BUY

Pinault-Printemps-Redoute

THIS company offers better potential for improved efficiency than many European corporates, reflecting the aggression of its management team. From what was effectively a family-owned company, it has become the largest non-food retailer in France, comprising record and video store Fnac, Redoute, the mail-order supplier, Conforama, a supplier of home furnishings as well as Printemps, a chain of department stores. Last week it announced first-quarter sales of Ffr24.4 billion ($146.4bn), up 9.3 per cent on a like-for-like basis.

The big question is whether management can be as imaginative in selling assets as it has been in assembling its portfolio. Last year it disposed of Prisunic, a non-core food retailer, and the time is right for it to sell more of its poorer performers and to reduce capital through a share buy-back. Management seems to be in favour and the increase in returns to shareholders could be substantial. BUY

Carrefour

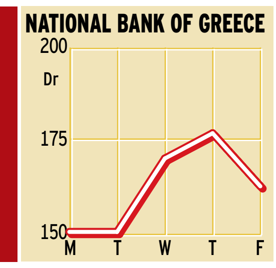
THE French retailer, which sells food, clothing, electronics, appliances and car supplies, was one of the first to move into emerging markets over 20 years ago. But it has become a victim of its own success, expecting profit growth this year to halve to about eight per cent as Asian and Brazilian economies, where it has heavily invested, falter.

The company has stressed that it will not let the slowdown apply the brakes to its expansion efforts. More than 75 per cent of the new stores planned for this year will be in Asia and Latin America and the company is still committed to these plans.

Carrefour is also likely to suffer from slowing sales at its Spanish subsidiary, Pryca, which indicated that first-quarter profit fell 12.6 per cent to Pts7.8bn ($51m) as sales diminished.

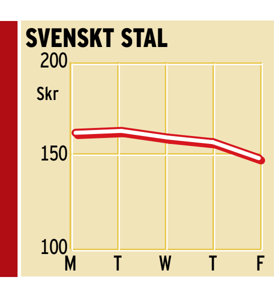
Despite Carrefour's current troubles, the stock is a worthwhile one, although it could be some time before shares see an upturn. HOLD

Banks



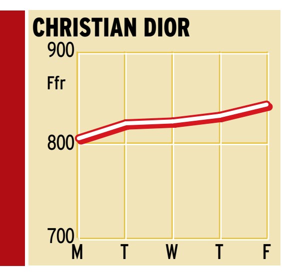
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Abbey National	UK	1155.0	17.5	−3.4	3.4
ABN Amro	Neth	52.3	0.8	−1.1	2.3
Alliance & Leicester	UK	815.0	12.4	−4.5	3.1
Allied Irish	Ire	9.7	0.1	−1.3	1.8
Alpha Credit Bank	Gre	28750.0	435.8	8.5	2.6
Banca Commerciale It	Ita	9600.0	145.5	−2.4	1.7
Banca di Roma	Ita	3195.0	48.4	−7.4	–
Banca Fideuram	Ita	11330.0	171.7	−9.5	1.0
Banco Bilbao Vizcaya	Spa	7590.0	115.0	−5.0	1.6
Banco Central His	Spa	5000.0	75.8	0.0	1.3
Banca Intesa	It	5750.0	87.2	−9.7	1.3
Banco Com Portugues	Port	–	–	–	–
Banco Esp Credito	Spa	1915.0	29.0	−13.5	–
Banco Espirito Santo	Port	8890.0	134.7	−1.9	1.7
Banco Popular Espanol	Spa	12820.0	194.3	−5.7	2.3
Banco Santander	Spa	7960.0	120.7	−1.0	1.6
Bank Austria	Aus	1015.0	15.4	8.7	1.2
Bank Fuer Intl Zah-Belg	Swi	9600.0	145.5	2.9	2.9
Bank Fuer Intl Zahlungs	Swi	9730.0	147.5	−0.7	3.1
Bank Of Ireland	Ire	14.8	0.2	−5.2	1.3
Bank Of Scotland	UK	729.5	11.1	−5.3	1.7
Bankgesellschaft Berlin	Ger	45.0	0.7	−5.9	2.4
Bankinter	Spa	10020.0	151.9	−2.4	2.9
Banque Gen Du Lux	Lux	79200.0	1200.5	0.5	1.7
Banque Nat de Paris	Fr	497.1	7.5	0.8	2.1
Barclays	UK	1753.0	26.6	−1.8	2.6
Bayerische Vereinsbank	Ger	142.5	2.2	8.9	1.6
BBL	Bel	11800.0	178.9	3.5	2.1
BG Bank	Den	402.0	6.1	−3.1	5.0
BHF-Bank	Ger	67.4	1.0	3.4	3.1
Christiania Bank	Nor	37.5	0.6	3.6	3.2
Cie Financiere De Paribas	Fr	639.0	9.7	−2.3	3.1
Commerzbank	Ger	71.2	1.1	−2.1	3.0
Compagnie Bancaire	Fr	1106.0	16.8	−2.6	1.4
Corp Bancaria De Esp	Spa	12430.0	188.4	−8.3	2.4
Den Danske Bank	Den	815.0	12.4	−5.5	2.2
Den Norske Bank	Nor	44.2	0.7	−0.2	3.1
Deutsche Bank	Ger	143.5	2.2	−4.8	1.8
Deutsche Pfandbrief	Ger	145.8	2.2	−1.5	1.5
Dexia Belgium	Bel	5150.0	78.1	2.6	2.3
Dexia France	Fr	–	–	–	–
Dresdner Bank	Ger	100.0	1.5	4.3	2.2
Generale De Banque	Bel	21275.0	322.5	−2.0	2.6
Halifax	UK	818.0	12.4	−3.0	–
HSBC	UK	1786.0	27.1	−0.6	3.6
Istituto Banc San Paolo	Ita	27000.0	409.2	3.9	0.4
Kredietbank	Bel	20950.0	317.5	1.3	1.9
Lloyds TSB	UK	934.0	14.2	−4.9	2.3
Mediobanca	Ita	24450.0	370.6	−10.6	0.7
Merita	Fin	35.0	0.5	2.9	2.6
National Bank of Greece	Gre	52600.0	797.3	22.3	–
National Westminster	UK	1128.0	17.1	−0.9	3.5
Rolo Banca	Ita	42050.0	637.4	−6.7	1.3
Royal Bank of Scotland	UK	923.0	14.0	−7.2	3.0
Schroders	UK	2955.0	44.8	4.4	1.0
Schweizerischer Bank	Swi	523.0	7.9	−5.8	2.3
Skandi Enskilda Banken	Swe	119.5	1.8	8.1	2.5
Societe Generale	Fr	1190.0	18.0	−4.3	2.6
Standard Chartered	UK	910.5	13.8	−3.0	2.5
Svenska Handelsbanken	Swe	351.5	5.3	0.4	1.8
UBS	Swi	2487.0	37.7	−3.2	2.0
Unidanmark	Den	565.0	8.6	−1.8	2.7
Woolwich	UK	335.0	5.1	−6.7	3.6
Worms et Compagnie	Fr	385.0	5.8	1.1	18.7

Basic Materials



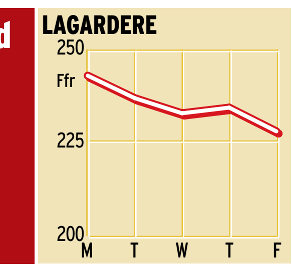
Company	Country	Price (local)	Price (Ecu)	%change	Yield
AGA	Swe	108.5	1.6	0.9	2.8
Akzo Nobel	Neth	434.9	6.6	5.3	2.0
Allied Colloids	UK	204.5	3.1	0.0	2.0
Alusuisse Lonza	Swi	1880.0	28.5	–	1.0
Arjo Wiggins Appleton	UK	207.5	3.1	4.8	3.8
Assidoman	Swe	206.0	3.1	−3.3	2.7
Basf	Ger	78.3	1.2	−2.2	3.7
Bayer	Ger	77.4	1.2	−3.7	3.5
Billiton	UK	182.0	2.8	1.2	–
Boc	UK	963.0	14.6	0.5	3.5
British Steel	UK	158.0	2.4	8.3	7.9
Ciba Specialty Chems	Swi	179.0	2.7	−5.4	1.1
Clariant	Swi	1527.0	23.1	−4.9	0.7
Courtaulds	UK	448.5	6.8	1.1	3.7
Degussa	Ger	99.1	1.5	−2.8	1.5
DSM	Neth	204.6	3.1	1.9	4.9
Enso	Fin	56.8	0.9	0.5	3.9
FPB	Ger	–	4.8	1.9	7.7
Henkel Kgaa	Ger	124.5	1.9	2.0	1.5
Hoechst	Ger	69.6	1.1	1.6	3.1
Imperial Chemical	UK	1083.0	16.4	−1.1	2.9
Johnson Matthey	UK	613.5	9.3	5.0	2.6
Koninklijke Knp	Neth	55.9	0.8	−3.1	2.0
Air Liquide	Fr	1113.0	16.9	−2.5	1.9
Laporte	UK	795.0	12.1	3.1	3.2
Minorco-Bearer	Lux	620.0	9.4	–	–
Mo Och Domsjoe	Swe	229.5	3.5	−4.2	3.9
Pechiney	Fr	268.1	4.1	−4.3	1.8
Preussag	Ger	605.5	9.2	−2.9	2.8
Rio Tinto	UK	884.0	13.4	7.2	3.6
SGL Carbon	Ger	197.7	3.0	−7.6	1.7
Skw Trostberg	Ger	64.1	1.0	0.4	2.7
Solvay	Bel	2725.0	41.3	−2.9	2.9
Ssab Svenskt Stal	Swe	149.0	2.3	−8.3	3.0
Stora Kopparbergs	Swe	129.0	2.0	−3.7	2.9
Svenska Cellulosa	Swe	223.0	3.4	−5.9	2.6
Upm-Kymmene	Fin	158.5	2.4	−3.6	3.5
Usinor	Fr	93.8	1.4	−0.2	5.3

Consumer



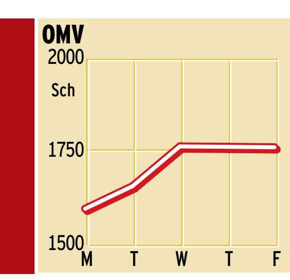
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Accor	Fr	–	–	8.3	0.7
Adidas	Ger	301.0	4.6	−3.4	–
Airtours	UK	505.0	7.7	1.0	–
Alitalia	Ita	33950.0	514.6	−3.2	–
Allied Domecq	UK	626.0	4.0	2.5	3.9
Altana	Ger	143.0	0.9	0.0	0.2
Associated British Foods	UK	560.0	3.5	−0.5	3.2
Astra	Swe	154.0	1.0	−4.1	1.2
Audi	Ger	–	–	−3.4	–
Autopistas Con	Spa	2350.0	14.9	−7.1	3.1
BAT	UK	573.5	3.6	0.7	5.1
Bass	UK	1100.0	7.0	−3.5	3.5
BMW	Ger	1930.0	–	–	–
Beiersdorf	Ger	97.5	0.6	−4.4	1.5
Bic	Fr	417.3	2.6	−7.7	2.2
British Airways	UK	619.0	9.4	1.2	3.2
Cadbury Schweppes	UK	824.5	5.2	−6.0	2.2
Carlsberg	Den	441.8	2.8	−3.3	0.8
Castorama Dubuis Inv	Fr	1029.0	15.6	6.4	1.6
CCP	Spa	2695.0	40.8	−8.0	2.4
Christian Dior	Fr	850.0	5.4	16.1	2.9
Cie Ffinanc Richemont	Swi	2085.0	13.2	1.2	–
Cie Generale Des Eaux	Fr	1102.0	7.0	2.0	1.6
Colruyt	Bel	23650.0	149.8	−2.8	0.7
Compass	UK	975.0	14.8	−5.9	1.3
Continental	Ger	51.1	0.8	−1.0	2.0
Daimler-Benz	Ger	177.7	2.7	−6.0	1.3
Danisco	Den	440.0	2.8	−3.3	1.1
Deutsche Lufthansa	Ger	40.1	0.6	−4.5	2.2
Diageo	UK	710.5	4.5	6.8	2.5
Elan	Ire	48.0	30.4	7.8	–
Electrolux	Fr	685.0	10.4	−4.7	1.8
EMI	UK	475.0	7.2	4.6	3.4
Eridania Beghin-Say	Fr	1225.0	775.7	0.3	4.0
Essilor International	Fr	2265.0	1434.2	0.8	1.1
Fiat	Ita	7410.0	112.3	−13.3	–
Fresenius Medical Care	Ger	122.5	77.6	−6.5	1.2
Gallaher	UK	310.0	196.3	6.5	7.3
Gehe	Ger	100.5	63.6	0.6	1.8
GKN	UK	1714.0	26.0	6.0	1.7
Glaxo Wellcome	UK	1555.0	984.6	−6.0	2.5
Granada	UK	1048.5	663.9	−2.2	1.7
Groupe Danone	Fr	1380.0	873.8	−1.4	1.8
Hays	UK	1055.0	668.0	−5.2	1.2
Heineken	Neth	501.1	317.3	30.0	0.4
Imperial Tobacco	UK	442.5	280.2	−2.3	6.2
Jeronimo Martins	Port	8810.0	133.5	−5.8	0.5
Klm-Konin Luchtvaart	Neth	81.4	1.2	−5.5	1.2
Koninklijke Ahold	Neth	64.0	40.5	−3.9	1.1
La Rinascente	Ita	17700.0	11207.8	−8.6	1.1
Ladbroke	UK	341.5	5.2	3.2	2.6
L'Oreal	Fr	2751.0	1742.0	−5.8	0.9
LucasVarity	UK	260.5	3.9	0.3	2.2
LVMH	Fr	1291.0	817.5	10.2	2.6
Michelin	Fr	371.0	5.6	−0.3	1.3
Montedison	Ita	2340.0	1481.7	−10.0	1.7
Nestle	Swi	2687.0	1701.4	−5.3	1.3
Northern Foods	UK	219.5	139.0	−3.7	4.1
Novartis-Bearer	Swi	2371.0	1501.3	−6.7	1.1
Nutricia Verenigde Bed	Neth	69.9	44.3	−2.4	1.0
Nycomed Amersham	UK	2070.0	1310.7	−2.8	–
Orkla	Nor	879.5	556.9	2.7	1.0
Parmalat Finanziaria	Ita	4090.0	2589.8	−9.7	0.4
Pernod-Ricard	Fr	415.6	263.2	–	3.8
Pharmacia & Upjohn	Swe	312.0	197.6	−6.9	2.8
Pilkington	UK	129.52.0	10.9	4.6	
Pirelli	Ita	5980.0	90.6	−11.2	2.0
Pirelli Spa-rnc	Ita	4520.0	68.5	−11.3	3.1
Promodes	Fr	2937.0	1859.7	−1.8	0.7
PSA Peugeot Citroën	Fr	1039.0	15.7	1.9	0.4
Raisio	Fin	1050.0	664.9	17.3	0.3
Randstad	Neth	97.5	61.7	−1.9	1.0
Reckitt & Colman	UK	1300.0	823.2	6.3	1.8
Renault	Fr	266.6	4.0	−3.9	–
Rentokil Initial	UK	391.5	247.9	1.6	1.0
Rhone-Poulenc	Fr	291.2	184.4	0.4	1.8
Roche Holding-bearer	Swi	25050	15861.9	−2.9	0.3
SMH-Bearer	Swi	961.0	14.6	−0.9	1.0
Sairgroup	Swi	1995.0	30.2	−2.0	–
Sanofi	Fr	687.0	435.0	−0.6	1.4
Scania	Swe	187.0	2.8	−1.8	2.9
Schering	Ger	198.9	125.9	−5.0	1.8
Scottish & Newcastle	UK	873.0	552.8	−2.5	3.2
Seb	Fr	930.0	14.1	0.3	1.8
Securicor	UK	392.5	248.5	−4.0	0.6
Seita	Fr	262.0	165.9	−2.2	3.8
Sgs Soc Gen de Surv	Swi	2740.0	1735.0	−0.4	2.5
Smith & Nephew	UK	173.3	109.7	2.4	3.6
Smithkline Beecham	UK	676.0	428.0	−6.2	2.0
Sodexho Alliance	Fr	1095.0	16.6	−0.5	1.2
Sophus Berendsen	Den	–	–	–	–
Springer (axel) Verlag	Ger	–	–	0.0	1.8
Suedzucker	Ger	1025.0	649.0	4.4	2.4
Synthelabo	Fr	940.0	595.2	−2.6	0.8
T & N	UK	259.0	3.9	0.0	–
Tabacalera	Sp	3365.0	2130.8	−11.0	1.5
Tate & Lyle	UK	528.0	334.3	−3.2	3.6
UCB	Bel	173300	109735.2	4.0	0.7
Unigate	UK	718.5	455.0	1.1	3.6
Unilever-CVA	Neth	148.2	93.8	−1.1	1.5
Unilever	UK	565.0	357.8	1.5	1.7
United Biscuits	UK	221.5	140.3	1.7	5.4
Valeo	Fr	538.0	8.2	−5.4	1.1
Volkswagen	Ger	1368.0	20.7	−6.3	1.3
Volvo	Swe	233.0	3.5	−11.4	2.1
Whitbread	UK	1084.0	686.4	−0.6	2.8
Wolseley	UK	426.0	6.5	−2.7	3.4
Zeneca	UK	2546.0	1612.2	0.0	1.9

Diversified



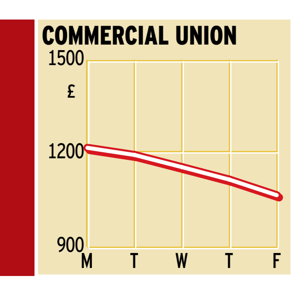
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Barco	Bel	9590.0	234.2	−1.0	0.6
BTR	UK	220.0	5.4	0.6	4.8
Gevaert	Bel	2080.0	50.8	−2.1	–
Industrivarden	Swe	535.0	13.1	−4.1	2.8
Lagardere	Fr	228.2	5.6	−7.5	2.4
Metallgesellschaft	Ger	37.6	0.9	−3.2	0.5
Montaigne Participat	Fr	–	–	–	0.4
Ste Gen de Belgique	Bel	5730.0	139.9	−1.7	2.1
Tomkins	UK	349.0	8.5	2.3	3.4

Energy



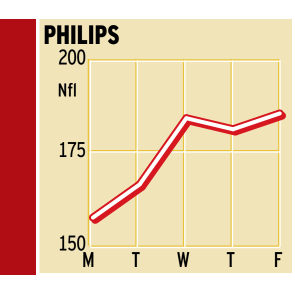
Company	Country	Price (local)	Price (Ecu)	%change	Yield
British Petroleum	UK	910.0	13.8	3.2	3.1
Burmah Castrol	UK	1230.0	18.6	7.1	3.3
Cia Espanola de Pet	Spa	5800.0	87.9	−1.4	2.1
Electrafina	Bel	4800.0	72.8	−0.6	3.0
Elf Aquitaine	Fr	745.0	11.3	−4.1	2.8
Eni	Ita	11410.0	172.9	−5.2	2.1
Enterprise Oil	UK	533.0	8.1	0.6	4.1
Lasmo	UK	260.0	3.9	−2.6	0.9
Neste	Fin	174.0	2.6	1.8	1.7
Petrofina	Bel	14200.0	215.2	0.4	3.2
Petroleum Geo-Services	Nor	470.0	7.1	5.3	–
Repsol	Spa	8280.0	125.5	−2.5	2.4
Royal Dutch Petroleum	Neth	113.7	1.7	−1.0	2.7
RWE-DEA	Ger	–	–	0.9	4.5
Saga Petroleum	Nor	131.0	2.0	10.1	2.7
Saipem	It	10010.0	151.7	−9.4	1.5
Shell Transprt&tradng	UK	437.3	6.6	−0.3	3.3
OMV	Aus	1763.8	26.7	13.8	1.5
Total	Fr	679.0	10.3	−4.5	2.9

Financial



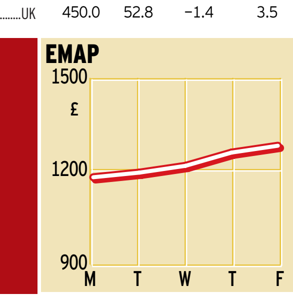
Company	Country	Price (local)	Price (Ecu)	%change	Yield
3I	UK	586.0	8.9	−0.3	2.1
Aegon	Neth	276.9	4.2	−1.4	1.3
AGF	Fr	370.0	5.6	−5.0	2.0
Alleanza Assicurazioni	Ita	23050.0	349.4	−13.0	0.8
Alliance Trust	UK	2955.0	44.8	0.6	2.5
Allianz	Ger	588.0	8.9	−3.4	0.5
Allianz Lebensversich	Ger	–	–	−1.1	1.0
Almanij	Bel	2495.0	37.8	0.0	1.3
Amvescap	UK	665.0	10.1	−9.6	1.1
Asr Verzekeringsgroep	Neth	166.4	2.5	2.4	1.6
Assicurazioni Generali	Ita	53300.0	807.9	−6.8	0.7
Axa-UAP	Fr	692.0	10.5	−4.4	2.0
Axa Colonia Konzern	Ger	243.0	3.7	−2.4	1.2
Baloise	Swi	3532.0	53.5	0.1	1.2
Bayer Hypo-Und Wech	Ger	107.0	1.6	8.0	1.9
BHW	Ger	31.8	0.5	−3.5	4.3
BK Vision	Swi	1859.0	28.2	0.2	–
Britannic Assurance	UK	1262.5	19.1	−1.3	3.3
British Land	UK	755.5	11.5	1.0	1.4
CCF	Fr	482.0	7.3	0.4	2.1
Cetelem	Fr	779.0	11.8	1.2	1.9
Cobepa	Bel	2140.0	32.4	−1.4	4.0
Commercial Union	UK	1070.0	16.2	−13.4	3.0
Credit Suisse	Swi	327.5	5.0	3.3	1.5
Credito Italiano	Ita	9220.0	139.8	−10.1	0.9
Ea-Generali	Aus	4540.0	68.8	6.8	0.3
Edinburgh Investment	UK	493.5	7.5	−0.1	2.8
Ewart	Ire	–	–	–	–
Exor	Lux	93.3	1.4	–	3.1
Finaxa	Fr	579.0	8.8	−3.5	1.7
Foreign & Colonial	UK	195.8	3.0	1.0	1.5
Forenings Sparbanken	Swe	267.0	4.0	−2.6	2.2
Fortis	Bel	10675.0	161.8	−2.7	1.4
Fortis Amev	Neth	124.2	1.9	−1.6	1.6
Gan Assurances	Fr	180.0	2.7	−5.2	–
General Accident	UK	1381.0	20.9	−11.5	3.4
Groupe Brux. Lambert	Bel	7290.0	110.5	0.6	2.9
Guardian Royal	UK	403.0	6.1	−4.2	2.8
Hammerson	UK	523.5	7.9	−0.4	2.8
Ifil	Ita	9224.0	139.8	−8.5	1.4
INA	Ita	5590.0	84.7	−5.8	1.2
Incentive	Swe	782.0	11.9	−1.4	1.3
ING Groep	Neth	132.1	2.0	−3.9	1.7
Insinger	Lux	–	–	–	–
Investor	Swe	426.0	6.5	−3.2	2.3
Istituto Mobiliare It	Ita	28950.0	438.8	2.3	2.4
La Fondiaria Ass	Ita	11850.0	179.6	−10.2	1.1
La Gaiana	Ita	6190.0	93.8	−7.6	1.9
Land Securities	UK	1054.0	16.0	−1.5	3.3
Legal & General	UK	667.0	10.1	−9.2	2.4
Liberty Int	UK	600.0	9.1	−2.6	3.7
Liechtenstein Global	Swi	1370.0	20.8	2.2	1.8
Mediolanum	Ita	52892.0	801.7	−9.3	0.9
Mepc	UK	617.0	9.4	4.2	3.4
MAM	UK	–	–	–	–
Muenchener Rueckver	Ger	–	–	5.2	0.4
Norwich Union	UK	449.5	6.8	−3.7	–
Pharma Vision 2000	Swi	977.0	14.8	−1.3	–
Provident Financial	UK	1045.0	15.8	0.3	2.4
Prudential	UK	790.0	12.0	−10.9	2.4
Ras	Ita	28650.0	434.3	−1.1	1.2
Royal & Sun Alliance	UK	700.0	10.6	−7.9	3.3
Royale Belge	Bel	15175.0	230.0	5.9	3.0
Safra Republic	Lux	160.0	2.4	−1.1	1.4
Sampo Insurance	Fin	270.0	4.1	9.3	1.1
Schw lebensv & Rent	Swi	1327.0	20.1	−0.7	0.5
Schw Rueckversich	Swi	3385.0	51.3	−2.5	0.9
Scottish Mort &Ttrust	UK	383.5	5.8	0.3	1.7
Skandia Forsakrings	Swe	563.0	8.5	−2.9	0.7
Slough Estates	UK	399.5	6.1	4.9	1.5
Stillhalter Vision	Swi	932.0	14.1	−0.3	–
Storebrand	Nor	69.0	1.0	1.5	–
Sun Life & Provincial	UK	568.5	8.6	−1.6	2.6
Trygg-Hansa	Swe	–	–	–	–
United Assurance	UK	583.0	8.8	−3.7	4.5
Victoria	Ger	–	–	–	–
Volksfuersorge	Ger	869.5	13.2	1.1	2.6
Witan Investment	UK	373.5	5.7	0.5	2.3
Wuertt Versich-Beteil	Ger	–	–	−7.1	0.7
Zürich Versicherungs	Swi	910.0	13.8	−0.8	0.8

Industrial



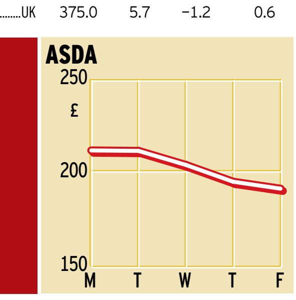
Company	Country	Price (local)	Price (Ecu)	%change	Yield
ABB-B	Swe	113.0	1.7	0.9	1.9
ABB-Bearer	Swi	2360.0	35.8	−0.9	1.7
Asea Brown Boveri	Ger	–	–	−2.7	1.7
Associated British Ports	UK	356.5	5.4	0.1	3.2
Atlas Copco	Swe	220.0	3.3	−3.5	1.9
BAA	UK	614.0	9.3	−0.3	2.6
BBA	UK	495.0	7.5	15.9	1.6
Blue Circle	UK	352.0	5.3	2.7	4.1
Bouygues	Fr	996.0	15.1	3.5	2.6
BPB	UK	433.5	6.6	15.1	2.9
CGIP-Gen d'ind & de Par	Fr	2998.0	45.4	1.8	2.0
Cimenteries CBR Cement	Bel	3675.0	55.7	2.1	2.7
Cimpor Cim de Port	Port	6750.0	102.3	−2.0	1.8
Compagnie de Saint	Fr	960.0	14.6	−4.3	2.7
Cookson	UK	251.5	3.8	3.5	3.7
D/S Svendborg	Den	450000	6820.8	−7.4	0.3
Electrocomponents	UK	581.5	8.8	−0.7	1.7
FKI	UK	208.5	3.2	5.6	3.2
Fomento de Con Constru	Spa	7450.0	112.9	−5.8	0.5
Fried.Krupp Hoesch	Ger	325.0	4.9	−3.8	3.5
General Electric	UK	486.5	7.4	11.0	3.4
Hanson	UK	356.5	5.4	6.5	4.1
Heidelberger Druck	Ger	129.0	2.0	−8.5	–
Heidelberger Zement	Ger	145.0	2.2	−5.8	1.7
Hochtief	Ger	74.7	1.1	3.3	2.3
Holderbank Fin Glarus	Swi	1605.0	24.3	−1.2	1.2
Imetal	Fr	787.0	11.9	1.0	3.1
Imi	UK	487.0	7.4	13.8	2.9
Kvaerner	Nor	325.0	4.9	6.2	2.2
Lafarge	Fr	537.0	8.1	3.7	2.8
Lahmeyer aktiengesell	Ger	88.0	1.3	0.2	1.5
Legrand	Fr	1530.0	23.2	−1.5	0.8
Linde	Ger	1250.0	18.9	−3.8	2.2
Man	Ger	624.0	9.5	−5.9	2.2
Mannesmann	Ger	1412.0	165.8	−5.4	1.0
Norsk Hydro	Nor	371.0	43.6	2.3	2.0
Peninsular & Orient	UK	887.0	104.1	−0.7	4.3
Philips Electronics	Neth	186.3	21.9	23.2	1.1
Railtrack	UK	1001.5	117.6	4.5	2.8
Rexam	UK	265.0	31.1	−0.4	3.8
Rexel	Fr	2380.0	279.4	4.9	1.2
RMC	UK	1053.5	123.7	6.5	3.1
Rolls-Royce	UK	291.5	34.2	6.7	2.6
Rwe	Ger	89.6	10.5	−2.3	2.6
SKF	Swe	172.0	20.2	−6.5	3.1
Sandvik	Swe	221.5	26.0	−2.2	3.2
Scancem	Swe	325.0	38.2	−3.1	2.3
Schneider	Fr	446.9	52.5	−2.8	2.2
Sidel	Fr	443.0	52.0	−1.7	1.7
Siebe	UK	1384.0	162.5	5.7	1.1
Siemens	Ger	107.8	12.7	−9.4	2.0
Skanska	Swe	377.0	44.3	−1.8	2.9
Smiths Industries	UK	845.0	99.2	5.5	2.7
Smurfit	Ire	2.5	0.3	7.8	1.8
Stagecoach	UK	1110.0	130.3	7.2	1.1
Suez Lyonnaise Des E	Fr	995.0	116.8	−2.9	1.8
Thyssen	Ger	416.5	48.9	−2.1	3.4
Ti	UK	579.0	68.0	10.7	2.8
Va Technologie	Ger	1920.0	225.4	3.9	1.6
Valenciana De Cem Port	Por	3570.0	419.1	9.5	–
Veba	Ger	119.8	14.1	−3.4	2.5
Viag	Ger	948.0	111.3	−2.8	2.1
Williams	UK	450.0	52.8	−1.4	3.5

Media



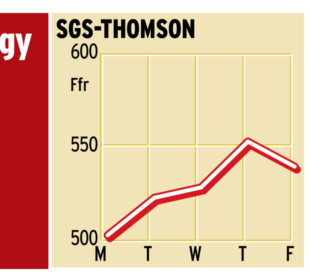
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Audiofina	Lux	–	–	–	–
British Sky Broadcasting	UK	431.0	6.5	2.0	1.7
Canal Plus	Fr	1095.0	16.6	2.7	2.7
Carlton Communications	UK	478.0	7.2	5.9	3.3
Daily Mail&General	UK	2500.0	37.9	2.8	1.1
Elsevier	Neth	31.9	0.5	−5.6	3.0
Emap	UK	1285.0	19.5	8.7	1.3
Havas	Fr	537.0	8.1	−1.8	2.4
Mediaset	Ita	12000.0	181.9	−1.0	1.9
Pearson	UK	961.0	14.6	1.5	2.5
Polygram	Neth	87.2	1.3	−0.3	1.1
Rank	UK	377.5	5.7	−6.9	6.0
Reed International	UK	584.0	8.9	−3.1	3.1
Reuters	UK	660.0	10.0	−3.0	2.6
Télévision Française TF1	Fr	750.0	11.4	−1.1	3.2
United News & Media	UK	804.0	12.2	1.9	3.0
VNU	Neth	68.9	1.0	2.8	0.8
Wolters Kluwer	Neth	276.5	4.2	−5.2	1.1
WPP	UK	375.0	5.7	−1.2	0.6

Retail



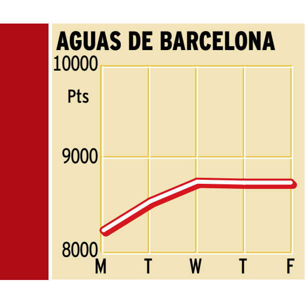
Company	Country	Price (local)	Price (Ecu)	%change	Yield
Adecco	Swi	640.0	4.1	6.8	0.8
Argos	UK	630.5	9.6	1.8	93.8
Asda	UK	191.3	1.2	−9.5	2.0
Benetton	Ita	37200.0	563.9	−10.4	1.3
Boots	UK	931.0	14.1	1.7	2.8
Burton	UK	–	–	–	–
Carrefour	Fr	3340.0	21.1	−4.7	1.3
Casino Guichard Per	Fr	400.5	2.5	−2.7	1.7
Comptoirs	Fr	3020.0	19.1	−5.8	1.3
Delhaize-le lion	Bel	2515.0	15.9	−2.3	1.6
Dixons	UK	579.5	8.8	4.1	2.3
Great Universal	UK	857.0	13.0	4.3	2.7
Greenalls	UK	461.5	7.0	−0.3	4.5
Hagemeyer	Neth	97.1	0.6	−0.1	1.4
Hermes	Fr	470.0	7.1	−0.6	0.8
Karstadt	Ger	742.0	11.2	1.4	1.9
Kingfisher	UK	1104.0	16.7	−0.2	2.6
Marks & Spencer	UK	555.0	8.4	−1.5	3.0
Metro	Ger	87.5	1.3	0.2	1.4
Morrison	UK	262.5	1.7	−2.4	1.0
Next	UK	497.5	7.5	−3.9	4.6
Pinault-Printemps	Fr	4252.0	64.4	0.3	1.1
Safeway	UK	354.0	2.2	−4.4	5.1
Sainsbury	UK	509.5	3.2	−2.5	3.3
Tesco	UK	549.0	3.5	−5.5	2.6
Vendex Intl	Neth	134.2	2.0	0.9	2.0

Technology



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Alcatel Alsthom	Fr	1076.0	162.3	−5.8	1.4
Ares-Serono	Swi	2155.0	325.0	−3.8	0.3
ASM Lithography	Neth	191.8	28.9	4.6	–
Baan	Neth	97.8	14.8	−5.5	–
British Aerospace	UK	1965.0	296.4	0.2	1.3
British Telecom	UK	651.5	98.3	2.7	3.7
Cable & Wireless	UK	682.5	102.9	−5.6	2.0
Cap Gemini	Fr	755.0	113.9	0.7	0.7
Dassault Aviation	Fr	1840.0	277.5	4.0	2.6
Dassault	Fr	245.5	37.0	0.2	0.5
Ericsson	Swe	400.0	60.3	−5.5	0.9
Getronics	Neth	92.8	14.0	0.0	0.4
Misys	UK	2850.0	429.9	0.0	0.6
Nokia	Fin	359.0	54.1	7.3	1.0
Novo-Nordisk	Den	1125.4	169.7	−0.4	0.5
Oce	Neth	320.2	48.3	1.2	1.2
Orange	UK	413.5	62.4	1.9	–
Premier Farnell	UK	378.0	0.8	1.8	4.3
Sap	Ger	–	–	–	–
Sema	UK	2180.0	328.8	−0.1	0.4
Sgs-Thomson	Fr	541.0	81.6	12.4	–
Telecel-Com Pessoai	Port	35503.0	5354.8	4.1	–
Thomson	Fr	228.3	34.4	−3.2	1.8
TIM	It	10150.0	1530.9	−10.5	0.8
Vodafone	UK	634.5	95.7	3.9	1.0

Utilities



Company	Country	Price (local)	Price (Ecu)	%change	Yield
Aguas De Barcelona	Spa	8700.0	51.6	10.8	1.1
Anglian Water	UK	933.0	5.5	−0.4	4.8
Berliner Kraft Und Licht	Ger	86.5	0.5	6.8	1.7
BG	UK	304.5	1.8	1.1	3.5
British Energy	UK	534.0	3.2	−2.3	3.3
Centrica	UK	103.5	0.6	−2.3	–
Deutsche Telekom	Ger	42.7	0.3	−5.4	4.0
Edison	It	15450.0	91.7	−9.6	1.4
Electrabel	Bel	9700.0	57.6	0.7	5.0
Electricidade De Port	Port	4810.0	28.6	−2.6	2.6
Elektrowatt	Swi	550.0	3.3	0.0	–
Endesa	Spa	3725.0	22.1	−6.6	2.0
Energy	UK	865.5	5.1	1.6	2.0
France Telecom	Fr	321.9	1.9	−3.0	–
Gas Natural	Spa	9420.0	55.9	−6.7	0.7
Hellenic Tel	Gr	9010.0	53.5	0.7	–
Hyder	UK	983.0	5.8	1.2	5.8
Iberdrola	Spa	2335.0	13.9	−7.2	3.0
Italgas	Ita	8200.0	48.7	−9.5	1.6
Koninklijke PTT Ned	Neth	101.1	0.6	1.3	2.9
National Grid	UK	376.5	2.2	0.6	4.5
National Power	UK	557.0	3.3	1.1	6.3
Neckarwerke Stuttgart	Ger	–	–	0.0	2.0
Oest Elektrizatswirt	Aus	1548.2	9.2	−0.6	1.0
Portugal Telecomister	Port	10018.0	59.5	−1.3	1.8
Powerfin	Bel	7800.0	46.3	4.0	2.1
Powergen	UK	785.5	4.7	1.8	4.2
Scottish Hydro-Electric	UK	583.0	3.5	1.7	3.9
Scottish Power	UK	556.0	3.3	4.1	4.3
Severn Trent	UK	922.0	5.5	−2.7	5.2
Sevillana De Electric	Spa	1700.0	10.1	−8.1	2.9
South West Water	UK	987.0	5.9	−0.9	4.8
Southern Electric	UK	539.0	3.2	2.0	5.1
Sydkraft	Swe	260.0	1.5	10.6	1.6
Tele Danmark	Den	600.0	3.6	−4.8	3.0
Telecom Italia	Ita	13550.0	80.4	−9.1	1.0
Telefonica De España	Spa	6310.0	37.5	−6.0	1.6
Thames Water	UK	977.5	5.8	2.0	4.6
Tractebel	Bel	4755.0	28.2	−0.9	2.3
Union Electrica Fenosa	Spa	2025.0	12.0	−9.0	2.7
United Utilities	UK	857.0	5.1	1.7	5.6
Vew	Ger	600.0	3.6	0.0	2.4
Yorkshire Water	UK	496.00	2.94	−1.97	4.91

THE EUROPEAN 500

The European 500 is a capitalisation-weighted index of Europe's top companies priced in ecus as well as in local currencies (we will report prices converted into euros when the new currency is launched). The index is based at 100 points on 31 December 1996. Percentage change since last week. Prices as at market close each Friday prior to publication. The European 500 index is also available in real time on Bloomberg screens at BE500 <Index>. We will also be adding sector-by-sector movement graphs.

The European 500 is edited by Melanie Bien

KEY

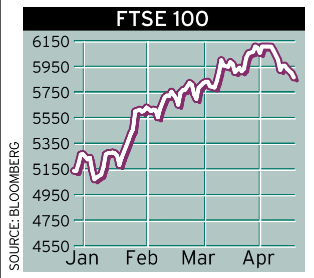
Aus	Austria	**Gr**	Greece	**Port**	Portugal
Bel	Belgium	**Ire**	Ireland	**Spa**	Spain
Den	Denmark	**Ita**	Italy	**Swe**	Sweden
Fin	Finland	**Lux**	Luxembourg	**Swi**	Switzerland
Fr	France	**Neth**	Netherlands	**UK**	United Kingdom
Ger	Germany	**Nor**	Norway		

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



PROFIT-taking in the FTSE is likely to carry over into this week. The index fell 146 points last week to close at 5,807 as the speculative merger buzz that had buoyed the index to its earlier dizzy heights ebbed away.

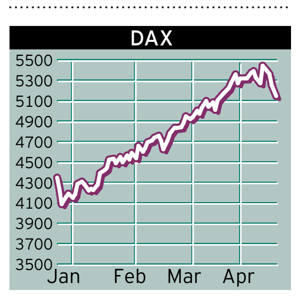
But analysts are confident that the fall is short-term. "There is a risk that the profit-taking will continue next week but I think that we have seen most of it," says Paul O'Connor, an analyst at CSFB in London. "All the activity has been futures-led and we have seen a fair correction on the banking and drugs stocks that were over-bought."

Among those hardest hit by profit-taking were the banking stocks. Lloyds TSB fell 39.5 pence to £9.30, National Westminster Bank fell 29p to £11.37 and Royal Bank of Scotland was down 26.5p at £9.07.

Macroeconomic data released last week should help to turn things around. "All the economic data that has come out is supportive of the market," says Phillip Wolstencroft at Merrill Lynch in London. Figures released last week strongly indicate that the British economy is cooling. For example, GDP growth figures were 0.1 per cent off the forecast at 0.4 per cent.

"There was a big [economic data] number published nearly every day, all of which supported the market and pointed in the right direction," says O'Connor. As a result, strategists are not adjusting their year-end forecasts, emphasising that the index is still very well supported by the fundamentals. "We have seen a fair correction now and the over-bought situation has largely been sorted out," says one UK strategist.

Frankfurt



THE DAX moved sideways and down through most of last week, and optimism about a push above 6,000 points has been forgotten. A bearish mood has hit shares as many traders brace themselves for a possible retreat to 5,000. But most analysts do not believe that the DAX will slide below 5,000. "I don't think it will drop that far," says one equity analyst. "In fact, if the dollar plays along, then the market will go up next week. There are fears that the euro will be stronger than expected, and that's driving the dollar down."

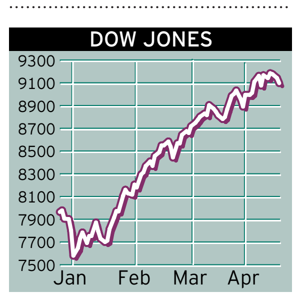
A drop of the dollar below Dm1.66 could trigger selling, market watchers note. "I don't think the dollar will fall that quickly in the short term," the analyst predicts.

Deutsche Telekom has its annual results meeting on 28 April. The share has been underperfoming the rest of the DAX recently, and good data about the current business year could push it back into the mainstream. A 1998 forecast is also expected this week from Lufthansa's results presentation.

Some utilities have bucked recent declines on the German shares market, and they could climb on the suggestions by a number of Frankfurt banks that the sector is an outperformer. RWE is also gaining strength from its decision to eliminate multiple voting rights and turn some preferred shares into common stock.

Bayer's shareholders' meeting on 30 April could have some impact on the chemical sector if it makes predictions for this year. Singulus and Wella are also scheduled to present results this week.

New York



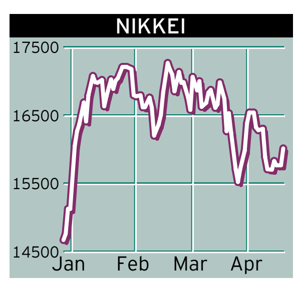
SENTIMENT in New York is a good deal blacker than it was two weeks ago at the height of merger mania. Some unpleasant corporate surprises from banking and technology stocks, which have been the main drivers of the American stockmarket rally in recent months, suggest that this week's outlook is poor.

Microsoft, the world's largest software firm, has warned of stagnant revenue for the next two quarters. Although Microsoft is well known in the market for excessive pessimism, the news will hit technology stocks in America and abroad. The Nasdaq composite index, which is packed with high-tech stocks, slid more than 17 per cent early on 24 April after the announcement, although it made up some ground later in the day. The Dow Jones also plummeted, losing more than 100 points, though it recovered in later trading. To make matters worse, BT Alex Brown announced that it lost $72 million in Asia in the first quarter of this year. Other banks relying on strong revenue streams from Asia, such as JP Morgan, declined on the news. BT's announcement has revived already strong fears about the impact of Asian flu on American firms.

"The Asian slump is hurting the world economy and that hurts US stocks," says one analyst. "South Korea continues to cause a great deal of concern as the bad loans are mounting fast, and we could be looking at rocky times ahead."

Interest rate fears have also returned to haunt the Dow Jones; concerns that the Federal Reserve could raise interest rates are likely to weaken market sentiment this week.

Tokyo



AFTER weeks of bad news and share prices in freefall, there is now a glimmer of hope for the Japanese stockmarket. On 24 April, the finance minister, Ryutaro Hashimoto, finally disclosed some details of the ¥16,600 billion ($128bn) financing package that the government announced earlier this year.

In a Keynesian-style attempt to revive demand, the government will increase public spending by ¥12,300bn. David Brickman, international economist at PaineWebber in London, notes that spending is a better way for the Japanese government to prevent the economy falling into recession in the short term than tax cuts, as tax cuts would be absorbed into savings. There will, however, be an additional ¥4,000bn of tax cuts.

The stockmarket rallied 1.6 per cent when the package was announced, with the Nikkei 225 closing above the 16,000 level.

However, some western analysts question the wisdom of softening the blow of recession as it may reduce the incentive for Japanese businesses to restructure and is a short-term fix for the problem.

They say the financing package is not enough to lift the economy from recession since much of it involves short-term public works schemes. If there is any loss in credibility in the scheme, that will lead to another collapse in the equity market.

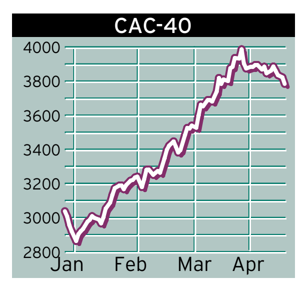
The Bank of Japan will now take a more aggressive approach to the foreign exchange markets. The yen has been one of the main victims of the economic downturn in recent weeks, but strengthened from its low of ¥135/$ to ¥130/$ last week.

STOCKMARKETS

MARKET	INDEX	Latest	% change Week ago	% change Year ago	12 month High	12 month Low
Amsterdam	AEX	1166.7	0.4	52.9	1188.0	749.8
Athens	General	2474.0	1.0	69.8	2627.9	1331.0
Brussels	Bel-20	3106.1	0.7	39.7	3144.2	2202.2
Budapest	BTI	8921.7	1.9	54.1	9016.4	5561.5
Copenhagen	Stock Market	755.5	−1.4	39.1	778.8	543.0
Dublin	Ireland SE	5415.1	0.5	33.6	5581.7	3016.9
Frankfurt	Dax	5144.3	−2.4	51.4	5442.0	3363.1
Helsinki	Hex	4871.1	3.0	68.9	4922.2	2858.9
London	FTSE 100	5863.9	−1.0	33.6	6105.8	4369.7
Madrid	Madrid SE	853.8	−5.7	70.0	938.8	499.2
Milan	Mibtel	23591.0	−6.8	93.7	26377.0	12075.0
Oslo	OBX	768.8	1.7	13.7	768.8	594.6
Paris	CAC-40	3783.3	−2.0	49.0	3986.8	2536.3
Prague	Stock Market	487.3	1.6	−1.6	561.3	452.4
Stockholm	Affarsvarlden	3629.9	−2.1	35.6	3760.0	2610.5
Vienna	Credit Aktien	558.8	6.8	37.6	558.8	400.2
Warsaw	WIG-20	1814.8	1.5	7.4	1928.0	1312.9
Zürich	SPI	4567.4	−1.9	49.7	4847.7	3024.2
New York	Dow Jones	9097.5	−0.8	33.9	9184.9	6738.9
Tokyo	Nikkei	16011.2	2.0	−14.4	20681.1	14664.4
Hong Kong	Hang Seng	10879.9	−1.1	−14.5	16673.3	8121.1

SOURCE: DATASTREAM, BLOOMBERG

Paris



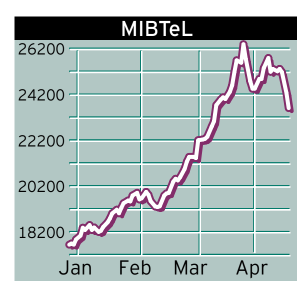
FRANCE's blue chip index of stocks, the CAC-40, is expected to regain some ground this week after a period of consolidation. Last week the index fell more than 100 points to around the 3,780 mark, squeezed by a weaker dollar. However, stock watchers point out that the consolidation led to a fall of just over two per cent on the week – no reason for panic.

Most French firms have reported reasonably healthy quarterly financial results, adding to the optimism that the CAC-40 will bounce back. France's largest retail group, Pinault-Printemps, and the French-Italian cement maker, Ciments Français, both announced strong figures. Pinault-Printemps said first-quarter sales rose 20 per cent to Ffr24.4bn ($4.1bn), while Ciment Français announced first-quarter turnover up 13.8 per cent at Ffr2.9bn.

The bad news of last week came from the hypermarket giant, Carrefour, which announced at its general meeting on 23 April that its forecast 1998 net earnings would be worse than expected. Earning will rise by just eight per cent, well below the market consensus of 10 to 15 per cent. Carrefour's share price fell 3.4 per cent on the news, to Ffr3,328. Carrefour said it had been hurt by the south-east Asian crisis, in particular the de-valuation of the Korean yuan.

Motor stocks will be the ones to watch this week, as investors' view of Renault is increasingly positive. Both Renault and Peugeot Citröen rose last week, with Renault up Ffr2.9 at Ffr268 and Peugeot jumping Ffr17 to Ffr1,020. Cyclical stocks, in particular building materials, are also in favour.

Milan



AFTER the impetus given to the stockmarket by the long-awaited 0.5 per cent cut in interest rates by the Bank of Italy, Milan is set for a relatively quiet week. According to most market watchers, the 50 per cent increase in the value of the Italian stockmarket index since the beginning of the year has incorporated every positive element possible, including the euro effect. "After weeks of indigestion, Milan is ready for a healthy diet," says one analyst.

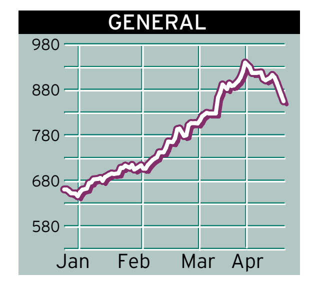
Uneven trends in other European markets, as well as the uncertainty surrounding the Italian inflation rate, will reinforce the negative sentiment. Italy's inflation figure for February was joint highest in the European Union with the Netherlands, at 2.1 per cent.

In the light of this news, institutional investors seem increasingly unsure of their strategies, while smaller investors are ready to take profits. Whereas two weeks ago almost every firm on the Milan market looked like a good bet, investors will now have to be more selective.

The safest buys remain banks and insurance firms. Comit and Mediobanca are the top tips in the banking sector. Mediobanca completed its L3,000bn ($1.69bn) recapitalisation on 24 April, which boosted the stock. Smaller firms, such as Credito Valtellinese, Banca Popolare Commercio e Industria and Banca Popolare di Milano, which are all tipped as possible takeover targets for Italy's bigger financial institutions, are also seen as good buys.

Insurance firms Fondiaria and Generali, whose private pension schemes should soon be approved, also look attractive.

Madrid



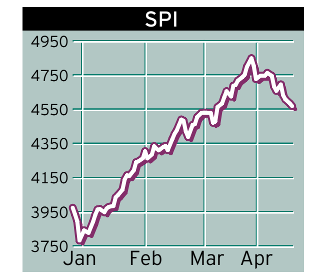
JUST how overvalued is the Madrid stock exchange? Stocks on the Madrid exchange continued to lose value last week, confirming that the first-quarter boom is over. Two weeks of falling prices have seen the Madrid index drop back well below the 900 mark and have taken away a quarter of the first three months' 40 per cent gain.

New issues from Telefónica and Tabacalera are partly to blame, but analysts are also saying that the market is overvalued by between five and 10 per cent. The Madrid bourse now has the world's fourth-highest average price-to-earnings ratio, after Japan, Italy and Germany.

Confusion over what will happen to Brazil's telecoms privatisation programme following the death of the country's privatisation guru, Sergio Motta, casts doubt over Telefónica's strategy. The company is in the middle of a capital expansion designed to enable the firm to go shopping in Brazil and a delay in the privatisation process could create problems. Telefónica can expect an unsettled period until the capital increase is completed. In the medium term Brazil still promises to add value to a company that has expanded rapidly across Latin America.

The share price for Tabacalera's already oversubscribed flotation will be fixed on 27 April. In addition to this, the bourse will also have to digest the arrival of Endesa's shares next month, in what will be the biggest flotation in Madrid's history, as well as those of olive oil producer, Koipe, whose sale was announced recently. Expect more short-term falls.

Zürich



REALITY has returned to the Swiss equity market. The SMI index lost 1.9 per cent last week, shattering hopes that the first-quarter rally would continue indefinitely.

The correction began on 21 April when Novartis announced unexpectedly poor first-quarter results, including pharmaceutical sales up only two per cent. Beat Alpiger, equity analyst at Bank Julius Baer, cut his estimate for 1998 earnings by Sfr200m ($134.9) to Sfr7.9bn.

The shares dropped 3.6 per cent, dragging down the entire Swiss market; Novartis and Roche Holding make up more than half the index. The Swiss market is expected to remain volatile in the aftermath of the mini-crash.

Sentiment has been further eroded by expectations that interest rates are going to rise. The futures market is indicating that three-month interest rates should rise from 1.25 per cent to 1.6 per cent by the end of June. This would stem the flow of funds from debt to equity.

There will be little news to relieve the market this week beyond an analysts' meeting with the management of Nestlé on 29 April and Roche Holding's AGM.

"We cut our weighting for Switzerland from overweight to neutral earlier this year," notes Suzy Neubert, analyst at Merrill Lynch, explaining that the 1997 rally in Swiss stocks was propelled by banks and pharmaceuticals firms and that Merrill does not expect such strong performance from them this year. Last week provided the first concrete evidence that it might have been right.

Moscow

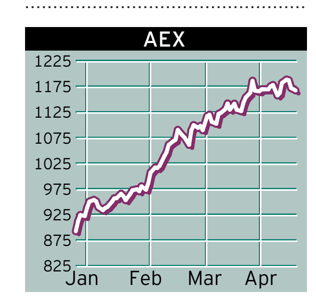
THE waiting game is over. The Russian market begins the week with a new government in place and the prospect of an early parliamentary election banished. In a secret vote on 24 April Russia's lower house, the Duma, approved the appointment of 35-year-old Sergei Kiriyenko as prime minister in its third and final vote on the issue. It was a great day for Kiriyenko, who becomes Russia's youngest ever prime minister, and for President Boris Yeltsin, who will see the vote as a crucial victory over his communist opposition.

Investors were delighted. "The stalemate is over and now the Russian government can get on with the business of reform," said one fund manager. "We will start to see managers re-allocating funds to Russia now." Traders proclaimed the light at the end of the tunnel as the market rally gathered pace. The market had been gaining earlier in the week, as investors anticipated a positive result. The RTS ended the week up nearly six per cent, its first substantial gain since early March.

Analysts warn that there could be some profit-taking early this week but they expect the market to rally strongly in the next couple of weeks, barring further political upheaval, never an impossible prospect in Russia.

Oil stocks in particular are expected to benefit from the appointment of the new government. Kiriyenko has said that he intends to reduce excise taxes on crude oil, as well as taxes on the transport of oil. Unified Energy Systems, which tends to reflect political upheaval more than most stocks, rose four per cent on the news. Surgutneftegaz and Gazprom are also tipped to outperform the market this week.

Amsterdam



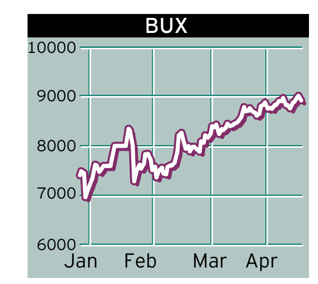
TECHNOLOGY stocks look set to lead the declines this week, after leading the gains over the past seven days. Reacting to bad news from Microsoft, which has warned that sales will remain stagnant for the next two quarters, Baan and ASM Lithography's rallies have been stopped in their tracks. Analysts also expect Philips Electronics to slip back on the news. These three stocks make up nearly 13 per cent of Amsterdam's AEX index, so their impact will be signficant.

The financial markets specialist, Amsterdam Options Traders (AOT), has announced first-quarter profits up an impressive 75 per cent to Nfl 18.7m ($9.3m). The company said that it expects profits to increase further this year due to the increased volume of equity trading in the Netherlands, as well as the takeover of its competitor, Wolbers. But news that AOT has gone ex-dividend, which means that sellers of the stock receive a dividend of Nfl 4.5 per share, has created some selling pressure. AOT closed the week down nearly four per cent at Nfl 129 on 24 April.

The Dutch central bank has confirmed that the guilder will not be devalued. Speculation that the bank could revalue the guilder within the European exchange rate mechanism has been rife in Amsterdam due to the guilder's sustained appreciation against the deutschmark.

The guilder has been trading at about 1.1254 to the deutschmark, above its central rate of 1.1267. Economists are concerned that this, added to the strength of the Dutch economy, could fuel inflation, which stood at 2.1 per cent in February.

Budapest



THE announcement by chemicals company Tiszai Vegyi Kombinat (TVK) on 24 April that it is to sell an 11 per cent stake to investment fund Croesus has heightened speculation that the company will soon be the subject of a takeover bid.

TVK, which accounts for seven per cent of Budapest's BUX index, has seen its share price skyrocket nearly 50 per cent on the back of merger speculation since early March. The company, which is also planning a New York listing, will hold its annual general meeting on 28 April. Any decision on a takeover could affect the market, which continued to make gains to close the week above the 9,000 mark.

"We don't expect any sharp movement in the index next week unless TVK stirs things up," says Norbert Todh at ING Barings in Budapest. If the rumour that a foreign investor is behind the Croesus move is true, it will give the stock a big boost. However, if TVK's management blocks any such moves, it could put downward pressure on the index.

First-quarter results are all due in by 15 May but analysts do not anticipate major shocks. "There may be some surprises, but not negative ones," says one analyst. Results in so far have been encouraging, with chemicals producer Borsodchem reporting a 45 per cent rise in first-quarter profits. Matav and Mol, the index's two largest stocks, are also expected to report good first-quarter results. Hungary's parliamentary election on 10 May, which the ruling Socialist coalition is widely expected to win, continues to have little impact on the market.

Warsaw

BANKING stocks are expected to continue to rise this week as the bidding war to take over Polski Bank Rozwoju (PBR) escalates. Skandinaviska Enskilda Banken, a Swedish bank, will make a public bid this week for PBR, while Poland's Bank Rozwoju Eksportu has already offered PBR's shareholders Zl 24.3 ($7.1) a share. Germany's Bayerische Landesbank Girozentrale is also said to be interested. The treasury ministry will also sell its 29.5 per cent stake in the bank, whose share price rose 15 per cent last week.

Banks' share prices will also be lifted by the expectation that the central bank will cut interest rates, after it lowered the 28-day intervention rate at which banks borrow from the central bank. On 22 April the rate was cut by one per cent to 23 per cent. The central bank fixed the zloty at 3.404 to the dollar, from Zl 3.4015.

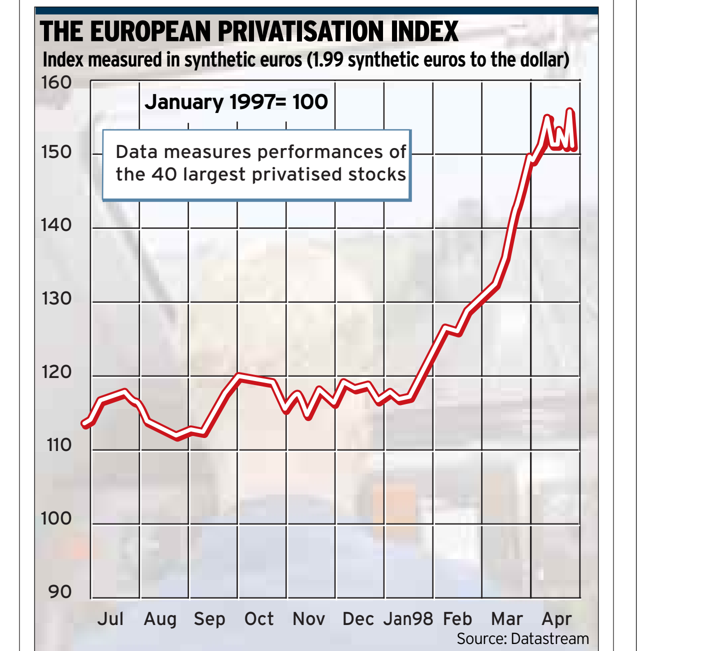
Construction firm Mostostal Warszawa will this week announce its public share offering. Companies reporting this week include aluminium manufacturer Kety, which releases first-quarter earnings for 1998 on 28 April, while Computerland releases final earnings on 30 April.

Last week's news that the national economic council has agreed to sell two oil refineries as well as the national fuel distributor to strategic investors, rather than through a public share offering, will disappoint investors hungry for more privatised stocks. But Poland's deputy prime minister and finance minister, Leszek Balcerowicz, defended the decision, saying that a foreign oil company would be the ideal purchaser, guaranteeing "real development for companies and better prices for the government".

The Warsaw stock exchange will be closed on 1 May for a bank holiday.

Cath Blackledge, Melanie Bien, Eric Culp, Gavin Gray, Paula Hawkins, Michele Puccioni, Giles Tremlett

SELL-OFFS



THE planned sale of a 25 per cent stake in Alitalia marks the first of a slew of airline issues due this year and a test of investors' will to arbitrate between national governments and the competition authorities at the European Commission.

IRI, a state-owned holding company, pledged last year to cut its 86.4 per cent stake in the airline as part of an agreement with Brussels to inject L2,800 billion ($1.58bn) in state aid. The Commission also attached a range of conditions limiting how Alitalia could spend the money. The final L750 million tranche, due to be paid this year, has been held up by complaints from rival carriers that Alitalia has used the initial payments to subsidise fares illegally in European markets.

The success of the Alitalia sale in the wake of possible Commission intervention has important ramifications for the planned privatisation of Crédit Lyonnais. The French government has pledged to cut its stake in the bank by 2000 but remains in dispute with Brussels over the bank's adherence to guidelines on the use of its state aid package. If the Alitalia deal backfires in the wake of continued Commission scrutiny, investors may stay shy of companies in similar situations.

Alitalia has since dropped the promotional fares at the heart of its dispute with Brussels and submitted a report on its financial performance and compliance with the Commission's restrictions at the start of April. Brussels has sent independent consultants to follow up the report and they are due to report in May.

Alitalia plans to expand its capital with the issue of 1.4bn new shares and last week priced them at L2,775 each to raise an expected L3,000bn. INI is expected to subscribe to two-thirds of the offer, with the balance being taken up by a mixture of employee shares, a retail offer and, perhaps, a small strategic sale. The latter is unlikely following the signing of a strategic alliance with KLM at the end of last year. While the companies plan to co-ordinate and co-operate in a wide range of other activities, the Dutch carrier has signalled that it is not interested in cementing the deal with an equity stake.

The planned share sale is being lead-managed by Salomon Smith Barney and Istituto Mobilare Italiano; the pricing comes at the top of the range indicated by Alitalia earlier this year. Each of the new shares represents around 7.2 existing shares. About five per cent of Alitalia's stock is already traded on the Milan stock exchange and the stock has soared since February, quadrupling to a high of L46,000. It hit a low of 5,630 last July.

Alitalia's performance has improved substantially under its latest chairman, Fausto Cereti. It is expected to make a small profit for 1997 and as well as its planned alliance with KLM has also forged links with Continental Airlines. It is also talking to Virgin Express about a joint venture.

No final date has been set for the allocation of the new Alitalia shares, though the auction will run from 18 May to 16 June. It is likely to take place before two other airline floats scheduled for this year. The sale of a minority stake in LOT Polish Airlines has been delayed yet again, while the Portuguese government plans to sell up to 40 per cent in TAP Air Portugal by year-end.

DOUG CAMERON

CURRENCIES

FORECAST

Japan, Germany and a tale of two dollars

Avinash Persaud

WE HAVE entered the era of diverging dollars. Despite the unveiling of a ¥16,000 billion ($120bn) Japanese fiscal package and an estimated $10bn of Bank of Japan intervention during the Easter weekend – when markets were thin – the Japanese authorities have been unable to hold $/¥ below ¥130. Traditionally, $/DM would follow the trend of $/¥, but as $/¥ has tested the upside of recent ranges, $/DM has been testing the downside. This divergence has further to go, potentially propelling DM/¥ towards ¥90 by year-end.

What has become clear in recent weeks is that while the Japanese authorities may be "cajoled" into taking intervention and fiscal action ahead of G7 meetings, they are as yet unwilling or unable to do what is required to revive the economy, and in its wake, the yen. Japanese consumers have become so scared by the threat of unemployment that planned tax cuts will be saved and a combination of rising savings and falling private investment will easily swallow up the extra government spending.

Given that banks are loath to lend despite near-zero levels of official interest rates and that consumers are reluctant to spend, despite ¥4,000bn of tax cuts, the government can only make a difference if it commits itself to new public spending in the region of three to five per cent of GDP or ¥20,000bn to ¥30,000bn – or if it lets the yen weaken substantially.

In the absence of a ¥30,000bn package, we forecast $/¥ to weaken towards ¥150 by year-end. This trend will be resisted by intervention and the deliberate floating of rumours of ever bigger fiscal packages, but it will not be arrested. It should be noted that yen weakness by this order of magnitude, coupled with related weakness in commodity prices, will raise devaluation risks in China and will lead to temporary weakness in Australia and New Zealand. Indeed, we forecast the Australian dollar to sink to US$0.60-0.63 by the summer before bouncing.

The contrast between the Japanese and German economies is stark and that between the German and the American economies is fading. As a result we look for $/DM to drift lower, heading towards DM1.70 by year-end, despite the onward march of $/¥.

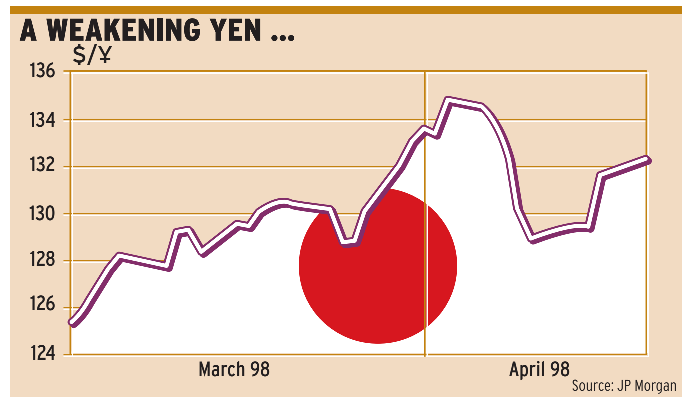
Recent manufacturing new orders and import data confirm that the German recovery is well under way and broadening out of the export sector. The latest survey of business conditions by the Munich-based economic research institute, IFO, suggests that the first quarter witnessed a five per cent growth in economic activity.

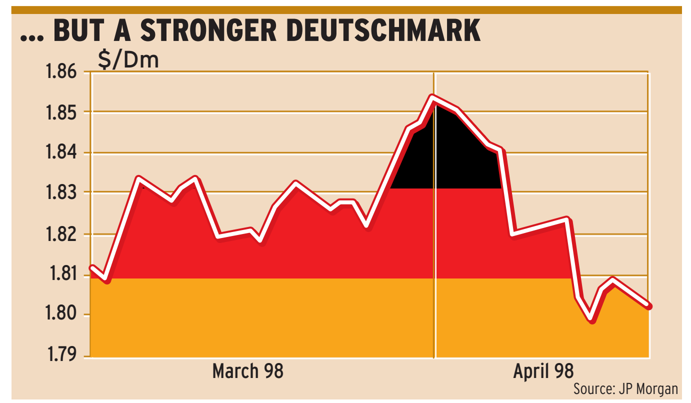
For the moment, a few factors are holding up the dollar's further decline against the deutschmark. The wrangling over who will be the European Central Bank (ECB) president is seriously damaging the credibility of the euro. This unseemly tiff raises the unsavoury spectre of national politics meddling in the monetary policy decisions of the ECB. Once the decision is made and the ECB board is selected, the euro's credibility will have hit bottom and will enjoy a rise in the updraft of Europe's economic recovery.

This should occur during the 1-3 May meeting of the European Council. Therefore, while $/DM is heading for DM1.70 by year-end as the German economy recovers and euro credibility starts to rise, in the near term there is room for a dollar bounce.

Short-term risks aside, the deutschmark will enjoy strength generally, not just versus the American dollar. As market confidence in the euro grows and the Swiss franc and sterling lose their "safe-from-EMU" premium they will weaken significantly against the deutschmark. We look for DM/Sfr to head towards Sfr0.86 by year-end. Sterling could fall further in the long term, brought down by a perceived peak in British interest rates and a fall in investor risk appetite in response to rising foreign exchange volatility, rising core-European interest rates and continued turmoil and near-crisis in Japan's financial and economic sector. Finally, we are becoming more bullish on the Canadian dollar from current levels. The effects of the Asian crisis and the winter ice storms are fading while the economic contrast between Canada and the US narrows.

The author is JP Morgan's head of currency research





GDP & EXPORTS

	GDP ($bn)	Merchandise exports* ($bn)	Merchandise exports plus services* ($bn)
Europe 11	6,921	790	918
Europe 15	8,627	779	931
US	7,576	625	855

*excluding intra-EU exports — Source: IMF

The German recovery is under way

Where does the buck stop for Europe's banking system?

Doug Cameron

TRADERS in the debt markets are becoming increasingly frustrated by the failure of European policymakers to identify clearly the role of the European Central Bank (ECB) in the supervision of the banking sector after monetary union is launched.

The confusion revolves around who will act as a lender of last resort in the event of a banking collapse. Central bankers from across Europe have provided the markets with vague and often conflicting answers on who, if anyone, will replace their institutions as the final guarantor of loans and bond issues to states and state-backed institutions in Euroland. "It smacks of a high-level policy failure," says David Clark, executive general manager of Bank Gesellschaft Berlin.

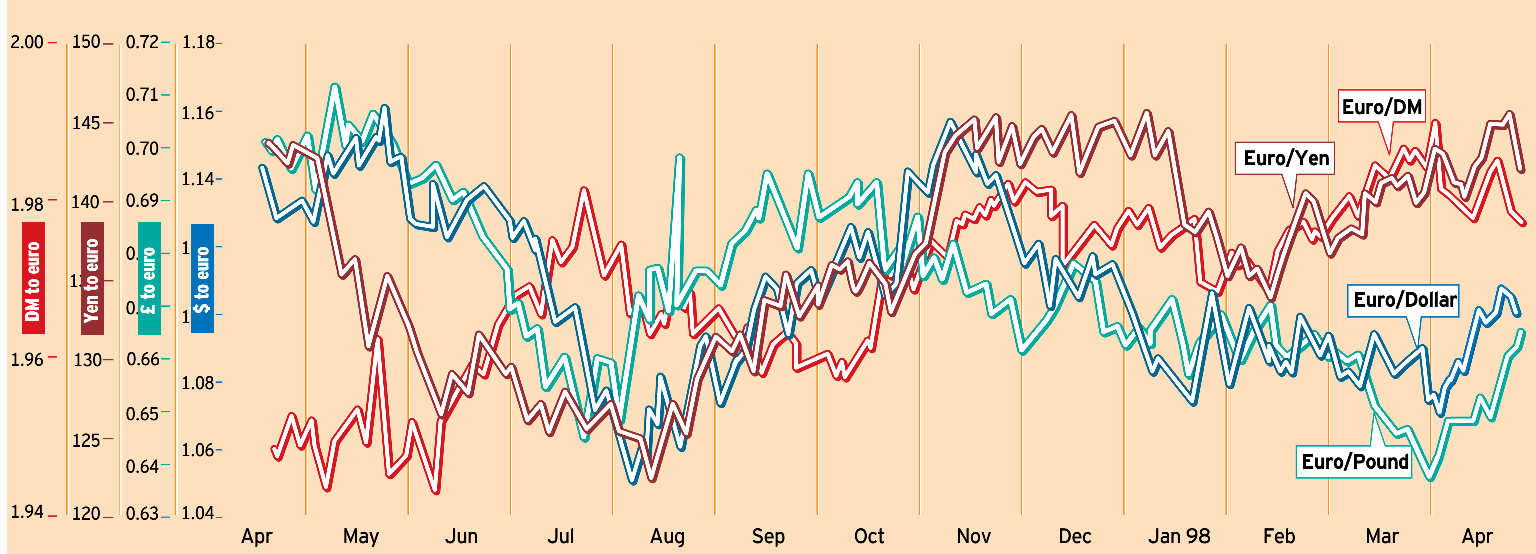
Hervé Carre, director for monetary affairs at the European Commission, last week told a group of American bankers that the ECB has been deliberately over-capitalised in its early stages with reserves of Ecu50bn ($55bn) to cope with shocks and strains and will operate as a lender of last resort, backing up member central banks in the European system of central banks. However the European Monetary Institute, the forerunner of the ECB, says the new bank will only provide liquidity to the banking system in the event of a banking failure.

The lender of last resort issue has troubled bankers for months as it affects the structure and credit rating of deals in the market. Transactions are progressing on the basis that central banks will retain the main supervisory function over Euroland's financial system.

EURO RATES

William J McDonough, president of America's Federal Reserve, believes the euro will be competitive against the dollar, with its introduction coinciding with European economic recovery. "A strong euro can only benefit America because the existence of another important currency will compel it to exercise greater discipline," he told the Italian daily *Il Sole/24 Ore*.

Here we chart the key currencies against the synthetic euro, showing their fluctuations over the past year. The synthetic euro is based on the formula of the ecu, measured against a basket of currencies, tracking their movement since 1975. When currency rates are fixed in May, a revised version based on these rates will be calculated.



EURO WATCH

FRANCE and Germany are engaged in a furious battle for supremacy in the euro-denominated bond markets. The prize is benchmark status in the fledgling sovereign market which will offer slightly cheaper borrowing to the winner. This is crucial given the budgetary squeeze which will remain on national treasuries under the growth and stability pact. France fired the opening salvo with an innovative bond issue offering investors more attractive terms to investors once it is converted into euros on 1 January. Germany is considering a response and the spat is viewed by the financial markets as evidence of the tensions which will remain between national treasuries under monetary union.

FRANCE's national assembly is in favour of a European-wide parliamentary watchdog committee to be appointed to supervise the single European currency. The former president Valéry Giscard d'Estaing, proposes that there should be between 80 and 100 members, taken from the European Parliament and parliaments in countries which join European economic and monetary union. There might be problems persuading other countries to adopt the plan, however. The proposal came during a parliamentary debate on the euro, ahead of the Brussels summit to launch the euro.

THE number of Germans opposed to joining the single European currency fell to 62 per cent from 70 per cent in March, according to a survey from Mannheim-based Ipos. The number of people approving the euro increased to 33 per cent from 26 per cent in February, while those undecided rose by one per cent to five per cent in March. The survey showed that 45 per cent of the 1,200 respondents fear a decrease in their livelihood under the new currency, while 41 per cent believe their savings are in danger.

GERMANY is this week expected to nominate Otmar Issing as its candidate for the executive board of the European Central Bank (ECB). Issing, the Bundesbank's chief economist, is being put forward for the same role at the ECB. Issing has won out over the deputy finance minister, Jürgen Stark, who is also on the shortlist being considered by the European Parliament. However, the Bundesbank has been strongly pushing Issing to offset the weakness in the ECB likely to be created by splitting the term of its first president between the rival candidates, Wim Duisenberg and Jean-Claude Trichet.

INTEREST RATES

Sterling wavers as rates stabilise

BRITISH exporters will be relieved at the news that sterling is beginning to look less bullish, falling to a seven-week low against the deutschmark last week.

The decline came in the wake of a report showing that Bank of England officials are in favour of keeping interest rates at their current levels, breaking an earlier deadlock. As this keeps the money market return on sterling-denominated deposits stable, the lure of the pound diminishes.

As the pound fell to DM2.98, news that retail spending recovered from February's fall supported expectations that consumer demand is not strong enough to spark inflation and necessitate higher interest rates. Retail sales growth was a seasonally-adjusted 0.3 per cent in March after falling 1.5 per cent in February.

Sterling's decline boosted shares in the manufacturing sector. Investors now expect a turnaround in earnings after a difficult 18 months. If the trend continues, the weaker pound should bolster competitiveness abroad.

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	3.65	3.65	3.43	4.94	4.95	5.79	Oest Bund
Belgium	3.30	3.00	9.10.97	Central	3.88	3.67	3.19	4.97	4.97	5.96	OLO
Denmark	3.75	3.50	9.10.97	Repo	3.93	3.89	3.64	5.06	5.06	6.57	DGB
Finland	3.40	3.25	19.03.98	Tender	3.65	3.61	3.07	4.95	4.95	6.29	FGB
France	3.30	3.10	9.10.97	Intervention	3.64	3.63	3.40	4.89	4.88	5.73	OAT
Germany	4.50	5.00	18.4.96	Lombard	3.64	3.63	3.23	4.85	4.86	5.83	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	14.25	14.50	22.4.98	Discount	n/a	n/a	n/a	n/a	n/a	n/a	
Ireland	6.75	6.25	2.05.97	Short Term	6.13	5.91	5.69	5.01	4.99	6.59	Gilt
Italy	5.00	5.50	21.4.98	Discount	5.17	5.22	6.95	5.10	5.10	7.61	BTP
Luxembourg	3.30	3.00	9.10.97	effective rate*	3.88	3.67	3.19	4.97	4.97	5.96	related to OLO
Netherlands	3.30	3.00	9.10.97	Special Adv.	3.60	3.55	3.20	4.90	4.90	5.72	DSL
Norway	5.75	5.50	19.3.98	Overnight	4.16	4.14	3.55	5.22	5.21	6.14	NGB
Portugal	4.70	4.90	18.3.98	Discount	4.46	4.45	5.82	4.94	4.96	6.76	OT
Spain	4.50	4.75	13.2.98	Repo	4.40	4.45	5.53	5.01	5.01	6.88	Bono
Sweden	4.35	4.10	16.12.97	Repo	4.60	4.63	4.28	5.14	5.19	7.15	SGB
Switzerland	1.00	1.50	27.9.96	Discount	1.38	1.44	1.89	3.05	3.02	3.67	Swap rate
UK	7.25	7.00	6.11.97	Base	7.41	7.44	6.31	5.77	5.75	7.54	Gilt
US	5.00	5.25	31.1.96	Discount	5.56	5.59	5.75	5.58	5.58	6.83	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	0.72	0.75	0.59	1.58	1.67	2.21	JGB
Canada	4.70	4.65	03.3.98	Call Loan	4.84	4.75	3.41	5.29	5.26	6.69	CGB

* Tied to Belgian Franc — SOURCE: STANDARD & POOR'S MMS

EAST EUROPEAN CURRENCIES

Country and Currency	US$	DM	UK£	Ffr	Ecu	Country and Currency	US$	DM	UK£	Ffr	Ecu
Albania Lek	158.0	88.1	263.3	26.3	174.2	Macedonia Denar	56.8	31.7	94.7	9.4	62.7
Belarus Rouble	66850.0	37267.9	111398.1	11114.0	73712.2	Moldova Leu	4.7	2.6	7.9	0.8	5.2
Bulgaria Lev	1786.5	995.9	2977.0	297.0	1969.9	Poland Zloty	3.4	1.9	5.7	0.6	3.7
Croatia Kuna	6.4	3.6	10.7	1.1	7.1	Russia Rouble	6.1	3.4	10.2	1.0	6.8
Czech Rep Koruna	33.1	18.5	55.2	5.5	36.5	Romania Leu	8355.0	4657.8	13922.7	1389.0	9212.6
Estonia Kroon	14.4	8.0	23.9	2.4	15.8	Slovakia Koruna	34.7	19.3	57.8	5.8	38.2
Hungary Forint	210.4	117.3	350.6	35.0	232.0	Slovenia Tolar	167.1	93.1	278.4	27.8	184.2
Latvia Lat	0.6	0.3	1.0	0.1	0.6	Ukraine Hryvna	2.1	1.1	3.4	0.3	2.3
Lithuania Litas	4.0	2.2	6.7	0.7	4.4	Yugoslavia New Dinar	10.8	6.0	17.9	1.8	11.9

SOURCE: BZW

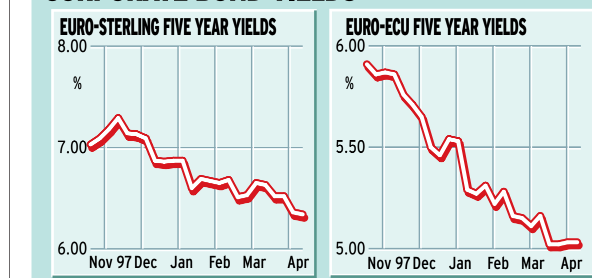
EUROPEAN CROSS RATES

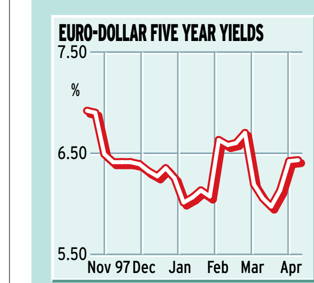
27 APRIL 1998	Aust Sch	Belg Fr	Den Kr	Ger Dm	Neth Fl	Fin Markka	Fr Fr	Grec Drach	IR Punt	Ital Lira*	Nor Kr	Port Esc	Spain Pts	Swe Kr	Swi Fr	UK £	US $	Jpn Yen	Can $	Eur Ecu
Austria Schilling	–	0.341	1.844	7.036	6.252	2.318	2.098	0.040	17.75	7.118	1.693	0.069	0.083	1.639	8.483	21.03	12.62	0.097	8.789	13.92
Belgium Franc	2.934	–	5.411	20.64	18.34	6.801	6.156	0.118	52.07	20.88	4.966	0.201	0.243	4.809	24.89	61.70	37.03	0.285	25.786	40.83
Denmark Krone	0.542	0.185	–	3.815	3.390	1.257	1.138	0.022	9.623	3.860	0.918	0.037	0.045	0.889	4.600	11.40	6.843	0.053	4.766	7.546
Germany Deutschmark	0.142	0.048	0.262	–	0.889	0.329	0.298	0.006	2.523	1.012	0.241	0.010	0.012	0.233	1.206	2.989	1.794	0.014	1.249	1.978
Netherlands Guilder	0.160	0.055	0.295	1.125	–	0.371	0.336	0.006	2.839	1.139	0.271	0.011	0.013	0.262	1.357	3.364	2.019	0.016	1.406	2.226
Finland Markka	0.431	0.147	0.796	3.035	2.697	–	0.905	0.017	7.656	3.071	0.730	0.030	0.036	0.707	3.659	9.072	5.444	0.042	3.791	6.003
France Franc	0.477	0.162	0.879	3.353	2.980	1.105	–	0.019	8.459	3.393	0.807	0.033	0.039	0.781	4.043	10.02	6.015	0.046	4.189	6.632
Greece Drachma	24.76	8.439	45.66	174.2	154.8	57.39	51.95	–	439.4	176.2	41.91	1.700	2.051	40.58	210.0	520.7	312.5	2.408	217.6	344.5
Ireland Punt	0.056	0.019	0.104	0.396	0.352	0.131	0.118	0.002	–	0.401	0.095	0.004	0.005	0.092	0.478	1.185	0.711	0.005	0.495	0.784
Italy Lira*	140.5	47.88	259.1	988.4	878.3	325.7	294.8	5.674	2493	–	237.8	9.646	11.64	230.3	1192	2954	1773	13.66	1234	1955
Norway Krone	0.591	0.201	1.089	4.156	3.693	1.369	1.239	0.024	10.48	4.205	–	0.041	0.049	0.968	5.011	12.42	7.455	0.057	5.192	8.221
Portugal Escudo	14.56	4.964	26.86	102.5	91.06	33.76	30.56	0.588	258.5	103.7	24.66	–	1.207	23.87	123.5	306.3	183.8	1.416	128.0	202.7
Spain Peseta	12.07	4.114	22.26	84.92	75.46	27.98	25.33	0.488	214.2	85.92	20.43	0.829	–	19.78	102.4	253.8	152.3	1.174	106.0	168.0
Sweden Krona	0.610	0.208	1.125	4.292	3.814	1.414	1.280	0.025	10.83	4.343	1.033	0.042	0.051	–	5.175	12.83	7.699	0.059	5.362	8.490
Switzerland Franc	0.118	0.040	0.217	0.829	0.737	0.273	0.247	0.005	2.092	0.839	0.200	0.008	0.010	0.193	–	2.479	1.488	0.011	1.036	1.641
UK Pound	0.048	0.016	0.088	0.335	0.297	0.110	0.100	0.002	0.844	0.338	0.080	0.003	0.004	0.078	0.403	–	0.600	0.005	0.418	0.662
US Dollar	0.079	0.027	0.146	0.557	0.495	0.184	0.166	0.003	1.406	0.564	0.134	0.005	0.007	0.130	0.672	1.666	–	0.008	0.696	1.103
Japan Yen	10.28	3.505	18.96	72.35	64.29	23.84	21.58	0.415	182.5	73.19	17.41	0.706	0.852	16.86	87.23	216.3	129.8	–	90.38	143.1
Canada Dollar	0.114	0.039	0.210	0.801	0.711	0.264	0.239	0.005	2.019	0.810	0.193	0.008	0.009	0.187	0.965	2.393	1.436	0.011	–	1.58
Europe Ecu	0.072	0.024	0.133	0.506	0.449	0.167	0.151	0.003	1.275	0.512	0.122	0.005	0.006	0.118	0.610	1.511	0.907	0.007	0.632	–

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

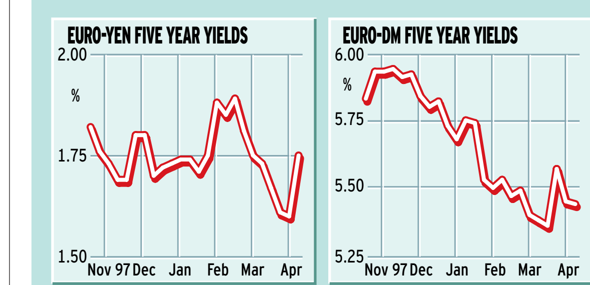
BONDS

CORPORATE BOND YIELDS





Corporate bond issuance remains dominated by the financial sector with new debt from Deutsche Bank, the EIB and KfW, although Olivetti returned to the market and PolyGram launched an innovative deal backed by the rights to its film catalogue.



Source: Bloomberg

MARKET PREVIEW

THE European debt markets soared into life last week with a rush of issues from the top corporate issuers of debt, including a $3.25 billion transaction from Ford and a $1.6bn multi-tranche issue from General Motors. Rothmans also issued $660 million of debt under its medium-term note programme, the first major international issues for the tobacco company.

Although the volume of new issues seems certain to slacken this week, there should be several more benchmark issues. The most important transaction expected is a deal for Finland denominated in euros – its first such issue and one that will be launched in the wake of a successful euro deal last week for Sweden.

Finland used to be a major borrower in the international markets, particularly in the early 1990s when the break-up of the USSR spurred a major recession and balance of payment deficits. The economy has recovered since then and Finland was one of the few countries that attained the most important Maastricht criteria with relative ease.

Like the other participants in economic and monetary union (EMU), Finland will compete to raise funds and acknowledges the advantages of promoting itself in the international financial markets.

The Finnish deal in euros will be arranged by JP Morgan in Paris and is expected to total E1bn ($1.1bn) with an 11-year maturity. Following a pattern set by several other countries, the issue will become fungible with a government bond denominated in Finnish markka to be launched later this year. The euro roadshow began on 24 April in Frankfurt, moving to London on 27 April, followed by presentations in Milan on 28 April and in Paris on 29 April.

Other transactions coming to market include a deal for Export Development Corporation, the Canadian export credit agency, which is expected in eurodollars this week with a five-year issue to raise $500m. The agency last issued a eurobond in 1993.

Bankers are also expecting a couple of relatively large issues in drachmas, a currency that has become popular with eurobond investors only this year after it was devalued and it became clear that the country offered opportunities for convergence trades. Most deals so far have been small and illiquid, but bankers say supranational institutions may launch more liquid deals.

Conditions for east European issuers should improve in the wake of 24 April's vote by the Russian parliament supporting Sergei Kiriyenko's candidacy for the premiership. International investors initially reacted cautiously to the first issue by a Russian borrower denominated in lire – a L500bn ($280m) deal for the government that was eventually increased to L750bn.

The general view that Russian political risk is declining should make life much easier for Chase Manhattan, with its mandate to lead a L750bn three-year deal for the City of Moscow.

GAVIN GRAY

INDICATORS

COMPETITION

The American way spells success for business

Melanie Bien

AMERICA is officially the most competitive economy in the world. A strong combination of economic expansion, low unemployment and low inflation is pushing the stockmarket to new highs. Russia is the worst place to do business, with a lack of competent managers, infrastructure, worker motivation and investment protection.

These findings come in the annual world competitiveness yearbook from the Swiss-based International Institute for Management Development (IMD). The trend towards globalisation is more apparent than ever in this year's report, with countries more closely ranked than in the past.

But America's position is very strong, well ahead of the competition. This is due to several years of continuous economic growth, unemployment at a 24-year low, inflation at a 30-year low and the tripling of stock exchange prices since 1991. The impact of privatisation, deregulation, flexibility in the labour market and massive investment in new technology has contributed to the healthy economic environment. The report concludes that this position is virtually unassailable, with only a stock market crash or long-term complacency the only factors which could reduce this competitiveness.

People living in different countries tend to benefit economically when they co-operate with each other, through international trade, capital flows and labour migration. But most people are more concerned with how their country competes with others. This is difficult to define, but the IMD bases its index on 223 criteria, trying to calculate a country's ability to help firms compete. Protectionism is bad while low budget deficits are good.

The risk is that German companies will look abroad

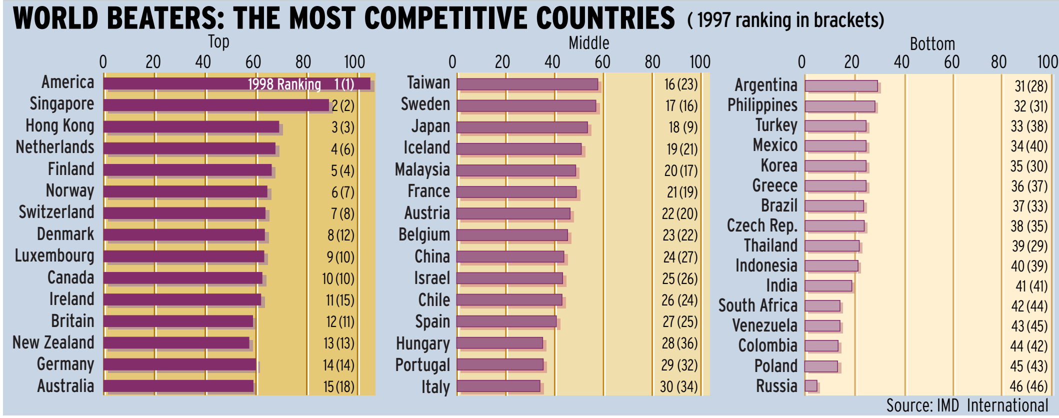
Russia comes joint last but there is some hope. The report noted that "a remarkable generation of new entrepreneurs is emerging who will certainly generate numerous opportunities". Poland was only marginally better – surprising, considering the development of a strong entrepreneurial spirit and a steady growth rate of around six per cent. But despite its thriving domestic market there are still problems with bureaucracy, corruption and high taxes. Nine European countries came in the top 15, making northern Europe a good place to do business. The Netherlands, in fourth place, was Europe's stellar performer, benefitting from successful economic reform.

The growth in worker flexibility and development of part-time employment has brought dramatic results. Finland (fifth place), Norway (sixth) and Denmark (eighth), all posted strong growth last year. Ireland jumped 11 places from last year's ranking, buoyed by its strong economy and attempts to woo foreign investors with attractive incentives.

Germany is still struggling, lacking the will to reform the heavy state presence in industry. Without reform, the risk is that domestic companies will look abroad to more tax-friendly environments in which to work, harming the German economy further.

Germany is a good example of the conclusion reached by the report – that size is not everything. It is only an asset when a huge domestic market is matched with the flexibility and aggressiveness displayed by smaller countries, a factor which explains much of America's success.

WORLD BEATERS: THE MOST COMPETITIVE COUNTRIES (1997 ranking in brackets)



ECONOMIC INDICATORS

THE Bank of Italy trimmed its benchmark interest rate by half a point to five per cent, bringing it within less than a percentage point of the level investors expect will prevail among countries adopting the new European currency next January.

CONSUMER prices in western Germany rose 0.2 per cent in the month to mid-April, climbing 1.3 per cent from a year earlier. This is the highest rate since December. The data was based on surveys from North Rhine-Westphalia, Bavaria, Baden-Württemberg and Hesse. The lower than expected impact of an increase in value-added tax on German consumer prices has dampened speculation over an interest rate increase. Producer prices, meanwhile, fell 0.1 per cent in the month and rose 0.6 per cent in the year, the lowest annual rate since February 1997.

SWEDISH industrial production rose two per cent in February from the previous month. This was a 6.8 per cent rise on last year. February industrial orders rose 2.5 per cent from January, a 12.3 per cent increase on the previous year.

POLAND's current account deficit widened at a slower pace in February than in the previous month as exports rose and imports declined. It grew by $292m in February, up from $957m in January. Meanwhile, Poland's central bank lowered the 28-day intervention rate by 23 per cent from 24 per cent to help weaken demand for the zloty and encourage domestic banks to buy treasury bills.

ECONOMIC DATA

COUNTRY	INDUSTRIAL OUTPUT*			INFLATION†				UNEMPLOYMENT††			
	Latest quarter	Previous quarter	Year ago	Latest month		Month ago	Year ago	Latest month		Month ago	Year ago
Austria	3.9[1]	n/a	3.7	Mar	1.0	1.0	1.5	Mar	4.5	4.5	4.1
Belgium	1.7	1.9	0.7	Mar	1.0	0.7	1.5	Mar	12.5	12.9	13.1
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	Mar	1.8	1.9	0.6	Mar	13.7	13.2	15.9
France	2.6[2]	2.2	1.7	Feb	0.7	0.5	1.6	Feb	12.1	12.1	12.8
Germany	2.6	2.4	2.2	Feb	1.1	1.3	1.7	Feb	11.5	11.6	11.2
Greece	10.6[1]	n/a	11.3	Mar	4.6	4.3	6.0	Dec	8.7	8.4	8.4
Ireland	7.8	n/a	10.1[4]	Mar	2.1	1.7	1.5	Feb	9.7	9.7	0.6
Italy	2.8	2.1	0.1	Mar	1.8	1.8	2.2	Jan	12.2	11.7	12.4
Luxembourg	5.5[3]	3.8[4]	12.4	Feb	1.1	1.4	1.5	Nov	3.7	3.6	3.6
Netherlands	2.9[2]	3.1	3.0	Mar	2.3	2.2	2.0	Mar	5.1	5.1	6.2
Norway	4.4	2.3	4.3	Mar	2.3	2.0	3.3	Mar	2.6	2.8	3.4
Portugal	3.0[3]	2.3	2.0	Mar	2.3	2.1	2.5		6.5	6.5[2]	7.1
Spain	3.6	3.5	2.6	Mar	1.8	1.8	2.2	Mar	12.6	12.8	13.9
Sweden	3.3	2.7	1.8	Mar	1.0	1.2	−0.4	Mar	6.4	6.7	8.4
Switzerland	2.0	1.1	−0.6	Mar	0.0	0.0	0.5	Mar	4.6	4.9	5.6
Turkey	6.9[2]	6.6	5.3	Mar	97.2	9.3	77.3		5.8[5]	6.3[6]	6.6
UK	2.9	3.0	2.7	Mar	3.5	3.4	2.6	Feb	4.9	5.0	6.2
US	3.9	3.9	3.2	Mar	1.4	1.4	2.8	Mar	4.7	4.6	5.2
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	Mar	0.9	1.0	2.0	Mar	8.5	8.6	9.3

*Gross domestic product year on year. † Annual per cent. †† Per cent of workforce. q^4 1997 except where stated: 1=year97 2=$q^3$97 3=$q^4$96 4=year95 5=Oct.96 6=Apr.96

SOURCE: STANDARD & POOR'S MMS

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

COMMODITIES

Running low on a key metal

Melanie Bien

PALLADIUM is one of the most vital metals in the world, so news that its price has more than doubled since the beginning of the year is worrying for manufacturers. Palladium is used to make electronic components for mobile telephones and laptop computers. Catalytic converters – the modern motorist's concession towards the environment – also contain palladium.

But a shortage in the metal is causing the price hike, as Russia, the world's biggest supplier, failed to meet its shipping commitments. Palladium for June delivery rose $7.45, or 2.4 per cent, to $315.95 per troy ounce on the New York mercantile exchange (Nymex), the highest it has been since March 1980. The rapid price gains prompted Nymex – whose duty it is to maintain an orderly futures market – to more than double the margins it charges traders to take positions in the futures market. This led to a plunge in prices towards the end of last week, as members discovered they will have to find $13,000 for April, May and June contracts, a significant increase from the previous price of $3,500. Speculators who cannot find extra money for each contract will have to sell. Traders warn that prices could rise again if supplies remain scarce.

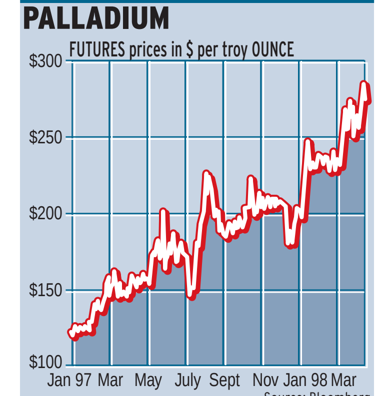
Russia has not shipped any palladium this year because of government delays in issuing the relevant export licences. Russia is responsible for 60 per cent of global supply, exporting $650 million of palladium last year.

But traders fear that they are seeing a rerun of last year's delays, when no deliveries were made for the first six months of the year. The problem is that there are no big stocks outside Russia to draw on. Consumers have been relying on Russia's stocks to fill a substantial gap between demand (7.44m ounces in 1997) and supply (5.65m ounces).

Degussa, the Frankfurt-based producer of catalytic converters, was forced to warn carmakers Volkswagen and General Motors last year about supply disruptions after they left their stocks critically low.

Mining companies in South Africa, the world's second-largest producer of palladium, have said they will not be able to make up the shortfall created by Russian supplies. In London, the spread between "bid" and "offer" prices from traders for spot palladium widened to at least $10 a troy ounce from a normal spread of about $1, indicating the lack of trading activity and the higher risks faced by traders as the market continues to fluctuate widely.

PALLADIUM



LETTERS

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Shorter letters are preferred. Letters may be edited for clarity

Population decline: a problem or solution?

IN ORDER to judge whether the prospect of population decline in Europe is a problem or a solution ("Endangered species", issue 412), one must first consider what the eventual, stable population ideally should be. The most sophisticated calculations of human "carrying capacity" are based on ecologically productive land, ie the appropriation of arable, pasture, forest and "energy" land wherever in the world it is situated. (Energy land is needed both for sequestering carbon dioxide and for converting energy from renewable sources.)

A recent calculation, assuming no change in present lifestyles, indicates a maximum sustainable population of 245 million for Europe's 19 main countries (EU members plus selected aspirants for membership). The present population of these countries is 445m.

This calculation is based on the present average "ecological footprint" (appropriation of productive land) of 3.7 hectares per person. If this footprint were reduced to a more modest one of three hectares, the maximum sustainable population would increase to 295m. Some suggested allocations based on the local supply of productive land are France, 62m; Italy, 16m; Germany, 41m; Spain, 28m; and Britain, 23m. Optimum populations – ie ones compatible with the option of a good quality of life for everyone everywhere – would be considerably smaller, as they would be based on many more criteria, including liberty, mobility, recreation, tourism and political representation.

David Willey
Urmston, England

YOUR "Endangered species" cover story (issue 412) gave much worrying food for thought. The world population graph showed the European population going into steep decline, while the figures for Asia, Africa, China, India, Latin America and the Caribbean are forecast to go through the roof. Add to this the mass immigration of millions of non-Europeans and asylum-seekers from outside EU borders and the title of the article appears most apt.

It is time that the European Parliament and the member states of the EU reflected the wishes of the vast majority of their citizens, more than 18 million of whom are presently unemployed, and stopped all immigration. Europe's mothers should be rewarded with tax-free payments for childbirth, so increasing the birth rate and boosting demand for European goods.

Is western civilisation, which has given nearly everything of value to mankind, to become extinct, lost without trace?

Robert West
Penzance, England

THE recent population decline now in evidence in Europe is surely one of civilisation's more hopeful signs and not the depressing development described by Robert Fox (issue 412). Human population restraint will limit pollution, the depletion of natural resources and ease urban congestion.

Unemployment and under-employment are endemic in Europe and the cost is huge. Overpopulation greatly favours employers and condemns workers to lives of competition, uncertainty and dependence.

Our standard of living and population growth have been fuelled by our exploitation of coal, oil and natural gas. What will support Europe's millions once the reserves are exhausted?

WH Partridge
Bognor Regis, England

Ireland's only deal

IN return for Northern Ireland's republicans accepting the principle of consent, the peace deal makes notable concessions to Sinn Fein. Many of these are proving hard for Unionists to swallow. The fact that IRA and loyalist terrorists will be released within the next two years strikes many as unjust. But any attempt to bring peace to the province must recognise that the prisoner issue is central to the process.

The agreement is all we have. The likes of the Rev Ian Paisley are adamantly opposed but offer no alternative plan. The fact that the Ulster Unionist Party, the biggest Unionist group, signed up to the deal despite its reservations was a tribute to the willingness of its leader, David Trimble, to take a risk. He has always been perceived as a hardline Unionist. But Trimble the pragmatist held the line, keeping his party in the talks even when Sinn Fein joined in. He too has come to realise that the only alternative to this settlement is more conflict and bloodshed.

Keith Boyd
Belfast, Northern Ireland

DRAWN FROM EUROPE

CARTOONISTS AND WRITERS SYNDICATE SCHRANK – *SUNDAY BUSINESS POST*, DUBLIN, IRELAND

IAN PAISLEY AND DAVID TRIMBLE

America in debt

WE hear great things about the American economy being in safe hands but the reality is somewhat different. The outstanding US public debt as of 22 April stood at $5,551,070,389,387.40. This is more than $5,551 billion. The estimated population of the United States is 269,561,341, so each citizen's share of this debt is $20,592.98. The total is increasing by an average of $630 million every day.

These figures are updated regularly and available on the world wide web: http://www.brillig.com/debt_clock.

Dan Canup
Berkeley, California, USA

Farming handouts

"UK government warms to coal industry again" (issue 412) implies that this is the only subsidised industry in Britain. What about farming? While other industries are facing up to the challenge of a strong pound and striving to capture new markets, farming is once again looking for state handouts.

Somewhere along the line, the original aim of the Common Agricultural Policy seems to have been lost. Other industries have had to rationalise as a result of new equipment and modern practices. The CAP is preventing a much-needed rationalisation of the farming industry.

Louise Adamson
Glasgow, Scotland

World Cup fiasco

YOUR cover story on the World Cup ticket debacle ("Fans lose out in French ticket farce", issue 411) further served to confirm that it will be the real football fans who will be penalised, especially Europeans who want to travel to support their national teams but will effectively be prohibited from doing so.

What intrigues me about this affair is the French nation's seeming conversion to attend football matches in such great numbers, a phenomenon rarely witnessed ever before and certainly not in recent history if their domestic league soccer game is anything to go by.

On the weekend of 14-15 March the average attendance at French premier league matches was 17,198. Comparing this with the averages over the same period in neighbouring countries – Germany, 35,085; Spain, 30,230; England, 30,188; and Italy, 29,264 – it is obvious that non-French football-loving people display a commitment to the game, year in year out, not just when a prestigious international tournament takes place on their soil. Even in that bastion of football fever, Japan, a week later, the J league average attendance was more than 19,000.

Yet French citizens are awarded a grossly disproportionate allocation of tickets that their mercurial interest hardly merits, host nation or not. Jules Rimet must be spinning in his grave.

Jack Critchlow
Torquay, England

Bad business

CORPORATE alliances such as we have recently seen in banking, computing, publishing, defence and aerospace are the antithesis of free-market dogma and the supposed liberalisation of world trade. I don't believe, for example, that American domestic or business customers will benefit from the latest wave of bank mega-mergers.

On the one hand, multinationals preach free-market competition and aggressively promote the dismantling of governments' legal controls over commerce and finance. On the other hand, the same firms are busily forging territorial compacts with each other – collaborative mechanisms that may be used to manage trade privately, on their own terms, above and beyond the reach of national governments.

We have long believed in the mantra that big government is bad, big business is good. It is perhaps time to re-evaluate at least one of these articles of faith.

Matthew Kennedy
Berlin, Germany

Plugs and points

SAY what you will about a unified Europe, common markets and single currencies, Europeans have a long way to go before they get their act together. The profound nature of the problem hits me whenever I travel on the continent with my laptop. My survival kit includes a dozen telephone converter plugs, each designed to fit the standard American phone jack into the local socket.

Europe, which is about to embark on the most ambitious unification plan in modern history, has nearly as many plug-socket combinations as it does languages. Five jacks alone represent socket possibilities in Germany (old, new, east etc), Greece's looks like something out of *Star Wars*, Belgium's is a bulky five-pronged job, Italy's trident is the biggest and why, I wonder, do Denmark and Portugal share the same plug?

This assortment of pre-millennial telecom hardware represents the random ingenuity of the European nations on the verge of marriage – and the inherent obstinacy of the partners. Can a continent that can't agree on a single phone jack agree on a common future?

Bob Jurkowski
Norfolk, Virginia, USA

London will be sidelined

THE British government is giving half-hearted support to the euro. It appears to be in favour of economic and monetary union (EMU), but not yet. Tony Blair's policy is no different from the previous government's attitude of "wait and see".

With less than eight months to go, EMU is no longer in doubt. It will have profound consequences for the City of London. Europe's financial capital will be sidelined with Frankfurt the main beneficiary. Mainland Europe is on the up. Inflation is low, budget deficits are coming down and the continent is on the verge of a sustained cyclical upswing.

The pound is likely to swing widely on the foreign exchanges, to the detriment of British industry and particularly the financial services sector. The City will lose out on the development of pan-European capital markets and inward investors may seek a base inside the euro zone. Britain is throwing away any influence it may have had on a world currency to rival the dollar.

Karl-Ludwig Hübler
Bremen, Germany

AN unusual alliance is taking shape in England with Lady Thatcher and Lord Tebbit seeing eye to eye with Labour Eurosceptics such as Tony Benn. It will be interesting to see if they unite against the European "rabble" and battle to save the pound.

The English are deeply worried about the single currency about to land on their doorstep. Too often, however, "Little Englander" Euroscepticism has couched itself in the language of jingoism and nostalgia for the good old days of empire.

The euro project is hasty, flawed and fudged. A debate on economics, democracy, accountability and sovereignty is long overdue.

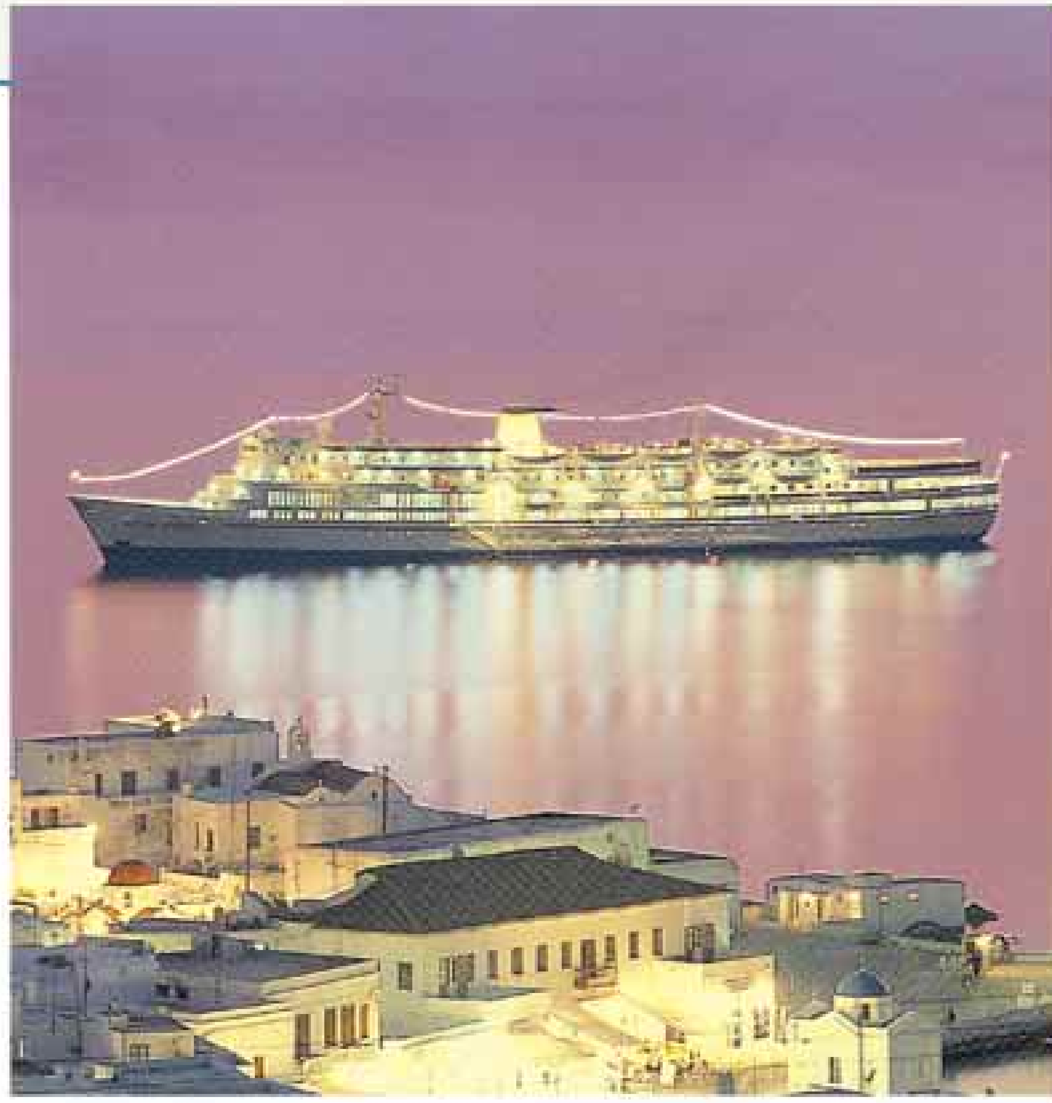
Jenny Everett
Lisbon, Portugal

AMERICANS are concerned about the dollar losing its position as the world's reserve currency and the British are like frightened rabbits blinded by bright euro headlights. Given that the single currency is imminent, one would have thought that Washington and London had made preparations. But no, they are short-sighted by a deeply pervasive scepticism and a notable lack of strategy.

Henry Lazenby
Lille, France

CyanMagYelloKey

GREECE:



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