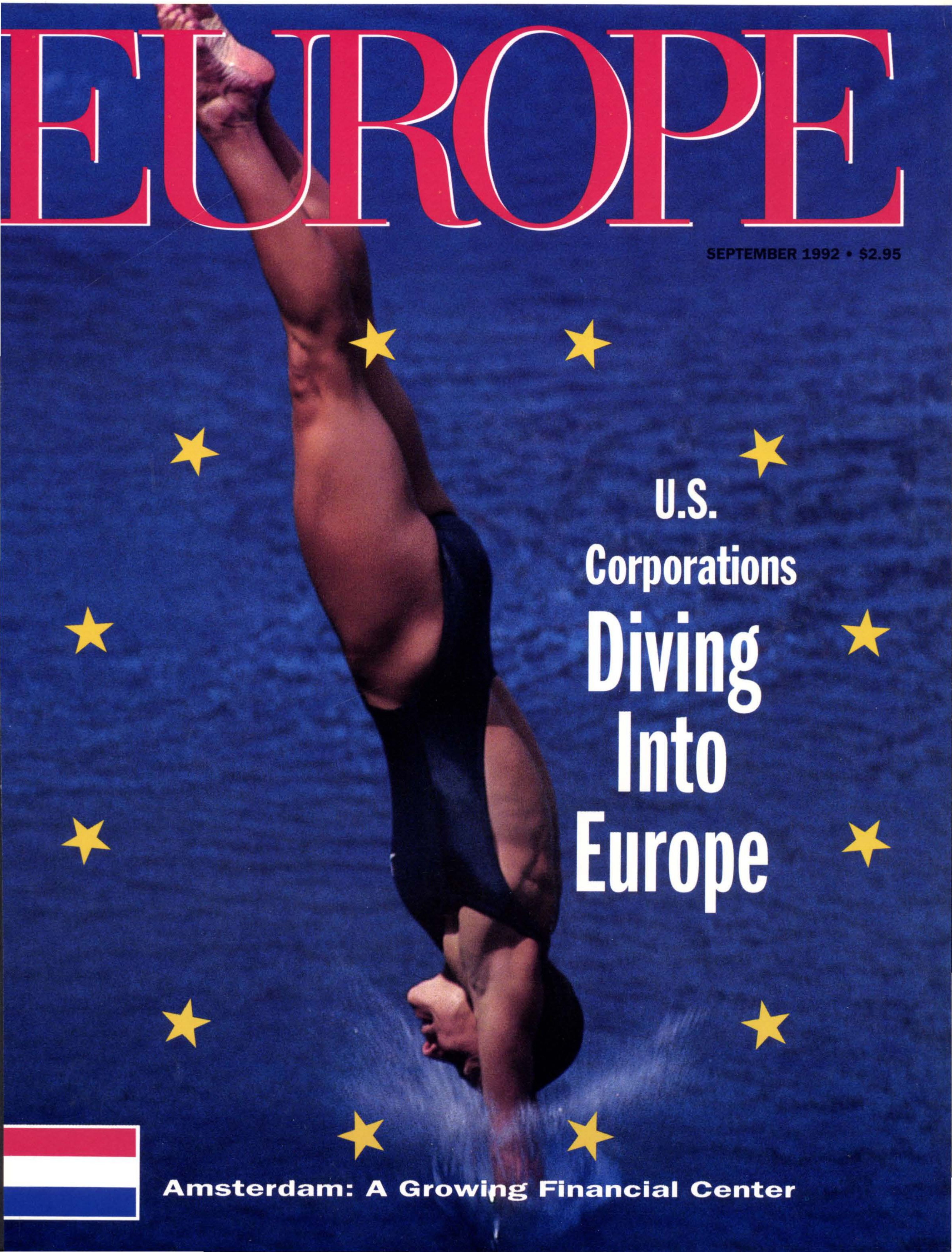
Finland: Setting Sail For the Single Market

EUROPE

SEPTEMBER 1992 • $2.95



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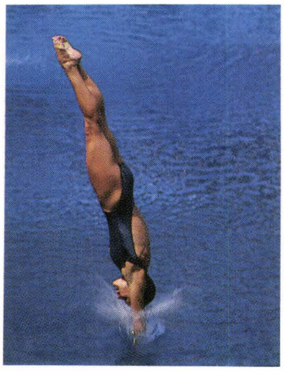
Letter From the Editor

As the single market approaches, American firms are "diving into Europe," trying to establish a business presence in what will be the world's largest market.

Many of the better known American multinational firms have been conducting business in Europe for decades but are now rearranging their headquarters and business practices on a pan-European scale in anticipation of the single market.

EUROPE provides an overview of American investment in Europe and looks at what the large U.S. companies are doing in the way of joint ventures and mergers and acquisitions. Bruce Barnard, a Brussels reporter for the *Journal of Commerce,* points out that "U.S. companies are building new plants, buying up European firms, and forging strategic alliances to cash in on the world's biggest integrated economy." Barnard also looks at the role the European Community is playing in the run up to the single market.



Cover: U.S. Olympic diver Ellen Owen.

Sara Lee Corporation is one of the fastest growing American firms in Europe. *EUROPE* interviews Sara Lee's CEO and Chairman John Bryan to discover what opportunities and problems his company expects to encounter in the New Europe.

From Toys R Us to Osh Kosh to Pampers, American companies are finding that children's products are popular and profitable in the European marketplace.

With Rotterdam being the largest port in the world, the Netherlands is a well-known and highly successful trading nation. *EUROPE* looks at the Netherlands today as their businesses gear up for the single market.

EUROPE presents an exclusive interview with Esko Aho, the new prime minister of Finland. The 38-year-old Finnish prime minister discusses his nation's goal of achieving E.C. membership and talks about Finnish-U.S. relations.

Inside Europe reviews the "Summer Summits" that took place in Rio de Janeiro, Lisbon, Munich, and Helsinki and brings you up to date on the latest "Business Briefs" from around Europe. *Inside Europe* looks at current happenings across Europe including the upcoming vote in France on the Maastricht Treaty on September 20.

The U.K. has taken over the E.C. presidency and is discussing the role of "subsidiarity." David Lennon, writing from London, looks at the U.K.'s agenda during its six-month presidency. Rounding out our "Capitals" section, *EUROPE* interviews Russia's ambassador to Portugal and profiles the new President of Italy.

And if you are a golfer—serious or otherwise—*EUROPE* presents a helpful guide to the major golf courses in each of the E.C. countries.

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EUROSCENE

Newsmakers

After **Vaclav Havel** announced his resignation as President of Czechoslovakia in the wake of that country's apparent split, he and his government leaders ceremoniously changed from business suits to jeans and casual clothes. Havel was heard to say quietly to himself, "I am free." Look for Havel possibly to return as the leader of the new Czech republic after elections in the fall.

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Contrary to the image some people have of Italian politics, the leader of the fifty-first government since World War II is a man with a


Italy's New Head of Government Giuliano Amato

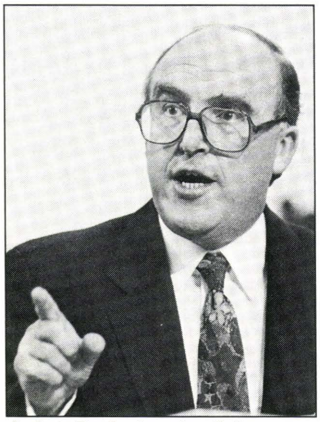
squeaky clean image. **Giuliano Amato**, the 54-year-old former deputy secretary of the Socialist Party, officially formed the new government in late June. He has not been involved in any of the corruption scandals that have dimmed more than a few political careers over the years. In that sense, many hope that Amato represents the new face of Italian politics.

As a former treasury minister and a constitutional law expert, Amato acquired the nickname, "Dr. Sottile" (literally "Subtle Doctor," also referring to his "slight" figure.) He is known for his ability to handle political problems, and may offer, as a result, an honorable solution to the country's economic and institutional downturn.

The new government, however, might not last long because of its thin majority in parliament, which ties Amato to broad, cross-party support. Also, Amato's administration will have to deal with the problems of organized crime, political corruption, and constitutional reform. Not least of all, it will be interesting to see how "Dr. Subtle" handles the not so subtle ways of some of parliament's more flamboyant members.

• • •

In the United Kingdom, the new leader of the Labor Party, **John Smith**, is a 53-year-old Scot, who was originally trained as a lawyer at Glasgow University. It was at college that he first became involved in politics, becoming chairman of the University Labor Club. Elected to parliament in 1970, Smith rose quickly, ultimately to hold the post of Shadow Chancellor of the Exchequer.


Labor Party Leader John Smith

In his private life Smith describes himself as enjoying hill walks and opera. His wife, Elizabeth, is Vice-Chair of the Scottish Branch of the Britain Russia Center. They have three adult daughters.

In the election, which took place as a result of the resignation of **Neil Kinnock**, Smith won 91 percent of the votes, including almost all of the block votes cast by labor unions on behalf of their members. After the tally, Smith said that Labor would continue to stand for "a fair society and a strong economy," and that the party would not back away from its principles of "democratic socialism." But he also said that "the party of change must be ready to change itself." It is indeed up to Smith to try to reorganize the Labor Party after its fourth consecutive defeat in a general election.

• • •

Miguel Indurain, the 28-year-old Spanish bike racer, repeated his triumph of last year by winning the 79th Tour de France. He became the sixth racer to win both the Giro d'Italia and the Tour de France in the same year.

Indurain revealed that his strategy was to "stay with the best climbers in the mountains and pulverize them in the time trials." The Spaniard also set a Tour de France record with an average speed of 24.5 miles an hour.

Indurain still lives with his parents, brother, and three sisters in his childhood house in the town of Villava. Money, however, is hardly the problem—he reportedly makes $1 million a year, and is a partner in a sportswear company in Spain.

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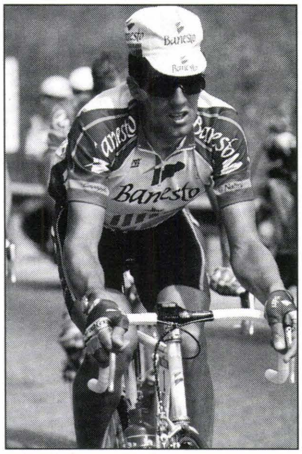

1992 Tour de France Winner Miguel Indurain

Former British Prime Minister **Margaret Thatcher** is stirring up controversy once again, but not in government. Lady Thatcher will be earning up to $1.9 million as a part-time consultant for U.S. food and tobacco giant **Philip Morris**. A devout non-smoker, Thatcher will advise on controversial issues such as cigarette advertising, tobacco taxes, and the penetration of markets in Eastern Europe and the Third World. Philip Morris is the world's largest tobacco company.

• • •

On July 10, the Polish Parliament voted in a new prime minister, the fifth since the demise of communist rule. **Hanna Suchocka**, 46, a Democratic Union Party member, becomes Poland's first female head of government.

Suchocka is a longtime

World Chess Champion Bobby Fischer

democrat and opponent of communism. Upon receiving her law degree in 1968, she became a member of the faculty of law at Poznan University. Her contract, however, was not renewed the next year due to her refusal to join the Communist Party.

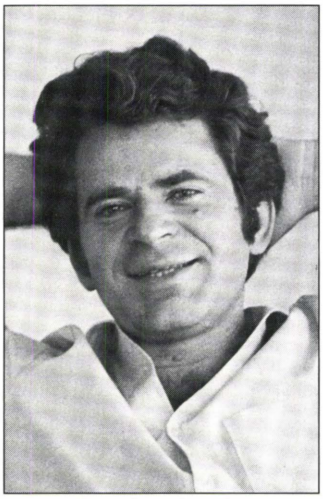
Suchocka became a member of the Democratic Party (SD) in 1969, and became the party representative to the Sejm (the Polish parliament) in 1980 as part of a small group of opposition to communist rule. In 1981 when martial law was declared in Poland, she voted against a bill which would have outlawed the Polish trade union, Solidarity, and against repressive penal laws. As a consequence her Democratic Party membership was suspended, and she finally left the party in 1984.

In September 1991, Suchocka was re-elected to the Sejm as a member of the new collection of parties, the Democratic Union. In addition to her new position as prime minister of a government composed of seven different coalition parties, Suchocka holds the positions of vice-president of both the Commission of Legislative Works in the Sejm, and the Parliamentary Assembly of the Council of Europe, where she heads the Polish delegation.

•••

Bobby Fischer, long lost chess prodigy, has come out of seclusion to match wits with his former nemesis for $5 million. The chess world is eagerly anticipating the September rematch between Fischer, America's only world chess champion, and Russian **Boris Spassky**, which kicks off September 2. Fischer defeated Spassky 20 years ago and has not defended his title since.

The match, scheduled to be played in Yugoslavia, has stirred some controversy as it could violate U.N. sanctions against Yugoslavia. **Jezdimir Vasiljevic**, a wealthy Yugoslav, put up the prize money and declared the match "more than a chess match; it's an open war against the embargo."



Chess Grandmaster Boris Spassky

What They Said

"Subsidiarity should not be seen as something for the theologians of Community law, but as something intensely practical."

—Sir Leon Brittan, Vice President of the European Commission, in an article about the U.K. presidency of the E.C.

"This Wimbledon was really something, huh?"

—Andre Agassi, American tennis player, to the Duchess of Kent, after winning the Wimbledon singles championship.

"How do you coordinate economic policy with a country that doesn't even have a market economy?"

—Giuliano Amato, Italian Prime Minister, concerning aid to Russia.

"I didn't go to negotiate...I just went to spend a Sunday in Sarajevo."

—François Mitterrand, French President, about his humanitarian trip to Yugoslavia.

"History years from now will look back and see that we had great leaders at this time."

—Raymond Seitz, U.S. Ambassador to the Court of St. James.

"We will not cure the Balkanization of the East by Balkanizing the West."

—France's Culture Minister Jack Lang on why a French "No" vote on the Maastricht Treaty would wreck the treaty and could make for more nationality-based conflicts.

"Actually, I'm a little envious of Murphy Brown. At least she's guaranteed of coming back this fall."

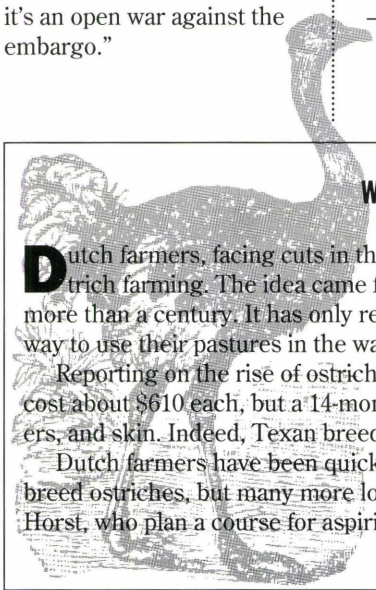
—Dan Quayle, U.S. Vice President, referring to the television character, whose "family values" he criticized.

"This convention is the first in which an American President can say the cold war is over, and freedom finished first."

—George Bush, U.S. President, speaking at the Republican Party Convention.

"Having Indurain and Delgado on the same team is like having Goya and Picasso painting for you."

—Jose-Miguel Echavarri, coach of Spain's Banesto racing team, during the Tour de France.



Welcome To Ostrich Country

Dutch farmers, facing cuts in their E.C. subsidies, have embarked on a new venture—ostrich farming. The idea came from South Africa, where farmers have bred ostriches for more than a century. It has only recently moved to Europe as farmers look for a profitable way to use their pastures in the wake of E.C. curbs on milk production.

Reporting on the rise of ostrich farming the Boerderij farming newspaper said that chicks cost about $610 each, but a 14-month-old bird can be worth as much as $1,270 in meat, feathers, and skin. Indeed, Texan breeders prize the birds' leathery skin for making cowboy boots.

Dutch farmers have been quick to seize this opportunity, with a handful already starting to breed ostriches, but many more looking into it. Entrepreneurs Jan Arends and Fred van der Horst, who plan a course for aspiring ostrich farmers, say they have had about 150 inquiries.

INSIDE THE SINGLE MARKET

Creating a Competitive Market

The summer doldrums in Europe's high tech industry have revived the long-running battle between supporters of market forces and old style state interventionists. Groupe Bull, France's leading computer maker, has run up losses of $2 billion over the past three years and is still swimming in red ink. Siemens of Germany is slowly bowing out of advanced computer chips, ending Europe's presence in this vital industry. Philips, the flagship of Dutch industry, phased out chip production last year and is now struggling to turn around its troubled consumer electronics business.

Ten years ago, the initial response of European governments would have been to pump massive subsidies into these strategic companies to help them catch up to their American and Japanese rivals.

This strategy has had its day, though a group of E.C. members is fighting a rearguard action to return to the old ways.

However, the 1992 single market program has a built-in, free market philosophy aimed at creating a genuinely competitive, barrier-free market. Monopolies, state subsidies, and exclusive procurement practices still permeate the economies of several E.C. countries, but the E.C. Commission is slowly grinding them down.

The free market liberals appear to have won the argument in the Commission even during times of economic slowdown and rising unemployment. Within the Community the United Kingdom, Denmark, Germany, and the Netherlands have blunted a Franco-Italian push for a more interventionist stance. The liberals also won a key battle over the industrial policy chapter in the Maastricht Treaty on economic and political union, inserting a sentence proclaiming no basis exists "for the introduction by the Community of any measure which may distort competition."

The Commission's decision last year to block a bid by Aerospatiale and Alenia, the French and Italian aircraft manufacturers, for de Havilland, the Canadian subsidiary of Boeing Corporation, drew a furious response in Paris and Rome.

The decision refueled the debate within the E.C. over the correct balance to be struck between competition and industrial policy.

France and Italy argued that the probe into the de Havilland bid should not have been based solely on narrow anti-trust criteria but should have also taken into account its positive impact on the European aerospace's position in the world market.

E.C. Competition Commissioner Sir Leon Brittan survived a half-hearted attempt to weaken his powers to investigate mergers, but a recent spate of mergers and takeovers among European firms has again fixed the spotlight on the Commission's competition directorate.

Industry Commissioner Martin Bangemann says he is against an old-fashioned industrial policy.

The Commission comes under attack each time it rules on a high profile state aid package. A recent decision to approve $1.34 billion in government funding for Groupe Bull sparked an immediate U.K. protest that it would distort competition in the computer market.

Brussels' green light for the handout didn't give the French government carte blanche to pump more cash into the state-owned computer maker. The state aid didn't break E.C. competition rules because it will be used to finance a radical restructuring plan involving plant closures, layoffs, and a reduced share of a growing market.

The row over industrial policy is somewhat moot because the Community simply doesn't have the cash to prime pump strategic or politically-sensitive industries.

The E.C. has earmarked 5.7 billion ecu's ($7.98 billion) between 1990 and 1994 to support research and development, with 40 percent going for collaborative programs in information technology. But the funds have a limited impact because they are spread across so many different projects.

The plight of Europe's high tech sector, unable to meet domestic demand and trailing a $40 billion-a-year trade deficit, stems directly from exclusive procurement contracts and government subsidies that have shielded the industry from the benefits of competition.

Ironically, the only way for Europe's high tech sector, notably computers and semiconductors, to stay in business, is to collaborate with their arch rivals from the U.S. and Japan. Siemens led the way in July, teaming up with IBM and Toshiba to develop advanced computer memory chips for the 21st century. Other European firms are lining up to cut similar deals with their former "enemies."

Meanwhile, in another novel stab at "industrial policy," the E.C. is sponsoring a Euro-Japanese program aimed at transferring Japanese technology, quality, and productivity to European plants manufacturing electronic components.

These tie-ups are slowly killing off efforts by E.C. governments to create so-called "national champions." Sir Leon Brittan has warned of the dangers of seeking to promote specifically "European" companies and cooperation between them to the virtual exclusion of non-E.C. partners.

"In the end," according to Sir Leon, "the geographical label is largely irrelevant."

—Bruce Barnard

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NORTH AMERICA MEANS MIAMI

The Iberia Group has committed itself to a new plan that over the next four years will boost our productivity, the quality of our service, and help us to expand internationally. Iberia has opened "traffic distribution centers" in Buenos Aires and Santo Domingo, allowing for much wider service which will utilize the fleet's full capacity.

Iberia is now flying from Madrid to Santo Domingo twice a day. From there passengers are connected to Nicaragua, Panama, San Juan, San Jose, and Havana. Iberia also offers a daily flight to Buenos Aires from where passengers can connect to Santiago de Chile, Asuncion, and Montevideo. This expanded service consolidates Iberia's position in those markets.

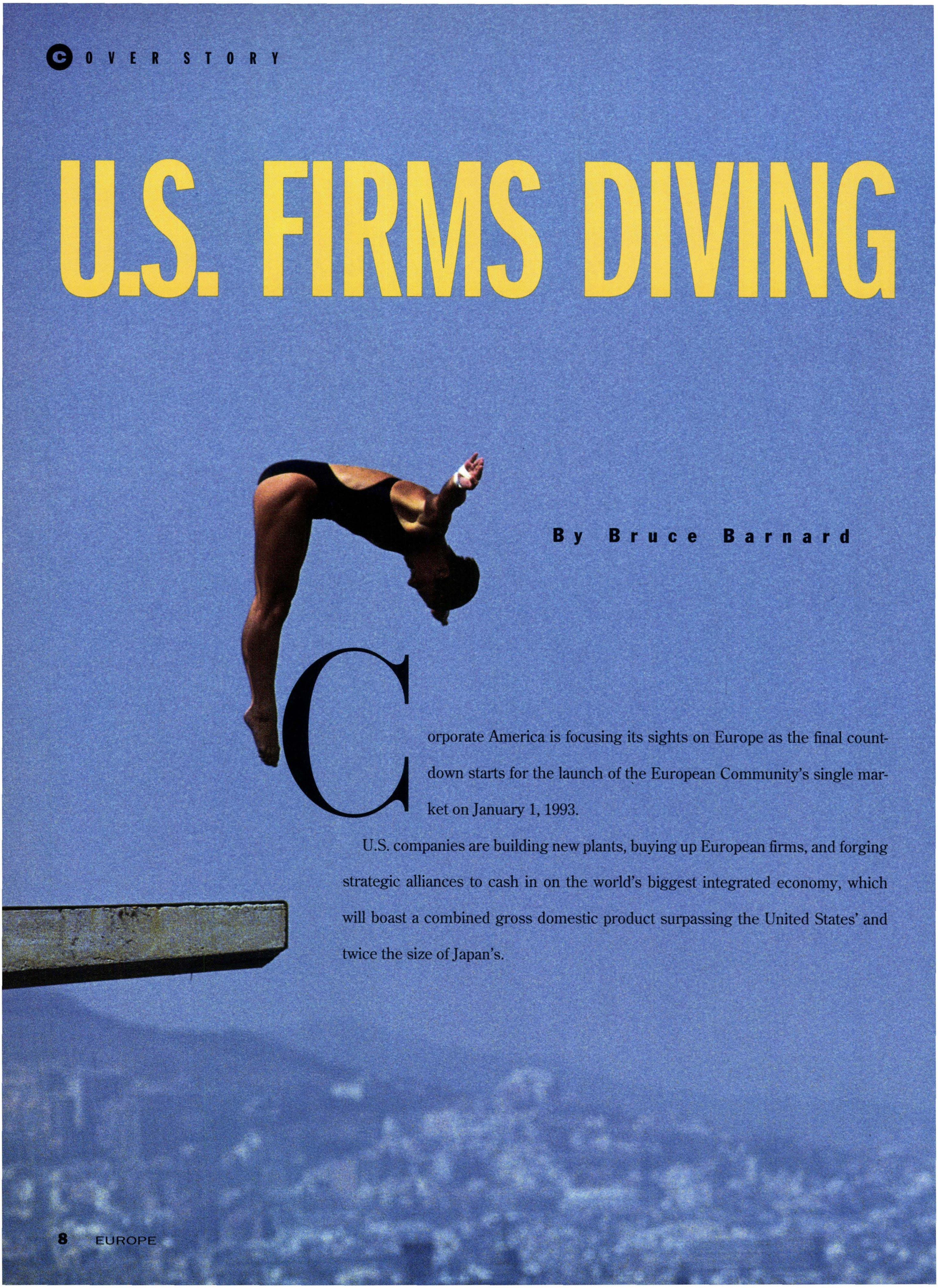
Until last summer Iberia was flying to three U.S. destinations—New York, Miami, and Los Angeles and had obtained the rights to fly to another three—Boston, Chicago, and Washington. Now, as a result of the bilateral agreement on air traffic between Spain and the U.S., Iberia has the option of establishing an operations center in Miami that will serve Central and South America as well as Europe and North America. With the Miami operation, Iberia will be the first foreign airline to have an "operational basis" in the U.S. Moreover, Iberia will be able to serve three additional U.S. destinations and will be able to fly to the U.S. from Canada.

EXPANDED SERVICE

The Iberia Group's new traffic rights and agreements with other airlines have created a network of service that connects flights throughout the Americas and Europe. Iberia's shares in other carriers—Aerolineas Argentinas (30 percent), Ladeco (35 percent), and Viasa (45 percent) have strengthened the Group's position, as has connecting schedules with Viva Air, Bintes, Aerolineas Argentinas, Viasa, and Ladeco. This cooperation and growth has made possible Iberia Group's more than 3,000 weekly flights, 40 percent of which are international.

In the future, Iberia hopes to increase the number of bilateral cooperation agreements with other airlines in Europe in order to offer better service in what continues to be a super-competitive marketplace.

U.S. FIRMS DIVING



By Bruce Barnard

Corporate America is focusing its sights on Europe as the final countdown starts for the launch of the European Community's single market on January 1, 1993.

U.S. companies are building new plants, buying up European firms, and forging strategic alliances to cash in on the world's biggest integrated economy, which will boast a combined gross domestic product surpassing the United States' and twice the size of Japan's.

INTO EUROPE

The European Community has become an even more alluring target as it prepares to accept wealthy new members, Austria, Finland, Sweden, Switzerland, and probably Norway, by the mid-1990's.

The collapse of communism has also enhanced the attraction of the Community as a springboard into the potentially lucrative markets of Eastern Europe.

U.S. companies are setting the pace while their Japanese rivals pause for breath after a frantic spending spree that has catapulted the value of their investments in Europe to over $70 billion.

The big U.S. companies are putting the finishing touches on Pan-European manufacturing and distribution networks, while most of their European competitors are still struggling to break out of their national markets.

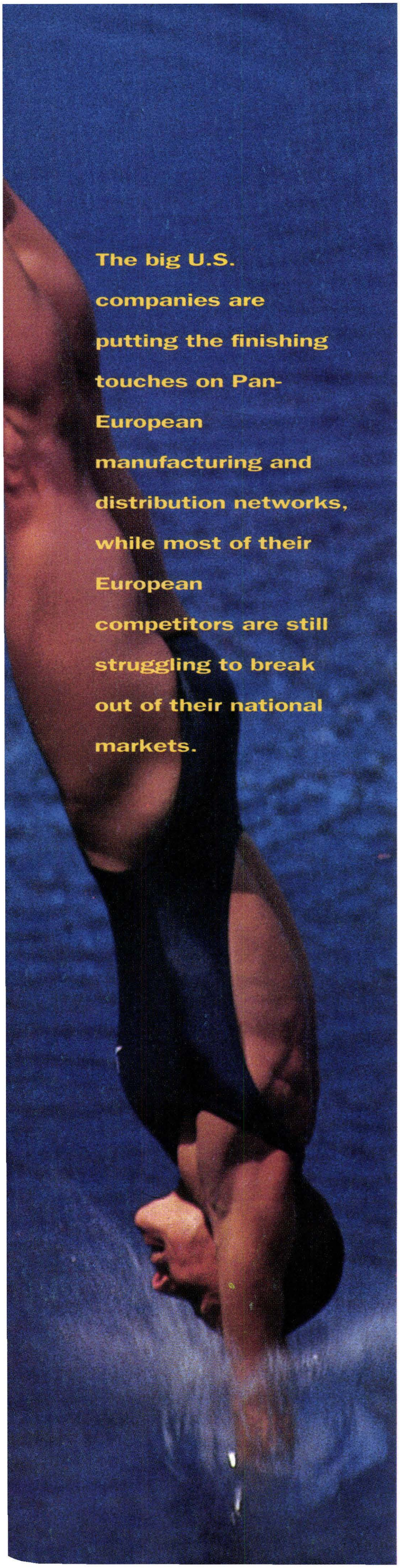
American multinationals already spend around $180 billion in the E.C., which is approximately 40 percent of their total direct foreign investments. A quarter of U.S. exports go to the Community, transforming a $27 billion trade deficit in 1986 to a $16.7 billion surplus in 1991.

The U.S. government and American businesses no longer gripe that the single market project will create a "Fortress Europe." Nevertheless, concerns linger over possible E.C. quotas on U.S. television programs, a public utilities directive that might discriminate against non-E.C. products, and a data protection directive that could increase costs for outside financial services and marketing firms.

Some U.S. firms have come from nowhere to build dominant market positions in Europe in the space of a few years.

Atlanta-based United Parcel Service Inc. bought Carryfast, the United Kingdom's largest, privately-owned express delivery service in June, its sixteenth acquisition in a one billion dollar spending spree over seven years that has given it a Pan-European network with 20,000 employees.

Whirlpool, the household appliance group, has run even faster since it moved into Europe in 1988, paying $470 million for 53 percent of the white goods division of the Dutch electronics giant, Philips. It scooped up the remainder for $818 million two years later, and is now whipping the old Philips operation into shape. Four years ago, Whirlpool wasn't even known in Europe. In fact, its name was impossible to pronounce in some European languages. Now it has dropped the Philips name from its appliances in four European countries and expects to trade under its own logo across Europe within a few years. Last year Whirlpool notched up record European sales and increased its share of a savagely competitive market.



"Oldtimers" who have been in Europe for decades haven't quenched their thirst for new ventures. Sara Lee Corp., the Illinois-based food processing group, is still seeking fresh markets 30 years after it first moved to Europe. It is now branching into clothing with an over $330 million purchase of Polly Peck, a U.K. hosiery firm, and a recent acquisition of a Spanish underwear manufacturer.

The financial services sector is also flexing its muscles again. Willis Corroon, the world's second largest insurance broker, has just completed its European network of European subsidiaries and associates. Marsh McLennan, the world's biggest broker, recently spent $105 million on Faugere et Jutheau, a French broker, to bolster its 16-country European network. Citicorp is also planning to boost its consumer banking operations in Europe.

Meanwhile, the Big Three U.S. airlines—American, United, and Delta—are aggressively chasing a bigger slice of Europe's $45 billion-a-year internal market, taking advantage of the disarray among Europe's long-protected national carriers as they brace for the fast approaching "open skies" regime.

American companies are striving to run ahead of the European market. Allied Signal, for example, is building a $220 million industrial fibers plant in France, its biggest investment outside the U.S., to meet European demand for polyester as a replacement for rayon and nylon in car and truck tires. It appears to be a surefire growth market—polyester is used in only 15 percent of European-produced tires compared to 98 percent in the United States.

U.S. firms are also transplanting home grown services in Europe. American Airlines and CSX, a railroad and shipping conglomerate, have taken their freight-tracking system across the Atlantic by forming a joint venture with PTT Telecom, the state-owned telecommunications monopoly in the Netherlands.

PepsiCo and General Mills merged their snack food operations in six European countries in May because they believe Europeans are sure to match American consumers' appetite for convenience foods. Northern Europeans eat only 40 percent as many salted snacks as their American counterparts. Southern Europeans eat only 20–30 percent.

The joint venture—with annual sales of $600 million, 4,650 employees, and eight manufacturing plants—will also help the two companies challenge the U.K.'s United Biscuits for leadership of Europe's $25 billion-a-year snack market.

U.S. firms are poised to clean up in some virgin markets in Europe, literally. In the market for environmental products and services, U.S. companies, exploiting their 30 years' experience of cleaning up America, are already aiding the "greening" of Europe. Some have been quick off the mark. Arvin Industries Inc. of Columbus, Ohio, for example, shipped $450 million worth of catalytic converters, manifolds, and mufflers to Europe last year, a quarter of its $1.7 billion worldwide sales. In some sectors, notably computers and semiconductors, European firms are on the ropes, leaving U.S. firms battling with the Japanese for market supremacy.

In some markets, U.S. firms are fighting among themselves. American companies account for the entire $1.7 billion European market for RISC-based work stations, (Reduced Instruction Set Computer) positioning themselves to reap a bonanza in a business that will be worth tens of billions of dollars by the mid-1990's.

American firms are also riding in as white knights for troubled European companies, especially in the high tech sectors. IBM has injected $100 million into Bull, the French computer manufacturer, and Digital Equipment Corporation paid between $300–350 million for a stake in struggling Olivetti of Italy.

Another marked change in U.S. corporate strategy in Europe is the accelerating trend toward alliances with European and (increasingly) Japanese firms. Spiralling investment costs, and the move to global manufacturing and distribution will hasten this process.

Among recent deals:

• IBM linked up with Siemens of Germany and Toshiba of Japan to develop advanced computer chips in a joint project worth over one billion dollars.

• Kimberly-Clark, the U.S. consumer products group, joined VP-Schickedanz of Germany in a fifty-fifty joint venture with yearly European sales of over $1.2 billion and a workforce of around 5,000.

• General Domestic Appliances,

GDA, jointly owned by the U.K.'s GEC and General Electric of the U.S., is forming a partnership with leading French and Spanish manufacturers of household appliances.

• Honeywell Europe and Tokyo-based Yamatake established a European photoelectric facility in Grenoble, France.

• Quantum Corporation of the U.S. and Matsushita-Kobobuki of Japan opened a jointly-owned plant in Ireland to make hard disk drives for U.S. personal computer manufacturers in Europe.

• Westinghouse forged an alliance with Rolls Royce of the U.K. to challenge its U.S. rival General Electric in the large power generation business.

Waves of investments over decades have transformed U.S. operations in Europe from distant subsidiaries to key components of their businesses. Europe generated $3.2 billion, or nearly 26 percent of Sara Lee's 1991 sales; one quarter of Du Pont's non-oil revenues; one third of Whirlpool's $6.6 billion sales; and 30 percent of PepsiCo's snacks' revenues.

Europe is also a handy money spinner for U.S. companies facing a flat market or fierce competition back home. General Motors, for example, is probably the most profitable volume car maker in Europe. In 1991 its $1.76 billion net profit in Europe contrasted sharply with a worldwide loss of $4.5 billion. This year GM expects to earn $1.5 billion in Europe.

For others, the going has been tougher. Ford of Europe lost $1.08 billion last year, and its $1.8 billion prestige acquisition, luxury car maker Jaguar, is still hemorrhaging. "FedExing" won't enter the European vocabulary after all, following Federal Express's abrupt exit from the intra-European express delivery market. UPS doesn't expect its one billion dollar European investment to yield profits until 1994. The food companies Campbell and Borden jettisoned European acquisitions made only a few years ago.

Corporate America is now turning its attention to Eastern Europe, the invasion being led by its blue chip companies. At first, American businessmen cold-shouldered post-communist Eastern Europe, waiting for the collapse of the Soviet Union before moving in. Now the U.S. is the biggest single investor in the region, spending more than two billion dollars in the six months to the end of March. That figure has ballooned in the past few months. In the biggest deal so far, Philip Morris Co. paid $413 million this spring for control of Tabak, the Czechoslovak cigarette manufacturer, beating off a fierce challenge from archrival R.J. Reynolds. And the "Cola Wars" have spread to new battlefields as Coke and Pepsi bottling plants sprout up across Eastern Europe.

But it's not all fast food, fizzy drinks, and cigarettes. U.S. companies are also investing in hard manufacturing, some of them building plants that will export their output to Western Europe. General Electric led the way in 1989, paying $150 million for 50 percent of Tungsram, the Hungarian light bulb manufacturer. So far, Whirlpool has invested in a washing machine venture in Czechoslovakia, Sara Lee in a Hungarian food operation, and Du Pont is sinking $150 million into a chemical complex in Czechoslovakia. Guardian, the glass group, has $120 million riding on a joint venture in Hungary, and Levi Strauss is exporting its 501 jeans to the West from a plant in Poland.

U.S. companies' renewed investment drive across Europe, their vigorous approach to the new markets in the East and readiness to forge alliances with their rivals has put them on a par with the Japanese firms who have done most of the running over the past decade.

American companies still face a looming challenge from Japan and a fast-reviving European corporate sector. But their long lead in running pan-European businesses is a trump card in the coming battle to make good in the single European market.

Bruce Barnard is a contributing editor to EUROPE *and the Brussels correspondent for* The Journal of Commerce.

I N V E S T   I N F O

To cope with the U.S. interest in investing in the new Europe, each of the E.C. countries operates a foreign investment agency to provide information on the various government incentives available to foreign investors. Below is a list of the U.S. offices for each E.C. country.

BELGIUM
Consulate General of Belgium
50 Rockefeller Plaza
Suite 1104
New York, NY
10020
Tel. (212) 586-5110

DENMARK
Consulate General of Denmark
825 Third Avenue
New York, NY
10022
Tel. (212) 223-4545

FRANCE
Invest in France Agency
510 Fifth Avenue
Suite 301
New York, NY
10020
Tel. (212) 757-9340

GERMANY
German Information Center
950 3rd Avenue
New York, NY
10022
Tel. (212) 888-9840

GREECE
Consulate General of Greece
69 East 79th Street
New York, NY
10021
Tel. (212) 988-5500

IRELAND
IDA Ireland
140 East 45th Street
41st Floor
New York, NY
10017
Tel. (212) 972-1000

ITALY
Commercial Affairs Office
Embassy of Italy
1601 Fuller Street, N.W.
Washington D.C.
20009
Tel. (202) 328-5520

LUXEMBOURG
Luxembourg Trade Office
801 Second Avenue
13th Floor
New York, NY
10017
Tel. (212) 370-9870

THE NETHERLANDS
Netherlands Foreign Investment Agency
One Rockefeller Plaza
11th Floor
New York, NY
10020
Tel. (212) 246-1434

PORTUGAL
Portuguese Trade Commission
1900 L Street, N.W.
Suite 401
Washington D.C.
20036
Tel. (202) 331-8222

SPAIN
Commercial Office of Spain
2558 Massachusetts Avenue, N.W.
Washington D.C.
20008
Tel. (202) 265-8600

UNITED KINGDOM
British Trade and Investment Office
845 Third Avenue
New York, NY
10022
Tel. (212) 745-0495

John Bryan, Chairman of the Board of Directors and Chief Executive Officer of the Sara Lee Corporation, spoke to *EUROPE*'s Editor-in-Chief Robert J. Guttman about Sara Lee's growing investments in Europe. Sara Lee, an international packaged food and consumer products company with annual sales of $12 billion owns, among other products, Sara Lee foods, Champion clothes, L'eggs, Playtex, and Douwe Egberts coffee in Europe.

JOHN BRYAN SARA LEE CEO

What percentage of your business is based in Europe?

In Western Europe we have about 35 percent of our total business. Our major position is the one based in the Netherlands. Our headquarters are in Utrecht, where we have the second largest coffee company in Europe and other related and unrelated consumer products. We acquired, in the late 1970's, a large part of a Dutch coffee company called Douwe Egberts. We have the second largest corporate position in Europe in coffee with leading positions in Spain, France, Denmark, the Netherlands, Belgium, and other parts of Western Europe. We also happen to be the largest apparel company in the world, having developed a major position in the United States in women's hosiery, men's underwear, gloves, brassieres—basic apparel items packaged in brand names. It is about a $6 billion business.

About two or three years ago, we began developing our business in Europe. What is happening in Western Europe represents the single best opportunity I've seen in my business career, because what you have is the creation of an extremely large marketplace and the decision to not have fragmented markets on a country by country basis, but to have large suppliers supplying a large marketplace and creating economies of scale. Since we come from the United States, we have had a lot of experience doing the two things that are required for building large market positions in Europe: knowing how to manage a big manufacturing operation and understanding how to carry out packaged goods marketing skills.

Is the 1992 single market a large opportunity for American business?

To the extent that you have a fragmented situation in the marketplace, you bring the necessary skills to consolidate the fragmented situation. Having had the experience of a large market like the United States, it is an unbelievable opportunity. We built a billion and a half dollar business in two years in Europe and have taken leading market shares overnight by beginning to work in the European market.

Do you try to get people from each country to run your operations in Europe?

As a general rule we are a company that has sought to use foreign nationals in the management of our business. It is not our objective to Americanize the world but to Euronationalize Sara Lee. If [a company] wants to wait until it can build a battalion of expatriate managers, build agents that can go out into the world, it is going to take a long time. And they inevitably will not be as effective because they don't know the territory. We very much prefer to use foreign national managers. We have a few expatriates, but not many.

You have said you really don't have a Pan-European operation, that you do business country by country throughout Europe. Is that still true?

It's a mixture, and it will be a mixture 20 years from now. The degree to which that particular product can become Pan-European differs enormously among products. There are some products that one can consider Pan-European, and there are some that one cannot. It has to do with a lot of variables, not the least of which is whether they are established factors already—what [people's] habits are. I often use the example of beer. Beer is a very local taste with a strong allegiance to local brands. Someday there may be a Pan-European beer that has the leading marketshare, but no one expects that to happen very fast.

Coffee is another example. We have harmonized packages, but the product tastes differently in Spain than in the Netherlands. It has to. For hundreds of years they've tasted coffee a certain way. The brands are different. But that is where the difference stops, just the taste and the brand. The package looks very similar in each country. We can make it anywhere, but we'd be foolish to try to make the Spanish, for example, learn how to pronounce "Douwe Egberts."

Are you optimistic about American firms competing in Europe for the single market?

America is going through a rather traumatic time right now. The trauma in part comes from the fact that many American companies are not well prepared for the single market. That's not unusual. European companies aren't prepared in some categories, and in some categories the Japanese aren't prepared. Being prepared means having the lowest cost and being the most efficient producer on a worldwide basis. None of us can be the best at everything. We don't need to be the best at everything. If we decide

What is happening in Western Europe represents the single best opportunity I've seen in my business career.

that it is worthwhile to have an interdependent world, why not let the Italians make knitting machines and make all of them if they want to, and we will use them. And let the United States make airplanes. If we get to where we can't make airplanes as well as someone else, let them make them. Now, we all may be having a complex about who's the best and who's good at this and that. America is shaping itself up. It has been, to a large extent, not as good in some categories, but the automobile industry is going to be fine. It's going to make it. It's going to make it largely because the United States government decided not to protect it.

What are you doing in Eastern Europe?

We are doing all kinds of things in Eastern Europe. Those economies are fragile. We [Americans] have a perception of them as educated, first world economies, but they are third world economies. And they are not managed by strong political forces that have a sense of how to apply liberal economics to building economies.

Why are you still investing in Eastern Europe if they have so many problems?

We're not really putting in tremendous amounts of money. The economic risk is just enormous, and it is hard to envision a large payoff. Hard, but one has to envision that a window of opportunity has emerged, and brand awareness can be established very economically. Brand awareness is everything in our field. We want to get in and get our brand established.

Disposable income is very low, and the countries are politically and economically fragile. Hungary is the most liberal of all of them, and it is approaching hyperinflation. Can these countries become stable economic societies overnight? I doubt it. They're trying to practice democracy, and a market economy is trying to take effect, but these are not going to happen smoothly and quickly.

What about the so-called market economy in Russia? What is Sara Lee doing in Russia and the other republics?

We're going to be doing some things, but it is interesting how every inch of the Soviet Union was a place of red tape bureaucracy. That's not so much the case today. In terms of what they say to you about coming and investing, the freedom to do so is probably as great as anyplace. But the infrastructure is so lacking, and there is a bit of lawlessness, sort of a Wild West atmosphere that is developing. It's like cowboy time. I saw people demanding protection money on the street from street vendors. They were ready to hit them if they didn't get the protection money. The ugly side of capitalism seems to have found its way into that side of the world.

Are you going to start any operations over there?

Yes, we are already sourcing. There's no point in buying a factory. The factories are a mess, but with the ruble where it is, we've already made some contracts to source some merchandise, mostly sourcing the labor. Send them the materials, do the labor, send the product out. They don't want rubles for their labor. They don't want any hard currency for their labor either. They want raw materials for their labor.

A lot of companies working in another country don't like to admit their country of origin. Do you like to admit that you are an American company, or are you European?

I like to think of ours as a global company. When I am in France, I say we are a French company. We have all the requisite constituents of France—stockholders, managers, employees, and businesses. I am not the least bit unproud of the fact that we were founded in America, but our objective is not to Americanize, our objective is to internationalize the company. I would be pleased if people did not know what our nationality is. Mrs. Lee is Chinese, French, Dutch, or whatever. It's very important that we get rid of parochial mindsets in our business. So long as we maintain that kind of parochial mentality, we will never capitalize on our international business.

Is the single market going to be a weeding out process? Will only the strong companies survive?

The ones that can follow the world are those that can create a diverse culture of multinational people. We are the only company in America that has four foreign nationals that are members of our board of directors. Most American companies say, [foreign members] wouldn't come to the United States for a board meeting. We had our last board meeting in Barcelona. We are going to have one in Amsterdam in the early part of next year.

What is your overall business philosophy?

There is an adherence to a mission to build brands. In the world of business, being able to grow and prosper and survive, which not many companies are able to do year after year and through generations, you need some edge. The principal edge that we have is creating value and buying the trust of companies from building brands. So while we are a manufacturer, I always say that we are in the business of building brands. We want to be the lowest cost producer. We want to be making the best products. We want to be the best marketer and all that, but building brands and positions in non-durable, marketing-intensive categories is what we are about. At least in the last 18 years, that is what we have been trying to do as a company. We began in the 1970's working in Western Europe. We began a couple of years ago saying, "the world is opening up to do business. Let's go." So we moved throughout the Americas, into Asia, into parts of the developing world, and it seems to me the opportunities are there. They are enormous.

Who was Sara Lee?

Sara Lee is a young lady, about fifty-one years old, who lives in New York City. When she was eight years old her father needed a name for a cheesecake that he was going to sell in supermarkets. He invented the idea of high quality, frozen cheesecakes in aluminum pans. So he looked at his daughter, and said, "I need a name so I'll call it Sara Lee." Now we are the largest company in the world that is named for a woman. It is a distinction of which we are very proud. Most of our products are sold to women.

U.S. FIRMS LOOK TO EUROPEAN KIDS

By Robert Lever

American companies are finding that in Europe, just as in the United States, kids can be a lucrative market. In the last decade, an increasing number of U.S. firms have brought their mass-marketing strategy to Europe to sell toys, games, and other products, taking advantage of the current fascination with American popular culture.

Of course, U.S. toys and games are not new in Europe. Barbie dolls have been sold for decades around the world, and characters like Mickey Mouse, Snoopy, and Bugs Bunny have long been household fixtures in Europe.

But in recent years the push to sell children's products has taken on a new dimension. One sign is the establishment of Toys R Us stores across Europe, which is changing the rules of the toy market. Another is the recent opening of EuroDisneyland, which, in addition to being an attraction itself, is expected to keep Disney-related toys and games in the limelight for European kids.

With the popularity of Hollywood films like "Teenage Mutant Ninja Turtles" and "Batman Returns" high in Europe, U.S. manufacturers are not letting the opportunity pass to sell associated toys, clothing, and accessories.

"One of the great attractions of Europe is just the sheer number of children," said Donna Gibbs spokesperson for Mattel Inc., maker of Barbie dolls and a licensee for a number of Disney toys and animals. "There are about twice the number of children in Eastern and Western Europe combined as in the United States."

Gibbs said Europe is Mattel's second largest

"Toys R Us views Europe not as a single homogeneous market, but a collection of many cultures and many regions."

territory, bringing in some $600 million in sales for 1991, close behind its U.S. sales of $800 million. Mattel also has a manufacturing facility in Italy and a major distribution center in Germany.

"We also have reason to believe the situation will change rapidly. One factor is the arrival of Toys R Us and other superstores, which we think will bring the price of toys down."

Gibbs said a number of Mattel products have gotten a boost from the popularity of Disney animation films like "101 Dalmatians," "Beauty and the Beast," and "Cinderella," which are shown worldwide.

"Whenever you can tie a toy to an existing popular character, that increases its chances of success," she said.

"Especially with the opening of EuroDisneyland, children in Europe are going to have greater exposure to the Disney characters besides the standard Mickey, Minnie, and Donald."

Helping to sell those products, Toys R Us has invested heavily in Europe over the last eight years.

An American merchandising success story over the last three decades, Toys R Us is in the process of translating its formula in Europe and elsewhere.

The retailer known for its self-serve, toy supermarkets opened its first European outlet in the U.K. in 1984 and followed by moving into Germany and France. It now has over 100 stores in Europe, having opened eight in Spain last year.

"Initially I think there was a fair amount of consternation from competitors, other retailers, and even suppliers," said Larry Bouts, president of the international division of the New Jersey-based retailer.

Some German toymakers at first refused to sell to Toys R Us, contending it would hurt their image in a country where most toys were sold by small shops giving personal service and advice.

"Most people don't like change. The initial problem was a cold reception. But now the industry has grown so much, there's really a lot warmer feeling.

"From the consumer's point of view, they're very happy and really coming to us in droves. We have discount stores that are self-service. People said it wouldn't work, but consumers want value today."

Bouts said Toys R Us views Europe not as a single, homogeneous market but a "collection of many cultures and many regions." But he adds, "The U.S. market is not one market either. It's a lot of regions with a lot of different income levels."

Thus, the selection in Toys R Us stores across Europe varies according to local preference. Bouts says that all will carry some internationally recognized toys but a lot of locally produced ones as well.

"For example, the train sets in the U.K. are different from anywhere else, and the British generally prefer them," Bouts said. "Germany has wonderful train sets produced by German manufacturers."

International operations made up $1.6 billion of Toys R Us revenues of $6.1 billion in 1991, Bouts said, but the European market is "far from wide open," with a myriad of small and large competitors. According to Bouts, the firm faced considerable obstacles in zoning and other regulations in Europe making it harder to set up large stores. But he said customers were responding to a "consumer-driven" idea, "We think there's room for a superstore."

Many U.S. manufacturers also see European kids as a key market. Procter & Gamble's Pampers, for example, has become the leader in disposable diapers in many European markets. Oshkosh B'Gosh, the Wisconsin-based manufacturer known for its overalls, found the children's wear so popular in Europe it formed a joint venture in 1990 with French-based Poron S.A. to manufacture in eastern France. Oshkosh kids' clothes that sell for $25 in the United States can fetch up to $75 in Europe.

Europe has become a major battleground, however, for U.S. toymakers. Hasbro (which recently acquired Tonka and sells products ranging from GI Joe to Play Doh) is a major player along with Mattel and Fisher-Price Inc.

"We view Europe as a market with real growth potential," said Fisher-Price spokesman Jack Martin.

Fisher-Price has been manufacturing in Peterlee, England for more than a decade and recently acquired the U.K.-based Kiddiecraft to complement its operation in Europe. International sales of Fisher-Price products like Bubble Mower and Chatter Telephone make up one-fourth of the company's sales, with Europe accounting for a major portion of that, Martin said.

One of the advantages of selling toys, industry spokesmen say, is that they adapt to different cultures more easily than many other consumer products. Multilingual packaging is needed for parents, but kids don't seem to mind where their toys come from.

"Play is such a universal thing," Martin said. "Kids will play with whatever is fun. Kids around the world are not that much different."

Robert Lever is a Washington editor for Agence France-Presse.

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DUTCH BUSINESS

LEADERS IN THE NEW EUROPE

Single Minded Drive To Reap Dividends From the Single Market

By Bruce Barnard

The Netherlands is pulling out all stops to make the single European market a money winner.

Dutch firms will be in the pole position to exploit the accelerating trend toward pan-European manufacturing and distribution, as companies prepare for the removal of barriers between the 12 nations of the European Community in 1993.

The single market payoff for the Netherlands will be primarily in the transport and distribution sectors, where it already boasts a disproportionate market share. While it accounts for just five percent of the E.C.'s combined gross national product, the country has a staggering 35 percent share of the Community's international transport.

The Dutch aces are Rotterdam, the world's largest port (twice the size of its closest rival Kobe, Japan) and Amsterdam's Schiphol airport (third in Europe's air freight rankings).

A fleet of 85,000 trucks hauling one-third of intra-E.C. freight traffic and an armada of 6,000 barges plying Europe's waterways feed off Rotterdam's position as the gateway to Germany's Ruhr industrial belt.

Rotterdam plays a core role, not least because its port-related activities generate 10 percent of the country's GNP. But port planners are no longer mesmerized by headline traffic figures—292 million tons in 1991—as they focus increasingly on value added services, especially distribution.

Rotterdam still thinks big—its latest master plan envisages an investment of nearly $20 billion and a doubling of container traffic over the next twenty years. But the emphasis has switched from being a mere port to a sophisticated logistics hub connecting post-1992 Europe to its major trading partners in North America, Asia, and the Pacific Rim. Rotterdam executives are convinced traffic flows on the world's key trade lanes will concentrate on a few selected intercontinental hubs. Singapore serving Asia and Los Angeles/Long Beach covering North America, will link with Rotterdam, the "mainport" for the world's biggest market, the European Community.

Rotterdam is already well ahead of the pack in Europe, booking as much cargo as Hamburg, Bremen, London, and Le Havre combined. And it handles more German cargoes than Germany's own ports. Moreover, half the goods "exported" from the Netherlands are in transit.

The single European market, combined with the move to global manufacturing, the rise of just-in-time delivery systems, and the shortening life span of products, will tighten Rotterdam's grip on the continent's transport moves.

Meanwhile, big manufacturers are concentrating on their core activities, passing off peripheral operations, such as transport and distribution, to subcontractors. Again, Dutch companies are scooping up a large slice of this mushrooming business.

The Netherlands is going all out to attract U.S., Japanese, and increasingly Korean companies who are closing their distribution points in individual E.C. countries to concentrate on single supply depots.

Blue chip corporations like Apple, IBM, Hewlett-Packard, Canon, and Sony figure among the growing number of multinationals that are feeding the European market from the Netherlands.

At the latest count, some 40 percent of U.S. and 36 percent of Japanese multinationals that have centralized their European distribution had opted for a Netherlands base, according to a survey by the Holland International Distribution Council, HIDC.

Having bagged some 300 American and 600 Japanese firms, the Netherlands is chasing medium-sized companies, especially exporters with a limited exposure to the European market.

The HIDC says exporters can make big savings by streamlining their distribution chains. A case study highlights how a hypothetical medium-sized U.S. company can trim its distribution costs, a key factor in competitiveness, by 22 percent by merging national distribution outlets in nine E.C. countries into a single base in the Netherlands.

Distributing to the various European markets would be more expensive, but this would be more than outweighed by savings in container freight rates from the U.S. to Rotterdam, as well as lower charges for stock control, warehousing, equipment, and labor.

The savings could be as high as 40 percent after 1993 when the deregulation of E.C. trucking begins to bite.

The Dutch are setting their sights well beyond the E.C. as new markets emerge in Central and Eastern Europe. The opening of the Rhine-Main-Danube canal on September 25 will enable barges and seagoing vessels to sail 2,500 kilometers from Rotterdam to the ports of the Black Sea.

The Netherlands' biggest selling points after its unrivaled strategic location are an extremely productive and innovative attitude toward all forms of transport and the industry's high political profile.

The country's leading transport concerns are preparing themselves for the single market. Royal Nedlloyd has transformed itself from a pure shipping line into a "logistics" company by building up a pan-European trucking operation that is linking up with its worldwide shipping services. Frans Maas, a trucking company, has forged an operating alliance with Yellow Freight, a leading U.S. motor carrier. KLM Royal Dutch Airlines is using its 20 percent stake in U.S. carrier Northwest Airlines as a lever to create a global air cargo alliance that will also include an Asian carrier.

No other E.C. country can match this single-minded drive to reap dividends from an industry that is set for revolutionary changes as the E.C. develops into a truly single market. ⓔ

TOP DUTCH INVESTORS IN THE U.S.

Royal Dutch—Shell Group (Energy/Chemicals)

Unilever NV (Food processing/Personal products)

Philips NV (Electronics)

Ahold NV (Supermarkets)

Internationale Nederlanden GroepNV (Insurance/Banking)

Aegon NV (Insurance)

Akzo NV (Multicompany)

NV AMEV/Fortis (Insurance)

Pakhoed Holding (Chemicals)

Source: Forbes *July 1992*

Left: Rotterdam is the world's largest port.

AMSTERDAM

The Amsterdam stock exchange is the world's oldest.

Building An International Financial Center

By Roel Janssen

There's still a glimmer of hope in Amsterdam that the European Central Bank (ECB) may come. It would certainly put Amsterdam once and for all on the international map as a financial center if the central bank that eventually will run Europe's monetary policy were established along one of Amsterdam's canals. Chances are slight, though, because most E.C. countries appear to be prepared to accept Bonn, Germany as the future site of the ECB. But a decision was not made at the June E.C. summit in Lisbon, and now it appears the site won't be named until the next summit in Edinburgh at the end of the year.

With or without the European Central Bank, Amsterdam is making an effort to promote itself as an international financial center, an intermediary between the major European players, like London, Frankfurt, and Paris, and the smaller financial markets of Brussels, Milan, Düsseldorf, Zurich, and other European cities. The competition is fierce, and it's not enough to be able to boast that the world's first publicly subscribed corporation, the United East Indies Company, was created in Amsterdam in 1602 or that the Amsterdam stock exchange is the world's oldest. The warehouses and the stately mansions of the merchants along the canals, dating back to the Dutch "golden age" during the 17th century, are reminiscent of when Amsterdam was a pioneer in new banking practices and was the prime source of international lending.

Three years ago, in 1989, the Amsterdam Financial Center Foundation was created, uniting representatives of local and national governments and the banking and investment community. Its membership reads like a "Who's Who" in Dutch financial services. The Foundation presented a plan to implement initiatives to reinforce Amsterdam's competitive position and ensure that it will remain an attractive financial gateway to the European market. It has achieved some deregulation within the financial sector and the tax system, eliminating certain rules that hampered markets or made Amsterdam a less attractive place for the establishment of foreign companies or its employees. The Foundation has also pushed the Amsterdam stock exchange into a higher gear. One of its major accomplishments has been the establishment of the Amsterdam Institute of Finance (AIF), which started in 1990 offering intensive top-level training programs to financial managers and executives. The AIF has been an instant success.

Recently, a wave of mergers has hit the financial sector in the Netherlands. Two of the three major banks are headquartered in Amsterdam, ABN-AMRO and NMB-Postbank. The latter has subsequently merged with the insurance group Nationale Nederlanden and is now known as the ING-Bank. The third largest Dutch bank, RABO-Bank, is based in nearby Utrecht.

The Dutch central bank, De Nederlandsche Bank, also has its headquarters in Amsterdam. Headed by President Wim Duisenberg, it is known in Europe as one of the most politically independent central banks and a strong defender of price stability after the German Bundesbank. The Dutch guilder has, for years, been one of the hardest currencies in Europe, tightly locked to the German mark.

About 70 foreign banks have opened offices in Amsterdam. Since 1989 the number of foreign banks has increased over 40 percent. The number of foreign institutions active in investment banking is increasing, too, albeit at a slower pace. Amsterdam also boasts the presence of the European Option Exchange, the oldest option trading floor in continental Europe. Last year, it was the second largest option exchange in Europe, after the Frankfurt Terminbörse, with a turnover well above 10 million contracts.

The total number of foreign members in the Amsterdam Stock Exchange rose from five to 25 between 1983 and 1991. The market share of foreign brokerage firms rose by a quarter. Last year, the total volume of the stock exchange amounted to $210 billion, with $82 billion in shares, $125 billion in bonds. The bond market is dominated by treasury bonds—the national government annually needs to finance about $30 billion in government debt. Average daily share volume was $336 million. In total, 497 companies are listed on the stock market of which 234 are foreign companies. Among the most traded shares are well-known names like Royal Dutch/Shell, Unilever, Philips, KLM, AKZO, DSM, Elsevier, all of them Dutch-based companies. Ⓔ

Roel Janssen is based in The Hague as the economic and financial editor of The NRC Handelsblad.

DUTCH BEER

The World's Safest Drink?

WHEN THE WINE-DRINKING ROMANS CAME TO NORTHwest Europe they met a remarkable population drinking a brew they had never encountered. Wine was for the happy few who could afford it, and beer was for the fishermen and farmers. For each occasion they brewed a special beer. To mark a birth, wedding, or funeral, inventive brewers had a drink for every event. Centuries before Columbus discovered America, some farmers in the region now known as the Netherlands brewed a drink from barley, yeast, and a rather salty water. As early as the 10th century, commercial brewing became one of the most important businesses. Two breweries still exist that date back to the 13th century. Most of the others are over 250 years old. In the last century, Gerard Heineken, grandfather of the present owner Alfred Heineken, took over in the beer world. Now his brewery exports beer to over 160 countries and has become one of the largest brewers in the world.

BY NICO VAN DIJK

Only a few people know that the Netherlands is the largest beer exporter in the world. The Germans, Czechs, and even the Americans brew a lot of beer, but Dutch beer is found worldwide. In countries where the water is questionable, the safest drink is beer. Of the Netherlands' nearly 20 breweries, Heineken owns four: Heineken, Amstel, Brand, and De Ridder. Together they produce more than 264 million gallons of beer annually. Apart from Heineken and its sister brands, four other Dutch breweries (Grolsch, Oranjeboom, Bavaria, and Dommelsch) brew more than 26 million gallons per year.

It is interesting to note that the first commercial brewer in the U.S. was Adriaan Block (a Dutch explorer), who in 1613 converted one of his log houses at the southern tip of Manhattan Island into a brewery. He paved the first street (originally called Brouwer Street) in the fledgling colonies in 1657 because his beer wagons would get stuck in the muddy road. Also, the first burgomaster of the Dutch colony, Mijnheer Jacobus, established a brewery and beer garden in 1644 on Manhattan Island. Many other Dutch brewers established themselves in New Amsterdam, such as Oloff van Cortlandt (as in Van Cortlandt Park and Cortlandt Street), Jacob Kip (as in Kip's Bay) and William Beekman (as in both Beekman Place and William Street).

Many cities and villages, such as Amsterdam, Delft, Leiden, Haarlem, and Amersfoort had over 100 breweries in the 16th and 17th century. Many of them were famous because of their brews.

Among the commercial breweries there is still one monastery brewery, founded 100 years ago on a piece of land owned by the Dutch King. Apart from praying, the monks brew a strong beer in two versions, the Double and Triple, called Trappistenbeer.

Although up to 90 percent of the beers produced in the Netherlands are of the famous (Czech) Pilsener style, other styles of beer are popular. In the southern part of the Netherlands, one finds Dortmunder beers, the strong winter beers called Bockbeer, and spontaneous fermented beers like Meestricht Ayt (lagered for over one year in a champagne bottle).

About 60 percent of the Dutch beers are sold on draft in thousands of pubs and restaurants all over the country. Cities like Amsterdam and Maastricht have over a thousand pubs, open from early in the morning till after midnight. A pint never costs over two dollars. A rising star on the market is wheat beer, brewed from 60 percent barley and 40 percent wheat. And many a Dutchman has discovered that a tall, cool pint of this tasty brew is especially nice on a hot summer day. Ⓔ

The Netherlands is the largest beer exporter in the world.

Nico van Dijk, a long time beer connoisseur, has written about Dutch breweries and beer for nearly 10 years.

The King of Import Beers

Two particular Dutch treats that Americans cannot seem to get enough of are Heineken and Amstel Light beer. Both are the feature products of Heineken N.V., the largest and most successful beer exporter in the world. Sold in over 160 countries, the Heineken company exports more beer than any single country. By far its largest market outside of Europe is the United States, which accounts for nearly 13 percent of its total sales. Easily the number one imported beer in the United States, every bottle is shipped across the Atlantic from the Netherlands.

This tidal wave of Dutch beer flowing into the U.S. all started in 1933, when Leo Van Munching arrived at the docks of Hoboken, New Jersey from Rotterdam with 50 cases of Heineken. Selling the beer, bottle by bottle, on the streets of New York, Van Munching found Heineken to be an instant success in a nation just waking up from prohibition and thirsty for a quality European brew.

Today, Leo's son runs Van Munching & Company Inc., the sole importers of Heineken, Amstel Light, and Buckler, Heineken's new non-alcoholic alternative. While sales of Heineken have largely remained consistent over the past several years, sales of Amstel Light (especially created for the American market in 1980) have shot up over the past twelve years. Philip Van Munching, the Director of Corporate Communications for Van Munching and a grandson of Leo Van Munching, attributes Heineken's success largely to familiarity and its superior quality. As for the remarkable growth of Amstel Light, Van Munching points out that it is the only quality, European light beer sold on a large scale in the American market.

The popularity of Heineken can mainly be attributed to uncompromising quality. According to Heineken's President, Alfred H. Heineken, "every drop must pass the most stringent quality controls imaginable."

A distinctive A-yeast, originally developed by a student of Louis Pasteur, is mixed with choice hops and barley, and this mix is put through an extremely lengthy lagering, cooling, and fermenting process to produce the final product that the world drinks.

—*Charles Webb*

SETTING SAIL FOR THE SINGLE MARKET

Finland Looks Forward To E.C. Membership.

By Robert von Dittmar

Finland has breathed a collective sigh of relief in light of the collapse of the former Soviet Union. The country's shared border with the USSR and the Soviets' endeavors to re-absorb the former Czarist province were the root sources of the political concept of "Finlandization." With the Soviet self-destruction, Finland now sees its future squarely in the West. A recent television poll in Finland suggested that almost half the population would like to abandon neutrality. The agreement in principle to buy relatively expensive F/A 18 Hornets from McDonnell-Douglas and assemble them largely in Finland, was widely interpreted as the official end to Finnish "neutrality."

Last winter, the government headed by Prime Minister Esko Aho announced Finland's formal application for membership in the European Community. This spring Finland's parliament, the Eduskunta, voted in favor of the decision, which was also supported by the country's trade unions. This was the third such E.C. application to be submitted by a member state of the European Free Trade Association (EFTA). Austria applied to the E.C. Council of Ministers in 1989, and Sweden last summer. (Neither Finland nor Sweden have changed their views on E.C. membership since Denmark's national referendum failed to approve the Maastricht Treaty.)

Sweden's application was a deciding factor for Finland. Should Sweden become a member, more than 75 percent of Finland's exports will be shipped into the Euro-


FURUNO

pean Community. The European Economic Area agreement (EEA), which was nearly custom tailored for Finland's old policy issues, would be gutted with the departure of Sweden and Austria.

Finland's trade unions began campaigning for E.C. application in the autumn of 1991. Their goal is access to efficient, hard-currency markets. The unions believe that E.C. membership will bring the industrial investment Finland requires to create new, permanent high skilled jobs.

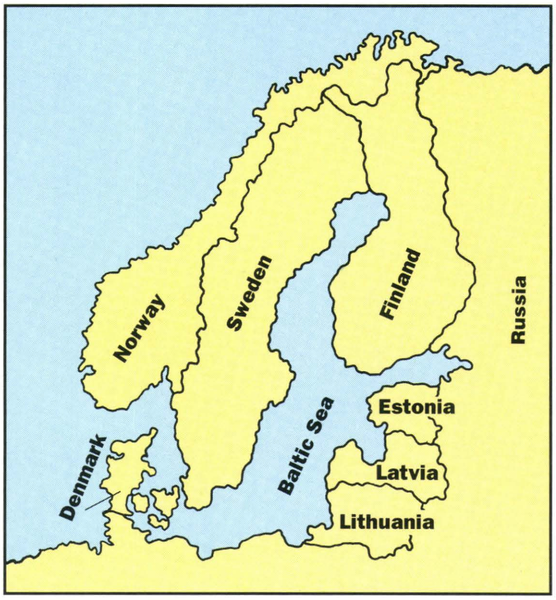
Erik Forsman, Chairman of the Federation of Finnish Industries, would rather see a three to six-year "adjustment period" between Finland's membership of the European Economic Area and the European Community. The key is for Finland's government and business community to adapt three areas essential to industry but not covered by the EEA-E.C. trade, taxation, and regional policies. Trade policy appears to be the toughest nut to crack. The Federation spent the summer polling its members to draw up a list of the industrial sector's goals for E.C. negotiations.

E.C. customs tariffs differ widely from Finland's. Finnish customs duties on raw materials and semi-manufactured goods are lower, and those on finished products are higher than in the European Community. "Finnish industry will have to pay higher prices for raw and partially assembled materials just as the protective barriers against the E.C. will come down. This will put pressure on from two directions at the same time," Forsman predicted.

Finland's change in policy in the wake of the Soviet disintegration is not a departure from historical reality. Finland truly is a child of the Russian Revolution. It has been an independent republic since December 6, 1917, when its parliament declared independence from the new regime in Russia and its "White" forces under the leadership of General Carl Gustav von Mannerheim defeated the Bolshevik forces in a brief civil war. In 1918, Mannerheim became head of state.

Despite its historical and geographic links with Russia, Finland is solidly linked to Europe economically. In 1991 over 45 percent of its imports came from the European Community, and over 45 percent of its exports were sold to E.C. customers. If the European Community represents Finland's future, what will Finland bring to the European Community?

More than half the country consists of forests, nine percent is water, but only eight percent is cultivated. Clearly, wood and forest products will be one but not the only contribution Finland will make to Europe. Finland also brings four of the *Financial Times Top 200* companies, as measured by 1991 turnover: Neste (petroleum products and refineries), Kesko Oy (retail), Repola (forest products), and Nokia (electronics and telecommunications equipment).



International companies are also active in Finland. The Saab-Valmet factory produces the GM subsidiary Opel Calibra; in 1991 it managed to increase production and sales in the face of a worldwide slump in car sales. Last November, IBM announced that its Scandinavian operations would take over the new Baltic trade. Ultimately, IBM's operation in Finland received the whole task. Hewlett-Packard will take the same approach. This international interest in Finland is a new development. Foreign investment, including the right to trade on the Helsinki stock exchange, has been restricted since 1939, which cost the country billions and left it to pull itself up by its own bootstraps.

Finland has been in difficult straits for the past several years. Few companies have done well; the GNP has been declining; *Standard & Poors* downgraded the credit rating of Finland's three major banks; and the IMF has criticized the government for lack of a strategy to take advantage of last November's devaluation. The response has been to announce cuts in public spending and support for the banks.

In 1990, metal and engineering products accounted for 35 percent of Finland's merchandise exports. Part of that can be traced to enterprises like the Masa Shipyards. It has a $550 million contract to build its fifth luxury cruise liner for Carnival Cruise Lines, the biggest in the industry. But Finland's largest industrial company is Neste, Europe's leading group specializing in petrochemicals (excluding Europe's international oil companies).

Finland is the only Western European country with the same rail gauge as the former USSR, which lowers transport time and costs. Finland also has a free trade zone near the Russian border, two free ports where goods can be handled outside of customs, and more than 20 free storage areas for shipments in transit. Finland's railways are promoting these services and rail links largely on the basis of security and efficiency.

"Finland's application to join the E.C.," said Finnish Railways deputy director Panu Haapala, "also means we will be carrying more aid by rail into Russia. The only safe route is through Finland. The goods are delivered from here on schedule. Three million tons of grain and hundreds of thousands of tons of other foodstuffs can be shipped each year from Finland without any trouble."

Finland's old privileged trading position with the Russian Federation and the Baltic States, however, may be difficult to reconstruct. Sweden has signed rudimentary free trade agreements with Estonia, Latvia, and Lithuania, providing for free access of Baltic goods to Sweden.

Whether negotiations for the membership of all three EFTA member states start in the second half of 1992 (with the United Kingdom holding the rotating presidency of the E.C. Council) or in the first half of 1993 (when Denmark will hold that position) it is expected that these applications will be studied with great anticipation.

Robert von Dittmar is a writer specializing in Europe and East-West topics.

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The Prime Minister of Finland, Esko Aho, speaks out on his country's interest in joining the European Community, the future of Russia, and Finnish-U.S. relations.

Aho, who was elected for the first time to Parliament in 1983, became chairman of the opposition Center Party. In 1990 his party became the largest group in the 200 member Parliament. Aho, as leader of the party, assembled the first center-right government in Finland since 1966.

Prime Minister Aho, 38, the youngest prime minister in Finland's history, spoke with *EUROPE*'s Editor-in-Chief Robert J. Guttman in Washington.

Finland's PRIME MINISTER Esko Aho

You have stated that "the decision to apply for membership in the E.C. was one of the most important and far-reaching decisions ever taken by Finland." Could you explain why this is and what your reasoning is for applying for E.C. membership?

Membership in the European Community could lead to a change in Finland's position. That is an historic moment for our country. For the first time in our history as an independent country, we will give up some of our sovereignty to be able to have an influence in the European Community. Decisions made in the EEA (European Economic Area) arrangement are already influencing Finland and Finland's economy. That is the reason why we can speak about this historic decision to give up one piece of our sovereignty for Community membership.

Why are you applying at this time?

The main reason for the timing was that Sweden and Austria—two EFTA member countries—decided to apply. It left a situation where the EEA arrangement, the result of the negotiations, which are going to be ratified soon, which we believed to be permanent, seems to be only a transitional arrangement. That is another reason why we decided to apply. We saw that we cannot rely only on the EEA.

Finland has always stressed neutrality in its foreign policy. How will your foreign policy change now that you hope to become a member of the European Community?

The division of Europe and the division of the world into two military ideological and political blocs is over. That has left a situation where neutrality, as such, as we have applied it before, is over. But the core of our neutrality still exists.

What contribution can Finland offer to the European Community?

Finland can offer a high level of

technology and a high level of education. Finland can also offer know-how especially as far as the forest industry is concerned. These are the main things that we can offer in the spirit of European cooperation. One thing we can give to other parts of Europe is the stable society which we have. If Finland becomes a member of the E.C., we will not bring social problems with us. On the contrary, we can offer practical solutions which can be useful for other E.C. countries.

You have said that E.C. membership will pose problems for some sectors of the Finnish economy. Which sectors were you talking about?

Those sectors are agricultural production and food processing. Regional policy will also be a problem because Finland is a large country, and we have regions that are not densely populated, especially in the northern and eastern parts of Finland.

What was accomplished at the CSCE meeting in Helsinki in July?

In my opinion, the most important thing in Helsinki was to evaluate the situation in Europe today and to recognize, once again, those principles applied in CSCE member countries. I also believe that it was important that the newly-independent Eastern European countries took part for the first time on the highest level in the CSCE conference. The summit was an illustration of the common European interests and values. It was important especially now because of the violent conflict in the former Yugoslavia. It's very important to show that we have common interests and common goals, which we will all implement together.

You mentioned that you're optimistic about Russia's future. What is the basis for your optimism?

It's very difficult to say what will happen in Russia. There are several positive things. The first one is that the disintegration of the Soviet Union has been a peaceful process until now, and I believe it will also be the case in the future. The second reason to believe that they can succeed is that Russians are firmly committed to those reforms—political and economic reforms—that they are now trying to realize. That is one important thing. Russia is also a country which has resources. Resources are not the problem. They have huge material and natural resources, and they have quite a large population and, in this respect, I believe that they have possibilities. Part of my views on Russia is based on gut-feeling. It's an atmosphere or feeling of what is going to happen. They can succeed. The situation is very difficult, and it will continue to be difficult. We cannot avoid all types of problems, but overall I believe that Russia will succeed.

What would you say to American firms and European firms who want to invest in Finland?

Finland is a country where we have a very high level of education. The population is well educated. We have technological know-how, especially as far as forestry and metal industries are concerned. We have a stable, well functioning society, and as a result of political reforms, we also have competitiveness. That is why it is reasonable to invest in Finland. Long term, it is also a positive thing for Finland that we are so close to Russia. If you want to be in the Russian markets, Finland is so close that you can operate in those markets from a base in Finland. That is going to be an important issue in the future, maybe not today, but tomorrow it will be important.

Are you worried about immigration problems if chaos breaks out in Russia?

We have to remember that Russians have not left their country throughout their history. If their basic needs are secured in Russia now, that will not happen. Ⓔ

Finnish Firms Explore New Markets

Two historic changes are re-shaping business in Finland: the country's application for E.C. membership and the demise of the Soviet Union.

Trade with the Soviet Union once accounted for 25 percent of all Finnish exports. Last year it plummeted to less than four percent. The drop in trade and the country's application to the E.C. are forcing Finnish businesses to explore new playing fields.

"Except in the forest products arena, Finnish firms lack the size needed to successfully compete against their far larger European and North American counterparts," says Matti Aura, Managing Director of Finland's Central Chamber of Commerce. "Successful Finnish enterprises are restructuring to focus on a few niche areas."

One firm that has successfully re-designed itself is Huhtamäki Oy. During the 1970's and 1980's, Huhtamäki, Finland's twentieth largest corporation purchased dozens of small, often struggling firms in Europe and North America. In the last few years Huhtamäki has sold several subsidiaries and consolidated its operations to focus on three export areas "where we can compete internationally," says company Vice President Markku Pietinen. More than 80 percent of Huhtamäki's sales are now made outside Finland. Its largest subsidiary, the Leaf Group, ranks among the world's top-ten confectionery manufacturers, with over two-thirds of its production facilities in the United States.

Leaf produces such well-known American products as Milk Duds, Good & Plenty, and Jolly Rancher candies. Under the Donruss and Leaf brands, Huhtamäki is also one of America's leading manufacturers of baseball cards.

The company's Polarcup division is the largest producer of disposable food and beverage containers in Europe and the Asia-Pacific region.

Huhtamäki's smallest division, Leiras Pharmaceuticals, manufactures the Norplant implant. Surgically inserted into a woman's arm, it provides up to five years of effective contraception. More than 1.5 million women in 20 countries now use the implant.

Indonesia is Norplant's biggest market, but company spokesperson Eeva Välttila believes that its most promising market may be the United States. The FDA approved the implant in late 1990,

By Weld Royal and John Weiss

After brightening the textile scene in the 1960's and 1970's, Marimekko is a Finnish firm making a comeback in the 1990's.

and already over 150,000 American women are using it.

"Most people, when they buy our birth control devices, baseball cards, or candies, do not realize that they are purchasing a product from a Finnish company," says Huhtamäki's Piernen.

Marimekko is a Finnish firm whose products are recognized worldwide. The 40-year-old company brightened the world's textile scene in the 1960's and 1970's with its colorful bedspreads, wallpaper, and clothing. In the 1980's production slumped by 50 percent and the company suffered heavy losses.

Last year advertising veteran Kirsti Paakanen emerged from retirement to buy the firm. She has introduced new products from both Finnish and Japanese designers and is re-positioning the company to be more competitive.

In Europe, she is opening company-owned retail stores. In North America, Marimekko is continuing to market its products through nearly a dozen licensing agreements.

The firm's aggressive marketing strategy seems to be working. This year the company became profitable for the first time since 1984, and Paakanen won the Finnish Woman of the Year Award.

Another Finnish company firmly anchored in the West is Nautor, which builds the luxurious Swan Sailboats. Constructed on Finland's west coast, the yachts' prices start at a quarter of a million dollars. Top of the line models—including armor plated cockpits and custom-made saunas—sell for five million dollars.

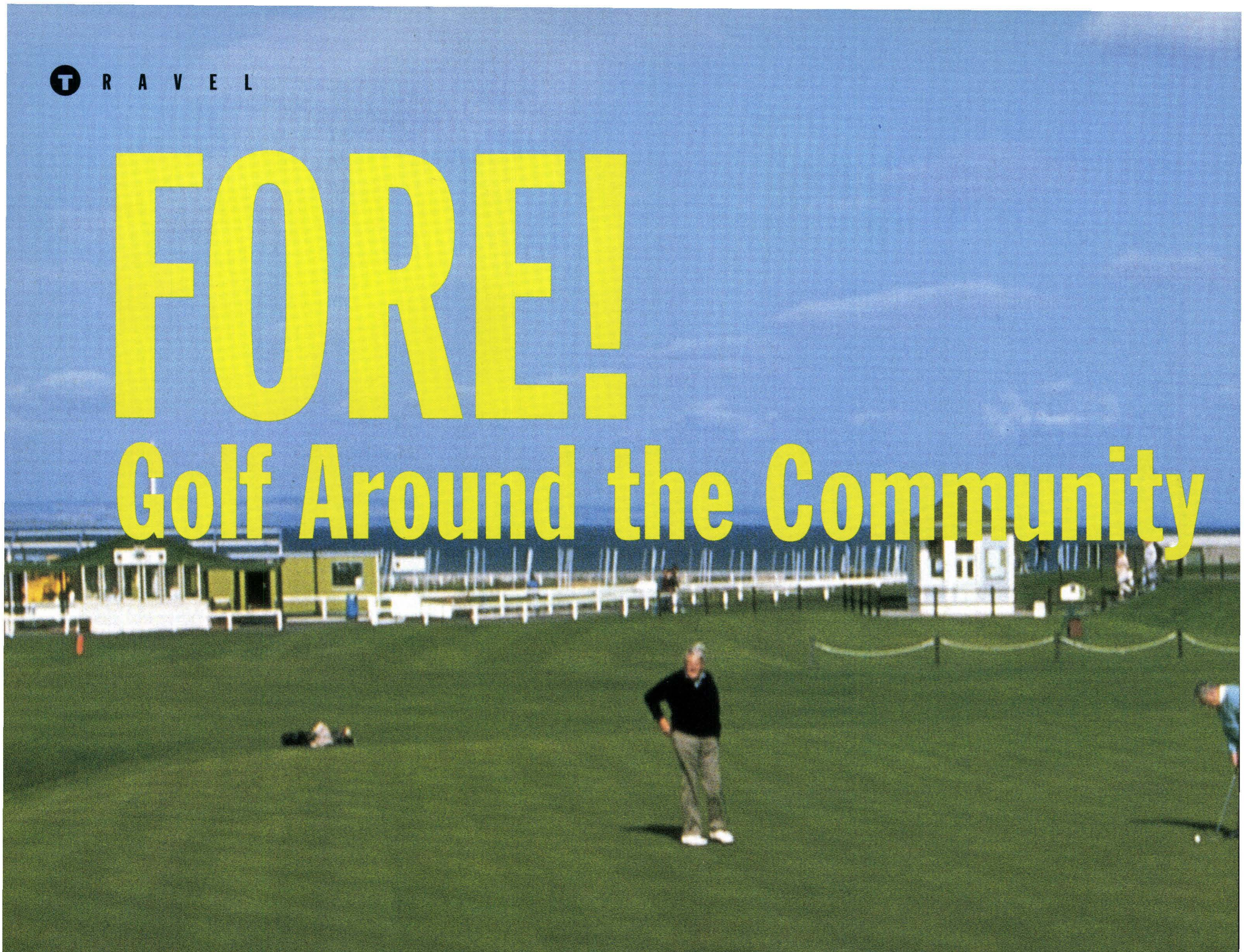
More than 95 percent of Nautor's yachts are exported. "Americans used to purchase the most Swans, but sales have dropped dramatically in the last few years as a result of the recession and the luxury tax," says company spokesperson Britt-Marie Virtanen.

Today the company's main market is Western Europe, with the French and the Italians buying the most boats. "If Finland enters the E.C., it will make life easier for us. The regulations will be the same in all the European countries," says Olle Emmes, Nautor's managing director.

Weld Royal and John Weiss are freelance journalists working in Scandinavia and Russia.

FORE!

Golf Around the Community



You're in Frankfurt. You have a morning meeting and a dinner appointment, but you don't feel like sight-seeing for eight hours in between. How about a round of golf?

Wherever you travel in Europe, you more than likely won't be very far from a golf course. Although Nick Faldo and his fellow Europeans on the PGA Tour are doing a good job of reminding American golf fans that European golf is a force to be reckoned with, Americans are quick to forget that golf was invented in Europe.

Golf Courses Cover the E.C.

Europe offers a variety of unique courses. From the windy seaside courses in Ireland to the rolling links within Germany's Black Forest, the sport is almost everywhere.

In case you find yourself in Europe with some extra time or you are planning a vacation in the E.C., *EUROPE* provides a guide to some of Europe's best courses.

SCOTLAND. Many of golf's biggest names have tried to match the natural undulations and architecture of the original links in Scotland. Robert Trent Jones Sr. and Jr., C.K. Cotton (one of the U.K.'s foremost golf course architects), Jack Nicklaus, and Frank Pennink all have designed exquisite courses. But many golf aficionados agree that the simplicity and grace of the original links of St. Andrews, Carnoustie, and Royal Dornoch have yet to be equaled. Shaped by the wind and sea, these courses represent golf the way nature intended it to be played.

St. Andrews is the home of the Royal and Ancient Club, considered the governing body of golf almost everywhere except in the United States. Since May 14, 1754, the club has ruled the golfing world. But its original intent was to look over its own course. The old course of St. Andrews has changed little in all its history. It features seven double greens and a multitude of bunkers, some with names such as Coffin, Cat's Trap, and Lion's Mouth.

From the first tee, the course seems relatively tame. Straight, expansive fairways and fairly ample greens appear to make for an easy round. But the biggest challenge at St. Andrews is the wind. The slightest change in wind can carry an otherwise beautiful approach shot into a bunker or worse. Nothing is certain at St. Andrews.

American players often complain that none of the holes are marked for yardage. The wind can kick up at any time, changing a shot by at least two clubs. As a result, the posting of yardage would be futile more often than not.

Both Carnoustie and Royal Dornoch have much the same history as St. Andrews. Building these courses took little more than leveling out a tee and green. The rest of the course was designed by nature.

IRELAND. Portmarnock, Ballybunion, Rosses Point, and Lahinch are mentioned among the best courses in Europe. The original Irish courses closely resemble the links of Scotland.

Portmarnock, located just north of Dublin near the Irish Sea, has changed little over time. Since the course is almost completely surrounded by water, just about any shot can be headed into the teeth of a biting Irish Sea wind.

Ballybunion, situated on the shores of the Atlantic in County Kerry, was founded in 1896, but the course was only extended to 18 holes in 1926. Tom Simpson, the leading British golf course architect of the day, brought the course up to championship level with a redesign in 1937. Wanting to keep nature's original design, Simpson only moved three greens and one bunker.

Tom Watson has said that "Ballybunion is a course on which many golf architects should live and play before they build golf courses. I consider it a true test of golf."

Lahinch, also on the Atlantic Coast, celebrates its centenary this year.

THE NETHERLANDS. The Dutch claim that their ancient game, kolven, is the origin of golf. Regardless of

whether or not golf began in the Netherlands, the links at Kennemer Club at Zandvoort rival almost any in Europe. Created in the 1920's, the course follows two loops of nine, the second nine nestled inside the first. Created by H.S. Colt, Kennemer was one of the first European courses to introduce pine trees, although none seriously come into play. Wide fairways and approaches to even wider greens welcome even the average player and make for a pleasant round of golf.

BELGIUM. The Belgian royal family has embraced the sport, bestowing royal titles on almost every course of merit in the country. The Royal Club de Belgique at Ravenstein, the Royal Zoute, and the Royal Club des Fagnes at Spa are all admirable clubs. But the Royal Antwerp at Kappellenbos is perhaps one of Europe's finest.

Founded in 1888 by a group of British settlers, Royal Antwerp is the oldest club in Belgium. Antwerp, as with most other inland courses (especially Germany's Club Zur Vahr), winds its way through a thick forest of pine, silver birch, heather, and shrubs—a far cry from the open spaces of Europe's coastal links.

At first glance, the course appears fairly easy. It is flat, and the trees do not represent any real hazard. However, the course is a whopping 6,713 yards with nine par-fours (only two of which are drive-and-pitch holes) and five par-fives for a total par of 73. The long holes combined with an abundance of tight greens make Royal Antwerp rise above its royal colleagues.

GERMANY. At the turn of the century, the Bremen Golf Club was founded, and the members made plans to build a golf course similar to the great courses of England and Scotland. Bremen chose the Garlstedter Heath as the sight of this new course. On 220 acres of thick forest and countryside, the Club Zur Vahr snakes through tall and dense pine trees. The natural landscape of the course was already so difficult that only 24 bunkers were needed.

Long, straight shots are required for the par 74, 7,265 yard course.

Zur Vahr is a thinking player's course with many holes offering a choice of approaches to the green.

FRANCE. France's golfing history also extends back to the early part of the century. Chantilly, which many con-

GOLF GUIDE

For those who are travelling abroad and are interested in playing one of the courses mentioned above, here is a list of the addresses and telephone numbers of the courses. For tee times, simply notify the course by mail or phone. Green fees vary and proof of your handicap may be needed for some of the courses.

United Kingdom/Scotland
Royal Dornoch Golf Club
Golf Road, Dornoch, Sutherland IV25 3LW
44 (0862) 810219

Carnoustie Championship Links
Links Parade, Carnoustie, Angus DD7 7JF
44 (0241) 53789

St. Andrews Links
St. Andrews, Fife, KY16 9JA, Scotland
44 (0334) 75757

Ireland
Ballybunion Golf Club
Ballybunion, County Kerry, Ireland
353 68 27611

Lahinch Golf Club
Lahinch, County Clare, Ireland
353 65 81003

Portmarnock Golf Club
Portmarnock, County Dublin, Ireland
353 1 846 2968

The Netherlands
Kennemer Club at Zandvoort
Kennemer Weg #78
Zandvoort, Netherlands
31 2507 12836

Belgium
Royal Antwerp Golf Course
6 Capiaulei, 2080 Kapellen, Netherlands
32 3 666 84 56

Germany
Bremen Golf Club
Club Zur Vahr
2800 Bremen, Germany
49 0421 230041

France
Golf de Chantilly
Vineuil Saint-Firmin
60500 Chantilly, France
33 44 57 04 43

Italy
Circolo Golf Olgiata
Largo dell'Olgiata
15 00123 Rome, Italy
39 6 37 89 141

Spain
Las Brisas
Nueva Andalucia
29660 Marbella, Malaga, Spain
34 (952) 813021

Sotogrande
Paseo del Parque
11310 Sotogrande, San Roque, Cadiz, Spain
34 (956) 792051

Portugal
Vilamoura Campo de Golfe
8125 Quarteire, Algarve, Portugal
351 (89) 321652

Greece
Glyfada Golf Club
16675 Glyfada, Athens, Greece
30 1 894 6875

Denmark
Rungsted Golf Klub
Vestre Stationsvej 16
2960 Rungsted Kyst, Denmark
45 42 86 34 44

Luxembourg
Luxembourg Golf Course
Golf Club Grand-Ducal
Senningerberg, Luxembourg
352 3 40 90

Clervaux Golf
P.O. Box 6, L-9701 Clervaux, Luxembourg
352 92 93 95

sider the premier course in France, reflects the grace that is often synonymous with the French. Founded in 1908, it took only five years for Chantilly to lure the French Open from its previous home at La Boulie, the golf course of the Racing Club de France.

Deep in a great forest, Chantilly's beauty is deceptive. The ninth, tenth, and eleventh holes require strong, carefully placed tee shots.

ITALY. Circolo Golf Olgiata, located just outside Rome, is one of Europe's best new courses. C.K. Cotton designed both the 18 and the nine hole course in 1961.

Cotton's design challenges every aspect of a golfer's game. The greens are well protected, and the level of the course changes just enough to make distance an uncertain factor, particularly on the shorter holes.

Only seven years after its debut, Olgiata was chosen as the site of the 1968 World Cup.

SPAIN. In 1968 Robert Trent Jones Sr. unveiled his creation, Las Brisas at Nueva Andalucia near Marbella on Spain's Costa del Sol. Golf enjoyed immense growth during the 1960's and 1970's as the tourism industry exploded in Spain and Portugal. Las Brisas is typical of other Jones courses, which challenge seasoned players without scaring away average golfers.

Las Brisas grounds are largely imported as the climate does not normally yield the types of grass inherent for a golf course. Trees have also been planted to increase the difficulty as well as the beauty.

Drives need to be perfectly placed or the ball will be out-of-bounds, in water, or in one of the large, crushed white marble bunkers.

PORTUGAL. The golfing boom of the 1960's and 1970's brought many new courses to Portugal. In 1969 Frank Pennink created the course at Vilamoura on the Algarve coast. High on one of the few pieces of elevated ground in the area, Vilamoura is a quiet, isolated retreat. While these holes are among the most picturesque, they are also considered the most difficult. Because the course is built on a hill, the differences in elevation make for a difficult round. Club selection is tricky. It is easy to leave the ball short on an approach to any one of the tight greens. Accuracy is the key on this course, especially on the par-threes.

GREECE. Greece's Mediterranean climate is an ideal setting for golf. As in other southern European countries, the game is relatively new here. In the past two decades, new courses have appeared on the Greek countryside. One such club is the Glyfada Golf Club in Athens. Near the Saronic Gulf, the course was designed in 1967 by Donald Harradine. The most outstanding characteristic of Glyfada is the fairways. Lined with umbrella pines, they create the need for consistently straight, well-placed shots.

DENMARK. Denmark's golfing community is also coming into its own. Danish golf history is a little older than some of the other E.C. countries. One of its best courses, the Rungsted Golf Course at Rungsted Kyst, was created in 1937 and has been the site of many Scandinavian championships. Rungsted undulates dramatically, making for a difficult round, but its drawback is the sequence of easy holes in the middle of the back nine. The twelfth through the fifteenth holes are among the easiest on the course and can break a player's concentration. However, the final stretch includes the seventeenth, a nasty par-four which requires a player's full attention.

LUXEMBOURG. Luxembourg's reputation is growing as a respected member of the golf world. Luxembourg offers three 18-hole courses and a fourth is expected to open in late 1992. The Luxembourg Golf Course is about 4.5 miles from the capital and is considered difficult because of its narrow fairways and dense woods. However, it is only reserved to golfers of other private clubs.

The Clervaux Golf Course is 6,780 yards, par 73, and open to the public. The Golf and Country Club at Christnach offers a driving range, a nine hole course and will soon open its master course to the public.

—Daniel P. Galo

CAPITALS

LONDON

U.K. TO EMPHASIZE SUBSIDIARITY

The United Kingdom launched its presidency of the European Community by vowing to make subsidiarity "a way of life," to pursue the principle of letting individual states retain decision-making powers wherever possible.

In Prime Minister John Major's view this means bolstering the rights of the nation state against a perceived tendency toward greater concentration of power in Brussels. But British officials are aware that many conflicts lie ahead over varying definitions of subsidiarity and about where and how it will be applied.

Taking up the presidency of the European Council, which the U.K. last held in 1986, Major outlined his other priorities as the completion of the single market, settling future E.C. finances, ratification of the Maastricht Treaty, opening talks on enlarging E.C. membership, and completing the Uruguay round of the GATT world trade talks.

One issue which will undoubtedly absorb a great deal of U.K. and E.C. energy is the continuing warfare in what used to be Yugoslavia.

Most of the central issues on Major's agenda cannot be resolved and concluded within a six-month term. But at least the U.K. presidency is guaranteed a memorable conclusion with the establishment of the European single market—more often referred to as "1992"—due to come into force on January 1 next year.

The U.K. will oversee the final push toward conclusion of seven years work on the Single European Act. Barring derailment, the Act will be celebrated just before midnight on December 31 when a chain of bonfires will be lit across the United Kingdom. Despite still being enmeshed in problems—actual and potential—the consummation of the Act will be an occasion for celebration here and among the other member states.

The United Kingdom will be active in trying to bring about agreement on the E.C. budget for the coming five years while fighting to minimize future budget increases. Arguments at the Lisbon summit over E.C. budget plans split the Community, with the richer nations wanting spending kept at the current level of 1.2 percent of GDP, while the poorer countries seek a big rise in regional aid. The earlier failure to reach agreement means the U.K. presidency had to start the budget bargaining from scratch.

On the domestic front, Major's agenda for the rest of the year will include overcoming the anti-federalist group within his Conservative Party, the Euro-skeptics who were reinvigorated by the Danish "No" vote and fired up by the leadership of the former prime minister, now Lady Thatcher. She denounced Maastricht as a "treaty too far" and called for a referendum, something which has been ruled out by the Major government.

Despite the stance of his predecessor and the other opponents of federalism, Major will fight to keep the United Kingdom "at the heart of Europe," to quote one of his favorite phrases. He staked his reputation on the success of Maastricht and is unlikely to let his opponents spoil his presidency by voting against it during the parliamentary debate in the autumn. Major hopes to get the ratification bill approved in time for the Edinburgh summit.

Major will also have a key role to play in the fall negotiations with Denmark to try to find some way out of the impasse created by the "No" vote. The British government hopes that emphasizing the need for greater subsidiarity will prove sufficient reason for the Danes to find a way back from the wilderness.

DIRECTORY

U.K. Prime Minister John Major and Portuguese Prime Minister Anibal Cavaco Silva as Portugal officially turns over the reins of the rotating presidency of the European Council.

Not everyone is convinced that this will prove effective.

Also during the U.K. presidency as a bit of light relief, a series of artistic, musical, and sporting Euro-events have been organized. Noticing that these included a European Cricketers Cup, one commentator observed that "since cricket is all boules to everyone else in the Community, this can only have been organized to create an international sporting contest which England must win."

—David Lennon

ROME

SCALFARO TAKES ITALY'S HELM

Italians are slowly getting used to the style of their new President, Oscar Luigi Scalfaro. He is a Christian Democrat like his predecessor, Francesco Cossiga, but that is all the two have in common. The new head of state is discreet, taciturn, and cordial. He shows that he intends to fully abide by the spirit of the office entrusted to him—that of a mediator who must not descend into the political infighting. The Presidency of the Italian Republic is mainly an honorary function. The only decision-making power granted him by Italy's constitution is that of nominating the new head of the government, after consulting with political parties and the representatives of parliament.

Now Oscar Luigi Scalfaro has brought back tradition. He is a devout Catholic. A widower since he was 27 years old, he has never remarried, and he lives with his 48 year-old daughter. He's up at six every morning; has a cup of coffee, goes to mass, and then spends 16 to 18 hours at work. When not participating at official luncheons, Scalfaro eats frugally, often only an apple and a glass of water. He recently gave up his only known vice—an occasional *toscano* (cigar).

Italians certainly didn't expect a "Calvinist" Catholic whose motto, a daily newspaper wrote, is "sealed lips, no T.V." But, probably, it is just what they needed in this difficult season with a problematic national budget, Mafia attacks on judges and policemen, endless scandals involving the old political establishment, and the entrepreneurial

Italy's new President, Oscar Luigi Scalfaro.

world accused of corruption.

The Quirinale, the historic Roman palazzo that is the official residence of the head of state, now houses an old-fashioned man who respects traditional values and is a staunch defender of the role of parliament and the party system that has dominated Italy since World War II ended. His appointment is not necessarily a step backward. In the April elections the majority of Italian voters responded unequivocally, punishing all the traditional parties; both the governing ones like the Christian Democrats and the Socialists, and the opposition parties like the ex-Communists. In short, the Italians said that they wanted a true reform of the institutions and the mechanisms of power—the same types of reforms that Cossiga had been trying to implement (but Cossiga's vehement style earned him the nickname "the pickaxer" and cost him support).

Ever since his investiture speech, Scalfaro has promised reforms that will give Italy a more agile and modern structure. But the passage and the modifications will be brought about in a manner that respects the constitution and parliament.

—Niccolò d'Aquino

BERLIN

WHAT TO READ

Berlin is no longer the undisputed center of journalism as it was in the Weimar Republic when 130 newspapers were published there. Today the opinion leaders come from Munich (*Süddeutsche Zeitung*) or Frankfurt (*Frankfurter Allgemeine* or *Frankfurter Rundschau*) and Berlin plays little role. In fact, the project for a new nationwide newspaper "Berliner Tageblatt" did not get off the ground.

Yet, in the long run, Berlin remains an attractive market. By the year 2000, more than five million people are expected to live there, and analysts anticipate large circulations and good advertisement opportunities. The battle to capture market shares is fierce already. Today, five subscription dailies and four tabloids are on sale. *Berliner Zeitung*, which has survived the communist era, is Berlin's largest newspaper with a daily circulation of 275,000 copies. The Axel Springer Publishing House lost its dominant position, which it enjoyed in West Berlin before unification. Its *Berliner Morgenpost* now only sells 236,000 copies daily.

During the revolution in 1989, *Berliner Zeitung* advocated the "third way" for East Germany between capitalism and communism. But events proved that unification was unavoidable. The *Berliner Zeitung Verlag*, which besides the *Berliner Zeitung* also publishes a television magazine *FF dabei* and another daily and evening newspaper *Kurier*, was sold to the West German publishing house Gruner &

After the Berlin Wall fell, West German print media briefly enjoyed tremendous sales in news-starved East Germany.

Jahr, which belongs to the media giant Bertelsmann.

While the *Berliner Zeitung* has managed to get a foothold in West Berlin, the *Tagesspiegel*, a former independent West Berlin newspaper, despite tremendous efforts, has failed to attract East Berlin readers. The same fate was shared by other West German papers. In fact, none of West Germany's newspapers has caught on in the East. Immediately when the Berlin Wall fell, West German print media rushed into news-starved East Germany and, for a brief period, enjoyed tremendous sales. But just one year after unification, the balance has swung the other way, and the big losers are national West German newspapers. East Germans were accustomed to papers of six to eight pages long, and they were bewildered with the size and lengthy articles of West German papers. East Germans also felt that the expensive West German newspapers did not tackle distinctly "East" problems, which were different from "West" problems.

The circulation of the tabloid *Bild* in East Germany which at the beginning climbed to 1.3 million, has dwindled to a mere 300,000. *Bild* is now trying to capture market share by publishing several regional editions. The route taken by the *Frankfurter Allgemeine Zeitung* is representative of many West German publishers. It bought the *Neue Zeit*, once the paper of East Germany's Christian Democratic Party, to serve as the *Allgemeine*'s sister paper in the East. To secure market share, West German publisher Burde and Australian media baron Rupert Murdoch started an East German sex-and-scandal paper *Super* with an anti-West German bias. Murdoch, however, recently pulled out of the venture, and Burda has suspended publication.

Contrary to expectations, East German regional papers have not collapsed but have become the backbone of the East German press today. "The 'old' regional papers continue to determine the press landscape in the new states," says a study carried out on behalf of the Ministry of the Interior. Most of the 39 regional dailies, which were published in the communist era, still exist although they have been sold to West German publishers and have been given a new look. The "old" regional papers have a market share in East Germany of 75 percent (the highest in Brandenburg with 93 percent). Only one-eighth of the total circulation are West German products. The study concludes that East Germans stick to the papers to which they are accustomed and know best.

—Wanda Menke-Glückert

LISBON

RUSSIAN AMBASSADOR SPEAKS OUT IN PORTUGAL

Gennadi Gerasimov, the Russian Ambassador to Portugal, is a well-known personality who became familiar to millions of television viewers around the world in his role as spokesman for the Ministry of Foreign Affairs under President Gorbachev.

Gerasimov, a former journalist with a keen wit and sense of humor, spoke with *EUROPE* in Lisbon this summer about the economic and political future of Russia, the failure of communism in his country, and Russia's relations with the E.C. and the United States.

Although it sounds strange, the Russian Ambassador to Portugal says one of the foreign policy goals of Russia is to join the European Community. As the Ambassador says, "It is really a long road. It is not tomorrow, and not even this century, maybe. But this is the goal of my country to join the European Community."

Gerasimov talks about his fellow Russians wanting to join "civilization" again by saying Russian citizens "dub this civilization in terms of Europe. We have a lot in common with Europe; we have Christianity, and we have common cultural ties. By geography we may be partially in Northern Asia, but in our hearts we Russians feel we belong to Europe."

Although the Ambassador agreed that Russia faces terrible and difficult problems now and in the future, he describes conditions in Russia "as a period of adjustment, a period of economic reform and of overall transition. We are in transition from one system to another, during this transition period a lot of strange things may happen."

Gerasimov worries about the younger generation of Russians not having anything to believe in. He says that the American idea of material success is "alien to our experience of the last 70 years."

When the Ambassador was asked if communism was dead he replied, "As an idea no, as a system yes. The communist experiment in Russia is dead."

Gerasimov, in a very candid statement, declared that the price of communism was too high. "The October Revolution, itself, was almost bloodless, but then we had several more which ruined our economy and killed a lot of people, and we also lost a lot of people who emigrated. So, the price was too high. In this sense I think Russia would have been better off without the Revolution."

As for the Russian future the Ambassador states, "The future must be optimistic. You cannot really ruin a large country with resources; we have everything, and we are a talented people. The problem is not with the people and not with the country. We must give our people opportunity."

—Robert J. Guttman

COPENHAGEN

DANISH DYNAMITE

Two F-16 fighter pilots of the Royal Danish Air Force risked disciplinary action, as they provided an unauthorized wingtip escort to a chartered airliner carrying the Danish national football team from Gothenburg in Sweden to a hero's welcome in Copenhagen. Police officers flaunted flags from their squad cars, dressed irregularly, and turned a blind eye to citizens making the center of Copenhagen unpassable for hours.

Why this uncharacteristic breakdown of authority? The Danish team won the 1992 European football championship, defeating the Germans in the finals to the total surprise of everyone, including the Swedes who hosted the event and the Danes themselves. In fact the Danes only qualified for the finals by default, taking the place of the Yugoslav team that was excluded as a result of the collapse of their country.

Football is the national sport of Denmark, but the euphoria was much greater than usual partly because the Danish team, consisting of professional players from clubs in many E.C. countries, started as the underdog of the tournament. The victory reincarnated the expression coined to explain Denmark's football victories in the early 1980's—Danish Dynamite.

Some Danes consoled themselves with the football victory after the narrow defeat of the Maastricht Treaty in the national referendum held in early June. Even the staunchest supporter of the treaty, Denmark's liberal Foreign Minister, Uffe Ellemann-Jensen, could not resist chiding his German colleague at the E.C. Lisbon Summit, which started on the same day as the final championship game, that "if you can't join them, beat them." The football team took the cue, but the Danish government was rather less successful in its endeavor to find a solution to the problem created by the Danish voters.

On the other hand, Maastricht opponents in Denmark like to speak of a triple victory in June. Capturing headlines in all E.C. countries by defeating the treaty, assembling European royalty at the Silver Wedding Anniversary of the Danish Queen Margrethe and her French-born Prince Consort, Henrik, and finally the European football championship.

—Leif Beck Fallesen

The European Cup Champion Danish team actually qualified for the finals by default after the Yugoslav team pulled out.

ATHENS

THESSALONIKI WELCOMES TRADE FAIR

This month's 57th Thessaloniki International Trade Fair is the centerpiece of Greece's growing number of international commercial expositions taking place in Greece throughout the year. Organizers expect over 3,500 exhibitors from 50 countries to participate in this year's fair, which will exhibit everything from patents automation to tourism promotions and will accommodate over one million visitors during its nine day operation (September 7–16).

The trade fair gives Greek businessmen an opportunity to meet with representatives of foreign international companies and to discuss ways that Greek companies can collaborate with their European partners and their Balkan and Middle Eastern neighbors. This format also gives non-Greek companies a forum in which they can discuss future projects in Greece and the rest of the Eastern Mediterranean.

So, what makes the 57th Thessaloniki International Trade Fair special?

Greece is currently undergoing domestic changes that are bound to enhance its image among international investors. The National Bank of Greece recently decided to lift restrictions on capital repatriation by foreign investors in Greece along with all other capital flows out of Greece. Greece's market of 10 million people is small in relation to the world market and that of the E.C., but Greece is fortunate to have good relations with most countries of the Middle East and Eastern Europe. Furthermore, Greece has one of the E.C.'s fastest growing economies.

High-level officials from both Greek and foreign businesses agree that if Greece can overcome infrastructure-related difficulties (outdated telecommunications, lack of comprehensive legislation regarding labor, a bloated public sector, etc.), foreign investors will see Greece as a good base for eventually making a jump into the vast markets that lie beyond Greece's borders and territorial waters. Since exhibitors from Eastern Europe head the list of new arrivals at the 57th Thessaloniki Trade Fair, Western visitors will be pleasantly surprised at the amount of interaction going on at this year's fair.

Prime Minister Constantine Mitsotakis will inaugurate this year's fair on

September 7, and Greeks are hoping that the occasion will mark a new beginning for foreign investment in Greece.

—Leo Charitos

DUBLIN

THE GREENS VERSUS THE TOURISTS

Verbal battles are being fought in some of Ireland's most scenic sites. The dispute is over the so-called interpretative centers which are supposed to explain to visiting tourists all they need to know about the local history, fauna, flora, and how best to explore the area. A few years ago nobody had heard of these centers, but the inflow of money from E.C. structural funds has encouraged their proliferation under the heading of tourist development.

For the government and local commercial interests, the centers are a good thing. They encourage tourists to visit areas they might otherwise miss and so help the local economy.

For the critics the centers are all being placed in areas where tourists would come anyhow such as towns or villages. Some people feel that siting them in remote beauty spots will destroy not only their isolated charm but actually damage local plant life and pollute the natural environment. The E.C. Commission, which oversees the distribution of the cash from the regional fund, has been dragged into the controversy and lobby groups have gotten to know their way around the corridors of power in Brussels and Strasbourg. The fiercest battle is being fought over the center planned for Mullaghmore in the Burren, a remote limestone area near the Atlantic coast with a delicate plant life said to be unique in Europe. The thought of fleets of diesel-belching tourist buses driving into the Burren's secluded region enrages the opponents of the center planned for Mullaghmore, and some Members of the European Parliament have helped them to force the E.C. Commission to have second thoughts.

The government agency responsible for the planning and siting of the centers, the Office of Public Works (OPW), fumes at the bureaucratic interference from Brussels and points to reports from experts who say the Mullaghmore center would be safe for the environment. But the body responsible for the protection of the national heritage, An Taisce, believes otherwise.

Another battle is being waged over a center planned for a remote area in the Wicklow mountains about 25 miles south of Dublin at Luggala. The site is only a short distance from a former hunting lodge of the same name owned by the Guinness brewing family and the scene of many house parties featuring famous film directors, actors, and writers such as the late John Huston, Brendan Behan, and Claud Cockburn.

A meeting of the Wicklow county council to debate a report on the Luggala center by a Trinity College environmental team was attended by John Hurt and other well-known writers and actors who also live in the area and oppose the plan. According to the OPW, the report favors the center, but the report's author, Professor Adrian Phillips, disputes the agency's assessment of his findings. To add to the confusion, the council has had to adjourn its debate while the clearance work has already begun on the site.

—Joe Carroll

MADRID

AFTER THE PARTY

With all the hoopla and hysterics of the 1992 bash at full swing, Spaniards were brought back to earth with a rude bump this summer with deeply disturbing news about their economy. Leading the list of economic woes for the Socialist government of Prime Minister Felipe Gonzalez was the budget deficit, which surged 40 percent in the first half of the year to $12.3 billion.

Further adding to Economy Minister Carlos Solchaga's concerns are a strong rise in the current account balance of payments deficit, a 53 percent drop in foreign investment, and record lows for the year in the Madrid stock market.

To top it all off, a senior Economy Ministry official revealed that the government had revised its economic growth forecast of 3.3 percent for this year to around two percent, but some independent analysts are arguing it could be even lower.

To raise revenue, Solchaga is reportedly weighing two options. One will increase the Value Added Tax from 13 to 15 percent, and the other will raise the withholding tax on personal income. And officials are pledging to draw up a very tight budget for 1993.

But the economic data which meant most to the Spaniard on the street was the announcement that for the first time in the seven years that Spain has been a member of the E.C., the country is suffering a net loss in employment, with 1,200 jobs a day disappearing during the first quarter of the year. Following a fall to under 16 percent from 1990 to 1991, the unemployment rate is on the rise once again, and the situation promises to get worse.

At the beginning of the year, the government was predicting around 200,000 new jobs would be created by the end of 1992, but now it admits this won't happen.

"With wages going up at 8.5 percent, and inflation over six percent, without any rise in productivity, it will be impossible to meet job creation goals," says Jose Juan Ruiz, secretary-general for the economy.

But despite the gloom, Gonzalez says Solchaga and the rest of his economic team will stay on and the disappointing data will have no impact on the government schemes to meet its targets for the E.C. convergence plan.

—Benjamin Jones

PARIS

INDEPENDENT THINKING

As the September 20 date for France's referendum on the Maastricht Treaty approaches, no one knows which way the vote will go. For President François Mitterrand, ratification of the treaty would insert a bright jewel into a crown that is becoming progressively more tarnished the longer he wears it. But the French are notoriously independent-minded and hence unpredictable. (The one thing they regularly do en masse is to sit sweltering in traffic jams at the start and end of summer vacation.)

Two events at the beginning of the summer illustrated to what heights and depths the French cult of personal liberty can lead. The first had Mitterrand flying off on solo heroics abroad, while the second created mass mayhem on the ground back home.

On Sunday, June 28, 78 years to the day after Archduke Ferdinand of Austria and his wife were assassinated there, the President of France flew into the besieged city of Sarajevo. It was a surprise trip, planned and executed with the secrecy of an episode of "Mission Impossible." Even at the Lisbon summit, which

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SUMMER SUMMITS

HELSINKI:
THE FUTURE OF EUROPEAN SECURITY

Fifty-one heads of state, gathered in Helsinki in July to attend the 1992 Conference for Security and Cooperation in Europe (CSCE), agreed to transform the organization from a forum for East-West dialogue into a primary guarantor of stability in post-cold war Europe.

Negotiators at the largest gathering of government leaders ever assembled in Europe hammered out a 75-page agreement that allows the CSCE to initiate large scale peacekeeping operations for the first time. The organization now has the right to call on member countries and their military allies for troops and other resources. The accord also calls for the CSCE to play a major role in catalyzing Pan-European arms control agreements.

One of the most contentious items debated at the summit was the CSCE relationship to the North Atlantic Treaty Organization (NATO). While France wanted the CSCE to oversee peacekeeping forces, the U.S. pushed for NATO's operational control of such activities.

The final document gave the U.S. involvement through NATO, but also clearly constrained NATO's authority. CSCE nations that are not members of NATO will be allowed to participate in CSCE-sponsored peacekeeping missions and will not have to report to NATO commanders.

Despite the compromises needed to obtain consensus, American CSCE Ambassador John Kornblum said he was "quite satisfied" with the final agreement. Russia also agreed, grudgingly, to a CSCE proposal that it withdraw its estimated 130,000 ground troops from the Baltic Republics. While no specific timetable was given, Russian President Boris Yeltsin's pledge that it would be "relatively speedy" pleased the leaders of Estonia, Latvia, and Lithuania attending the summit.

The European security process was launched in 1972 by 35 nations—including the Soviet Union, the U.S., and Canada. Due to Finland's close ties with both East and West, Helsinki was an ideal neutral site for the first all-European security conference since the Congress of Vienna, 150 years before.

The first CSCE Summit took place in the Finnish capital three years later at a time when Europe was sharply divided ideologically, politically, and militarily.

Unlike the United Nations, where only the major powers can veto decisions, at the CSCE, any country has the ability to prevent a measure from being adopted. The only exception to the unanimous consensus rule is in cases involving human rights. In those situations the CSCE can take action without the approval of the country charged with the violations.

"Dissidents throughout Eastern Europe used the Helsinki Accord as their rallying cry," said Samuel G. Wise, deputy head of the American CSCE delegation. "Helsinki groups have sprung up everywhere. It is now clear that the CSCE process helped accelerate the fall of the Berlin wall and the end of Communism."

The 1990 Paris summit was a turning point in the CSCE process. Eastern and Western bloc countries declared an end to the cold war and the division of Europe. The former communist nations also acknowledged the superiority of both the parliamentary form of government and market-oriented economies.

"Before the Paris summit, the CSCE had no office or staff," Wise explained. "It was just a process that could be activated from time to time. After Paris, it became a permanent organization."

In 1991 the CSCE created a Secretariat in Prague, a Center for Conflict Prevention in Vienna, and an office of Democratic Institutions in Warsaw. This last group has sent Western civic leaders and legislators to Albania, the Baltic republics and ten republics of the Commonwealth of Independent States—all of whom have joined the CSCE in the past two years.

At the 1992 summit, the CSCE created a new "High Commissioner on National Minorities" and endorsed the formation of a "Green Helmets"force to respond to environmental disasters in Europe.

"A few years ago, discussions such as these would have been considered science fiction," said CSCE Secretary General Nils Eliasson. "Because of the CSCE consensus format, it provides a forum for constant dialogue. It allows agreements to be reached and compromises can be struck."

—Weld Royal and John Weiss in Helsinki

MUNICH:

A MOVEABLE FEAST IN MUNICH

This year's Western economic summit is neatly framed by the arguably more important events that occurred just before and after the July 6 to 8 meeting in Munich. On July 2, the U.S. Federal Reserve, alarmed that the sluggish economic recovery was losing momentum, cut its discount rate for the seventh time in two and a half years to three percent. On July 16 the German Bundesbank, holding its inflation-fighting credentials high, raised its discount rate three quarters of a percent to eight and three quarters percent.

Thus, just one week after the leaders of the world's major industrial democracies solemnly professed their commitment to joint action to assure increased global growth, short-term U.S. interest rates were at their lowest level in 29 years and German rates were the highest they've been in over 50 years. The summit communique emanating from the baroque Residenz palace of the Bavarian kings had assured the world that the coordination of economic and financial policies remained a central element of common strategy.

But divergent monetary policy is not the only element stretching thin the credibility of these annual economic meetings, the eighteenth installment which occurred in Germany. The Munich summit came close but failed to achieve a breakthrough between the Europeans and Americans over agricultural subsidies, the issue that has held up completion of the six-year-long Uruguay Round of global trade negotiations. U.S. and E.C. officials—including George Bush and Jacques Delors—held several hours of talks on the issue. But in the end both sides had to defer action until after the French referendum on the Maastricht Treaty in late September. The final declaration could do no more than repeat the well-worn pledges from the past three summits expressing hope that the Uruguay Round can be completed by the end of the year. This year's statement expresses regret at the slow pace of negotiations. But it hopefully declares that the summit participants are "convinced that a balanced agreement is within reach" by the end of 1992.

The successes of the Munich meeting concerned Russia and its duly elected president, Boris Yeltsin, who attended the final day of meetings. The summit nations endorsed the $24 billion aid program they had unveiled in April and applauded the preliminary Russian deal with the International Monetary Fund (IMF), which will release the first installment of its planned $4 billion stand-by loan to hasten the development of a free market economy. Economic meetings among the major nations are exceedingly important and should continue. In my view the leaders should cut back on the participants (there were 1,800 officials at Munich) and forego the lavish surroundings and ceremony (Munich cost upward of $24 million) that has come to characterize these movable feasts. They should spend more time talking issues and less debating the bland wording of their communiques.

—Barry Wood in Munich

LISBON:

MAASTRICHT TREATY DISCUSSED

The European summit in Lisbon will go down as the summit which sought to salvage the Maastricht Treaty on European Union.

European leaders shared a common aim: to reassure the rest of the world that the E.C.'s plans for political and monetary union remain on track, despite Denmark's surprise rejection of the Maastricht Treaty.

The first indication of their efforts will come in September when the French people vote in their own referendum on Maastricht. A French "Non" would be a treaty killer; but a French "Oui" would support the assessment of one senior E.C. official in Lisbon that "Europe is back on track."

At the Lisbon summit, political leaders, including E.C. President Jacques Delors, adopted a tone of humility when describing their future plans for the continent. Most pledged solemnly to make the E.C. more "user friendly," and promised more "subsidiarity"—the Brussels word for devolving more decision-making, whether at the national, regional, or local level.

This new modesty—a shift in mood from the confident optimism which prevailed less than a year ago at the Maastricht summit—was perhaps the most prominent feature of the Lisbon meeting.

Leaders did not reach an agreement on future financing, leaving the matter to be resolved during the U.K. presidency at the E.C. summit in Edinburgh at the end of the year. A deal on the location of various Euro-institutions such as the E.C.'s proposed central bank came close to being struck, with the U.K. holding out against a plan to site the bank in Bonn. A U.K. push for accelerated negotiations on E .C. membership for the European Free Trade Area countries led by Austria and Sweden failed.

None of the impasses should reflect too harshly on the six-month Portuguese presidency. Positive achievements included a hard-fought deal to reform the Common Agricultural Policy through the removal of expensive incentives for over-production. Also, the Portuguese produced an agreement to introduce more competition in the European airline industry, with the prospect of lower airfares.

The Portuguese were less successful in their efforts to tackle the toughest issues. The continuing stalemate between the U.S. and the E.C. on a GATT agreement is worrisome, as is the ineffectiveness of diplomacy in the face of the spreading civil war in Yugoslavia .

Last-minute drama at Lisbon came with the news that President François Mitterrand of France had embarked on a mercy flight to the besieged Bosnian capital of Sarajevo.
—Lionel Barber in Lisbon

RIO DE JANEIRO:

World leaders Meet At The Earth Summit

The European Community made significant commitments to improving the environment at what was dubbed the "Earth Summit" held in Rio de Janeiro in June. The twelve member states agreed to put up $4 billion dollars for environmental protection and pledged to stabilize greenhouse gases at 1990 levels by the year 2000.

The E.C. countries signed the three main documents negotiated at the summit, which was officially known as the United Nations Conference on Environment and Development: the global warming treaty to protect the earth from the dangers of climate change, the biological diversity treaty to help conserve rare and threatened animal and plant species, and a declaration to manage the world's forests.

The E.C. position on the greenhouse gases, which are thought to contribute to global warming, goes a step further than the treaty signed by over 170 countries in Rio. The Rio Treaty contains no fixed goals or timetables for reducing carbon dioxide emissions. While the Community as a whole committed itself to a specific goal of meeting 1990 emission levels by 2000, the German government has even more ambitious goals and has promised to reduce CO_2 output by 25 percent by 2005.

The E.C. has committed $4 billion to fund aspects of Agenda 21—the set of action principles that are intended as a guide for environmental protection into the next century.

The Earth Summit also produced the Rio Declaration, a broad compendium of environmental issues and problems, and a new Commission on Sustainable Development, which will monitor countries' compliance with environmental targets and the amount of financial aid going to developing countries to help them implement Agenda 21. Chancellor Helmut Kohl of Germany and Prime Minister John Major of the United Kingdom, called for stepped-up contributions to the Global Environment Facility (GEF), a joint U.N.-World Bank fund to support environment projects in individual developing countries that have a global benefit. The two E.C. heads of government would like to see $3-4 billion in additional funding for the GEF.

Abel Matutes, the E.C. Commissioner for North-South relations and the Commission's top representative at the summit, declared that "the E.C. has taken the world leadership on two main tracks, environmental protection and development aid." The E.C. and its member states contribute 43 percent of all aid to developing countries. The European Commission, the Community's executive arm, has recommended that by the year 2000 its member states reach the United Nations' goal that 0.7 percent of developed countries' gross domestic product be spent on aid to the third world. Matutes added that the E.C. was giving increasing priority to integrating environmental protection into its development aid programs.
—Peter Rashish

Upcoming Events

FRANCE France is set to hold a referendum on the Maastricht Treaty on September 20. French and foreign analysts are expecting an important victory for the treaty, although the latest polls have showed 25 percent of the people are still undecided.

SOMALIA The European Community has announced that it will commit 4 million ecus in emergency, non-food aid for Somalia. A press release said that the E.C. would continue to support actions to help relieve the famine in the north and South of the country.

NAFTA The United States, Canada, and Mexico have announced the establishment of the North American Free Trade Agreement (NAFTA). The agreement was reached after 14 months of negotiations and is meant to give consumers of all three nations a wider variety of goods at lower prices and to make American industry more competitive. The European Commission gave it a cautious reception, urging Canada, Mexico, and the U.S. to respect world trade rules in setting up the free trade ares, adding that, "the Commission always welcomes free trade areas, on condition they respect GATT rules."

Business Briefs

British Airways is paying $70 million for a stake of up to 44 percent in **USAir**. The company will, however, only have 21 percent of voting rights, because U.S. regulations limit foreign ownership. It ends a frustrating time for BA, with the company gaining a long sought foothold in the American market. "We have been stalking a number of airlines for some time," Lord King, non-executive chairman said. "The catchment area for BA is this little island. For USAir it is a very large part of the U.S." USAir also gains from the deal. The airline incurred after-tax losses of $760 million during the last two years and has debts of more than $2 billion.

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Six Nordic airlines are to cooperate in Northern Europe to challenge **SAS**, the region's leading carrier, when the E.C. launches its "open skies" regime in 1993. The carriers that plan to set up a network in Scandinavia are **Finnair**, Finland's national airline; **Sterling Airways** and **Maersk Air** of Denmark; **Norway Airlines** and **Braathens SAFE** of Norway; and **Transwede Airlines** of Sweden. Finnair recently pulled out of an alliance with SAS, which is jointly owned by the governments of Sweden, Norway, and Denmark.

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Germany's top three engineering groups are forming a company to develop and build a high-speed magnetic railway. **Siemens**, **Thyssen Industrie**, and **AEG**, a **Daimler-Benz** subsidiary, joined forces after the Bonn government provisionally approved construction of a track for a 250 m.p.h. magnetic hovertrain between Hamburg and Berlin. Later, tracks may be laid between Bonn, Bremen, and Cologne.

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Peugeot, the French auto manufacturer, will soon be assembling cars in Egypt, ending an 11 year bid to break into a quickly growing market. Peugeot signed a joint venture deal with **CDC Waguih Abaza**, a local distributor, and two French banks to produce up to 10,000 cars a year at a plant owned by **Chrysler Corp.** and Arab investors.

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Philips, the troubled Dutch electronics giant, is putting billions of dollars worth of real estate and other assets on the block to help reduce and finance its towering debt of $10.5 billion. Meanwhile, Philips is bracing to do battle with **Sony** for the next generation of portable music players. Its Digital Compact Disc, jointly developed with **Matsushita** of Japan will go on sale in September, well before Sony's competing MiniDisc hits the stores.

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Fiat, Italy's biggest industrial group, has bowed out of telecommunications, selling its remaining operations to a Luxembourg-based group owned by a consortium of French banks. The eventual buyer likely will be **Alcatel Alsthom**, the French industrial conglomerate, which bought the bulk of Fiat's telecommunications operations in 1991 and has a four option to buy the stake acquired by **Finparcom**, the Luxembourg banking consortium.

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Hanson, the acquisitive Anglo-American conglomerate, is ready to pounce when the British government privatizes state-owned **British Coal**. Hanson, which has a large stake in **Peabody Mining**, the U.S. coal producer, said it doesn't rule out buying the whole of British Coal, which more than doubled its net profit to $325 million in the year ended March 31.

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Italy's new government is turning four giant state holding groups into joint stock companies to speed up privatization of sectors ranging from oil and gas to insurance and food. Professor **Giuliano Amato,** the Socialist prime minister, says privatization is one of his main goals.

The government plans to sell up to 20 percent of the assets of IRI, the biggest holding company by the end of the year.

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Siemens, the German industrial group, is forming joint ventures in Russia to improve the safety of Soviet-designed nuclear power plants. Siemens' power plant subsidiary, **KWU**, is teaming up with Russian scientific organizations to transfer Western nuclear technology to Soviet-designed pressurized-water reactors.

• • •

Assurances Generals de France (AGF), one of France's leading insurance groups, aims to build a European insurance alliance modeled on the four-nation **Airbus** consortium through its link with the German insurer **Aachener & Munchener Beteiligungs AG** (AMB).

AGF recently triumphed in a two-year battle to win full voting rights on its 25 percent stake in AMB acquired when the two companies agreed to a cross-shareholding pact. "What interests me is to create an exemplary partnership....something in insurance resembling what Airbus has done in the aeronautics industry," said AGF chairman Michel Albert.

—*Bruce Barnard*

Inside Europe

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ended only the day before, Mitterrand had said nothing about his plans to any of the other European leaders except Portuguese President Mario Soares and German Chancellor Helmut Kohl.

His solo flight prompted at first general amazement, then admiration and definite results. Within 24 hours of his visit, the Bosnian capital's airport opened for the first time to allow planes to bring in emergency supplies. In France, Mitterrand's dashing gesture was hailed with hyperboles: his "beau geste" full of "panache" transformed him from a wily, not very popular politician into a noble, if aging Cyrano de Bergerac.

But the lone rebel slumbering inside every Frenchman does not always show himself from such a flattering angle. Just two days after Mitterrand's triumphant trip to Sarajevo, thousands of French truckers decided to prove their personal independence with some of their own surprise tactics. On the eve of the annual mass migration to holiday destinations, they blocked all of France's major highways, effectively paralyzing the country for eight days. They were protesting against what they consider to be an infringement on their rights as "professional" road-users— the start of a new demerit points system for dangerous driving.

It is a system that allocates drivers a total of six points (the lowest number in the world) which can then be deducted for all dangerous infractions of the highway code. Speeding, for example, wipes out one or two points, but parking illegally costs none. With 10,000 people killed and 200,000 injured in road accidents last year, you would think that the French, truckers included, would welcome such measures.

But no. French truckers, who live in a world of cutthroat competition, claim that they cannot hope to meet their delivery deadlines without breaking the speed limit now and then. And over the distance they travel, they say they are bound to run the odd red light or two. Their strike cost hundreds of millions of dollars in spoiled and undelivered goods throughout Europe. Yet a surprising number of the French public supported the truckers. Why? Because they were out there, asserting their independence, refusing to be lumped in with everyone else.

It is this individualism that makes the French such unpredictable voters. Summertime polls showed that 40 percent of them had not made up their minds yet about the Maastricht Treaty. On referendum day it will all depend on which image of their president they carry into the voting booth with them: "Tonton," the figurehead of an unreliable regime, or Super-Mitterrand, the solitary crusader of Sarajevo?

—Ester Laushway

LUXEMBOURG

COMPUTERIZED DEAL-MAKING

Launched in April 1991, the Luxembourg bourse's computerized trading system for stocks and bonds is the envy of other E.C. members.

And, indeed, it has been cited as a major factor behind the strong performance in securities transactions in Luxembourg. In 1991, volume on the exchange soared 41.96 percent above the 1990 pace. For the first half of 1992, trading continued to be far more active than the period before the bourse turned on the computers.

The Luxembourg Bourse Commission President, Fernand de Jambline de Meux, says the system has resulted in some of the most profound changes since the exchange was founded in 1928.

Dealers in any of the 11,000 member offices can better monitor price fluctuations and more adeptly position their investment portfolios particularly during volatile trading days. Deals are completed instantaneously. Brokers can more easily seek out—privately—potential buyers and sellers through a confidential message system. And, computerization strengthens the exchange's ability to watch the market and to spot and document abuses.

This initiative will particularly help strengthen the Luxembourg Stock Exchange's major role in trading Eurobonds, which began in the mid-1960's. The dollar value of the Eurobond market reached $275.6 billion in 1991, a 51.6 percent gain from 1990. The number of issues climbed by 23.5 percent to 1,524 issues in 1991. Bonds denominated in U.S. dollars account for most of the market, 28.6 percent, while those in German marks hold a 14.6 percent share, the Japanese yen a 12.3 percent, and the 11.7 percent ecu's.

The automated system currently trades only those Eurobonds that are denominated in Luxembourg francs and ecu's primarily from supranational organizations like the E.C. or the European Investment Bank. By the end of the year, according to Antoine Wagner, the commercial attache, the computers are expected to trade most of the 7,500 bonds that are listed with Luxembourg and denominated in about 20 different currencies.

The exchange is also phasing in automated trading of its listed securities. Through the computers, dealers can trade about 250 securities for 200 companies in more than 10 currencies. Most are issued by foreign companies and represent 22 different currencies. By early next year, Wagner said, automated trading will be possible in all 10,500 shares, warrants, and rights that list in Luxembourg (denominated in 21 different currencies).

Trading in equities with and without the computer reached $158 million in 1991, a 41.9 percent gain from 1990. Ten stocks (including three Luxembourg banks, Philips, and Royal Dutch) account for nearly 60 percent of the exchange's total transactions.

Deals are made using "Windows," a software package. Traders survey prices on securities, bid and ask prices for "live" securities, process orders and sales, and send public or private messages to other dealers.

The system was developed by the London-based International Commodities Clearing House Financial Markets company based on a system that has been used by the futures exchanges in Ireland and New Zealand. Design, installation, and start-up was completed within three months.

—*Jim Spellman*

BRUSSELS

HERE I AM, HERE I STAY

"Now that doctors have restored me to excellent health, I am happy to be able to serve you for many years to come." This was a little sentence concealed in the long speech that King Baudouin delivered on the eve of Belgium's national day in July. But it made headlines the day after, cutting short all rumors about a possible abdication by Baudouin.

For the first time, the King of Belgium gave a clear indication that he was not going to leave his post and empower his nephew, Prince Philippe, or his niece, Princess Astrid—two possible candidates for the throne. King Baudouin, 61, has just gone through two surgical operations—enough for gossips to envision the end of his 31-year reign.

Abdication by Baudouin would have arrived at a critical time for Belgium. Encouraged by strong results at the last national elections, Flemish separatists are urging for more power to Flanders and a clear boundary between the French-speaking Wallonia and their region. Typical of their attachment to the right of soil, Flemish separatists, supported by press editorials, request that all citizens living in Flanders speak Flemish, elect Flemish officials, and pay Flemish taxes. This is particularly crucial in the green suburbs of Brussels where many Walloons have settled despite the fact that it is part of Flanders.

The royal message went against all this. Pleading for a federal Europe, King Baudouin warned against "all forms of separatism." He asked the country to stay on the federal track—which is powers to the regions when it can be better handled at that level and to the state for the rest. The King, in fact, used, without naming it, the now famous principle of subsidiarity that the Twelve are trying to define.

"Let's be logical," said Baudouin. "We can't argue for a federal Europe when speaking with our E.C. partners and act the opposite inside Belgium." Otherwise, he said, "our European creed will sound hollow and will be perceived as hypocritical by our partners" in the European Community.

—*Christophe Lamfalussy*

Editor's Notes:

—In the June issue, Laurie Laird's article, "City Of Finance," should have included Luxembourg as a possible site for the European Central Bank.

—The Capitals letter from Dublin in the July/August issue should have identified Eammon Casey as a bishop in the Roman Catholic Church.

ARTS & LEISURE

ART

Matisse Comes To New York

The first full-scale retrospective devoted to Henri Matisse (1869–1954) ever to appear in the United States will open its doors to the public on September 24 at The Museum of Modern Art in New York City.

The show, entitled Henri Matisse: A Retrospective, has been described as the most comprehensive exhibition of the works by Henri Matisse. The Museum of Modern Art has brought together some 400 works from museums and private collections from all over the world, including the State Hermitage Museum, St. Petersburg; the State Pushkin Museum of Fine Arts, Moscow; the Musée National d'Art Moderne, Paris; as well as works from the Museum of Modern Art's permanent collection.

New York City's Museum of Modern Art will host Henri Matisse: A Retrospective, opening September 24.

The exhibit, which is sponsored by Philip Morris, covers Matisse's entire career from his early still lifes of the 1890's to his 1920's Nice period, and for the first time, his paper cutouts of the 1940's.

Matisse first turned toward painting when he was a 20-year-old law clerk convalescing from appendicitis in 1890. His earliest works were dark still lifes, which showed the marked influence of the Dutch naturalists. It was not long, however, before modern art began to attract his attention.

The importance of light and color to his paintings is evident in his early impressionist style. Color being the primary substance of his art, form was "modified according to the interaction of neighboring colors," said Matisse. Thus color was "proportionate to the form."

Form, however, was also important to Matisse's art. His paintings differed from cubism, which emerged in the same period, not only in their emphasis on color, but also in their preservation of the wholeness of the human form. For Matisse, the unity and integrity of the work of art were analogous to those of the figure itself.

As Matisse wrote in "Notes of a Painter," in 1908, his aim as an artist was to discover the "essential character" of things beneath their surface appearances, thus to produce "an art of balance, of purity, and serenity," decorative in conception and expressive of his emotional reactions to the subjects he painted.

The evolution of Matisse's style can be seen in the context of his pursuit to find this essential character beneath the surface through color and form. This exhibition's breadth and scope provides a rare, comprehensive look at the development of one of the 20th century's best-known artists.

—Antonia Balazs and Saskia Reilly

Remembering Finland's Modernist

Currently on exhibit in New York's National Academy of Design is Helene Schjerfbeck: Finland's Modernist Rediscovered. The exhibit offers an in-depth look at one of Finland's greatest artists.

Although she was born in Helsinki in 1862 to a family of only modest means, Helene Schjerfbeck's artistic talent was quickly recognized—she was enrolled in the Finnish Art Society as an 11-year-old prodigy.

The 1880's are often considered to represent the golden time of her life and career, as she spent most of the decade in Paris and the artists' colonies of Concarneau and Pont-Aven in Brittany. During this time, she greatly admired and adopted

***The Little Convalescent* was viewed by some as the artist's autobiography of pain.**

the styles of Cezanne, Toulouse-Lautrec, Gauguin, Manet, and Degas. In addition to landscapes, she portrayed day to day life in provincial France. One of her best pieces from this period is *Funeral in Brittany*, painted in Pont-Aven in 1884. Although appreciated in France, her work was criticized in Finland as being (not surprisingly) too foreign.

In 1887 Schjerfbeck's English lover broke off their engagement, citing her limp, the result of a childhood fall. Devastated, she moved to the artists' colony of St. Ives in Cornwall, England. There she painted what is probably her best-known work, *The Little Convalescent*. This striking, impressionistic painting is viewed by some as her autobiography of pain. It portrays a little girl sitting with her legs wrapped in a sheet, pensively contemplating a bowl of flower buds.

In the 1890's she returned to Helsinki, where she taught at the Finnish Art Society until ill health forced her to move to the country town of Hyvinkaa, where she lived with her mother until 1925. As her age progressed and her health deteriorated, her style began to change from the colorful and free-flowing Impressionism of her early years to a modernistic realism. The capstone of her career is a series of abstract self-portraits. These works are highlighted by *Self-Portrait with Red Spot* (1944), in which rough brush strokes create a surprisingly solid expression of human form and mass, while a striking red spot placed on the chin seems to burn with the intense inner passion that is evident in all of Schjerfbeck's works.

The initial American exhibit of her work was cancelled in 1939 because of World War II. Now at last, 53 years after her death in 1946, Americans finally have the opportunity to enjoy this great artist's work.

—Charles Webb

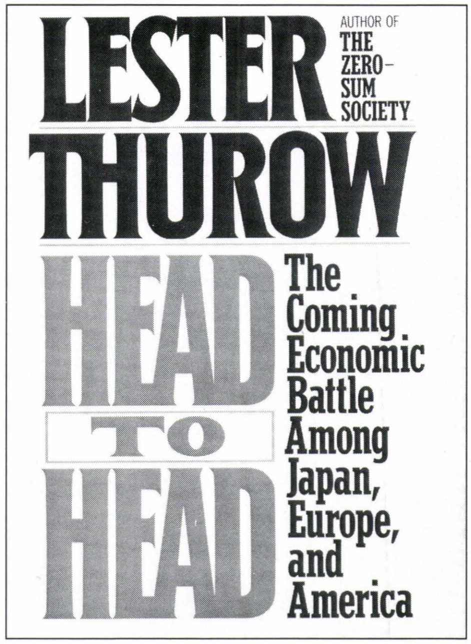
BOOKS

Head to Head
The Coming Economic Battle Among America, Europe, and Japan.
By Lester Thurow. William Morrow. 336 pages. $25.

At least once a year, the Washington Beltway gets infatuated with a book in which the hopes and fears and suspicions that lurk just below the surface of policy-makers' consciousness suddenly condense into a single idea. Francis Fukuyama's *The End of History* and Paul Kennedy's *Rise and Fall of the Great Powers* rode this fashionable cult to the top of the best-seller lists. And had it not been for the collapse of the Japanese stock market, and Denmark's "No" vote in the referendum on the Maastricht Treaty, Lester Thurow's latest book might have joined them. Now, sadly, it probably won't.

This is a pity, because *Head to Head* deserves widespread attention, going much further than the usual gloomy diagnoses of American over-consumption and under-investment. Thurow looks at the looming competition between the yen, dollar, and ecu-German mark blocs and predicts, "Future historians will record that the 21st century belonged to the House of Europe."

This is not because the Europeans are wiser, nor because they have the social discipline to delay today's consumption in order to invest in tomorrow's productivity. Nor does Thurow fully understand the way in which the social contract of Europe's welfare states eases the disruptions and class antagonisms of rapid economic change. Thurow reckons that the Europeans will adjust best to the challenges of the future because they have no choice.



"To prevent the Poles and other Eastern Europeans from all moving to Paris, London, Rome, and Frankfurt, the Western Europeans will do what strategic considerations dictate that they should do," Thurow concludes. By this he means far-sighted investment in jobs and productivity in the old Soviet empire, which he sees as the next great locomotive of growth. And because the European Community is bound to enlarge, Europe's dominance will be reinforced because "those who control the world's largest market get to control the rules [of trade]."

"If the high science of the former Soviet Union and the production technologies of the German-speaking world are added to the design flair of Italy and France and a world-class London financial market efficiently directing funds to Europe's most productive area, something unmatchable will have been created. The House of Europe could become a relatively self-contained, rapidly growing region that could sprint away from the rest of the pack," Thurow argues.

The Dean of MIT's Sloan School of Management, with an international reputation for acute perceptions and bold vision, sounds positively giddy as he ponders a possible Europe that is a decade or more away from consideration. The EFTA countries may be bringing a dramatic boost to European production and consumption, and the hiccups in the ratification of the Maastricht Treaty will probably not derail the grand project for monetary, and even eventually political, unity. But bringing in "the high science of the former Soviet Union" is quite a stretch. And the Bush administration's nervousness at the growing ambitions of Europe has been replaced by a complacency verging on contempt, when the State Department sneers at Europe's inability to do much to stop the fighting on its Balkan borders, or to persuade the Danish voters that the Maastricht Treaty is the right blueprint for Europe's future.

Thurow's argument is at root determinist. Just as Holland's 17th century primacy gave way to Britain because the Dutch took the brunt of the long wars to contain the French superpower built by Louis XIV; and just as the British surrendered their global primacy to the Americans because Britain bankrupted itself in World War II, so now the Americans are paying the price of their two generations of containing the Soviet superpower. The Western Europeans and the Japanese are currently exploiting both America's exhaustion, and American consumers' readiness to enjoy what they cannot afford. A country which produces only 26 percent of global GNP cannot indefinitely consume half of the world's manufacturing exports.

There are three main variables to Thurow's argument about the U.S. and he acknowledges each of them. The first is that, "As the U.S. will be the world's only military superpower in the 21st century, there is no other choice but to make it manager of the (international) system. If it refuses to manage, something that may well happen, there will simply be no manager." Since in the New World Order, trading rules and geofinance will be as crucial as missiles were during the cold war, the U.S. will retain the right of veto over a well-managed international economic system. This brings us to Thurow's second variable, "By refusing to cooperate, America has the power to blow up the world's 21st century economic system."

The third variable is Thurow's not-so-hidden agenda in this book—that America has the capacity to reform its education and job-training structures, to reward its investors and modernize its finance system to fit its economy for future competition. The real problem for Thurow is he suspects that the political will that the U.S. cannot now mobilize to reform its failing economic and social structures, can far more easily be mobilized to block imports and hurt its rivals. Above all, America can threaten to close down its borders to foreign trade, "Americans are no longer in a position to force the rest of the world to play the economic game by its rules, but Americans can play the game by their rules. If they want to play hardball, we'll play hardball."

Thurow would clearly prefer the U.S. to reform itself within, rather than seek to solve its problems by blocking trade overseas. The U.S. has a powerful interest in maintaining the free trading structure. As Thurow notes, if the sales of offshore production facilities owned by Americans were counted as exports, the 1986 U.S. trade deficit of $143 billion would have become an American trade surplus of $57 billion.

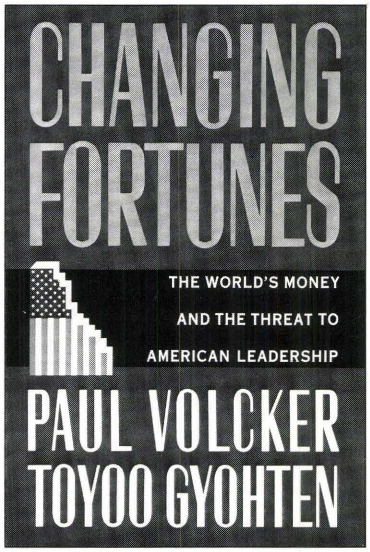
The answer lies in the confused state of American politics, or in Thurow's words, "the test to see whether the American system is run by an Establishment or an oligarchy." An Establishment takes the long view of the national interest, like the American generation of the late 1940's which enacted the Marshall Plan and built NATO and realized that U.S. prosperity and security was best secured by helping its allies become rich too. An oligarchy takes a short-term view to get rich quick, rather as the U.S. financial establishment did in the 1980's.

The problem is that the Europeans are facing a similar choice. And with demographics imposing an ever-aging population, and global communications exposing their young to a less puritanical view of work and duty, Japan too may not indefinitely be able to sustain the rigorous self-discipline which the far-sighted Japanese establishment imposed over the last 47 years. Thurow does not say so, but the bad habits of the Americans may prove just as catching as the virtuous ways of the Japanese and some of the Europeans. If the Uruguay Round of the GATT trade talks breaks down finally and the growth in world trade stalls, then the yen and ecu-German mark blocs could adopt the same short-sighted oligarchic ways which have enfeebled America just as it celebrates its victory in the cold war.

—*Martin Walker*

Changing Fortunes
By Paul Volcker and Toyoo Gyohten. Times Books. 394 pages. $25.

I have never ceased to wonder, when confronted by a jointly authored book, exactly how the cooperation worked and who contributed what to the final product. The volume under review poses no such problem. *Changing Fortunes* is the end result of a series of lectures by the authors at their alma mater, Princeton, and its formula is to present, in alternating chapters, their views on a series of historical events and current issues in the field of international monetary policy.



Thus, it is clear what each contributed to this valuable book, even though the authors, one the former Chairman of the Federal Reserve and the other the former top monetary specialist of Japan's Finance Ministry, are in broad agreement on how policy has evolved since the post-war Bretton Woods agreement. Nevertheless, because of their contrasting intellectual, political, and cultural backgrounds, they are able to provide us with a somewhat unique dual perspective on how the world's money has been managed over the past four decades. One could also argue that mismanaged might be a more accurate description of how policy has been conducted, at least since the Bretton Woods system collapsed half-way through the period under review. And while monetary mavens like Volcker and Gyohten may have scant respect for some of the politicians who have passed through their hands over the years, it is clear that even they cannot foresee any *deus ex machina* that can overcome the economic and political strains that prevent a restoration of the relative calm of the 1950's and 1960's in the international money markets.

As Volcker states early on, "neither of us is at all satisfied with the current state of affairs but neither do we see much hope that some great economic and monetary conference, or a series of them, can set out a new framework for a great system as happened at the end of World War II." This is largely because such a system depends for its success on the existence of a single hegemonic power, a role which the United States was, until recently, able to fill and which allowed the system of fixed exchange rates to revolve around a strong and stable dollar.

In the absence of such a hegemony, the authors play with a number of ideas, such as the creation of a world central bank, building on the present IMF, or of a triumvirate consisting of the U.S., Japan, and Europe, whose currencies could float relative to one another, but in a managed way. Volcker believes that another form of management could result from the emergence of regional trading areas, like the European Community or NAFTA, which could provide a natural focus to stabilize exchange rates between like-minded countries. He is particularly enthusiastic about developments toward an E.C. economic and monetary union.

He points out that the E.C., contrary to the skepticism of most monetary gurus, has succeeded in operating a fixed exchange system for the past decade and a half, at a time when the wider world was being buffeted by violent fluctuations in interest and exchange rates. He notes that for the past three years there have been no changes at all in official currency values within the exchange rate mechanism of the European Monetary System.

He ascribes this achievement to the existence within the EMS of a dominant currency, the German mark, just as the dollar was the anchor of the Bretton Woods system. However, he warns that a basic disadvantage of such a system is that it is "heavily dependent on the policies, circumstances, and judgments of one country and one national central bank."

Now that German reunification has brought with it internal pressures on prices and wages, on the budget, and on interest rates, he points to the logic of E.C. member states wishing to move toward full economic and monetary union which would allow for collective responsibility for decisions which affect interest rates and monetary policy in general, as well as the whole economic direction of the Community. He clearly approves of the establishment of an E.C. central bank and a common currency, as well as of the disciplines on inflation levels, budget deficits, and interest rate levels which EMU would impose on participating countries.

The subtitle of this book is "The World's Money and the Threat to American Leadership." Volcker rightly opines that the U.S., as the dominant world power after World War II, and for decades thereafter, was the driving force behind international trade and investment liberalization. (One must quibble, however, with the assertion that the creation of the EEC was trade discriminatory, even if that was not the intent. While trade between the original six member states increased dramatically, the group as a whole also increased its trade with the rest of the world.) Now, he points out, the Germans, the Japanese, and several other countries have higher average incomes than the Americans, albeit at current exchange rates. Moreover, on recent trends of productivity and growth, he says that the Japanese economy will actually be larger than that of the U.S. in 20 or 30 years.

Volcker emphasizes that he does not want to exaggerate America's decline, and he has a somewhat endearing way of understating his concerns. For example: "It seems plain that the U.S. is not doing all it can to maintain the strength of its own economy," or "The size and persistence of our trade deficit and our chronically low savings rate certainly suggest that something is not right."

While he is adamant that he does not believe the U.S. economy is in inexorable decline, he nevertheless warns that the country has turned "querulous and inward" and is "psychologically on edge." Such trends, if unchecked, could have worrying implications for the very international system which the U.S. was largely instrumental in creating in the post-war period and which, whatever its currently exposed shortcomings, is the only one we have.

Just how imperfect that system is at present is illustrated by Gyohten, who relates the substance of a conversation he had with a leading Japanese foreign exchange dealer whom he asked what factors influenced his decisions to buy and sell. His reply—"Many factors, sometimes very short-term and some medium and some long-term,"—led Gyohten to inquire what he meant by long-term. "Probably 10 minutes," he replied, in all seriousness.

Volcker also provides us with an amusing and illustrative anecdote. At the height of the first oil crisis in 1974, George Schultz, then Secretary of the Treasury, had an audience with Pope Paul VI. The Pope told him that, in arranging for a warm winter, God had managed a more constructive response to the oil crisis than all the finance ministers and central bankers, who had that same week assembled in Rome to deliberate once again on how to handle the problem.

While the book is primarily for monetary specialists, (I hasten to add that I do not count myself among them) it is lucidly, even entertainingly written and includes a handy glossary of terms, as well as a chronology of the great events of monetary policy-making over almost half a century. The book is edited by Lawrence Malkin, chief U.S. correspondent for the *International Herald Tribune*, who has closely followed the same events for much of that period.

— Peter Doyle

SPORTS

E.C. Olympic Medal Count

Country	Gold	Silver	Bronze	Total
Germany	33	21	28	82
France	8	5	16	29
Spain	13	7	2	22
United Kingdom	5	3	12	20
Italy	6	5	8	19
Netherlands	2	6	7	15
Denmark	1	1	4	6
Belgium	0	1	2	3
Greece	2	0	0	2
Ireland	1	1	0	2
Luxembourg	0	0	0	0
Portugal	0	0	0	0
E.C. total	71	50	79	200
E.C. percentage of total medals				24.3%

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If you want a choice slice of Europe, where will you start looking?

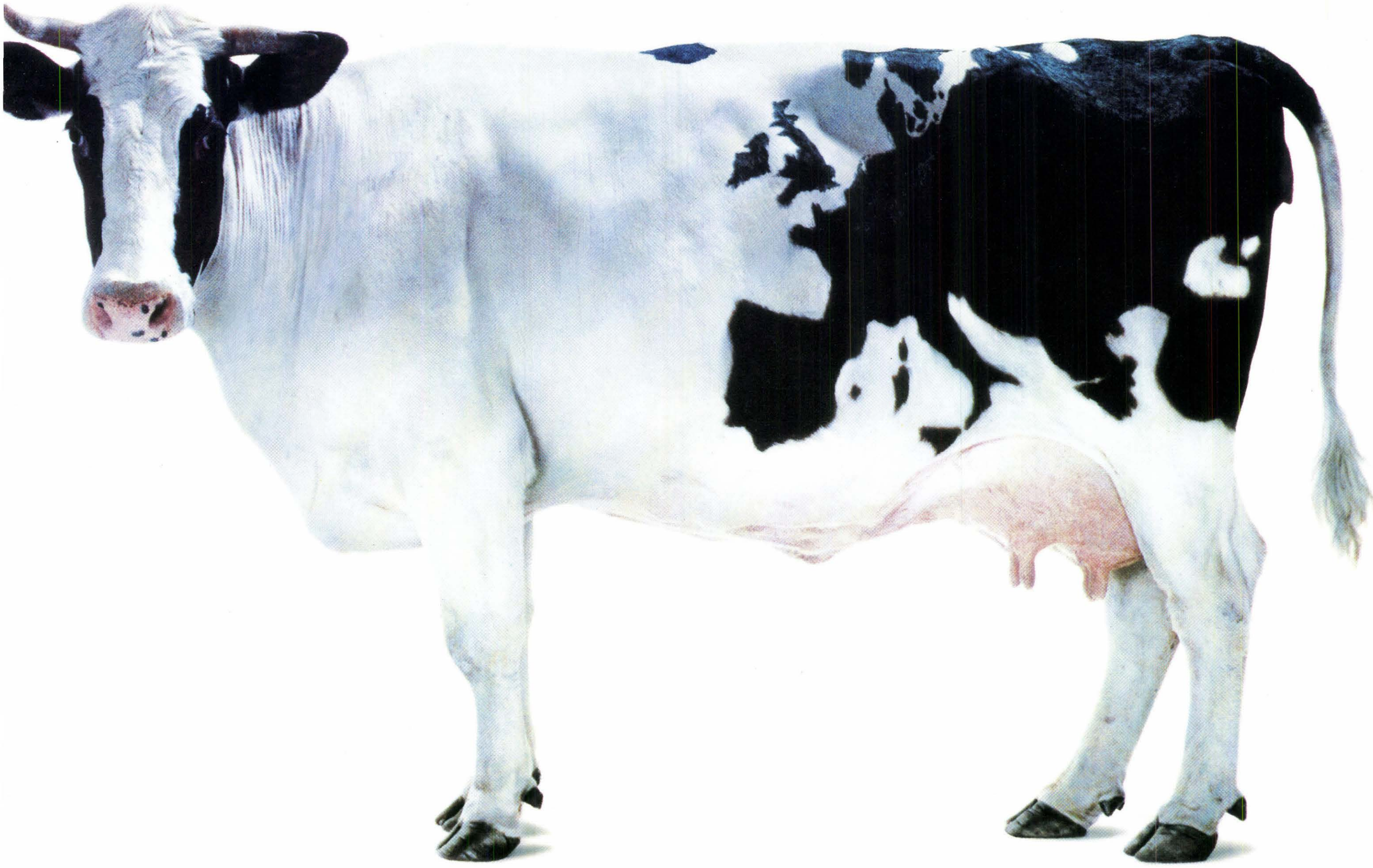
Do you wish to focus more on marketing or on manufacturing?

Do you lean towards acquisition or on building up your own organization? But perhaps the most important question is where to set up operations in Europe.

The EC's Single Market is about to become reality, and a treaty was recently signed with the EFTA countries establishing the European Economic Area (EEA) that will unite all of Western Europe – a unified market with 377 million consumers. Moreover, the new democracies of Central and Eastern Europe are busily attracting private investment.

Europe is in a state of flux. It is clearly the right time to establish a market foothold – to stake out your claim to a choice slice of the market. Many attractive official promotional programs have been set up to encourage foreign investment. There are also a number of local companies that might be attractive partners or potential acquisition targets.

The problem is to objectively assess all the opportunities in order to determine the best fit for your company.

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