EUROPEANS OF THE YEAR

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Russia's Future Business Leaders

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EU Retrains Red Army

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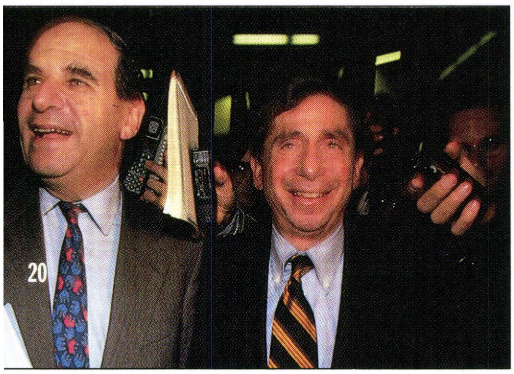

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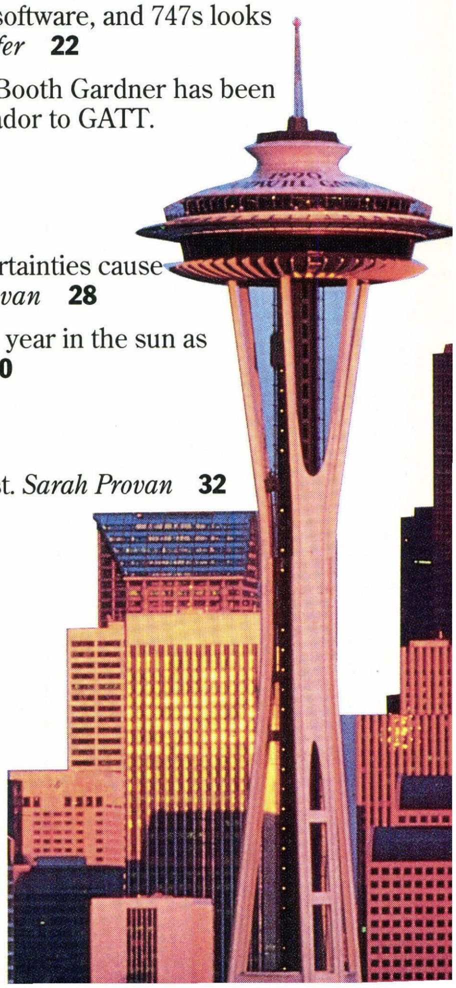

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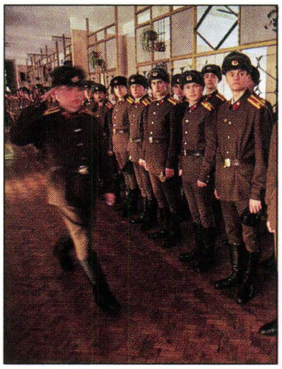
Letter from the Editor

Financing Russia and the other former Soviet republics on their road to a market economy is currently a key topic of conversation between the European Union, the United States, Japan, the IMF, and EBRD.

Russian President Boris Yeltsin and European Commission President Jacques Delors met in Brussels at the end of last year as the European Union became the first Western institution to sign a comprehensive and far-reaching trade cooperation agreement with Russia.



The EU's innovative TACIS program is helping to retrain many Russian soldiers.

While Martin Walker points out that trade, and not aid, is the ultimate goal in relations between the West and Russia and the other republics of the former Soviet Union, he also says that "almost two thirds of [the aid] has been provided by EU nations, and more than two thirds of that from Germany."

Our issue looks at the question of how best to finance Russia and the republics with articles discussing what has been done, what is being done, and what will be done in the future to assist these new nations' nascent market economies.

The EU has provided much of its assistance to Russia and the republics through their TACIS (Trade and Assistance to Commonwealth of Independent States) program. *EUROPE* takes a look at how one of these assistance and retraining programs is working as we discuss Olivetti Corporation's efforts to retrain Russian soldiers into other fields of work. The EU's Ambassador to Russia, Michael Emerson, analyzes the current economic and political climate in Russia today.

In our business section, Bruce Barnard looks ahead to what the successful GATT agreement means to American and European businesses. And while many people might think that the state of Washington only looks toward Asia for its trade, *EUROPE* says look again—Washington sees Europe as a key trading partner. From Microsoft and Boeing to smaller firms, Washington companies make a large percentage of their revenue from trading with Europe.

Portugal is featured in our Member Country Report. Sarah Provan, writing from Lisbon, reports on the recent Portuguese elections as well as economic problems facing Portugal today.

For those hoping to avoid the winter weather blanketing most of the United States and northern Europe, we provide travel tips to the beautiful Portuguese island of Madeira and the country's popular southern region, the Algarve.

In our newsletter, *Inside Europe,* we analyze the accomplishments of President Bill Clinton's recent trip to Europe and look at "Business Briefs" across Europe.

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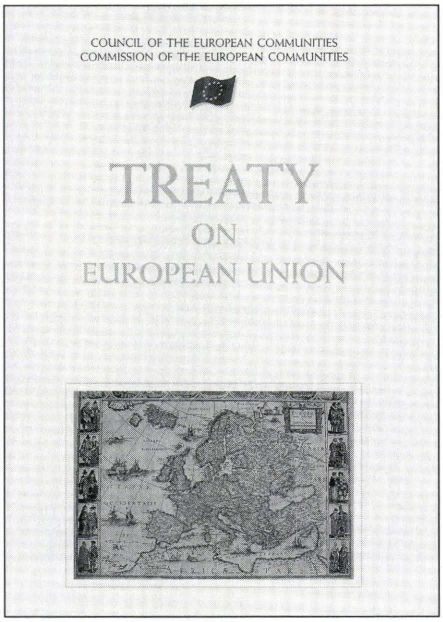
EYE ON THE EU

The Constitution of the United States may have been amended 26 times, but it is still a clear, concise, and authoritative document, which can be consulted and understood by any reasonably intelligent member of the public. The same, alas, cannot be said of the constitution of the European Union.



Constitution, what constitution? No document by that name actually exists, but in practice it is the Treaty of Rome, all 248 articles of it together with well over 100 pages of conventions, protocols, and declarations, and subsequently heavily amended by the Single European Act of 1986 and the Treaty on European Union (Maastricht Treaty) of 1991. Only a trained lawyer can find his way around these documents with any assurance.

So it was an excellent idea of the London-based think tank, the European Policy Forum (EPF), to propose that a draft constitution in simple, non-legal language should be drawn up for consideration by the intergovernmental conference (IGC) which will review the working of the Maastricht Treaty in 1996. Last year the forum recruited a group largely made up of lawyers and economists to produce an actual draft which could be considered by the IGC.

Known as the European Constitutional Group, it has 13 members from eight different countries, including three from the non-member states of Switzerland, Austria, and Sweden. Nearly all of them are attached to universities or research institutes, and it is notable that none of them appears to have any significant political experience. The same is true of the larger group of 63 scholars assembled at a conference in Bad Homburg last September to review progress on the draft.

A report from the group, incorporating the proposed constitutional text, was published by the EPF in December and was launched at a press conference and luncheon in Brussels. The main draughtsman of the text was a Scottish advocate, Michael Upton. While not perhaps quite rivaling the clarity and concision of the delegates to the Constitutional Convention of 1787, he has succeeded in producing a workmanlike script which is readily understandable.

So far so good, but the actual content of the proposed constitution is a great deal less satisfactory. While it does contain a number of useful innovations, such as giving the European Parliament an upper house made up of national parliamentarians, which could improve the democratic scrutiny and the public acceptance of EU legislation, the main thrust of the document is hostile to the features which have contributed most to the success of the European Union in the past. That is to say, the definition of objectives at a European level, step-by-step progress to achieve these objectives, and the recognition that the pooling of national sovereignty enables the people of Europe collectively to achieve results which would be beyond the possibilities of any single member state.

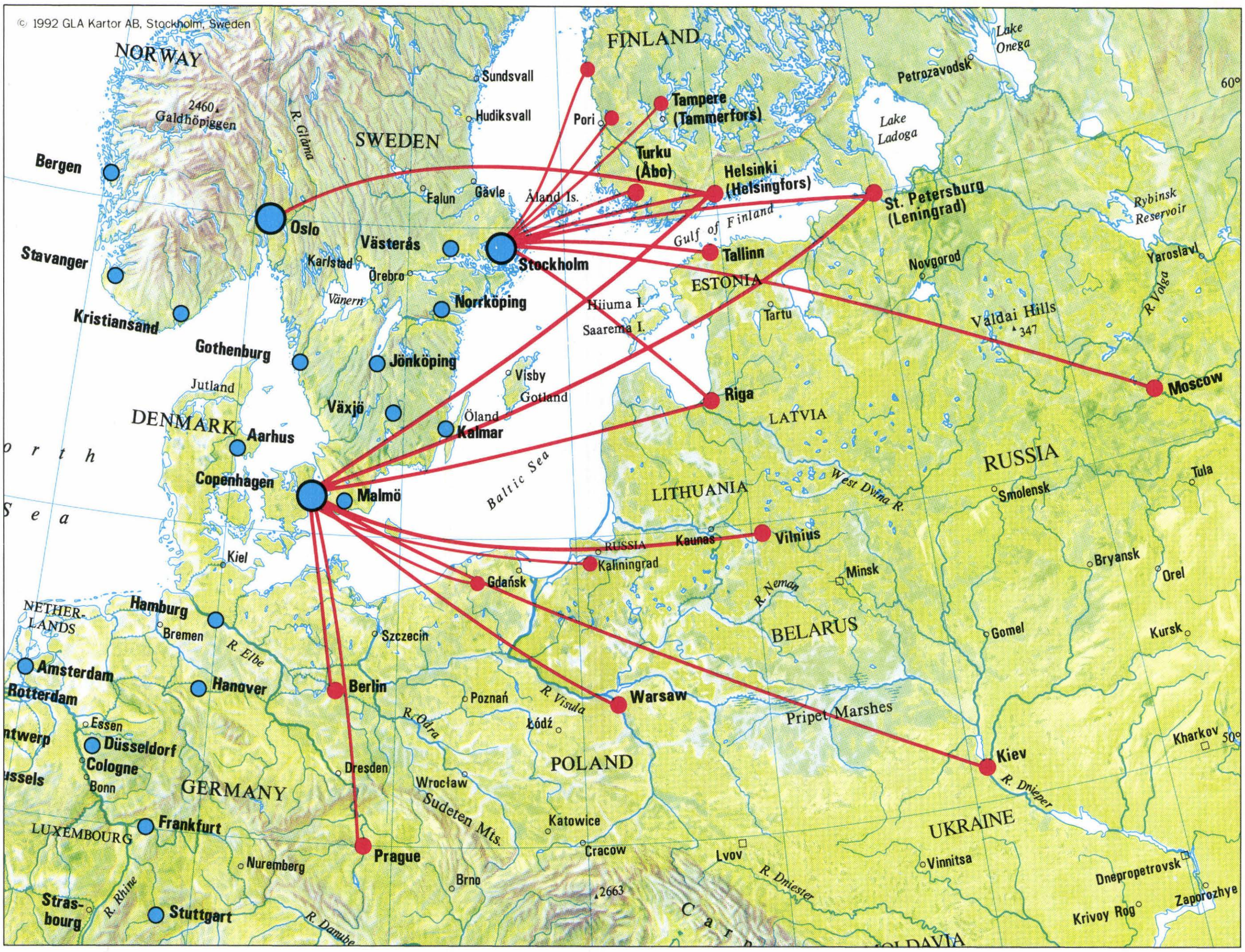
To put it at its crudest, the objective of the draft seems to be to provide a Gaullist or Thatcherite blueprint for the future development of the Union. The emphasis is very much on intergovernmental rather than a *communautaire* approach, and the authors seem to view the EU as little more than a glorified single market and customs union. Social affairs would be ruled out altogether as a suitable area for EU action as would taxation, health, and education, including vocational training. Subsidiarity, which was rightly written into the Maastricht Treaty, is elevated to such a degree that very little scope is left for action at a European level.

Specific clauses of the constitution seek to downgrade the two institutions which have contributed most to the EU's past development—the Commission and the Court of Justice. The Commission would be stripped of its unique power to initiate legislation and would be largely reduced to an administrative role, a mere creature of the Council of Ministers. The Court of Justice would lose much of its jurisdiction to a new Union Court of Review, staffed by the part-time services of justices serving in each member state.

The authors totally fail to make a convincing case for splitting up the court in this way. The main criticism which can be made against the present court is the lengthening list of cases waiting to be heard. The way to tackle this is to appoint a larger number of judges and advocates-general, not to substitute a rival body with less of a European vocation.

In short, the proper response to this initiative by the European Policy Forum should be: thank you for starting off a useful debate about the purpose of the 1996 review conference. But, no thank you, we won't be acting on most of your suggestions.

—Dick Leonard



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FINANCING RUSSIA'S Future

Since the fall of the Berlin Wall late in 1989, successive G7 and EU summits have always had the issue of financial aid to the Moscow reformers high on their agenda. Mikhail Gorbachev has come and gone, and the Soviet Union has gone with him, and the European Community has become the European Union and President George Bush has been replaced by Bill Clinton, but the issue endures.

The EU is West's Leading Provider

By Martin Walker

The underlying argument has not changed. The main economic actors of the West, in Europe, the US, and Japan, all agree that a peaceful and orderly transition from the old centrally planned Soviet economy to democratic free market republics is one of the highest of the West's strategic priorities. But how much, targeted where, and from whom, remain questions as muddled and divisive now as they were when Mikhail Gorbachev was still General Secretary of the Communist Party of the Soviet Union.

Since 1989, the USSR and its successor, the Commonwealth of Independent States, have received a grand total of $94.4 billion in aid from the West. Almost two thirds of this ($60.5 billion) has been provided by EU nations, and more than two thirds of that from Germany—a fact which Germany and the EU point to with pride whenever the question of more money is raised. The US, by contrast, has provided just under $12 billion.

At the Vancouver Summit with Russian President Boris Yeltsin in April 1993, President Clinton said he was "proud to announce" that the US would provide an extra $1.6 billion for the fiscal year that ended in October 1993 and a further $2.5 billion for the fiscal year ending in October 1994. As of January 1994, only two thirds of the 1992-93 money had been disbursed and less than $500 million, or 20 percent, of the 1993-94 money. Of the $2.5 billion Mr. Clinton promised, Congress has so far authorized only $1.6 billion.

There is so much confusion about the sums available that protracted inquiries among US and European officials, the World Bank, the International Monetary Fund, and the Organization for Economic Cooperation and Development have been unable to produce any definitive figures about how much actual aid and credit has been delivered and from whom.

The best current estimate at the World Bank is that since December 31, 1991 a total of $43 billion has been committed by the G7 countries. This excludes the German aid for Soviet troop withdrawals but includes the $28 billion promised at the Tokyo G7 Summit in July 1993. Of this, only $10 billion has been firmly and legally authorized by the parliaments and governments of the donor countries. And of this, the World Bank can track only $7.8 billion that has in fact been disbursed.

The International Monetary Fund was expected to provide $13 billion for currency stabilization, for conversion of industrial plants from defense to civilian production, for sectoral investment, and for a social safety net. But the IMF condition that Russia reduce its inflation rate to 10 percent a month by the autumn of 1993 and to 2 percent a month by the end of 1994 has never been met. In January 1994, Russian inflation was still running at 18 percent a month. Accordingly, the IMF has only paid out $1 billion in 1992 and another $1.5 billion in 1993 and has been cast—not altogether fairly—as the harsh and miserly banker by the Russian government and Western critics alike.

The problem is the way politics, both internally within Russia, and in a Western alliance where NATO is grappling with strategic questions about how far and how fast to expand, have inevitably got in the way of economics. The domestic political risks and social costs involved in Russia's economic reforms became plain with the bloody clash with the Russian Parliament last September and the striking 22 percent vote for the extreme nationalist Vladimir Zhirinovsky in the new parliamentary elections.

The Clinton administration, which believes that the political stability of President Yeltsin's government is the essential precondition for democratization and economic reform, reacted to Zhirinovsky's impressive electoral showing by calling for "more therapy, less shock" in the West's role in the process of Russian transition to a free market system. On the eve of his trip to Brussels and Moscow in January, President Clinton modified that initial reaction and stressed that his real objective was "more reform, and more therapy...there is no more crucial issue on the world's agenda than the success of the new Russian revolution, to build a stable free-market democracy."

Under the new political declaration of partnership, the Russian and European Commission Presidents will meet twice a year.

The pressure for a more lenient approach to Russian reform, from President Clinton, Vice-President Al Gore, and Mr. Clinton's main adviser on Russian affairs, Deputy Secretary of State (designate) Strobe Talbott, had faced an internal argument within the US cabinet, where Treasury Secretary Lloyd Bentsen opposed slackening of the West's credit terms. "You need some conditionality on the assistance in the loans to keep the pressure on the Russian reformers," Bentsen said in December. "I don't believe that when you have 10 to 20 percent inflation a month, that means you have excessive reform."

Mr. Bentsen has the support of the European allies, including Germany's Helmut Kohl and the United Kingdom's John Major, and of the major international institutions like the World Bank and IMF who argue that the problem is less with the aid than the contradictory and confused policies of the Russian government. Without the support of the Russian central bank to stop inflation and new Russian laws to promote and protect free enterprise, say the World Bank and IMF, Western aid has only limited effect.

"The problem wasn't that reform was too hazy, but that reforms were sabotaged," concludes Ernesto Hernandez-Cata, the IMF's chief negotiator on Russia. "I will display flexibility provided that there are visible signs in the right direction."

For the IMF, the bottom line of its policy toward Russia remains that expressed by Director General Michel Camdessus, before the Tokyo G7 meeting: "Without a plan of action that is sufficiently vigorous to lead the economy toward stabilization and to advance the reform effort, any external financial assistance other than humanitarian aid, technical assistance, or assistance aimed at certain types of investment financed over the very long term would simply be a sheer loss."

The real difficulty raised by President Clinton's call for "more therapy, less shock" was its implication that the West's consensus on the need and the mechanisms and the strategy to help Russia was breaking down. That consensus may have had its flaws, but at least it rallied the West and its financial institutions to promise aid and work together with a common purpose. The useful feature of President Clinton's re-assessment was that it forced the other G7 countries, the EU, the World Bank, and the IMF to rethink the effect of their support so far.

Two questions remain. Where did all that money go? A lot of it—and the World Bank says it is "aware" of estimates up to $10 billion a year—was briefly churned in Russia and then left the country for Swiss and other Western banks. But some went to finance the thriving import-export trade and the burgeoning class of Russian entrepreneurs, and this leads to the next question: Is a new consensus emerging?

For many years now, development economists looking at the massively varying growth rates of East Asia, Latin America, and Africa have suspected that trade, rather than aid, might be the best mechanism for helping poor countries get richer. Last December, Sir William Ryrie, one of the new advocates of this theory from his hugely successful years at the International Finance Corporation (IFC), the commercial arm of the World Bank, suggested in a retirement speech that "the development task now consists chiefly of helping poorer countries to make a market economy work successfully."

The most striking feature of the IFC's role in Russia was that it was not part of its character at all. Supposed to be purely a commercial operation, the IFC could not spend its own funds on privatizing Nizhni-Novgorod and so had to wheedle funds from the US Agency for International Development and individual EU countries .

President Clinton reviews Russian troops on his recent trip to Moscow.

That sort of fancy footwork and risk-taking and readiness to kick over the traditional rules of development theory is why Ryrie suggests that the IFC is "a prototype of a new development role." But given that the other successful Western aid to Russia has been in similar microeconomic ventures like the UK's Know-How Fund and the EU's TACIS (Technical Assistance to Commonwealth of Independent States) program, where does that leave the traditional institutions like the World Bank and the old consensus of big sums of aid and support to governments?

TACIS itself is big enough, spending almost $1 billion between 1989 and the start of 1993 and committing another $550 million this year. Based on the EU's 1989 PHARE program to help Eastern Europe, TACIS funds European technical assistance to all the former USSR countries. Between them PHARE and TACIS account for just over 70 percent of all the West's technical support for the former Warsaw Pact nations. Sometimes criticized in Russia for spending too much on Western consultants and taking too long to get the support to Russians on the ground, TACIS is playing an increasingly useful role by helping to train banks and individual companies in computerization, running basic management courses for business executives and civil servants. If privatization works, then the EU's TACIS program can claim a lot of the credit simply because somebody had to teach elementary cost accounting to Russian entrepreneurs.

If the private, rather than the public sector, and trade, rather than aid, is the way to help Russia, then once again the figures suggest that the Europeans are playing the lead role, thanks in part to Europe's traditional imports of Russian energy and natural gas. European Union countries imported $9.75 billion from Russia in 1992, or 20 times more than the US imports. And while the CIS states had a joint $2.9 billion trade deficit with the US, they enjoyed a trade surplus of $4.7 billion (an increase of over 60 percent in four years) with the European Union.

The political difficulty is that this is an argument where everyone is right. The US administration is right to say that the social pain Russia has suffered so far is a dangerous political burden for President Yeltsin and the reformers. The IMF is right to say that Russia has yet to help itself by controlling its money supply and setting up the free market laws and conditions which would allow Western aid to work. And both trade and aid will be needed: trade to revitalize the Russian economy from the bottom; and aid to provide the Russian government with the means and liquidity to continue reform from the top.

Martin Walker, previously a correspondent in Moscow, is the Washington bureau chief for The Guardian.

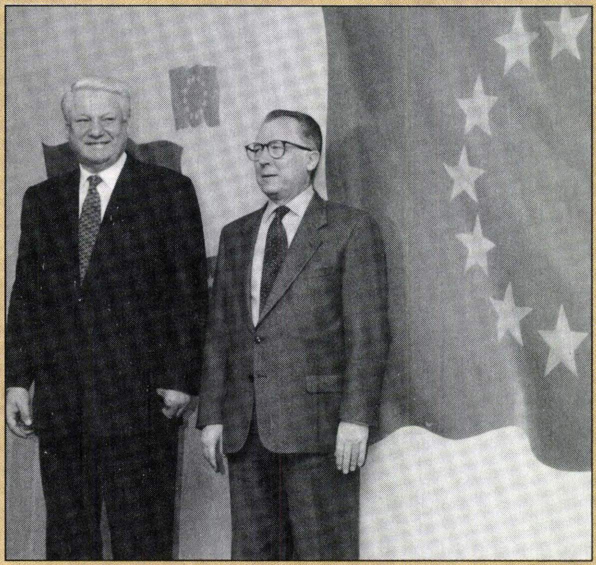
EU-Russia Sign New Trade Agreement

TRADE

The Key to Russia's Future

The debate over aid for Russia has always assumed that financial support will be temporary and that the eventual health of the economies of all the former Soviet republics will depend on their successful integration into the global economic system. In short, their future depends on trade.

In December 1993, the European Union became the first Western institution to sign a comprehensive and far-reaching trade cooperation agreement with Russia. Building on the original 1989 trade agreement with the former Soviet Union, where 83 percent of EU imports from Russia have entered duty-free, the new agreement aims to free the trade even further, and pledges the EU to promote full Russian membership in the GATT world trade agreement.



The trade agreement was part of a broader political declaration of partnership, under which the Russian and European Commission Presidents will meet formally twice a year, and establishes an institutional system of consultation modeled on the declaration signed between the US and the EU in 1990. They agreed on a stage-by-stage implementation of a freer movement of goods, services, and capital and to discuss the eventual creation of an EU-Russian free trade zone. The joint declaration committed Brussels and Moscow to establish a common code for foreign investment, free movement of investment capital, and "social guarantees for workers in each other's territories."

But the process of freeing the trade has until recently taken place against a background of declining trade figures. Russian exports collapsed from $81 billion in 1990 to $56.5 billion in 1991, and although the full figures for 1992 and 1993 have not been collated (and for 1992 are very unreliable), they fell even further, probably to around $40 billion in 1992. Russian imports also slumped from $83 billion to $44.7 billion between 1990 and 1991.

What trade Russia enjoyed with the West (and the bulk of Russian trade is still with other former Soviet republics) is dominated by the European Union. EU exports to Russia are five times higher than those of the US, and the EU imports 20 times more from Russia than the US. And what new growth Russian trade has begun to enjoy has been with the EU.

By the last quarter of 1992 and the first quarter of 1993 (the latest official figures available), imports from Russia more than doubled to an average $3.5 billion a quarter, while exports showed a similar jump to around $2.5 billion a quarter, reflecting the then European Community's expanded trade credits. Since 1992, the EU has provided a total of $44.5 billion in export credits and loan guarantees to Russia, or 66 percent of the total for the G7 countries. (The US, by contrast, has provided $6.8 billion, or around 10 percent of the G7 total.)

It is interesting to note that in pre-1917 Russia, trade patterns showed Siberian butter dominating the British market while at the same time Russia was a major wheat exporter. With the new GATT agreement and the trade agreements, perhaps more trade figures like these will re-appear by the end of the decade for Russia.

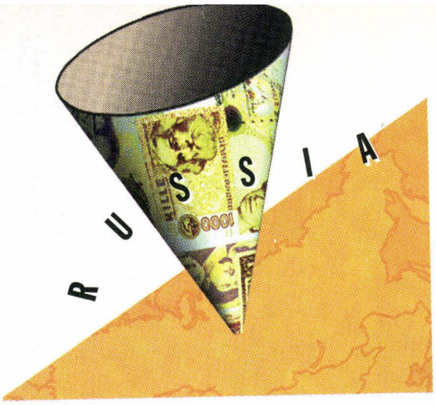
Although most international comment on the Russian economy has focused on the disasters, with inflation approaching 1,000 percent a year and industrial output slumping by one third in the last 30 months, there is considerable good news. The CIA's latest published economic survey reckons that the private sector, which employed 15 percent of the work force in 1991, now employs 42 percent of Russian workers and accounts for about 40 percent of GDP.

And although overall trade has declined, the shift from endemic trade deficits to what looks to be a trade surplus of $20 billion for the whole of 1993, has started to give the Russian government some room for maneuver. From less than $1 billion in late 1992, official foreign reserves are now $7 billion, which suggests that Western donors offering stabilization funds for the Russian currency should be able to count on some local help.

A feeble and patchy recovery may be getting under way, although some of its signs suggest deepening divisions between rich and poor. Russian car ownership, for example, has risen from 45 per 1,000 in 1990 to 63 per thousand by the end of 1993. Retail sales, adjusted for inflation, rose by 4 percent in the course of 1993, and the exchange rate against the dollar has begun to stabilize, dropping only 10 percent in the last six months. It had dropped by 90 percent in the previous 12 months.

Given the reluctance of some of the G7 donors and many international institutions to fulfill their promises when Russian economic management has been so disappointing, these signs of progress probably have more to do with trade than with aid. And that, after all, has been the whole point of Western financial strategy all along, to make Russia a viable partner in the global economy, rather than a permanent pensioner.

—Martin Walker



EU's TACIS Program RETRAINING THE RED ARMY

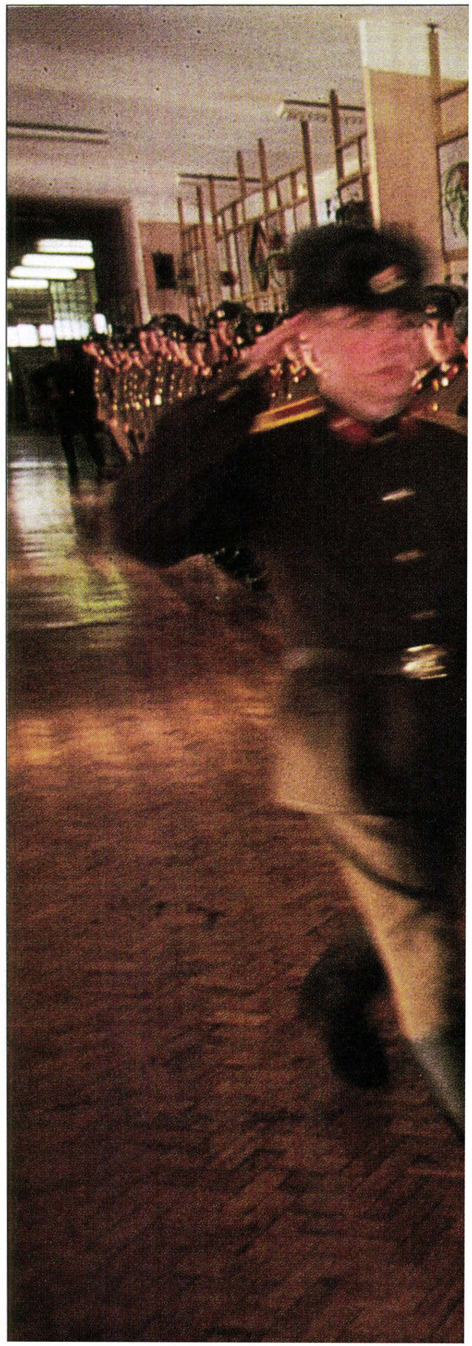
War games to business plans. That's the heart of an innovative project sponsored by the European Union which aims to transform 16,000 officers of the former Soviet "Red" Army into business executives.

Altogether, some two hundred thousand officers of what has been one of the world's largest and most professional armies are to be demobilized within the next two years as peace continues to break out between East and West.

These former military officers represent important human capital. A carefully selected and carefully prepared elite, their talents could provide the backbone of a new managerial infrastructure in the Commonwealth of Independent States.

Italian computer manufacturer Olivetti, through its training subsidiary ELEA, has won an important contract under the EU's TACIS program (Technical Assistance to the Commonwealth of Independent States) to requalify the officers to manage commercial and industrial companies in their country.

B Y J A M E S H A N S E N



Olivetti, as project leader, will be assisted by training subsidiaries of Italy's Fiat (ISVOR) and France's Thomson (SODETEG) as well as the German consulting group GOPA. The training contract, worth about $15.8 million, is said to be one of the largest of its kind ever assigned.

In its first phase, the project calls for the preparation of a teaching corps, some 400 strong, who will materially retrain the former officers. These teachers, for the most part Russian nationals, will receive training both in Western Europe and at ARC, the All Russian Training Center now being established in Moscow.

About half of them will undergo supplementary specialization in disciplines central to modern management like marketing, quality control, and cost accounting.

These teachers will then be dispersed to 15 regional training centers to be set up all across the Russian Federation. Most of the centers will be established within existing institutes of higher learning, though they will operate independently of them. Since regional economies vary widely within the CIS, the centers will have a high degree of autonomy in designing coursework adapted to local circumstances.

The students themselves will be selected by Russia's State Office of Higher Education working from lists provided by the Russian Ministry of Defense.

Candidates are mid-ranking officers, ranking for the most part between the grades of Captain and Colonel. All have a university background, commonly in technical disciplines like engineering, and have successfully completed English language training while under arms. The officers are expected to be selected from troops returning to Russia after service outside its borders.

The last students are expected to leave the centers three years after the project's formal starting date, which is to say, within January 1997. It is likely the centers will survive their initial role, with a new mission of providing management consulting to both former students and to the

Russia's military officers represent important human capital.

rest of the growing Russian private economy.

As time goes on it becomes increasingly clear that the cold war was in many respects a "real" war and not merely a headline writer's simplification.

Other past conflicts have created problems linked to the demobilization of troops similar to those the former Soviet Union is now facing. Planners designing the unimaginatively named "Russian Federation Officers Retraining Program" took a look at some of these past cases, particularly the American use of the "GI Bill" at the end of World War II.

"Unfortunately, we found that none of these experiences are really applicable" notes Olivetti's Carlo Ronca. "They were primarily intended to get returning soldiers back into the culture they had left to go off to war. In this case, we're going to try to bring these officers into a culture which has not so far been part of their experience."

Ronca though, who is responsible for the project within Olivetti, thinks former military officers may turn out to be particularly well suited to industrial and commercial management. "Aside from the obvious utility of experience in leading men, the ability to manage planned risk and even to handle stress are bound to come in useful in their future careers."

Though many observers comment that a shortage of trained managers is an obstacle to economic development in the Russian Federation, Friedrich Mahlke, Deputy Managing Director of GOPA, believes some distinctions need to be made. "The Russians already manage some huge companies," he says. "The managerial potential is there, but it needs to be refocused."

Lenin claimed that capitalism "inevitably" caused war. It would be interesting to discover in this case that war, or at least the preparation for it, can cause capitalism.

Fiat/ISVOR's Fabrizio Formia agrees. "The organization is in place. Fiat's seen that in its work with the giant Kamaz truck factory—you can't produce 120,000 vehicles a year without organization. But cost control, the use of accounting principles like amortization, customer service—these things are nonexistent."

"Part of the problem," according to Carlo Ronca, "is that when the Soviets were casting around for a model for industrialization in the 1920s, they had before them the American experience of the early 1900s based on huge, monolithic industries that did everything in-house. They have no experience of networks of collaborating companies that characterize economic life in the West today."

The mechanism of residential study at the 15 regional training centers combined with group work projects is expected to help forge the retrained Russian officers into a network which will continue to communicate even after it has left the retraining course. The common military background as well should help these officers maintain personal and work relationships in the course of their new careers.

Straightforward theoretical preparation, however well done, is not enough. One important feature of the retraining project is that it also takes into consideration the problem of outplacement. Each of the regional centers will be staffed by placement experts whose mission will be to move the former officers into productive jobs where their newly acquired experience can rapidly be put to work.

"We expect to have very little difficulty placing these people," comments Ronca. "They are highly trained, reliable, with good language skills. There is a huge demand for these talents in the Russian Federation. They will help Russia build the wealth all of its citizens expect from the move to a Western-style economy."

Lenin claimed that capitalism "inevitably" caused war. It would be interesting to discover in this case that war, or at least the preparation for it, can cause capitalism. ⓔ

James Hansen is a journalist based in Italy.

GUM

Moscow's Department Store Gets A Stunning Transformation

Formerly dubbed "Gloom" by foreigners accustomed to browsing in modern glass-and-brass outfitted shopping centers, the landmark Russian GUM department store (pronounced "goom") has undergone a stunning transformation in recent years.

The massive facility, situated on the northeast side of Red Square, opposite the Kremlin and Lenin's tomb, previously housed hundreds of colorless Russian-run stalls, which marketed products such as inexpensive clothing and footwear and nesting Matryoshka dolls.

But upscale European and American boutiques—from Arrow Shirtmakers to Christian Dior—are rapidly replacing the hundreds of nearly-identical Russian shops, and the exclusive shops filled with high-priced luxury goods, are remarkably, attracting Russian shoppers in droves.

While the Russian stalls, which carry shirts priced at about 5,000 rubles, or $4, are noticeably empty, foreign retailers such as the French Galeries Lafayette are brimming with shoppers, battling to purchase $50 shirts.

And few of the consumers are expatriates, whose salaries remain many times higher than Russian counterparts. On any Saturday or Sunday, more than 100 Russians—long starved of consumer goods under the Soviet regime—line up to enter the Italian clothing maker Benetton and the German department store Karstadt.

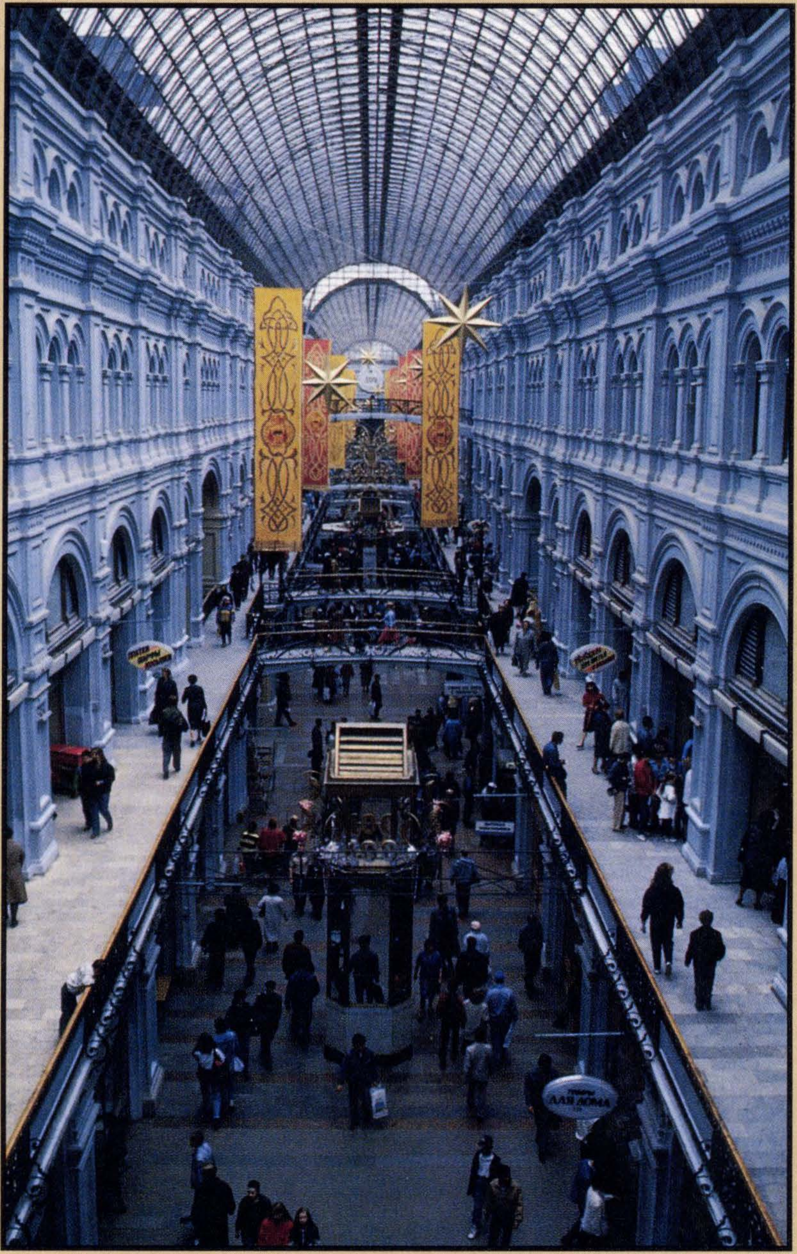
The Danish toy maker Lego and the Canadian toiletries vendor SoapBerry are also extraordinarily popular with local shoppers, many of whom even venture into the super-exclusive German Escada boutique, where a woman's sweater can set a customer back nearly $865.

While the most popular Western establishments are located on the ground floor of the three-tiered GUM building, shoppers have begun to venture to the previously off-limits top floors of the structure to visit the Botany 500 men's apparel vendor, the Samsonite luggage store and the exclusive French Claude Litz boutique. During the Soviet era, only the Communist Party elite were permitted to enter the top floors, where the chosen few were reportedly treated to Western goods at cut-rate prices, Russians say.

Until early 1994, the bulk of the Western shops accepted only hard currency—usually dollars or D-marks—for payment, rather than recalibrating prices on a daily basis, in a nation where prices rose by nearly 1,000 percent last year.

However, the Russian Central Bank, in an effort to de-emphasize the dollar in an economy where the US currency was used nearly as often as the ruble, banned the use of hard currency as of January 1. Most stores are continuing to price goods in dollars (or in some cases D-marks) but will convert the cost of purchases into rubles at the cash register—albeit at an inflated rate.

But even with the new price rise caused by the shops' imposition of unreal exchange rates, Russian shoppers have continued to flock to the GUM's Western vendors.



Moscow shoppers have begun to venture to the previously off-limits top floors of GUM to visit exclusive shops.

Laurie Laird is a journalist in Moscow.

Michael Emerson, Head of the EU's Delegation in Moscow and a keen observer of events in Russia and the former Soviet republics talked with *EUROPE* Editor-in-Chief Robert J. Guttman about ongoing EU assistance programs, European investment in Russia, the results of the recent elections, and Yeltsin's trip to Brussels.

EU Ambassador to Russia

Michael Emerson

Many people in the US feel that America has been leading the aid effort to Russia and the republics. Although the US has provided aid, the EU has been the largest provider of aid. Could you please explain the various EU aid and assistance programs currently in operation?

The EU started earlier than the US. In the period 1990 to 1992, the EU provided 73 percent of the total of 72 billion ecus [$81 billion] of grants and credits committed to the former USSR states. This total combines the contributions of the 12 member states and the EU's own operations. Germany, for example, got off to an early start in 1990 when it made very large commitments to help Soviet military return home [from East Germany], with housing and retraining programs. Italy has supplied large equipment credits. The UK built up its Know-How Fund for technical assistance. The EU's own contributions have mainly consisted of technical assistance and food grants and credits. Other initiatives becoming more important in 1993 were (a) the operations of the European Bank for Reconstruction and Development, which has 51 percent of its share capital held by the EU and also includes an important US participation; and (b) the debt rescheduling agreement of the so-called Paris Club (of official creditors), the burden of which was most heavily borne by EU creditors. Also in the last year, the old international financial institutions of Bretton Woods—IMF and IBRD—began to come on-stream in Russia and other states. Here the EU was very glad to see these institutions also shouldering a more substantial part of the financial burden of assistance.

Is the EU still providing food and do you have shops set up to distribute food to the Russians?

The EU has been gradually running down its food aid programs to Russia, since there is no longer a priority request for this. However, in the last two years we did execute some highly innovative and successful food aid operations. This included selling the supplies at specially organized auction sales and using the revenues to support social programs in the big cities. We brought in a small army (literally of military officers, as well as food distribution experts and accountants) to monitor this delivery system hands-on, and it worked, after a few Russian-style hiccups at the beginning, which allowed the ground rules to be understood.

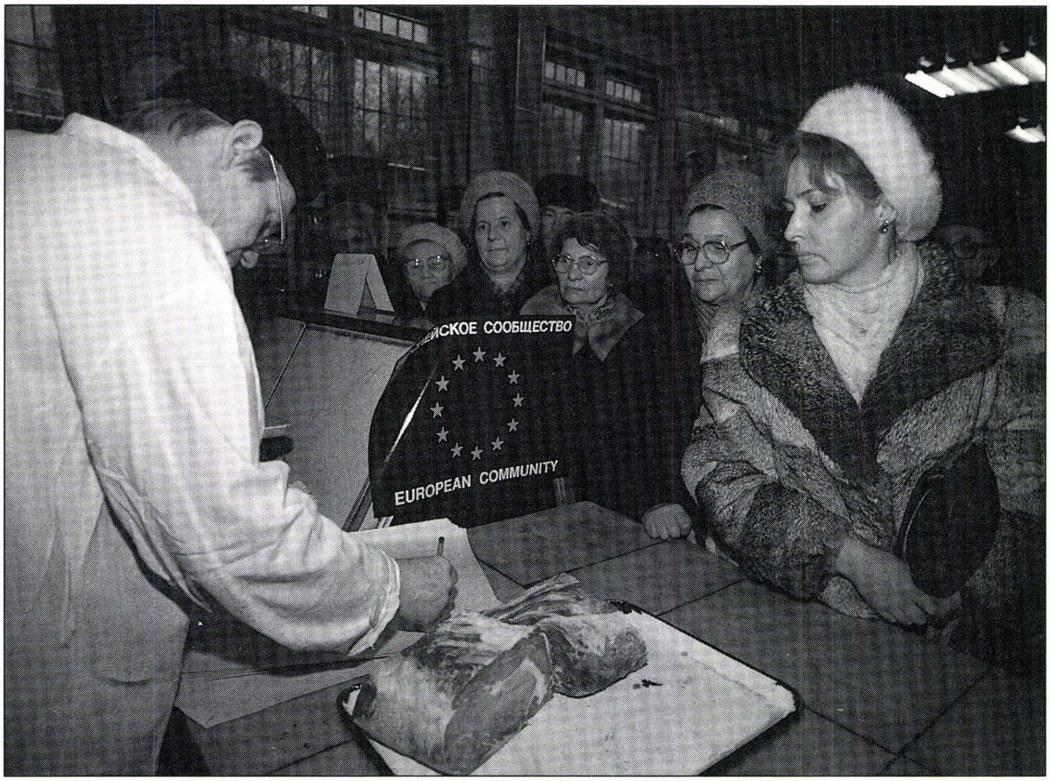
The EU continues humanitarian assistance to those states where the urgency is beyond doubt, as in the Caucasian States and Tadzhikistan.

President Yeltsin met with the EU leaders in Brussels. Can you explain the significance of that meeting and any new accords that may be in place between the EU and Russia?

The EU and Russia have been negotiating a major new Partnership and Cooperation Agreement intended to establish the political and legal basis to our relations for the rest of this decade. There were two summit meetings between the EU (President Jacques Delors of the European Commission and the Belgian President of the Council Jean-Luc Dehaene) and Russia (President Boris Yeltsin) at the end of 1993, in Moscow in November and in Brussels in December. The first summit meeting recognized that the new agreement was sufficiently close to finalization, that there was room for a "political declaration" to be signed in Brussels in the last days before the Russian elections of December 12. This declaration noted that the almost complete agreement would herald a new quality to our political and economic relationship. The system of foreign policy dialogue now established with regular summit meetings is in fact closely modeled on that set up in the Transatlantic Declaration between the US and the EU. On the economic side the agreement provides improved market access for goods and services, both with immediate effect (after signature and ratification, expected next year), and more ambitiously in a number of years if the objective of a free trade area is followed through.

How will the results of the recent elections affect Russian relations with the EU? Are the results as terrible as most commentators in the US are indicating? How strong is the extreme nationalist sentiment?

The EU must first see what the government consists of, what its policies are, and how it gets on with the new Parliament. The EU sees itself as a steady, long-term partner of Russia's, not one quickly inclined to blow hot and cold. Of course some of the statements of [Vladimir] Zhiri-



"The EU has been gradually running down its food aid programs to Russia, since there is no longer a priority request for this. However, in the last two years we did execute some highly innovative and successful food aid operations."

novsky, whose party got one quarter—not three quarters—of the vote, are contrary to fundamental values of the EU. I refer, for example, to prescriptions for dealing out summary justice to criminals in internal affairs and to nationalistic and neo-imperialist sentiments in international affairs. If ideas such as these become Russia's real policies, then of course the EU-Russia relationship would be very negatively affected. But that is only a devil's hypothesis today.

Many Russians interpret Zhirinovsky's strong showing as a protest vote against the real problems of daily life in today's Russia, including widespread economic hardship and rising criminality. But this is different to positive support for his apparent agenda of political action. From three years' living in Russia, I have a great respect for the solid common sense and good education of the majority of Russian people. These people will now have more opportunity to scrutinize the extremists' proposals in public and parliamentary debate. I feel that they will conclude, in their large majority, in favor of more conventional political agendas.

Russia is a country where most people crave for a normal, civilized existence, not political adventurism. But conditions are still rough; history has been rough; and progress is still going to continue to be rough. Some people extrapolate the Zhirinovsky vote to an imminent replay of Weimar Germany. I don't see Russian political behavior going that way. I would rather, by way of analogue, think of a big, powerful limousine with very loose steering heading dangerously fast down a very wide boulevard called "democracy" and "free market." This impressive automobile does bump off the crash barriers on the edge of the boulevard with somewhat alarming frequency, but it keeps going in the right direction.

If Russia would go back to a totalitarian system—either right or left—would the West be to blame?

No, not in my opinion. It is rather pretentious to think of the West being responsible for the political choices of such a vast and great country. Our economic assistance and openness to trade and investment can help. But it is not politically feasible to envisage the West being in the driving seat of the Russian limousine. The West cannot bribe Russia on some grandiose scale to make its fundamental choices this or that way. The West's contributions should be cooperative and patient. We can make the Western model more visible and easily accessible to Russia. But only Russia can choose.

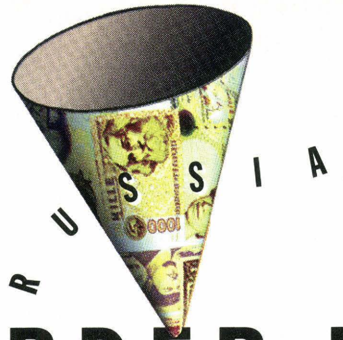
What is the status of European and US corporate investment in Russia? Is it increasing or decreasing or remaining the same?

The interest of potential Western investors in Russia is very strong, but so far actual investment has been slight because the business climate has not been propitious enough yet. Russian economic reformers have in fact made great strides in the last two years in liberalization of commerce, privatization, and the virtual convertibility of the ruble. But major problems remain: very high inflation, incompletely reformed or clarified property rights for investors, and monumental political uncertainties.

How would you describe the economic and political situation in Russia today?

Economically, alongside the terribly low current consumption levels of the population and gravely deteriorating economic infrastructure, we observe also promising early signs of economic renewal. For example, drive into the Russian countryside, and you observe a housing boom mushrooming in the forests and fields. Walk around the old tank, bomb, and missile factories, and today you will see a mail-order catalogue of civilian goods beginning to be produced. Walk down the street in Moscow or St. Petersburg, and you will encounter a new bank every hundred yards or so.

Politically, we see the paradox of monumental struggle on the political stage, but an audience which has lost interest in the drama. Maybe the last elections will have shocked some of the population out of its political apathy.



ORDER FROM CHAOS
WHO'S WHO
IN THE REPUBLICS

Most analyses of economic and political developments in the republics of the former Soviet Union are quickly rendered obsolete by the swiftness with which the region's central characters and defining circumstances change. Those on hand to witness the rapidly occurring events often perceive their significance differently. In the few years since the republics plunged into nationhood, young governments have been unseated, ethnic rivalries have exploded, political parties have proliferated, and economies have unraveled. Confronted with common obstacles, yet endowed with unique human and physical resources, the new nations of the former Soviet Union have pursued distinct and different strategies of political and economic reform. Restructuring and revitalizing the pieces of the former Soviet Union promises to be a protracted and uneven process.

BY GINA GIANZERO

Armenia. As in Azerbaijan, the conflict over the disputed territory of Nagorno-Karabakh has been a dominant feature of politics in Armenia. Compared to its Transcaucasian neighbors of Azerbaijan and Georgia, however, Armenia is the most politically stable. Presidential and legislative elections are scheduled for 1994. Armenia's recent incursions into Azerbaijani territory may have generated popular support at home, but international criticism has mounted as Armenia continues to defy UN resolutions calling for its withdrawal. Political problems have spilled into the economic arena in the form of Azerbaijani-imposed economic blockades against Armenia, which have slowed production. Economic reform in Armenia has nevertheless proceeded quite smoothly: the country's privatization program has been described as one of the most successful in the former Soviet Union.

Azerbaijan. Ethnic tensions, festering in Azerbaijan since before its independence, have dominated the Transcaucasian republic's political and economic landscape. As a result of an undeclared war with neighboring Armenia, Armenian troops presently control about one fifth of Azerbaijan's land mass, including the Nagorno-Karabakh Autonomous Region. Azerbaijani refugees, estimated to number more than a million, are streaming into neighboring Iran and other parts of Azerbaijan. Less intense ethnic rivalries are reported to be simmering in other parts of the country as well. Political violence and accompanying economic instability resulted in the overthrow of the government of President Elchibei in the spring of 1993 and the subsequent election of former Communist Party boss Heidar Aliev. Since assuming power, Aliev has looked to Russia to intervene in the conflict with Armenia. Some observers have even suggested that Aliev may try to buy

Russian support for Azerbaijan by entering into deals with Russia for the exploitation of Azerbaijani oilfields in the Caspian Sea. Western oil companies have expressed considerable interest in developing these same oilfields.

Belarus. Political and economic reform have been slow to take root in Belarus. The governmental structure is unchanged from Belarus' days as a Soviet republic, and a new constitution is still being finalized. The former Communist Party bureaucracy, in office since pre-independence days, remains the dominant political force in the country. Although early elections were called for the spring of 1994, observers have expressed concern about possible obstructions the pro-Communist Parliament may present. On the economic front, the key multilateral lending institutions have pushed Belarus to undertake more rapid stabilization and fundamental structural change. Much of the economy is still under state control and the country's Central Planning Agency is directed principally by old guard communists. Additionally, Belarus' reform program is hindered by the enormous budgetary burden associated with the Chernobyl nuclear reactor disaster and a strong dependence on imported oil and gas supplies. In its favor, Belarus possesses a diversified industrial base and is free of the ethnic tensions that plague many other former republics. It was recently reported that Belarus had signed an agreement with Russia in principle that would in practical terms incorporate Belarus back into the Russian economy.

Estonia. The smallest of the Baltic states, Estonia has aggressively pursued free-market reform since its independence in 1991. In June of 1992, Estonia was the first of the former Soviet republics to introduce its own currency, thereby freeing itself to pursue stabilization policies independently of

Russia. After a lengthy recession, economic prospects may be brightening for Estonia. Although it has moved slowly toward privatization, the young nation has made significant progress in building its banking system and diversifying its trading partners. As its ties with Scandinavia and other Western countries have improved, however, its relations with Russia have soured. Russia is enraged over Estonia's new citizenship laws, which it deems unfair to Estonia's sizable Russian minority. Estonia, in turn, seethes over Russia's delay in withdrawing its troops from Estonian territory.

Georgia. Pockets of nationalist rivalry foment throughout this Transcaucasian republic bordering the Black Sea. In South Ossetia, Abkhazia, and Ajaria, restless minorities clamor for either independence or self-rule. In some regions, Russian troops are reported to be supporting the minorities by supplying arms and intelligence. Economic indicators continue to reel as inflation soars and output plummets in response to political instability and frequent interruptions in the supply of raw materials and energy products. According to some sources, unemployment may run as high as 50 percent. Eduard Shevardnadze, who replaced nationalist leader Zviad Gamsakhurdia as president after the latter's overthrow in 1992, has been forced to shelve the pursuit of coherent economic reforms. Although Georgia's departure from the ruble zone afforded it greater sovereignty in economic decision-making, the country's violent ethnic crises have sent Shevardnadze running for Russian military support. According to some observers, the price for Russian assistance, Georgia's joining the Commonwealth of Independent States, ensures Georgia's future dependence on its patron.

Kazakhstan. Stretching from the Caspian Sea to the People's Republic of China, the vast nation of Kazakhstan, like many of the former Soviet republics, is plagued by falling output and climbing budget deficits, inflation, and unemployment. Unlike most other former republics, however, it boasts abundant unexploited oil, gas, and mineral resources, which are expected to provide the basis for sustainable economic growth. Agreements with Chevron to develop the Tengiz oilfield and with British Gas and Agip to develop the Karachaganak oilfield are expected to generate considerable income for the country. In the interest of maintaining the stability desired by foreign investors, Kazakhstan's President Nazarbaev has occasionally resorted to political repression of opponents. The country has yet to hold free and contested elections, and most of the current administration is composed of former communists. Legislative and local elections are scheduled for late 1994. President Nazarbaev's pursuit of stability at all costs has extended to his program of economic reform, which, although directed toward the development of a market economy, has been limited to avoid inciting great unrest.

Kyrgyzstan. Since Kyrgyzstan declared its independence in 1991, President Akayev has struggled to lead this landlocked country bordering China down a path of democratic and market-oriented reform. The path to reform has, however, been replete with hurdles. As with most other republics of the former Soviet Union, the economic costs of the union's dismantling in Kyrgyzstan have included precipitous drops in output, trade, and living standards. The cost has been particularly steep for Kyrgyzstan, whose economy was, historically, highly integrated with that of Russia. Kyrgyzstan imports most of its consumer goods, grains, and petroleum and gas products. As a result, many of the republic's economic policies since independence have necessarily developed in response to the economic vicissitudes in Russia. In an attempt to gain some control over its economic stabilization program, Kyrgyzstan left the ruble zone in the spring of 1993 and introduced its own currency. Unfortunately for President Akayev, however, the government's large deficit has undermined the new currency's value and elicited criticism from a vocal opposition. Ethnic tensions between Kyrgyzstan's sizable Russian minority and its Kyrgyz majority have further eroded Akayev's political support.

Latvia. Like other former Soviet republics, Latvia is still paying the dislocation costs of economic transition. In many respects, the pace of reform in Latvia has been slower than that of its Baltic neighbors. Specifically, its privatization program has been criticized as being overly decentralized and thus less effective. Additionally, government commitment to fiscal austerity has on occasion wavered, succumbing to public pressure for greater social benefits. Output continues to decline and unemployment, particularly among ethnic Russians, is on the rise. Since elections in July 1993, the country has been run by a center-right minority coalition. As in Estonia, ethnic Russians living in Latvia are unable to vote. One of the leading party's most controversial policies calls for stringent citizenship requirements, angering the country's ethnic Russians and possibly jeopardizing Latvia's hopes for a quick withdrawal of thousands of Russian troops from its soil.

Lithuania. Predictions vary as to whether or not the protracted recession in Lithuania has run its course. Its economy remains highly vulnerable to energy supplies from Russia and a nuclear reactor at Ignalina which is of questionable safety. Privatization targets for industry are still far from being reached, although substantial progress has been made in the agricultural sector. Last year saw the successful introduction of a new currency and the election of new President Brazauskas. Of the three Baltic states, Lithuania is the only one that has experienced the complete withdrawal of Russian troops from its territory. Tensions with Russia nevertheless persist over a number of issues, including Lithuanian demands for compensation for damage done by Soviet troops during their extended occupation.

Moldova. With the approach of Moldova's first post-independence parliamentary elections, scheduled for early 1994, Moldovans find themselves divided over a number of critical issues. Questions regarding the desirability of establishing closer economic ties with Russia (through Moldova's participation in the Commonwealth of Independent States) and the pace of economic reform dominate the political debate. A third issue, the possible political reunification of Moldova with Romania and the future of the separatist regions of Gaguaz and Trans-Dniester, has fueled heated discussion and scattered instances of violence. Separatists in both regions are reported to have established their own governments, and some have refused to participate in the upcoming national elections. Since the summer of 1992, fighting has stopped in the Trans-Dniester region, although Russian troops remain in this predominantly Russian-speaking region. On the economic front, Moldova still faces the dual challenges of stabilization and restructuring. The disruption of interstate trade, inter-enterprise debts, drought, and social tensions have combined to render economic reform a slow and tortuous process.

Tadzhikistan. The poorest of the republics of the former Soviet Union with a per capita GDP of slightly more than $1,200 in 1992, Tadzhikistan has confronted formidable economic and political challenges since independence. Its heavy dependence on imports of oil, gas, and food from the republics of the former Soviet Union has made it especially vulnerable to interruptions in the delivery of critical supplies and concomitant curtailment of industrial production. Meanwhile, natural disasters and political unrest have reduced agricultural output. This young nation has yet to experience substantial economic reform. Tensions between regional and clan-based factions run high in the predominantly Muslim nation. The communist government of interim President Rakhmonov, installed following civil war in the spring of 1992, relies on the support of troops from neighboring republics to stabilize its border with Afghanistan.

Turkmenistan. With some 8.1 trillion cubic meters of potential gas reserves and about 700 million tons of potential oil reserves, Turkmenistan represents a potential magnet for foreign investment. According to observers, President Niyazov's road to economic reform, however, includes a detour of sorts: such economically important sectors as gas, oil, minerals, and agriculture seem destined to remain under state control for at least the next several years. A high-level Communist Party official during the republic's pre-independence days, President Niyazov has demonstrated predictable reluctance to relinquish control over Turkmenistan's political development. He was the sole candidate in the country's 1992 elections, and despite the existence of the People's Council and the National Assembly, Niyazov retains ultimate authority. Except for a few small opposition groups and a government-sponsored opposition party, all political parties are illegal.

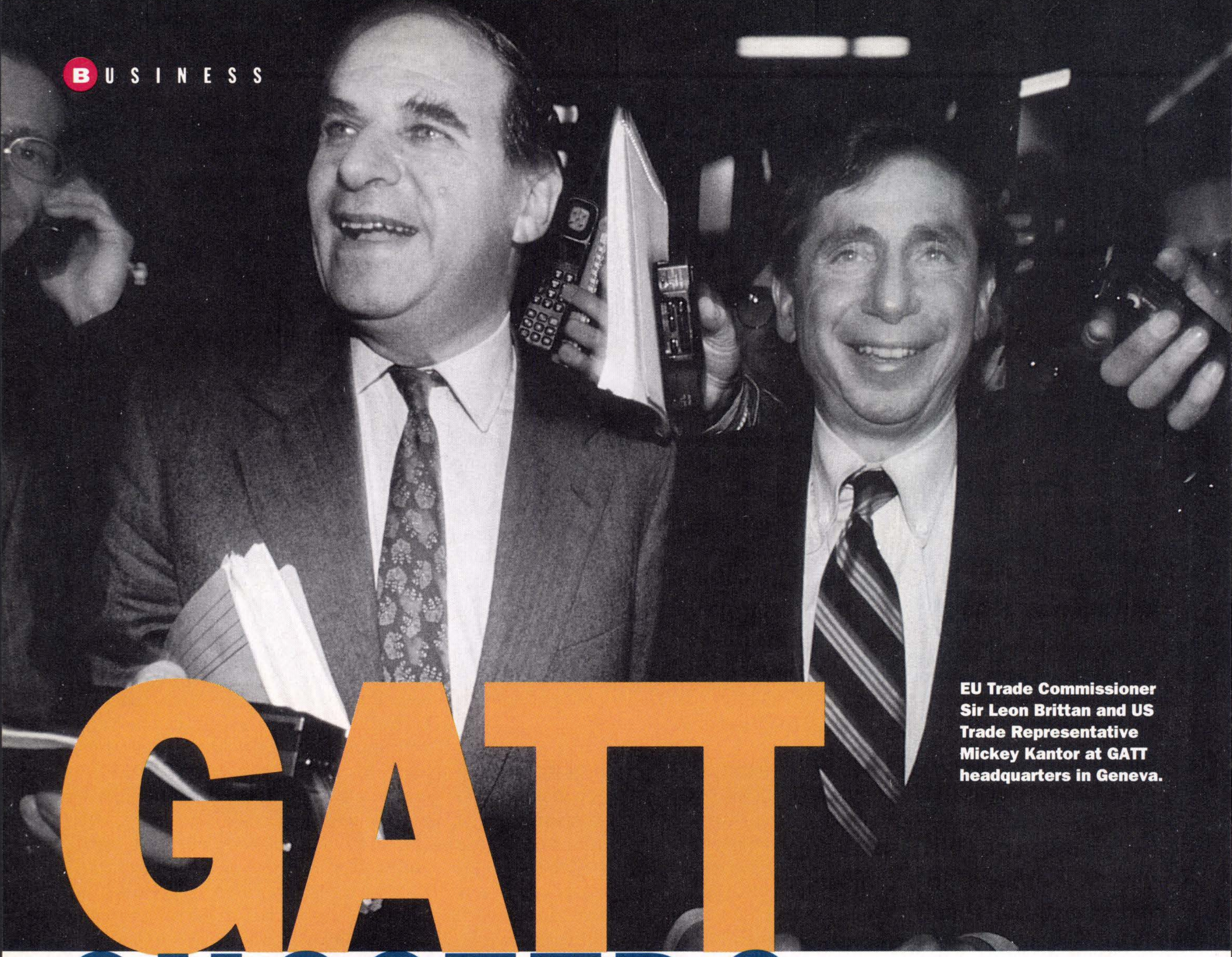
Ukraine. The Ukraine is deep in the throes of political and economic transition. An economic powerhouse of the former Soviet Union, generating some 16 percent of the USSR's total GNP in 1991, this young country now confronts hyperinflation and severe declines in output. Observers have labeled the Kravchuk government antireformist and have accused it of allowing Ukraine's economy to spin out of control by failing to pursue necessary, albeit unpopular, reform measures. Economic instability and President Kravchuk's reported growing unpopularity prompted calls for early parliamentary and presidential elections in 1994. The Ukrainian political landscape is peppered with regionally-based, anti-reformist, pro-Russian groups, as well as an array of nationalistic parties who disagree on a range of issues from alliance with Russia to the pace of market reform. Ukranian foreign policy has reflected internal divisiveness. Ukraine has vacillated on such important issues as the country's role within the Commonwealth of Independent States and the future of its nuclear weapons, frustrating a concerned Russia and the West.

Uzbekistan. Although the 1992 Uzbeki constitution establishes Uzbekistan as a multi-party democracy, President Karimov and the Popular Democratic Party (former Communist Party) exercise broad control over this Central Asian republic. Karimov's dogged crusade against his political opposition, designed to stem the wave of Islamic fundamentalism purportedly emanating from neighboring states, bears the hallmarks of a classic authoritarian state, including the banning of several pro-Islamic parties and the free press. According to several sources, Karimov maintains close ties with Russia and has welcomed the support of Russian intelligence and troops in Uzbekistan.

The glacial progress of political reform has been matched by equally lackluster results on the economic front. The government's ballooning deficit attests to its reliance on subsidies to quell popular unrest during difficult transitional times. Industry still remains mostly under state control. Uzbekistan's decision to remain within the ruble zone has rendered its economy highly vulnerable to Russian monetary policy. It recently introduced its own parallel currency, the som. Uzbekistan's considerable agricultural production (it is the world's fourth largest producer of cotton), its substantial reserves of petroleum and other minerals, and its self-sufficiency in natural gas have not shielded it from the declines in output felt throughout the former Soviet Union. They do, however, endow it with considerable economic potential provided that the appropriate economic and political policies are pursued. Ⓔ

Gina Gianzero, a Washington, DC based journalist, writes about economics and politics.

Editor's Note: On page 25 of last month's issue, the Baltic States were described as "bristling with nuclear warheads." The sentence should have stated that Ukraine posesses the nuclear weapons. However, according to the recent agreement signed by Russia, Ukraine, and the US, soon Russia may be the only former Soviet republic with nuclear weapons.



EU Trade Commissioner Sir Leon Brittan and US Trade Representative Mickey Kantor at GATT headquarters in Geneva.

GATT SUCCEEDS

Trade liberalization package benefits European business

BY BRUCE BARNARD

EUROPEAN BUSINESS will receive a timely tonic in Marrakech in April when 117 countries put their signatures to the most ambitious trade liberalization package in history.

Europe's exporters haven't translated the Uruguay Round accord into dollars and cents yet, but they all agree that the formal signing ceremony in the Moroccan city will signal a major victory against protectionism.

A series of bitter disputes between the United States and the European Union over a wide range of products from soy beans and steel beams to jet aircraft and corn gluten had raised the specter of a transatlantic trade war spinning out of control, sucking in vulnerable European exporters.

That threat receded following a last minute deal which concluded seven years of tortuous negotiations at the Geneva headquarters of the General Agreement on Tariffs and Trade (GATT) in mid-December.

But what tangible benefits will the

Uruguay Round deliver to business apart from an easing of transatlantic trade friction? The benefits will take time to show up in bigger order books: The Uruguay Round will not be enacted until 1995 and many of the reforms will be phased in over 10 years.

"We should not expect the improvements to flow through instantaneously," cautioned Floris A. Maljers, Chairman of Unilever, the giant Anglo-Dutch consumer products group.

The immediate impact of the Uruguay Round was a desperately needed psychological boost to business confidence at a low point in the European economic cycle. The agreement "will surely facilitate doing business," said Luciano Benetton, Vice-President of Benetton Group, the spectacularly successful Italian clothing group whose products are sold around the globe.

Ironically, while the EU was blamed by some analysts for holding up the Uruguay Round for the past three years, it will be by far the biggest winner from the agreement. By the year 2002, the EU will gain nearly $80 billion annually in 1991 prices, according to the Organization for Economic Cooperation and Development (OECD) and the World Bank.

This dwarfs the $34 billion boost for the seven nations of the European Free Trade Association (EFTA), the $35.5 billion injection into the Japanese economy, and the $26 billion spinoff for the United States. The OECD figures the Uruguay Round could boost the world economy by $270 billion, equivalent to about 1 percent of likely global income.

But these "headline" figures are misleading, particularly for the EU and EFTA, because the bulk of the gains derive from lower farm subsidies, which will cut food prices, thus boosting the disposable income of European consumers. The EU, however, had already moved in this direction with its radical reform of the Common Agricultural Policy (CAP).

As the world's biggest exporter the EU will benefit handsomely from more open markets for its goods and services. But again, the impact should not be exaggerated as 60 percent of the EU's exports freely circulate between its 12 member states and the EFTA countries.

On January 1, just two weeks after the Uruguay Round was concluded, the EU became the senior player in the world's largest free trade zone, when the European Economic Area (EEA) came into force.

The EEA is much more than a trade zone because it extends the EU's single market rules, notably the freedom of movement of goods, capital, services, and people to Austria, Finland, Norway, Sweden, and Iceland. It accounts for two thirds of world trade, its exports of $1.62 trillion in 1992 towering above the $715 billion notched up by the North American Free Trade Agreement, which also came into force on January 1.

The establishment of the EEA and NAFTA have fueled fears that the world is being carved up into powerful regional trading blocs, in effect "fortresses," that will keep out geographical outsiders.

The Uruguay Round has partially allayed these fears by underpinning the principle of a multilateral trading system open to all comers—one of the goals of the founding fathers of the GATT.

This is a major plus for the EU because it will pry open markets for the former communist nations of Central and Eastern Europe whose painful economic reforms have been made much more difficult as the deepest recession in Western Europe for a quarter of a century receives calls for a return to old style protectionism.

Economic reform in the region would have been seriously undermined by a failure of the Uruguay Round, according to the United Nations Economic Commission for Europe.

Sir Leon Brittan, the EU's Trade Commissioner who played a major role in securing a Uruguay Round accord, says his top priority now is to improve the EU's trade links with Central and Eastern Europe. His main target will be the removal of protectionist measures which the UN describes as "especially petty and ungenerous."

Some commentators say the Uruguay Round agreements resolve mainly trade disputes involving the "sunset" industries of the 1980s rather than the "sunrise" sectors of the 1990s and beyond. This is largely true for the wealthy OECD member countries which, farm trade apart, have managed largely to maintain and expand open trading systems—among themselves.

Even in the most sensitive sectors, market forces eventually overwhelm protectionism. American steel companies, for example, filed over 80 (eventually mostly unsuccessful) trade complaints against imports from Europe and elsewhere two years ago. Now, they are importing massive volumes of European steel—Italian deliveries tripled between October 1992 and October 1993—to meet surging demand from the US auto industry and other buoyant sectors.

Nevertheless, the Uruguay Round will make a difference to individual companies and industries in the EU whose products have been harshly penalized by high tariffs and low quotas. Scotch whisky distillers are looking forward to a sizable boost to an export business already worth some $3 billion a year. Promised tariff cuts will reduce the price of a bottle of whisky by $3.75 in Egypt, $2.85 in South Korea, and $1.35 in Venezuela, according to the Scotch Whisky Association.

Benetton is confident of breaking into promising new markets, such as Australia and South Africa, which have import quotas and high duties.

Other European companies are less gung ho. Personal computer manufacturers are irked the EU will maintain a 14 percent tariff on imports of key components such as D-rams, making their production costs higher than those of rivals in North America and Asia.

The virtual exclusion of financial services from the Uruguay Round dashed the hopes of the EU's banks and securities houses of breaking into budding markets in the Asia Pacific region and Latin America. But most financial institutions are confident that in time the barriers will be removed by market forces.

The Uruguay Round will certainly intensify pressure on European companies to become more flexible and adaptable to change. Increased competition from lower cost producers in Asia and Eastern Europe will also increase pressure on labor costs as it becomes ever more difficult to protect markets from cheap labor abroad. As a result, a major question mark hangs over the future of labor-intensive industries in Europe such as steel, textiles, basic chemicals, and electronics products.

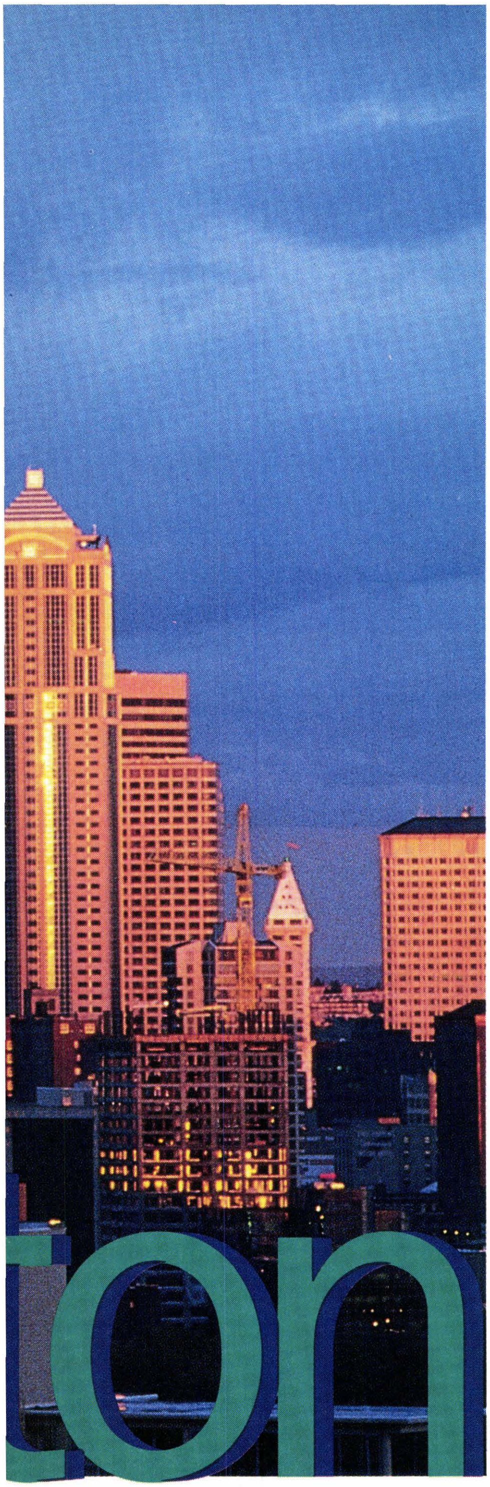
But the vast majority of European businesspeople agrees that the upside massively outweighs the downside.

Bruce Barnard writes frequently for EUROPE *and is the Brussels correspondent for the* Journal of Commerce.

Washing

"You're from Washington?" folks from this state are often asked when they travel abroad. "What's it like to be around all those politicians?" They just don't get it. This is the "other" Washington. The one up in the northwest corner of the continental United States, as far from Washington, DC as are London or Paris.

But Europeans and others might well be forgiven their mistake. Even many of our fellow Americans think that we're on the border of Alaska, with Indians and polar bears as neighbors. People in Seattle, they're told, don't take off their parkas because it never stops raining. And the rest of the people wear logging boots to their weddings—even the brides.



Looking Toward Europe as Well as Asia

By David Schaefer

At one point, the tourism promotion crowd in the state government became so defensive about this, they actually began marketing the state as "the other Washington," sending glossy brochures around the country. That, thankfully, has come to a stop. After the largest city, Seattle, became regularly recognized as the most-livable in the nation (and recently was chosen as the best in which to do business) and after a migration of Californians, who come north to clog the freeways and drive up real-estate prices, we are having second thoughts about all this popularity. But to set the record straight, while this isn't Manhattan, it isn't Kansas either. There is a very international outlook in Washington as was evidenced by the recent APEC conference attended by President Clinton.

The businessmen who run the Ports of Seattle and Tacoma and Seattle-Tacoma Airport point out that the state is perfectly situated for trade halfway between the Far East and Western Europe. The ports are a day's sailing time closer to Asia than California ports and a quicker flight over the pole to Europe. This sales pitch is more necessary medicine than snake oil. Washington is more heavily dependent on trade than any of the 50 states. The nation's largest exporter, Boeing, is headquartered in Seattle. Boeing employs 100,000 in the Puget Sound area and economists say one job in six in the state depends on the aerospace company and its spinoffs.

Agriculture, the number two industry, is trade-dependent as well. Almost all of the wheat is headed for the Far East for noodles. Apples go to Mexico, the Middle East, and elsewhere. Much of the timber exports go as raw logs to Japan. Over the past few years, the trade experts have marketed the state as the "gateway to the Pacific Rim." Boeing and other exporters are drooling over the size of the Chinese market. But while the potential is undeniable, language and culture tie the state directly to Europe in many ways.

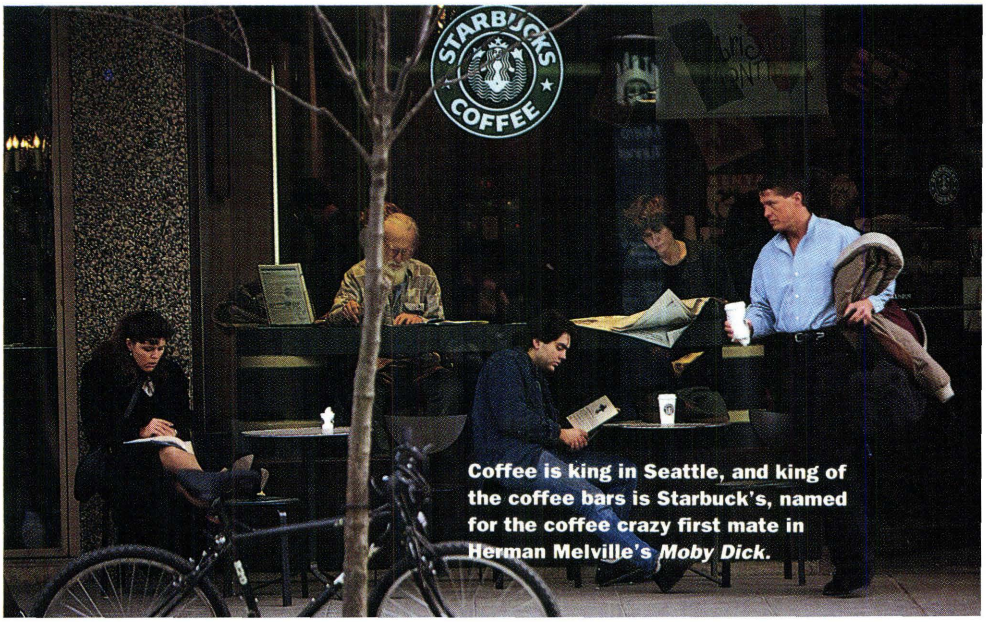
For one thing, much of this place looks like Europe. Seattle's climate is much like London's, although it isn't quite as far north.

The state's largest winery, Château St. Michele (a French name, but owned by the American Tobacco Company) includes on the back of its labels—near the information about the variety of grapes used—a map showing that the latitude of its vineyards in the Yakima River Valley corresponds directly to that of the great wine-growing region in Bordeaux.

Ski areas in the Cascade Mountain range try to emulate the Alps. One town, Leavenworth, requires all its storefronts to be designed to look like a Swiss village.

Ballard, a part of Seattle settled by fishermen from Sweden and Norway, was a self-contained village before the city grew up around it. Even now, Swedish and Norwegian flags fly from the town square, Bergen Place. Saabs and Volvos are the cars of choice. At Seattle's best private schools, children arrive in Volvo station wagons, not Japanese mini-vans.

So many Croatian fishermen settled in the nearby town of Gig Harbor that all the streets are named after Croatian families and places in the former Yugoslavia.



Coffee is king in Seattle, and king of the coffee bars is Starbuck's, named for the coffee crazy first mate in Herman Melville's *Moby Dick*.

The improvements in cuisine are tied directly to the movements of some well-regarded French restauranteurs. At Gerard's Relais de Lyon, the chef was trained by and makes frequent pilgrimages to see Lyon's famous Paul Bocuse.

Exports were up more than 20 percent in 1990 and 1991, and Boeing's health and backlog of airplane orders kept the state from feeling the pains of the recession that hit the rest of the country.

Historically, Lufthansa is second only to United Airlines in purchases of Boeing jets. British Airways is the second-largest purchaser of the 747, Boeing's largest and most expensive plane. But Boeing's sales have fallen off as troubled airlines have canceled and delayed aircraft orders or bought from Boeing's chief competitor, Airbus Industrie. For years, Boeing has played to the export market by subcontracting in other countries. On the 767, for example, the tail is built in Italy, the fuselage mostly in Japan, and thousands of small parts in Canada. Japan builds about 15 percent of the new 777. Doors and composite parts come both from a Dehavilland plant in Australia and a ski company in Austria.

The big companies aren't the only ones in this game. Interpoint, a firm in the Seattle suburbs that makes power converters and hybrid integrated circuits, has two sales offices in Europe. The company actively has looked for a European acquisition to help it enter the European market and take advantage of the end to European trade barriers. Currently, about one quarter of Interpoint's sales are in Europe, compared to 5 percent in Asia.

By far the biggest local success story is Microsoft, the computer software giant that in a few years has grown to be worth—based on its stock price—more than General Motors. Last year, 35 percent of Microsoft's sales were in Europe—more even than in the US. Only 4 percent were in the Far East. Bill King, Director of European Programs for the state's Department of Trade, said Europe is still the state's trading backbone. Exclude airplane sales, and exports to Europe increased again last year. "The European marketplace has an entrenched middle class, and the consumer base is really much larger among the 240 million people in Europe than the one billion in Asia," King argues.

Washington State has just opened a trade office in Paris, strategically locating its office the furthest south of the 35 US states which have European storefronts. The reason, King said, is that Italy, Spain, and Portugal will grow the fastest in the future.

There's no use trying to pretend. No one is going to walk into downtown Seattle and think they're in Vienna. For one thing, the music is likely to be Pearl Jam or Metallica rather than Strauss. There's more of the "grunge" look popularized by those heavy-metal rock bands than fashion from Milan or Paris. (For the uninitiated, heavy metal has nothing to do with what you make a Mercedes out of. It's the hard-driving, drum-pulsating, melody-not-required sound that now makes Seattle its home—And Grunge? Long, limp unwashed hair; plaid shirts tied around the waist, cutoff pants and Doc Martens, the English combination brogan and motorcycle boot. The grunge look became so popular that bands looking for originality have cleaned up their act, and only accountants and stockbrokers dress that way now.)

By far the biggest local success story is Microsoft, the computer software giant that in a few years has grown to be worth–based on its stock price–more than General Motors.

But use your other senses and a little imagination, and this could be Vienna or Venice. Because above all the other local crazes, coffee is king. Almost no street corner in Seattle goes without a portable espresso stand; no suburban kitchen can get by without a machine by Krups or Gaggia. Maybe it is the heritage of the coffee-drinking Scandinavians who settled here a century ago, but this has been the center for gourmet coffee only for about 20 years. In 1971, a local company known as Starbucks began selling fresh-roasted beans in Seattle's farmer's market. Sales of beans turned into sales of coffee grinders, then cups, fancy coffee urns, and eventually espresso machines. Starbucks went public two years ago and has since cracked the markets in Portland, San Francisco, Chicago, and now Washington, DC. The company just opened its first stand at Narita Airport in Japan. Annual sales have reached $34 million. Seattle has become so associated with coffee that another local retailer, Mauro Cipolla, recently had to change the name of his shop from Caffe Mauro to Caffe d'Arte to head off a lawsuit from Mauro Demetrio, an Italian roasting company.

Mix this diet with another Seattle craze—sunglasses—and you easily could be in Rome. Except the label on a gent's jacket won't say Armani, it will be Gore-Tex. Never mind that: Ciao baby!

David Schaefer is a reporter for the Seattle Times.

Inside
EUROPE

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PRESIDENT CLINTON'S EUROPEAN TOUR

(left to right) President Bill Clinton, European Commission President Jacques Delors, and Greek Prime Minister Andreas Papandreou

During a widely acclaimed New Year tour of Europe, President Bill Clinton pledged America's continuing engagement and preached the virtues of continent-wide economic and political integration.

The trip dampened criticism that the Clinton administration has pursued a policy of benign neglect toward Western Europe, in order to focus on domestic matters and to foster relations with the fast-growing economies of the Pacific Rim.

Traveling through Brussels, Prague, Kiev, Moscow, and Minsk, Mr. Clinton charmed audiences with an informal style which took its lead from an ever-present saxophone and a talent for improvisation. His invitation to a young Russian boy to shake hands on television, evoking memories of his own White House encounter with President John Kennedy, trumped Mr. Vladimir Zhirinovsky, the war-mongering Russian nationalist.

European leaders commented favorably on Mr. Clinton's energy, intelligence, and grasp of detail, though a remark comparing Chancellor Helmut Kohl of Germany to a sumo wrestler suggested that the young President has still to master all the niceties of international diplomacy.

The broader question is how far the President succeeded in building a new security system in Europe which reinforces transatlantic links and consolidates the position of the emerging democracies in the East such as Poland, the Czech Republic, and Hungary, without provoking Russia or damaging irreparably prospects for economic and political reform there.

This is not a matter which can be resolved overnight. Nor will it be clear anytime soon whether the West has succeeded in creating a new "peace order" to replace those of Versailles and Yalta which have unraveled now that the cold war is over. Politics in Europe remain fluid and fragmentary, which explains why Mr. Clinton fudged some of the trickier questions rather than tying himself to specific solutions.

During his tour, Mr. Clinton did his best to sound reassuring. In Brussels, he won applause from the UK and Germany when he pledged to maintain 100,000 US troops on the continent for the near future (a clear recognition that the threat to the security of Western Europe remains first and foremost Russia). He also sought to temper criticism from the Eastern Europeans seeking to join the NATO alliance. After meeting leaders in Prague, he proclaimed that it was no longer a question of "whether," but of "when" and "how."

Yet in Moscow, Mr. Clinton made clear that the US would not countenance any move which could be read as encircling or shutting out Russia. Hence his unwillingness to support immediate entry into the NATO alliance for Poland, Hungary, the Czech Republic and Slovakia; and his insistence on a "Partnership for Peace," a looser security partnership involving expanded military ties which the NATO summit extended to all European states, including Russia, Ukraine, and former Soviet republics. He cautioned against allowing a new division arising between Europe (including Central and East European states) and Russia.

Mr. Clinton's one substantive achievement was a tripartite accord between the US, Russia, and Ukraine which provides for the phased destruction of most of Ukraine's most potent nuclear warheads over the next 18 months. The deal was widely acclaimed because Mr. Clinton has made nuclear nonproliferation a priority; but it still needs to be ratified by the Ukrainian Parliament in Kiev, a prospect that US officials rated only as a 50-50 prospect with elections looming.

A less eye-catching development which could prove almost as significant in the medium-term was Mr. Clinton's decision to abandon the ancient but sterile US policy of opposing an independent West European defense policy. The Bush administration and its predecessors resisted an enlarged security role for the Western European Union, the purely European alliance, and development of the Franco-German Eurocorps of merged military units. Their rationale was that these European initiatives could weaken NATO and undermine US leadership on the continent.

The Clinton administration appears to have decided that it is better to foster a security partnership of near equals in order to better share the burdens of leadership on the Continent—a move which would better reflect Europe's linchpin role in promoting aid and trade with the East. Hence the presidential decision to allow the WEU to borrow NATO assets and to engage in military actions without necessarily drawing in the US. The promise of a "separable, but not separate" European defense identity is one step closer to reality, though not a decisive response to the civil war in Bosnia.

A senior French official cautioned that it remains unclear how the US and European allies will decide which regional disputes are "Europe-specific," but the thrust of US policy clearly pleased President François Mitterrand and Chancellor Helmut Kohl. Mr. John Major, UK Prime Minister, seemed less comfortable about Mr. Clinton's pro-integrationist line which also called for "Europe's development of stronger institutions of common purpose and common action."

The same message that the US would benefit from a strong and equal partner echoed after Mr. Clinton's visit to the European Commission. The US President pressed the Europeans to be more generous in offering greater market access to the East Europeans; but he won over Mr. Jacques Delors, Commission President, with his emphasis on common approaches to common economic problems, singling out for praise the recent White Paper on competitiveness.

Looking ahead to the March "Jobs Summit" in Detroit, President Clinton stressed that Europe, the US, and Japan must learn from each other. "All of our nations have had to struggle against the restless forces of this new global economy, against the competition that comes from countries with lower wages or that it generates when technology enables us to do more with fewer workers, but there is no new technology to provide new jobs for those who are displaced."

Commission officials said that Mr. Clinton was visibly more comfortable in discussing economic matters rather than traditional foreign and security policy. They were also struck by his view of the EU as a trading partner first and as a political partner a distant second. The US stance may be a legacy of last year's transatlantic divisions over whether to use military force in Bosnia, but it also betrays a skepticism about how much the EU can deliver after the difficulties in securing ratification of the Maastricht Treaty.

Uncertainty about how much the US can "subcontract" to Europe in terms of political and military leadership continues to cloud the Clinton administration's foreign policy. For example, Mr. Clinton left little impression of how he thinks institutions such as the EU, NATO, WEU, and the CSCE should fit together in the European jigsaw, or how he intends to avoid overlap. He also passed up the chance to propose that the East European entry into NATO and the EU should operate on parallel tracks within a rough time frame, an idea which could strengthen the prospect of entry into both organizations.

By failing to suggest a tentative timetable or specific criteria for NATO and/or EU membership, Mr. Clinton risks criticism that Partnership for Peace has opened up a "no man's land" between Russia and Germany in a situation which has traditionally been a threat to peace in Europe. By deferring to Russian sensitivities, Mr. Clinton may have simply created a security vacuum which could haunt the West for the next 20 years, one British official said.

A less harsh judgment was offered by Mr. William Pfaff, the Paris-based commentator for the Los Angeles Times. He said that the Clinton administration has given itself a European policy where, before, one really did not exist. The policy is composed in part of common sense judgments on allied relations and a recognition of the American national interest in social security and economic relations with Europe. "But it includes much ambiguity and evasion of the hard questions and makes a huge gamble of confidence in Boris Yeltsin," he said.

—Lionel Barber

The financial crisis at the **Euro Disney** theme park outside Paris hasn't fazed Bugs Bunny who is setting up home in Europe at a Warner Brothers venture in Germany's industrial Ruhr region.

The US studio is teaming up with the **Nixdorf** family, who made its fortune from Germany's biggest computer company, to build a $200 million leisure park and film studio at Bottrop, once the heart of the mighty German coal industry.

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Unilever, the Anglo-Dutch consumer goods giant, splashed out $325 million for Ortiz-Miko, France's second largest ice cream maker, only months after it bought the ice cream business of **Kraft General Foods** of the US.

The French deal consolidates Unilever's position as Europe's top ice cream maker with a 40 percent market share while the US acquisition catapulted it to the top spot in the American ice cream league.

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A free falling currency is good news for Finland's shipbuilding industry, which cited the cheap markka as a key factor behind a flurry of prestige orders worth more than $1 billion.

Kvaerner-Masa-Yards, Inc. of Helsinki booked orders for two 73,000 ton luxury cruise liners from **Royal Caribbean Cruise Lines** worth 3.5 billion markka ($600 million), the biggest individual order in Finnish history.

Only days before, the yard owned by Norway's Kvaerner group hooked a 1.5 billion markka order from Miami-based Carnival Cruise Lines.

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The collapse of the alliance between **Air France** and **CSA,** Czech Airlines, dominated East European business headlines, obscuring less controversial, but more fruitful Western investments in the region.

The Czech government's request that Air France relinquish a 19 percent stake in financially-troubled CSA also cast a shadow over the 20 percent stake held by the European Bank for Reconstruction and Development, which invested in CSA alongside Air France.

But the crisis hasn't fazed Western companies seeking a foothold in Eastern and Central Europe in sectors as varied as banking and chocolate.

ING Bank of the Netherlands is spending nearly $60 million for a 25.9 percent stake in Bank Slaski, the second of Poland's state-owned banks to be privatized. **Nestle**, the Swiss food giant, paid $43 million for control of Goplana, Poland's second largest chocolate maker.

WHAT HE SAID....
President Clinton on Europe

"The core of our security remains with Europe. That is why America's commitment to Europe's safety and stability remains as strong as ever."

—President Bill Clinton in a speech given before the NATO Summit in Brussels.

"We have a lot to learn from some European countries about training and retraining of the work force. They have something to learn, perhaps, from us in flexibility of the work force and mobility of the work force, and the creation of an entrepreneurial environment that will enable unemployment to be driven down to lower levels."

—President Clinton speaking to the American Business Community in Brussels about the upcoming March Jobs Summit.

"We supported the Maastricht Treaty. We support the commitment of the European Union to a common foreign and security policy. We support your efforts to refurbish the Western European Union so that it will assume a more vigorous role in keeping Europe secure. Consistent with that goal, we have proposed making NATO assets available to WEU operations in which NATO itself is not involved. While NATO must remain the linchpin of our security, all these efforts will show our people and our legislatures a renewed purpose in European institutions and a better balance of responsibilities within the transatlantic community."

—President Clinton speaking to the Intervention for the North Atlantic Council Summit at NATO headquarters in Brussels.

"The best way to keep Europe from ever falling apart again, from dragging the young people of this country and that continent to fight and die again is to build for the first time in all of history a Europe that is integrated—integrated in a devotion to democracy, to free economies, and to the proposition that all these countries should respect one another's borders."

—President Bill Clinton, in a speech at Howard University after his recent European trip.

"I'm more convinced than I was when I went there that the Partnership for Peace is the right idea at this time and that we're giving Europe a chance to have a different history than its past, and it's enormously significant."

—President Bill Clinton, speaking to reporters en route from Europe aboard Air Force One about the plan to allow East European countries to participate in NATO activities.

Electrolux is spending $516 million to put more distance between itself and its rivals in Europe's fiercely competitive household appliances market.

The Swedish firm is negotiating to buy the 90 percent it doesn't already own in **Hausergate,** a unit of **AEG** of Germany, a move that will push its European market share close to 30 percent.

The combined Electrolux-AEG group would have annual sales of over $9.2 billion, well above its closest rival, **Whirlpool** of the US, which booked sales of $7.1 billion in 1992.

Whirlpool moved into Europe in 1991, paying $1.1 billion in a two phase takeover of the appliances business of **Philips** of the Netherlands, but its 11 percent market share is way below Electrolux's 30 percent.

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Japanese industrial investment in Europe tumbled by nearly a quarter in 1993 as companies switched their focus on the fast growing Asian markets.

Japanese firms spent $7.08 billion on 536 investments in Western Europe, Turkey, and the former Soviet Union in the year to July 1993 with 70 percent of the spending concentrated on autos, chemicals, electronics, and pharmaceuticals.

While Europe's take of total Japanese foreign investment eased from 22.5 to 20.7 percent, analysts say it will remain a key production base from Japanese firms. The United Kingdom remained Japan's favorite industrial location, accounting for $2.95 billion, followed by the Netherlands with $1.45 billion and Germany $769 million, according to the German Chamber of Commerce.

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German industry, citing high domestic costs, continues to eye production plants abroad. But for mega projects, it seems home is still best.

Mercedes-Benz has opted for a German site for a plant to launch its first foray into the small car market, rejecting offers from the UK, France, and the Czech Republic.

Siemens, Germany's largest electronics manufacturer, also rejected a foreign location for a microchip plant in favor of the East German city of Dresden where it intends to invest $1.37 billion over 10 years. The project will be the largest single investment in Eastern Germany and the biggest anywhere in the European electronics sector in recent years.

In both cases, the firms secured attractive investment perks from local authorities and major concessions for their work forces.

But some companies are moving abroad to tap new markets rather than escape Germany. **Deutsche Aerospace**, for example, is mulling production of regional turboprop planes in China and Mexico, and Mercedes Benz is to increase production of commercial vehicles in Argentina and Indonesia and will probably build a plant in China. The company stresses expansion abroad will not be at the expense of manufacturing in Germany.

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American car manufacturers are on a roll in Europe, looking beyond its recession-mired markets to a rosier future.

General Motors plans to build a luxury car in Europe for sale in the US under the Cadillac name. Production will start in early 1996 building up to 40,000 units a year at a plant in Germany owned by **Opel**, GM's leading European subsidiary. This will be the first major export of cars from Europe to the US since the early 1960s.

Arch rival **Ford**, meantime, is preparing for negotiations with **Mazda** about producing cars at a Ford plant in Europe for sale under the Mazda name. Ford has a 25 percent stake in the Japanese car maker.

Chrysler remains a bit player in foreign markets, but it too has great hope for Europe which soared by 36 percent last year. It is planning to build its Grand Cherokee sports/utility model for international markets in Graz, Austria, from late 1994.

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Iberia, the Spanish national airline, is to inject $500 million into **Aerolineas Argentinas**, the loss-making privatized Argentine carrier in which it has a 30 percent stake.

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The German government launched the process of turning the nation's heavily loss-making state-owned railroad into a profitable private company on January 1 after Parliament backed a radical reform program.

The reform will involve the merger of the West German network of **Deutsche Bundesbahn** and **Deutsche Reichsbahn** in Eastern Germany into a new operating company, Deutsche Bahn AG.

The government still owns all the shares in the new company, but it will have to operate under purely commercial principles to prepare it for privatization. But skeptics say the railroad can't be reformed. It is burdened by $40 billion of debt and its share of passenger traffic is down to 6 percent from 9 percent in 1970.

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SNCF, France's state-owned rail network, lost about $1.35 billion in 1993, its biggest loss in a decade, and is heading for a similar deficit in 1994.

The loss stemmed partly from an unexpected drop of 7.5 percent in passengers using SNCF's showcase inter-city services, including the high speed TGV trains.

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Metallgesellschaft, Germany's 14th largest company, escaped a most certain bankruptcy after 50 banks arranged a $2 billion rescue package, which saved 62,000 jobs and averted serious damage to the country's financial system.

The firm lost around $1 billion in the year to September 30, 1993, with massive losses on oil futures trading by its American subsidiary, the major culprit.

The debacle scarred the German financial establishment because the firm's shareholders include the mighty **Deutsche** and **Dresdner** banks, which held a 23 percent stake, and **Allianz**, the giant Munich-based insurance firm. The two banks, accused of neglecting their duty to supervise the wayward Metallgesellschaft, were forced by foreign creditors to put up more money.

—Bruce Barnard

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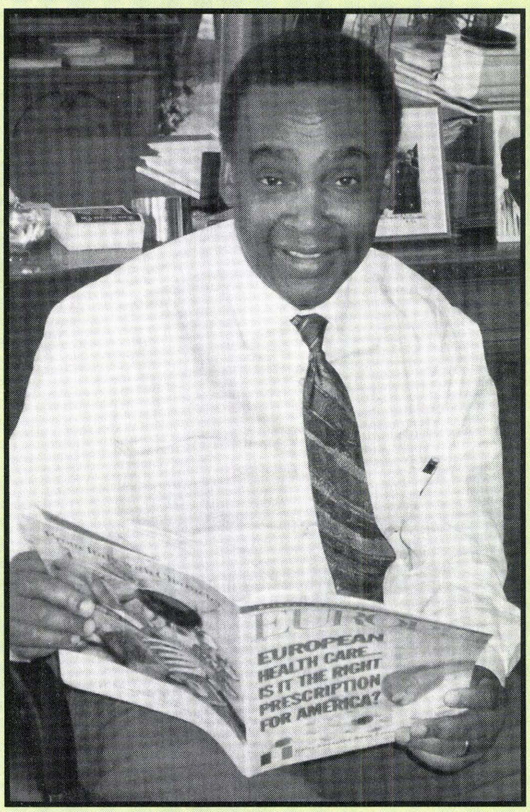
Seattle Mayor Norman Rice

Last year, Norman Rice was re-elected to a second term as Mayor of Seattle with 67 percent of the vote. Seattle is proud of Rice, the first African-American leader of a city with such a small minority population. Only 10 percent of Seattle's population is African-American; 12 percent is Asian-American. He is being discussed as a possible challenger for the US Senate next year.

Despite the attention to local problems like crime, Rice has kept an eye overseas, traveling for the Port of Seattle to attract shipping companies and visiting other parts of the state to drum up the idea of Seattle as an international gateway. The city has put its municipal government, chamber of commerce, and port authority together in a marketing association modeled after those in the Netherlands. For Rice, like many others in Seattle and Washington State, trade is a way of life, the key to jobs and prosperity needed to combat those urban problems that make a mayor's life difficult. In his election night victory speech, Rice was already talking about the attention Seattle received by hosting the Asia Pacific Economic Cooperation meeting.

–David Schaefer



Following are excerpts from an interview Seattle Mayor Norman Rice conducted with EUROPE:

One of your city's brochures says, "By sea, air, land, the Port of Seattle is the most reliable and economical gateway between Asia, America, and Europe for people and products." Why is this true?

When you combine the airport and the shipping and the accessibility, we are as close to Tokyo as we are to London by air, in hours. We're a gateway for a lot of trade. A lot of people have dubbed Seattle "the Geneva of the West." But it's a destination point.

What are you doing to market Seattle in Europe?

Last year we toured Rotterdam, Amsterdam, Bonn, and Stuttgart. We looked at how they are marketing and utilizing their resources to better understand trade. So we're making those kinds of visitations. We're reaching outward. We're having inter-city visits. The city of Seattle has over 19 sister cities, and we have sister cities in most of the European countries.

European cities don't have the level of crime we have in the US. How can we promote safer cities like in Europe?

First of all, gun control. Every city that you see with lower crime has a more stringent and, I think, more realistic gun control than the United States does. Handguns and assault weapons and the like ought to be more regulated in a way that there's a stronger penalty for possession and a stronger penalty for using [one to commit a crime], but banning them is really going to be the best.

The next connection is a worldwide connection that we have to be more thoughtful about, and that is the drug trade. For some odd reason, every other country seems to have a greater penalty for those who are involved in that business than we do. Most of the "stuff" comes from other places into the United States. As a matter of fact, that's probably the largest illicit trade activity in the world. And we aren't addressing that as a world problem.

Many people feel your city looks only toward Asia, but you also trade extensively with Europe. Would you comment on that?

I feel very strongly that even though some people think of Seattle as a Pacific Rim connection, Seattle looks outward, both ways, and understands its strategic position as a focal point for trade coming east and west. And if people really look at Seattle—where it is, not just as a Northwest city, but its position as it relates to the world—it's very strategic. Even for the European [Union], as it looks at potential trade in the Far East and the Pacific Rim, Seattle is a way station, a place for them to do business en route to the East.

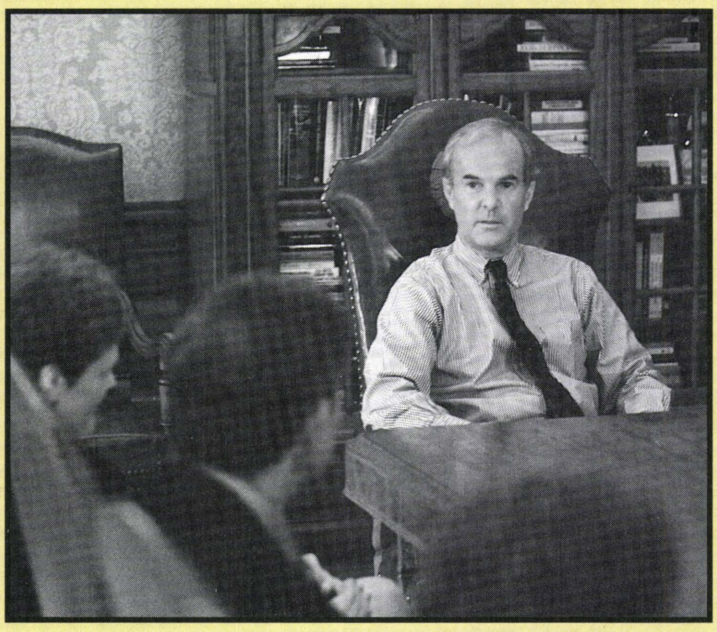
We stand to give Europe as much benefit and access to opportunities as we do for Asian countries. Seattle is a way station for all of the world. And the world ought to see Seattle as a place to come and a beautiful place to, as I like to say, stop by and take in the beauties and the wonders of a most magnificent place.

America's New GATT Man

Despite careers as a businessman, scholar, and politician, the former Governor of Washington W. Booth Gardner maintains a soft-spoken, boyish charm. Although his personal fortune is estimated at $50 million, he's amazingly low-key: old cars, clothes off the rack, and cheap food.

Gardner has refused all requests for interviews since being mentioned as Clinton's choice for the post of US Representative to the General Agreement on Tariffs and Trade.

But the former State Trade Director while Gardner was Governor said the importance of economic trade to Washington State—the most trade-dependent of the 50 states—became increasingly clear during Gardner's eight years in the state house in Olympia.



Booth Gardner is the former Governor of Washington and President Clinton's choice for US Representative to GATT.

In particular, said Paul Isaki, Gardner learned what it was like to negotiate free trade agreements with a nation that maintained a protected industry when the state was trying to export finished lumber products to Japan.

Gardner, 57, who decided not to seek a third term as Governor in 1992, originally wanted the post of Ambassador to Japan. A friend of Clinton's since the days both were governors, he was forced to stew for months over both that post and that of GATT Ambassador. If confirmed, he'll be one of three deputies to US Trade Representative Mickey Kantor.

Now known as a wealthy businessman whose family was able to pour hundreds of thousands of dollars into his political campaign, Gardner didn't start out that way.

His parents were middle-class working folks who divorced when Booth was five. His mother immediately married Norton Clapp, a wealthy industrialist who would go on to be Chairman of the Weyerhaeuser Corp. Booth stayed with his father for a while, then with his mother and stepfather, then back again.

When Booth was 14, his mother and only sister died in a plane crash and the teenager inherited a fortune. He still bounced in and out of Clapp's household, attending a boarding school and college.

He graduated from the University of Washington and then earned a Master's in business administration at Harvard. He was Assistant Dean at Harvard Business School, then Director of the School of Business Administration at the University of Puget Sound in his hometown of Tacoma.

Gardner ran and was elected to the Washington State Senate at age 34. He quit before his term was up, arguing that he didn't find the work very interesting. Other reports were that he didn't want to reveal family finances as required by the state's new public-disclosure laws.

Meantime, Gardner was establishing himself as a public-spirited guy. He started a youth group for underprivileged kids in Seattle's central urban area, coaching soccer and football and paying for the uniforms himself.

He ran the family building-supply firm, the Laird-Norton Co., during the 1970s, then came into his own as a politician running the Pierce County government (Washington's second-largest county) in the early 1980s.

Elected Governor in 1984, Gardner's original idea about trade and economic development was to try to attract foreign firms and jobs. He hired a hot-shot from Oregon to run the state's economic development department, but he slowly became persuaded that the state was better off trying to develop markets for its indigenous companies than to bring in new ones from abroad.

After all, Boeing is the nation's largest exporter. And Microsoft, the new software giant, earns half its revenues in Europe.

"Once he got the job and had to deal firsthand with economic development, he began to appreciate the role of trade," Isaki said. "Over time, he took a more balanced view," Isaki said. "We didn't stop recruiting industry into Washington State, but we refocused the department and de-emphasized it."

The real convincer, Isaki said, was a trip Gardner took to Japan to see a housing development built by Washington State companies. He could see the immediate spinoff in the state's homebuilding sector.

Gardner also took a role in the state's dealings with Canada, which evolved into the state's exhibit at a world exposition in Vancouver, British Columbia, in 1986 and in joint economic and environmental agendas. Now, Washington State and British Columbia have jointly marketed their high-tech industries here and in Germany.

"He doesn't have as much experience on the European front," Isaki said. But he said the Japanese example has shown Gardner the kind of problems confronting GATT. "He's seen it, experienced it, and knows what a tough nut it is to crack."

—David Schaefer

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Just 10 days before the country's local elections, Prime Minister Anibal Cavaco Silva surprised the nation with a radical and decidedly risky cabinet reshuffle.

In what the Socialist Party (PS) leader Antonio Guterres termed a "suicide act" in the midst of local election campaigning, Mr. Cavaco Silva jettisoned the key Ministers of Finance, Education, and Health as well as Employment and Social Security, and replaced them with relatively unknown personalities.

All four ministries had been under increasing public pressure—the business community had lost faith in the Finance Minister after he grossly miscalculated on the budget, while the others had been prone to criticism for apparently worsening conditions.

PORTUGAL

Economic Uncertainties Cause Portuguese to Tighten Their Belts

By Sarah Provan

However, in the December local elections, Cavaco Silva's ruling Social Democrat Party (PSD), though weakened, defied opinion polls and widespread speculation and won a respectable 34 percent of the vote, up from the 31.3 percent won in the 1989 elections.

They admitted they did not achieve their objective of winning more seats than the opposition Socialists, who claimed a "great victory" after they too increased their poll percentage. Final results showed the PS narrowly defeated the PSD with 35.8 percent, or 125 of the country's 305 municipal seats. At least 36 percent of the electorate abstained.

For the Social Democrats the result was a "tie" and certainly dismissed any thought of the opposition calling for an early general election.

Nevertheless, this mid-term year has been a difficult one for the Prime Minister. With increased labor unrest, a worsening recession, and growing unemployment, he has watched his popularity slip. In two television debates late last year journalists hammered the two main party leaders. It was the opposition leader, the rather uncharismatic Guterres, who won an overwhelming 80 percent approval rating against Cavaco Silva's mere 45 percent.

Portugal has a small open economy, which is dependent on exports and imports and leans heavily on its European trading partners, particularly those like Spain, the United Kingdom, and Germany that have also been badly hit by the recession. Reflecting their weak economies, Portugal has slipped into a gentle recession similar to a morning-after hangover following the post-EU-accession boom years when it enjoyed the European Union's highest growth rate.

Still, EU economic aid will double to $20.5 billion between 1994 and 1999, which will probably bolster the wavering economy and resuscitate growth to 1 or 2 percent in 1994 after zero to negative one half a percent in 1993.

The ministerial shakeup in December perhaps symbolized the government's teetering course. It came at a time when students and doctors were publicly demonstrating their discontent. Doctors began a two day strike that very day while students held a national stoppage day the following week.

Airline workers, shipyard workers, and civil servants also protested the thousands of jobs threatened last year. Riot police clashed twice with demonstrators the month before the reshuffle.

Farmers' tempers also flared. In the fall, reports of contaminated pork led the European Commission to place a temporary block on the export of all Portuguese pork.

The government responded with a ban on all EU pork imports, and local farmers angrily attacked Spanish trucks carrying pork over the border.

The pig war perhaps epitomizes Portugal's struggle to come to terms with waning protectionism and the real meaning of EU membership. It's not just financial handouts; it also means tough open competition with its European partners.

Economists' predictions are pessimistic for the year when Portugal celebrates 20 years of democracy.

"Industry will continue to flounder and the commercial deficit to worsen," says Alfredo de Sousa, an economics professor at Lisbon's Universidade Nova.

Spending power is shrinking with salaries remaining stagnant or actually falling, while indirect taxes have increased.

The fight against unemployment may lead the government to pressure the central bank to lower interest rates, which some economists believe would increase liquidity and create inflationary tendencies.

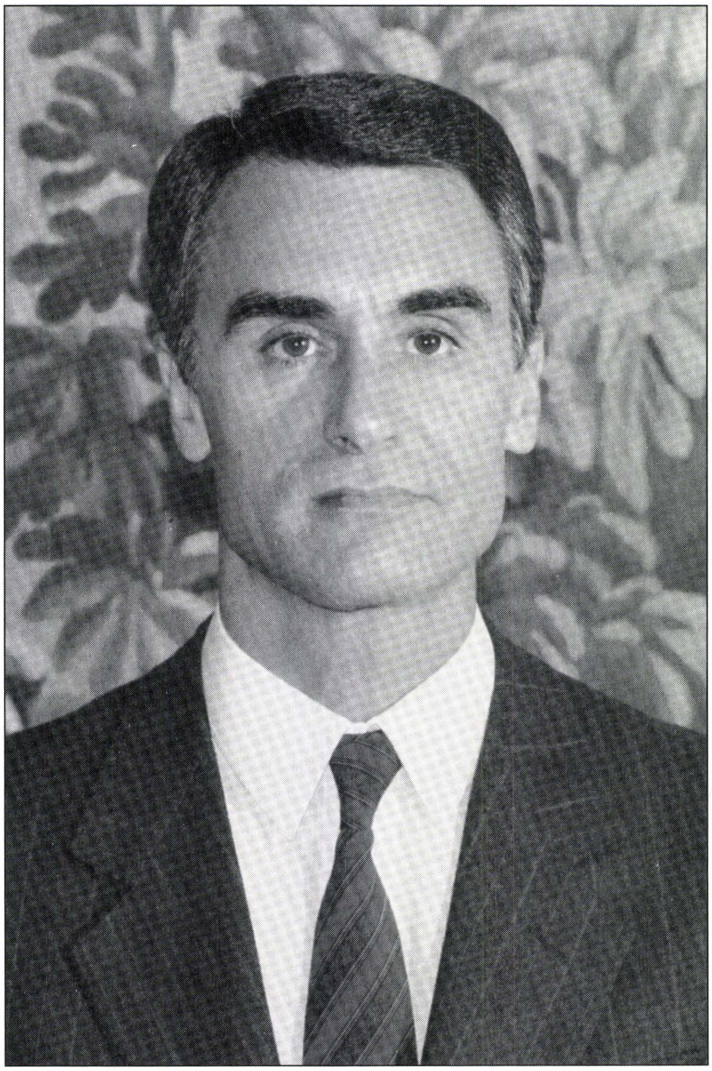
Latest official unemployment figures are close to 6 percent—a 35 percent increase in the number of jobless, with the hardest hit sectors being textiles, footwear, retail, and construction.

Unemployment appears ready to climb to between 7 and 8 percent of the work force in 1994, still low compared to the EU average of about 11 percent. But some believe the true rate is disguised when part-time work and unpaid wages are taken into account. The population still has to contend with the lowest wages in the EU and an insufficient social security system.

The center-right government struggled to persuade trade unions to join a social pact to keep salaries at or below the inflation rate in a desperate attempt to preserve jobs and maintain competitiveness.

Another worry for the government is the higher than expected budget deficit. Serious miscalculations in last year's budget most likely mean Portugal will be unable to reduce the deficit and public debt by 1997, the original target date for convergence with the rest of the EU.

The then Finance Minister Jorge Braga de Macedo was forced to announce a supplementary budget for the year—a lower than expected tax revenue and higher than forecast social security spending almost doubled the deficit compared with the original forecasts.



Prime Minister Anibal Cavaco Silva's ruling Social Democrat Party won a respectable 34 percent of the vote in the December local elections.

In 1993, the deficit forecast was amended to \$5.6 billion, 8 percent of gross domestic product. The original prediction was \$3.3 billion, or 4.6 percent of GDP. Such a serious overrun sent shivers through the business community.

The budget deficit was then forecast to reach \$4.4 billion, 6.9 percent of GDP, dropping to 6 percent if the economy stabilizes in 1994 as predicted.

But "it is going to be difficult to control the budget deficit for structural reasons such as the social security system and the aging population," warned Rui Martins dos Santos, Chief Economist at Banco Portugues de Investimento.

The center-right government has consistently maintained its policy of a strong escudo, which, combined with inflation higher than the European average, has pushed up export prices.

Currency turbulence last summer caused the escudo to devalue, but since the August realignment of the ERM bands, the currency has remained stable. It seems it will devalue even more, even though the last devaluation hardly stemmed the fall in Portuguese EU exports.

But as economic hardship takes hold, the people have to tighten their belts. They are likely to forget the new highways, bridges, brash new buildings, and complexes in the cities. If conditions fail to improve they will probably turn away from new, face-saving projects like the international exposition in 1998 and turn to the more basic issues like the state of the education, health, and social security systems.

Sarah Provan is EUROPE'*s Lisbon correspondent.*

LISBOA 94

EUROPE'S 1994 CULTURAL CAPITAL

By Sarah Provan

CULTURE is definitely in fashion, says Pedro Santana Lopes, the Portuguese Culture Minister, who is looking forward to Lisbon being this year's European Cultural Capital.

And it seems fitting that Lisbon—one of the EU's developing capitals—should take off its braces and glasses and proudly unveil its true architectural beauty and cultural wealth in the year it celebrates 20 years of freedom from dictatorial rule.

The once proud center for European culture has finally woken up and been rejuvenated. The Cultural Ministry's annual budget has jumped nearly fourfold in as many years, from $40 million in 1989 to $150 million in 1993, some of which has gone toward rebuilding Lisbon.

Since Lisbon was chosen as Antwerp's successor as European's cultural capital, both the municipal council and the specially set up Lisboa 94 have been beavering away to prepare the capital for a wave of visitors expected to come for Portugal's own particular kind of culture.

"We will be presenting and promoting the cultural dimension of Lisbon, turning the city into a showcase for Portuguese culture," says Vitor Constancio, who presides over the organization, Lisboa 94.

"At the same time, we wish to help improve the climate for cultural creativity by providing support for Portuguese artists and organizing events that will help to establish Portuguese culture internationally," Mr. Constancio adds.

Organizers recognize Lisbon will be a different show from its predecessor Antwerp. "Antwerp is a small town in central Europe, while Lisbon is on the periphery of Europe," says Ivonne Cunha Rego of Lisboa 94. "People have to make a special effort and come by plane, rather than just pass through by car. Antwerp had a very elitist program, choosing what they wanted."

Lisbon, however, has to try and accommodate as many tastes as possible, while working within a limited budget.

The year-long event raises the curtain on an outstanding array of international and national arts and events.

For years, Lisbon has been deprived of the financial backing needed to maintain its historical buildings and now, with both government funds and EU support, money has been poured back into the city's heritage and architecture.

All over Lisbon, buildings have been hidden under scaffolding and wraps for months as authorities work together to prepare Lisbon for the next century.

Authorities have concentrated on certain areas of the city, such as the "Seventh Hill," the 16th century part of town otherwise known as "Romantic Lisbon." The backbone of this historic part of town is the road that runs from the Lisbon railway station Cais do Sodre to the road intersection Largo do Rato, which boasts many historical and literary landmarks.

Both private and public companies have given support to revamp and improve the cultural, artistic, and urban flavor of this part of the city which dates back to the 16th century and is a melting pot of the lower and middle classes and aristocratic population.

This area includes the bohemiam Bairro Alto, or upper town, where sailors and prostitutes regularly used to mix with artists and aristocrats.

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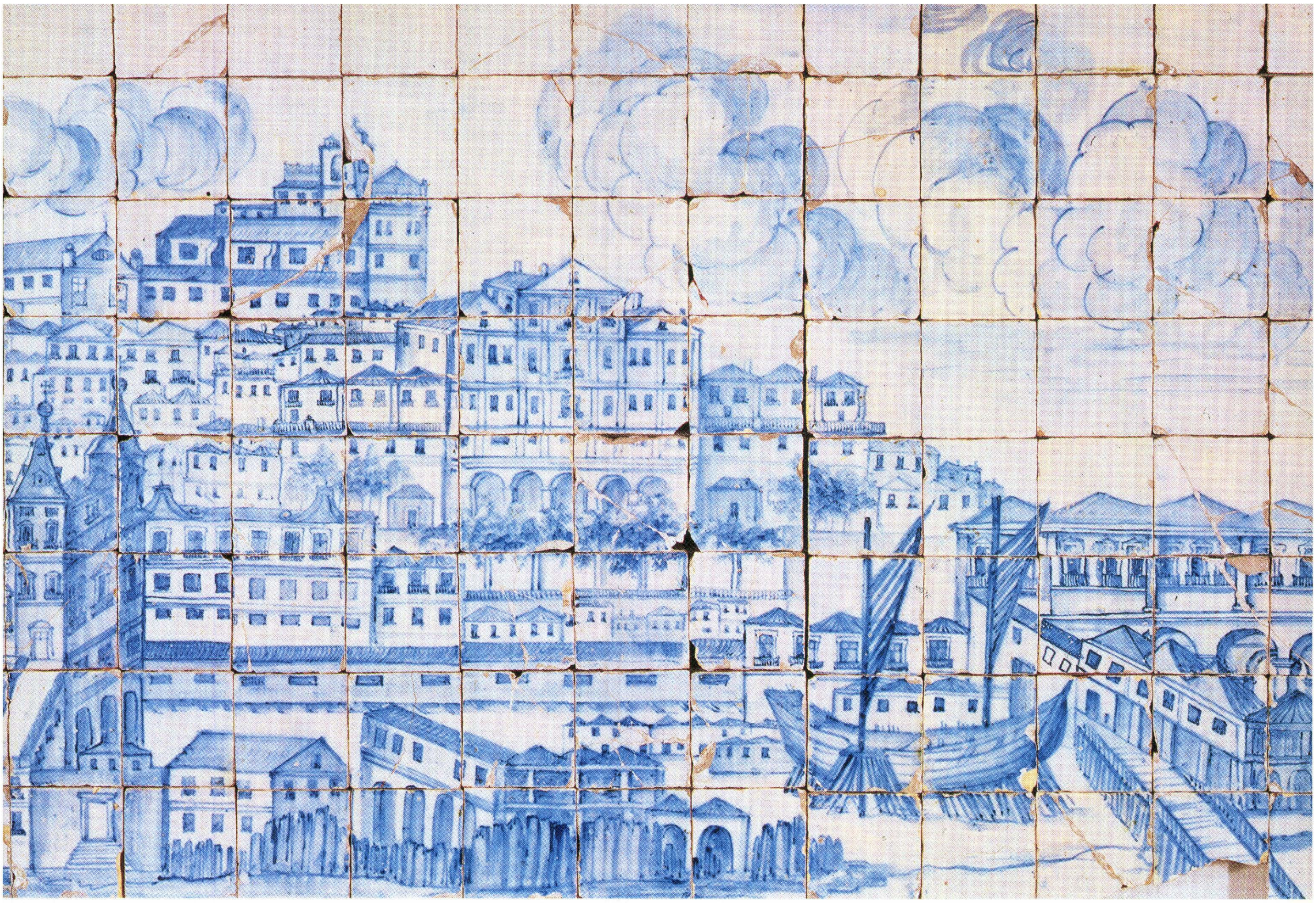


Authorities have concentrated on certain areas of the city, such as the "Seventh Hill," the 16th century part of town otherwise known as "Romantic Lisbon."

It is this labyrinthine area full of hidden bars, restaurants, and discotheques which is home to the Portuguese *fado*, the song which symbolizes the Portuguese spirit, full of longing and *saudades* or nostalgia.

Bordering this spot, which bustles both day and night, is the beautiful, serene Principe Real. Children frolic at a respectable distance from the card tables where elderly people, mostly men, sit down to play and gamble under the shelter of the trees.

The Lisboa 94 project includes repair work on the buildings and improvements to the parks and gardens, as well as exhibitions, public art pieces, guided tours, and other cultural events.

New cultural buildings have sprung up over the city—the Belem cultural center was finally opened, though at an estimated price tag of between $170 and $225 million the ambitious project cost more than three times the original 1988 estimate.

Portugal's top bank, the Caixa Geral de Depositos, last October inaugurated their $237 million headquarters-come-cultural-center, Culturgest, in downtown Lisbon for plays, concerts, and art exhibitions.

Many museums have been renovated, such as the National Museum of Ancient Art, the City Museum, and the beautiful National Museum of Painted Tiles. The Coliseum, the only performance hall that accommodates more than 4,000 people in central Lisbon, has been completely revamped from the stage to the foyers.

The house of Portugal's best known poet, Fernando Pessoa, has been renovated complete with a library, conference room, and exhibition area.

Just as the Austrian city of Graz teamed up with Antwerp and Poland's former capital Cracow with Madrid, the Hungarian capital of Budapest has been chosen to link up with Lisbon. Budapest will organize a European Cultural Month this year as part of its annual spring festival.

Lisbon will be represented in Budapest in March by the Gulbenkian chorus and orchestra, the Ballet Gulbenkian, and an exhibition of one of Portugal's greatest artists, Maria Helena da Silva.

Budapest returns the compliment in April with the Budapest Festival Orchestra, the Hungarian State Opera, and the National Ballet performing in Lisbon.

Lisbon as Cultural Capital will host many conferences and congresses, luring both business people and vacationers to savor the delights of the city. Many visitors are expected from Spain and special weekend packages will be offered.

"But we want the Portuguese to enjoy their city again, as the city has been degraded for so long. It's a good program, as we work closely with other European cities. We don't just want a one year festival; we would rather have something that stays," insists Ms. Cunha Rego. Ⓔ

Sarah Provan is EUROPE*'s Lisbon correspondent. For further information on programmed events, write to the press office: Lisboa 94, Palacio Foz, Praca dos Restauradores, 1200 Lisbon, Portugal. Or the Embassy of Portugal, 2125 Kalorama Rd. NW, Washington, DC 20008, (202) 328-8610.*

The ALGARVE

Beaches, Golf and History

By Sarah Provan

IN FEBRUARY the Algarve is covered in white. Not with snow but rather almond tree blossoms, in memory of the legend of a Moorish king impassioned with a northern princess.

The princess, stuck in the Algarve, began pining for the snow-covered hills of her native land and slowly started wasting away. The distraught king ordered thousands of almond trees to be planted all over the Algarve. One February morning he took her to the window to show her the snow white carpet over the land—the beautiful almond blossoms. She quickly recovered, and so the legend goes, the two lived happily ever after.

Today the Algarve has a mixed reputation. Averaging more than 3,000 hours of annual sunshine, many people jumped on the tourist bandwagon in the 1980s and began developing the coastline region.

In an attempt to suit every taste, the gentle fishing villages where the Portuguese have vacationed for centuries gave way to frantic building and development of golf courses, cheap high-rise hotels, expensive villas, casinos, and cheap discotheques.

The Algarve came under fire last summer as developers began running out of money and many areas were littered with gaping unfinished or empty buildings. Tourism, the area's chief industry, dropped.

But the Algarve is not just beaches, nightclubs, and golf. Once a kingdom in its own right, it is steeped in history. After 500 years of domination, the Arabic influence is very strong in the language, architecture, and music. The name itself originates from *Al-Gharb,* the Moorish word for "The West".

They made their Algarvian capital Silves, which, dating back to the 4th century, is the region's oldest town.

It was the Moors who introduced oranges and perfected the method for extracting olive oil, an important Portuguese product.

The red, white, and rosé wines are excellent, produced particularly around Lagos. Other shopping treats include the ceramics and tiles, leather goods, copper, cork, and cane.

The Algarve gained prominence in the 15th century when Prince Henry the Navigator, Portugal's most itinerant royal son, established his School of Navigation in Sagres near Cape Saint Vincent, Europe's most southwestern tip. It was off this blowy headland that England's Horatio Nelson defeated the French in 1797.

The eastern edge is relatively untouched and sweeps up to the Guadiana River and the Spanish border. Tavira, the Venice of the Algarve, slumbers elegantly on either side of the Sequa-Gilao River, which runs under the seven-arched Roman-style bridge.

Another carefully-guarded Algarvian secret is the countryside around Monchique, a gentle spa town nestling in spectacular granite mountains. Spring in the Monchique mountains, known as the garden of the Algarve, is a wealth of color as hundreds of wild flowers explode on the slopes.

However, if you're looking for bustling nightlife, head off to Albufeira, once just a small fishing village, but now a busy tourist spot. Portimao is one of the largest towns and fishing ports and is known as a popular resort famous for grilled sardines and pastry shops. Just outside is Praia da Rocha, perhaps the most famous Algarvian beach.

With some 90 miles of golden beaches, the coastline is dotted with large beaches as well as tiny secluded coves, some of which are only accessible by boat. Boating tours motor up and down the coast offering to take vacationers for a sea ride.

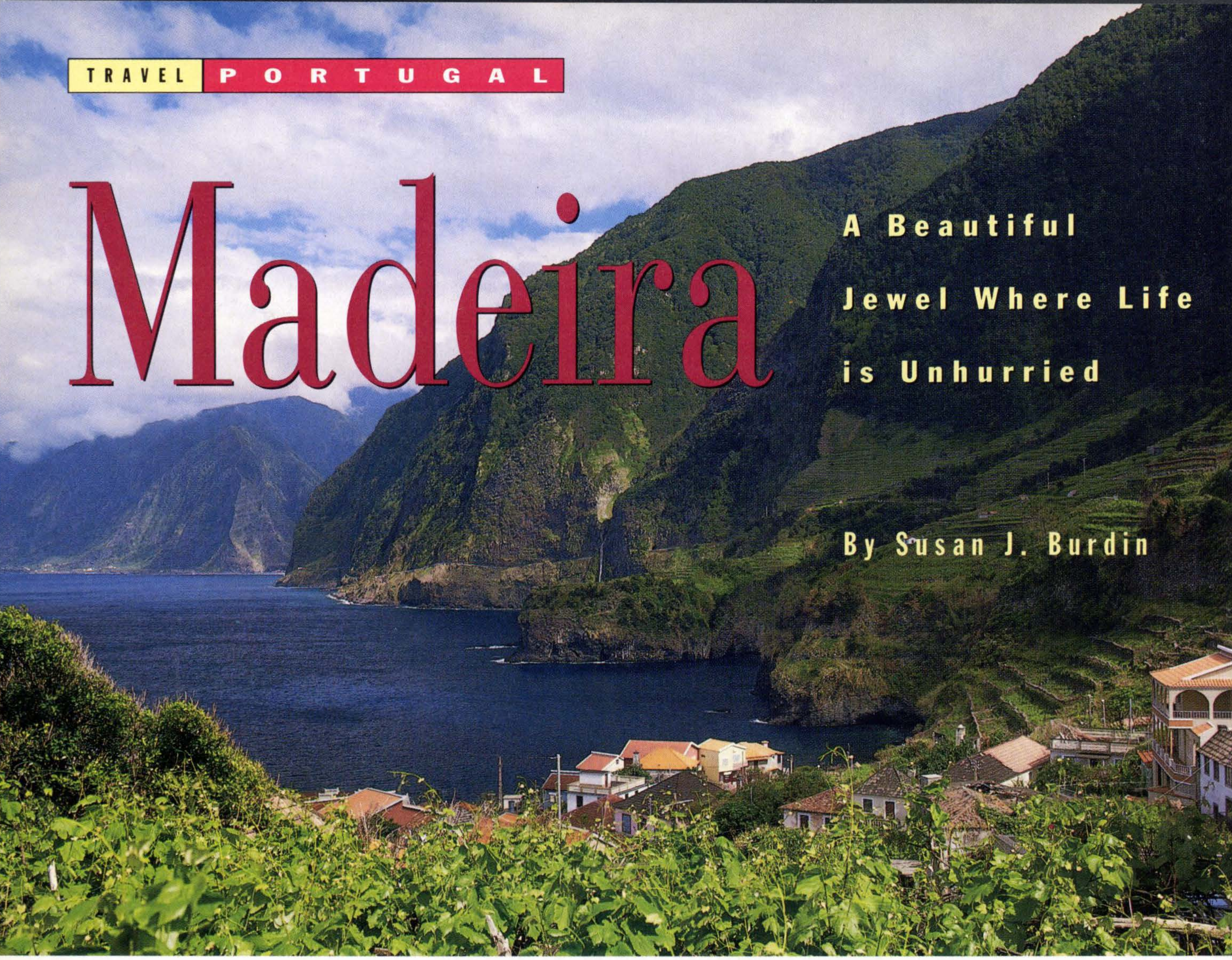
If it's golf you're looking for, the Algarve's 14 golf courses, all situated in the western half of the region, are considered some of the finest in Southern Europe. One of the most attractive spots is the coastal complex of the Sheraton Pine Cliffs, just a half hour car drive from Faro airport.

Vilamoura, Europe's largest tourist complex, has one 27 hole and two 18 hole golf courses. But perhaps the best golfing complex is Quinta do Lato, which since its inauguration in 1974, has transformed itself into a large, luxury residential and tourist complex.

The best way to get to the Algarve is to fly to the regional capital of Faro. Much of this town was destroyed in the 1755 earthquake that rocked Lisbon and southern Portugal, and as a result its architecture is a mishmash of styles and periods.

Its 18th century Carmelite church houses one of the weirdest experiences—the Chapel of the Bones, built entirely out of skeletons and lined with grinning skulls.

But tourism has a price. Ria Formosa, the 30-mile stretch from Ancão in the west to Cacela in the east, south of Faro, is a natural lagoon system which provides 90 percent of Portugal's clam and oyster harvest and an important bird sanctuary. But the heavy influx of people and insufficient government legislation threatens the ecobalance of this entire area.



Madeira

A Beautiful Jewel Where Life is Unhurried

By Susan J. Burdin

THERE'S A SMALL PIECE of Portugal which lies like a jewel in the deep blue waters of the Atlantic Ocean, just off the west coast of Africa in between the Azores and the Canary Islands. A lush, semi-tropical island which was born out of a fiery volcano where exotic bougainvillea, hibiscus, orchids, and birds of paradise have made their home in the rich volcanic soil.

Madeira, discovered in 1419 by João Goncalves Zarco, one of Prince Henry's navigators, has for centuries been a regular port of call for seafarers. Discoverers used the island as a stepping stone to the New World. The best-known, Christopher Columbus, sailed through her waters and fell in love with the island and met and fell in love with his wife, Isobel Moniz, the daughter of the Governor of the neighboring island Porto Santo. Captain James Cook also visited the island in 1768 during his round-the-world voyage and declared Madeira "the recipient of Nature's most liberal gifts."

Sailing toward Funchal, the capital of Madeira, over 500 years later on the Queen Elizabeth 2, I eagerly anticipated discovering the island for myself as we cruised into the port with its brightly painted fishing boats. The avenues lined with palm trees and flowers, the red tiled rooftops nestled on whitewashed houses and churches, and the backdrop of lush, green mountains rising steeply behind all create an enchanting atmosphere.

Since the island is only 36 miles by 14 miles, you can get around quite easily by car, so long as you don't mind the twisting mountain driving with hairpin bends. The terrain rises sharply from sea level to 6,000 ft in only seven miles. It's worth the drive though. The views of the coastline are breathtaking, and you'll meander past banana plantations, vineyards, terraced farming, and picturesque villages where Madeiran ladies sit leisurely on their doorsteps embroidering tablecloths and fine linens. As you drive around the island, you will notice that seemingly every inch of the mountainside is cultivated as agriculture is the main source of income. The Madeirans have quite literally carved a living out of the mountains in the form of terraced farming where grapes, sugar cane, bananas and vegetables are grown. Livestock is locked away in sheds called *palheiros* and is not allowed to roam due to the dangerously steep terrain.

Exploring the interior of the island can also be done on foot, and an excellent way to discover the island's natural beauty is to take the paths which follow the famous *levadas*—the rather unusual Madeiran irrigation system, which carries water along manmade channels extend over 480 miles of terrain from high in the mountains to the fields below.

For your stay in Madeira, there is a host of hotels to choose from, each with its own unique character. Best known of all on the island is Reid's with its very British, turn-of-the century style. The hotel, perched on a clifftop, is surrounded by 10 acres of subtropical gardens, which include seawater swimming pools and tennis courts. Indoors, you will find a health spa, game rooms, gourmet restaurants, and a cocktail bar. If you don't stay at Reid's, at least consider taking the short drive from Funchal to the hotel for English afternoon tea served on the veranda—it's quite formal so gentlemen don your ties. While sipping tea and sampling the delicious *bolo de mel*—Madeiran honey cake, you can take in the sweeping views of the Atlantic Ocean in Funchal Bay and ponder awhile on such famous people as Winston Churchill and Gregory Peck who have stayed at the hotel.

Eating out in Madeira is an adventure in itself—restaurants cater to all tastes, but don't miss the opportunity of trying some of the delicious local dishes. If you're in the mood for eating something that swims in the island's deep waters, try some scabbardfish, called *espada,* which outside Madeiran waters can only be found near Japan. I was almost put off by its blackish coloring and toothy grin, but it made a delicious meal. If you're a landlubber and meat's your fancy, try the local specialty of *espetada*—hissing hot skewers of beef cooked on a laurel spit, accompanied by some *milho frito*—fried maize. And to finish off your meal the *toucinho do ceu*—egg and pumpkin tart is delicious—washed down with a *bica*—a small cup of strong, black coffee.

Madeira is internationally famous for its wines. Madeira wines were among the favorites of America's Founding Fathers and were used to toast the signing of the Declaration of Independence. In Funchal's local wine lodges you can sample for free the dry Sercial and Verdelho wines, which make excellent aperitifs and can also be served with hors d'oeuvres and soups. Also taste the sweeter Bual and Malmsey wines, which are ideal with desserts and cheeses. I took a guided tour of the oldest working wine cellars in Funchal, the 16th century São Francisco Wine Lodge (Avenida Arriaga 28) and afterward tasted several of the best Madeiras from the famous names of Blandy's, Leacock, Miles, and Cossart.

Well worth a visit is the village of Camacha just seven miles from Funchal where the island's wickerwork weavers are busy at work fashioning over 800 different types of baskets and items of furniture. You will find their handiwork at Café Relogio in Camacha's town square or at one of the high quality souvenir shops in Funchal like Casa do Turista (2 Rua do Conselheir José Silvestre Ribeiro). There you can also purchase Maderia wines and some of the locally embroidered linens for which the island is also renowned.

Just a short drive from Funchal is Eira do Serrado. From this vantage point—3,300 feet above sea level you will have a glorious view of Curral das Freiras, which is a village hidden in an extinct volcano. The village is named after a group of 16th century nuns who hid away in the crater from invading pirates. The crater was, at one time, only accessible by a narrow mountain path, making it an ideal hideout.

No visit to Madeira is complete without taking the famous toboggan run, which stretches from the village of Monte down to Funchal. It's the only one of its kind, and as you hurtle in the wicker basket toboggan or *cesto* over the now flattened and worn cobble stones, remember that this was once the means by which local fresh produce was transported down from the hilly villages to the markets in Funchal—the Madeirans thought of everything to make the island work for them. Nowadays, the tobaggan run is for tourists only, and two local men guide the *cesto* safely down the run using ropes and their feet for brakes.

Once used to transport produce down the mountain, Madeira's toboggan run, which is constructed of worn cobble stones, now carries tourists.

The pace of life in Madeira is unhurried. Madeirans have worked the island hard to make a living and are industrious and resourceful, but they don't do anything in a frenzied fashion and are courteous to visitors. You will find your stay both relaxing and safe—there seems to be little hint of crime. The island has a lot of history, is a haven for botanists and, because of its size, is easy to get around in a few days. The climate is mild year round but varies from shore to mountaintop. During my short stay it was hot and humid in Funchal, but up in the mountains shiveringly cold. So always travel with a sweater.

—*Susan J. Burdin*

For more information, contact the Madeira Tourist Office at Avenida Arriaga 18, 9000 Funchal, tel: 29057. In the US, contact the Portuguese National Tourist Office at 590 Fifth Avenue, New York, NY 10036, tel: (212) 354 4403 or 1-800 PORTUGAL.

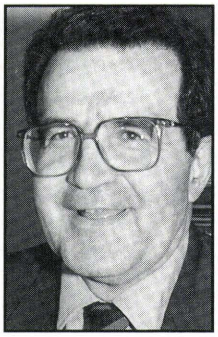
How to get there: Fly New York (Boston or Newark) to Lisbon on TAP Air Portugal, Delta or TWA and TAP Air Portugal from Lisbon to Madeira. For QE2 reservations, contact Cunard Line, 555 Fifth Avenue, New York, NY 10017, tel: 1-800 221 4770.

CAPITALS

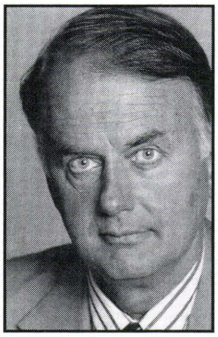
EUROPEANS OF THE YEAR 1993

Wim Kok

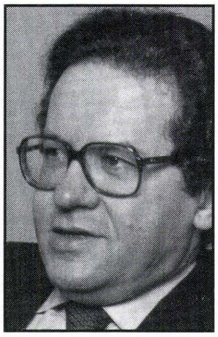
Adi Roche



Romano Prodi



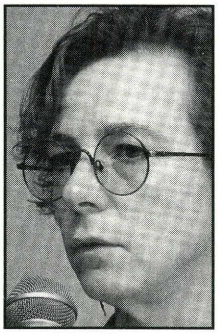
Sir Alastair Morton



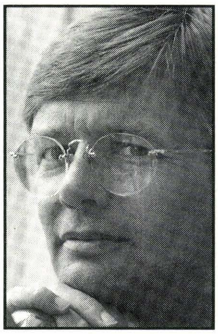
Vitor Constancio

Helmut Kohl

Each of our 12 Capitals correspondents present their choice for European of the Year for their own country. The criteria chosen by *EUROPE* was for the writers to select a person in any walk of life who, through their personal or public efforts, have promoted the concept of a united, peaceful Europe.

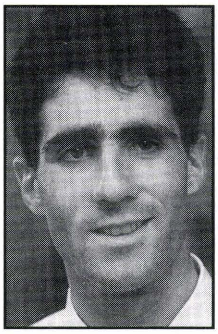


Patsy Sorensen

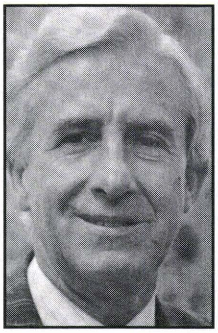


Bille August

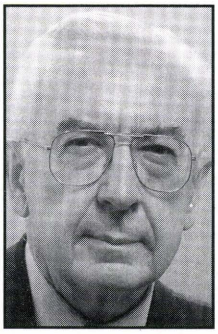
Vasso Papandreou



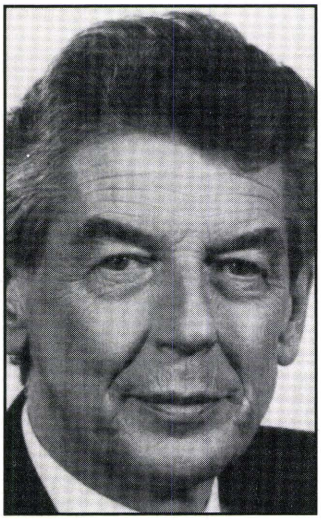
Miguel Indurain



Jaques Poos



Jaques De Larosiere



AMSTERDAM

WIM KOK AND WIM DUISENBERG

Undoubtedly, the guilder was the best thing the Netherlands contributed to the cause of a united Europe last year. Amidst 1993's turmoil in the European Monetary System, it was the only EU currency to remain attached to the Deutsche mark. The guilder proved that stable monetary policy does pay off and that the idea of monetary union is achievable.

Behind the guilder's European strength, two men appear: Wim Kok and Wim Duisenberg. The Finance Minister and the President of the Dutch Central Bank not only share the same first name and the same party affiliation (both belong to the Social Democratic Party) they also share sound monetary principles. Mr. Kok has slowly managed to get the Dutch fiscal situation under control. Despite the recession, the Dutch deficit is not rising, as are the deficits in virtually all other European Union countries. Confidence that the budget situation is under control has helped strengthen the guilder.

Mr. Duisenberg has for years made the case of De Nederlandsche Bank that the guilder should shadow the Deutsche mark. Not only does this policy guarantee currency stability with Germany, the Netherlands' main trading partner, argues Duisenberg, but it is also the best way to secure the lowest possible interest rates.

Although for all practical purposes hooking up with the Germans has meant that the Netherlands has given up its monetary independence, the policy has worked and gained broad political support. The positive experience linking the guilder to the Deutsche mark in the 1970s and 1980s may explain why in the Netherlands there has been no vocal resistance to the European Monetary System.

Finance Minister Kok is a well respected voice in the Ecofin (the European Council of Finance Ministers). Despite his social concerns (he has a background as a trade union leader), he remains opposed to pump priming solutions as a means to tackle unemployment and is in favor of supply-side reforms. Mr. Duisenberg has declined this year to accept the first presidency of the European Monetary Institute, the forerunner to the Central European Bank, partly because he campaigned for Amsterdam as its seat, and also because he thought his influence would be larger at the head of the Dutch Central Bank, taking care of the guilder.

—Roel Janssen

DUBLIN

ADI ROCHE

Ms. Adi Roche might seem an unlikely choice to represent Ireland for the Woman of Europe Award of 1993 as she campaigned against the country signing the Maastricht Treaty and the Single European Act, both of which had the goal of closer integration for the member states of the European Community, now known as the European Union. But her stance against these treaties was not because she opposed closer integration, but because of her pacifist convictions which were at odds with the idea of Ireland being drawn into a "defense and security" arrangement involving only Western Europe.

Ten years ago, Adi Roche, now 38, gave up her job with the national airline, Aer Lingus, to work full time on a voluntary basis for the Irish branch of CND, the Campaign for Nuclear Disarmament. She has also lobbied against any attempt to bring nuclear power into Ireland to generate electricity.

This antipathy to nuclear power whether for military or industrial use led her to establish the Chernobyl Children's Project in response to a plea made by Belarussian doctors that children be taken away from the radioactive environment into which their region was plunged following the Chernobyl nuclear power station disaster. She has been responsible for bringing over 300 children from Belarus to Ireland for holidays, and she has organized the sending of several truckloads of food, medicine, and other supplies to the still stricken area. She has also researched and co-produced a documentary film on Chernobyl called "Black Wind, White Land—Living with Chernobyl" which has been entered for an international award after being shown on Irish national television.

She sees her work as fitting closely with her own ideal of a Europe stretching from the Atlantic to the Urals. She spoke out strongly following her Irish award, which qualified her to compete with the laureates from the other 11 EU countries for the overall award.

Ms. Roche said "Radiation knows no frontiers and needs no entry or exit visa. The disaster at Chernobyl brought home to all of us how closely connected and interdependent we are for the safety and well-being of all Europeans... our project is a response to the vulnerability of the whole continent of Europe."

Ms. Roche had been previously nominated for the Irish award (organized by the Irish Council of the European Movement and sponsored by the Irish national transport company, CIE) but had turned it down on the grounds of conscience. She felt unable to let her name go forward for an award which she associated with a Europe which would involve a defense and security pact based on nuclear weapons. This time she had to do a lot of "soul searching" before allowing her name to go forward. But now, following the end of the cold war, it is possible to have a different perspective of the goal of European integration which respects her pacifist beliefs.

She says, "The European peace movement has been the pace-setter for the success of peaceful European integration and the [EU] is the logical framework within which we will work to expand our project." She says that "with our fragile shared environment, it is imperative that we learn to coexist together in harmony, reaching out to our fellow Europeans with the diversity of our heritages in order that we may renew our belief in caring for our 'common home'."

—Joe Carroll

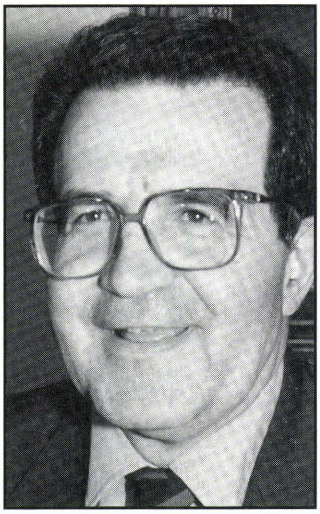
ROME

ROMANO PRODI

The race on the part of Italian small investors to buy shares in the Credito Italiano, the first public bank to be privatized by the government in Rome, confirms among other things that Romano Prodi is a happy and lucky man. This 54-year-old professor of industrial politics at the University of Bologna is by nature cheerful and witty. The enormous success of the offering of Credit shares (requests greatly exceeded demand and the sale was concluded earlier than expected) at the beginning of December brought another smile to his lips. The privatization concepts that the "bicycle-riding professor" (as he is known around campus) had been preaching for over 20 years were coming true.

"Either we privatize or we die" is the motto with which Prodi agreed to head the Institute for Industrial Reconstruction (IRI) for a second time. IRI was created during the fascist regime in 1933 as a public instrument to help businesses; however, it soon grew out of all proportion after World War II, becoming the main Italian economic conglomerate, second biggest in Europe and seventh worldwide.

Created and fed by politicians, it ended up overstepping its assigned purpose, becoming in fact a relief organization for businesses which were in debt and no longer productive but were kept going for political reasons. A vast array of diverse companies and industries became part of IRI's portfolio, from metal and mechanical industries to food process-



ing, all of which would have failed under normal market conditions. As a result, when Prodi was called to head IRI for the first time in 1982, its balance was very much in the red. In 1989, when he left, the balance registered a profit.

In short, a big success. But Prodi, deep down, wasn't satisfied. Officially, he was leaving at the end of his second natural mandate. But in fact it was known that various parties and politicians, whose interests required maintaining the status quo, had exerted great pressure to make him leave.

So Prodi returned to Bologna, to teaching, and to long bicycle rides. He continued to cultivate friendships with professors and technical experts, many of whom have now been called upon by the government to straighten things up. Experts such as his mentor, Nino Andreatta, an economist and the present Foreign Minister. He founded Nomisma, a center for economic studies whose name in Greek means "the real value of things," and which rapidly became one of the most influential think tanks in Italy. He became known to the public thanks to a successful series of televised lessons on the economy. As a big convention and seminar goer (two a week, on average), his interviews and lessons continue to punctuate the news with constant reminders of the necessity to diminish the state's weight on the economy. In short, he is a firm believer in the law of the market as well as a Europeanist.

When the Governor of the Bank of Italy, Carlo Azeglio Ciampi, another economist on loan to politics, was called upon to lead the government, he asked Prodi to return to IRI. He was the right man if Italy truly wanted to signal a change to foreign markets, which were worried about IRI's debt and interested in the privatization which would inevitably have to begin.

Prodi hesitated. The old wounds had not healed completely. His relationship with politics has always been difficult. In 1979, when Prodi was 39 years old, he was called by Giulio Andreotti, then head of the government, to be the Minister of Industry. The experience lasted only a few months. It ended with much praise for the professor, who had been called upon in order to give a touch of academia to a cabinet full of politicians, but without any reappointments.

But taking charge of IRI again is a daunting task. In just a few years the group's finances have fallen even deeper into the red than in 1982. The last IRI president ended up in jail as a result of the anti-corruption investigation known as "Clean Hands."

Ciampi insisted, and Prodi accepted. No conditions. But then there was no need. His fixation is well known: privatization. "I know what I have to do, but I want to have a free hand. We begin with the banks," he said. To journalists he even candidly reeled off the list of healthy and appetizing institutes which needlessly weigh on the state's budget. Now, after the Credito Italiano, it will be the Banca Commerciale's turn. And then many others: Banca di Roma, Monte dei Paschi di Siena (the world's oldest bank still in operation, which also happens to operate a part of the State's tax collection), and San Paolo di Torino.

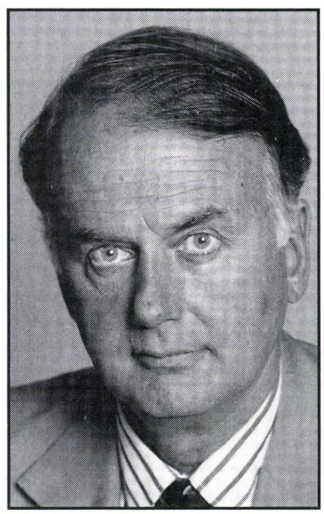
Prodi is in a rush. "Two or three banks a year," he says "can be bought at very valid prices." The market seems to bear him out. There is an economic crisis, true. But Italians, who are among the world's biggest small-savers, are pulling out their nest eggs anyway and are running to buy. The Prodi formula is working.

—Niccolò d'Aquino

LONDON

SIR ALASTAIR MORTON

Sir Alastair Morton, the tough Chief Executive of Eurotunnel, has earned his place in European history not just of this year but of this century and beyond because the United Kingdom is



no longer an island.

The rail tunnel under the channel between the UK and France opens for business this spring, thanks in large part to the efforts of "the man who raised $10 billion for a hole in the ground," as Sir Alastair was once introduced at a dinner in New York.

The Channel Tunnel is one of the largest European engineering projects this century, and when it becomes operational it will close one of the crucial gaps in the European transport network.

Sir Alastair is not a patient man, indeed many including his friends would describe him as aggressive. He had to be to steer the Eurochunnel through the past six turbulent years of constant battles with banks, construction companies, railways, and government bureaucracies.

"It can very rarely be said of any chairman or chief executive that but for him something would not exist," commented Sir Christopher Tugendhat of the Abbey National Bank, "but just as George Washington was the indispensable man in the American revolution, so Alastair is in Eurotunnel."

Work on digging the tunnel began in December 1987. The parallel rail tunnels which make up the "Chunnel" as it is referred to here are 31 miles in total length, with 24 miles running beneath the seabed at an average depth of 128 feet.

Cars, trucks, and buses will be driven onto specially constructed trains called "Le Shuttle," which will zip through the tunnel in 35 minutes. Less than an hour after entering the terminal in England, the vehicle should be on the road in France.

Making this happen, not much more than one year behind schedule and with only a doubling of the original budget estimate is a remarkable achievement. The Suez and Panama canals each cost more than 50 times their original budgets.

One of the keys to the success of the tall, blue-eyed executive is his first-class analytical brain and his ability to sort out the most complex financing.

South African-born Sir Alastair moved to the US as a young man. He met his wife Sara there and did a stint at the World Bank before coming to the UK in the 1960s. After a period with the Labor Government's Industrial Reorganization Corporation, he became a corporate troubleshooter involved in turnarounds and start-ups.

Progress was far from smooth as the self-made go-getter clashed with the patricians of the British establishment. Admirers of his clear vision and determination describe him as "tough, talented, and capable." His critics call him abrasive.

Sir Alastair had six years in the oil industry, mostly as Managing Director of the British National Oil Corporation, and five years as head of a banking and financial services group in the city before he joined Eurotunnel in 1987.

"God created Alastair to supervise the Channel Tunnel project," an old associate is quoted as saying. The government was sufficiently appreciative of his efforts to give him a knighthood in the 1991 New Year's Honors.

—David Lennon

LISBON

VITOR CONSTANCIO

His omnipresent pipe is as much a part of his character and makeup as his thick square glasses and well groomed teddy bear appearance.

Vitor Constancio, former Finance Minister, former Central Bank Governor, and ardent socialist, has now put his high finance files to the back of the cabinet and has turned his attention to culture.

This year he is determined to put Lisbon on the European cultural map again.

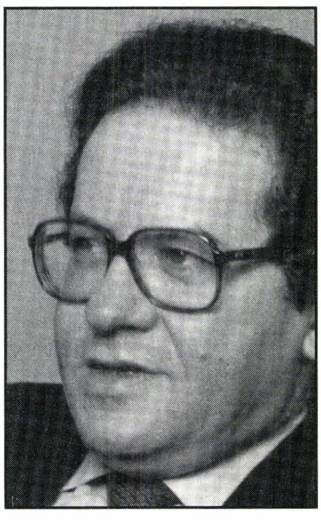
For he is the President of the Sociedade Lisboa 94, the organization responsible for Lisbon donning the mantle of Europe's Cultural Capital in 1994.

Lisbon has been frantically scrambling to catch up with the rest of the European fleet. Constancio is now at the cultural helm, preparing the city for the longest cultural festival the country has known since the 1974 revolution. He has been dogged in his approach to the project, juggling limited funds to gain maximum effect, and has won the support of many of Portugal's finest artists.

He has been single-minded in achieving his goal, relatively undeterred by the worsening economic state of the nation.

The most important thing is to make Lisboa 94 an event that marks "the cultural affirmation of the Portuguese in the European context," he stresses.

Portugal has always been part of the system of aesthetic concepts, ideas, and values that has shaped European culture and represents the best aspects of the heritage of a civilization, he stresses.



He points out that Lisbon is, and always has been, a vital cultural link between Europe, America, Africa, and even Asia, a reflection of the fact that Portugal has always maintained close ties with its former scattered colonies.

According to Portuguese poet Fernando Pessoa, Portugal's legacy to European culture is universalism: that ultimate ability to embrace the world and promote the meeting of different cultures, which Constancio stresses will be the main underlying theme of Lisboa 94.

Another important aspect of the yearlong event is the improvement of the "urban landscape." Constancio's organization has worked in conjunction with the local council to restore buildings, redesign parks and gardens, and renovate museums and performance halls.

Constancio is no stranger to the spotlight. A former economics professor he became Finance Minister for a brief spell in 1978 during the post-revolution political turmoil. He then moved on the next year to become Vice Governor of the Bank of Portugal, a job he held until 1985 when he was promoted to Governor.

In 1986, he became Secretary-General of the Socialist Party and led the party into the general elections the following year. These were the momentous elections in which Anibal Cavaco Silva swept back into power with a huge majority—50.15 percent of the vote and 146 parliamentary seats. Constancio's Socialists won 22 percent and 59 seats.

Constancio resigned as party leader in October 1988, because of troubles within the party ranks, and made way for Jorge Sampaio, now Mayor of Lisbon.

He has always been fiercely pro-European and now faces the challenge of luring the Portuguese back to theaters and museums in a recession-hit land, while reminding them that they and their own particular heritage are an essential part of the European Union.

"We have always belonged to the European culture and what we are now seeking is to reaffirm our presence and demand greater recognition," he says.

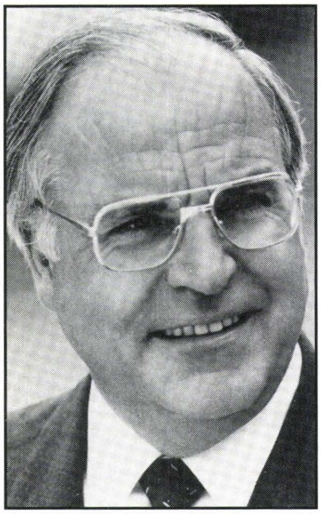
"Organizing an event that is also designed to contribute to a united Europe will underline the importance of the common spiritual heritage that brings European nations closer together," states Mr. Constancio.

—Sarah Provan

BERLIN

HELMUT KOHL

Years ago Jean Monnet predicted that the closer European unity came to be, the greater would be the opposition to it. Chancellor Helmut Kohl, whose commitment to Europe is unshaken, takes seriously the doubts and concerns of many Germans who came to liken Europe to a centrally controlled bureaucratic monster. According to public opinion polls, a majority of Germans fear that they will lose their beloved D-mark. The Chancellor also recognizes that the upheavals in Eastern Europe have widely detracted from the process of European integration, but that German unity only became possible through Germany's membership in, and commitment to, the European Union and the Atlantic Alliance. For the Chancellor, "German unity and European integration will remain two sides of the same coin."



Chancellor Kohl, one of the most enthusiastic proponents of the Maastricht Treaty, welcomed with relief the October 12, 1993 ruling by the Federal Constitutional Court which cleared the way for Germany to become the final EU state to ratify Maastricht. Opponents of the treaty filed 20 separate complaints with the Constitutional Court asking that the treaty be declared void under the German constitution. However, the eight red-robed judges gave the green light to the ratification of Maastricht and declared that the "principle of democracy did not prevent Germany from joining a supernationally organized community of states." One month after the ruling, the Chancellor emphasized that "the Federal Constitutional Court endorsed the federal government's policy on Europe in all its essential aspects."

For the Chancellor, "the decisive thing is that a united Europe will be built in the current decade, something which had been unimaginable for the previous 90 years of the century."

—Wanda Menke-Glückert

BRUSSELS

PATSY SORENSEN

Each year since 1986 an international jury of journalists in Brussels has presented a Woman of Europe award. The contest is open to laureates chosen by national juries in each of the EU's member states and in other European countries that wish to participate. The award is supported by the European Commission.

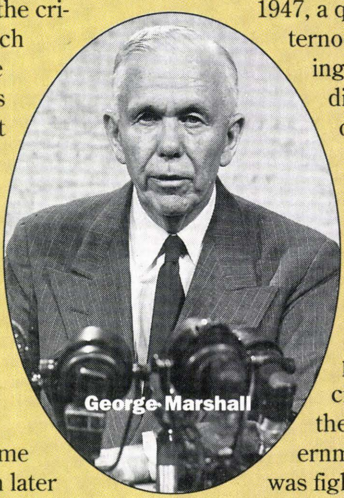
The Belgian laureate, Patsy Sorensen, is an artist of international repute, whose paintings and drawings have been exhibited in New York as well as in Europe. She has devoted a large part of her time in recent years to campaigning against trafficking in women and providing practical help and shelter for both men and women who have become involved in prostitution.

Aged 41 and a socialist member of the Antwerp City

IT BEGAN WITH MARSHALL: AMERICANS PROMOTING EUROPEAN UNITY

The hard work behind European Union may have come from within Europe itself, but some of the inspiration came from across the Atlantic. The American contribution to the European endeavor was a product of the cold war and the visionary policies that flowed from it.

If the Americans who played a substantial role in promoting European Union can be viewed as a constellation, the star in the center is George C. Marshall, the ultimate soldier-statesman and President Truman's Secretary of State in the crisis years in which modern Europe was born. In his immediate orbit are names now imbedded in post-World War II history, such as Dean Acheson, George Kennan, and Will Clayton. And in subsequent orbits come the names from later administrations as well as private business and the American press.



George Marshall

The critical date when the first constellation came together was February 21, 1947, a quiet Friday afternoon in Washington. A British diplomat called on the State Department to present a demarche that the United Kingdom no longer could provide financial support to the Greek government, which was fighting a civil war against leftist rebels. From that diplomatic paper emerged the Truman Doctrine of Assistance to Greece and Turkey and any other European nation threatened by communism. And while President Truman was making a broad commitment to defend much of Europe, his deputies were planning an equally sweeping program to provide massive economic assistance to Europe. It would come to be called the Marshall Plan. Its critical premise and demand was that the Europeans act together and develop their own recovery agenda. It would give shape, muscle, and money to post-war European yearnings and speeches for European unity.

Ever since the end of World War II, the United

Council, she is the founder and president of the non-profit association Payoke, whose aim is to bring together prostitutes, inform them of their rights, and defend their interests. She also presides over a hostel which provides shelter for local inhabitants including the destitute and homeless, immigrants, refugees, battered women, drug-addicts, and the young.

Due primarily to her actions, public opinion in Belgium has been aroused to the extensive trafficking in women from Southeast Asia, Eastern Europe, and Latin America, and a parliamentary commission of inquiry has been set up. The late King Baudouin interested himself in her activities and visited her hostel shortly before his death last July. Two former prostitutes from the hostel participated in his funeral service alongside the great and powerful.

Patsy Sorensen has been threatened by the Mafia, but she has not allowed herself to be intimidated. Her public work goes on, though she has given up exhibiting her pictures and the drawing classes which she used to give in Antwerp. Married to a teacher, Gustaf Mertens, and the mother of two teenage children, she was an excellent choice as Belgium's European Woman of the Year.

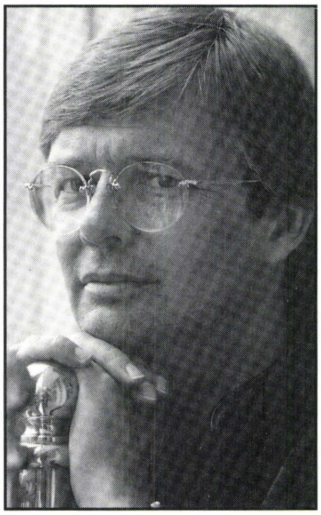
—Dick Leonard

COPENHAGEN

BILLE AUGUST

With a population of 5 million, Denmark is a small market for any product. And for something as costly as a film with an international cast, the market is prohibitively small. So when the Danish film director Bille August decided to try his hand at turning Isabel Allende's bestseller *House of the Spirits* into a movie, he knew from the start it would have to be a Pan-European project. In Denmark he would, by his own estimate, at most have been able to raise about $150,000, but by going European, he was able to raise $25 million dollars.

Bille August, 45, has acquired his experience the hard way. He started directing and producing low-budget



Danish films back in the 1970s, and a Danish film, *Pelle Erobreren* (Pelle the Conqueror) gave him his international breakthrough in 1987. It won a dozen international awards, among them an Oscar as the Best Foreign Film in 1989. But Danish is understood by few people outside Denmark (even in the other Nordic countries Danish films are sub-titled) so he jumped at the opportunity to produce a film in English.

Most of the financing for *House of the Spirits* is German, and that was why the film opened in Munich in October 1993, some weeks before it opened in Copenhagen. Germans consider it a German film, and Danes are certain that it is a Danish film. Such partisan views are common and not necessarily detrimental to any good Pan-European project.

But the cast of the film is international, including Meryl Streep and Glenn Close, and though the critics gave the film a mixed reception, the first reports from the box offices are encouraging. And to many Europeans, Bille August is developing a formula that confronts

States had been providing piecemeal assistance to war-battered European nations. But their economies seemed mired in stagnation, and suffering grew pronounced in a series of bitter winters, especially in 1946-47. American policymakers grew more frustrated and concerned and decided something more dramatic was needed.

Among the first to see the need was Will Clayton, a burly southerner who had made a fortune growing and processing cotton overseas. In his mind, American prosperity depended on European and foreign prosperity, and as Under Secretary of State for Economic Affairs, he began pushing for a program to revive the European and world economies.

Another State Department official, George Kennan, took some of Clayton's ideas and put them into political shape. Kennan is best known as the author of the doctrine of the containment of communism, but his contribution to European cohesion was equally significant. As head of the newly created Policy Planning Staff, Kennan made concrete the idea that the Europeans as a group would have to develop their recovery program and that American aid would then bolster a European effort.

It fell to Dean Acheson, who was Marshall's principal deputy at the State Department, to pull those efforts together and even more critically to package and sell them to Congress, the press, and eventually the American public. A striking figure with his elegant suits and mustache, Acheson personified the American foreign policy establishment. He would later become Truman's Secretary of State and get into many a row with Congress. But in those years he was instrumental in rallying congressional support for the Truman Doctrine and Marshall Plan, most notably in assisting the transition of such key congressional Republicans as Senator Arthur Vandenburg from isolationism to interventionism.

On June 5, 1947, George Marshall addressed the graduating class of Harvard College, and his speech would be as galvanizing in Europe as any single speech in history. Like Marshall himself, the prose was austere and devoid of rhetorical flourish. He described the desperate economic conditions in Europe and their possible consequences for the United States. And he outlined the critical criterion—the countries of Europe must agree among themselves and present to the US administration a common program that represents a cure, not a palliative, for their ills.

Eventually the United States would provide more the US competition on free market terms, rather than relying on direct or indirect government support. Which is a good reason for nominating Bille August as Denmark's European of the Year.

His professional versatility and his fighting spirit support such a nomination. He refused to accept defeat when, at the age of 18, he flunked the entrance exam to Stockholm's prestigious Fotoskolan, School of Photography. He managed to convince the principal of the school that the exam results should be disregarded, and he was allowed to begin his studies. He graduated in 1971, and again from the Danish School of Film Photography in 1977. As a photographer he worked on a large number of commercials and 14 films before directing his first Danish film in 1978. August has also directed two episodes of the US television chronicles of Indiana Jones for producer George Lucas.

Bille August is married to the actress Pernille August and has five children.

—Leif Beck Fallesen

ATHENS

VASSO PAPANDREOU

As far as voters are concerned, Vasso Papandreou, the former EU Commissioner for Social Affairs, is Greece's most popular politician. In last October's general election she garnered more than 13 percent of the total ballot, a record for any Greek candidate for Parliament.

What makes the surge in Ms. Papandreou's popularity all the more surprising is that women are not generally favored in Greek politics. The major parties are still dominated by patriarchal networking that spreads tentacles into the provinces and islands to promote local personalities in business and the professions, almost always men.

Despite a strong track record that included cabinet posts such as Trade Minister and Undersecretary for Research and Technology, Ms. Papandreou holds no government position at present. But with Economy Minister Giorgos Gennimatas suffering health problems and his

deputy confronting a rapidly expanding portfolio as the Socialists review their investment and capital market policies, she is widely expected to become the government's pinch hitter on the economy some time this year.

There is no doubt that Ms. Papandreou's record in Brussels contributes as much to her approval rating as her moderate political views. Moreover, she broke with Greek tradition by playing a strictly impartial role as an EC Commissioner. Appointed during a Socialist administration, she worked just as hard under the conservative government that followed to smooth out Greece's relationship with the Commission over the launch of an economic stabilization program.

Ms. Papandreou is no relation to Andreas Papandreou, Greece's Socialist Prime Minister, though she comes from the same district of southern Greece. An economist trained in the UK, she joined Papandreou's Panhellenic Socialist Movement (PASOK) in its early days, earning a reputation as a radical. But after PASOK came to power for the first time in 1981, she demonstrated a readiness to compromise that helped to change entrenched opposition to the Socialists.

In charge of government policy on research and technology, Ms. Papandreou broke the bureaucratic logjam that prevented the establishment of new research institutes. As a result, several high-tech research facilities were set up outside Athens that have developed an international reputation for work

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than $13 billion in grants and loans to Western Europe. (The Soviet Union and its Eastern European satellites refused to join, and it remains a matter of historical debate whether they made a colossal blunder or if the US designed the program to guarantee their negative response.) Through the Marshall Plan came a galaxy of diplomats whose names would be linked with European unification then and later. They included the Marshall Plan's first European administrator, Averell Harriman, his deputies David Bruce and Thomas Finletter, and future ambassador Charles Bohlen.

From the Marshall Plan through successive administrations of both parties, the concept of joint European action and the support of European unification was a linchpin of American policy. And that was particularly true in the first and critical transition after the Truman administration with President Eisenhower and Secretaries of State John Foster Dulles and Christian Herter, the years when the Coal and Steel Community and Common Market took root.

American enthusiasm for European unification reached its highest rhetorical point in the Kennedy administration, most notably in President Kennedy's speech at Independence Hall in Philadelphia on July 4, 1962, when he proclaimed a declaration of

American enthusiasm for European unification reached its highest rhetorical point in the Kennedy administration

interdependence with a unified Europe. The number two man in Kennedy's State Department, George Ball, was an associate and colleague of Jean Monnet, who in turn was a warmly welcomed visitor in New Frontier Washington. Ball, a blunt-speaking and self-confident lawyer, personified the enthusiasm of the democratic administration for European integration, a fervor that took concrete shape in the Kennedy Round of trade negotiations.

But those three men, like all of official Washington at that time, assumed the new Europe would soon include the United Kingdom, a hope that was dashed for a decade when Charles de Gaulle vetoed the British membership application to the Common Market in January 1963. From that point on the emotional enthusiasm for Euro-in informatics and molecular biology.

She sees Greece's presidency of the European Union in the first half of this year as an opportunity to improve the country's tattered image abroad. Greece's objections to Macedonia's bid for statehood under that name provoked irritation among its EU partners. The Socialist government now appears determined to ensure that the Macedonian issue stays off the agenda during the Greek presidency. That, she says, will help, but more needs to be done on developing a policy for the Balkans that focuses on problems with its northern neighbors.

She notes that while Greece has grown more committed to the European Union during its 13 years of membership, much needs to be done to strengthen the country's administration if it is to catch up with its partners.

"What I really want to contribute to is the modernization of Greek political life," she says. "The public sector is in urgent need of an overhaul, and there's got to be less government intervention in day-to-day running of the country."

She acknowledges that attitudes are changing as politicians of all stripes accept the need for radical economic reforms to bring Greece in line with the rest of Europe. But she wants to see definite strategies on specific problems, such as implementing new legislation and reducing tax evasion.

Ms. Papandreou stresses that she is optimistic about Greece's future in Europe. And it is clear that she intends to be involved in shaping it.

—Kerin Hope

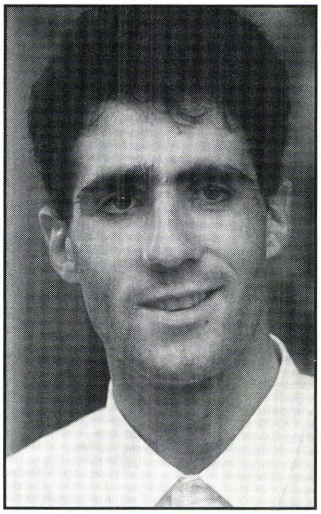
MADRID

MIGUEL INDURAIN

In Madrid financial circles, the banking group Banesto at times raises eyebrows when its directors announce some new project or acquisition which no one else quite sees the wisdom of. But that wasn't the case in December when the cycling team which Banesto sponsors signed champion rider Miguel Indurain to a new two-year contract for a cool $5 million.

In Europe, the 30-year-old cyclist is perhaps the best-known Spanish sports figure of the decade after winning the prestigious Tour de France race for the third straight year last July. That win followed by weeks his victory in the Giro d'Italia, the second time the young Basque had taken that title.

Curiously, Indurain has yet to win his home country's premier cycling event, the Vuelta de España, nor does it



seem he particularly wants to.

"I would love to win the Vuelta, but I would also like to go back and win the Giro and the Tour again and win the world championship," he says.

Right now the sky is the limit for the tall and handsome Indurain, who was born in 1964 into a humble farming family in the small town of Villava in the northern province of Navarra. One of five children, Miguel went out for track and field, but switched to competitive cycling when he learned that the winners received sandwiches and soft drinks as prizes.

And although he did well in local races, coaches and trainers thought he was way too tall and heavy to fulfill their idea of the ideal professional cyclist. But Indurain persisted, and at the age of 16, signed with the Reynolds team. Two seasons later, he was the amateur champion of Spain and in 1984 raced in the Summer Olympics in Los Angeles on the Spanish national team.

Over the next several

pean integration gradually ebbed, to be replaced by a more pragmatic and workman-like relationship in both democratic and republican administrations. Official support for a more unified Europe would rub up against competition for global markets and trade disputes of varying intensity.

As much as Washington set the rhetorical tone, the practical implications of European integration and unification were quickly grasped and acted upon by American corporations. To the distress of some Europeans, the corporate chiefs soon realized they could sell and operate in something close to a single market. A pace was set by such corporate leaders as Thomas Watson Jr. of IBM in one of the more effective transatlantic alliances with IBM's longtime European Vice-President, Jacques Maisonrouge. The most visible evidence of Americans creating a European-wide market was the competition between General Motors and Ford and such European-based executives as Robert Lutz. The names of American investment bankers—Richardson Dilworth of Kuhn Loeb, James Coggeshall of First Boston, and Frazier Wilde of Connecticut General are associated with underwriting of the first projects of the Coal and Steel Community. And though their efforts were slow bearing fruit, such bankers as John McCloy and David Rockefeller of Chase Manhattan and Walter Wriston of what would become Citibank were also among those foreseeing the potential of an integrated market.

In the past 50 years, the idea of a European Union has received some of its most unstinting support from the American press. How this directly translated into popular and congressional backing cannot be measured scientifically, but it certainly was a key factor in the early days and especially when newspapers were the dominant medium. The key opinion makers of that era were James Reston of *The New York Times* and Joseph Alsop and Walter Lippman, whose columns were syndicated nationwide by the old *New York Herald Tribune*. All were unswerving supporters of European integration and any American policies that bolstered it. To read the histories of the period and such memoirs as those of Monnet is to be reminded how much attention was paid to wooing and winning these columnists. Among them on this issue there was only one real dispute. Lippman, unlike his colleagues, remained an admirer of President de Gaulle, even when he took stands opposing US interests or further European integration.

—Michael D. Mosettig

years, Indurain honed his skills in the numerous local and provincial races and tours which clog the summer cycling season in Spain, events such as the Fuencarral Classico, the Aragon Cycling Week, the B1 Corte Inglés Classic, and the Tours of Navarra, Vizcaya, Toledo, and Andalucia.

A year after this international debut in Los Angeles, Indurain made splash in the Vuelta de España when he became, at age 20, the youngest rider ever to wear the leader's yellow jersey, only to lose it to fellow Spanish rider and future Tour de France champ, Pedro Delgado.

With his three victories in the Tour de France and his two consecutive wins in Italy, Indurain still has a way to go to equal such legendary cyclists as Eddy Merckx, Bernard Hinault, or Jacques Anquetil who all took the French race five times. (Not to mention Merckx's five, and Hinault's three, victories in the Italian Giro.)

But all three also notched up at least one win in the Vuelta de España, and until Indurain makes the effort to actively seek the winner's jersey in his home event and take it, the Basque rider will never be able to join the pantheon of true cycling greats.

—Benjamin Jones

LUXEMBOURG

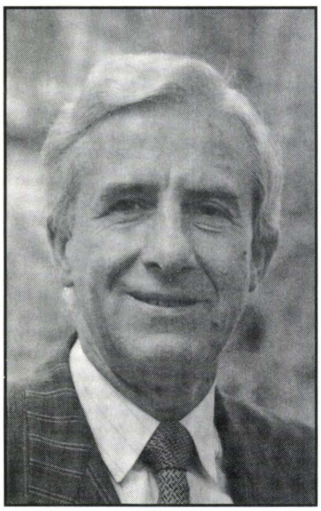
JACQUES POOS

Jacques F. Poos, Luxembourg's Foreign Minister, has perhaps been the country's most visible statesman this year, serving as the country's voice on the European Union's Council of Ministers during difficult discussions about a peace solution for battle-worn Bosnia and resurrecting the EU currency union envisioned at the Maastricht Summit.

Poos' interest and expertise in the EU traces back to his doctoral studies at the University of Lausanne, where he wrote his thesis on "Luxembourg's Role in the Common Market." After several years in government service, he became editor and director of the daily newspaper, *Tageblatt,* whose perspective is aligned closely to the Socialist Party. He was elected President of the Grand Duchy's Association of Editors and Journalists and served in this position until he was appointed Minister of Finance in 1979. A year later, he became Director of the Continental Bank of Luxembourg. In 1982 he joined the Paribas Bank. Two years later he was chosen to be Vice President of the Government and Minister of Foreign Affairs. In 1989 he became Vice Prime Minister and head of Foreign Affairs and Defense.

From January to June 1991, when the rotating Presidency of the Community's Council of Ministers switched to Luxembourg, it was Poos who presided. Then, the Council dealt with the Gulf War, nascent ethnic fights in former Yugoslavia, and negotiations on an EU treaty to further tighten the region's economic and political bonds.

In July 1993 he began a one-year chairmanship of the Council of Ministers of the Western European Union (WEU). Poos has said that his aim is "to promote a double role for (the WEU's) emerging European security and defense identity: as a tool for the Union's common foreign policy and as the enhancement of the European pillar in the Atlantic Alliance."



In a spring 1993 speech, Poos stressed two points that he believed were critical in shaping Europe's future. One is the expansion of the European Union from 12 to 16 members, which he saw as being essential to realizing Europe's global role and strengthening Pan-European stability. The other is the necessity of Europe resisting protectionist temptations. A "fortress" Europe would constrain the region's growth and run counter to the globalization of business and politics.

On domestic issues, Poos' remarks to a Belgian newspaper in October gained a great deal of attention. He raised the question that the decades-old Belgian-Luxembourg monetary association may be severed if the Belgian franc continued to fall in value in what was then another threat to the European Monetary System. Government deficits and a weak economy had triggered currency speculation against the Belgian franc. "As long as Belgium continues its strong franc policy, we will walk by its side," he said. "If it abandons this policy, we'll have to count on our own resources, that is the message we gave the Belgian government."

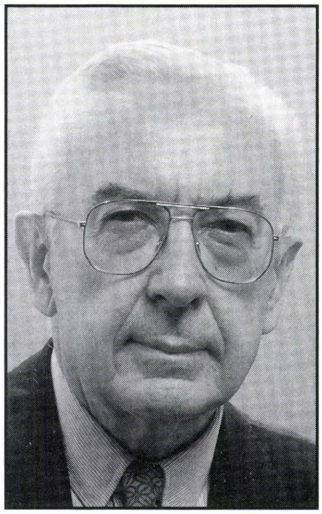
In private life, Poos who is married and the father of three children has been described as quiet and reserved. "Family life, friends, reading, and walking," he says, fill his "few moments of leisure."

—James D. Spellman

PARIS

JACQUES DE LAROSIÈRE

Inspiring as the vision of a United Europe may be, the past year has shown that turning the dream into reality is extremely hard work, with unexpected obstacles and some embarrassing mistakes along the way. A man not afraid to deal with either is Jacques de Larosière, 64, the new President of the European Bank for Reconstruction and Development (EBRD).



De Larosière was named to the post after the bank's founder, Jacques Attali, was forced to resign this spring when it became known that the bank was spending more money on itself than on helping the ailing East European economies. De Larosière now has the unenviable task of turning the EBRD back into a respectable institution that the 56 countries who are its shareholders can trust.

It is some measure of de Larosière's impeccable credentials that he, another Frenchman, was sent in to sort out his French predecessor's fiasco. The two Jacques could not be more different. Whereas Attali is a flamboyant visionary who invites media attention, de

Larosière is a quiet pragmatist who shies away from publicity.

Born in 1929, the son of an aristocratic naval officer, de Larosière received the classic education of a member of the French ruling class. After obtaining a BA in Arts and Law from the Sorbonne, he graduated with top honors from Science Po (Political Science) and ENA (National School of Administration)—the two *grandes écoles* which are France's most elite training schools for high flying civil servants.

His career path has been equally flawless. Beginning with the plum position of Inspecteur des Finances, he climbed steadily upward for 20 years, becoming Director of the French Treasury in 1974. (Colleagues remember him as being so intent on maintaining high standards that he even corrected the punctuation and verb tenses in his subordinates' memos.)

In 1978 he was sent to Washington to head the IMF. There he learned to speak perfect English, built up a network of important international contacts and earned general admiration for his deft handling of the Mexican debt crisis.

His next move was in 1987, when he came back to France to take over as Governor of the Banque de France, the country's central bank. As an arch-monetarist, he fought with quiet determination for a strong franc; as a convinced European, he advised his friend Jacques Delors on plans for EMU and for the drawing up of the Maastricht Treaty.

Reluctant to grant interviews about his work, he keeps his private life completely hidden from view. Married for the past 33 years, with two grown children, he once admitted: "It is with my family that I feel happy." (Friends temper the rather bloodless impression he gives by saying that he is unfailingly loyal and kind and that in his spare time likes to read the great French romantic novelists and listen to Bach and Beethoven.)

He has survived the shifts of conservative and socialist governments with the serenity of a statesman who has stayed above the political fray. He sails through crises with the same aplomb as the present French Prime Minister, Edouard Balladur, whom he also resembles in Old World courtesy and aristocratic bearing. Currently, he is busy streamlining the EBRD's structure: The Merchant and Development banking divisions have been merged and operations reorganized along geographical lines. The bank's bruised shareholders and worried Eastern European nations can now breathe a sigh of relief; with de Larosière their future is in the safest pair of hands in the business.

—Ester Laushway

Mr. De Larosière will be interviewed in the March issue of EUROPE.

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NEWSMAKERS

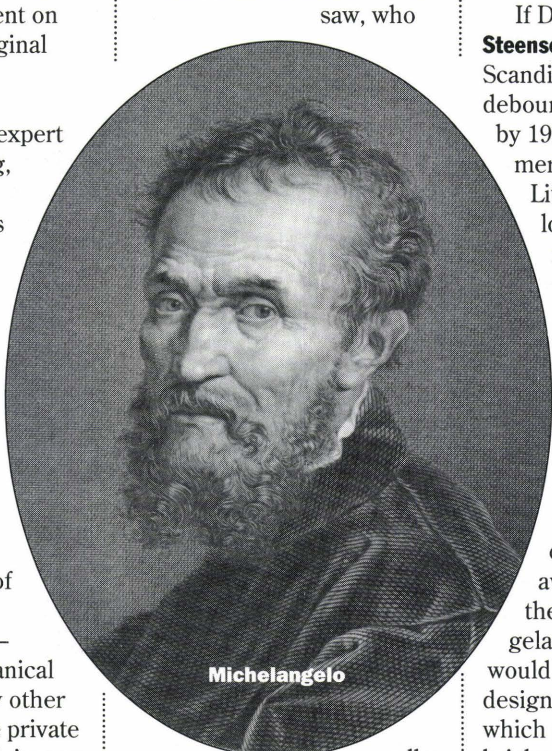
One of Milan's most famous buildings, the 16th century Palazzo Orsini, has been bought for $42 million by Italy's best-known couturier, **Giorgio Armani**. The palace, which has stood empty for more than two years, was previously used as a club where Italian business tycoons like the **Agnelli** family and **Carlo de Benedetti** met to hash out deals. It will now become the headquarters for the Armani clothing group, after another small fortune has been spent on restoring it to its original glory.

• • •

After 14 years of expert rubbing and dabbing, **Michelangelo's** vast frescoes on the walls and ceilings of the Sistine Chapel in the Vatican will soon be completely restored. The wall fresco of *The Last Judgment*, which he painted between 1536 and 1541, will be more eye-catching than it has been for centuries. Most of the 38 *braghe*—breeches of drapes—which in more puritanical times were added by other painters to cover the private parts of Michelangelo's monumental nudes, are being stripped away to reveal all.

The few draperies which will remain are the work of **Daniele da Volterra**, who was so talented a cover-up artist that he earned himself the nickname of *il braghetonne*—the breeches-maker.

But all the less artistic lingerie is coming off, to mixed reactions of delight and outrage. There really is not all that much to fuss about: Michelangelo realized that the fresco, which is behind the altar, would have all eyes on it during mass, and reduced the dimensions of the parts in question to less than life-size.



Michelangelo

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For the first time since the prize was created seven years ago, the Women of Europe Award is being shared. The joint winners are two humanitarian aid campaigners, one from Spain, the other from Poland. They were selected from 13 national finalists as the two women who had made the most valuable contribution to European integration in 1993.

Janine Olchoska from Warsaw, who walks with crutches because of a severe bout of polio as a child, first became interested in helping others 10 years ago, when she had to spend a year in a hospital in France. While there, she began working with the aid organization Amitié Pologne, which became the Equilibre Foundation in 1989. As its director, Olchoska organizes the dispatch of urgent relief supplies to the former Yugoslavia. Of her efforts she says, "Some might say that the situation of Poland does not justify doing something for others. But if we have bread, we can also divide it. If we wait until we are rich, nothing will happen."

Paquita Sauquillo, a socialist senator in the Spanish Parliament, was thrown in jail in 1976 for criticizing General Franco's regime and supporting Spain's entry into the EC. Later, as a lawyer, she campaigned for workers' rights, and now, as President of the Movement for Peace, Disarmament and Freedom, she continues to fight against racism and violence.

• • •

If Danish farmer **Vincens Steensen-Lith** has his way, Scandinavia will have a Glyndebourne-style opera festival by 1997—housed in his former cowshed. Steensen-Lith has persuaded local, national, and European authorities of the viability of his project and is now just waiting for the EU to cough up half of the estimated $20 million cost.

The opera house, with a planned capacity of 1,200, would be only 5 minutes' walk away from the sea, on the Danish island of Langeland. Its architecture would respect the existing designs of the cow stalls, which are dignified affairs of brick and stone.

"We will be performing everything from Monteverdi to Britten, but quality will be our priority," explained Steensen-Lith. "We hope to attract some international talent, but mainly we want to 'discover' singers before they become famous."

• • •

This spring one of the world's greatest collections of classical music will come out of Russia with the help of equipment once used by the KGB to bug dissidents' homes.

Tristan Del, a California-based radio and television producer, has carried off one of the great cultural coups of the end of this century. While in Moscow to film a music program, he stumbled across the huge archives of Russian state radio that were gathering dust in a warehouse. Most of the 1.2 million tapes are dull political speeches, but at least 300,000 are recordings of classical music. Among them are such gems as **Dmitri Shostakovich** playing his own works for piano, the premier of **Benjamin Britten's** cello concerto, and American bass **Paul Robeson** singing in Russian.

To improve the quality of the tapes, technology developed by the KGB to pick up far-off speech vibrations has been coupled with digital rerecording. The results, expected to be worth several billion dollars, will start being released within the next few months. Del, who has had to fight off both the old Russian musical establishment and jealous Western companies, is delighted with his find, which he describes as "the largest record catalog in the world."

• • •

On February 27, when the Lillehammer Winter Olympic Games become history, a "green" dog-sledge expedition will set out from Norway in the direction of Nagano, Japan, the host city of the 1998 Winter Games. Four sledges pulled by 60 dogs will travel 10,000 miles across the Kola peninsula, through Siberia and the Bering Strait, to urge the Japanese to make their games as environmentally clean as possible. They will use only skis, dog sledges, kayaks, and a sailing boat, and they plan to arrive in Nagano in Autumn 1995.

—Ester Laushway

ARTS & LEISURE

ART

The Age of the Baroque in Portugal

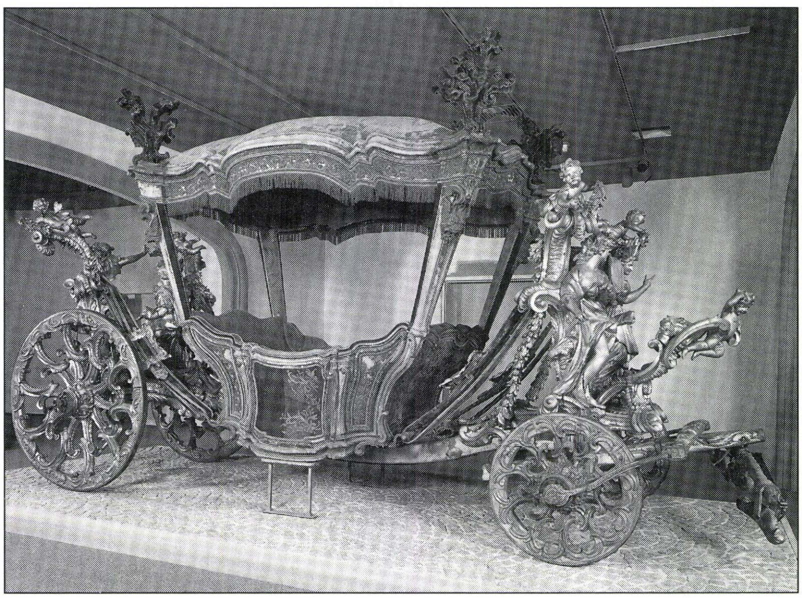
National Gallery of Art, Washington, DC; through April 3, 1994

The National Gallery of Art in Washington, DC is currently hosting the exhibit *The Age of the Baroque in Portugal*, the first ever major art exhibit sent from Portugal to the United States. The exhibit, organized by the National Gallery and the Portuguese Secretary of State for Culture through the Instituto Português de Museus, includes more than 120 objects spanning the era of opulence in 18th century Portugal.

The exhibit focuses on art from the reigns of Dom João V (ruled 1706–1750) and Dom José (ruled from 1750–1777.) During these reigns, Portugal was reaping the benefits of the newly discovered riches of the New World, mainly from its colony in Brazil. This wealth allowed these leaders to bring commissioned artists from all over Europe to Portugal to toil in their crafts, especially in the decorative arts.

The Baroque Period in Portugal is generally associated with the reign of Dom João V. Under his reign from 1706 to 1750 the visual arts flourished in Portugal. Both domestic and foreign artists were commissioned, giving this artistic period a diversity of styles in works produced and purchased. In 1755, a devastating earthquake hit Lisbon, destroying much of the city and its decorative arts. This event brought the Age of Baroque to an end but ushered in the Age of Enlightenment. Dom José's all powerful minister Marquês de Pombal oversaw the reconstruction of Lisbon and planned the new construction following a rational design of city planning and the more austere Pombaline style replaced the more elaborate Baroque styles. At the same time, a new age of educational and governmental reforms swept Portugal under the reign of Dom José. Examples of scientific instruments from the University of Coimbra displayed at the exhibit represent the spirit and values of this new age.

The exhibit is divided into four exhibits, each detailing the works of that era. The *Private Life* exhibit features art created for the nobility of the time. Table silver, decorative furniture, jewels, and collections of painted tiles (*azulejos*) are among the private works displayed. Also included in a separate exhibit is a massive 66-foot blue and white *azulejo* depicting the Lisbon skyline as it appeared in the early 18th century. This work, known as *View of Lisbon* , is a classic example of these tile paintings that were popular in Portugal at the time. The exhibit *Scientific Instruments from the University of Coimbra* features numerous unusual scientific instruments from the era. The *Royal Court* section highlights works commissioned by the throne. The silverwork of French royal silversmith François-Thomas Germain and selections from the Portuguese crown jewels are on display. Another section focuses on *The Arts in the Service of Religion*, and includes rarely seen silk vestments from the Treasury of Lisbon Cathedral and a gilded wood altarpiece more than 22 feet high from the Church of São Francisco in Évora.



The First Nobel Coach of the Embassy of the Marquês de Fontes to the Papal Court

An entire exhibit is dedicated to a gilded coach entitled *The First Noble Coach of the Embassy of the Marquês de Fontes to the Papal Court.* This splendid coach, which is almost 24 feet long, was constructed in 1716 for the Ambassador's procession that was received in Rome by Pope Clement XI. This procession was of key importance to the King of Portugal as well as the rest of the royalty of Catholic Europe because of the ongoing power struggle for royal autonomy between kings and the Church. Apparently, the visual impression of the procession served Portugal well as the Pope granted a special concession to the Portuguese throne.

The frame of this intricate coach is constructed of gilded iron, copper, and carved wood while the body is surrounded in crimson velvet embroidered with gold thread and decorated in gold fringe. Adorned with gilded carvings of allegorical figures representing the eternal [Portugal], the coach is an astounding example of the opulence devoted to such processions. According to Jay A. Stevenson, coordinating curator of the exhibit, "*The First Noble Coach*, a rare survival of the type of elaborate vehicle that figured in grand ceremonies of baroque Europe, wonderfully evokes the magnificence that surrounded the court of King João V of Portugal." Although its days of transporting royalty and ambassadors may be over, the coach now serves to transport museum goers back to 18th century Portugal, giving them a firsthand account of the riches of the time.

The exhibit runs through April 3 at the National Gallery of Art in Washington, DC. For more information call (202) 737-4215.

—Michael Panetta

The Currency of Fame: Portrait Medals of the Renaissance

National Gallery of Art, Washington, DC; through May 1, 1994; The Frick Collection, New York; May 24 to August 22, 1994; National Gallery of Scotland, Edinburgh; Sept. 22 to Dec. 20, 1994

The first major survey of its kind in the United States, *The Currency of Fame: Portrait Medals of the Renaissance* features over 200 medals from Italy, Germany, France, and the Netherlands. The medals combine portraiture, narrative text, iconographic puzzles, and historical references, and are considered to be archetypal expressions of Renaissance culture, celebrating humanism and the individual. As a durable object that could easily be reproduced and distributed, the portrait medal provided a lasting testament to the sitter's achievements. Most medals feature the sitter's profile with an identifying inscription on one side, the reverse being embellished with heraldry, allegories, symbolic devices, or narrative scenes related to the subject, in some cases surrounded by mottoes, epigrams, or historical data.

The basic form of the Renaissance portrait medal was created in 1438 by Antonio Pisano, known as "Pisanello" (c. 1395-1455), who, on the occasion of the Council of Ferrara, cast a commemorative medal (included in the exhibit) showing the Byzantine Emperor, John VIII Paleologus. His work, unsurpassed in quality, is distinguished by precisely drawn profiles, elegant lettering, and subtle modeling—all balanced within a tiny circle. Throughout the 15th and 16th centuries, the form flourished within Italy and spread to other European countries as Italian artists traveled throughout the Holy Roman Empire, which encompassed the Netherlands, Belgium, Spain, and Germany. The fashion reached France after that country's invasion of Italy in 1494 and flourished under François I. Among the most prominent Italian medalists were Sperandio of Mantua (c. 1425-1504) and Niccolò Fiorentino (1430-1514), whose robust, sculptural styles were a departure from Pisanello's painterly approach. The 16th century, dominated by the Milanese school, was characterized by greater attention to detail and virtuosity of technique. It was also during this period that the artists began handling the wax used for the models in a spectacular way—the model became an end in itself. Antonio Abondio, for example, produced colored wax models that were no longer meant to be used for casting medals. While Italian medals were cast from wax models, German medalists adapted the process, carving their models from wood or stone; this resulted in a more linear, precise style. The nearly 60 German examples in the exhibit include several models, including extraordinary wood carvings by Friedrich Hagenauer.

Pisanello's Don Iñigo d'Avalos, Chamberlain of the Kingdom of Naples

Renaissance portrait medals, like ancient Roman and Greek coins, were intended to perpetuate an individual's fame and personality, and indeed their roots are in these coins. There are, however, important differences in size and practical use. Coins must be uniform in size and weight, but no such restrictions existed for portrait medals. The one on exhibit of Henri IV and Marie de'Medici, for example, is over seven inches in diameter. Whereas coins were circulated as currency, medals, which had no currency value, were given as tokens of esteem (from a prince to a general, for example), collected, and exchanged, much like autographed photos today. Smaller ones were often mounted and worn. Medals featuring the popes were reproduced in great number and tossed to crowds.

According to art historian Stephen K. Scher, guest curator of the exhibit, portrait medals go beyond conventional portraiture: "When you see a painted portrait or sculptured bust, you don't learn much more about the person than you already knew. Medals impart additional information through a wide variety of images and text. It may be simply a coat of arms, pure text, a description of the person, or an accomplishment. A quote from the Bible may be used to indicate the sitter's religious affiliation or reflect his or her piety. Most fashionable of all were the emblems, a secret and very rich language of symbolism and allegory."

Although portrait medals no longer play the role they once did, they are still around. Mints around the world, including the United States Mint, continue to strike commemorative medals, and some contemporary artists have been experimenting with the form. As can be seen from the medals in the *Currency of Fame* exhibit, however, this art form hit its peak during the Renaissance because it embodied the main concerns of that age: fame, virtue, immortality, and the rebirth of antiquity. The medals on exhibit, cast in bronze, lead, gold, and silver, are both objects of great beauty and valuable historical documents.

—Lauren Ptito

New Issue
October 29, 1993

All these Bonds having been sold, this announcement appears as a matter of record only.

EUROPEAN INVESTMENT BANK

LUXEMBOURG

DM 500,000,000
5 3/4 % Bonds 1993/1998

WESTDEUTSCHE LANDESBANK
GIROZENTRALE

BAYERISCHE LANDESBANK GIROZENTRALE	COMMERZBANK AKTIENGESELLSCHAFT	CSFB-EFFECTENBANK AKTIENGESELLSCHAFT
DAIWA EUROPE (DEUTSCHLAND) GMBH	DEUTSCHE BANK AKTIENGESELLSCHAFT	DRESDNER BANK AKTIENGESELLSCHAFT
GOLDMAN, SACHS & CO. OHG	J.P. MORGAN GMBH	SCHWEIZERISCHE BANKGESELLSCHAFT (DEUTSCHLAND) AG
	SCHWEIZERISCHER BANKVEREIN (DEUTSCHLAND) AG	
ABN AMRO BANK (DEUTSCHLAND) AG	BANCA COMMERCIALE ITALIANA	BANCA NAZIONALE DEL LAVORO
BANK BRUSSEL LAMBERT N.V.	BANQUE NATIONALE DE PARIS S.A. & CO. (DEUTSCHLAND) OHG	BANQUE PARIBAS (DEUTSCHLAND) OHG
BAYERISCHE HYPOTHEKEN- UND WECHSEL-BANK AKTIENGESELLSCHAFT	BAYERISCHE VEREINSBANK AKTIENGESELLSCHAFT	BFG BANK AG
CAISSE DES DEPOTS ET CONSIGNATIONS GMBH	CCF-CRT BANK	CREDITO ITALIANO
DEUTSCHE GIROZENTRALE – DEUTSCHE KOMMUNALBANK –	DG BANK DEUTSCHE GENOSSENSCHAFTSBANK	GENERALE BANK
HELABA FRANKFURT LANDESBANK HESSEN - THÜRINGEN	IMI BANK (LUX) S.A.	INDUSTRIEBANK VON JAPAN (DEUTSCHLAND) AKTIENGESELLSCHAFT
INTERNATIONALE NEDERLANDEN BANK N.V.	KREDIETBANK INTERNATIONAL GROUP	MERRILL LYNCH BANK AG
MORGAN STANLEY GMBH	NIKKO BANK (DEUTSCHLAND) GMBH	NOMURA BANK (DEUTSCHLAND) GMBH
SALOMON BROTHERS AG	SOCIETE GENERALE - ELSÄSSISCHE BANK & CO.	SÜDWESTDEUTSCHE LANDESBANK GIROZENTRALE
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