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November 1997

EUROPE's Emerging Foreign Policy

PROFITABILITY • OPPORTUNITY • ACCESSABILITY

PORTUGAL SETS SAIL FOR THE FUTURE

Portugal has a history of exploring new horizons. In the 15th century, famous Portuguese navigators like Vasco de Gama pioneered the concept of international trade by opening up new routes to India, Africa, Brazil and Japan. Now, 500 years later, this small country perched on Europe's southwestern Atlantic shore is once again showing the world how far it is possible to go with a global outlook.

Over the last decade, Portugal has developed into one of Europe's most dynamic and forward-looking economies, outperforming most of its bigger European Union colleagues. It has made huge strides since 1986, when it joined the EU. Per capita income has climbed from $3,000 to over $11,000, while inflation has sunk from double digits to an all-time low near 2.5 per cent and unemployment averages only 7 per cent, compared to the EU's 11 per cent.

"I have worked in many places in the world, and as far as I am concerned, the Portuguese work force is one of the most dedicated and hard-working. Indeed, you could even say this is a cultural trait of the Portuguese."

—José Morais, general manager of TI-Samsung, Portugal

From being considered a picturesque backwater whose main assets were gifts of nature—stunning scenery, pristine beaches and wonderful weather—Portugal is now recognized as a prime business location. In fact, this pint-sized powerhouse has made such impressive progress that by the end of the year it will have left the ranks of emerging markets in the Morgan Stanley Capital International Indices (MSCI) and be listed as a developed market.

Extensive privatization efforts have helped it to achieve that upgrading. So far, the national telecommunications network, cement, electricity and the banks have been largely sold to the private sector, and soon to join them are airports and the gas industry.

Dr. Luis Morais, chief of staff for the Secretary of State for Finance, also credits privatization for playing a vital role in preparing Portugal to be among the first countries ready to join European Monetary Union in 1999. "The acceleration of our privatization effort is a major factor in fulfilling the EU criteria to participate in the euro," he says. Portugal's energetic re-structuring of its economy, combining public sector privatization with private sector modernization, has proven to be an irresistible draw for direct foreign investment. Between 1990 and 1995, more than $21.1 billion were invested in Portugal from off-shore sources.

International companies are attracted by its political and social stability, a business-friendly government offering a host of incentives, including the lowest corporate tax rate in Europe, a well-developed technological base, modern infrastructure, easy access to the entire EU market and to Africa and above all, a hard-working, reliable and well-educated labor force. Portugal's workers get rave reviews from foreign firms who have relocated there. Whereas wages and absenteeism are among the lowest in Europe, productivity is exceptionally high. The TI-Samsung plant, a joint venture between Texas Instruments and Samsung of Korea, was set up in 1993 to produce computer memory chips and advanced logic products. General manager José Morais has nothing but praise for the local workers: "I have worked in many places in the world, and as far as I am concerned, the Portuguese work force is one of the most dedicated and hard-working. Indeed, you could even say this is a cultural trait of the Portuguese."

Another national characteristic is enthusiasm for the future. The same enterprising spirit which sent Vasco de Gama off 500 years ago on his voyage to India, is guiding the plans for Expo '98, the last World Fair of the century, being held in Lisbon from May–September 1998.

Far more than a spectacular tourist attraction, expected to draw more than 10 million visitors, it is one of the greatest urban renewal projects in Europe. An impoverished, run-down area of East Lisbon is being transformed into a brand-new community which will give the entire Portuguese capital improved transportation, cultural, recreational, residential and commercial facilities.

After Expo '98 and EMU in 1999, Portugal has another important date on its calendar, one in keeping with its long, proud history of exploration. On January 1, 2000, it will assume the rotating six-month presidency of the EU Council, thus steering the European Union into the new millennium.

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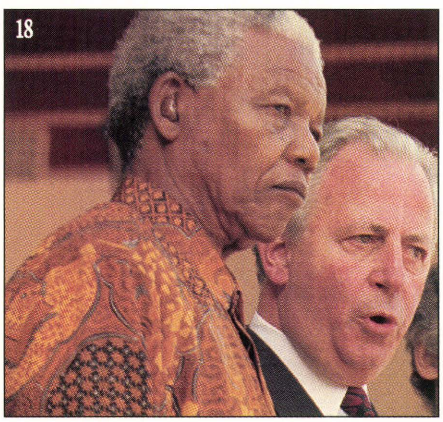

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Letter from the Editor

While most of the attention at the moment in Brussels is focused on the introduction of the new single currency, the euro, and enlarging the European Union to include new members, it is important to point out that the EU countries are working together to form a coherent foreign policy. As Lionel Barber reports from Brussels, the Common Foreign and Security Policy (CFSP) of the European Union has a great asset: money. "In 1995, the EU gave Russia $1.5 billion to assist the transition to democracy, seven times as much as the US. EU humanitarian aid in 1996 was almost $2 billion, one-third more than the US. The Europeans are also outspending the Americans in Central and Eastern Europe."

Europe's emerging foreign policy.

EUROPE looks at EU policy toward Latin America, the Mediterranean and Africa, and Asia in our special report on "Europe's Emerging Foreign Policy." The European Union is forming a strong presence in Latin America. As Axel Krause reports from Paris, "Surprisingly some of the renewed European interest in Latin America is coming from Eastern Europe and Nordic countries." From Fiat to France Telecom to Airbus to Volkswagen, European firms are finding new markets throughout Latin America.

David Lennon, writing from London, says the Mediterranean region and Africa are areas "that can no longer be ignored." He goes on to relate the large amount of trade that has developed between the EU and the Mediterranean countries stating that "the EU is the Mediterranean countries' chief economic and trading partner."

"The European Union is rediscovering East Asia," writes Lionel Barber, who has just returned from Thailand and Hong Kong. While "trade continues to be the crux of the relationship between the EU and Asia" other important contacts in the political field are growing.

Samantha McArthur, based in Lisbon, discusses how Portugal's popular leader is "wagering his political reputation on Portugal joining EMU in the first wave of countries."

South Carolina and Europe? The two don't immediately seem to go together but as Fred Monk, the chief business corespondent of the *State*, South Carolina's largest newspaper, argues, "South Carolina's ties with European countries run deep and are getting deeper." From BMW to smaller EU firms, Monk points out the dramatic increase in trade between this beautiful southern state and Europe.

Expo '98, is coming to Lisbon. *EUROPE* tells you how to enjoy Expo '98, which begins next May. How about whale watching in the Azores? We explore these enchanting Portuguese islands for our readers contemplating a winter getaway.

Robert J Guttman

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Editor-in-Chief

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Reuters has contributed to news reports in this issue of *EUROPE.*

EYE ON THE EU

Profiling Personalities and Developments Within the European Union

The Council of Europe, based in Strasbourg, is often confused with the European Community, and the judgments of its European Court of Human Rights are frequently credited to (or blamed on) those of the EU's European Court of Justice, in Luxembourg. In fact, these bodies are totally distinct, though the confusion is perhaps compounded by the fact that all of the EU's 15 member states are included among the now 40 members of the Council of Europe (CE).

Not only are the two bodies distinct, but there is a fairly clear-cut division between their fields of responsibility, the CE restricting itself mainly to cultural affairs, and crucially, human rights defined in the widest sense. Another big difference between the organizations is that, whereas decisions by the EU are binding on its members, the CE adopts conventions and protocols to which its members are invited to adhere but are not required to do so.

Over the years there has been very little rivalry between the organizations, which see themselves as complementary rather than competitive. Now, however, there is one field in which the EU may be able to learn some useful lessons from the CE's recent experience.

In the years since the end of the cold war, some 16 states in Central and Eastern Europe have been admitted to membership of the CE. All of them were required to give explicit undertakings concerning the protection of human rights and respect for the treatment of minorities. It was made clear that the rump of Yugoslavia (Serbia-Montenegro) would not be a welcome candidate, and the membership of several others, notably Russia, Ukraine, and Croatia, was delayed because of doubts about the credibility of their undertakings.

For the same reason, Belarus is still being kept out, four years after it applied, while Bosnia-Herzegovina, Armenia, Georgia, and Azerbaijan have been granted only "special guest" status, pending firmer evidence of their democratic credentials.

It is clear that these countries crave CE membership partly as a certificate of their democratic respectability and acceptance within the European mainstream. At least, some of them clearly see the CE as a sort of antechamber, believing that if they can prove themselves as reliable and constructive members it will improve their chances of being accepted later into the more exclusive European Union.

For Russia and Ukraine, membership may be seen as some sort of compensation for their exclusion—for the foreseeable future—from both the EU and NATO. President Yeltsin, who attended last month's CE summit (along with Tony Blair, Jacques Chirac, Helmut Kohl, and other leaders) in Strasbourg, clearly attaches great importance to the CE. In order to gain admission, he promised to secure the abolition of the death penalty in Russia, in accordance with one of the CE's conventions.

Yeltsin has not yet succeeded in persuading the Russian Duma to do this, but he has put a stop to all executions. There were 140 of these in the Russian Federation in 1996, but not a single one in 1997, except for a notorious public execution in Chechnya, carried out against the wishes of the Russian authorities. In the Ukraine, too, which gave the same undertaking, executions fell from 167 in 1996 to none in 1997.

The CE regards the improvement of human rights in Eastern Europe, and in particular the treatment of minorities, as one of the major successes of its enlargement. Yet there has been some backsliding. The Slovak government of Vladimir Meciar, admitted as a successor state to Czechoslovakia, has not kept to its undertakings, and nor has President Franjo Tudjman in Croatia. It is partly for this reason that Slovakia is now regarded as a very doubtful candidate for early EU membership, while the neighboring Czech Republic is strongly tipped to be one of the first candidates for admission.

There are other important reasons for CE membership. But as a probationary period before entry to the EU, it certainly has its uses.

—Dick Leonard

VIRTUAL VILLAS

Extended travelogues such as Peter Mayle's *A Year in Provence* have prompted many a European vacation away from bustling hotels and dinners out every night. Travelers try to make a home away from home—even if only for a week or two—in the Tuscan hills or on Spain's Costa del Sol. In addition to soaking up some local color, it's possible to stretch travel dollars further by staying at rental properties. And as several Web sites demonstrate, a little bit of hunting will turn up accommodations to fit both youth hostel graduates and jet-setters.

The Web is home to basically two types of sites offering vacation properties. Some are agencies that manage the rental of villas, apartments, or even castles. They handle bookings and set certain quality standards. The others are similar to bulletin boards, where owners post rentals and those interested contact them, generally by e-mail. Those sites offer no guarantees about the properties and no information other than what the owner has provided.

Cyberrentals (www.cyberrentals.com), a bulletin board site, offers both US and European rentals. For $9 a month, an owner can post a description, color pictures, and links to any related sites. European properties available recently were limited in number but economical. A one-bedroom apartment in Innsbruck, Austria, was advertised for $650 to $1,000 per week, depending on the season. A three-bedroom farmhouse near Cork, Ireland, was $225–$500. The lack of a middleman usually means a good price, but vacationers must believe that the owners are truthful in their advertising. Before committing, ask for references and call them.

The agency sites tend to start at prices somewhat higher. RentVillas (www.rentvillas.com), the site of a California-based company, taps into an Italian rental company that boasts 12,000 properties. It also features villas and farmhouses in France, Spain, and Portugal. A recent sampling included a farmhouse near Lucca, Italy, for as many as six people for $1,509–$2,175 per week plus electricity. A home for six in Portugal's Algarve region with a swimming pool and maid service went for $1,200–$2,095. The company's owner, Suzanne Pidduck, has rented one or two of the properties listed over the past 13 years and shares some of her knowledge on the offerings. Each property also has comments from others who have stayed there.

Villas International, a 15-year-old company handling vacation rentals, had a surprising site (www.graphion.com/villas). It touts properties in many major European cities and popular coastal areas, but gives details on none. One picture of a nameless villa is the only visual attraction. The site does include an "average price guide." Weekly rentals range from $400 during the off-season for a one-bedroom country cottage sleeping two to four people to $5,000 during peak-season for a four-bedroom villa with a pool. The price range makes Villas International worth considering, but a printed catalog is the only way to obtain the pertinent information.

Those planning or dreaming of a luxury vacation should visit the Overseas Connection site (www.overseasvillas.com). It has lots of pictures and a searchable database for destination, size of the property, and price. But expect no bargains here. On the high end of the luxury scale is Jane Seymour's country home in Bath, England. The eight-bedroom, six-and-a-half-bath St. Catherine's Court comes with a maid, cook, gardener, pool, tennis court, and access to the local polo club. As many as 16 people can reserve the Renaissance-style castle for $13,000 per week. Franco Zefirelli's villa near Positano, Italy, is also for rent. And a three-bedroom penthouse in the Seventh Arrondissement of Paris will set guests back $5,500 (chauffeur extra).

Renters at St. Catherine's Court probably won't get to know many of the local townsfolk in Bath, but settling into someone else's home, be it palatial or modest, is an appealing travel option. Perhaps an enterprising Frenchman or American will send hoards of vacationers to the English countryside with *A Week in Avon*.

INTERACTING

One of the most interesting aspects to the Internet is its interactivity. Anyone can add his or her two cents to a global forum on any number of issues by creating a Web page, joining in a chat room, or posting a message on a Usenet newsgroup. The last option is possibly the least talked about and most misunderstood service available through the Internet. Started in 1979, Usenet was a method of posting messages between two computers. That

communication grew into thousands of topical forums, where subscribers post messages, or articles, similar to how one would post a note on a bulletin board. Some questions or comments can fuel a discussion for weeks, and some get no replies. Although expletives and obscenities can be found, they don't typify newsgroup users. Politics, technology, business, sports, and recreation are among the topics discussed daily, and new contributors are welcome.

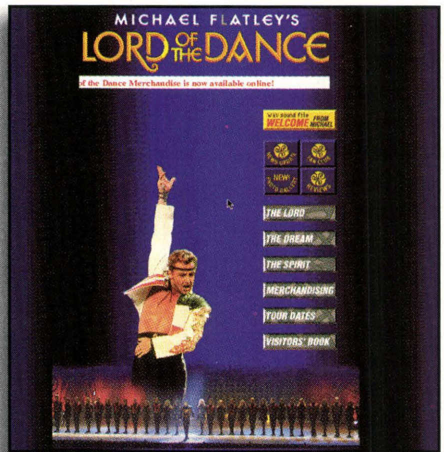
Before diving in, however, it's helpful to read up on what Usenet is and how to use it. The Deja News Web site (www.dejanews.com) is an excellent source of information on how to post an article and the nuances of newsgroup etiquette. Sending an advertisement or an article that doesn't relate to a newsgroup, for example, would qualify as a Usenet faux pas. The site also has a database of what is being talked about on some 15,000 newsgroups over the past year or so. Entering "skiing in the Alps" in the site's search engine found 122 hits. Each item included the author of the article, the date it appeared, and the newsgroup to which it was posted. Deja News even allows users to post articles to Usenet through its Web site. Several Web search engines, such as nfoseek (www.infoseek.com), WebCrawler (www.webcrawler.com), and Lycos (www.lycos.com), have been impressed enough with Deja News to incorporate its database onto their services.

The University of North Carolina also offers a guide to Usenet geared toward newcomers (sunsite.unc.com.edu/usenet-i/). It covers the history of Usenet, how someone would go about creating a newsgroup, and developing a writing style for newsgroups. It also includes information on software choices for accessing Usenet and where to find them. The pages are gray and less user-friendly than Deja News, but anyone looking for the textbook approach to Usenet can find it here.

The pairing of the Deja News and Sunsite should provide anyone interested in exploring Usenet newsgroups with enough information to find the topics that interest them and feel confident enough to chime in.

SITES OF THE MONTH: 'DANCE' FEVER

Who would have predicted that Irish dance would graduate from St. Patrick's Day parades to sold-out arenas. Michael Flatley may have. In the past three years, the Chicago-born son of Irish immigrants has gone from one of the best performers in a seldom seen art form to an internationally known celebrity. As the main choreographer and principal dancer of *Riverdance*, he helped blend traditional Irish dancing with tap and modern movement. Flatley then defected to form his own show *The Lord of the Dance*. The two shows are touring the globe and engaging in a media blitz once reserved for Andrew



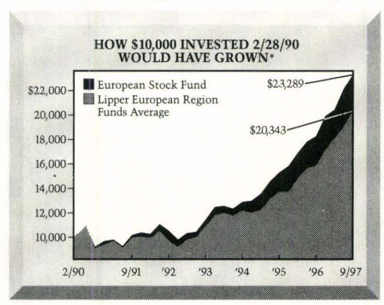
Lloyd Webber productions.

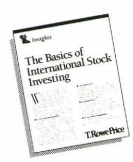
Both shows also have their own Web sites to let fans keep track of their schedules, read up on the performers, and purchase related merchandise. The *Riverdance* site (www.riverdance.com) is available in six languages. It gives a brief history—from its birth at a 1994 Eurovision television special to a full-fledged show—along with performers' biographies and a story line. Tour dates in the United States, Europe, and Australia are posted through the end of 1998. Sound and video clips of parts of the performance are the most visually interesting portions of the site.

The Lord of the Dance site (www.lordofthedance.com) is bold if nothing else. The words "Do...you...wanna...dance?" flash across a black screen and then a large image of Flatley appears on a dazzling blue background with the show's name glittering in gold letters. It becomes apparent that the site is more about "the Lord" than the production as Flatley gets a biography effusive in its praise and the rest of the cast gets name mention only. Those looking for a glimpse of what they might see on stage can check out video clips as well as sound from the show. Unfortunately the site recently wasn't much help on the touring schedule as performance listings were about two months behind.

The Lord of the Dance site gets high marks for its design but lacks in its commitment to keeping information timely. *Riverdance* could use a bit more imagination in its site's appearance, but it does a solid job of keeping fans up to date.

—Christina Barron





PORTUGAL'S TOP PRIORITY THE EURO

By Samantha McArthur

Last summer dozens of pensioners living on remote farms in southern Portugal handed over their life savings to con artists who promised to swap their escudos for the new European single currency. The crooks told the pensioners the escudo would soon be worthless and would need to be exchanged for the euro. The fact that the trick worked shows just what a good job the government has done selling the idea of Portugal's euro membership to the population. Almost every week a government minister pops up on television to remind the nation that Portugal is on track for economic and monetary union (EMU). But, as the duped pensioners found to their cost, the euro is still a political and economic concept. It doesn't buy a loaf of bread.

Portuguese travelers won't have to exchange escudos for other EU currencies once the euro is in place.

Although doubts over whether key EU members France and Germany will meet the Maastricht criteria for the single currency have rocked the EMU boat recently, Portugal remains on course and strongly committed. The euro has broad public support with 60 percent of the population in favor of its introduction compared with 20 percent against.

Northern European nations have a tendency to lump the weaker currencies of southern Europe together under the so-called "Club Med" label, a term which exasperates Atlantic-lying Portugal. As Finance Minister Antonio Sousa Franco protested recently, "Portugal is not even a Mediterranean country whereas France is!"

More to the point, Portugal's economy

Portugal's Prime Minister Antonio Guterres (left) and Finance Minister Antonio Sousa Franco (right) have made joining the euro from its inception in 1999 their top priority.

has few of the unstable attributes implied in the "Club Med" catch phrase. In a recent economic report, Barclays Bank said Portugal was better placed than Spain or Italy to join the single currency. It may even be as well qualified as Germany. Inflation is running at a modest year-on-year 1.7 percent, compared with Germany's 2.1 percent. The government expects economic growth of 3.5 percent this year, one percentage point above the EU average. The all-important budget deficit, which must not exceed the Maastricht ceiling of 3 percent of gross domestic product (GDP) this year, is expected to come in at 2.9 percent while many economists believe Germany's deficit will surpass the limit. Announcing that the 1996 deficit was a full percentage point below the 4.2 percent originally forecast, Mr. Sousa Franco recently reiterated the government's mantra, "Portugal is well on the way to meeting its objective of being in the hardcore of countries to launch the single currency." Public debt is still a problem and is more than the 60 percent of GDP stipulated by Maastricht, but it is falling, while in Germany debt levels are rising.

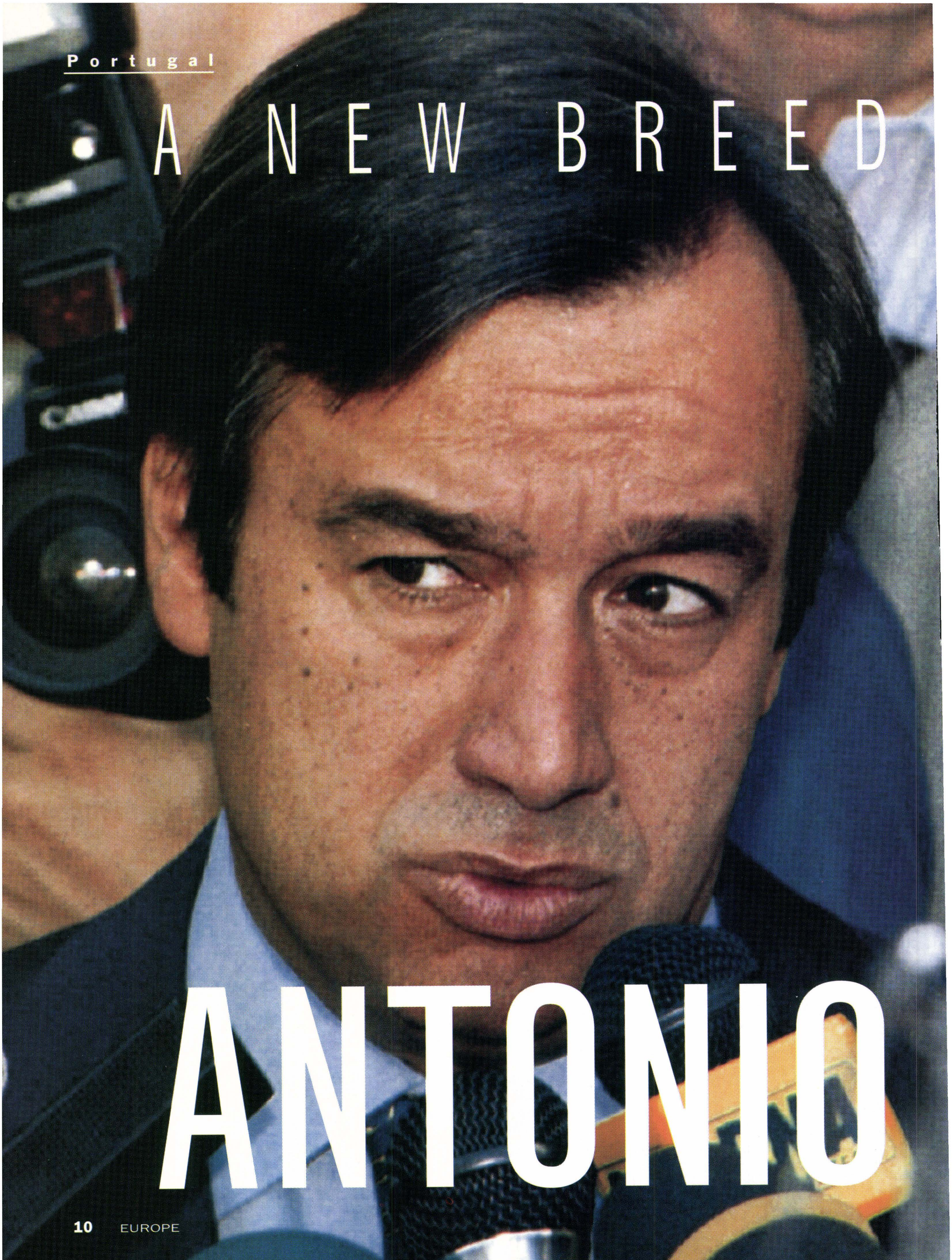
In a recent economic report, Barclays Bank said Portugal was better placed than Spain or Italy to join the single currency. It may even be as well qualified as Germany.

The Socialist government of Prime Minister Antonio Guterres has made joining the euro from its inception in January 1999 its top priority. To achieve this, it has held down wage increases, tackled tax evasion, and expanded the previous center-right government's ambitious privatization program. But critics say government must still make long overdue cutbacks in the bloated state bureaucracy and allow some of Portugal's less competitive companies, currently kept afloat by EU funds, to sink or swim.

Up till now the government has enjoyed strong public support for its bid to join the euro. Portugal receives $10 million a day in EU funding, which is plowed into infrastructure and training. Not surprisingly, "euroskepticism" is muted. But to meet the Maastricht criteria, the government has had to compromise some of its election pledges. There has been little new cash for education and health—two areas with chronic problems in which Mr. Guterres promised improvement. Political analysts say that as long as the funds keep coming in and helping to create employment, backing for the European ideal should remain strong. But they warn that discontent would spread quickly in the future if Europe's enlargement eastward brings a significant reduction in funds for Portugal. Already Portugal's largest trade union, the Communist-led CGTP has questioned what it sees as the "stampede" toward the single currency, which it blames for deteriorating working conditions.

Much will depend on whether Portugal does get into EMU in the first wave of countries. Mr. Guterres has staked his political credibility on it, and it would be difficult to explain to Portuguese voters, who will go to the polls in the year that the euro is launched, why Portugal failed after making so many sacrifices. As Germany struggles to meet the economic tests laid out in the Maastricht Treaty, it will be increasingly difficult to imagine a euro that excludes the "Club Med" countries, particularly if those countries meet nearly every requirement. In the meantime, the Bank of Portugal has urged pensioners not to hand over their escudos in exchange for a hypothetical currency. ⓔ

Samantha McArthur is EUROPE's *Lisbon correspondent.*



A NEW BREED

ANTONIO

OF SOCIALIST

BY SAMANTHA MCARTHUR

When Tony Blair's New Labor swept to power in the United Kingdom last May, it gave the Portuguese a sense of déjà vu. Eighteen months earlier Portugal's Prime Minister Antonio Guterres had brought his reformed Socialist Party into government under a "time for change" banner. Like Blair, Guterres has made his party electable by shaking off its traditional socialist trappings. Like Blair, he appealed to voters tired of a stale right-wing government that had been in power for too long.

Young, charismatic, and pragmatic, the two leaders are alike on a personal level. Both have deep religious convictions, which would be unusual to find in old-fashioned socialists of a redder hue. Guterres and Blair have many policy priorities in common. They emphasize the importance of health and education while keeping a tight hold on the purse strings. Income tax has not risen since Mr. Guterres came to power, and Mr. Blair has promised his government won't raise taxes during his term in office. When it comes to style, both governments have taken a more open, consultative approach. This has been generally popular with British and Portuguese voters who were weary of the rather autocratic style of the previous administrations. However, it has led to accusations that they lack confidence and overly rely on presentation and spin doctors.

But the Blair government is still in its early days. Guterres, a 48-year-old engineer who models himself on Sweden's late Social Democrat leader Olof Palme, has had two years to show what new socialism can do. And Portugal is a very different country from the United Kingdom.

Despite occasional blips in the opinion polls, the Guterres administration remains remarkably popular considering it is now midway through its first term. This is due partly to stronger economic growth but also to the fact that the opposition is divided and presents no convincing alternative.

Guterres has pleased his party's traditional voters by introducing a statutory minimum income and extending preschool education, but critics say that he is stalling on more far-reaching educational reform and that he has failed to improve the public health service. Waiting lists to see doctors are so long in Portugal that many patients simply call an ambulance to jump the queue.

Guterres has his hands tied by Europe in a way that Blair does not. Unlike the UK, Portugal is fully committed to joining Europe's single currency from the outset in January 1999 and so Guterres must balance his election promises with the tough budget requirements of the Maastricht Treaty. Effectively, this has meant little new public spending on health or education.

So far the Portuguese have been willing to pay the price for Maastricht, partly because the impact has been cushioned by a generous flow of European Union funds. But the country's trade unions are becoming restive and recent strikes by pilots at the Portuguese airline, TAP, have presented Guterres with his most serious labor dispute to date.

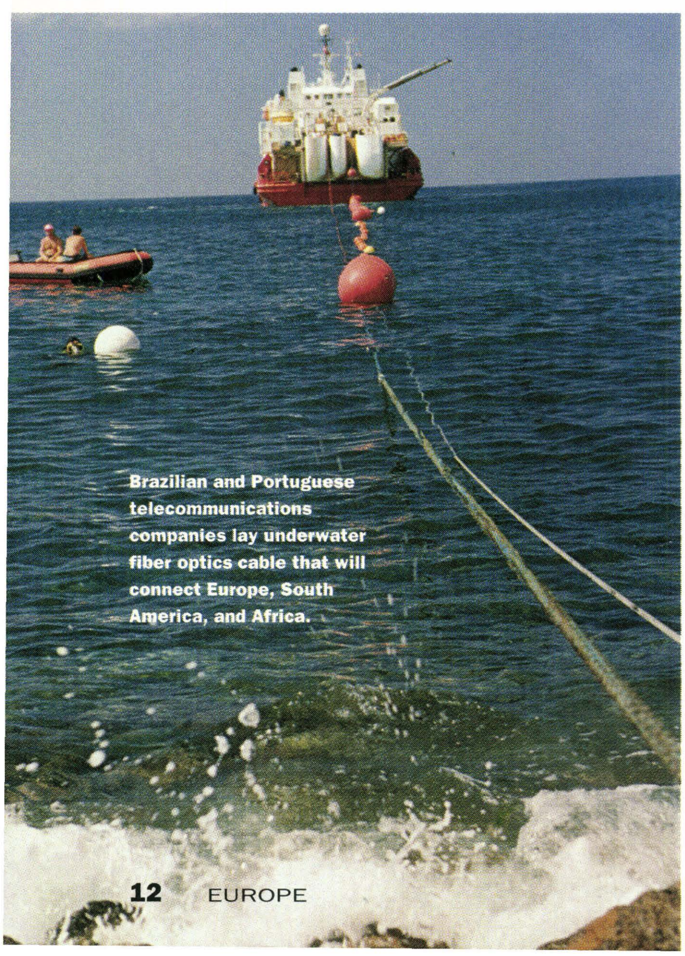
Guterres has wagered his political reputation on Portugal joining EMU in the first wave of countries. So far the economy is on track to do so, but the question of whether Guterres returns for a second term in 1999 may depend largely on such arcane questions as how the Maastricht criteria are interpreted. In 1999 the prime minister won't be able to use the "time for change" rallying cry. Ⓔ

GUTERRES

THE OTHER TRANSATLANTIC CONN

By Samantha McArthur

Mention Brazil to a Portuguese and you'll probably hear the following string of clichés: "soap operas, Carnival, corruption, and shantytowns..." Across the Atlantic the standard response to Portugal goes along these lines: "olive oil, port wine, quaint but backward." Despite sharing a common language and cultural heritage, the relationship between Portugal and its former colony is often one of mutual defensiveness or indifference.



Brazilian and Portuguese telecommunications companies lay underwater fiber optics cable that will connect Europe, South America, and Africa.

Brazilians bristled when Portugal tightened its immigration laws to comply with European Union legislation. Many thought Lisbon was needlessly turning its back on an old friend to embrace its wealthier European neighbors. A recent diplomatic spat over the status of thousands of Brazilian dentists who work in Portugal but whose qualifications are not fully recognized here further soured bilateral relations.

With a population of just 10 million compared to Brazil's 160 million, Portugal is sensitive to any perceived snub from the giant land it discovered by accident in 1500 and held until independence in 1822. Portuguese diplomats say Brasilia often treats Portugal in a cavalier fashion, dumping difficult domestic political figures, such as former president Itamar Franco, as ambassadors in Lisbon. Over the last five years, Brazil has changed four ambassadors to Portugal just months after they arrived, prompting one Portuguese foreign ministry official to grumble, "They just land here to refuel."

Cultural commerce between the two countries has been largely one-sided. Brazilian soap operas have invaded Portugal's television screens since the advent of private television here in 1992. As a result, Brazilian expressions and gestures are becoming common currency, and sociologists say the soaps have even changed the way the Portuguese relate to each other in conservative rural areas, where open discussions about AIDS, homosexuality, and drugs now take place. By contrast, many Portuguese writers and filmmakers complain that their work receives little attention across the Atlantic.

NECTION

PORTUGAL-BRAZIL INVEST IN EACH OTHER

In 1996 Brazil, Portugal, and its five former African colonies set up the Community of Portuguese-Speaking Countries (CPLP), which was intended to strengthen the international role of the Portuguese language in an increasingly English-speaking world. The new commonwealth was supposed to improve economic, cultural, and political ties between member states, but even its gentlest critics have had to admit that it has achieved little in its first year of existence.

One of the problems with the CPLP is that Portugal is so tightly bound to the European Union while Brazil sees its interests in the Latin American Mercosur trading bloc. Brazil accounts for just one percent of Portuguese exports while, for obvious reasons, Portugal takes an even tinier fraction of Brazilian exports. Portuguese businesspeople cite high inflation and protectionism as the main deterrents to trading with Brazil, but traditionally the two countries have not been able to offer each other many complementary products.

Politicians in both countries are aware of the potential of closer economic links. In theory Portugal could allow Brazil to tap into European Union markets, while Brazil could offer Portugal access to Mercosur. Portuguese Prime Minister Antonio Guterres has often said that his country, with its varied colonial past, wants to help bring Europe closer to Africa and South America.

But it is in this area of investment that Brazil and Portugal are starting to forge closer links—literally. Brazilian telecommunications company Telebras and Portugal Telecom have begun building an underwater fiber optic telecoms cable that will connect Europe, South America, and Africa. The investment totals some $270 million and the 7,500-mile cable should be operational by 1999. The project is part of the wider Atlantic Alliance cooperation agreement between the two companies.

Other Portuguese companies have expressed interest in Brazilian privatizations, and embassies have noted increasing demand for the transatlantic joint ventures. Portugal's electricity concern Electricidade de Portugal (EDP), which was itself recently partially privatized, has taken part in state sell-offs in the Brazilian power sector.

Diplomats say this increase in investment may herald closer political cooperation between the two countries. At any rate Portuguese President Jorge Sampaio has been doing his bit. On a state visit to Brazil in September he took part in celebrations to mark the one hundred seventy-fifth anniversary of Brazil's independence from Portugal. ⓔ

COMMON FOREIGN & SECURITY POLICY

EU's Emerging

By Lionel Barber

ALMOST SIX YEARS AGO, in the Dutch border town of Maastricht, a vision was born of a common foreign and security policy for Europe.

Since those heady days, the CFSP has turned out to be less than its name but better than its reputation. Despite setbacks, notably in Bosnia, the 15 member states of the European Union are gradually acquiring the habit of working together in an area that goes to the heart of national sovereignty.

Sarajevo aid workers unload a truckload of EU supplies.

Foreign Policy

The CFSP's greatest asset is money. In 1995, the EU gave Russia $1.5 billion to assist the transition to democracy, seven times as much as the US. EU humanitarian aid in 1996 was almost $2 billion, one-third more than the US. The Europeans are also outspending the Americans in Central and Eastern Europe.

The CFSP's greatest weakness is the unanimity principle in decision making. The rule accentuates individual positions at the expense of a common approach. The procedures are cumbersome: In major meetings the EU is usually represented by the 15 foreign ministers, one or two European commissioners, and two members of the Council secretariat.

"If the instruments (in a treaty) are to be useful, the political will must exist to use them."

Stuart Eizenstat, former US ambassador to the EU in Brussels, sums up, "The principal member states are not willing to relinquish their prerogatives. As long as this remains the case, the European Union will not develop a diplomatic and political weight commensurate with its economic and commercial strength..."

The Treaty of Amsterdam—signed in October—does open the possibility of limited majority voting. But its chief purpose is to repair the structural weaknesses of the Maastricht Treaty. One innovation is a new policy planning unit that is to be set up in Brussels. Too often, the Europeans have found themselves accused of failing to anticipate crises and offering too little, too late.

The Amsterdam Treaty also provides for the creation of a new "Mr. (or Ms.) CFSP" to represent the EU's foreign policy to the outside world. In practice, this has already started to happen with special European envoys being appointed to deal with Bosnia, Cyprus, the Great Lakes region in Africa, and the Middle East. The new post falls short of French ambitions to have a heavyweight political figure. It will be a senior civil servant based in Brussels.

The third innovation—separate from the new treaty—may be the most important of all. In the future, the six-month presidency of the EU will always rotate between a big and a small country. This should improve continuity and reduce eccentricities—especially if linked to a streamlining of the European Commission's functions.

Jacques Santer, president of the European Commission, has announced a shakeup of the sprawling Commission external relations bureaucracy, where as many as five commissioners can wear a foreign policy hat. In the next Commission, which starts in January 2000, a new foreign policy supremo, with the rank of vice-president, will take charge, reporting to the president.

None of the above is a guarantee that the fledgling EU foreign policy will work better. As Philippe de Schoutheete, the veteran Belgian ambassador to the EU, writes in his new book, *A Europe for All*, "If the instruments (in a treaty) are to be useful, the political will must exist to use them."

The lack of political will is often due to profound differences in perception and interest. The United Kingdom's view of China and its human rights record is colored by the colonial past in Hong Kong. Other countries may put more weight on commercial considerations. During the Albania crisis, France and Italy favored intervention. The UK and Germany were reluctant to be drawn in.

As a result, CFSP's practical results have been modest. They range from monitoring democratic elections in Russia and South Africa to the "Pact for Stability," the charter for handling ethnic minorities in Central and Eastern Europe. Perhaps the biggest CFSP challenge of all is the EU's planned enlargement to the reform democracies of the former Soviet bloc.

In the final resort, CFSP's record should be judged not only in terms of active crisis management—where the EU is plainly weak—but in terms of containing differences among the member states themselves. The experience of the breakup of former Yugoslavia offers lessons.

In 1914, the competing interests of the great powers of Europe in the Balkans triggered a conflagration that led to a world war. In 1991–92, the EU was split over Germany's drive to recognize the breakaway states of Croatia and Slovenia. The UK and France were hesitant, apparently tilting toward Serbia. Yet at no point did the conflict get out of control. CFSP, for all its weaknesses, was an important safety valve. ⓔ

Lionel Barber is a contributing editor for EUROPE *and the Brussels bureau chief of the* Financial Times.

LATIN AMERICA

Rediscovering

By Axel Krause

During an official visit to Brazil and Argentina last March, France's President Jacques Chirac formally proposed a "historic" summit meeting of leaders of the four-nation Mercosur bloc and the European Union.

Immediately endorsed by most Latin American leaders, the summit is scheduled for the spring of 1999 and will be hosted by Brazil's President Fernando Henrique Cardoso in Rio de Janeiro. The goal, Chirac urged, is to "launch a major partnership" for the next century. Leaders in the German government, which will be presiding over the EU Council of Ministers at that time, have also actively backed the proposal.

As a sign of mounting interest in the region, German Chancellor Helmut Kohl and Mexican President Ernesto Zedillo signed a treaty in Bonn on October 8 promising to promote and protect bilateral investments and trade. German officials also announced the opening of a trade center in Mexico, Germany's first in Latin America, to help small and medium-sized companies.

Reflected in both the French and German initiatives, also supported by the European Commission, is what many observers describe as a "silent invasion" of Latin America, or a "re-conquest" of an area whose ties with Europe are rooted in the 15th and 16th centuries. What's new? Growing trade and investment links between the Mercosur countries (Argentina, Brazil, Paraguay, and Uruguay) and the EU are increasingly taking on political substance.

The European Commission, and notably Commission Vice President Manuel Marin, responsible for Latin America, is, with member governments on both sides of the Atlantic, handling much of the heavily economic-oriented preparatory work for the summit.

But enthusiasm is being fueled by more than determination to boost trade and other forms of long-standing economic ties between the EU and the world's fourth-largest economic bloc, which is expected to include Chile and Bolivia by the end of next year, with a combined GNP of $940 billion and a population of 226 million.

Mercosur, according to a recent background paper by the Madrid-based Institute for European-Latin American Relations (IRELA), also supports the summit proposal as a way of deepening EU ties and "counterbalancing US economic and political influence...to enhance the region's projection on the international stage."

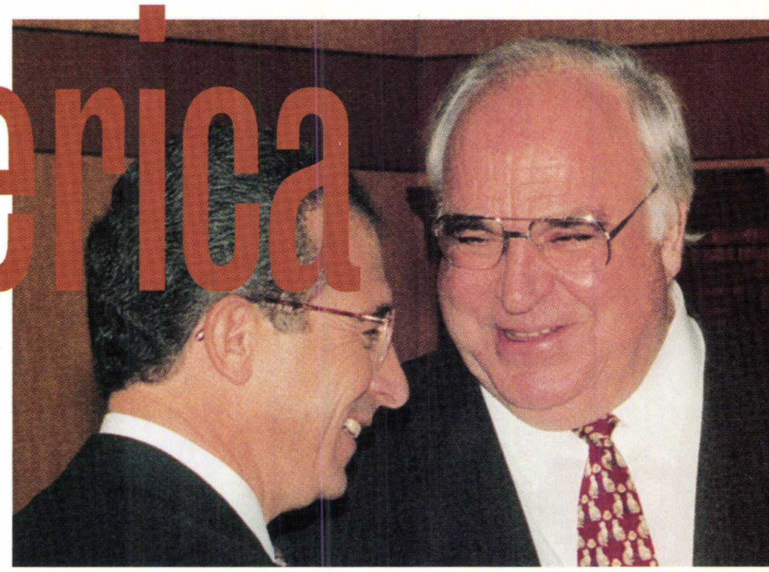
While key Latin American countries, notably Argentina, have for decades felt uncomfortable with US economic leadership and policies in the Western Hemisphere and far more at ease with Continental Europe, only now are these attitudes taking political shape as Mercosur and the EU draw closer together. A contributing factor, observers note, is that nearly 10 million citizens of Mercosur countries have EU passports; that 5 million Latin Americans are of German origin; and that 40 percent of Argentine citizens trace their roots to Italy, many of whom have Italian names.

In a controversial speech in August, Brazil's former president, Senator Jose Sarney, asserted that Washington was embarked on a policy to "destabilize" Mercosur, by spreading the "germ of division and mistrust." He cited several, recent Washington initiatives, such as lifting a long-standing arms embargo to Latin America and proposing a symbolic non NATO ally status for Argentina.

Plans to accord that unusual status—the first for a Latin American nation—were an-

Latin America

German Chancellor Helmut Kohl (right) and Mexican President Ernesto Zedillo (left) met last month in Bonn to sign a bilateral trade and investment agreement.



nounced in Washington in August by Secretary of State Madeleine Albright, who explained it did not involve security but "recognizes symbolically a country's relationship with the United States. It is open to other countries," she said, including Chile.

President Bill Clinton explained on his visit last month to Buenos Aires that the move was mainly a US response to Argentina's role in more than a dozen UN peacekeeping operations over the past 10 years. Although the status—which was eagerly sought by Argentine President Carlos Menem—stirred jealous annoyance among Argentina's neighbors, US officials reiterated a willingness to include them. The new status will provide Argentina access to surplus NATO hardware, economic assistance programs, and help approval of future purchases of sophisticated American weapons.

But the moves triggered anger among leaders in other capitals, who said the Clinton administration's goal was bolstering Argentina at their expense, while building support for the Free Trade Area of the Americas, a US-backed plan, which would create a hemisphere-wide free trade area before the year 2005.

"Clearly, the United States is trying to avoid the establishment of new power centers in the world," says Wolf Grabendorff, IRELA's director, adding that Mercosur, initially conceived as a geopolitical and not only a trade alliance, will, in any case, move forward even if an FTAA is established, thus easing the opening of new opportunities for Europe. But, as EU officials note, rivalries between the two major Mercosur leaders complicate things.

For example, Brazil's deputy foreign minister Sebastio Barros, recently told the *Washington Post* that "we should have more recognition, and be allowed to contribute more to the international community," adding that his country wants the region's first seat on the United Nations Security Council in the event that rotating membership extends beyond 10 nations. President Bill Clinton, in a speech to the UN General Assembly on September 22, indicated he supported proposals to add one rotating Security Council seat each for Africa, Asia, and Latin America.

President Menem challenged the Brazilians arguing that the seat should be rotated among Latin American nations, further straining relations between the two countries. Arguing that Brazil's proposal would "break the balance of power" within Mercosur, Menem has been actively pursuing not only a link with NATO, but full membership in the Organization for Economic Cooperation and Development. EU officials support the OECD goal, noting Mexico already belongs, but have shied away from taking positions on the UN issue.

Not to be outdone by its eastern neighbor, Chile on October 3 became the second Latin American country after Argentina to adhere to the OECD's investment codes, while obtaining observer status on two of the agency's investment steering groups.

Surprisingly, some of the renewed European interest is coming from Eastern Europe and the Nordic countries. The Inter-American Development Bank's European representative, Andres Bajuk, recalled in late September receiving a phone call from the executive of a telecommunications equipment firm in his native Slovenia seeking joint ventures in Mercosur. Bajuk, who is US educated and spent 20 years in Washington working for the JADB, the Latin American development bank, before moving to Paris, says that "these kind of inquiries are coming in every day, including from Slovenia's neighbors, such as Croatia and Hungary, all seeking future EU membership."

"They see and would like to take advantage of the links between the EU and Latin America, and we are encouraging them," says Bajuk, noting that roughly 50 percent of the bank's funding in the region is still done in dollars, but the rest is split between the Japanese yen and the EU currencies. The advent of the euro could well increase the EU proportion within several years. Bajuk is fond of recalling the low-profiled visit to Argentina, Brazil, and Chile by Finland's President Martti Ahtisaari, also in March of this year, just prior to Chirac's trip.

Ahtisaari, a former UN official, brought along 19 senior executives of leading Finnish companies, such as telecommunications giant Nokia and engine maker Wartsila. "The unusual presence of Finns in Latin America shows not only that globalization has arrived, but Europe's commitment to the region," said Bajuk.

What appeals most to Latin American planners is the EU's capacity to successfully tackle what they refer to admiringly as "construction out of diversity." Despite cultural differences, tensions, and national prides, Mercosur officials are currently planning new infrastructure projects, such as expanded road, tunnel, and pipeline networks as well as railroads, that will link the six Mercosur countries as integration, according to the European Commission report, "is racing ahead." Ⓔ

Axel Krause, based in Paris, is a contributing editor to EUROPE *and a contributor for* Time.

Looking South

By David Lennon

The Mediterranean was once regarded as the center of the world, the navel of the universe. This may no longer be so, but it still remains a major crossroads of competitive cultures, a battlefield of economic rivalries and a sea of divisions.

Crucially today, the eastern and southern seaboards of the Mediterranean are inhabited by troubled and fractious nations. All are former colonies of the European lands to the north whose interest waned when they lost their colonial hegemony.

As Europe built the EU its concerns were directed inward. Then the collapse of communism, the disintegration of Yugoslavia, and preoccupations with the creation of a single currency left little time to think about Africa.

Though our Mediterranean neighbors in North Africa were marginalized in EU thinking for many years, they have pushed their way back onto the agenda through a wave of migrants and the spread of Islamic fundamentalism at Europe's soft underbelly.

France, Spain, and Italy are all suffering the pains of illegal immigration—creating unemployment, social tensions, and a challenge to Europeans' belief that we are not racists. As for sub-Saharan Africa, basically all we can do in the face of wars, famines, and corrupt regimes is to offer humanitarian aid. South Africa is different, of which more later.

As the populations of North Africa and the Near East continue to grow at 2 percent a year, compared to the 0.2 percent in Europe, the pressure to escape from grinding poverty, social restrictions, and political oppression grows too. A tide of migrants are waiting to percolate northward.

Just as the people of Mexico and Latin America look north to the US for a better life, so the peoples to the south and east of the Mediterranean look to Europe as their promised land. The fact that there is a large sea to be navigated is no barrier, and there are thousands of miles of unguarded coastline for landing. Just as it did not stop the Cuban refugees nor the Vietnamese boat people, the sea is not a deterrent. Morocco to Gibraltar is only eight miles, and from Tunisia to Italy is 90 miles. There is also the land link through Turkey, one much favored by Kurds and others escaping from Iran and Iraq.

Just as the characters of many cities in the US are being altered by the influx of people from Spanish-speaking territories, so in Europe some southern cities, like Marseille, have huge Arabic-speaking Muslim populations. It is estimated that 5 to 6 million migrants from North Africa and the Near East have settled, many illegally, in Spain, France, and Italy.

Under pressure from these member states, a meeting was convened in Barcelona two years ago bringing together for the first time the 15 EU members and 12 of its Mediterranean partners. The goal was to create a new form of Euro-Mediterranean cooperation—economic, political, and social.

The Barcelona Declaration of November 1995, pledged ecu 4.7 billion ($5.3 billion) in aid and a similar amount in soft loans over five years. It was also agreed to work toward a succession of association agreements designed to create a free trade area embracing the Mediterranean basin by the year 2010.

If achieved, this would become the world's

European Commission President Jacques Santer (right) met with South African President Nelson Mandela last year.

The deficiencies of Lomé were evident in the protracted and acrimonious discussions aimed at helping post-apartheid South Africa build up its industries after decades of isolation.

largest free trade area, encompassing a population of 600–700 million members, not just in Europe but in the Mediterranean countries from Turkey in the east to Morocco in the west.

The EU is the Mediterranean countries' chief economic and trading partner, accounting for more than half their foreign trade. By the same token these countries supply almost a third of the EU's fertilizer imports and nearly a quarter of its imported energy, particularly oil and natural gas. In 1995 EU exports to the region exceeded ecu 50 billion ($56 billion) while imports were more than ecu 33 billion ($37 billion).

Since Barcelona, association agreements have been signed with Morocco, Tunisia, Jordan, Israel, and the Palestinian Authority. Added to the earlier agreements with Turkey, Cyprus, and Malta, this means that eight of the 12 states are on target for the free trade area in 2010. Tough negotiations are still ahead for Algeria, Egypt, Lebanon, and Syria.

For their part, the Mediterranean partners agreed to cooperate on security, crime, drugs, and in controlling the flow of migrants from south to north.

The aim of the cooperation pact is to enhance regional stability by lifting trade barriers, providing cash for struggling economies, and strengthening political ties. It is hoped that this will help stem the rising tide of migration into the EU.

Of similar concern is the security danger poised by fundamentalism, which NATO sees as the main strategic threat to Europe. In Turkey, Egypt, and Algeria these problems are particularly worrying as they threaten the stability of the regimes.

It is on issues like this that US and European interests coincide. Both have strategic concerns in the Mediterranean, not only as a source of energy, but also as a consumer market.

Many experts believe that EU-US trade and aid to the region could be coordinated more effectively to encourage economic reform and better government in these areas, including sub-Saharan Africa where the US has even overtaken France as the leading trading partner for former French colonies.

The EU will soon have to reexamine its policy toward sub-Saharan Africa as the Lomé Convention granting aid and duty-free access to the EU markets for former colonies of member states in Africa, the Pacific, and the Caribbean (APC) runs out in the year 2000.

The deficiencies of Lomé were evident in the protracted and acrimonious discussions aimed at helping post-apartheid South Africa build up its industries after decades of isolation. South Africa is expected to accept limited membership later this year, to become the seventy-first member of the Lomé Convention.

Neither side is particularly happy with the terms. Certainly not the South Africans. Angered by the restrictions on the exports of industrial products, Deputy President Thabo Mbeiki described Lomé as "a classical colonial relationship. We export raw material, and we import manufactured goods."

The restricted nature of the agreement will mean that the principle benefit to South Africa is access to the European Development Funds, which finance private sector development in APC countries.

Apart from South Africa, sub-Saharan Africa is a mess. Wars, famine, and corruption have meant that it is the only part of the world where regional trade has declined, from 10 percent of total trade in the 1920s to about 6 percent today. In sub-Saharan Africa per capita GDP declined by 1 percent a year in the 1980s, and there has been only modest rates of growth in recent years.

Furthermore, the region attracted only 3 percent of foreign direct investment in the developing world, compared to 40 percent in east Asia and the Pacific.

EU Commissioner João de Deus Pinheiro says that any post-Lomé deal must have two priorities. The first is to help those APC countries capable of integrating into the world economy to build the institutions and structures to free their economies. The second priority is to go on providing a basic safety net for the no-hopers, mostly in sub-Saharan Africa.

For Europe the world to the south may not be the first or even the second priority, those places are reserved for the single currency and enlargement, but it is an area that can no longer be ignored.

David Lennon is EUROPE*'s London correspondent.*

ASIA

Seeking Closer

By Lionel Barber

The European Union is rediscovering East Asia. Following in the footsteps of Marco Polo, the EU is developing closer political and economic ties with one of the most dynamic regions in the world.

Europe's diplomatic opening recognizes that the global balance of economic power rests on a triangle between East Asia, Europe, and the US, and that the weakest side of the triangle is the one that joins Asia and Europe.

Early next year, the 15 EU heads of government are due to hold a summit with 10 Asian presidents and prime ministers in London—the next step in the burgeoning Asia-Europe dialogue intended to complement the already well-developed bilateral ties with China, Japan, and South Korea.

Ever since 13th century explorer Marco Polo pioneered the silk route to China, Europeans have sought trading relationships with Asia. (15th century English illumination)

Asian Ties

European and Asian leaders met in Bangkok in March 1996. Inset: Prime Minister Goh Chok Sung of Singapore.

At the first ever EU-ASEAN summit in Bangkok two years ago, the Europeans donned Asian costumes and conjured up romantic allusions to Marco Polo, the intrepid 13th century explorer who discovered the silk route to China. The Asians countered with their own poetic images of finding a seat on political Mount Olympus.

Subsequent exchanges have brought both sides down to earth. But despite the lack of common ground on issues such as human rights, labor standards, and trade, both the EU and the regional forum known as ASEAN (the Association of Southeast Asian Nations) have grasped the importance of closer ties.

Prime Minister Goh Chok Sung of Singapore, one of the driving forces behind the Asia-Europe dialogue, says that the Europeans want to catch up with the US and Japan in Asia. The Asians also want to increase trade and investment links with Europe in order to diversify and reduce their dependence on the US and Japan.

Asia's robust growth offers great opportunities for Europe. The World Bank estimates that East Asia alone will absorb about $150 billion of infrastructure investment each year for the next 10 years. By the end of the next decade, the so-called Pacific Rim economies are projected to import $50 billion more than they export. "It is a classic win-win partnership," says Prime Minister Goh.

Strikingly, this summer's financial and monetary crisis, which erupted in Thailand and spread to Indonesia, Malaysia, and the Philippines, has not dulled European interest. As Jean-Claude Juncker, prime minister of Luxembourg, said at a meeting between EU and Asian finance ministers in Bangkok in September, "We do not think the Asian success story has come to an end."

Michel Camdessus, managing director the International Monetary Fund, argued at the same meeting that Europe and Asia may have something to learn from one another in terms of applying regional cooperation to tackle the challenges of globalization.

Europe, said Mr. Camdessus, had demonstrated over the past 40 years that it could break down national barriers and forge closer macroeconomic and political cooperation. The project to launch a single European currency on January 1, 1999 was a good example. Yet Europe had also shown itself slow to adapt to the need for more flexible labor markets and other structural reforms to spur growth and employment.

By contrast, the Asian economies—such as Hong Kong, the Philippines, Singapore, South Korea, as well as Thailand—had shown a remarkable capacity to innovate, to embrace technological change, and to raise productivity. The weak link was regional cooperation in the political and macroeconomic areas—exactly where the Europeans are pushing ahead.

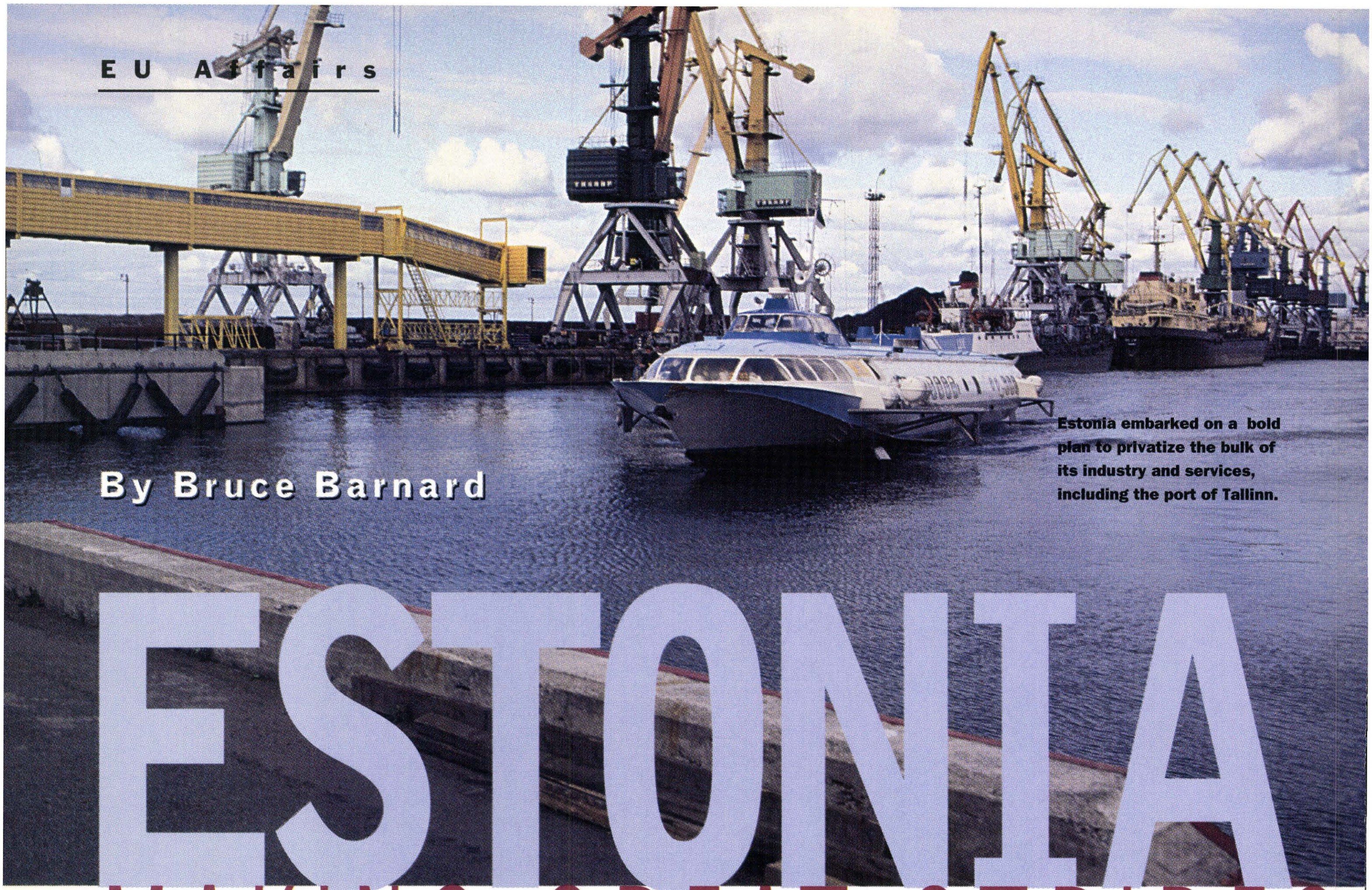
Of course, trade continues to be the crux of the relationship between the EU and Asia. Trade flows amounted to $86 billion in 1995, almost four times the 1980 level. Now the idea is to focus on five areas: trade in goods and services; investment promotion; the sharing of information on the creation of free trading areas; closer economic and development cooperation; and customs, where information on the international drugs trade is starting to be shared.

To date, the EU has trodden carefully on issues that could damage progress, notably human rights. European concern is directed at East Timor, the former Portuguese colony invaded by Indonesia in the mid-1970s, as well as the membership of Burma in ASEAN. (Myanmar faces EU sanctions because of its crackdown on the democracy movement and its poor record on human rights.)

The Asians do not take kindly to European preaching and are constantly appealing for closer cultural ties to promote greater mutual understanding and less parochialism. Here one of the most valuable innovations is the Junior EU-ASEAN Managers exchange program.

Some 675 young professionals from ASEAN countries are offered the chance to benefit from business training in Europe. Some 300 managers benefit from a similar experience in Southeast Asia. All candidates are aged between 25–35-years-old and are judged to have the potential to be key decision makers in the future.

It is a long-term investment—one that may prove as beneficial as the high-level summits that are increasingly taking place today.



Estonia embarked on a bold plan to privatize the bulk of its industry and services, including the port of Tallinn.

By Bruce Barnard

ESTONIA MAKING GREAT STRIDES

Few countries can match Estonia's spectacularly rapid transition from an isolated republic in the former Soviet Union to a dynamic market-driven society preparing for membership in the European Union in just six years.

The smallest and most northern of the three Baltic states finally burst into the spotlight last July with its last-minute appearance on the European Commission's short list of countries deemed ready to begin EU accession negotiations in Brussels in early 1998.

Estonia is different from the others on the list—the Czech Republic, Poland, Hungary, and Slovenia—because it will be the first former Soviet republic to join the EU. This is an almost surreal achievement given that Moscow refused to recognize the (then) European Community only eight years ago, regarding it as the economic wing of NATO.

Estonia isn't getting special treatment because of its political status or as a sop for being excluded from the first expansion of NATO. Government officials in Tallinn and Commission staffers in Brussels stress Estonia was picked because it meets the tough economic criteria; its bigger Baltic neighbors, Latvia and Lithuania didn't make the grade.

Estonia has won rave reviews from foreign businesspeople and bankers and official bodies like the London-based European Bank for Reconstruction and Development (EBRD) for its wholehearted embrace of the market economy. It is widely recognized to have taken the biggest strides of all the 23 countries that emerged from the collapse of Soviet communism.

And there's no slowdown in sight. "Estonia's economy is booming," according to Markku Puumalainen, a Baltic analyst with Postipankki, a Finnish bank.

Despite sharply rising incomes and a steady flow of foreign investment, Estonia still has a long way to go before it can rub shoulders with West European nations.

Estonia is fast pulling away from the main group of the 10 East and Central European countries that sought EU membership. In terms of purchasing power, it is the richest former communist nation along with the Czech Republic. But that still leaves its GDP around a quarter of the EU average.

That means Estonia still faces a tough job ensuring it can meet the EU's *acquis communautaire*—the thousands of regulations ranging from competition law to environmental standards. It has to make sure its economy can withstand the competitive pressures of the EU's single market and adopt the planned single currency.

Few doubt Estonia will make the grade as quickly as the other chosen candidates. It plunged into the market economy immediately after cutting free from the Soviet Union in 1991. It privatized the bulk of industry and services and is now preparing to sell off the railways, ports, and energy utilities.

Sixty-five percent of its GDP is generated by the private sector, one of the highest levels in Central and Eastern Europe.

Estonia linked its infant currency, the kroon, to the German mark five years ago and was prepared to link it to the EU's single currency regardless of whether it was invited to begin membership negotiations.

Estonia's foreign trade profile has changed out of all recognition. Today the EU is its leading trading partner, accounting for 65 percent of imports and 51 percent of exports. Five years ago almost everything was shipped to the Soviet Union. Estonia "has one of the most liberal trade regimes in the world," the Commission noted in a recent report.

Estonia's stock continues to climb. In September, Moody's, the US credit rating agency, awarded it the highest credit rating of any of the post-communist states and the same as the Czech Republic's rating.

Some sectors have approached, or even overtaken EU standards. Hansapank, the country's largest bank, which was set up by nine young Estonians with around $150,000 in 1992, is selling its proprietary software in the EU. The Norma plant, which makes seat belts for General Motors, won the company's coveted supplier of the year award. Elcoteq, a Finnish manufacturer of computer parts, which began operations in 1992 with a staff of 50, was the largest exporter in 1996 with sales of $120 million and is planning to create 1,000 new jobs.

Estonia's aim is to be the Hong Kong of the Baltic, serving as a financial center and entrepôt for its Baltic neighbors, the Nordic countries and northwest Russia—a market of some 70 million consumers. Few doubt Estonia will hit its target. Ⓔ

Bruce Barnard, based in Brussels, is a contributing editor for EUROPE *and a correspondent for the* Journal of Commerce.

TOWARD EU MEMBERSHIP

Estonia's capital, Tallinn, already bears the unmistakable markings of capitalism—Western advertising.

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Inside
EUROPE

NOVEMBER 1997 VOLUME V/NUMBER 9

EU NEWS

MERGER MANIA HITS EUROPE

Europe is bracing for fresh corporate tremors as a recent wave of cross-border mergers changed the continent's corporate landscape. European firms unveiled five transactions worth $92 billion in a single day in mid-October, and analysts say more deals are in the works as companies scramble to jump on the bandwagon.

The outlines of a genuinely pan-European business environment have become clearly visible in 1997. Mergers and acquisitions scaled a record $258 billion in the first eight months of the year, compared with $253 billion in 1996 and a previous peak of $148 billion in the late 1980s. The latest mergers spanned all sectors, from banking and publishing to brewing and cement, and countries with as diverse business cultures as Finland, Switzerland, Italy, and France.

The sudden burst in activity was spurred by a widespread feeling in the business and financial community that European economic monetary union, for so long bogged down in doubt, is now a near certainty to proceed as planned in January 1999. The arrival of the single currency, the euro, in less than 14 months has powerfully concentrated corporate minds. Companies are also taking advantage of stock markets trading near record highs, the recent fluctuations in world markets notwithstanding, to offer their shares to finance takeovers.

The current acquisitions dwarf the M&A activity of the late 1980s when companies were preparing for the establishment of the single market. The latest wave of consolidation was spurred also by Europe's ever present fear that it will lose out to its giant US and Japanese rivals in the global market as well as on their home turf—the world's largest single market with 370 million consumers. Unless they sharpen their competitive edge, European firms will fail to maximize the benefits of an additional 70 million consumers who will accompany the EU's enlargement to Eastern and Central Europe.

The recent mergers have created "world-size" companies, but in many sectors, especially fast growth, high-tech businesses, Europe still trails the United States. The size of the gap was illustrated by the way WorldCom and GTE effortlessly topped BT's $23 billion bid for MCI—Europe's record takeover.

But Europe is catching up. Six of the ten biggest banking and insurance mergers were stitched up this year, and the European M&A market is now about two-thirds the size of the US's and is likely to overtake it early in the next century. Fittingly the $40 billion deals were unveiled on Columbus Day. And underlining Europe's "independence" from the giant Wall Street investment banks that traditionally dominate European takeovers, Lazards, the Anglo-French bank, was involved in four of the five transactions.

The insurance industry, as usual, was in the thick of the activity, with the merger between Zurich Group and the insurance operations of British American Tobacco (BAT), creating a company worth nearly $36 billion and raising the stakes in the European industry that has already been convulsed by mega mergers and alliances in the past five years.

Assicurazioni Generali, Italy's largest insurer, joined the fray with a $9.35 billion hostile bid for AGF, France's second-largest insurer. The planned acquisition, which would make Trieste-based Generali Europe's third-largest insurer, confronted the French corporate sector with unprecedented takeover activity. AGF had just launched a $5.1 billion joint bid with Ifil, an investment group controlled by the Agnelli family, owner of car maker Fiat, to rescue Worms, a French industrial and financial conglomerate, from two unfriendly bids from French rivals.

Further proof that French business is fast adapting to the Anglo-Saxon takeover culture it once denigrated came with the $9 billion bid by cement maker Lafarge, the world's second-largest cement maker, for Redland, a British building materials firm whose plaster activities Lafarge had acquired five years ago.

Other deals have created world-size companies, such as Britain's GMB Brands, a $38 billion drinks group forged from the fusion of Guinness and Grand Metropolitan. Reed Elsevier, created by a merger of British and Dutch publishers in 1993, is teaming up with another Dutch publisher, Wolters Kluwer, to create a $33 billion behemoth that is the world's biggest supplier of scientific, medical, and legal information.

Fear is also driving some mergers in smaller countries that feel vulnerable as corporate giants scour the continent for opportunities. The Nordic countries, in particular, are rushing into each other's arms to shore up their defenses. The biggest deal so far brought together Merita, Finland's largest bank, and Nordbanken of Sweden, in a $10.6 billion group. They have invited Danish and Norwegian companies to join them. The deal followed hard on the heels of a $2.21 billion acquisition by Enskilda Banken, Sweden's third-largest bank, of Trygg-Hansa, the country's second-largest insurer.

Most of these deals strengthen the companies' positions in the US, still the most coveted market despite the growth in pan-European business. The BAT-Zurich merger joins some of the best-known names in the US—the Swiss firm paid $3.4 billion for Chicago-based Kemper Group and Scudder, Stevens, and Clark of New York, while BAT owns Farmers Insurance, the third-largest personal lines insurer in the country. A takeover of Redland would extend Lafarge's already large US interests into quarries in Colorado, Maryland, and Texas. Reed Elsevier's Lexis-Nexis on-line data base likely will distribute information from CCH, a US tax law publisher Wolters Kluwer bought last year.

Takeovers will engulf other sectors as Europe seeks further economies of scale with aerospace and defense, pharmaceuticals, telecommunications, airlines, the media, and financial services likely to witness most activity. Some firms will be motivated by the need to find markets, others simply by fear of being left on the sidelines. In some sectors, notably defense, failure to merge to match the consolidation that has reshaped the bigger US industry will in time lead to bankruptcy.

M&A activity will quicken also as barriers to cross-border takeovers fall across Europe. The United Kingdom, France, and Germany recently joined forces to simplify procedures for firms involved in mergers in the EU.

The pool of potential takeover candidates meanwhile is growing as European governments privatize large swathes of state-owned industries, removing in a stroke decades of resistance to the restructuring that inevitably follows mergers. These newly liberated firms will soon be able to put shareholder value before national pride, allowing them to fully exploit their potential. To be sure, some of the mergers will come unstuck, but there's no turning back as Europe embraces a new business culture.

—Bruce Barnard

INSIDE EUROPE

Correspondent
Bruce Barnard

Reuters contributed to news reports in this issue of *Inside Europe*.

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EU HOLDS JOBS SUMMIT

The European Union will confront its most glaring failure—an army of 18 million unemployed—in a very public fashion by hosting a high profile jobs summit.

The run up to the gathering of the 15 EU leaders in Luxembourg on November 19 was dominated by a flurry of announcements of job cuts by several blue-chip European companies, including ABB, the Swedish-Swiss engineering group, Ericsson, and General Motors.

The layoffs squashed lingering hopes that the rebound in the European economy would level off the EU's 10.8 percent unemployment rate. In fact, the rate is still climbing in the two largest economies, France and Germany, and more restructuring is in prospect.

The jobs summit is not expected to do much to alleviate the problem because it is basically a political event: a concession France wrung from its EU partners at the Amsterdam summit last June in return for accepting strict German fiscal rules for policing monetary union after 1999.

The run up to the summit has also been complicated by pledges by the French and Italian governments to introduce a 35-hour working week without a cut in pay as a means of creating more work. In fact, it is a recipe for even more unemployment, according to most economists.

The summit likely will involve a rerun of old arguments between proponents of US-style flexible labor markets, such as the UK's new Labor government, and defenders of a European middle way led by France.

EU leaders can't be accused of ducking the problem. They asked President Clinton's former Labor Secretary Robert Reich to present a paper to the summit. Mr. Reich has been acting as an advisor on employment policy to Jean-Claude Juncker, the Luxembourg prime minister and summit host.

Unilever, the Anglo-Dutch consumer products group, consolidated its position as the world's top ice cream maker with the $930 million acquisition of **Kebon** of Brazil from **Philip Morris** of the US. The deal will give Unilever nearly 60 percent of the fast-growing Brazilian market, way ahead of nearest rival **Nestle** of Switzerland, which has 20 percent.

The purchase was the largest since Unilever sold its specialty chemicals unit to Britain's **Imperial Chemicals Industries** in May for $2.25 billion to concentrate on core activities.

Unilever sells ice cream in 85 countries worth more than $6 billion, more than twice that of Nestle.

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Hyundai, the South Korean electronics group, is poised to double its investment in the United Kingdom to $4 billion with the construction of two more microchips plants to keep pace with the booming computer market.

Hyundai, the world's sixth-largest manufacturer of computer chips, already is committed to building two factories in Scotland, the first of which will start dummy production of 64 megabyte memory chips next spring.

Meanwhile, Hyundai's arch rival, **Daewoo**, has begun making cars in Poland, its fourth former East Bloc site after Romania, Uzbekistan, and Ukraine. Hyundai, however, is catching up fast, obtaining the go-ahead to assemble cars imported to Poland from Korea. The outgoing government overruled objections by local manufacturers, including Daewoo, that the fledgling domestic market should be protected until the end of the century.

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Toyota, the Japanese car giant,

WHAT THEY SAID

"This shouldn't materially affect EMU or the economic prospects for Europe."

—Alok Basu, international economist at HSBC Markets in London, discussing the recent turmoil in the global stock markets.

"This is not an occasion where central banks will panic. In close cooperation we will manage the situation. It is not the task of central banks to defend unsustainable levels of stocks."

—Otmar Issing, Bundesbank chief economist, in a speech at an EMU conference talking about the current market turmoil and the launch of the euro.

"The international community is becoming very impatient about the lack of implementation of the peace agreement."

—Carlos Westendorp, international peace mediator in Bosnia, speaking out on the problems of implementing the Dayton Peace Accords if rival ethnic leaders remain deadlocked on key issues in Bosnia.

"I have said that if a single currency works and is successful, Britain should join it....We will be notifying our European partners that we will not seek membership of the single currency on January 1, 1999....We are the first British government to declare for the principle of monetary union."

—Gordon Brown, UK chancellor of the exchequer, Excerpts from a speech on why the UK will not be joining the first wave of EU countries for the single currency in 1999.

"I have expectations of a long life for my government."

—Romano Prodi, Italian prime minister, after winning confidence votes in both houses of Italy's parliament after his brief resignation.

"The more the single currency helps Europe develop a robust and healthy economy open to world markets, the more welcome the project will be on this side of the Atlantic. Put it another way: if EMU works for Europe, it will work for us."

—Larry Summers, deputy secretary of the Treasury, discussing the euro and the United States in testimony before Congress.

"The Asian Pacific region, including the United States and China, should get prepared for Europe's 14 currencies being replaced by one euro on January 1, 1999."

—Klaus Kinkel, German foreign minister, on a recent trip to Japan.

"Although the dollar will maintain its key position in the global economy, the euro will advance to become the second major currency in the world as a transaction, investment, and issuing, as well as, reserve currency."

—David Martin, a vice president of the European Parliament, on a recent speaking tour in the United States.

"We'll try to convince the others that our 35-hour work week policy is absolutely euro-compatible."

—Pierre Moscovici, European affairs minister of France, on what his government will tell the other EU members at the jobs summit in Luxembourg this month.

is narrowing down the competing sites for a second assembly plant in Europe, where it plans to expand sales by 50 percent by 2000.

Toyota is expected to spend around $1.5 billion on the plant with production scheduled to begin in 2001. Northern France is the front-runner to lure the investment, but the United Kingdom, where Toyota already makes cars, can't be ruled out. **Nissan** and **Honda** also have auto plants in the UK.

Toyota's share of the European market was less than 3 percent in 1996.

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Some of Europe's top industrial companies unveiled large layoffs as part of a concerted drive to trim costs and boost efficiency to compete against US and Japanese rivals in fiercely competitive world markets.

SKF of Sweden, the world's largest ball bearings manufacturer, is laying off 2,000 workers, a fifth of its payroll with most of the jobs going in Western Europe, where growth is falling behind its expansion in Eastern Europe, Asia-Pacific, and Latin America.

Electrolux, the Swedish domestic appliances group, also controlled by the Wallenberg empire, is shutting 25 plants and cutting 11 percent of its 105,000 strong payroll.

US companies also are downsizing their European operations with **Opel**, a unit of **General Motors**, planning to cut 1,900 jobs at a plant in the Belgian port city of Antwerp. **Whirlpool**, the world's biggest home appliances maker, is set to lay off 15 percent of its 12,000-strong work force.

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More privately held no-frills airlines are floating their shares after they prove they can survive in Europe's "open skies" regime. Latest to float is Italy's **Air Europe**, which plans to raise $130 million from a share sale by year end. **Ryanair**, the Irish independent, went public earlier in the year, and British-based **Debonair** has got a listing on Easdaq, the Brussels-based pan-European electronic exchange.

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Daimler-Benz, Germany's biggest industrial group, has decided to use the euro, the new European single currency, on January 1, 1999, its planned launch date.

The move to abandon the mark from the very beginning of monetary union is expected to have a knock-on effect throughout German industry. **Daimler** often sets trends in the conservative German business community, introducing US-style stock options for top managers and switching to US accounting standards.

Jürgen Schrempp, Daimler's chairman, said the decision to embrace the euro was "basically a signal for our customers, suppliers, and partners in industry and public administration that we see a tremendous chance for both Europe and our group (in monetary union)."

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In another small, but significant boost for monetary union, **Avis Europe**, the auto rentals firm, became the first company on the London Stock Exchange to report its results in European Currency Units (ecus) as well as sterling.

Avis said the use of ecus would help stockholders to strip out the impact of currency fluctuations and get a more transparent view of its underlying trading performance. Around a fifth of Avis's revenues are generated in sterling while the German and French markets account for 40 percent.

Avis, which was floated on the stock exchange earlier this year, has reported in ecus as a private firm since 1989. "This was all pretty exotic stuff back then," said finance director David Maloney.

The ecu, the current of account used by the European Commission for all EU transactions, is made up of a "basket" of European currencies.

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Fiat, the Italian auto firm, signed an $850 million joint venture with **Gaz**, the Russian manufacturer, to assemble 150,000 cars a year at a plant 250 miles east of Moscow.

The plant, which will build three current Fiat models, including the new "world car," represents a scaling down of Fiat's original aim to build nearly a million cars a year.

An earlier bid to create a joint venture in Russia collapsed in 1989 because of a lack of financing.

Gaz, one of Russia's most respected manufacturers, currently builds 125,000 cars and 75,000 trucks a year. Fiat first moved into the Soviet Union 31 years ago building a factory in Togliattigrad.

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Maseca, Mexico's largest producer of tortillas and corn flour, is building its first European tortilla plant in Birmingham, England. The plant, due to open by year-end, will supply Europe directly, replacing exports from Maseca's US factories with sales forecast at around $30 million in the first year.

—Bruce Barnard

UPCOMING EVENTS

December 5—EU-US Transatlantic Summit will take place in Washington, DC. President Bill Clinton will meet Luxembourg Prime Minister Jean-Claude Juncker and European Commission President Jacques Santer at the White House for the second of the twice yearly transatlantic summits.

December 12–13—EU Summit in Luxembourg. The 15 European leaders will decide which Central and Eastern European countries are ready to start membership negotiations with the EU.

January 1, 1998—The United Kingdom officially takes over the EU presidency from Luxembourg.

KEY PLAYER IN LATIN AMERICA


Workers at Fiat's Brazilian plant in Betim, now the car maker's largest factory, produce Brazil's hottest selling car, the Palio.

Several years ago, auto giant Fiat startled the industry by deciding it would build and launch a medium-priced world car not at home in Turin, Italy, but near the industrial town of Betim, in a remote region of central Brazil.

EU BUILDING NEW MARKETS

BY AXEL KRAUSE

Having invested $1 billion in what today is Fiat's largest plant, the company's compact hatchback and station wagon, known as the Palio, has become Brazil's biggest selling car. Its sales are running comfortably ahead of US-designed Ford Fiestas and General Motors' Corsa, which are made in Brazil and also rely heavily on local management and labor.

Explaining Fiat's strategy in Brussels recently, and noting that Fiat exported its first car to Brazil in 1904, the company's president, Roberto Testore said "exporting is no longer enough...partly because the dimensions and the current and potential characteristics of the world's markets make it essential to manufacture where you sell." He announced that Fiat planned to invest $600 million in a new plant in Argentina as well. "As Europeans, we want to grow even faster in this region," an executive said.

While virtually no experienced Latin American would say, as some headlines have suggested—that Europe is elbowing the US out of South America—Fiat is, nevertheless, an example of a new wave of fast-growing investment from European Union countries challenging American predominance.

A bold prediction comes from Wolf Granbendorff, director of the Madrid-based Institute for European-Latin America Relations: "Starting around the year 2000, EU countries will be the number one investor in the region," he says, adding "even though today the ratio is three-to-one in the US favor throughout South America, including Mexico, but Mexico is an exception, fueled by the NAFTA agreements."

In addition, Europe accounts for almost two-thirds of all development aid to Latin America, not counting the growing lending activities of the European Investment Bank in the region. And the EU is the second-biggest trading partner for Latin America as a whole. The four-nation southern common market, known as Mercosur, (comprising Argentina, Brazil, Paraguay, and Uruguay) and being expanded to include Chile and Bolivia, remains the EU's biggest, single market in Latin America.

Despite trade obstacles, such as high auto tariffs, and as privatization expands, investments like Fiat's will grow, says European Commissioner Sir Leon Brittan, "because business is driving the process..." Indeed, since Chile began experimenting with privatization in 1985, a wave of ending state ownership had also hit Argentina, Brazil, Peru, Venezuela, and Mexico, at different speeds; the main sectors affected: telecommunications, air transport, the financial sector, and energy, notably electrical utilities.

EU countries remain among the most important investor-players, including: Telefonica de Espana, the Spanish airline Iberia, and France Telecom in Argentina and France's Lyonnaise des Eaux, Germany's Volkswagen, Sweden's Electrolux, and London-based Hong Kong & Shanghai Bank in Brazil. When earlier this year, France's President Jacques Chirac and Finland's President Martti Ahtisaari visited the region, each were accompanied by about a dozen leading businessmen.

Meantime, EU-based investment analysts say that Latin American stock markets have rebounded convincingly since August, and that they are encouraged by forecasts for 6 percent growth of the Mexican economy this year and 7 percent for Argentina. Although growth in Brazil is only projected at 3 percent, investors remain optimistic, noting that the São Paulo Bolsa alone rose 80 percent in the first six months of this year.

Analysts said their views are confirmed by a United Nations report released in late September showing that Latin America last year experienced the world's fastest growth in investment inflows—a 52 percent rise to $39 billion—and that Brazil nearly doubled its incoming flows to $9.5 billion from $4.9 billion in 1995.

Driving much of the growing European investment enthusiasm is the determination of Latin and Central American leaders to diversify beyond traditional US suppliers, a trend illustrated by airlines and the aerospace industry.

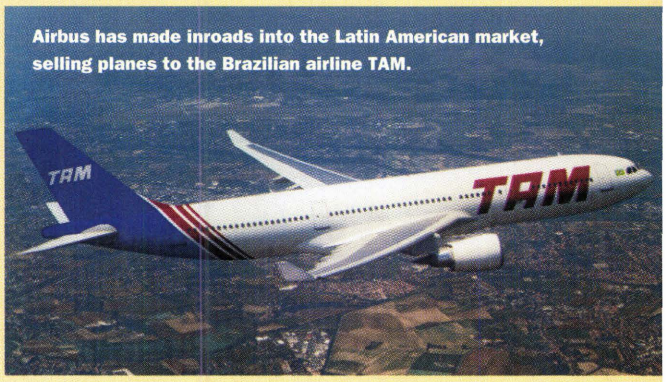
A striking example is Transports Aeros Meridionals, Brazil's little-known, third-biggest airline. Earlier this year, the aggressive carrier decided to buy 10 new-generation passenger jets from Airbus Industrie, the French-German-British-Spanish consortium. The long-range A330-200s will allow TAM to fly nonstop from Latin American cities to Miami and popular European gateways, like Madrid.

"Privatization and new growth of airlines has made a difference in our success down there, but so has booming growth, including in areas, such as tourism," says an Airbus spokesman at Toulouse headquarters. While Boeing and McDonnell Douglas continue to dominate the market heavily and are hitting back at the European drive, Airbus now boasts 10 airlines, operating some 50 of its planes, and in July opened a regional office in Rio de Janeiro. The European group reports that with replacement of ageing fleets, as well as projected 4 percent passenger growth, sales could easily double within two decades. The fact that Spain's state-controlled CASA is a minority Airbus partner has helped the EU cause.

Throughout the 1980s, Spanish leaders made it clear that they had a privileged position in South America, with exception of Brazil, because of culture, language, and historical ties. South Americans, offended at what they described as a "conquistador" approach, encouraged other EU members to invest, which they did.

Less than five years ago, a combination of strong competition, deregulation in South America, and a new generation of Spanish political and business leaders, plus a Spanish European commissioner responsible for the region brought a gradual shift in attitudes on both sides of the Atlantic, and Spanish investments revived.

Currently Spain is running neck and neck with the UK as the leading EU investor in the region. Spain has marginally surpassed the UK as the leading European investor in the region between 1990 and 1994, followed by Germany, France, the Netherlands, and Italy.



Airbus has made inroads into the Latin American market, selling planes to the Brazilian airline TAM.

Today the outlook varies from country to country. In Argentina, France has emerged as the single-largest foreign investor, followed closely by Spain. "However you count, depending on the year, Britain, Spain, France, and Germany are the main players in the region as a whole," says IRELA's Grabendorff. Even other EU member countries like Finland and Hungary are becoming interested in the region, as is Slovenia, which is seeking EU membership.

The European Commission is playing a key role in promoting trade and investments. "We remain committed to the expansion process by helping the private sector develop opportunities and by pursuing improvement and expansion of relations at the political level between the EU and Latin America as a whole," says European Commission Vice President Manuel Marin. A former Socialist, the low-key, bearded Spaniard is responsible for the Commission's relations with the Middle East, Southeast Asia, and Latin America, and, according to diplomats, has played a key behind-the-scenes role in bolstering EU political links with the area, notably in Central America.

SOUTH CAROLINA

Expanding Business Ties With Europe

By Fred Monk

South Carolina's ties with European Union countries run deep and are getting stronger—not just in business but in cultural activities, education, and government. It's a relationship between this small state of 3.6 million people and the 370 million people of the European Union that many find surprising.

South Carolina has one of the highest levels of international investment in the United States, led by European Union companies. So many German companies have invested in the Upstate that Interstate 85, which runs through Spartanburg and Greenville, has become known as the American autobahn.

The Spartanburg BMW plant has produced more than 100,000 Z3 roadsters, most of which are exported out of Charleston, South Carolina.

South Carolina's newest connection with the European Union was the recent appointment of Phil Lader of Hilton Head Island, SC, as the US ambassador to the United Kingdom.

But the ties between South Carolina are extensive—from the founding of Charleston in 1670 by British settlers to the growing level of business between the two global markets.

The significant spike in business ties mirrors the evolution of the European Union. In the mid-1960s, Dick Tukey, head of the Spartanburg Chamber of Commerce, made a move that would help make South Carolina one of Europe's foremost business partners.

He focused on attracting industrial investment, initially centered around textiles, from Switzerland and Germany. By 1968, Hoechst AG, the giant German chemical firm, made an initial investment in Spartanburg and has since expanded that investment many times.

The Port of Charleston handles an average of 6,000 fully loaded 20-foot containers every week to and from northern European ports.

In 1973 and 1974, Michelin of France and Robert Bosch of Germany made major investments in South Carolina, and they have continued to expand. Most recently Michelin began an $800 million expansion of its four plants in the state.

In 1975, the state opened an economic development office in Brussels, which was moved to Frankfurt in 1990. And that office has expanded to include a trade representative to capture growing trade opportunities.

The results have been clear. Since the mid-1970s, international investment—largely from EU countries—has averaged 25 percent or more of new and expansion industrial investment in the state. In 1996, foreign investment totaled $2.2 billion, or 40 percent of the state's record $5.7 billion investment announced.

The most visible of the European investments came in 1992, when BMW AG of Munich announced it would build its first major plant outside of Germany and Austria in Spartanburg. Since then BMW's investment has grown to more than $800 million, and it has attracted more than 20 suppliers to the area, many from Germany and France.

The BMW investment—and its product, the Z3 roadster made only in South Carolina—catapulted South Carolina's visibility worldwide, highlighting a 25-year "overnight" success story of South Carolina and European investment.

BMW has now made more than 100,000 Z3 roadsters, more than half of which have been exported, primarily to European customers.

And this trade between Europe and South Carolina continues to build, largely through the port of Charleston. Charleston recently surpassed the ports of Seattle and Oakland to become the nation's fourth-largest container port.

At the recent Transatlantic Business Trade Forum in Charleston, sponsored by *EUROPE*, Bryon Miller of the South Carolina State Ports Authority outlined the significance of trade with Europe. US trade with northern Europe remains the largest portion of the Port of Charleston's business at about 37 percent of total volume. Add the Mediterranean trade lane and it jumps to 44 percent. Charleston is second only to the Port of New York and New Jersey in East Coast container volume. Charleston handles an average of 6,000 loaded 20-foot container units every week to and from northern European ports.

And Charleston's position in northern Europe-US trade has grown dramatically over the past five years, Miller said. Since 1991, total northern Europe-US container trade for all ports has increased only 14 percent. In Charleston, it has increased more than 48 percent, and Charleston's market share in US-Europe trade among competing ports is now greater than 70 percent, he said.

South Carolina companies—ranging from Sonoco Products, a $3 billion packaging company that began investing and trading in Europe in 1923, to smaller companies such as Transcon Trading, which sells and distributes animal health care and medical equipment—have been expanding throughout Europe. Sonoco now has packaging plants throughout the European Union to serve its European customers.

In the past two years a Center for Germany-American Business Relations and a British American Business Association have been established in South Carolina. In addition, British and German tourists have become an increasing part of South Carolina's large tourism economy, so much so that the state has tourism representatives in each of those countries. While Charleston and Myrtle Beach have become hot spots, European visitors are spreading across the state. For example, a regular program of bringing British golfers to the Columbia area began two years ago. And European tourists make up a significant portion of the visitors to the Congaree Swamp National Monument, one of the few remaining areas of US virgin forest, with its towering loblolly pines and bald-knee cypress trees.

South Carolina is attracting a growing number of European retirees as well, many of whom became acquainted with South Carolina through business or as tourists.

But it's not only in business that the South Carolina-European Union relationship is expanding. Since 1992, South Carolina has established three sister state relationships in Germany. It has partnerships in business, education, and government exchanges with Rhineland-Palatinate, Thuringia, and Brandenburg.

And through the Columbia World Affairs Council's recently established World Class Partnership program, sister schools have been established between 25 South Carolina schools and schools in the United Kingdom, Germany, Spain, Denmark, and France. Many more school partnerships throughout Europe are being explored. Separately, a Danish-South Carolina teacher's exchange program has also helped to create international awareness.

Three years ago, the University of South Carolina formed a partnership with the Business and Economics University of Vienna to create an International MBA program. In that program, graduate students from the United States and across the world study in Vienna, Austria, for six months and in Columbia, South Carolina, for nine months.

Austria's presence, however, is visible every day in Columbia, South Carolina's capital city. John Niernsee, the architect who designed the state's Capitol building in the 1850s, was from Austria. Ⓔ

Fred Monk, based in Columbia, is the chief business correspondent for the State *newspaper.*

Charleston Place

Orient-Express Rolls into the Old South

By Susan J. Burdin

The warmth of Charleston Place hits you as soon as you walk through the front doors. Bellboys bustle about their business; sounds of the grand piano linger in the lobby lounge as guests sit back in big comfortable armchairs sipping martini cocktails or enjoying an afternoon cream tea, while those in a shopping mood wander around the many world-class shops at Charleston Place located just off the lobby. "There's a European scale and ambience to our hotel. We have preserved and protected the old ways. We provide old world charm with all the modern conveniences," says Dean Andrews, director of operations, North America, Orient-Express Hotels.

Charleston Place joined the distinguished collection of British-owned Orient-Express Hotels in 1995, and one could easily be spending the night at the Cipriani in Venice or at Reid's Palace in Madeira, since guests are afforded the same unparalleled standard of service and comfort found in all Orient-Express accommodations. From the 12-foot Italian crystal chandelier hanging over the sweeping double staircase in the hotel lobby to the Botticino marble and brass fixtures in the opulent bathrooms, the hotel affords an elegant environment. For recreation and relaxation, guests can sun and swim year-round in the heated swimming pool with retractable glass roof or soak in a spacious jacuzzi while stargazing.

Not to be missed is the exquisite dining experience of the hotel's Charleston Grill, where chef Robert Waggoner will captivate your taste buds with five-diamond cuisine dishes. Chef Waggoner mastered his cooking skills at some of the finest restaurants in France, and he conjures up menus that feature Low Country cuisine with a classic European touch. We tried the escargots with truffled grits and sesame salmon over seaweed, served very graciously by Roberto, our Italian waiter. Everything we ate was mouthwateringly delicious, and we couldn't wait to return the following evening.

Just across the street is an historic theater that has been converted into the hotel's state-of-the-art meeting and event facility, the Riviera Conference Center. After purchasing the theater from the city, Charleston Place meticulously restored this art deco landmark, capturing the splendor of a bygone era. It's worth taking a walk across the street to explore this unique facility, which is listed on the National Registry of Historic Places. As Mr. Andrews says, "At Charleston Place, we're protecting the best elements of the past while preparing for the 21st century."

So whether you're in Charleston for business or pleasure, Charleston Place has something to offer everyone. ⓔ

Susan J. Burdin is EUROPE*'s editorial assistant.*

Charleston Place, Charleston's premier hotel, is owned by the prestigious Orient-Express Hotels.

CHARL

A FUSION OF EUROPE'S PAST

Most American cities require visitors to have cars to get from local-attraction-A to point-of-interest-B. But historic Charleston, South Carolina, is different. It offers a multifaceted glimpse of America's European past that is perfect for walkers.

"Charleston is a city of great diversity," says Alex Sanders, president of the College of Charleston. "You still have the corner grocery store along with businesses and residences mixed together. Many people can walk to work—a car is a burden for some people."

For visitors, semitropical afternoons offer easy strolls along quiet lanes lined with sculptured, wrought-iron gates that lead to lush Southern gardens and preserved colonial and antebellum homes. Others find it heartening to take a morning constitutional through a downtown teeming with church steeples, architectural delights, and horse-drawn carriages.

"Just about anywhere you go, you find you could be in Europe," one recent English visitor remarked. "At one point, I could have been in Bruges and the next in London."

In Charleston, lawyers walk to court; students run to class; and shoppers amble along store-laden King Street. While cars clog inner-city streets, the peninsular city's relatively compact geographic size makes blue-blooded Charlestonians less reliant on horseless carriages. Why bother, for example, with the trouble of traveling a few short blocks and hoping to find the rare open parking place when it takes only a matter of minutes to walk from the east side at Waterfront Park on the Cooper River past boutiques, small businesses, antique shops, homes, and churches to the west side marinas by the Ashley River?

Charleston's Spoleto Festival has become an annual smorgasbord of European and US cultural events.

ESTON

BY ANDY BRACK

First settled in 1670, Charleston's waves of English, African, French, Scottish, Irish, Welsh and German immigrants put their unique brands on the city. Street names—King, Legare, Queen, and Guignard—reflect the city's English and French past. The facades of buildings along courtly Broad Street—once Charleston's primary business street and now home to an assortment of lawyers, banks and real estate agents—call to mind the avenues of Amsterdam. And to this day, African-American women at the Public Market sell sweet-grass baskets made in the same way their ancestors made them 300 years ago.

Charleston, often called "The Holy City" because of its abundance of churches, is sandwiched between two ambling rivers. The English first settled along the banks of the slow, shallow Ashley. To the north, the deep, more industrial Cooper still serves as the backbone of the local economy. According to local lore, the rivers actually combine in Charleston to form the Atlantic Ocean. But the pride that sounds like patrician snobbery masks the real qualities of Charleston that visitors love—grace, harmony, tradition, an honor for the past, manners, and above all, Southern charm.

Ambassador Hugo Paemen, head of the European Commission's Delegation in the US, recently addressed a conference of South Carolina's business community in Charleston, sponsored by *EUROPE*.

Today, visitors can revel in all that is Charleston in any season. During the fresh, mild months of spring, the city hosts Spoleto Festival USA, a 17-day cultural bouquet of visual and performing arts. Started in 1977 with Italian composer Gian Carlo Menotti, Spoleto has become a national gem of world-class plays, concerts, and exhibitions. In summer, beach goers flock to the coast to swim, golf, and be in the sun. Autumn brings the Preservation Society's Annual Tour of Homes, the MOJA Arts Festival, and a host of oyster roasts. By winter, there's the Parade of Boats at Christmas, WorldFest—Charleston International Film Festival, and more golf.

"The combination of our unequaled beauty, hospitality, and extremely novel setting provide a wonderful backdrop for international audiences," said Charleston Mayor Joseph P. Riley, Jr. "We were the first city in the country to enact a preservation ordinance. We have an active and ongoing interest in the protection and restoration of our buildings, which tell the story of our past."

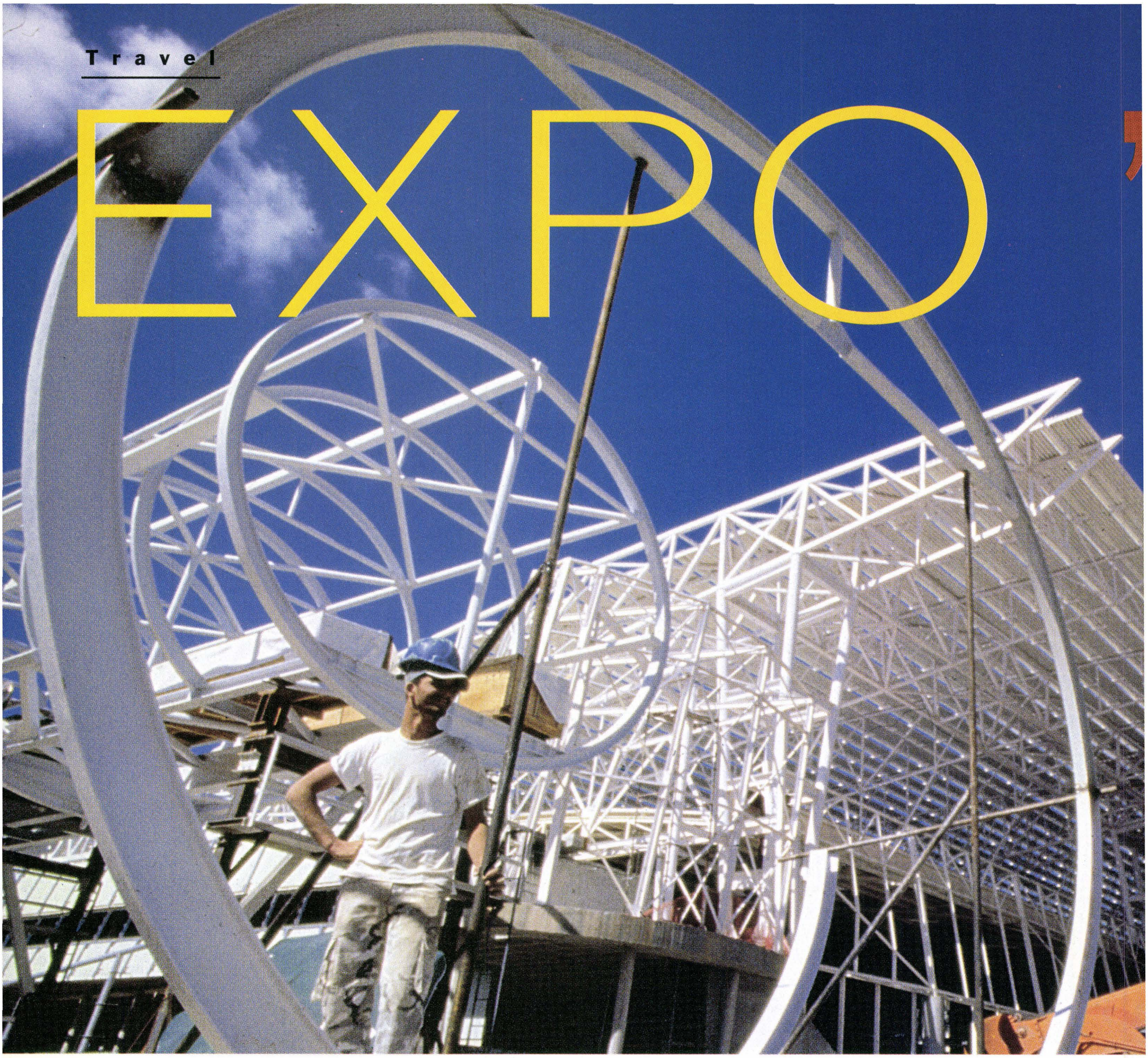
While tourism is a big industry in Charleston, the region is a key player in international business. Not only is it home to the fastest-growing container port in the country, it keeps abreast of international issues and developments. For example, *EUROPE* sponsored a business breakfast briefing as part of the Transatlantic Trade Business Forum in late September at the College of Charleston. The forum made history by being the first trade discussion targeted to businesspeople to be broadcast globally on the Internet.

Restaurateur Christian Petin, a native of Aix-en-Provence, France, retired to Charleston to help his sons, Jean Marc and Guillaume, run Beaumont's and Café St. Tropez—two award-winning French restaurants. The city, he says, is a good place for Europeans to live and work because of its old-fashioned approach to living well.

"There is an atmosphere about it—a smell of gracious living," he said. "You have to have a culture that you can relate to. If you live in Los Angeles, you might say Charleston is not the place for you. But if you want a place of old European culture, this is the place to be." ⓔ

Andy Brack is a freelance writer based in Charleston.

EXPO '



TAKING IT TO THE

SPRAWLED ALONG THE EASTERN EDGE OF LISBON'S TAGUS RIVER IS EUROPE'S largest building site. Six thousand construction workers are busy turning the landscape of cranes and scaffolding into the Expo '98 world exhibition. Arriving in Lisbon these days you can't fail to notice that something is up. First of all you'll fly heart-stoppingly close to those cranes as you come into land since the Expo site is conveniently close to the airport. Driving into town in a taxi plastered with Expo logos, you'll pass the Expo clock which counts down the days, hours, minutes, and seconds till the show kicks off in May 1998.

98

The project's organizers are certainly not short of ambition. They aim to put on an exhibition that will attract 8 to 10 million visitors, revitalize a large chunk of Lisbon's rundown riverside, raise awareness of Portugal as a tourist destination, and save the world's oceans—all without plundering the Portuguese treasury.

Lisbon has clearly learned from the mistakes of Seville's Expo '92 in neighboring Spain. It was a successful international event, but it left behind a desert of abandoned pavilions that were too expensive either to convert or to dismantle. Instead of receiving heavy state subsidies or asking visiting countries to construct their own pavilions, Expo '98 is financing and building its own permanent structures that will be turned into concert venues, sports halls, and exhibition centers after the fair.

All the visiting countries have to do is bring their exhibits, which must relate to Expo's theme of oceans and water. The event coincides with the United Nations' Year of the Oceans and will promote research and conservation of ocean life. It will also mark the five hundredth anniversary of Portuguese explorer Vasco da Gama's discovery of the sea route to India.

American architect Peter Chermayeff has designed the exhibition's centerpiece: a giant oceanarium perched at the water's edge. The exotic fish, sharks, penguins, and sea otters that will fill its tanks have already begun to arrive from around the world.

But the fair itself is only a small part of a much grander urban regeneration project aimed at bringing the capital's neglected eastern riverside back to life and providing accommodation and office space in a city with acute shortages of both. Expo's organizers also hope they can lure Lisboans down to the Tagus. Although the city sits on the widest river estuary in Western Europe, its people have had a curious tendency to turn their attentions inland, and there are currently very few places to sip a sunset drink beside the river.

When the fair ends an area more than five times Expo's 150 acres will have been transformed from an old industrial site into a stretch of prime riverside real estate. There will be luxury houses, offices, hospitals, schools, shops, and green spaces for strolling as well as the Expo facilities. The area will have excellent rail, metro, and bus connections and so is unlikely to suffer the fate of London's Docklands development, which failed to take off initially because of poor accessibility. The sale of plots of the Expo site, which should be fully developed by around 2010, is expected to recoup a large part of the $1.5 billion that Expo will cost.

That's the idea anyway, but like most projects on this scale, Expo has generated its share of controversy. The Portuguese media regularly report that Expo is way over budget and badly behind schedule. The latest joke goes like this: "What's happening in Lisbon in the year 2000?" The answer: "Expo '98." Expo's organizers insist that the show will go on, on schedule. It has to. Six thousand construction workers should make sure of that. Ⓔ

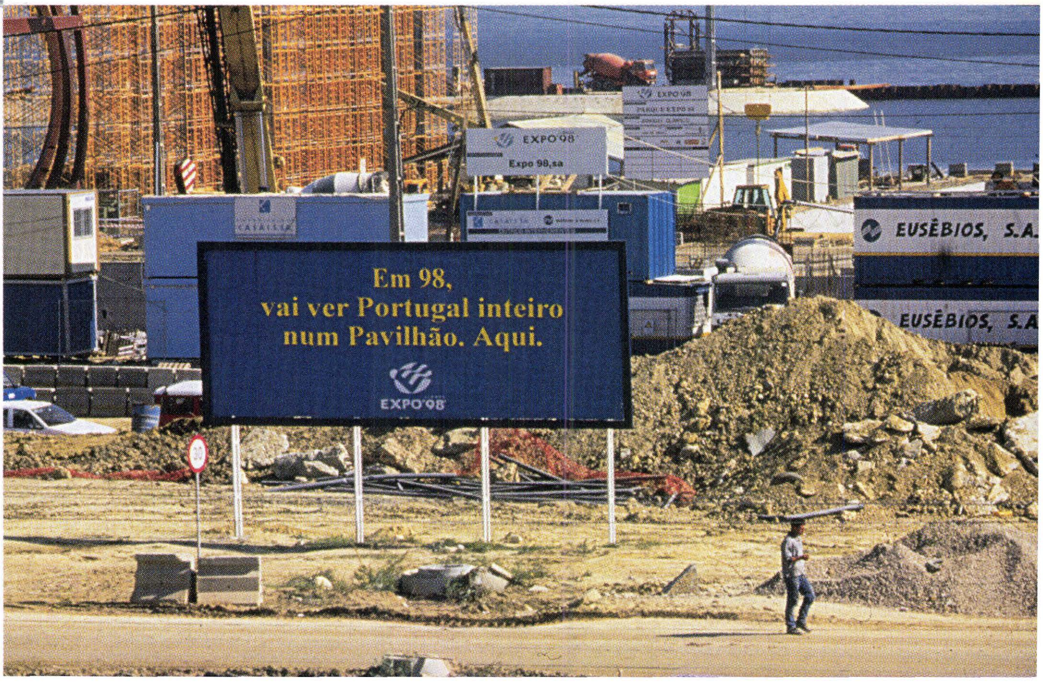
Samantha McArthur is EUROPE's *Lisbon correspondent.*

RIVER

BY SAMANTHA MCARTHUR

Above: Six thousand construction workers are working around the clock to ensure Expo '98 begins on schedule.

Right: Construction for Expo '98 has turned the banks of the Tagus River into Europe's largest building site.

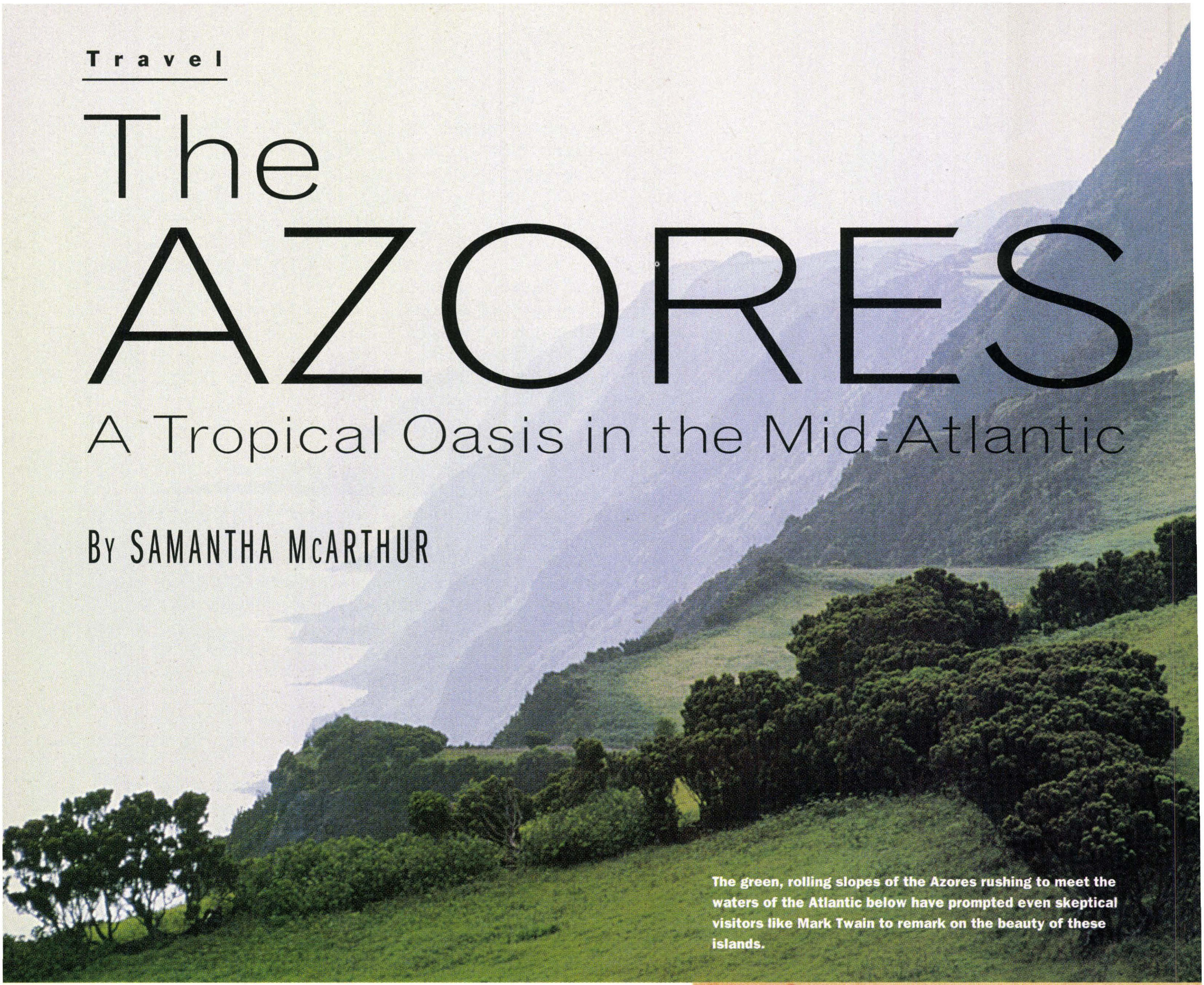


Travel

The AZORES

A Tropical Oasis in the Mid-Atlantic

By SAMANTHA McARTHUR



The green, rolling slopes of the Azores rushing to meet the waters of the Atlantic below have prompted even skeptical visitors like Mark Twain to remark on the beauty of these islands.

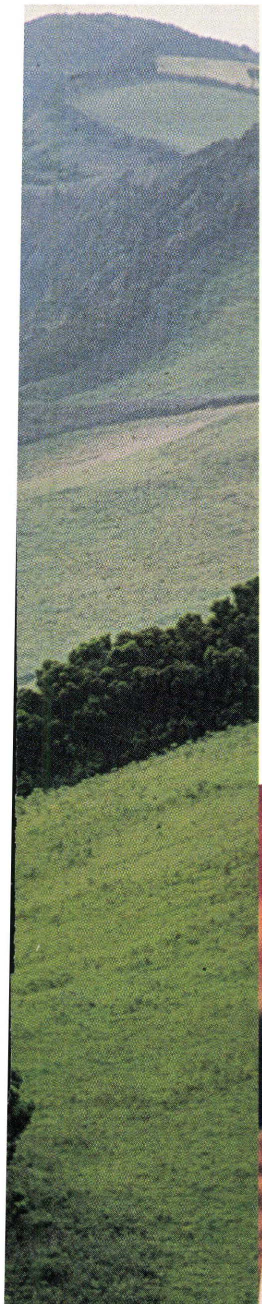
OUT IN THE MID-ATLANTIC the plane descends toward the ocean and plunges through a lone cloud bank. Beneath it lie the Azores, a chain of green, volcanic islands that Portuguese navigators were fortunate enough to stumble across during the 15th century.

Some believed they had discovered the remains of the legendary lost continent of Atlantis. This may have been wishful thinking, but William F. Buckley Jr. was certainly right when he described the Azores as "quite simply…the most beautiful group of islands in the world."

Climb to the rim of a volcano lined with ginger lillies and peer down into a blue lake in the crater below; soak tired feet in hot springs that bubble out of the ground; or take to the sea to watch for dolphins and whales. The islands offer little by way of night life or five-star hotels but that is what has kept them almost entirely unspoiled.

Arriving on Terceira Island, the first thing that rolled off the luggage carousel was a goat's leg, wrapped in a plastic bag with its hoof poking out. Coming from the Portuguese mainland, which the islanders refer to as the "continent," we had to put our watches back

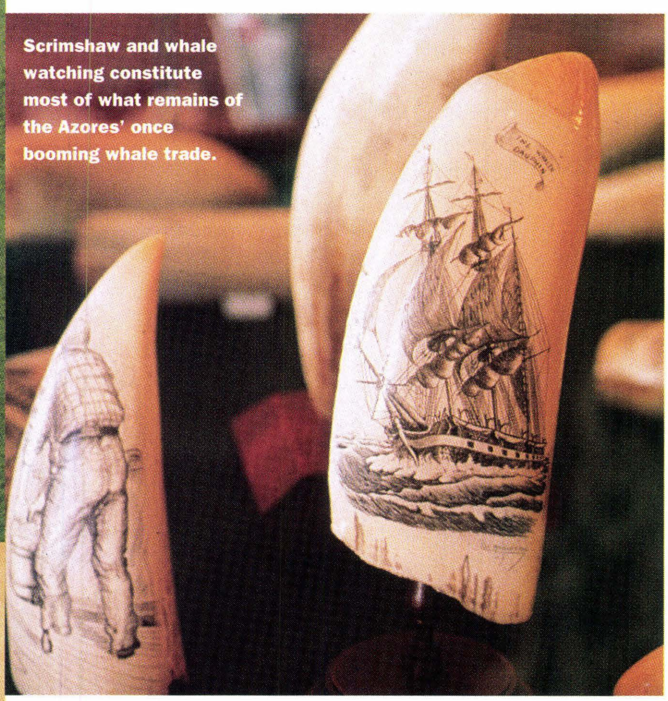
Portuguese navigators discovered the Azores in the 15th century.



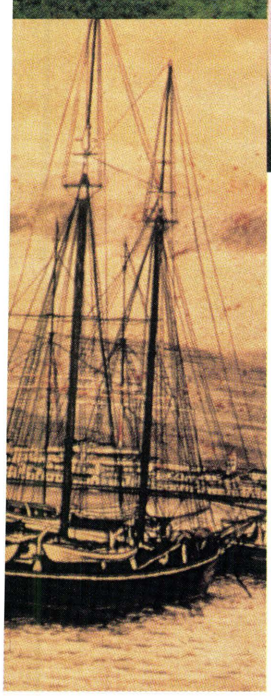
one hour: It felt like 50 years. Horses draw carts full of milk cans along winding roads, and five o'clock is bovine rush hour when motorists must watch out for the herd around the next bend. Milk is a vital part of the economy, and the Azores produce delicious cheese and butter.

Each of the nine islands offers something different, whether to walkers, divers, botanists, golfers, or to visitors who just want to hire a car and drive around. However, tourists should not arrive expecting long sandy beaches and endless sunshine. Apart from July and August, the weather is mixed, though usually warm, and the islands' volcanic origins make for rocky, black shorelines.

Terceira is full of green, rolling pasture, neatly divided by stone walls. Its pretty main town, Angra do Heroismo, is on UNESCO's World Heritage List and was once the base for a Portuguese government in exile.



Scrimshaw and whale watching constitute most of what remains of the Azores' once booming whale trade.



São Miguel, the largest island of the archipelago, boasts some of the most spectacular scenery. Well worth the climb is the Seven Cities volcanic crater, which cradles twin lakes—one green, one blue—said to have been formed by the parting tears of a princess and her shepherd lover. The spa town of Furnas has lakeside geysers and mud cauldrons and a sulfur swimming pool set in the middle of an enchanting botanical garden.

The isolated Flores Island, named after the abundance of flowers that grow there all year round, is Europe's most westerly point. On the western side of the island, the Atlantic swirls and crashes beneath waterfalls that hurtle down green cliffs. Even Mark Twain, who was not a great fan of the Azores, softened his judgment when Flores came into sight: "As we bore down on it, the sun came out and made it a beautiful picture—a mass of green farms and meadows that welled up to a height of 1,500 feet, and mingled its upper outlines with the clouds."

Much of the islands' maritime history is tied up with the whaling industry. Big American whaling boats would call at Azorean ports to replenish their crews with local men. The Azoreans took to the business and often rose from the ranks to captain the ships. Later in the 19th century the islands developed their own, off-shore whaling from precarious 40-foot boats with hand-held harpoons. The boats were manned by farmers, fishermen, and tradesmen of all kinds who were summoned from their ordinary jobs by the watchman's flare. Traces of the whaling tradition can still be seen around the landscape from the lookout huts that dot the headlands to the empty whale oil factories in the ports. These days the old whalers sit around the jetties in baseball caps, reminiscing about a time when the hunt for the sperm whale, or *cachalote*, added excitement to an otherwise quiet existence and brought in cash to a desperately poor community.

Whaling was banned in Portugal in 1989 to comply with EU legislation, but the cetaceans still provide an income for islanders who have become involved in the booming whale-watching trade. On Faial and Pico islands at the center of the archipelago, six whale-watching operations have sprung up since 1989. They offer visitors a chance to see 21 species of whale and dolphin at close range, using the expertise of the old whalers who have been teaching younger islanders how to keep a lookout for "blows" and "flukes" (when the whale flips its tail and dives).

Not surprisingly the islands provide a wealth of wonderful seafood from the tasty *arbrotea*, something like turbot, to octopus stewed in local wine. At Furnas in São Miguel, the hot ground is used to cook "cozido de Lagoa das Furnas," a traditional dish of meat and vegetables steamed in a cloth bag and buried in the earth. It tastes nicer than it sounds.

Despite the bounty of the seas and the fertile land, the Azores is not always a paradise for its inhabitants. The islands rely heavily on European Union funding, and their biggest export is people. There are an estimated one million Azorean emigrants living in North America, and most of them will never return permanently. But the tourists do return—year after year. An Italian who has set up home on Flores said, "You can't escape the islands. They always lure you back." ⓔ

HOW TO GET THERE Sata Express/Azores Express/Suntrips/Relvas and Lawson Tours can arrange transport from the US to the Azores. There are direct flights from Boston or TAP-Air Portugal flies from Lisbon. SATA deals with inter-island transport, which is relatively cheap if visitors book a package. SATA's number in Lisbon is 351-1-353-9511.

CAPITALS

AN OVERVIEW OF CURRENT AFFAIRS IN EUROPE'S CAPITALS

PARIS

A MODEM WITH A MIND

In the global battle for ever more sophisticated information technology, it is easy to forget that there is anyone else out there besides the big boys like Bill Gates and Steve Jobs. But while these two titans first fought each other fiercely and now appear to be cozying up, others have been hard at work, too, producing small electronic miracles of their own.

Jacqueline Lejeune took over the reins of her late son's company, Olitec.

In the northeastern town of Nancy, in the industrial heartland of France, Jacqueline Lejeune, a feisty 50-year-old, runs a small company called Olitec that fairly hums with creativity. Last year Olitec brought out the first modem ever made that can receive and record text *and* voice messages even when the computer to which it is connected is switched off. No one besides Madame Lejeune was really convinced that it would be possible to design such a modem, until she sent her team of 10 engineers off and told them that there would be no summer holidays until they had come up with what she wanted.

The old carrot-and-stick approach worked; within a few weeks the revolutionary Olitec Self Memory was created. No bigger than a pack of cigarettes, it both registers text messages, like a fax, and voice messages, like an answering machine. Best of all, it carries on working even when the computer is turned off, thus neatly doing away with offices bathed by the ghostly after-hours glow of waiting screens and computers humming eerily to themselves.

Thanks in great part to this uniquely clever little modem, Olitec's sales vaulted from $12.5 million in 1995 up to $22 million in 1996, and this year it is well on its way to repeating that performance and netting close to $43 million. Its profits are behaving in an equally athletic manner, making a leap of 524 percent to reach $1.25 million in 1996, while its share price, originally valued at around $55 when Olitec first made its entry on the second market of the Paris Bourse last December, is now listed at close to $250. Not bad for a company with just 80 employees.

Olitec has not always been guided by the firm hand of Jacqueline Lejeune. It was created in 1985 by her son Olivier, a whiz kid fresh out of high school, who was bitten by the electronics bug. He realized that it was far cheaper to buy components and assemble modems himself than to purchase them ready-made. In March 1988, when his company was still establishing itself, Olivier was killed in a plane crash. At first his mother was too paralyzed by grief to do anything except mourn, but after a few weeks she heard that her son's former colleagues were trying to take over Olitec. "I went crazy then," she admits and quit her job as a sales manager so that she could dedicate herself to saving Olivier's legacy.

Today the company is the top supplier of modems in France, ahead even of US Robotics, the world's leading modem manufacturer. Olitec's clients include national ministries, such as the army, the air force, and the ministry of education; state-owned companies like the French national railroad and France Telecom; and private firms like EuroDisney and Alcatel.

The time has now come for Olitec to try and conquer foreign markets. SIT, a Canadian modem distributor, has already signed on the dotted line, and a $3.3 million contract has also been signed with China. In the United States, Olitec has been granted operating licenses and is starting to nibble at the American market. Nothing for a giant like US Robotics to lose any sleep over yet, but you never know. . .Olitec has just brought out two new products: a new generation "self memory" modem as well as a high-speed modem.

Jacqueline Lejeune masterminds it all from Nancy, with an enlarged photo of Olivier on the wall behind her desk. "You must understand," she says, "everything I do is in memory of my son. I am simply the custodian of everything that he created." Olitec's founder would be proud of his mom.

—Ester Laushway

BRUSSELS

BELGIAN BUDGET LOOKS GOOD

No crisis. That was the unusual news this fall concerning next year's budget. Every previous year since 1982 there had been desperate meetings between senior cabinet ministers seeking spending cuts or tax hikes to get the budget deficit down to manageable proportions.

The deficit had risen to as high as 13 percent of gross domestic product in 1982, following several years of reckless overspending. Ever since then the annual budgets have been very tight, and the pressure was greatly increased by the Maastricht Treaty, which stipulated that countries should reduce their deficits to 3 percent of GDP or less to qualify for the single currency. Heroic—

but deeply unpopular—efforts, led by Finance Minister Philippe Maystadt, now seem at last to be paying off.

Maystadt was able to announce in September that the deficit for 1997 will be down to 2.8 or 2.9 percent of GDP, and next year's to 2.5 percent. Belgium should therefore qualify for economic and monetary union (EMU). The result is that Budget Minister Herman Van Rompuy was able to introduce a "standstill" budget for 1998, with no tax increases and no spending cuts. The days of national belt-tightening seem at last to be at an end.

This achievement does not seem to have done anything—so far at least—to improve the popularity of the center-left coalition government, of Christian Democrats and Socialists, led by Jean-Luc Dehaene. Gravely damaged by bribery scandals, for which several former ministers are now awaiting trial, the coalition parties are far behind their right-wing Liberal opponents in the opinion polls.

An election is not due until May 1999, but it is far from certain that the government will be able to survive until then, and most observers now expect the Liberals to be the big winners when Belgians next go to the polls.

—Dick Leonard

VIENNA

AUSTRIAN AIRLINES COMPETE

Once upon a time, Europe's skies were controlled by national carriers big and small, owned by their respective governments and well protected from competition. They all charged ridiculously high fares. Some recorded profits, but others accumulated massive losses and were regularly bailed out by their respective governments.

With the EU's deregulation, the climate changed dramatically. Fierce price wars drove fares down, forcing airlines to cut costs to an extent and at a speed that many thought impossible. There was consensus among airline people that only three to five giant companies would survive, while the others would either be taken over, retreat into some small specialized market niche, or simply die.

It turned out they were wrong. Airlines have been grouping into strategic alliances instead and continue to regroup all the time. Even smaller players like Vienna-based Austrian Airlines (AUA), a notorious protectionist and high-cost company that had managed to survive with a load factor (airline measure of how full planes are each flight) of only 49 percent in the late 1980s, is still around. But, to be fair, it is a totally different airline today.

AUA co-presidents Herbert Bammer and Mario Rehulka learned fast how to cut costs.

In the early 1990s, when low-cost carriers, among them Lauda Air, owned by Austria's Formula One champion, Niki Lauda, and AUA's arch-competitor Lufthansa, forced an ill-prepared AUA to match dramatic price cuts immediately. It was quite a challenge for the company's co-presidents, Herbert Bammer and Mario Rehulka, to keep the company airborne. "We had to learn fast," remembers Herbert Bammer, "the problem was to cut prices and keep our high product standards at the same time." Within a few years, yields fell by 45 percent, costs were cut by 33 percent, and the load factor was forced up by 7 percent.

According to Mario Rehulka, improving productivity, reorganizing, and speeding-up reaction in the market place were the key factors to success.

But the fight is far from being won, since yields in Europe are expected to keep coming down at a rate of 2 percent per year. And the playing field is not as level as private or privatized carriers like AUA would wish. "We are fighting a price war against competitors that incur heavy losses but continue undercutting since they are still subsidized by the state," says Mr. Rehulka, who keeps urging EU authorities to force airlines like Air France, Iberia, Alitalia, and Olympic to abide by the rules set in Brussels long ago.

But competition, according to Mr. Rehulka, has another dimension in Europe. "Contrary to the situation in the post-deregulation US, airlines in Europe have to fight against rail and road competition, too," he says, and both are subsidized. "While air transport nowadays has to pay 100 percent of infrastructure costs in Europe," observes Mr. Rehulka, "rail has to shoulder only 75 percent and road transportation only 50 percent."

But it seems that AUA is better prepared for the future than ever before. Comfortably imbedded in a strategic alliance with Delta, Swissair, and Sabena of Belgium, the carrier succeeded in quickly penetrating the US market at a low cost. At the same time, the airline profits from granting its partners (including ANA of Japan) access to a high-growth market, where AUA has traditionally been a top player: Eastern and southeastern Europe with its still high yield level. AUA's most recent strategy there is to outrun others in opening up services to booming secondary destinations in order to profit from high business fares and to take up as much traffic as possible before others arrive. This is how little-known destinations like Dnepropetrovsk (Ukraine), Kosice (Slovakia), Skopje (Former Yugoslav Republic of Macedonia), or Timisoara (Romania) became part of AUA's network.

Early this year in a surprise move, AUA took over a controlling share of Lauda Air, which is now being integrated along with Tyrolean, a highly successful regional carrier also controlled by AUA, into a loose partnership.

Contrary to beliefs a few years ago, flying big isn't the answer anymore—at least not the only one. Not even the small Austrian alliance, moving (according to recent estimates) about 6.5 million passengers to 110 destinations with a fleet of 77 aircraft, is heading toward merger anytime soon. Says Mr. Rehulka, "We have three excellent brands at our disposal, each a leading one in important market segments. We would be crazy to drop a single one."

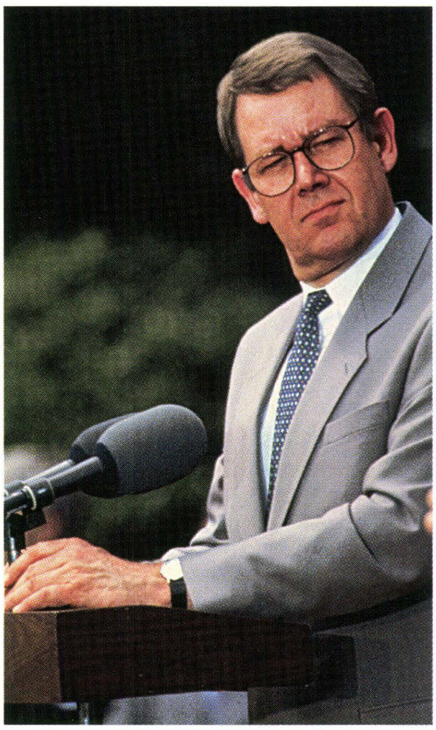
So AUA has learned to fly the troubled skies of competition and can be expected to play a bigger role in Europe than ever before. It will continue to add flights in the next few months, among them some you might have never heard of. Or do you know where to look on the map for a place like Krasnodar?

—Reginald Benisch

COPENHAGEN

POLITICAL PAPARAZZI

A new type of book is selling large numbers of copies in Denmark. Candid biographies of leading Danish politicians written by political journalists are preceded by vast amounts of publicity, sustained by selective pre-publication releases of tidbits to various print and electronic media outlets. Critics have already started calling the authors "political paparazzi."



A biography about Poul Nyrup Rasmussen has created a minor stir.

The latest book, published in early October, portrayed the prime minister, Poul Nyrup Rasmussen, and was written without his cooperation. It did not satisfy the carefully orchestrated expectations. Weeks before its release, commentators had reported that the prime minister feared revelations that might threaten his position, even force him to retire. But even the two co-authors, journalists Niels Lunde and Henrik Qvortrup, admitted that their investigative journalism had not uncovered anything of political significance.

The focus of interest in the biography was not the prime minister, himself, but rather his wife, Lone Dybkjaer. She is an active member of the European Parliament for the Radical Liberal Party, which is the coalition partner of the prime minister's Social Democratic Party in the Danish government. She is a former minister of the environment and a dynamic personality. The book likens her to US First Lady Hillary Rodham Clinton, claiming that she is very ambitious and tries to influence the policies of her husband. Furthermore, the book alleges that she treats the staff of the prime minister condescendingly and in general behaves with undue arrogance.

Whatever the dubious merits of his comparison, Mr. Rasmussen reacted promptly and sharply. The annual meeting of a trade union organizing unskilled women workers provided a timely venue, and the prime minister noted that he had intentionally married a thinking woman and that he did not recognize his wife from the description of her in the book.

Liberal opposition leader and former foreign minister, Uffe Elleman-Jensen, wrote his own book, which turned out to be a bestseller. This definitely appears to be a growth market.

—Leif Beck Fallesen

STOCKHOLM

WHO NEEDS THE OLYMPICS?

Stockholm may have lost its bid to host the 2004 Olympics, but the city is still gearing up for a party. In 1998, the Swedish capital becomes the Cultural Capital of Europe.

So what is Swedish culture? Some would say refining potato growing to high art. Others might cite the fine points of coffee consumption or knowing 1,001 uses for dill, the Swedish national herb.

Stockholm city fathers have a somewhat different view. "Next year, Stockholm will certainly be the place to be in Europe," says Stockholm Mayor Mats Hulth. "The city will become one gigantic arena and a focal point for culture and cultural debate."

But if Mats Hulth can't wait to show off Stockholm to the rest of Europe, not everybody is so enthused.

"Like hell we need a Cultural Capital," grouses newspaper columnist Lars Fimmerstad. Others just generally resent the idea that once again the *noll attas*—the nickname for Stockholmers, who have noll atta, 08, as their area code—are representing Sweden and forgetting about the rest of the country.

Henrietta Hulten, editor of the magazine *Stockholm '98*, thinks the conflict goes even deeper. "Sweden is not an urbane country," she says. "Only a couple of generations ago, nearly all of us lived in the countryside. More or less against our will, we had to move into cities and give up the soil. "The city represents seduction and sadness, farewells and losses. And now we are supposed to celebrate the damn thing too, as decreed by ministers of the EU. That is too much, definitely too much."

Maybe so. But as cultural capital, Stockholm may finally be able to convince the rest of the world that polar bears don't roam the streets and winter temperatures aren't much worse than New York's.

And the city is trying to draw in its country cousins, with a series of regional projects from as far north as the Arctic Circle and as far south as Skane, the province across the water from Copenhagen.

In all, the city received 4,500 suggestions for projects from around the country. That's far more than can be funded with the $55 million budget allotted for the year. And so far, no one is planning an exhibit to glorify the potato.

—Ariane Sains

LUXEMBOURG

STEEL COMPANY FORMS COUNTRY'S BACKBONE

There was a touching little ceremony in the southern Luxembourg city of Esch in August when workers, politicians, and local dignitaries gathered to say goodbye to a trusted and long-standing servant of the community's industrial past.

No, it wasn't a person they were honoring but, believe it or not, a blast furnace. The very last one in Luxembourg no less.

Its closure consigned to history an industrial landscape that few tourists ever saw but one which stood for Luxembourg just as faithfully as the country's sweeping panoramas of hill and forest.

The ceremony marked the completion of a $600 million modernization program by the steel-making company ARBED that stands as the most ambitious industrial project undertaken in Luxembourg since the war.

You might think of Luxembourg as a country of bankers and television executives, but its real industrial sinew is steel. And for steel you can read ARBED, which employs about one in three of all industrial workers in Luxembourg and which ranks as the seventh-largest steel maker in the world and the fourth in Europe.

If ARBED operated only within Luxembourg, it could provide jobs for just about every worker in the country. But in effect only the long products units, supplying beams and sections mainly to the construction industry, are located in the Grand Duchy.

ARBED produces flat steel products for the automobile industry at two giant mills in neighboring Germany and Belgium and has facilities in France. In Brazil, its subsidiary Belgo-Mineira is the leading wire-drawing company in the Americas.

If you are an ambitious steel maker operating in a landlocked country about the size of Rhode Island and with only about 400,000 citizens, then self-evidently you have to look outward.

ARBED was founded in 1882 by Emile Mayrisch and by the time of World War I was already an established force in European steel. But the real architect of the company today is another man. Throughout the 1960s and 1970s, ARBED was led by Emmanuel Tesch, a metallurgist and engineer who was described at the time as having "perhaps the most aggressive and imaginative mind in the European steel industry." At 76, he is now the company's honorary chairman.

It was Tesch's achievement to anticipate the shocks that would roll through European steel making in the years following the oil crisis and to predict the consequences of competition from low-cost third world producers. He brought about a savage retrenchment in ARBED that saw steel industry employment in Luxembourg fall by two-thirds, from 27,000 in 1974 to less than 10,000 by the 1990s.

This is stiff medicine but the kind that, afterwards, you are glad you took. Luxembourg Prime Minister Claude Juncker said recently that as a result of it "our steel industry is better prepared for the new world than its main competitors in other countries."

Like all steel companies, ARBED operates in a highly cyclical market. Last year's depressed demand and lower prices meant a net loss of $40 million, though both prices and sales are better in 1997.

With luck, the violent profit swings of the past could now go the same way as the blast furnaces. With the coming on stream of a third electric arc furnace this year ARBED has completed its transition from traditional to state-of-the-art steel making in the long products division.

In effect this means it can forget about iron ore and make steel from much cheaper scrap, of which there is an abundance in neighboring Germany. Shareholders—of which the largest is the Luxembourg government with 27.9 percent of the equity—should be as pleased by the planned reduction in costs as environmentalists are by the recycling effects.

—*Alan Osborn*

MADRID

US AIR BASE CLOSES

A long and controversial chapter in US-Spanish relations came to an end recently when the last American airmen abandoned the sprawling Torrejon air base located just east of Madrid.

Torrejon was built in the 1950s, after Washington cuddled up to right-wing dictator Francisco Franco, who had been ostracized by the Allies for his support for the Axis during World War II, and got his signature on a joint bases pact.

No matter how distasteful the regime of the old general was, the United States needed bases in Europe to help confront the growing power of the Soviet Union. In the event of a conflict in which Russian divisions broke through NATO defenses, overran Germany, and threatened France, Spain could become an important staging area for a counterattack.

With the longest runway in Europe, Torrejon would have been vital for flying in tanks, troops, and supplies. It was believed that the Kremlin could have taken out the base with nuclear-tipped missiles in case of war.

Understandably so, the Spaniards were not keen to be in the cross hairs of a Soviet nuclear strike, and once Franco died in 1975, the base at Torrejon became a target of demonstrators demanding that the Yankees go home.

The early protests were led by the Socialist Party, which later took office in 1982 and called a referendum on whether Spain should join NATO. The government promised that if voters agreed their country should become a member of the alliance, the American military presence would be reduced.

The referendum passed, and so the countdown on Torrejon began. Following arduous negotiations, the date for the first and largest withdrawal of American forces from Spain was set for 1992.

Meanwhile, Torrejon served as a major relay and refueling base for the thousands of US military aircraft flying between the United States and the Middle East during the Gulf War and the Somalia conflict.

Finally, as planned, the wing of F-16 fighters based at Torrejon left, along with thousands of support personnel and their families. But a handful of technicians remained to oversee the facilities now in the hands of the Spanish air force, and when these half dozen of so airmen packed it in, the American presence at Torrejon was one for the history books.

—*Benjamin Jones*

HELSINKI

THE BULL AND THE BEAR

This summer something strange was in the air in Finland. Not only was it the sunniest and driest in living memory, it also brought two completely new celebrities onto the Finnish scene. Although they both wore fur coats, neither of the new stars was an actor nor a politician. No the two new celebrities who dominated the summer headlines were a bull and a brown bear.

A bull or a cow that has run into the forest is nothing spectacular. It will eventually return to its stable or fencing in a couple of hours or at least by nightfall. But not one particular Finnish bull. This 1,600-pound breeding bull decided to stay in the woods, and so he did for the whole summer.

Liekki—which means "flame"—became a symbol for freedom and the whole nation's pet. He started his walk to freedom on May 28 when he was supposed to service some cows in heat—six of them as a matter of fact. For Liekki this was to have been his first such outing. The cows, however, were obviously more experienced and started to approach the shy first-timer in what must have been perceived by him as an harassing manner. For Liekki this was too much, so he simply fled the field, straight through the fence and into the woods. For more than three months, Liekki remained free until he eventually fell to an anesthetic shot. In the meantime, he became a real media darling. Both television and otherwise serious newspapers followed his adventures, and his final surrender made the headlines everywhere.

The only one to give Liekki a match in popularity was a nameless brown bear, who followed, more or less, the opposite example of Liekki and decided to try to urbanize. His efforts did not really achieve the respect and support one might assume he had hoped for. The people living in the communities where he wanted to settle down had their own ideas about his plans. But the media liked him and called him the "City Bear."

The City Bear's odyssey through the densely populated southern part of Finland was carefully covered by the media, building up a nationwide support for him. Unfortunately, it did not help much. He stubbornly refused to accept the fact that he was a "bear non grata" wherever he showed up, and every effort to scare him back into the forests failed. Sadly, the police ended his journey with a bullet. His memory was honored by weeks of debate in the press over whether or not there is room for beasts like bear and wolf in the Finnish forests. In fact, wild animals are increasing in number as a result of years of protection. This fall is actually the first in living memory, when the authorities have granted a limited number of licenses for bear hunting.

Certainly, the summer of '97 will go down in Finland as the Summer of the Happy Bull and the Sad Bear. As for those who look to these sort of events for greater meaning, perhaps the happiest are those who play the stock market.

—Thomas Romantschuk

DUBLIN

HERE'S TO YOU MRS. ROBINSON!

On October 30, Irish voters went to the polls to elect a successor to President Mary Robinson, who is now ensconced in Geneva as the UN's high commissioner for human rights. After a ground-breaking seven-year term as president, Mrs. Robinson decided not to seek a second term and opted instead for a new career on the wider international stage.

The 53-year-old mother of three—Ireland's seventh president and the first woman to fill the post—officially signed-off at noon on September 12, clearing the way for a national election to decide her successor.

In her retirement statement, Mrs. Robinson said her "difficult decision" not to run again was taken with great reluctance. She added, "I believe I have made my contribution, and the people will give a mandate to a new president with the vision to represent them as we move into the new millennium."

Her last act before retiring was to extinguish a light she had placed in a first floor window of her official residence, *Arus an Uachtarain* (the Irish White House) when she became head of state. This has been her symbol: a sign to the far-flung Irish Diaspora that they were still remembered in their own country and that her presidency was for *all* the Irish people.

Retiring Irish President Mary Robinson.

The *taoiseach* (prime minister), Bertie Ahern, headed a long list of political and other tributes, praising her for the unique role she had played. John Bruton, former taoiseach and leader of the main opposition Fine Gael party, said she symbolized the modernization of Ireland and had brought honor and pride to the people—"the best president the country ever had."

There was no disagreement. All agreed that her charisma and personal magic, her generosity and tolerance had played a major part in stimulating Ireland's transformation during the 1990s from a stuffy, largely rural-based economy to a confident, more liberal, and thriving country.

Mrs. Robinson, a graduate of Trinity College, Dublin, and a Harvard civil liberties lawyer, put the largely ceremonial post to new use, becoming heavily involved in domestic and international affairs—a punishing travel schedule and 6,500 engagements undertaken with enthusiasm from the moment she took office on December 3, 1990.

Her election caused a sensation. Previously, the post had gone mainly to tired political figures. The office was largely viewed as a political pasture. But Mrs. Robinson, rallying the female and youth vote, said that through her victory the women of Ireland "instead of rocking the cradle have rocked the system."

As the *Irish Times* editorialized, "She was a supremely presentable representative in front of the world. She was, above all else, an independent, well-educated, elegant, modern woman in a country whose political iconography—male, staid, safe, and supine—had proved itself inadequate and redundant."

Not that Mrs. Robinson wasn't prepared to ruffle feathers—including her own family's. When she ran for the Irish Senate in 1969, her liberal platform was frowned upon by her wealthy and very conservative County Mayo family. But she won the votes of the mainly Protestant Trinity College graduates and became the first Roman Catholic senator to be elected from the university—and, in the process, became Ireland's youngest senator.

In her legal career she opted for representation of the marginalized and underprivileged, taking on seemingly hopeless social issues cases ranging from custody and matrimonial squabbles to gay rights, first through the Irish courts and, when this process failed, pursuing them vigorously—and victoriously—through the European Court of Human Rights.

In Northern Ireland she was heavily criticized when as Irish president in June 1993, before any IRA cease-fire, she shook hands with Gerry Adams, the leader of Sinn Fein, the IRA's political wing, during a visit to Belfast.

However, she continued to meet groups from both sides of the religious and political divide and, last year, became the first Irish leader to pay an official visit to Britain's Queen Elizabeth, taking tea in Buckingham Palace and ending more than 70 years without contact between the two nations' heads of state.

Her compassion caught the world's attention in 1992 when she became visibly upset during a visit to famine-ravaged

Somalia. She paid a number of subsequent visits to Africa, including a return trip to Rwanda in March this year—excellent training for her UN role.

In the words of one sage Irish political observer, with massive understatement, "She will be one helluva an act to follow."

—Mike Burns

BERLIN

RATING GERMANY'S WORK FORCE

The German economy resumed its growth trend in 1997. But according to the Bundesbank in its last monthly report, the recovery has been driven mainly by exports. German exporters were helped by the competitiveness of their products, rationalization efforts, and a decline in value of the deutsche mark. Consumer spending, however, has really hit the skids, especially on appliances and other big-ticket items. High taxes and uncertainty about the future continue to largely render the German recovery joyless.

According to a survey by the pollster Creditreform, retail business in western Germany dropped by 2 percent and in the eastern states by 4.2 percent. "These are the worst results since 1985," said Helmut Rödl of the German retailers association. Particularly hit were retailers of durable products, such as electrical appliances and furniture. In the East, retailers complained about sluggish business in household appliances, electrical goods, and textiles. "It's the consumers' attitude that gives us headaches," Rödl said. According to the Creditreform poll, one out of three retailers expects a further decline in sales.

At the beginning of this year retailers remained hopeful that promised tax reforms and improvement in the job market would send people on a spending spree. But the high unemployment rate—a stubborn 12 percent—and politicians' inability to agree on a tax reform have not helped to open German consumers' wallets again.

Germany's machinery industry, Europe's biggest and one of the country's most powerful economic drivers, expects to create 135,000 jobs over the next few years—all of them abroad. More and more German manufacturers are switching production to other countries to escape high labor costs and rigid union rules regarding plant operating hours and also to move closer to expanding markets.

German workers are also blamed for being too immobile, too expensive, and too spoiled. Chancellor Helmut Kohl and Labor Minister Norbert Blüm often tell Germans that they are among the best-paid workers in the world; they work the shortest hours; and have the longest vacations. Nevertheless, the German work force is the envy of Europe according to latest pan-European research published in London by 3i European Center. As well as being rated the most efficient workers in Europe, the Germans also enjoy the best working conditions and legislative protection. They are also rated as the best educated, the most loyal, and the most trustworthy. They are, however, universally perceived as lacking in humor, an opinion shared even by their managers.

The popular German tabloid *Bild* ran the survey on its front page under the headline: "German Workers Are the Best in Europe." "We like to read it," the paper said. While the survey is music to the German worker's ears, the fact remains: Surveys don't create jobs or increase the gross national product.

—Wanda Menke-Glückert

THE HAGUE

SWINE FEVER STRIKES

Panic is striking ever larger parts of the Dutch countryside this year. It is the panic of swine fever, a highly contagious disease that is fatal to pigs, although, unlike Mad Cow disease, it is harmless to humans.

The outbreak of swine fever started early this year. Despite all preemptive measures taken, it has spread to ever larger parts of the Dutch countryside. This summer, children's pony camps were canceled, and open-air concerts by a popular country-rock group have come under threat because it is believed that visitors might carry the infection on their shoes.

Parts of the countryside look as if they are under siege. In areas hit by swine fever, transport of all live animals is prohibited, as is the spreading of manure on the pastures. Affected farms are closed off with red and white police tape. As soon as a case of swine fever is detected, all pigs on that farm are destroyed. Since the disease broke out, more than 5 million pigs have been killed.

Due to the transport prohibition, unaffected farms were having bigger and bigger problems with their growing number of pigs and piglets that could not be delivered to slaughterhouses or sold abroad. Thus, after initial hesitation, the government ordered a breeding ban on sows and subsequently the killing of 1.5 million newborn piglets by veterinarians in order to relieve the pressure on overcrowded stables.

Pig raising is big business in the Netherlands. Since the early 1980s in sandy areas of the countryside where the land is not fertile, intensive pig-breeding farms have grown steadily. Now, there are almost as many pigs (about 15 million) as inhabitants in the Netherlands. The pig industry has been highly successful, raising the living standards of traditionally poor farmers. It has had the astonishing effect that the finest Italian Parma ham is frequently "made in Holland." At the same time, with its enormous manure production, the pig industry has contributed seriously to nation's environmental problems.

There is also a global economic consequence to the plague. The epidemic in the Netherlands, the largest pig-breeding nation in the European Union, has caused volatility in pig prices worldwide. Of course, there are large losses to the farmers who often see their lifelong business disappear overnight. The costs of the compensation for the culled animals and the cleanup of affected farms is estimated at $2 billion for this year. Of this amount, $900 million is born by the Dutch government and $1.1 billion is contributed by the EU's agricultural funds.

The economies of the affected areas have suffered severely, but there is a noticeable effect on the Dutch economy at large as well. Pig breeding contributes about $2.25 billion to Dutch exports (particularly to Germany, Spain, and Italy) and that is now in jeopardy. It is believed that the swine fever outbreak may have knocked about half a percentage point off the Dutch GDP growth for this year.

Traditionally, the agricultural lobby is strong in the Netherlands. But due to a change in the political landscape in 1994, which left the Christian Democratic party, the bulwark of agricultural interests, out of the government for the first time in almost a century, there is somewhat less influence for their interests. It took the swine fever outbreak to alert Dutch officials that the situation in the intensive pig-breeding farms had really gotten out of hand.

Thus, the agricultural minister, Josuas van Aartsen, a liberal free marketeer, announced a plan for a drastic restructuring of the pig sector in the years to come. The government's aim is to reduce the amount of pigs by a quarter from its present levels (still leaving it above the level of 1980, when the boom in pig-breeding started), requiring more space for the animals in their stables and more hygienic conditions. Others are calling for a system of quotas for pigs. An important aspect in this cap on the pig population is that it would limit the huge ecological pressures caused by the ammonia contained in their manure. Manure poses probably the Netherlands' single-largest environmental problem.

The farmers associations have reacted negatively to the restructuring plans so far. But most people concerned acknowledge that things just cannot go on in the present way. The spread of swine fever and the difficulty in containing it have demonstrated that the intense breeding farms have far overstretched their limits.

—Roel Janssen

NEWSMAKERS

Privatization: Hopes and Headaches

As the year 2000 looms ever larger on the horizon, the pace and scope of selling off many of Europe's top-heavy state-owned industries are picking up. Throughout the EU, everything from public airlines to telecommunications companies to utilities and broadcasting groups is being put on the private auction block, to trim down, rejuvenate and ready the national economies for the new millennium.

Of the countries eagerly offering their public conglomerates to the highest bidders, none is more courageous or ambitious than Italy. It has launched itself with gusto into one of the world's largest sales of national assets: the Istituto per la Ricostruzione Industriale (IRI), an industrial monster set up by Benito Mussolini in 1933 and still Italy's fifth-largest industrial group, is being given the hatchet. **Pietro Ciucci**, director-general of IRI, is confident that he can split up the corporate dinosaur and "sell everything over the next three years."

"Everything" includes the loss-making Banco di Roma, which will be the first to go this month, when IRI disposes of its 36 percent stake through a public offer and a convertible bond issue. In December Ciucci plans to sell IRI's 86 percent share in the Italian highway network Autostrade, as well as its holdings in the Finmare shipyards. Next year Ciucci aims to dispose of IRI's majority stakes in Rome's two airports and then turn his attention to Alitalia, Italy's ailing national airline.

Getting it on the runway to privatization will be one of several migraine-inducing problems facing Ciucci. Even after absorbing an agreed $1.6 billion capital increase, Alitalia will still have to cut staff, flights, and the size of its fleet to comply with European requirements before being sold.

A far bigger headache will be the dismantling of Finmeccanica, IRI's defense, aerospace, automation, energy, and transport giant. It is a good-sized conglomerate all on its own, with 400 companies and part-owned subsidiaries, and 60,000 employees. Breaking it up and selling it over the next three years, while it is busy negotiating long-term international alliances and joint ventures, will be no mean feat.

Then there is the state broadcasting company RAI, another reason to reach for the aspirin bottle. With its board of politically appointed directors, it is a hot potato unlikely to be snatched up quickly by private investors.

If, in spite of all these conundrums, Ciucci does manage to pull off his master plan, Italian taxpayers will owe him a large debt of gratitude. Just the sell-offs he is planning to complete by the end of this year alone will add $29 billion cash to depleted state coffers, and when IRI has finally disappeared, the entire economic landscape of Italy will have been permanently changed.

• • •

In Germany, **Jürgen Weber**, the CEO of Lufthansa, has now gained full management control of the airline since its final privatization in October.

Weber is certain that the sell-off will create a "psychological change" that will allow Lufthansa, the world's fourth-largest carrier in terms of passenger traffic, to spread its wings and soar even higher.

In the days of government ownership, it was poorly marketed, inefficient, and weighed down by high costs. Weber

ROME

SCHOOLS FACE IMMIGRANT EXPLOSION

September 15, 1997 is a date the Italian minister of public education is not likely to forget. The first day of school had a surprise in store. Perhaps it wasn't entirely unexpected, but certainly no one thought it would be of such vast proportions. The surprise was that there has literally been an explosion of foreign children in Italian classrooms.

The children are the offspring of immigrants, who are mostly from outside the European Union and who for years have lived and worked in Italy. They married within their ethnic groups and in some cases with Italians, and now their children are coming of school age.

Italians, for their part, are having fewer children, keeping Italy's birthrate among the lowest in the world—just barely above zero growth. And so foreign children are beginning to dominate the classrooms, for now only in nursery and elementary schools. One elementary school principal in Milan discovered he has 70 children enrolled from 28 countries speaking 13 different languages. "We prepared orientation signs in 13 languages," he pointed out with pride.

Not just politicians and social scholars are taking heed, economists and union leaders are watching, too. These children of different races and languages are putting money—and jobs—in motion. Teachers are the first to heave a sigh of relief, as their jobs will no longer be in jeopardy. Pediatricians are smiling, too, since their waiting rooms are echoing again with the sounds of children. Owners of stores selling toys and children's clothing are peering hopefully out of their doors.

Growing immigration has sparked a debate in Italy, a country which until a few years ago was more used to people leaving rather than arriving. The worries, though, stem mainly from the question of public law and order. The Albanian crisis, for example, has inundated Italy's streets with a flood of young women who were enticed with promises of legitimate work and then forced into prostituting themselves.

There is little objection to legal immigrants joining the work force. In fact they have taken over entire job sectors. Pizzerias, for example, may still have an Italian owner, but most of the pies are prepared by immigrants from North Africa. Chinese restaurants, which were once nonexistent in Italy, nowadays are everywhere. In family households, where the wife has an outside job and doesn't have time to do chores, Filipino women have begun to climb the economic ladder becoming private nurses helping aged and lonely Italians. In the construction business, the traditional Italian bricklayer has been replaced by Poles, Croatians, and Macedonians.

All these people, most with legal work permits, are now sending their children to school. And they rightfully expect a minimum of help from school authorities. Roughly 4 percent of the children, in fact, either don't speak any Italian at all or speak it very poorly, and the immigrants have asked political leaders and city managers to take action. But it seems that government leaders haven't fully understood the magnitude of the phenomenon yet and/or don't know exactly what to do.

In the Milan school that registered the record number of new foreign stu-

started restructuring Lufthansa in 1994, at the same time as the company issued its first public offering. He proposed job security and profit-sharing in exchange for wage restraints, and unlike the staff at rival airlines like British Airways and Air France, Lufthansa employees agreed to his terms.

There is still some way to go before the airline is as streamlined as it would like to be. Its costs are still 10 percent above best industry practices in Europe and 30 percent higher than in the United States.

But now that the German government has relinquished its final 37.5 percent stake in Lufthansa, Weber is free to aim for the skies. And Bonn was quite happy to move out of the cockpit because the sale of the state carrier has netted the government nearly $2.8 billion.

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No starker contrast can be imagined between the high hopes of Weber for Lufthansa and the trampled ambitions of his French counterpart, **Christian Blanc**, who had plans to privatize Air France.

In September, when his proposal for an outright sell-off of the national carrier was flatly rejected by the French Socialist premier **Lionel Jospin**, Blanc tried to include a sweetener that would appeal to the left-leaning party in power, by suggesting that up to 30 percent of the airline's shares could go to its employees. He was even willing to accept a counter proposal made by Socialist Party spokesman **François Hollande**, that for the time being, only 49 percent of Air France be put up for sale, with the state holding onto the controlling 51 percent.

But the one point about which Blanc was absolutely adamant was that he could only honor his contract if the French government agreed to commit itself to full privatization in the long run. "Privatization is necessary for Air France's development," he insisted. Jospin did not appreciate being given such a blunt ultimatum and promptly issued a statement making it clear that complete privatization of Air France was out of the question. The Communist transport minister, **Jean-Claude Gayssot**, even went one better and declared: "I do not consider profitability to be the exclusive goal of good economic management."

Blanc, who has spent the time since he was parachuted into the pilot's seat of Air France in 1993 trying to do just that—turn the loss-making airline into a profitable business—saw no other choice than to pack his bags and leave.

He will be remembered, and regretted, as the right man at the wrong time. Not only had he managed to take Air France out of the red for the first time in a very long while, posting a small profit of $34.5 million last year, with forecasts of $165 million to come this year, he had also merged Air France with its domestic sister company, Air Inter. That marriage, a shotgun wedding if ever there was one, tested Blanc's managerial skills to the limit. He passed with flying colors, not yielding to strong-arm strike tactics from the unions and even persuading pilots to take a cut in pay, a near-miraculous achievement in France.

His long-term plans for the airline included not just privatization with employee shares, but cross-shareholdings with foreign carriers such as Continental and Delta.

The morning after the cigar-puffing Blanc saw his dreams for Air France go up in smoke, he called a meeting of his management team, told them of his decision to quit, and added: I'll never work in the public sector again."

—Ester Laushway

dents, up until last year there was a professor in charge of an Italian language laboratory created to help foreign pupils. This year, though, without any warning, the central school authorities canceled the laboratory and reassigned the teacher in charge of it to a new position.

—Niccolò d'Aquino

LONDON

A MAYOR FOR LONDON

A mayor for London by the year 2000 is the rallying cry of a campaign launched by the government this autumn. The goal is to win public support for the election of a mayor for London, a city which has been without an elected leader for more than a decade.

"London is a fantastic city. It is the center of the world's financial markets, and it is one of the world's great creative capitals with vibrant media, fashion, film, design, architecture, and music industries," Prime Minister Tony Blair proclaimed proudly when he announced his plan.

"There is no single person or organization responsible for tackling London's problems," he continued. "We want to create a new voice for London...and make London the best city in the world."

The government plan is for an executive mayor based on the New York model. He or she would be directly elected for the first time in history and will take charge of the capital's transport, police, fire service, and planning.

Blair's vision, his huge ambition for this great city, has struck a responsive chord among the city's 5 million voters. They are fed up with the fact that since the abolition in 1986 of the Greater London Council (GLC) by the Thatcher government for political reasons, no one has stood up for London, and its services have suffered as a result.

It is virtually certain that when the issue is put to the capital's citizens in a referendum next May, there will be an overwhelming vote in favor of an elected mayor.

The election itself will be scheduled for early in the year 2000. "What better way for London to see in the millennium than to celebrate the rebirth of democracy in our capital," the prime minister proclaimed.

The city's new ruling body will have an assembly of 24 to 32 members. The mayor will act as a chief executive at the head of a small and lean authority covering London's 32 boroughs.

The contenders are already queuing up for what could become one of the highest profile jobs in the UK.

Among the names already being mentioned are airline and music magnate Richard Branson and novelist and leading Conservative politician Jeffrey Archer. Others include the former head of the GLC, Ken Livingstone, and the minister of sports, Tony Banks.

The competition for the right and the privilege to reshape London as it moves into the 21st century will heat up once the referendum is over. After all, the mayor will have more direct votes under his belt than any other elected politician.

The mayor of London as envisaged by Tony Blair will not be someone in a tricorn hat opening fetes and garden parties but a US-style urban power broker, responsible for a city with a population of 7 million and an economy the size of that of Saudi Arabia.

One other point of attraction, being mayor of a major European city could lead to the pinnacle of national power. The late German Chancellor Willy Brandt made his reputation as mayor of Berlin. President Jacques Chirac of France climbed to power through the office of mayor of Paris.

—David Lennon

ATHENS

PRIVATIZATION TAKING HOLD

Greece's Socialist government is at last becoming enthusiastic about privatization. It has taken several years to persuade Greek labor unions that state corporations should be floated on the Athens stock exchange. But following the successful sale of 20 percent of OTE, the public telecoms operator, a dozen more state-owned companies are to seek listings next year.

Last year's initial offering of 8 percent of OTE was followed in June by the sale of another 12 percent. The cash provides a useful boost to revenues at a time when Greece is intensifying efforts to reduce the budget deficit, in order to qualify for membership of the single European currency in 2001.

For the moment, privatization is still only partial with the limit for disposal of equity in state-owned companies set at just 25 percent. But analysts expect that this percentage will be increased as Greece's deadline for EMU membership approaches.

The OTE offering has given ordinary Greeks an opportunity to profit from the boom this year on the Athens stock exchange. Local investors were able to buy OTE shares at a discount in the country's biggest share offering to date, and share allocations were limited to ensure as wide a distribution as possible.

Greek share prices have risen steadily since January, but the award of the 2004 Olympic Games to Athens sent the market soaring to record levels. Construction companies, cement producers, and electronic manufacturers are all expected to do well out of the new public works projects that will be launched in preparation for staging the Olympics.

Traditionally, Greeks shunned the stock market as too risky, preferring to invest their savings in real estate and high-yielding government bonds. But a sharp decline in inflation has reduced interest rates on bonds and savings deposits, encouraging investors to switch funds to the stock market. Money is pouring into Greek mutual funds.

There's a new mood of confidence in the Greek economy, which was underlined by Athens' selection to host the Olympics. The stock market is now poised to grow much faster, says one leading Greek stockbroker.

Now that popular capitalism has arrived, the government will try to ensure that plenty more shares will become available. Early next year, DEP, the state oil refining group, which also controls two nationwide petrol station chains, plans to float a 20 percent stake. The company plans to make a share placement with institutional investors in Western Europe and the US, but most of the issue will be offered to domestic investors with preference being given to small players.

The economy ministry is preparing a dozen profitable smaller companies for partial privatization. The first will be the Hellenic Duty-Free shops, which operate a chain of stores at Greece's international airports. Even if duty-free shopping is abolished in the EU, the company will be able to expand as Greece opens new border crossings with its northern neighbors.

Other companies picked for flotation on the bourse include Olympic Catering, a profitable subsidiary of Olympic Airways, the state carrier, and Corinth Canal Company, which operates the shipping canal that links the Ionian Sea with the Aegean.

—Kerin Hope

ARTS & LEISURE

ARTS

VILLA BORGHESE MUSEUM REOPENS IN ROME

The Villa Borghese reopened its doors this summer after almost 14 years of renovations.

Romans returning from a summer away had a pleasant surprise waiting for them when they returned to the *caput mundi* in September. A special treat that the tourists had had to themselves during the sweltering months of July and August, when much of Rome escapes to the seaside or the mountains.

The much awaited event was the opening of the Villa Borghese museum, closed for nearly 14 years. Since 1984, when a section of frescoed ceiling crumbled to the floor of the entrance hall and brought attention to other structural problems, this 17th-century villa that houses one of Italy's greatest art collections has been closed for restoration.

The Palazzina Borghese museum was created by Camillo Borghese, who was later elected to the papacy as Paul V (1605–1621), and his nephew Cardinal Scipione. Fueled by a passionate love for Rome and city planning, Camillo had amassed a sizable collection of contemporary and antique art and intended to build a country villa in which to house it. Located just outside the Aurelian walls near the Porta Pinciana, today the Villa Borghese is situated at the heart of historic Rome. Yet strange as it may seem, this stately residence remains an outstanding example of 17th century suburban architecture.

Once Borghese and Scipione had decided on the location of their out-of-town villa, they entrusted the commission to the architect Flaminio Ponzio. During this time, Scipione took full advantage of his papal connections to assemble a phenomenal collection of Italian masterpieces. His acquisitions ranged from Raphael's *Deposition of Christ*, to Bernini's *Rape of Proserpina* and an extensive collection of Caravaggios, including *Saint Jerome Writing* and the often reproduced *Boy with a Basket of Fruit*. He also collected several paintings by Titian, including *Sacred and Profane Love*, which was painted when the artist was only 25 and is considered one of the best paintings in the collection.

Thanks in part to steps taken by Scipione, the collection was preserved by means of a legal expedient of the papal state that obliged all subsequent heirs to keep the Borghese collection intact. Although in 1807, Prince Camillo Filippo Borghese was forced to sell more than 200 pieces of antique sculpture (which can now be found in the Louvre) to his brother-in-law, Napoleon Bonaparte, the collection has remained remarkably unchanged.

The man being hailed for the Borghese's grand reopening is Walter Veltroni, Italy's minister of culture, although no one is quite sure how he was able to accomplish in 12 months what his predecessors had not accomplished in 13 years. In addition to the museum's restoration, Veltroni oversaw other improvements to the park, including the restoration of the surrounding gardens and the conversion of the villa's aviary into a restaurant and terrace.

The improvement, however, that may perhaps impress visitors most of all? The villa is a shining example of how Italians are using modern museum management strategies to make a visitor-friendly environment. The ticket office, bar, and museum bookstore are now housed below ground in a beautifully restored space replete with cavernous vaulted ceilings. And through computerized advance booking, the museum is operating on a strict system of 390 visitors every two hours from 9 am to 7 pm, limiting the flow of people to a point where the visits remain enjoyable for all. Potential visitors can stop by the museum and pick up tickets in advance, or they can order them by phone for a specific date. Romans have applauded the new system that offers them the possibility to visit this much loved museum without the queues and odd hours that one finds in other museums in the Italian capital. And perhaps this is the best legacy of all to Camillo Borghese and his love for Rome.

—Saskia Reilly

Spoleto Festival USA: Arts with an International Flavor

What do you get when you mix the romance of the old South, international artists and stunning, world-class performances? Spoleto Festival USA—a vibrant blend of culture, visual arts, and performances that occurs annually in Charleston, South Carolina.

"Spoleto is the grandfather of arts festivals in America," festival spokesperson Marie Lawson said.

For 17 days each spring, traditional and contemporary works of opera, jazz, drama, ballet, modern dance, and chamber, choral, and symphonic music come alive during the internationally acclaimed Spoleto Festival USA in historic Charleston.

Originally started as the American counterpart to Pulitzer Prize-winning composer Gian Carlo Menotti's Festival of Two Worlds, which is held in Spoleto, Italy, the Charleston festival now is Europe's artistic connection with America. Menotti launched the Italian festival to serve as a European venue for young American artists. But by the mid-1970s when Menotti was looking for an American home for a new festival to boost US interest in arts and in European performers, he turned to antebellum Charleston—a picturesque city filled with historic theaters, churches, gardens, and performing halls.

Since 1977, Spoleto Festival USA has grown into a national arts treasure that attracts 100,000 people from late May to early June. Last year, for example, it featured 120 performances of 48 events in 11 venues. Additionally, the spinoff Piccolo Spoleto, a consortium of free and low-cost artistic events run by the City of Charleston, broadens and deepens the infusion of arts in the Low Country each spring.

In the last 21 years, festival goers have witnessed 91 world premieres and 83 US premieres of works by dozens of respected artists, such as playwright Arthur Miller, avant-garde performer Laurie Anderson, writer Allen Ginsberg, and composer Philip Glass.

In coming years, even more European artists will perform during Spoleto Festival USA, says Steven Sloane, the festival's American-born orchestra and opera music director who lives in Germany.

"I hope to add a certain international style to the festival through both my love for the European operatic tradition and my desire to bring American and European artists together in performance," said Sloane, an acclaimed conductor who continues to serve as general music director of the city of Bochum, Germany.

In 1998, Spoleto Festival USA will be held May 22 to June 7. For more information, call (803) 722-2764.

—Andy Brack

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