

Belgium's Star • NATO • Bosnia • Business Trendsetters

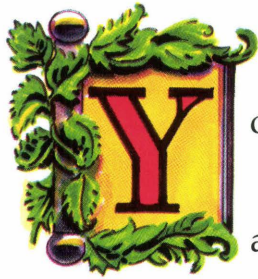
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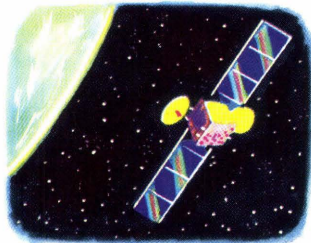
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MAGAZINE OF THE EUROPEAN UNION



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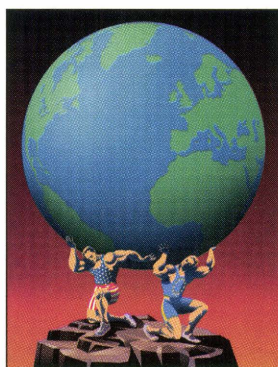
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Letter from the Editor

How will burden sharing between the United States and Europe evolve as we approach the twenty-first century? Lionel Barber, reporting from Brussels, attempts to answer this important question when he writes, "Today, in the post-cold war era, the burden sharing debate has cast its net far wider, embracing arguments over the costs of NATO enlargement to Central and Eastern Europe; the EU's contribution to the reconstruction of Bosnia; and the respective roles of the US and Europe in the international financial rescue of stricken Asian economies."



Congressman Lee Hamilton, the ranking member of the House International Relations Committee and former chairman of the House Foreign Affairs Committee, in an exclusive article for *EUROPE*, presents a view from Congress on burden sharing.

Assistant Secretary of State for European and Canadian Affairs Marc Grossman speaks out in an exclusive interview with *EUROPE* on the "very positive relationship" that exists today between the US and the EU. Grossman, the former US ambassador to Turkey, also discusses the euro, enlargement, Cyprus, Turkey, and the new transatlantic agenda.

Martin Walker, reporting from Brussels, analyzes the role the US and the EU are playing in Bosnia today to restore that war torn country back to normal. Walker explores how burden sharing is working as he comments that "the EU is the now the biggest provider of humanitarian aid to help resettle refugees" in Bosnia today.

As NATO enlargement comes up for debate in the Senate, *EUROPE* looks at the NATO alliance today as an example of burden sharing that has been working successfully for almost fifty years.

EUROPE profiles Switzerland and Norway, two prosperous countries that are not members of the European Union but are actively involved in many of the EU activities concerning their respective countries.

Dick Leonard, writing from Brussels, looks at Belgium's new political star, Marc Verwilghen, who might possibly be a future prime minister of this prosperous country going through a series of disturbing trials. Leonard profiles the various trials and, on a more positive note, looks at Belgium getting ready for the euro.

Our Capitals department focuses on leading European entrepreneurs and businessmen and women who are making European businesses leaders in the global economy.

A handwritten signature in black ink that reads "Robert J. Guttman". The signature is written in a cursive, flowing style.

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Editor-in-Chief

EUROPE

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The Magazine Group, Inc./Glenn Pierce

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EUROPE, Magazine of the European Union (ISSN 0191-4545), is published by the Delegation of the European Commission, 2300 M Street, NW, Washington, DC 20037. © The European Commission, 1998. The magazine encourages reproduction of its contents, but any such reproduction without permission is prohibited. *EUROPE*, published 10 times per year, is available by subscription for \$19.95 per year; \$34.95 for 2 years; \$46.95 for three years. Add \$10.00 to non-U.S. subscriptions for postage and handling. Student rate (with proof of enrollment): \$14.95 per year; \$25.95 for 2 years; \$35.95 for 3 years. Bulk rate also available. **Editorial, permissions, advertising, and circulation offices:** 2300 M Street, NW, Washington, DC 20037; Telephone (202) 862-9555. Available in microform from UMI, 300 N. Zeeb Rd., Ann Arbor, MI 48106; (313) 761-4700

World Wide Web: www.eurunion.org

Newsstand distribution: Eastern News
1-800-221-3148

Subscriber services: 1-800-627-7961.

(In Canada call 303-678-0439.)

Periodicals class postage paid at Washington, DC and additional entry.

Postmaster: Please send change of address forms to *EUROPE*, P.O. Box 55935, Boulder, CO 80328-5935.

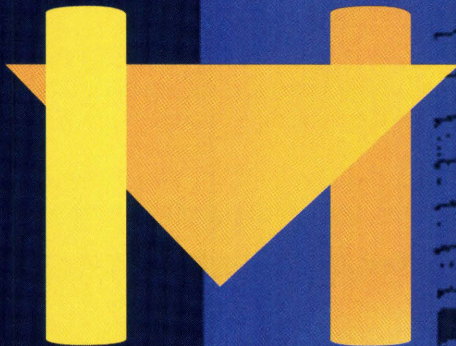
PRINTED IN THE U.S.A.

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

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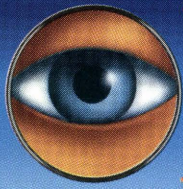


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EYE



ON THE EU

Profiling
Personalities and
Developments
Within the
European Union

AFTER JACQUES?

Commission President Jacques Santer is now in the fourth year of his five-year term, and press speculation has already started about his likely successor. The actual nomination will probably be made in June 1999, at a summit meeting held during the German presidency of the Council of Ministers.

There has never been a German president of the Commission since the very first one, the redoubtable Walter Hallstein, who held the post for nine years from 1958 to 1967. Perhaps the time has come for another German to fill the role, though the German government has

been notably shy about putting forward nominees for senior international posts.

This may or may not prove to be the case after the German federal election in September, which could see the replacement of Chancellor Kohl's government with either a Social Democrat-Green coalition or a "grand coalition" comprising both Christian and Social Democrats.

Either way, no German has so far been mentioned in the speculation, except for Mrs. Monika Wulf-Mathies, the present commissioner for regional and cohesion policies. She is able and well liked, and there would be a lot of support for a woman president to step into the

shoes of nine male predecessors.

Yet the feeling is that the promotion of an existing commissioner is unlikely. It hasn't happened since 1972, when then vice-president Sicco Mansholt was appointed to serve out the remaining eighteen months of the term of his predecessor, who had resigned.

If commissioners are ruled out next time round, not only Wulf-Mathies but several other highly regarded internal contenders will be excluded as well. These include transport commissioner Neil Kinnock, formerly leader of the British Labor Party, competition commissioner Karel Van Miert of Belgium, budget commissioner Erkki Liikanen of Finland, and internal market commissioner Mario Monti from Italy.

Last time around the EU heads of government decided only to consider candidates who were, or had been, prime ministers of their own countries. The original favorite was Spain's Felipe González, but he declined to be considered. Now he is an ex-premier, but he would still be strongly favored were he to change his mind. Italy's present Prime Minister, Romano Prodi, would also be a formidable candidate if he threw his hat into the ring.

So far nobody has suggested Belgian Prime Minister Jean-Luc Dehaene, who would have got the job last time if he hadn't been vetoed by the British Conservative Prime Minister John Major. He will face a general election in June 1999. And win or lose, some observers believe he would be ready once again to face the challenge of running the Commission. Nor would there be any risk that Tony Blair would repeat his predecessor's veto.

Yet Dehaene has one serious handicap. Like Santer, he comes from a Benelux country, and it may well be thought that the post should be spread more widely afield. So, the only firm conclusion that can be reached at present is that the contest is wide open.

—Dick Leonard

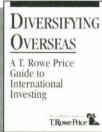
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Editorial Calendar

Month/ EU Country Profile	Cover	Business
February FINLAND	Environment	Airports/Transportation
March BELGIUM	Bosnia	Regions of Europe/Norway and Switzerland
April THE NETHERLANDS	Bestsellers in US by European Authors	European Publishers in US Market
May FRANCE	French Tourism/World Cup Finals	Tourism Industry
June IRELAND	Revitalization of European Cities	Pharmaceutical Firms
July-August AUSTRIA	Enlargement: New Countries Joining the EU	Investing in Central Europe
September SPAIN	European Film Industry	US Film Companies in Europe/ European Hotels
October ITALY	EU as Peacemaker in Mideast, Northern Ireland, Cyprus and Africa	Telecommunications
November GREECE	New Political Faces in Europe	Stock Markets/Bank Mergers
December-January 1999 GERMANY	German Business: Global Players	Investing in the Baltics and Other Former Soviet Republics

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EU ONLINE

RACING AROUND THE WORLD

Athletes often devote years of their lives to preparing for a competition that may only last a few minutes. A few dozen sailing enthusiasts face a different extreme: The contest itself lasts nine months. Nine teams left Southampton, England last September as a part of the Whitbread races, a competition that will take them some 31,600 nautical miles through nine ports around the globe before their return to Southampton in May.

The official Web site of the races (www.whitbread.org) is as ambitious as the competition itself. It charts the progress of the teams through the most recent legs of the contest with a series of stories, pictures, and video that change daily. Visitors who have a favorite team—perhaps Chessie Racing from the United States or the Netherlands' Brunel Sunergy—will find pages on each team and syndicate, or sponsor, and links to several teams' own Web sites. CNN and Sports Illustrated have helped provide the site's news updates, recently featuring a story on one team that left the competition after its financing fell through. Probably the most creative portion of the site is the virtual race, which pits armchair sailors against the pros.

Despite all the bells and whistles, the site's drawbacks are noticeable. The designers went a bit overboard on artistry. The many photos and graphical elements can lead to long waits for those who don't have the speediest

bread data. Sailing enthusiasts also can find a few links to other sailing references on the Web. Yahoo's site is a good fit for someone who wants a quick update and doesn't want to wait for a lot of images to download.

Both sites are worth visiting, but the official site requires either top-notch technology or a lot of patience. Since the Whitbread takes place only once every four years, those hoping to be virtual spectators for the 2001-02 races should start planning now for a computer upgrade.

lent source of up-to-the-minute data about Asia's economic turbulence is Indonesia Net Exchange's AFX-Asia (www.indoexchange.com/afx/).

AFX-Asia is a joint project from the *Financial Times*, Agence France-Presse, Nikkei, and the Australian Associated Press. It touts 400 stories daily relating to the Asian-Pacific region. Some of the features include economic and company news, stories relating to market action, and articles on politics and government, including EU interaction with Asian nations. More in-depth articles, or "In-focus" pieces, recently have included a profile of Japanese microchip makers and a look

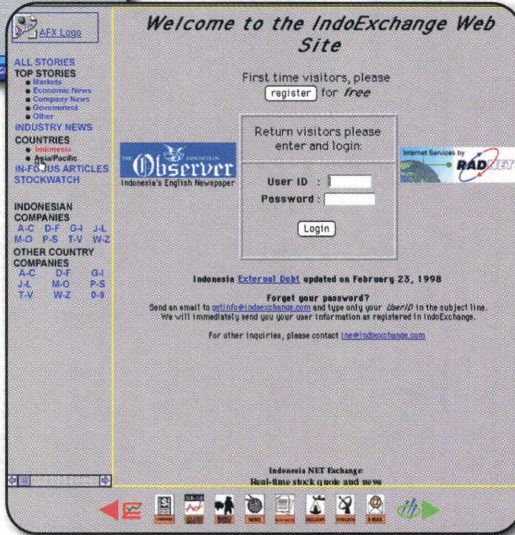
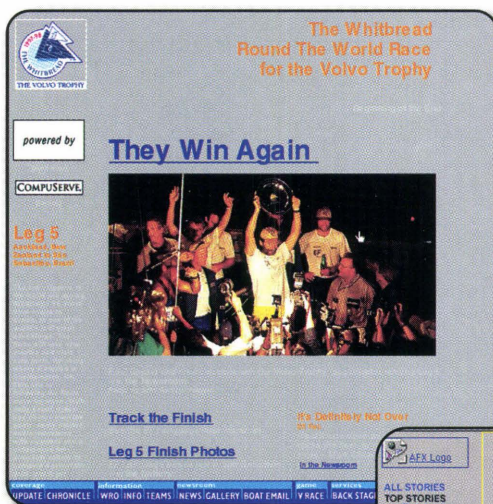
at the political and economic fallout from choosing Indonesia's next vice-president. The frames setup allows easy maneuvering, and the newest articles are posted at the top of each category along with the time and date they appeared on-line.

This site, which requires registration but does not charge for access, is not as sophisticated or timely as some other interna-

tional financial sites. It does, however, provide better depth and breadth of Asian coverage than sites that attempt to cover all the markets.

CYBER TITANIC

The *Titanic* has been brought to the surface of public fascination recently with a



AFX-ASIA

Investors worldwide have been looking at the Asian stock markets over the past few months for cues about local markets and their own portfolios. Most Western media outlets lack the resources to do much in-depth or consistent coverage of the Asian economies. An excel-

of computers. Some of the colorful background graphics obscure the type, particularly on pages describing the individual teams. And the navigation is more difficult than needed. A hyperlink from a story synopsis doesn't always link directly to the story but to an index of several stories...and an added wait. For a more scaled-down look at the races, the search engine Yahoo is also following the Whitbread (www.yahoo.co.uk/headlines/sport/whitbread.html). It features a small map atop the page that indicates which leg of the race is underway and how many miles the boats will travel. The leader board, a few feature articles, and a photo round out the Whit-

blockbuster movie that is up for several Academy Awards this month, but the “unsinkable” luxury liner’s encounter with an iceberg has been a controversial topic and the subject of numerous books since the April 1912 disaster. Not surprisingly, more than a dozen sites devoted to the *Titanic* have cropped up on the Web, providing moviegoers a chance to delve deeper into the ship’s history, its passengers, and stories of that fateful night.

The Titanic Information Site (www.netins.et/showcase/js/titanic) mirrors the scale of the ship. Visitors can discover the background of the White Star Lines’ vision of floating extravagance meant to outperform and outshine ships of the rival Cunard Lines. With a price tag of \$7.5 million, it appeared to do just that. The 833-foot-long ships included amenities such as a gymnasium, a

French cafe, and one of the first swimming pools on an ocean liner. The site’s creators have amassed passenger lists, cabin assignments, a timeline, and theories about why the ship many thought unsinkable didn’t survive its maiden voyage. It also includes information on the movie (www.titanicmovie.com). Everything is well organized and easy to navigate because of an extensive index accessible from each page.

The tribute to *HMS Titanic* (www.meol.net/users/anoble) includes many details of the ship’s construction and its grandeur interspersed with black-and-white photos. *Titanic* carried enough food for a small town to survive months, according to a list of provisions—some 35,000 eggs, 75,000 pounds of fresh meat, and 1,000 bottles of wine. The site includes many questions that add to the con-

trovery of *Titanic*’s sinking: Was it sailing too fast? Why did the crew ignore several iceberg reports? What was the “mystery ship” reported to have been spotted in the distance but never responded to calls for help? Most of the answers to these questions have yet to be resolved. The site also details efforts to find the sunken *Titanic* for years after it capsized. It first was spotted in September 1985, but no one was able to get up close until July 1986, when an unmanned probe explored the wreckage and brought back pictures of the deteriorating vessel. Unfortunately, the site’s photos of the wreckage are few. For more of a visual and less detailed experience, the Titanic Report (members.aol.com/april1912/index.html) includes many pictures of the *Titanic*’s interior, its stately cabins, and famous grand staircase. The format is more narrative,

with each screen revealing a portion of the story without bogging visitors down in *Titanic* trivia. The creators have emphasized the human face of the tragedy by including a black screen and asking for a moment of silence after relating how passengers scrambled into too few lifeboats and 1,500 were left to go down with the ship. They also discuss the *Titanic* discovery and urge those hoping to profit from it to leave the site as a shrine to its victims.

The movie *Titanic* humanized and romanticized one of the greatest disasters of the century. The film can be seen, however, as a vehicle for further research. Although there is little romance detailed on the *Titanic* Web pages, they are worth visiting for the many facts and a humanness even more evident than Hollywood’s version.

—Christina Barron

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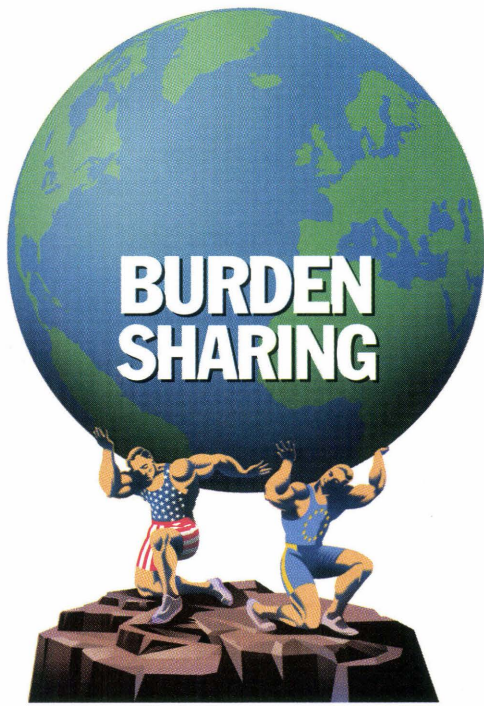
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Sharing Common Risks

“Let every nation know, whether it wishes us well or ill, that we shall pay any price, bear any burden, meet any hardship, support any friend, oppose any foe to assure the survival and success of liberty.”

John F. Kennedy’s inaugural speech in 1961 took up the torch for a new generation of Americans. Today, that same generation is older, wiser, and arguably more tightfisted.

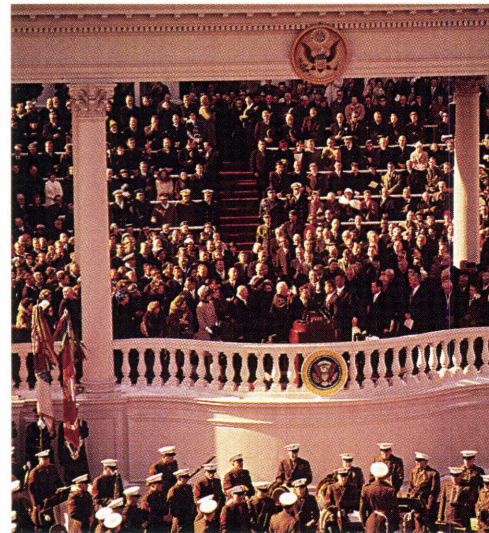
No longer are the American people willing to bear any burden in the pursuit of US foreign policy. The calls for more “burden sharing” between the US and her European allies are becoming louder, stretching across the political spectrum from neo-isolationist Republicans to mainstream Democrats in Congress.

The EU View

By Lionel Barber

The term “burden sharing” has been around for more than twenty years, going back to the Vietnam War. It grew out of transatlantic disputes over whether the US was carrying an unfair proportion of the costs—and risks—of putting American soldiers in the front line against Soviet-led communism. Sooner or later political support in the US Congress would dwindle unless the Europeans contributed more to their own defense, so the argument ran.

Today, in the post-cold war era, the burden sharing debate has cast its net far wider, embracing arguments over the costs of NATO enlargement to Central and Eastern Europe; the European Union’s contribution to the reconstruction of Bosnia; and the respective roles of the US and Europe in the interna-



tional financial rescue of stricken Asian economies, such as Indonesia, Thailand, and South Korea.

In almost each of these cases, the US has tended to assume the lead role in crisis management; the Europeans and other countries meanwhile find themselves asked to pick up the tab. The model worked well during the Gulf War when the US-led, allied-funded coalition smashed Saddam Hussein’s army in a matter of weeks; but some analysts describe the approach as no more than “tin cup diplomacy.”

Hans Binnendijk, director of the Institute for National Strategic Studies at the National Defense University, writing in the fall 1997 issue of the *National*



In practice, Europe is taking on more responsibilities in NATO through Combined Joint Task Forces—the new multinational task forces that allow Europeans to take on specific missions using US assets without US involvement.

During his inaugural speech in 1961, President John F. Kennedy called on the American people to “bear any burden...to assure the survival and success of liberty.” Today, Americans are calling for more “burden sharing” between the US and its European allies.

Interest magazine, noted that at the height of the Marshall Plan, some 16 percent of the US federal budget was devoted to supporting Europe alone.

Yet over the past decade, reductions in the US international affairs budget have been deep, with constant dollar cuts of about 34 percent over the past decade, including a 14 percent cut in just the last two years. Defense expenditures have also fallen 34 percent since 1986. Expressed as a percentage of gross national product, defense and international affairs spending together have dropped from 6.9 percent to 3.7 percent during this period.

“...If aid to Israel, Egypt, and Turkey is excluded,” said Mr. Binnendijk, “the United States has basically given up security assistance as an instrument of foreign policy.”

Tight wallets in Washington inevitably tempt US policymakers to look more closely at European contributions to security and stability, especially on their own continent. In some instances, Americans argue that Europe is falling short. So is this a fair criticism? Or are

US calls for more burden sharing, in effect, no more than an excuse for burden shedding?

On NATO enlargement to the former communist countries of Central and Eastern Europe, a divide opened up last year over how the allies would share the cost of admitting new members from Poland, Hungary, and the Czech Republic. The split laid bare a long-standing dispute inside NATO about funding the alliance’s military capability.

Three US studies on enlargement put the cost to new and existing members at anything between \$27 billion and \$109 billion over the next ten to fifteen years. But Europeans argued that the additional costs could be contained within existing budgets, especially in the absence of any obvious external threat.

In part, the discrepancy in cost estimates arose because the US studies assumed Russia would remain a threat, increasing the pressure to modernize NATO defenses to meet ambitious levels of “force projection.” But the administration also assumed that a focus on cost and European burden sharing would curry favor during Senate ratification of NATO enlargement this spring. But after heavy European protests, the administration seems to have grasped that the argument risks backfiring.

In practice, Europe is taking on more responsibilities in NATO through the concept of Combined Joint Task Forces—the new multinational forces that allow Europeans to take on specific missions using US assets without US involvement, while also creating a more

balanced command structure in the alliance. The Europeans can also point to the impressive resources that the EU’s fledgling common foreign and security policy has deployed in Central and Eastern Europe and around the world.

In 1995, for example, the European Union gave Russia \$1.5 billion to assist its transition to market democracy, when the US gave only \$234 million. Poles, Czechs, and Hungarians received \$4 billion of EU money, but only \$10 million of US help. Meanwhile, the Middle East, excluding Israel, received \$433 million from Brussels, and only \$173 million from Washington. Finally, EU global humanitarian aid in 1996 was close to \$2 billion, one-third more than US aid.

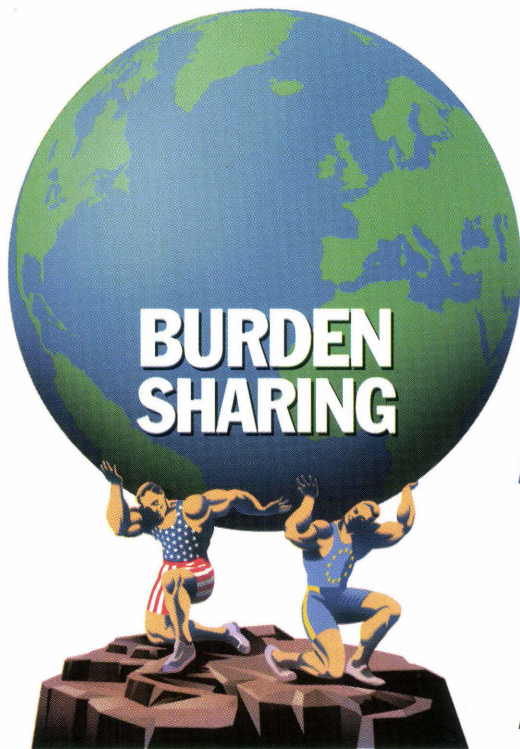
The EU has also contributed the lion’s share of financial aid toward the reconstruction of Bosnia. However, the generous amount of assistance has not erased memories in Washington that it was only US intervention that ended the war, and it was only US leadership that secured the Dayton peace agreement, however imperfect the final result.

In Asia, the EU is trying to counter the view that it is taking a free ride on the back of US military guarantees. The most striking example is the successful application that the European Union has made to support the Korean Peninsula Development Organization. KEDO is the umbrella body for the US, Japan, and South Korea to dismantle the high-risk nuclear industry in North Korea and to offer alternative energy supplies. EU involvement in KEDO is a practical contribution to security in the region.

Europe is also contributing, through its stake in the International Monetary Fund, to the US-led financial rescue operation in East Asia. However, Washington has offered direct assistance in response to the crisis. If the economic turbulence in the region spreads, it is conceivable that Europeans may be asked to do more.

In the final resort, neither Europe nor the US should forget that they are members of the same military alliance whose economic interests are intertwined. The survival of the transatlantic alliance depends on a willingness to share common risks. It can never be reduced to raw numbers. ☹

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



Pushing A New Agenda

Greater sharing of defense costs, or burden sharing, has been a key objective of US foreign policy for decades. Few foreign policy statements win more applause from the public, or from Congress, than a call for allies and friends to contribute more to the common defense. The desire in Congress for more burden sharing is strong, but the debate is changing.

The US View

By Congressman Lee Hamilton

During the cold war, Congress threatened action against allies that did not increase defense spending. Today, threats to peace and security are no longer just military and no longer come from just one source.

In the past two years, the Congress has taken a different—and highly constructive—approach to burden sharing. The 1996 and 1997 Defense Authorization Acts call for more burden sharing across-the-board. They call not just for increased defense spending by friends and allies, but call for additional foreign aid, host-nation support for US forces, and participation in military and peacekeeping operations. While the law authorizes the president to take steps against those who don't improve their record in these areas, the authorities are discretionary. The aim of the law is not to punish allies and friends but to encourage them to do more.

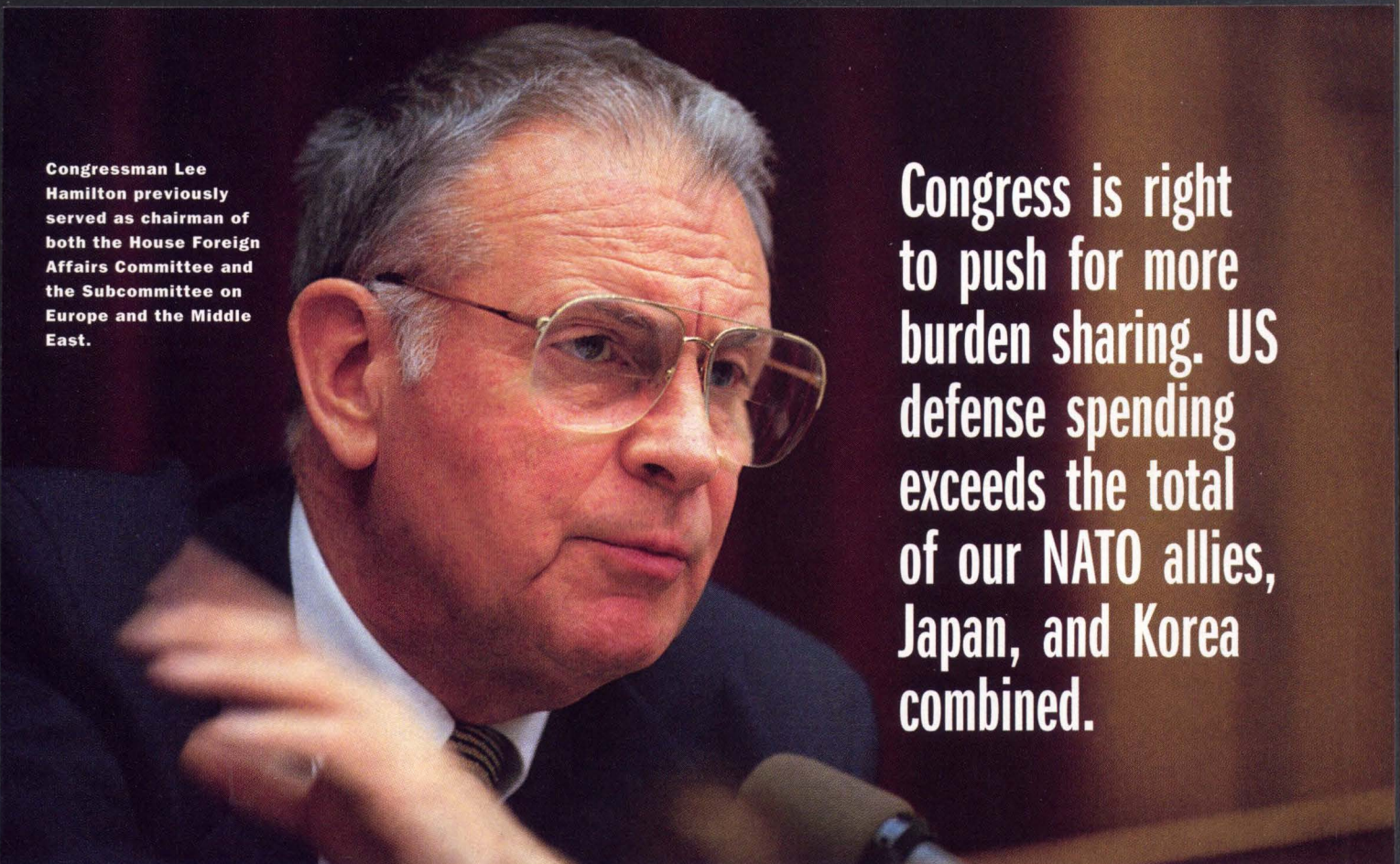
Congress is right to push for more burden sharing. US defense spending exceeds the total of our NATO allies,

Japan, and Korea combined. The United States incurs large costs for the forward deployment of 100,000 troops in Europe, 100,000 troops in Asia, and 25,000 troops in the Persian Gulf. Those US forces are essential to international peace and stability. The United States makes contributions to UN-authorized military and peacekeeping operations that far exceed our annual UN assessments, which are too high and should be reduced. It is not good for the UN or any organization to have one country so dominate its budget.

There is an enduring view in the Congress and in public opinion that the United States cannot be the world's policeman. The United States certainly should fulfill its own international responsibilities—such as paying UN assessments on time and in full—yet it should not be shy about pressing others for more help as well.

Allied Contributions. Even as we push for greater contributions, we should recognize positive trends in burden sharing. In Bosnia, for example, Europeans provide nearly 70 percent of the 36,500 peacekeeping troops and fund more than 70 percent of all costs, including reconstruction assistance.

After the United States, the United Kingdom and France are the largest contributors to the NATO mission in Bosnia, with 5,100 and 3,200 troops respectively. Both have made major contributions to several UN peacekeeping



Congressman Lee Hamilton previously served as chairman of both the House Foreign Affairs Committee and the Subcommittee on Europe and the Middle East.

Congress is right to push for more burden sharing. US defense spending exceeds the total of our NATO allies, Japan, and Korea combined.

operations, and both cooperate closely with the United States in trying to enhance the peacekeeping abilities of African countries. Both participate with the United States in enforcing the no-fly zones over Iraq, and the British have sent an aircraft carrier to join US forces in the Persian Gulf. Britain has a foreign assistance program three times larger than that of the United States on a per capita basis, and France's foreign assistance program is larger than the US program.

Germany, the world's third-largest economy, provides \$1.1 billion annually in support for the 73,000 US troops based there. Since 1989, it has provided more than \$70 billion in assistance to new democracies in Central Europe and the former Soviet Union. Germany's level of defense spending is lower than that of France or the United Kingdom. Yet Germany is finally contributing to military missions outside of its borders—in Africa, Asia, and former Yugoslavia. It is contributing 2,500 troops to the NATO mission in Bosnia, including combat troops. Germany supports 1.4 million refugees on its territory, most of whom had fled from the former Yugoslavia.

Other European countries also contribute. Italy is an essential staging area for US and NATO forces in

Bosnia, provides \$500 million in support for US forces, and has 1,800 troops of its own in Bosnia. Denmark, Norway, and the Netherlands make the largest grant foreign aid contributions as a share of national income, and the Nordic brigade in Bosnia (including Denmark, Norway, and non-NATO states Sweden, Finland, and the Baltic States) works directly with US forces. The small armed forces of Belgium, Canada, and Portugal have played an important role in peacekeeping—in Croatia, Haiti, and Angola respectively—and all three have contingents in Bosnia. Greece and Turkey both provide important facilities for US forces and spend more on defense than any other NATO allies. Spain has contributed to military missions in sensitive areas of Bosnia since 1992. Poland is the single largest contributor of UN peacekeeping personnel today, and it, the Czech Republic, and Hungary also contribute to the NATO mission in Bosnia. European Union member Ireland plays an important role in peacekeeping in Lebanon.

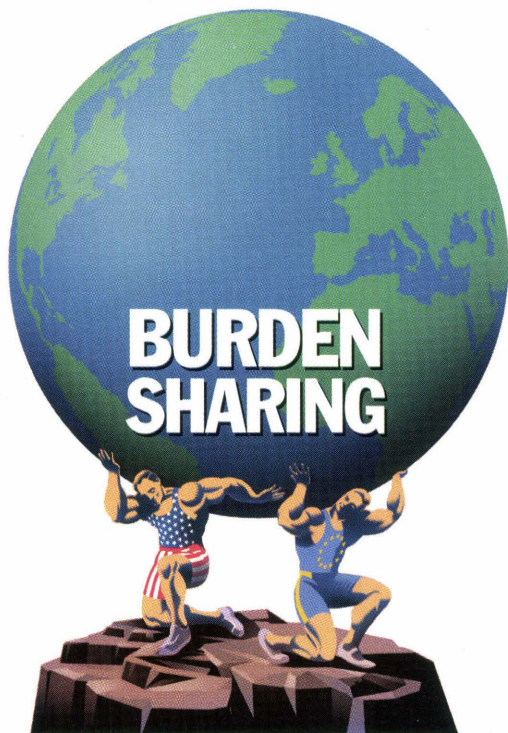
US Leadership. While each of these contributions by allies and friends is important, there is little doubt that the United States is the only power that can pull them together into an effective international effort. As the

war in Bosnia showed, the global security system does not work very well without US leadership.

At the same time, Americans are far more willing to participate in solving international problems if friends and allies work side-by-side with us—whether it is in Haiti, Bosnia, or the Persian Gulf. Not only does burden sharing spread costs, it can help achieve a more successful outcome.

Conclusion. There is no easy standard for calculating fair shares of burden sharing. There is a US consensus that our friends and allies need to contribute more beyond defense spending—through peacekeeping, foreign aid, and host-nation support for US forces. The United States should also lean on its friends and allies to pick up a greater share of the UN budget. Even as we recognize the important contributions that friends and allies make, it is in the US national interest to encourage them to do more. We will be most effective in encouraging our friends and allies to do more when we fulfill our own commitments and responsibilities as a world leader. ☺

Congressman Lee Hamilton is the ranking minority member of the House International Relations Committee.



Building the New NATO

IN THE SUMMER OF 1997, the NATO alliance took an historic step toward righting the wrongs of the Yalta conference, which divided Europe more than fifty years ago.

NATO's decision at the Madrid summit to admit the Czech Republic, Hungary, and Poland—and to balance the expansion with a new strategic partnership with Russia—confounded the skeptics who thought the end of the cold war would put the alliance out of business.

Now comes the hard part. In the next twelve months, NATO enlargement must overcome the hurdle of parliamentary ratification in all sixteen member states. It will be a lengthy, contentious process. But NATO hopes to wrap it up in time for the fiftieth anniversary of the signature of the North Atlantic treaty in April 1999.

The debate in Congress this spring will be a defining moment. But it will be about much more than the admission of the favored Central European trio. Insiders predict that it will turn into a discussion about the respective roles of the US and its European allies in the post-cold war world.

In the Senate—where the Clinton administration needs to muster sixty-seven votes (or two-thirds of all sena-

tors present and voting) to secure ratification—the arguments will turn on the purpose of NATO and the level of burden sharing within the alliance. Directly or indirectly, the future of the US-led peacekeeping force in Bosnia is likely to be on the agenda, too, because NATO is in charge of the operation.

Stanley Sloan, the respected specialist in international security policy at the Congressional Research Service, says that senators are likely to examine closely the administration's cost estimates. However, as he points out, these are not related to the enlargement decision but rather from the commitments that NATO members made in 1991 to restructure their forces to improve the alliance's capacity to project power beyond its borders.



for the
21st
Century

By Lionel Barber

Some allies, such as Britain and France, are moving in this direction; but other cash-strapped allies are proceeding more slowly, much to Washington's frustration. In this sense, says one NATO ambassador, the conditions that the Senate attaches to the ratification of enlargement will probably be more important than the act of endorsement itself.

As for NATO's members-in-waiting, the most welcome development came last year when the Hungarian people voted an overwhelming thumbs up to membership in a referendum. Along with the Czechs and Poles, the Hungarians view membership in the military alliance as a means of consolidating the transition to democratic market economies and modernizing the military as much as an insurance policy against a resurgent, revanchist Russia.

NATO officials have advised Budapest, Prague, and Warsaw that they are not to go on "shopping sprees" in search of advanced weaponry. The

The enlargement of NATO will hopefully reverse the results of decisions made fifty years ago. The historic meeting at Yalta, with Churchill, Roosevelt, and Stalin, led to the division of Europe.

Directly or indirectly, the future of the US-led peacekeeping force in Bosnia is likely to be on the congressional agenda this spring when Congress is scheduled to take up the issue of NATO enlargement.

Central Europeans' armed forces need to be integrated into the alliance's military structures but not to be upgraded to a level that bears little resemblance to the external threat, says a NATO diplomat.

Polish President Aleksander Kwasniewski has pledged to modernize the Polish armed forces over the next fifteen years, starting with airfield and transportation. Even before Poland becomes a member, he has offered to take part in NATO-led peacekeeping operations, building on its participation in the IFOR and SFOR operations in Bosnia.

In Hungary, the prospect of NATO membership was an important factor in encouraging the government to agree with neighboring Romania and Slovakia to bilateral "basic treaties" that confirm the inviolability of borders, the renunciation of territorial claims, and



the respect of minorities' rights, in this case the Magyars.

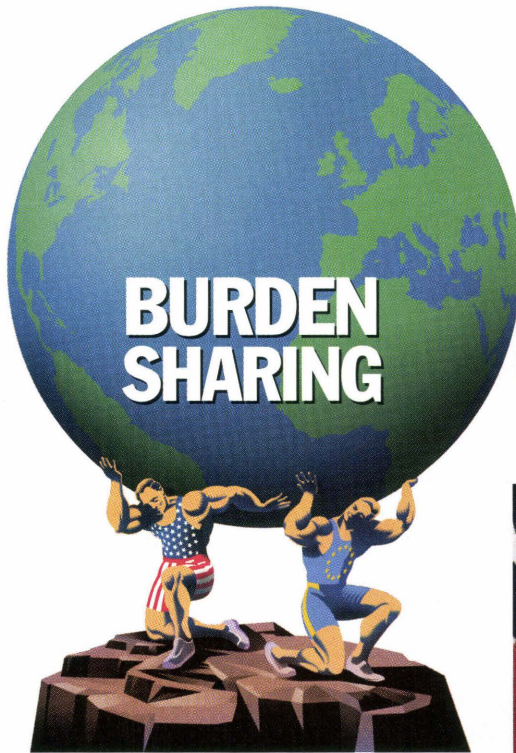
The other message from the Madrid summit was that NATO's expansion east will not be confined to one round only. Partly as a result of French pressure, alliance leaders agreed to review the application of Romania and Slovenia in 1999. The Baltic states are pressing hard to be included in a third wave, despite Russian warnings of grave consequences.

NATO has so far finessed these conflicting demands by stating unequivocally that the alliance was open to all willing and able partners. Thus, the

NATO-Russia Founding Act, the Euro-Atlantic Partnership Council embracing NATO aspirants, and the distinctive NATO partnership with Ukraine should not be seen as disparate developments but as a good-faith effort to avoid drawing new dividing lines on the continent.

If all goes well, 1998 will mark the year when the building blocks of a new pan-European security and crisis management system for Europe for the twenty-first century slot into place. ☹

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



Marc Grossman

EUROPE
INTERVIEW

Assistant Secretary of State, European and Canadian Affairs

Marc Grossman, assistant secretary of state for European and Canadian affairs, spoke with *EUROPE's* editor-in-chief, Robert J. Guttman, about US-EU relations, the euro, Bosnia, and sanctions. Grossman, who formerly served as US ambassador to Turkey, also discusses Turkey's role in Europe and Cyprus.



How do you see EU-US relations at the present time? What do you see as the outstanding problems?

I would characterize US-EU relations at this point as good. One of the mistakes that we make—practitioners and reporters—on these kinds of questions is to focus on the problems. But it's worth stepping back and recognizing that this is a transatlantic relationship of massive proportions economically and we have accomplished a lot together over the past year in terms of electronic commerce, the MRAs (Mutual Recognition Agreements) covering \$50 billion of trade, and several multilateral trade agreements worth in the trillions of dollars. This is an economic relationship and a transatlantic partnership that, it seems to me, is going very well and is well worth defending and promoting.

I'd also say that this is also true with the New Transatlantic Agenda. A lot of what we've done in the New Transatlantic Agenda escapes public notice. But if you see what is going on in the New Transatlantic Business Dialogue and other places, it's been terrific. Sure there are difficulties. And that's why we're in the closest possible consultation with our friends at the European Union on issues such as the Iran-Libya Sanctions Act, with Europe's relations with Iran, Libya, Helms-Burton, and the agricultural issues that we spend a lot of time on.

All of those things are challenges to our policy, but we want to make them come out right.

What do you think about the new plan discussed by European Commissioner Sir Leon Brittan about a transatlantic marketplace?

We're very interested in the idea of moving ahead in the transatlantic marketplace. This idea came up in the meeting between President Clinton and British Prime Minister Tony Blair, and both said that they were very interested in this idea. But there are many aspects of any steps ahead that must be examined carefully. It's absolutely clear, that as we take US-EU relationships into the future, we want to do all we can to promote American investment in Europe, American trade with Europe, and European investment and trade in the United States.

Do you think this idea of a transatlantic marketplace will go anywhere?

It's an idea that has caught people's imagination. And one of the jobs of European Union governments and the Commission and the United States is now to try to consider what it all means. My instinct is that we're all going to hear more about it and talk

more about it between now and the upcoming summit in Berlin.

The US and EU seem to have different views on sanctions. Could you explain what the US view is on sanctions and why the US thinks they're effective?

We think sanctions are effective because we believe that economic pressure is part of a whole package of political and economic tools to try to get somebody to pay attention to a problem that's very important to us or to others.

Let me give you two examples. The current examples are important. On Helms-Burton, we think that we ought to move more quickly toward democracy in Cuba. And that's a position that the European Union has been much more forthright in taking over the last few months. Second, many people in the United States and in the Congress do worry, and I think properly so, about transactions or trafficking in confiscated property. These are real problems, and somehow you need to get people to pay attention.

I'd say the same thing on Iran. Nobody wants to impose sanctions. What we want to do is to have people pay attention to ideas that are important to the United States. And in this case, it's very important that people pay attention to the Iranian interest in getting weapons of mass destruction, Iran state support for terrorism, and Iran's violent opposition to the Middle East peace process. And I'd say that if you take a look at where we are today and where we were last September, a lot more attention is being paid to that question and we're pleased by that.

There has been a lot of discussion in the last few months that sanctions don't work, and history shows that they don't work. That somebody or some country, if the price is right, will break a sanction. How do you respond to that?

Obviously, again my response is clear from my previous one—sanctions are at the end of the road. Look at our legislation. Our legislation doesn't say, sanction first, talk later. Our legislation says, try to work out an arrangement. Try to make people pay attention. Try to do this in a cooperative way. But you should know that, at the end of the day, there is this sanction. So sanctions are a lot like deterrents. You don't want to actually ever have to sanction people.

What we're asking people is to pay attention to issues that are important to the United States.

And I don't say that in any way, that the United States is the only country interested in these issues. Again, I think on weapons of mass destruction, terrorism, these are issues about Iran that our European allies are very interested in.

How would you define burden sharing between the US and Europe? What does the term mean?

Our objective is to try to work with Europeans on problems inside of Europe, such as Bosnia, and with Europeans on the challenges that we face outside of Europe, like the global challenges of crime and terrorism. And in that sense, burden sharing has to be seen as a question of how the transatlantic relationship is doing. Is the transatlantic relationship positively sharing burdens in Bosnia? Is the transatlantic relationship making it possible for us to share burdens in NATO? Is it making it possible for us to share burdens in other places around the world? There might be different answers to each different question but, in general, it goes pretty well.

You say going quite well. Do you see peace developing in Bosnia without American troops? If American troops would leave, what do you think would happen in Bosnia?

I'd say three things. First, again you have to take a comparison here. If you compare where we are today to where we were a year ago in Bosnia, most people would say that we had made considerable progress. And that is because Europeans and Americans—and here I would say shared burdens—have focused on trying to achieve concrete results in Bosnia. More refugees are going home. More war criminals are in the Hague. There's a new government in the Serb republic. And that's because Europe and the United States focused together on very important parts of making progress in Bosnia.

So, one: We're in a lot better shape than we were a year ago. Is there a lot more to do? Absolutely. And here, more burden sharing will have to take place. But look at the burden sharing that's happened in SFOR. The majority of troops in SFOR are Europeans. And, as the president has announced over

the last few days—most recently in his State of the Union address, we would like to find a way for the United States to stay in Bosnia in some fashion after June 1998. And that is going to mean that burden sharing will again come up, and we'll have a conversation. It means the Europeans will participate. We will participate. And we'll have to work out how that goes.

Why does the United States have nearly 100,000 troops stationed in Europe? Why, fifty years after the end of World War II does the United States need to have troops in Europe? What's the reason?

The United States is a European power as demonstrated by our participation in two world wars and a cold war. And I have always believed that our presence in Europe and our presence in NATO is designed to make sure that we don't have to fight in Europe again. And all of the arguments that you see surrounding NATO expansion come down to just that. Which is to say, that you keep NATO strong, you keep NATO viable so that American men and women don't have to go back to Europe and fight and die.

I worked for the NATO secretary-general Lord Carrington, and his line was at that time—and I think it is still right today—is that you don't stop paying your fire insurance just because you've never had a fire.

Why does Europe need outside troops? Why should a foreign power, the United States, need to be there?

The United States isn't really a foreign power to Europe. The United States is a European power. And that's the whole point of NATO and the transatlantic relationship. Our interests are inextricably intertwined.

What does that say about European countries that need American troops on their soil?

This is a continent on which you had World War I, World War II, and the cold war. So, we're there because it is in the interest of the transatlantic community for us to be there. And that remains.

Is it in our national interest to have troops over in Europe?

Sure it is.

You talk about NATO expansion and Amer-

ican troops in Europe. Who is the enemy today, now that the cold war is over?

There are issues in Europe. There are issues of ethnic tension. There are global issues that we talked about—of crime, of weapons of mass destruction, of terrorism. So there are threats to Europe today. And I guess I go back to paying off your fire insurance. Just because you haven't had a fire doesn't mean you want to get rid of your fire insurance. And that is the key point about having a strong, militarily responsible NATO.

The question now is NATO expansion. Do you think we'll have three countries coming in? What do you say to other countries that aren't being invited in?

We say three things. First...the communiqué of the Madrid summit is very clear that NATO's door remains open to other members. We also say that we, the United States of America, are not in the business now of saying when there might be a second round of membership, and who might be members. In other words, we're not in the business of pre-designating candidates. But we say to countries like Bulgaria and others that there are many ways to participate in the transatlantic community. There's the Euro-Atlantic Partnership Council, there's the Partnership for Peace. And they ought to focus their attention on the kinds of reforms and change necessary in their own country, and these transatlantic institutions that are open to them to make progress as they come toward Europe.

When the debate begins in the Senate, people are going to ask why should the United States defend places like Krakow and other cities that most Americans have never heard of? Why should we send American troops to defend these places?

The whole purpose of expanding NATO, as is the purpose of having American troops in Europe, is to make sure that we never do have to go and fight. And that the whole point of the expansion of NATO and the whole point of staying in Europe is for deterrence. And to make sure that unlike the three times in this century when American troops have had to go there in very large numbers, we won't have to do that again.

Are you worried about Russia after Yeltsin? Has Russian democracy built it-

self up so much that they don't have to depend on one person, or after Yeltsin is gone, does the country return to communism or extreme nationalism?

Our whole purpose in our relationship with Russia is to support reform and to support Russia's participation in European institutions, like the Euro-Atlantic Partnership Council, the permanent joint council with NATO, and other institutions. I don't know how you speculate on the future. I can tell you what our policy is today, and that is to do the best job we can to support reform and good sense in Russia.

Back to Bosnia. Would you say that's the main example of burden sharing between

“The United States isn't really a foreign power to Europe. The United States is a European power. And that's the whole point of NATO and the transatlantic relationship. Our interests are inextricably intertwined.”

the US and Europe today—working together in SFOR?

It's probably the issue that is most on the public mind. You'd have to say that there's also obviously burden sharing going on in the NATO alliance, burden sharing going on in other areas as well. But you're right to say that it's the one that would capture the most public imagination today.

Speaking of capturing, do you think the United States should do more to capture war criminals? We have troops over there, so why don't we capture some of the war criminals that have already been indicted?

As you've seen, there's been a huge amount of progress in that in the last few months. Many more war criminals are now in the Hague than there were six or seven months ago. And I think that SFOR and others will continue on that path consistent with their guidelines.

The major events happening in Europe are enlargement and the single currency.

Should Americans care about Europe's new currency? Will it help Americans, or more specifically, will it help American business?

Three things. One is that obviously what Europeans do in terms of single currency, the EMU (economic and monetary union), is European business. We ought to be clear about that. Second, I would say that we're not worried about this. That if that's the decision Europe wants to take, then that will be part of the world economy. But third, our position is that we want the euro to be a strong currency backed by sound economic policies. This is a huge trading relationship we have with Europe. And a weak currency will make it

harder to deal with. So all of the comment we have made is that if Europe is going to go down this path, it's very important that it succeed.

Most people now assume it's going to happen. Do you agree?

Certainly. Whenever I've been in Europe and talked to either people in government or businesspeople, absolutely the assumption is that this is going to happen.

Is there any worry in the US that the euro is going to be competition for the dollar?

No. As I say, our desire, given the trading relationship here, is that we want the euro to be a real currency, a strong currency, a currency in which our businesses can do business.

One of the major problems in Europe today is high unemployment. Does the United States have anything to teach Europe? Can they learn anything from our low unemployment and our booming economy?

I don't know if we're in a position to teach anybody exactly. But it's very interesting that, as I understood comments last month from British Prime Minister Blair, I know that one of the things that he wants to focus on at the G8 summit in Birmingham in May is employment and unemployment. And the United States, in terms of labor markets and free movement of capital and our ability to create new technologies, [has] done very well here. Whether those are issues or lessons that other people want to draw from, that's really their business.

Does the G8 economic summit still serve any useful purpose?

Each time that leaders of countries can be together, have a chance to actually talk to one another, and focus on issues of importance, that that's a good thing for the world. And I would say also that it helps set the agenda. For example, it might have been—I don't know what the issues on the G7 agenda were 15 years ago, but if you're talking today about employment, about crime, about the issues that really affect individuals, be they in Europe or the United States, and leaders themselves will sit down and say we need to have a plan, we need to put this on the agenda, that's a positive.

Can you foresee what the main issues are going to be this May at the economic summit?

In listening to Prime Minister Blair last month, he clearly said that he wished to focus on employment, unemployment, and crime.

Is Turkey a European nation or is it an Asian nation? How would you define Turkey?

We believe strongly that Turkey should be part of Europe and that Turkey ought to have the highest quality relationship possible with Europe. And we've always said, although we're not members and don't have a vote, that someday Turkey really ought to be a member of the European Union. So we certainly consider Turkey to be a European nation.

What about all the problems with human rights and some of the other problems with Turkey? Do you think they can overcome those to meet the requirements to

get into the European Union?

I divide these things into two. First, it's absolutely right on the part of Europe—it seems to me, just as the United States does—to have concerns and have a dialogue with Turkey about issues such as human rights, Cyprus, the Aegean, their relations with Greece. Those are very important issues that Turkey needs to deal with. And those are the kinds of challenges that ought to be in relationships between countries. What shouldn't be in these relationships, though, are obstacles about race and religion. And if we can keep those things separated, then it's up to the Turks to decide whether they wish to pursue solutions to some of their challenges. I believe they do. But if they do, then we have to be open—both as Americans and as Europeans—to welcoming Turkey even further into this transatlantic partnership.

The United States, I assume, sees Turkey as a strategic ally because of their location in the world. Is that correct?

Turkey's very important to the United States, absolutely, for all kinds of reasons.... They're NATO members; they're in Bosnia; they participated in Desert Shield and Desert Storm and Somalia. So their partnership on the security side goes back, actually, all the way to Korea. Turkey's an increasingly important market for United States firms, especially in the energy area. And it's very important that the United States has the right kind of relationship with Turkey because we are interested in Turks making progress on human rights, their relations with Greece, and Cyprus.

You were the ambassador to Turkey for a few years. What's your view of the nation? Do you see it as a nation on a roll, moving into the twenty-first century or is it stalled? How would you describe Turkey?

Solutions for Turkey really belong to Turks. I can tell you what we think as Americans. And we think that Turkey is a very important country, that Turkey has a historical and important relationship with the United States. As I said, they're a member of NATO. We want them to have the highest quality relationship with the United States. When Prime Minister Yilmaz was here on December 19, he and the president reviewed all of the issues between the

United States and Turkey. And we want this to be a successful relationship. And we said we hope that through this relationship we can make some progress on human rights, relations with Greece, the Aegean, and Cyprus.

What is going to happen in Cyprus this year?

You will see the United Nations, the European Union, the United States all working energetically to see if there's something that can be done in 1998 to move this process forward.

And finally on Turkey, would you say there should be a separate nation for the Kurds?

Definitely not. Turkey is a unified state, and we support the sovereignty and territorial integrity of Turkey.

The EU seems to want to play a bigger role in the Middle East. Does the United States see this as meddling, or do we welcome them?

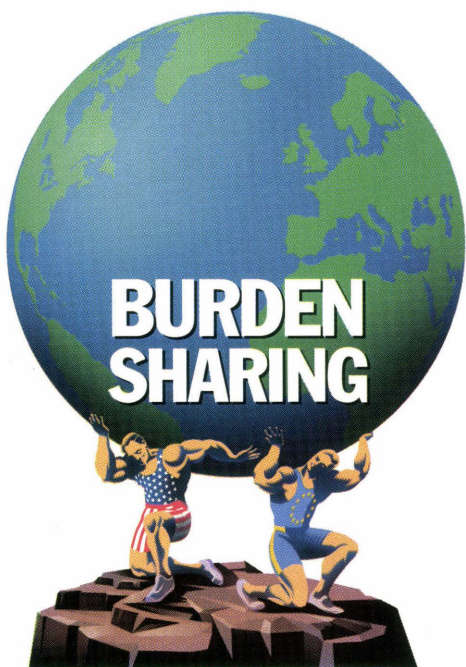
The European Union, of course, already plays a big role in the Middle East. There's a huge financial contribution of the European Union into the area. The European Union has an important relationship with Israel. And I can tell you that in these last few months we've been in a very important conversation with Europeans about ways that we can do more consultations between the United States and Europe. And it was an important part of the conversation between Foreign Secretary Robin Cook, Sir Leon Brittan, and Secretary Albright. You will see more consultation between the United States and Europe on this issue.

Is there such an entity as Europe? Does it exist?

I'd say there certainly is such a thing as a transatlantic community. There are certainly Europeans. And to the extent that Europeans have bound together, either NATO or in the European Union, and work together, there is such a thing as Europe, yes.

What do you think is the biggest threat to Europe today?

It's a combination of these ethnic conflicts, weapons of mass destruction, and conflicts maybe on Europe's periphery. They're all things we need to think about, be ready for, and be unified to deal with. ☺



Is Bosnia Ready for Peace?

By Martin Walker

THE BOSNIAN WAR proved the cruelest and most frustrating test for Europe's attempt to show that it could devise and carry out a united foreign policy and become an international political force to match its economic weight. The war proved too bitter and the political divisions too stubborn for the initial efforts of the United Nations and European Union to resolve until the US government agreed to lead a robust NATO military intervention in 1995.

But the aftermath of the war has seen the European Union try to recover from its earlier setbacks and deploy a mixture of aid and diplomacy and support for the US-led international efforts to secure the fragile peace. The EU is now the biggest provider of humanitarian aid to help resettle refugees and to rebuild houses and the infrastructure of power and water supplies.

Since the war began in 1991 until the end of 1997, the EU has supplied a total of \$1.66 billion for humanitarian aid. This sum could virtually double overnight if the Bosnian Serb leadership were prepared to carry out the Dayton peace accords. Their refusal to do so has meant that international aid to the Serbs has been withheld for each of the fiscal years 1996, 1997, and 1998.

In 1998, the EU announced new aid

to help resettle Serbian refugees remaining in or returning to Eastern Slavonia, the tiny enclave on the river Danube around the town of Vukovar, the destruction of which by artillery bombardment was one of the first disasters of the war. The EU is keen to prove that its aid is evenhanded, available to Serbs as well as to other communities. And Eastern Slavonia, where Croatia is resuming sovereignty, is one of the first places where that evenhandedness can be displayed.

Most of this aid is distributed through Europe's network of non-governmental organizations (NGOs), like Britain's Helpage, which specializes in resettling elderly refugees. Rather than maintain its own expensive stable of experienced field workers, the EU sets the objective, provides the funds, and lets the NGO experts do the job. From bitter experience, the EU has learned



that to resettle refugees, the first thing they need is a small kit that includes toiletries, first aid items, candles, and water purifying tablets. The bulkier items, like winter clothing and blankets, oil lamps and heaters, are distributed on the spot.

Just as the EU has no single foreign ministry of its own, it commands no armed forces. But all the EU members who are also in the NATO alliance have participated in the NATO effort since it began with the 60,000-strong IFOR (Intervention Force), which was deployed immediately after the Dayton peace agreement was reached at the end of 1995. And now each of the fifteen EU member states have committed troops to the 35,000-strong SFOR (Stabilization Force), even those traditionally neutral countries like Ireland, Sweden, Finland, and Austria, which are not members of the NATO alliance.

Countries that have formally been invited to start the accession process to join the EU, like Poland, Hungary, the Czech Republic, Slovenia, Estonia, and Cyprus, have also contributed troops to SFOR. Countries in the second wave

for eventual EU membership, like Bulgaria, Romania, Latvia, and Lithuania, have also sent military contingents. Along with American, Russian, and Ukrainian troops, and units from Egypt, Jordan, Malaysia, and Morocco, SFOR is now an extraordinarily wide international coalition, but Europeans make up the bulk of the force.

Europeans are also helping to lead the diplomatic effort. Spain's Carlos Westendorp has succeeded Sweden's Carl Bildt as the man responsible for making the Dayton agreement work, with the full weight of SFOR, NATO, and the EU behind him. Given wider political powers last December by the Peace Implementation Group, Mr. Westendorp has intervened repeatedly to act where Bosnian Serbs, Muslims, and Croat political leaders have failed

to agree. He has imposed a common passport and citizenship law, started work on devising a common currency and a common Bosnian flag, and prepared legislation on foreign investment and taxation.

"The international community cannot stay here for ten years. A government has to be formed and the peace agreement respected," Mr. Westendorp declared in January. He went on to warn supporters of the former president (and alleged war criminal) Radovan Karadzic that he would suspend their deputies in the Bosnian Serb parliament if their blocking tactics continued. And the European Parliament in Strasbourg was told in its first debate of 1998 that the next step must be the arrest of Serb leaders accused of war crimes.

"The international community cannot stay here for ten years. A government has to be formed and the peace agreement respected..." —Carlos Westendorp

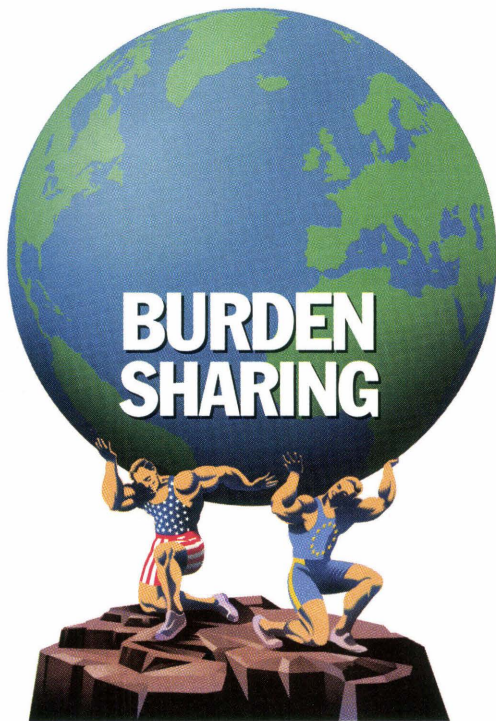
"For peace to hold in the former Yugoslavia, it is essential that individual guilt be substituted for the assumptions of collective guilt that now fuel ethnic conflict," declared the leader of the parliament's Liberal group, the Netherlands' Gijs de Vries. "Nations do not commit war crimes. Individuals do. That is why 1998 must be the year in which Karadzic is brought to trial."

But if the EU can succeed in helping safeguard the peace, it may make up for its earlier failures to stop the war in its own backyard. Uncomfortably aware of that unhappy record, EU member states in their Amsterdam Treaty, signed last year, agreed to push forward with the attempt to build a common foreign and security policy. That is the essential precondition of the kind of single European voice in world affairs that was so lacking when the Bosnian crisis blew up. ☺

Martin Walker is a EUROPE contributing editor and the Guardian's Brussels bureau chief.



Since the war in the former Yugoslavia began in 1991 until the end of 1997, the EU has supplied a total of \$1.66 billion for humanitarian aid, including funds to help rebuild the Bosnian city of Sarajevo.



Will Kosovo Be the Next Balkan Crisis?

EVEN AS A KIND OF NORMALCY starts to return to Bosnia under the watchful eye of NATO and international troops, the alarm bells are ringing across Europe for the next Balkan crisis. The focus of concern is Kosovo, a Serb-run province of former Yugoslavia where the majority population is composed of ethnic Albanians, whose community traditionally upheld the Islamic faith.

By Martin Walker



In Pristina, Serbian-backed police violently broke up a demonstration of ethnic Albanian students who were calling on officials to allow lectures in the Albanian language.

"Kosovo is an issue of very, very high priority and tremendous concern," warned the US special envoy for the region, Ambassador Robert Gelbard, as he visited the area early in 1998. Serbian authority is maintained by tough police and paramilitary units, facing a spasmodic and lethal guerrilla campaign by UCK, the Kosovo Liberation Army.

The EU, along with its American and international partners in the Contact Group for former Yugoslavia, "supports neither independence for Kosovo nor the status quo." The Contact Group seeks far-reaching autonomy for Kosovo, which was unilaterally suspended by the Belgrade government in 1989. It also wants guarantees to protect the rights of Albanians, Serbs, and other inhabitants of Kosovo in accord with the Helsinki principles and the UN charter.

The Serbian government in Belgrade insists on retaining Kosovo as the seat of the traditional Serb heartland and location of the national shrine. The Albanian majority demand their rights, and the struggle constantly threatens to break out to include Albania itself, and the former Yugoslav republic of Macedonia.

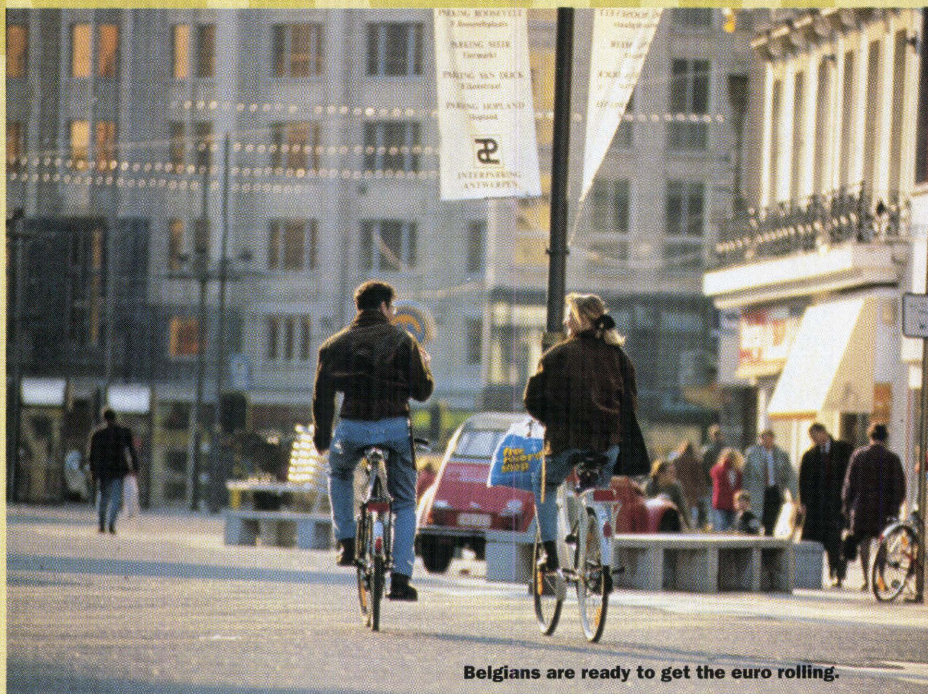
Insisting "we have made all the statements and representations we can," the European Council has stepped up the diplomatic and financial pressure on Serbia, suspending its trade agreements until Serbia allows the EU to open a monitoring office in Pristina, Kosovo's capital. But then once again the familiar grim dilemma of dealing with the Serbian government is back on the agenda: What to do when diplomacy fails?

"It may still not be too late to avert war in Kosovo, but time is running out fast," the leader of the Liberal group, Gijs de Vries, told the European Parliament in January. "It is essential that the EU together with the US steps up the pressure on President Milosevic (of Serbia) to defuse the situation." ☉

BELGIUM

Looking toward the euro and moving past scandals

By Dick Leonard



Belgians are ready to get the euro rolling.

Next year will be super-election year in Belgium, and the date penciled into Belgian calendars is Sunday, June 13, 1999. On that day Belgians will elect their twenty-four members of the European Parliament (at the same time as voters in the other fourteen member states of the EU will elect the remaining 601 MEPs). The three Belgian regions of Flanders, Wallonia, and Brussels will elect regional parliaments, and the country's small German-speaking community living near the eastern frontier will vote in a new assembly. These elections are firmly fixed, almost as certainly as that the next election for a US president will be on November 7, 2000. Recently, the Belgian government announced that the election to the national parliament will also be on June 13. This is certainly the government's intention, but it's far from sure that it will happen. Prime Minister Jean-Luc Dehaene's center-left coalition government is in a fragile state. If it were to collapse, it is highly probable that the national election will come much earlier, possibly as early as this summer.

In theory, Dehaene's government, which has been in power since March 1992, should be riding high. It set as its overriding priority to ensure that Belgium would be one of the founding members of economic and monetary union (EMU), enabling the Belgian franc to be merged with the other qualifying currencies into the euro. Many people doubted whether Belgium, which was running a high budget deficit, would be able to qualify in time. By dint of solid determination, imaginative financial management, and a series of tough budgets, Dehaene and his ministers have been able to confound the skeptics. When the EU heads of government meet in London on May 1-2, there is now no doubt that they will include Belgium among the countries that will be cleared for EMU membership.

It is a great achievement, but Dehaene and his colleagues are getting little credit for it from their own countrymen and women. Their opinion poll ratings have been consistently terrible for more than two years past, and the most recent poll showed that only one voter in five had any confidence in the government.

One word sums up the reason why—scandals. Never before in Belgium have there been so many, and of so serious a nature, as during Dehaene's premiership. The scandals have

been of two types: corruption allegedly involving senior politicians, especially from parties involved in the present coalition government, and crime—particularly the hideous series of pedophile kidnappings and murders, which have shocked the country over the past two years. The government is not directly involved, but it gets much of the blame for the malfunctioning of the police and justice systems, the failings of which may well have contributed to the crimes and certainly obstructed the early arrest of the perpetrators.

Nor has the government's response to the national outpouring of grief at the child murders—symbolized by the enormous numbers participating in the White March in Brussels in October 1996—done it any good. It encouraged the appointment of a wide-ranging parliamentary commission, under the chairmanship of a previously little known opposition MP, Marc Verwilghen, to probe the shortcomings of the legal system and to come out with proposals for reform. Ver-

charged in the Agusta-Dassault case, involving two allegations of bribery of cabinet ministers.

One refers to the sale of forty-six helicopters to the Belgian army in 1988 by the Italian Agusta company, the other to the award of a contract in 1989 to the French Dassault group to modernize Belgium's fleet of F-16 fighter planes. In both cases, evidence exists that the companies concerned made financial contributions to both the Flemish and the French-speaking Socialist parties, and senior ministers from the two parties are accused of improperly using their influence to award the contracts.

Apart from Coëme, who was defense minister at the time,

The government is not directly involved, but it gets much of the blame for the malfunctioning of the police and justice systems, whose failings may well have contributed to the crimes and certainly obstructed the early arrest of the perpetrators.



Prime Minister Jean-Luc Dehaene's center-left coalition government has prepared Belgium's economy to enter the single currency, but his popularity has suffered from scandals associated with his government.

wilghen and his colleagues embarked on their task with great energy and diligence, and the whole country was riveted by the unprecedented television coverage that their inquiry received. Their recommendations were generally commended, but the government has been cursed for failing to implement them overnight. Nor has the long delay in bringing to trial Marc Dutroux, the main suspect of several of the child murders, been well received. Dutroux was arrested in August 1996, and no date for his trial has yet been set. It will not be before 1999 at the earliest.

The corruption cases are proving even more damaging. One former minister, Guy Coëme, has already received a suspended prison sentence in a relatively minor case—the first minister in more than a century to be charged with an offense committed while he was in office. Coëme will again be in the dock in September when a far more serious case comes to trial. He is one of twelve defendants already

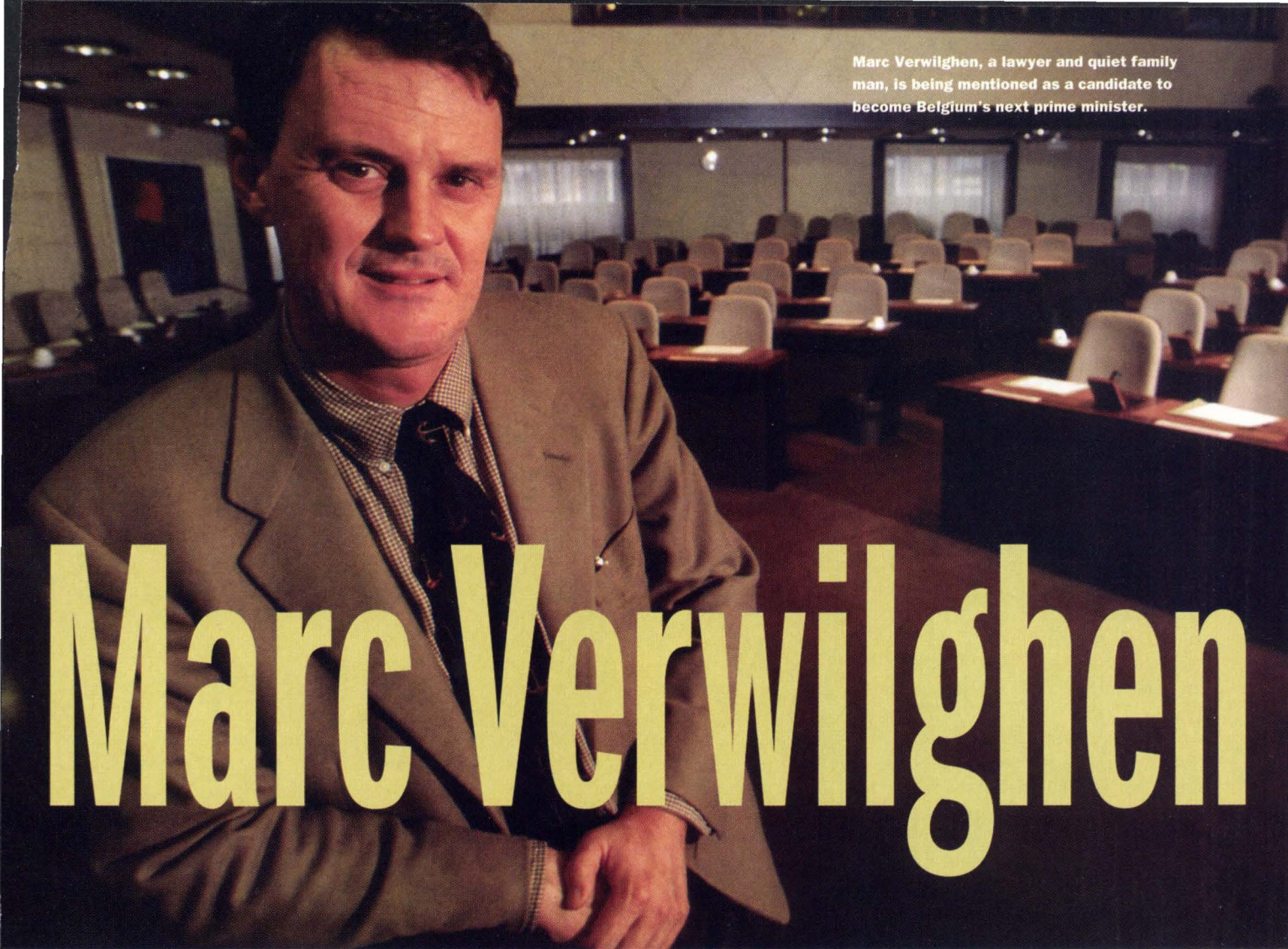
the defendants include former foreign minister Willy Claes, who was forced to resign as NATO secretary-general when he was indicted. At least three other ministers have been investigated during the case, one of whom, former Socialist Party leader Guy Spitaels, will also be charged if his parliamentary immunity is lifted.

One other Socialist ex-minister, Alain Van der Biest, is in even worse trouble. He is among the accused in another trial, for which a date has yet to be set, concerning the mysterious murder of another former Socialist leader André Cools, who was gunned down in a Liege car park in 1991.

It is because they fear the effect that these scandals will have on the voters that the Socialists have succeeded in persuading their coalition partners to put off the national election to the latest possible date—that is June 1999. They calculate—or at least hope—that the longer the contest can be postponed, the better their prospects of recovery. Britain's John Major made the same gamble—only to be defeated by a record margin.

At present, little money is being put on the present government winning the election, whenever it comes. The right-wing Liberals, who have languished in opposition for the past ten years, are heavily tipped to emerge as the dominant force after the next general election. It is not, however, certain that victory for the Liberals will mean curtains for the Socialists. All Belgian governments are coalitions, and it looks as though the Liberals would be prepared to take in the shop-soiled Socialists as junior partners, rather than throwing in their lot with the centrist Christian Democrats, led by Dehaene, with whom their personal relations are extremely poor. So, a right-left coalition, rather than one of the center-right, looks likely to lead Belgium in the opening years of the next century. ☹

Dick Leonard is EUROPE's Brussels correspondent and has covered Belgium for the Economist and the Observer.



Marc Verwilghen, a lawyer and quiet family man, is being mentioned as a candidate to become Belgium's next prime minister.

Marc Verwilghen

A year or so ago Marc Verwilghen, forty-five, was a virtually unknown opposition member of parliament. Now he is the hot tip to become Belgium's next prime minister. Verwilghen, a quietly spoken man who had never sought the limelight, owes his meteoric rise to the power of television, which had never previously played a decisive role in Belgian politics. It was the screening of session after session of the parliamentary commission of inquiry into the series of pedophile murders and kidnappings, of which Marc Dutroux was the main suspect, that thrust Verwilghen into public consciousness.

From Virtual Unknown to Political Star

By Dick Leonard

The effect of the report on Verwilghen's own public standing was, however, dramatic. He shot to the top of the opinion polls in all three Belgian regions, leapfrogging over all the party leaders and government ministers.

He was chosen to chair the commission almost by accident. The government had conceded that an opposition MP should preside, and the presumed choice was the leader of the French-speaking Liberal Party, Louis Michel. At the last moment it was discovered that high-ranking members of his party had had close links with the judiciary in Liege, which had been in charge of the murder inquiries, and this made Michel an inappropriate choice. Verwilghen, a lawyer who belonged to the Flemish Liberal Democratic Party, was then chosen as a non-controversial figure whose legal training would come in handy.

The purpose of the commission was to determine why the police inquiries into the kidnappings and murders had been so badly botched, to establish who was responsible for the failures, and to make recommendations on how to avoid such failures in the future.

Three cases in particular were to be probed by the commission. The first case: Two eight-year-old girls, Julie and Melissa, were kidnapped in Liege in June 1995. They were continually sexually abused and left to starve to death in a house belonging to Dutroux. The second: An and Eefje, two Flemish teenagers, disappeared near Ostend in August 1995. Their badly mutilated bodies were dug up in September 1996 in another property owned by Dutroux. The third: Loubna Benaïssa, an eight-year-old Moroccan girl, disappeared near her Brussels home in August 1992. Her body was found in the cellar of a nearby garage last March. The garage proprietor's son has been charged with her murder.

Verwilghen's committee embarked on their mission with great energy and diligence, holding more than 200 hearings, examining 125 witnesses, and or-

dering 68 specific inquiries. Verwilghen himself presided with great dignity and sagacity and inspired his team to rise above their political differences in a single-minded search for the truth.

They eventually produced two damning reports, one in April 1997 and the second in February 1998, concluding that though there had been no organized conspiracy or coverup, there had been an almost incredible succession of instances of negligence, inefficiency, and sheer amateurishness by the various police forces and by the investigating magistrates.

Dutroux and his associates should have been apprehended much earlier, the committee concluded, and if they had, at least some of their presumed victims would probably have survived. The committee concluded with a series of sweeping recommendations to tighten up the judicial system, notably by combining the gendarmerie and the judicial police (whose evident rivalry and lack of cooperation had enabled Dutroux to slip through the net on a number of occasions), while reforming and depoliticizing the process for appointing magistrates. Thirty individual police officers and magistrates were named in the report and severely condemned for dereliction of duty.

The first committee's report, in April last year, put immense pressure on the government to introduce rapid and radical reforms and to discipline the individuals who had been found wanting. The failure of ministers to respond decisively has only added to their growing unpopularity.

The effect of the report on Verwilghen's own public standing was, however, dramatic. He shot to the top of the opinion polls in all three Belgian regions, leapfrogging over all the party leaders and government ministers.

This was even more remarkable in that normally only Dutch-speaking personalities figure prominently in the polls in Flanders, and French-speakers in Wallonia and Brussels. The fact that the Dutch-speaking Verwilghen should be so popular in the two predominantly French-speaking regions was virtually unprecedented.

Verwilghen, a retiring family man who had always intended to bow out of politics after serving ten years in parliament, is still far ahead in the polls nearly a year after the appearance of his first report. Many people have clamored for his appointment as minister of justice, but it looks as though he may have a higher destiny.

All the indications are that the two Belgian Liberal parties (one for each language area) will be the dominant force in the next parliament. If so, they will head a new coalition government and will have the choice of either the centrist Christian Democrats (led by the current prime minister, Jean-Luc Dehaene) or the Socialists, as junior coalition partners.

The difficulty is that Guy Verhofstadt, who leads the Flemish Liberal Democratic Party, is highly unpopular with his potential coalition partners who would probably refuse to serve under him. The leader of the French-speaking Liberals, Louis Michel, does not speak Dutch well, which rules him out as a potential prime minister.

Verwilghen, by contrast, is fluent in both languages and is well liked by both Christian Democrats and Socialists. Moreover, he showed during the work of his committee that his leadership was readily accepted by MPs of all parties. Despite his evident lack of ambition, Verwilghen stands an excellent chance of leading what will be Belgium's thirty-ninth government since the end of World War II. ☐

Inside EUROPE

MARCH 1998

VOLUME VI/NUMBER 3

EU NEWS

EUROPE SUPPORTS IRAQ ACCORD

European Union foreign ministers meeting in Brussels in late February appeared to give their support to the accord worked out with Iraq by United Nations Secretary-General Kofi Annan. German Foreign Minister Klaus Kinkel said, "It seems that the decisive appeal from the international community has been met, the appeal for unlimited access to all inspection sites."

Spanish Foreign Minister Abel Matutes commented, "It will be necessary to remain vigilant so that the cat-and-mouse game does not continue, and these accords are fulfilled, but that there is an accord is cause for satisfaction for us all."

However, British Foreign Secretary Robin Cook noted that, "If there had been no pressure on Saddam, there would have been no deal."

French Foreign Minister Hubert Vedrine said that he believed Saddam Hussein "has stepped back because of the French proposals and the talent and work of Kofi Annan."

VAN DER PAS CHOSEN CHIEF ENLARGEMENT NEGOTIATOR

The top job in the European Commission concerned with the enlargement negotiations with the former communist countries in Central and Eastern Europe has gone to Klaus van der Pas, chief spokesman for the European Commission.

Van der Pas had to face tough competition to get the job. Jacques Delors' former right-hand-man, François Lamoureux, made a determined pitch for it, but in the end the Commission decided that Van der Pas's were a safer pair of hands. Van der Pas, who has German nationality despite his Dutch name, has been employed by the Commission for more than twenty-five years, working his way up from the bottom.

He has relevant experience, having been responsible for handling the Swedish accession negotiations in 1993, when he was reputed not to have put a foot

wrong. He will be assisted in his new task by another longstanding Commission official, Graham Avery.

Avery started his working life in the British agriculture ministry, but in 1978 joined the cabinet of former European Commission president Roy Jenkins and has successfully held down increasingly senior posts since then. He was responsible for preparing the Commission's official opinions on each of the candidate states, and he and Van der Pas should prove a formidable team.

—Dick Leonard

EU TO RESUME CONTACTS WITH IRAN

The European Union will resume ministerial contacts with Iran, ending a ten-month suspension of high level contacts imposed after the Iranian government was implicated in terrorism in Germany. EU foreign ministers stated that a number of encouraging developments in Iran required a positive response. In renewing relations, analysts say the EU is signaling that it wants to maintain a channel of communication with Iran.

SURPRISE VOTE IN DENMARK

Prime Minister Poul Nyrup Rasmussen took Denmark by surprise when he called for national elections to be held on March 11. The Social Democratic prime minister runs against the opposition Liberal Party leader Uffe Ellemann-Jensen, and the Danes are expected to vote on domestic issues leaving the question of European integration aside. Danes are known for their lukewarm attitude to EU membership, and many are concerned that the national elections may endanger an expected 'yes' vote in the May 28 referendum on the European Union's Amsterdam Treaty.

ITALY WANTS JURISDICTION AFTER SKI LIFT ACCIDENT

US crewmen could face charges after the ski lift accident in northern Italy in February where twenty

EU NEWS (CONTINUED)

people were killed. Italy plans to ask the United States to give up jurisdiction over the probe investigating why a US Marine surveillance jet was flying below the approved minimum altitude of 500 feet when it sliced a ski lift cable in the resort town of Cavalese.

Italy wants to prosecute the jet's four-man crew because of the gravity of the accident and because of a strong belief among Italians that the crew members should be tried in Italy. US and Italian military officials are now jointly investigating the accident.

CYPRUS PRESIDENT WINS TIGHT RACE

Glafcos Clerides was reelected President of Cyprus last month in a close vote as the divided Mediterranean island prepares for a new diplomatic push for reunification and talks on joining the European Union.

Final results showed that the conservative Mr. Clerides won with 50.8 percent of the vote compared with 49.2 for his rival, independent challenger George Iakovou, a former foreign minister.

EU SENDS AID TO BOSNIAN-SERB GOVERNMENT

The European Union is preparing to send 6 million euros (\$6.42 million) to help the new Bosnian-Serb government of moderate Prime Minister Milorad Dodik start its work.

The money will be placed in a special account set up and managed by the international community's high representative. The funds should help the government to function effectively by temporarily financing public salaries due since December 1, 1997.

SPANISH JOB BOOM

Spain created tens of thousands of jobs in the final quarter of last year, making it one of the best performers in Europe at battling high unemployment. More than 53,000 people found jobs in the fourth quarter of 1997 bringing the total number of new jobs created in Spain during the year to 371,000—about half the new jobs the European Union as a whole is expected to have created in 1997.

WHAT THEY SAID

"It is absolutely essential that we are not back in this position in a few weeks' or a few months' time."

—Tony Blair, British prime minister, commenting on the accord with Iraq

"Enlarging NATO will make us safer. Our goal is and remains the creation of an undivided democratic and peaceful Europe for the first time in history. Bringing the three nations into the alliance will advance it."

—President Bill Clinton, formally asking the Senate to ratify NATO expansion

"The new members will further project stability."

—Laszlo Kovacs, the Hungarian

foreign minister, speaking at the European Institute in Washington, DC in February

"We will never agree to currency developments in which the euro is not as stable as the mark. That is my promise."

—Helmut Kohl, chancellor of Germany

"The European Union needs an effective economic foundation. A common currency will build it."

—Matti Abtissari, president of Finland

"It is clear that in the US, which almost invented the Internet, they like to consider it as their child. Now

that the child is growing up, like all children do, it is losing some of its affiliation to its parents and starting to find other people attractive."

—Martin Bangemann, European commissioner for telecommunications, discussing EU concerns that the US is moving to permanently consolidate jurisdiction over the Internet

"Swiss independence no longer consists of building a wall around one's own garden and defending it from outside attacks."

—Flavio Cotti, president of Switzerland, arguing in favor of Switzerland reconsidering joining the European Union

BUSINESS BRIEFS

Eurotunnel, the financially troubled operator of the cross-channel tunnel, made its first operating profit last year but this was swamped by interest payments on \$14 billion in bank loans.

The Anglo-French company, kept afloat by a controversial financial restructuring last year, made a \$93 million operating profit, but interest charges of \$1.03 billion and currency

losses left it with a net loss of \$995 million.

Eurotunnel expects to break even, after interest charges, in 2003, nine years after the tunnel opened.

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Deutsche Telekom, Germany's giant former telecommunications monopoly, will get a further taste of competition in April when a feisty rival begins offering cut-rate service.

O.Tel.O says it will undercut Deutsche Telekom by about 20 percent in long distance calls and will treat the United States as if it were "part of Western Europe."

Other private telcoms groups launched new services after full liberalization of the German market, Europe's largest, in January. But O.Tel.O, owned by the industrial (continued after next page)

DAVOS NOTEBOOK

THE ASIA FINANCIAL CRISIS AND EUROPE

Europe is shrugging off the Asian crisis with policymakers believing EU growth this year will be 3 percent, the region's best performance since 1989. The governor of the French central bank, Jean-Claude Trichet, said early last month at the world economic forum in Davos, Switzerland and again at the G7 meeting in London February 21 that, "Europe has the capacity to swallow the Asia crisis." His view is strongly endorsed by French Finance Minister Dominique Strauss-Kahn, who says, "Europe will probably be the major pole for growth in the world." Both officials say that France will achieve 3 percent growth and that increased domestic demand will make up for any shortfall in exports to Asia.

Estimates are that Europe, like the United States, will lose up to half a percent of growth in 1998 because of the Asian slowdown. Exports to Asia are falling steadily and will continue to do so for the remainder of the year. But while most US economists agree to the half a percent slowdown figure, in Europe many experts believe that only a two-tenths of a percent slowdown is likely. Seven percent of EU exports go to Asia.

At Davos, corporate leaders generally saw the Asian crisis as a buying opportunity. Asea Brown Boveri (ABB) CEO Göran Lindahl said the company will exploit "wind-fall opportunities" in Asia. His statement at the economic forum came only days after the big engineering group announced 10,000 job cuts and had taken a \$100 million charge because of Malaysia's cancellation of the \$5 billion Bakun Dam project. General Motors and other automotive groups are considering investments in their Korean rivals, including Daewoo, which is in over its head in a multibillion dollar expansion program in Eastern Europe and the former Soviet Union.

But for the European banks, Asia is more problematic. The big German banks have a large exposure in Indonesia. Europe overall, says Gordon Brown, Britain's chancellor of the exchequer, "has greater banking exposure in Asia than US and Japanese banks combined."

But with European and North American stock markets at or near record highs, there is little worry that Asia will cut into corporate profits in the near to medium term. The Asian crisis gives added visibility to the April meeting in London of Asian and EU leaders. The first ASEM (Asia-Europe Meeting) was held in Bangkok two years ago.

—Barry D. Wood

WINTER OLYMPIC ROUNDUP

THE MEDAL TALLY

Country	Gold	Silver	Bronze	Total
Germany	12	9	8	29
Austria	3	5	9	17
Finland	2	4	6	12
Netherlands	5	4	2	11
Italy	2	6	2	10
France	2	1	5	8
Sweden	0	2	1	3
Denmark	0	1	0	1
Belgium	0	0	1	1
UK	0	0	1	1
EU Totals	26	32	35	93
Russia	9	6	3	18
United States	6	3	4	13

EUROPE'S GOLDEN OLYMPICS

Europe had a golden Winter Olympics in Nagano, Japan. Out of 205 possible medals to be won, the fifteen EU countries won an impressive total of ninety-three. The games overall medal winner was Germany with 29, followed by Norway (25), Russia (18), and Austria (17).

The Olympic hockey tournament offered plenty of excitement with National Hockey League stars allowed to

play for their national teams for the first time in Winter Games history. The Czech Republic provided the biggest surprise during the Olympics, when their underdog hockey team defeated both the American "Dream Team" and the pre-Olympic favorite Canada before beating their longtime Russian rivals in the gold medal game. It was the first hockey gold medal for the fledgling Czech Republic. Another hockey surprise was the Finnish team's victory over the Canadian team for the bronze medal.

In skiing Norway had a series of triumphs, which included Bjorn Dahlie's three golds and one silver medal in cross-country skiing. With his victories, Dahlie becomes the most successful Winter Games athlete ever with twelve medals, eight of them gold.

INSIDE EUROPE

Correspondents

Bruce Barnard, Dick Leonard, Barry D. Wood

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

Inside Europe is published by the Delegation of the European Commission, 2300 M Street, N.W., Washington, DC 20037.

The contents of this newsletter do not necessarily reflect the views of the European Union institutions or the member states.

BUSINESS BRIEFS (CONTINUED)

conglomerates **Veba** and **RWE**, is expected to present the biggest challenge to Deutsche Telekom. It has already built up a large presence in the corporate market.

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Eni, the Italian oil and gas group, signed a strategic alliance with **Gazprom** that will likely involve making a \$1 billion investment and a buying small share holding in the giant Russian gas monopoly.

The Eni deal is similar to an alliance last November between Gazprom and **Royal Dutch Shell** and is the second large Italian investment in Russia following a \$850 million joint venture between **Fiat**, the auto manufacturer, and **Gaz**, a Russian car and truck firm.

Eni's **Snam** subsidiary is one of the biggest European buyers of Russian gas, and other Eni units are leading suppliers of equipment and services to Gazprom.

Meanwhile, **Gaz de France**, France's state-owned gas monopoly, made its biggest foreign acquisition by paying \$790 million for a 38.2 percent stake in **Gasag**, Berlin's gas distributor.

Gaz de France has budgeted \$818 million for foreign acquisitions in 1997-99 to protect its ranking among the world's top five gas companies. Gaz de France president Pierre Gadonneix wants to double the share of the group's \$9 billion revenues generated overseas to 20 percent within three years.

Gaz de France will lose a slice of its domestic market when an EU law compelling 20 percent of the market to be opened to competition takes effect at the end of the decade.

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Philips, the Dutch consumer electronics group, has hired Roel Pieper, former vice-president of **Compaq**, the US computer firm, as a chief strategist to help it "become a leading force in the digital revolution."

The company plans to boost its annual marketing budget by \$300 million to strengthen the Philips brand and will concentrate on high volume consumer electronics products, such as televisions, audio systems, and mobile phones.

This twin strategy is aimed at consolidating Philips's return to financial

health—a loss of \$288 million in 1996 was transformed into a record net profit of \$2.8 billion on sales of \$37.3 billion in 1997.

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European shipyards dominate a new record world order book of thirty-five luxury cruise liners worth more than \$10 billion.

Italy's **Fincantieri** heads the list with contracts for eleven vessels, followed by **Kvaerner-Masa Yards** of Finland with seven ships.

The other leading yards are in France and Germany, while Japan has only one yard on the list, **IHI**, which is building a single ship for a local company.

With the US market, the world's biggest, set to grow by 10 percent this year, European yards expect to book more orders at between \$300 million and \$500 million per ship.

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Volkswagen is preparing to reconquer the US market five years after a humiliating retreat. Advance orders for the New Beetle, which went on sale this month, surpassed expectations.

VW hopes the new car and recently launched Audi and Passat models will help to lift US sales from around 180,000 vehicles last year to 300,000 by the year 2000.

Based on 1997 sales, this would put VW in seventh place in the US sales league behind the US Big Three and the three biggest Japanese manufacturers. If VW reaches these targets it would consider building a new plant in North America to supplement an existing factory in Mexico.

"We want to be a force again in North America," said VW chairman Ferdinand Piech. "It doesn't help us to be number one in China, number one in Latin America, and number one in Europe if we are not strong in North America."

Mr. Piech said he wants VW annual sales to exceed 5 million vehicles—compared with 4.27 million in 1997—well before he is due to retire in five years.

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Société Générale, the French bank, acquired **Cowen & Company**, a US investment banking partnership, which specializes in high-tech, health care, and communications stocks, for

\$540 million.

Société Générale is already well entrenched in the US with a \$50 billion loan book mainly concentrated on corporate customers.

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Harley-Davidson launched a marketing campaign to double annual European sales of its famous motorbikes to 40,000 bikes.

The Milwaukee-based group will introduce two bikes, the Night Train and Custom 53, specifically for the European market.

The bid to boost sales in the European market, which accounts for more than 50 percent of world motorbike sales, will put Harley-Davidson in head-on competition with current bestsellers **Honda** and **Yamaha**.

•••

Hollywood is crossing the Atlantic, lured by a spectacular surge in cinema attendance across Europe.

Sony Picture Entertainment is investing in post-production facilities at the Babelsberg film studios near Berlin where classic films, such as *The Blue Angel*, starring Marlene Dietrich, and Fritz Lang's *Metropolis*, were made.

Warner Bros will jointly finance twenty movies over the next five years with France's **Canal Plus**, and **20th Century Fox**, **Paramount**, and **Universal** are mulling investments in British film production companies following in the footsteps of **Miramax**, a **Walt Disney** subsidiary.

•••

Bass, Britain's second-largest brewer, agreed to buy the **Inter-Continental Hotels & Resorts** chain from Japan's **Saison Group** for \$2.9 billion in cash and assumed debt.

Inter-Continental's hotel business consists of 187 hotels in 69 countries. Bethesda-based **Marriott International** had been reported to be among the companies interested in buying Inter-Continental.

•••

Glaxo Wellcome and **Smith-Kline Beecham** cancelled plans to merge. The merger would have created the world's largest pharmaceutical company.

—Bruce Barnard

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MARCH 1998

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SWITZERLAND



After completing negotiations over road transit and air traffic rights, Swiss officials were forced to acknowledge that—as a landlocked nation inside the EU—Switzerland needs the EU more than the EU needs Switzerland.

Switzerland has thrived since its fateful decision not to seek membership in the EU, but the business community is still nervous about being locked out of the world's biggest market. Like its fellow refusenik Norway, Switzerland is a haven of prosperity. Its gross domestic product per head of \$34,750 dwarfs Germany's \$26,400. But unlike Norway, which has massive oil and gas reserves and abundant fishing resources, Switzerland has to rely on its wits. And so far it has managed to stay ahead of—and aloof from—the pack.

While the ordinary Swiss voter has few qualms about spurning the EU, the European Economic Area (of which Norway is a member), and the United Nations—politicians, businessmen, and

diplomats are questioning how long the country can afford to remain isolated.

Negotiations, which lasted three years and culminated in January, with the European Commission in Brussels over road transit and air traffic rights have forced Swiss officials to acknowledge Switzerland needs the EU much more than the EU needs Switzerland. Switzerland conducts three-fourths of its trade with the EU, yet its political links are being loosened. The feeling of isolation was deepened after the revelations about Swiss banks' shady dealings with the Nazis during World War II.

Swiss business, by contrast, has been actively looking abroad to compensate for the country's political isolation. While some deals, like Swissair's acquisition of Sabena, Belgium's national airline, are designed to secure a position in

the EU market, the majority are driven by the need to compete globally.

Swiss companies have always been more internationally oriented than their rivals as they can't survive on a domestic market of 7 million consumers. Foreign sales account for 98.2 percent of the revenues and 97 percent of the work force of food giant Nestlé.

Exclusion from the EU on the eve of the launch of its single currency, the euro, has made Swiss firms even more globally minded. Swiss companies have been at the center of the merger wave sweeping Europe during the past year as industry, banks, and insurers prepare for the euro.

The wave of mergers and acquisitions, from banking and insurance to chemicals and pharmaceuticals, has pushed Switzerland even higher up the

A PROSPEROUS ISLAND S

R L A N D

BY BRUCE BARNARD

European corporate league table. With its 7 million citizens, it ranks fourth behind the United Kingdom, Germany, and France in the European top 500 table. Moreover, three of the top ten European companies are Swiss—Novartis, Roche, and Nestlé.

The Swiss merger binge began in March 1996 when Ciba Geigy and Sandoz merged to form Novartis, the world's biggest pharmaceuticals firm. It gathered pace with the \$9 billion link between the Credit Suisse bank and insurer Winterthur to create the world's third-largest asset manager with \$465 billion under its control and powered ahead with a \$37 billion link between Zurich Insurance and the financial services unit of British American Tobacco (BAT).

More was to come with the \$60 billion plus acquisition by Swiss Bank Corporation (SBC) of Union Bank of Switzerland creating a behemoth that toppled Germany's mighty Deutsche Bank from the number one spot in Europe and leapfrogged to fourth place in the world banking league.

Even as they join forces at home, Swiss firms continue to grow abroad, often outbidding foreign competitors. SBC sidelined ING, the Dutch financial services group, to buy Dillon Read, the US investment bank, in a \$600 million deal that gave it a Wall Street presence alongside Credit Suisse, which controls First Boston.

Ciba Specialty Chemicals, a spinoff from Ciba Geigy before it merged with Sandoz, recently saw off Hercules of the US with a \$2.38 billion takeover of Allied Colloids, a British chemicals group. And it was a Swiss financial services firm, Zurich Group, that was

closely involved in a futile bid to save Peregrine, the Hong Kong-based investment bank, the collapse of which deepened the Asian financial crisis.

The US is a favored hunting ground for Swiss firms seeking to stretch their global reach. Roche, the chemical giant, bought Tastemaker, a flavors and fragrances group, and Lindt & Sprungli, one of Europe's oldest chocolate makers, acquired Ghirardelli Chocolate Company of San Francisco.

Swiss firms also are more nimble than their European rivals to adapt to rapidly changing market conditions. Thus ABB, the \$35 billion-a-year Swiss-Swedish engineering group, cut 59,000 jobs in Western Europe and North America in 1990-1996 but added 56,000 new ones, mainly in East Asia and Eastern Europe. Last October it announced a further 10,000 layoffs in Western Europe and North America, putting its restructuring program well ahead of European rivals such as Siemens and GEC-Alsthom.

Novartis has pursued post-merger rationalization at a breakneck pace. It will have shut or sold thirty-five of its

sixty-two plants, with the biggest cuts falling in the US and Asia, saving \$1.33 billion by the end of 1999.

While the corporate sector is in good shape—the Zurich stock exchange soared by 50 percent in 1997—what about the small and medium-sized firms, making everything from textile machinery and printing equipment, that form the backbone of the Swiss economy?

So far so good, but their future will always be clouded by the fact that they are located outside the EU, their biggest market. There are no trade barriers at present, but the Swiss will be powerless to influence changes in standards or regulations.

Switzerland isn't likely to undergo an imminent conversion to EU membership, but pressure to enter will steadily increase especially after the first wave of Central and Eastern European nations joins at the beginning of the twenty-first century. ☐

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

With only 7 million domestic consumers, major Swiss firms, like chocolate maker Nestlé, have been forced to become global companies.



RROUNDED BY THE EU

By Ariane Sains



GOING IT ALONE

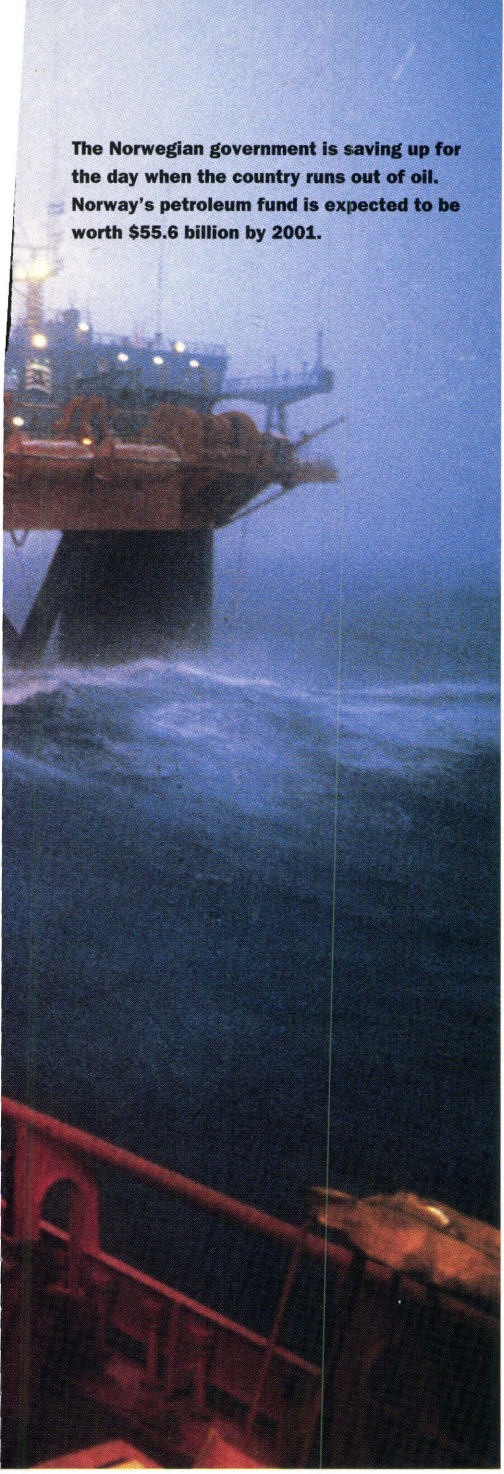
Norway's Oil Keeps It Independent

When Norwegians voted in 1994 against European Union membership, the reason was self-evident to energy consultant Per Loken. “We have just come out of a union,” Loken said in explaining why he voted no. “Why should we join another one?”

Although the union, with neighboring Sweden, was dissolved in 1905, Norwegian memories are long and Norwegian independence fierce. And, with oil money pouring into the country, Norwegian independence is well cushioned.

By 2001, the Norwegian government estimates there will be \$55.6 billion in the country's petroleum fund. Established in 1990, the fund is a hedge against the day Norway finally begins to run out of oil. But that's not expected to happen until 2020.

With such an economic base, it proved difficult in 1994 for the then-Labor government to convince Norwegians of the economic benefits of European Union membership.



The Norwegian government is saving up for the day when the country runs out of oil. Norway's petroleum fund is expected to be worth \$55.6 billion by 2001.

Trade Agreement, Norway has many of the same rights as EU member countries.

But Norwegian companies worry that they may be locked out of business opportunities and are always looking for backdoors into the union. That's the main reason for the dramatic increase in Norwegian investment in Sweden over the past few years. Since January 1, 1995, when Sweden joined the EU, Norwegian direct investment has almost doubled, from \$1.8 billion to \$3.4 billion. Investment is across the board, in everything from a chain of newsstands to factories.

This investment boom has put Norway fourth on the list of direct investors in Sweden, after the Netherlands, the United States, and Switzerland.

Eric Tonseth, chief executive of maritime and construction company Kvaerner, who recently moved company headquarters to London from Oslo, says Norway cannot afford to remain an island isolated from Europe. Furthermore, he considers it foolhardy for Norwegians to trust that their oil money will protect them indefinitely.

But in voting against EU membership, Norwegians were also betting on help from Finland and Sweden. Both had voted to join the union and, with established member Denmark, had vowed to protect Nordic interests, including Norway's and Iceland's, in the EU.

To some degree, that help has materialized. Sweden and Denmark, for instance, said they would not condone the Schengen border agreement unless Norway were allowed to sign on. The Nordic countries have an agreement dating back to just after World War II that allows free movement of Nordic citizens without passport controls. Sweden and Denmark were able to convince the EU that requiring special controls because Norway is outside the union would have violated the Nordic agreement.

But Sweden was quick to side with the EU when it came to Norwegian salmon quotas. As a result, major Norwegian salmon exporters must now pay an extra 13.7 percent duty on fish marketed in the EU.

Nor does Norway's voice carry the same weight in Brussels as that of member countries. The lack of influ-

ence was clear recently when Norway tried to change the content of the EU gas directive. Despite intensive lobbying and personal appearances by Norway's new prime minister, Kjell Magne Bondevik, it was only at the urging of the United Kingdom that clauses favorable to Norway were included. And UK representatives only lended a hand because their interests coincided with those of the Norwegians. So little impact did Bondevik have that the Norwegian daily newspaper *Dagbladet* dubbed him "rich but friendless" in Brussels.

But as a member of the European Free Trade Area and the European Economic Agreement, Norway must still comply with many of Brussels' regulations. Compliance, however, has been a mixed bag. The government claims that of 1,219 EU directives that apply to Norway, almost all have been partly or fully fulfilled. On the other hand, the EFTA Surveillance Authority has logged 157 complaints against Norway, ranging from the country's social security system to regional support policy.

Another critical issue for Norway is the EU's economic and monetary union (EMU) and what will happen to the krone when EU countries switch to a single currency. When it comes to EMU, Norway cannot look to Sweden as a way in since the Swedes have said they won't join the EMU immediately. That could hurt Norwegian businesses, which may find that they have to keep books and bill customers in the new euros anyway in order to remain competitive. It may also make foreign companies reluctant to establish in Norway.

Moreover, since the dollar is the oil market's currency, Norway may see a drop in oil income if the dollar weakens because of the euro.

None of this, however, seems to especially disturb Norwegians. Before the EU referendum votes in Norway and Sweden, a prophetic joke was making the rounds in both countries: "Swedes will vote for the EU because they think Europe needs them. Norwegians will vote no because they know they don't need Europe." Thus far, the Norwegians are the ones laughing. ☎

Ariane Sains is EUROPE's Stockholm correspondent.

More than three years after the no vote, it appears that Norwegians have no intention of changing their minds. Recent polls show that EU opposition is even greater now than it was when the vote was taken. The Labor government has been replaced by a coalition headed by the more conservative Christian Democrats and includes prominent Center Party member Anne Egner Lahnstein, who so successfully campaigned against EU membership that she was dubbed "the no queen."

Thus far, Norway appears to have lost little by remaining outside the EU. As a member of the European Free

PARK

Spring officially starts this month, but in most of Europe, the weatherman has not been informed. While he blithely points out the next nasty storm system sweeping in from the Atlantic, escape is possible. There are places even in chilly northern Europe where you can strip off outer layers right now and gambol in the waves or where you can at least plunge into a colorful fantasy land that lets you forget damp, gray reality for a while.

At the top of the list for short-term family get-aways in Europe is Center Parcs, a Dutch outfit that came up with the brilliant idea of providing tropical surroundings in non-tropical locations, with a guaranteed temperature of eighty-four degrees, no matter what the weather forecast threatens. The thirteen holiday villages that Center Parcs has built over the last thirty years in the Netherlands, Belgium, Britain, France, and Germany, all feature comfortable cottages, with a fireplace and a Jacuzzi, exposed to the real elements but clustered around a transparent dome. Inside that dome, which sits in the woods like a giant spaceship, is a tropical playground.

The main attraction is a water park, with a wave pool, paddling pond, slides and rides, saunas, hot tubs, and a solarium, but there are also shops and restaurants and a health and beauty spa, all set in a luxuriant mini-jungle. In the moist warmth, bananas and passion fruit flourish among the palm trees, and pink flamingoes and parrots pose for photos. It is the kind of place where everyone, from babies to grandparents, can and does have a great time. In 1996, more than 3 million people stayed in the villages.

When my children were smaller, we were regulars at one of the Center Parcs in France. On a couple of occasions we went bicycling and pony riding in the real world outside, but mostly we stayed inside the balmy glass bubble and played in the water. We went down the river rapids so many times that we wore the bottom out on our bathing suits.

Once I decided to try the health spa and booked myself for what was advertised as the ultimate relaxation experience: a private *bain flottant*. It turned out to be a large, shallow basin filled with a greenish-yellow mineral solution that was at body temperature and apparently three times saltier and more buoyant than the Dead Sea. I climbed onboard, as it were, the already dim lights went out completely, and "soothing" music started to play, while I floated around in the dark, vaguely terrified. I emerged an hour later with a salt crust on my exposed bits and the first draft of a script for a Stephen King-style horror movie set in a spa. My mother, on the other hand, tried it, too, and loved it.

PARA



DISE



BEATING THE WINTER BLUES

BY ESTER LAUSHWAY

Center Parcs' holiday villages offer tourists a tropical escape in otherwise chilly European locations.

Center Parcs is the European market leader for short holiday breaks and keeps adding new attractions to its villages, such as larger jungles, the latest water rides, and pools where you can go snorkeling among tropical fish.

Its biggest competitor is the French home of Mickey and Donald. Euro Disney in Paris, after the first few tough years, has worked out how to keep the crowds coming. It has lowered its prices, adapted to local customs—you have to let the French have a glass of wine with lunch—and is now doing very nicely. Besides the sure-fire enchantment of the Magic Kingdom, it offers families the chance to play *Little House on the Prairie*. At the Davy Crockett Ranch, the 500 trapper's huts scattered through the woods are equipped with the essentials of modern pioneer life—dishwasher, microwave, and color television. After a hard day of archery, mountain biking, pony riding, tracking lessons, and demonstrations in the art of a full Indian makeup, there is a tropical pool here as well, in which the whole family can recover from the rigors of the Wild West.

Plenty of other theme parks, for all ages and tastes, exist in northern Europe, though not many of them are open year-round or offer extensive on-site accommodation the way Center Parcs and Euro Disney do.

The ultimate fantasy world for preschoolers is Efteling Park in the southern Netherlands (open April to October), which specializes in bringing the world's favorite fairy tales to 3-D life and won a prize as best amusement park in the world in 1992. Teenagers will not be bored, either, because Efteling has several hair-raising rides, including a brand-new one in the pitch dark, inspired by Sinbad's flight in the clutches of the dreadful winged Rok.

Budding architects will appreciate Europe's two Legolands, one in Denmark, the other in the UK "where the fun is always building" (open April to October). The parks are big on small people: Everything is aimed at and scaled to the two to thirteen age group, with millions of the bright plastic bricks used to build everything from miniature cities to life-size elephants. The over-eights even get the chance to drive an electric car around by themselves and earn a Legoland driver's license.

Futuroscope in France, the ultimate in audiovisual technology, Europapark in Germany, Alton Towers in the UK, and Liseberg in Sweden are a few more of northern Europe's most popular destinations for a bit of fun escapism. To get a more complete listing, try surfing the Internet. ☺

Ester Laushway is EUROPE's Paris correspondent.

BRU

A L I V I N G M

BY DICK LEONARD

The Flemish city of Bruges (or Brugge), with its maze of canals and romantic cobbled streets, has long been known to tourists as the “Venice of the North.” Every year this town of less than 120,000 residents attracts more than 3 million tourists. A lot less, however, than visit the much larger Venice, which last year received more than 7 million tourists and has somehow avoided being dubbed as the “Bruges of the South.”

Many of the visitors to Bruges have been attracted by enthusiastic travel writers. One of the best-known, the American author Arthur Frommer, surpassed himself in his guidebook *A Masterpiece Called Belgium*. “Bruges,” he wrote, “is a medieval city, perfectly preserved, a giant, sprawling ancient metropolis, once of world significance, and yet today almost unaltered in its former splendor.”

Frommer has been by no means alone in extolling the medieval character of the colorful Flemish city. The prestigious *Michelin Guide to Belgium and Luxembourg* declares, “It is as if time has stood still for centuries. Strolling among its old brick houses, its lovely buildings, its churches from which the pure sound of the carillon is heard, and along its silent canals, it is easy to imagine oneself in a city in which the Middle Ages still reign.”

A bucket of cold water has been poured over this romantic myth by Belgian author Roel Jacobs. His handsomely illustrated new book, *Bruges: The City Behind the History*, might well have been entitled *Medieval Shme-dieval*. So far from being a medieval city, Jacobs writes, the vast majority of its buildings date from the nineteenth and twentieth centuries.



AGES

MASTERPIECE



In the city, there are precisely two dwelling houses that date from the Middle Ages, he asserts, and apart from that only the belfry and a few churches, most of which have been heavily restored. In addition, a number of public and church buildings survive from the seventeenth and eighteenth centuries, but it was the neo-Gothic revival of the mid-nineteenth century that shaped the Bruges we know today. Moreover, a high proportion of the neo-Gothic buildings were erected not by Belgians, but by the large and influential community of English Catholics, who were living in Bruges up to the time of World War I, when most of them left, never to return.

Jacobs' book was published in Bruges late last year in English, Dutch, and French editions by the Marc Van de Wiele publishing house. It has been sponsored by the Nagelmackers Bank, the oldest bank in Belgium, to mark the 250th anniversary of its foundation in 1747.

It is not intended as an attack on the city's credentials as a tourist magnet. On the contrary, Jacobs argues, the city is no less beautiful for being several hundred years younger than has been imagined, and it is full of enchanting and rewarding sights. Tourists, in his view, will find it more enriching to learn the true history of the city rather than swallowing a fantasy. And if most of the buildings are not medieval originals, however attractive they appear, the pictures inside—by such artists as Jan Van Eyck, Hugo Van der Goes, Hans Memling and Gerard David, are indisputably products of the Middle Ages.

The city fathers of Bruges have greeted Jacobs' revelations with surprising equanimity. The burgomaster, Patrick Moenaert, has even contributed the foreword, in which he writes, "I believe this book is a fascinating addition to the study of Bruges' history. I wish you great pleasure in reading it and, of course, in visiting the ever beautiful city by which it was inspired." A sentiment, I can only echo. ☺

The Flemish city of Bruges, known as the "Venice of the North," is a maze of canals, romantic cobbled streets, and Medieval-style buildings.

Who Are Europe's Business Trendsetters?

We put this question to our Capitals correspondents for this month's issue and asked them to venture beyond the annual reports and the official corporate press releases to find the people who are behind successful European businesses.

Some of their results were predictable. Like their American counterparts, European technology firms, such as Germany's SAP and the Netherlands' Baan Company, are experiencing tremendous growth in the age of the global company. Some correspondents found their subjects in "hot" industries where deregulation and innovation are creating tremendous opportunities, sectors such as information, transportation, communication, and banking. Others found businesspeople approaching old problems in new ways, such as Olivier Cadic, a Frenchman creating jobs in low-cost England, or Richard Lugner, an Austrian builder whose flexible approach allows him to find profits in projects of all sizes.

Collectively these reports offer an overview of the rapidly changing European marketplace and the people leading the changes.

BERLIN

GERMANY'S ANSWER TO MICROSOFT

With the German economy expected to grow only 2.8 percent during 1998 and unemployment expected to increase to a national average of 4.42 million, Germans are in dire need of some good business news. Such can be found with SAP, the hugely successful business software group based near Heidelberg in Walldorf. SAP announced that it will expand its work force by almost 40 percent this year, creating up to 5,000 new jobs—some 2,000 in Germany. For the *Financial Times*, SAP is "a beacon for those who fear that the country's strict rules and business-unfriendly regulations stifle the nation's enterprise, drive, and vision."

In 1972 five software engineers left the German arm of IBM to set up their own company. Their aim was to develop standard software powerful enough to handle virtually any company's data management needs in areas as diverse as



Dietmar Hopp, CEO of the German software firm SAP, saw the company's shares rise 174 percent in 1997.

production, sales, distribution, and accounting and flexible enough to adapt to the individual requirements of compa-

nies in widely different industrial sectors. Today, SAP is the world's fourth-largest software manufacturer and the European market leader. Basically, it is Germany's response to Microsoft.

SAP has more than 13,000 employees worldwide—2,500 in the United States. Its 1996 sales generated some \$3.3 billion in revenue, and it enjoyed profit margins of 50 percent. The US is the company's largest market, followed by Germany and Japan. In Europe, Germany is its biggest market, but the UK and France are its fastest growing European markets. Its clients include Daimler-Benz, Hoechst, Intel, ICI, IBM, Esso, Mobil Oil, British Rail, Barclays Bank, British Aerospace, Aerospatiale, Microsoft, and MIT.

For more than a decade, the mainstay of SAP's business has been a software system called R/2, which is designed for use on large mainframe computers. In 1992, SAP introduced the R/3, a new system aimed at attracting small and medium-sized companies for whom the R/2 was too expensive. R/3 links financing, personnel, and manufacturing functions together in one system.

"We are influenced by our clients," says Hasso Platter, one of SAP's two top executives. "The key to SAP's success has been its ability to grow with a client [by] going inside the company and finding out what it needed and adapting to its requirements."

Recently, SAP formed a joint venture with Intel to provide "complete business solutions." The partnership, called Pandesic, offers both hardware and software products as well as services for companies that sell goods and services on the Internet.

SAP's shares, which have been on the German stock exchange since 1988, rose in 1997 by a spectacular 174 percent—the highest performance in Germany. The company plans to launch its shares on a US stock exchange later this year.

—Wanda Menke-Glückert

COPENHAGEN

HUGO ON THE MOVE

International marketing is the most demanding challenge to any small business. In small markets like Denmark, it is one of the biggest impediments to growth. Not so for Interactive Television Entertainment, which is the fastest growing company in the Copenhagen region and last year almost doubled its work force to the grand total of forty-three employees. It is a rare case of entrepreneurial success in Denmark.

ITE's recipe for success was simple: find a way to entertain people by combining two of their favorite twentieth century inventions—the telephone and the television. Their solution was to take a popular talk show and give it an interactive game element. The creators developed Hugo, a cartoon character who flirted with an attractive young hostess who took calls from viewers. Viewers then gave Hugo directions to steer him through a cartoon labyrinth. When the

viewer helped Hugo make it through the maze, he or she won a prize and an approving smile from the hostess. Moreover, the ratings kept the producers smiling for years.

Some would argue that television is, by its very nature, global. Certainly the growing demand for talk shows and entertainment looks like a global trend. Interactive Television Entertainment has franchised the interactive Hugo game in a number of countries, including the important German market, and now less than 2 percent of turnover comes from the Danish market. It is probably a unique Danish case of the small global company.

Creative people provide the raw material for Interactive Television Entertainment, which is why it's located in Copenhagen. The traditional pattern of growth in Denmark—that industrial production moves from Copenhagen to Jutland, the western part of Denmark—has now been superseded by a new growth axis linking

Jesper Helbrandt, CEO of Interactive Television Media, and his star creation Hugo have built the fastest growing company in the Copenhagen region.



Copenhagen with Aarhus, Denmark's second-largest city. The country's growth industries are those that are knowledge-based, and the old port of Copenhagen now has so many new media-related companies that it has been dubbed Media Valley. Turnover of people is traditionally high in creative sectors, so a large reservoir of talent is very important for fast-growing companies.

Jesper Helbrandt, CEO of Interactive Television Media, ITE's parent, has an ambitious program to broaden the business base and make the company less dependent on its basic television game. Hugo is on the move, but he needs company. A number of products are already in the pipeline, but finding the right people in Denmark is becoming so difficult that a move to the US is not out of the question, with California as the most obvious location. For a small global company with no language or cultural constraints it would not be a difficult move. But it would not make the Danes happy.

—Leif Beck Fallesen

HELSINKI

AN ENTREPRENEURIAL EMERGENCE

What happens when the company you work for endures a hostile takeover attempt, a protective merger, streamlining and selling off businesses, name changes, as well as turbulence in the boardroom? For most employees such turmoil might have them fearing for their jobs, but not for Mr. Antti Piippo, who instead saw a buying opportunity.

In 1984 Piippo joined the Finnish Lohja Corporation, a company that, among other things, was developing a flat television screen based on electroluminescence technology. His task was to make this unit and the microtechnology behind it commercially attractive.

In the early 1990s, a group of Swedish investors turned their interest toward one of the oldest and most reputable industries in Finland, the Wartsila group. In order to prevent a takeover, Lohja and Wartsila merged into a new holding named Metra. The electrotechnical engineering did not fit into the new conglomerate. The flat screen was sold to a US firm, Planar International, and the pro-

duction of television sets ended up with Japanese companies. Although his place at the company had evaporated, Piippo had plans of his own. The electronics unit of Lohja was making components for the first Nokia and Ericsson cellular phones. Realizing the great potential of the emerging electronics contract manufacturing business, Piippo decided to buy the business himself.



Antti Piippo's key to success is seeing the coming changes in the world economy.

He persuaded two colleagues to join him, and in 1991 they founded Elcoteq Network Corporation with Antti Piippo as the main shareholder. In those days the annual turnover was less than \$15 million, and the total number of personnel was 170. Mr. Piippo was able to call company meetings just by jumping on top of his corner desk in the open-plan office and shout.

Since then Elcoteq's development can be characterized as a business fairy tale. In 1997 Elcoteq was introduced on the Helsinki Stock Exchange, and the final accounts for 1997 are expected to show a turnover closing in on \$300 million. An amazing 67 percent annual average growth since Piippo and his team took over.

Elcoteq's philosophy is very simple. It specializes as a contract manufac-

turer for the big electronics players on the world market. Mr. Piippo and his Elcoteq colleagues argue that in modern manufacturing, traditional hierarchical leadership and production is history. There is no need for the Motorolas and Nokias of the world to do everything themselves. They have the skill and resources to develop new products and market them. Meanwhile,

Elcoteq can take on the actual manufacturing of the goods. For example, the new mini-size Ericsson cellular phones that travelers rent at the airport when they arrive in Europe are made, tested, and packaged with manuals by Elcoteq's manufacturing unit in Tallinn, Estonia (and is the biggest exporting company in Estonia).

The future looks good for Elcoteq and its some 3,000 employees. All signs point to continued growth. New Elcoteq sites are being established in Hungary and Russia. Texas and Mexico are next on the list, as well as Asia. Indeed Elcoteq is a growing empire, which has all been based on the visions of an entrepreneur. As Antti Piippo puts it: The key is to see the coming changes in the world economy.

Simple as that!

—Thomas Romantschuk

THE HAGUE

THE BAAN BROTHERS

No doubt Jan and Paul Baan belong among the most successful Dutch businessmen of the 1990s. Their business has grown with astonishing speed over the last twenty years and is now among the world leaders in software automation, counting Boeing, Ford, and Philips among its industrial clients.

Throughout its success, the Baan Company has retained a squeaky clean image, which many observers attribute to the religious foundations of its founders. The Baans belong to a partition of the Dutch Reformed Church, and many of

their offices are located in various villages in the rural area considered the Dutch Bible Belt. A company spokesperson, however, offers that a more relevant explanation of the Baan image comes from the company's focus on innovation, initiative, and integrity rather than the religious beliefs of its founders.

Jan Baan, fifty-one years old and the son of a rural carpenter, started the company in 1978. Later, his brother Paul, who has a management degree, joined the tiny business. Neither of the brothers is formally trained as a software technician; nevertheless, they developed an enterprise resource planning (ERP) software package that allows a company to manage and monitor functions, such as distribution, finance, inventory, manufacturing, sales, and transportation, all with one system.

Although many companies design ERPs, the Baan IV system was designed to be adaptable to any industry and can be easily customized for a specific company's needs.

Baan, which competes with products from SAP, Oracle, and J.D Edwards, scored a coup in 1994 when Boeing decided to implement Baan's EPR. Subsequently, Ford Motor Company also contracted with Baan, and Baan has since used these relationships to attract business from their suppliers. Most recently, Baan signed an agreement with Compaq.

In order to raise capital, first on NASDAQ and later on the Amsterdam Exchange, the company conducted a shares offering in 1995. The Baan Company has proven itself one of the best performers in the Netherlands, multiplying nine times in value. In the first quarter of this year, the company announced a split of its shares. The single largest shareholder is the American investment company General Atlantic with about a third of the shares.

When Jan and Paul Baan took their company public, they sold a large part of their personal shares to Oikonomos, a charity foundation they set up to fund projects in education and in the developing world.

Revenues of the Baan company last year were \$684 million, with a profit margin of about 20 percent. The company now employs about 3,500 people worldwide. Its dual headquarters are in Putten, Netherlands, and Reston, Virginia, and it also has offices elsewhere in the US and Europe as well as in Malaysia, India, and Latin America.

—Roel Janssen

STOCKHOLM

THE FATHER OF OM

One of Olof Stenhammar's most prized possessions is the silver-headed cane co-workers at OM Gruppen gave him some years back.

"They said that since I was at least twice as old as everybody else, I must be a grandfather who needed the cane," he recalls with a small smile.



Olof Stenhammar's company OM Gruppen made \$40 million on revenues of \$87 million in electronic derivatives, options, and futures trading in the first nine months of 1997.

OM Gruppen specializes in electronic derivatives, options, and futures trading, and in fact, most of its employees were young enough to at least have been Stenhammar's children when the company was started in 1985.

But grandfather or not, the fifty-six-year-old Stenhammar has a vision and drive that most people half his age can only wish for. He launched OM in the face of strong opposition from the Swedish financial establishment and the Stockholm Stock Exchange. He also faced legal restrictions. But Stenhammar refused to give up and recalls the early days with the fondness of a man who's lifeblood is creating. "We

slept in the office. Traders fell asleep at their desks. We moved them and went on working."

He had reckoned that success would be selling 1,000 options a day within two years; he met his goal within three months. Today, OM operates internationally, including in the United States, at the new California electricity spot market. For the first nine months of 1997, OM's profit was \$30 million on revenues of \$87 million, a whopping 76 percent increase from 1996. Far from battling the Stockholm Stock Exchange these days, OM is on its way to buying the bourse. The purchase is being made with the backing of Investor, the powerful investment holding company owned by the Wallenberg family, which is a key owner in OM.

Stenhammar has turned the company's daily operations over to the younger generation but remains OM's chairman of the board and guiding force, but Stenhammar doesn't always win. Despite strong support from business leaders and the city officials, he

didn't succeed as leader of Stockholm's bid for the 2004 Summer Olympics. And opinion is divided on the job Stenhammar did.

He has been criticized for focusing too much on international opinion and not marshaling public opinion at home early on. Sweden's presentations to the International Olympic Committee also got low marks from critics for being lifeless and sterile.

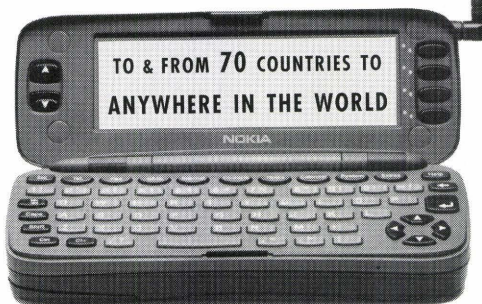
Although the art of the deal remains his overriding interest, Stenhammar does find time to relax. In 1988, he bought an estate in the rolling farm country of mid-southern Sweden, where he keeps horses and enjoys fishing in nearby lakes.

A private man, Stenhammar expresses surprise at first when he's described as an entrepreneur. "It's true that I have drive," he acknowledges, "but I wasn't very successful in school, and I came to think of myself as an unsuccessful person. But when you look back, okay, I have done a hell of a lot. I have been incredibly fortunate."

—Ariane Sains

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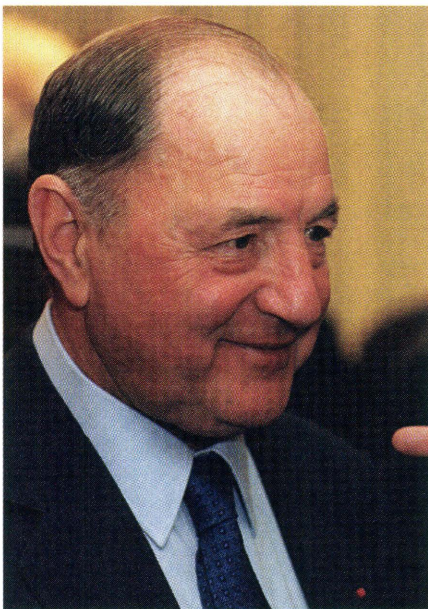
BRUSSELS

FRERE IS A FORCE

It may seem odd to describe a seventy-two-year-old as a dynamic entrepreneur, but financier Albert Frère, like many good wines, seems to get better all the time as he grows older. As chairman of the Group Brussels Lambert (GBL), he secured a bright future for the country's third-largest bank—the Bank Brussels Lambert (BBL)—last November, when he negotiated its sale on very favorable terms to the Dutch bank ING. The resultant merger, the BBL/ING, is now Europe's twelfth-largest bank and should be able to compete effectively on a continental scale, which the Belgian bank was unable to do on its own.

Frère has not let the proceeds of the sale remain idle. He has bought into the French utility giant Suez Lyonnaise, which resulted in the merger last summer between the Compagnie de Suez and Lyonnaise des Eaux. He is already the largest shareholder and plans to enlarge his holding to 12 percent of the shares or even more.

This should greatly increase his influence over Belgium's largest company, the Société Générale de Belgique (SGB), which Suez Lyonnaise controls. The SGB and the Lambert group have been fierce rivals in the past, but Frère will now be in effective charge of both com-



Albert Frère is the dynamic seventy-two-year-old chairman of Group Brussels Lambert, Belgium's third-largest bank.

panies. He also owns large chunks of Petrofina and the Royale Belge insurance company, which gives him a commanding presence at the heart of Belgium's economy.

A reclusive man, who seldom gives press interviews, Frère recently denied that his involvement with French, Dutch, and Luxembourg companies implied any reduction of his commitment to his own country. "We are in no way pulling out of Belgium," he told the Flemish daily *De Standaard*. "But if we don't find good investment prospects in this country, we are forced to go abroad."

Frère is known as an exceptionally cool operator with a shrewd sense of the market. He has no intention of retiring and seems likely to remain Belgium's most powerful businessman for many years ahead.

—Dick Leonard

ROME

FREE TECHNOLOGY FOR EVERYONE

If you are an Internet surfer or if you work with a computer, the acronym MPEG should look familiar. Maybe you don't really know what it stands for, but you've surely come across it. It stands for Motion Pictures Experts Group and represents what is becoming the universal standard for digitally formatting sounds and images in motion. MPEG is behind the creation of CD-ROMs, digital television, and soon it will bring about the amazing and lucrative multimedia marriage between computers and television. In short, it is an acronym that is destined to become a household word. So important that it justifies the growing flow of daily phone calls and e-mail messages to...Borgionera.

That's right, Borgionera, Italy. Ask an Italian where this town is located, and chances are you won't get an answer. In fact, it is a small, quiet mountain village located at the foot of the Piedmont Alps, consisting mainly of old farmhouses, vineyards, and pastures—as far away as one could possibly imagine from the latest discoveries in computer technology.

However, Borgionera is also where Leonardo Chiariglione lives and works, the person on the receiving end of messages and calls from computer giants like Microsoft, Sony, IBM, AT&T,

Philips, the major Hollywood studios, and important television broadcasters.

Leonardo Chiariglione is a peaceful-looking, fifty-four-year-old engineer. Dressed in gray, sporting a mustache

"Here we work to further human progress, not to become multimillionaires." MPEG, in fact, is what is called "open technology." It is not owned by anyone, nor is it patented.

and goatee, he looks like a nineteenth century gentleman instead of the computer genius that he is. For ten years now he has been coordinating a work team of thirty technicians from CSELT, a Turin based company belonging to Telecom Italia. The group began work in 1988 and thanks to the invention of MPEG, a few months ago it won an Emmy Award for revolutionary technological discoveries. Big companies have been trying to woo Chiariglione to Silicon Valley for sometime, but he continues to refuse the offers, which would take him away from his beloved hills. It even bothers him to go to a medium-sized city like Turin. When he can, he works directly from his home, from his office-laboratory overlooking his family's vineyard.

Chiariglione (who, by the way, isn't the only Italian to have contributed to the development of computer science: Federico Faggin produced the first microchip and now works in California) reveals himself in all his eccentricity when, with stubborn candor, he explains his philosophy. "Here we work to further human progress, not to become multimillionaires."

MPEG, in fact, is what is called "open technology." It is not owned by anyone, nor is it patented. As it evolves, its results are approved by the International Standards Organization and then conceded to companies. From the original version, Chiariglione's team is now perfecting MPEG 4, which will lead to the creation of interactive television, and is

already working on MPEG 7, an "intelligent" standard for information research.

Being able to speak many languages may have helped to inspire Chiariglione's quest for common computer standards. He started with Japanese, which he learned when he was twenty-six years old and went to get his Ph.D. in Tokyo. "Still today, Japanese is the language I know best, along with the standards," he says, referring to English, French, German, Spanish, and Portuguese. "I also speak Italian," he adds laughingly. "But I learned it at school, since at home we only spoke the Piedmont dialect."

The pet peeves of such an international man—even if he is so attached to his homeland—are relatively easy to imagine. He hates technologies that are covered by costly royalties. His ideal technology is the telephone. "Lift the receiver and talk with the entire world," he points out. "But if you buy a videocassette in the United States, you can't watch it in Europe, and vice versa, because it is made with a different system. This is why I'm not ashamed to say I work for human progress. When people can freely communicate among themselves, that is progress."

—Niccolò d'Aquino

LONDON

THE BIG DEAL MAKER

Dan Wagner is a hard-driving, fast-talking thirty-four-year-old whose audacious reverse takeover of California-based Knight Ridder Information in November created the world's largest on-line information provider.

Once dismissed as an arrogant whiz kid, Wagner has suddenly been catapulted into the big league of world information technology as chief executive of the giant \$825 million Dialog Corporation. He created it by merging his MAID company with Knight Ridder Information, the largest business information house in the US.

The new Dialog Corporation is the first major European force in an information technology industry dominated by US players. Dialog is also unusual in that it is run not by a geek in sneakers and a t-shirt but a good-looking guy in a well-cut suit and colorful tie.

"I'm a marketeer who happens to be in the computer business," Wagner said

last year. An unusually modest comment from a man noted for his supreme self-confidence and fierce determination to succeed.

Dan Wagner founded MAID in 1985 after being frustrated with leafing through newspaper clippings and journals while doing research as an advertising executive. Wagner explains that he said to himself, "Blimey, what if I were to put together a market research database. Then I wouldn't have to do all this work...It became an all-consuming passion. I was thinking about it every spare moment I had."

He quit his job with the ad agency, bought a secondhand computer, and plunged into a drive to create the software, raise the capital, and sell his revolutionary concept.



Once dismissed as an arrogant whiz kid, Dan Wagner is now CEO of the \$825 million Dialog Corporation.

The twenty-one-year-old Wagner spent six months closeted with programmers developing intelligent software to do the sorting, using keyword searches. With that in place, he then needed to find information providers who would agree to make their material available through his new company MAID, an acronym for Market Analysis and Information Database.

"When I started MAID in 1985, I tried to give the impression that I had plenty of money, but the reality was that I had to save for three weeks before ar-

ranging lunch with the first publisher I signed up to put information onto the system."

Parallel with persuading information providers was the task of finding clients willing to use this new research tool. "I grossly underestimated the reluctance of UK marketing and advertising compa-

Dan Wagner is a hard-driving, fast-talking thirty-four-year-old whose audacious reverse takeover of California-based Knight Ridder Information in November created the world's largest on-line information provider.

nies to take on something new. Over the first nine months we signed up just three accounts in the UK and five in the US."

Then he carried out what can be seen as a classic Wagner move. He responded to fierce price reduction by his competitor DataSolve, by sharply increasing the cost of his service. "Somewhere I'd picked up the idea of premium pricing. It was a brilliant move. We signed 25 new accounts in three months."

Wagner says that at heart he is a deal maker, not a numbers man, and it is years of frenetic deal making that got him where he is today.

One of Dan Wagner's greatest strengths is his willingness to gamble big and to win. It has helped him to climb to that pantheon of information technology leaders. Microsoft's Bill Gates visited his London offices and signed up MAID to provide business information for his Windows 95 software.

His first employer, hi-fi entrepreneur Julian Richer, never had any doubt that Wagner would succeed: "He absolutely believes in what he is doing. He'll close a sale if it kills him."

Wagner has selling in his genes. His grandfather was a fruit and vegetable wholesaler who was among the first to market frozen food in the UK. His father John was head of the British divisions of Volvo, Volkswagen, and BMW.

It is no surprise to learn that he left school at 16 to sell hi-fis, went back to do a couple high school subjects, and then launched himself into advertising.

Tales abound about this colorful character—how he turned up for the London Stock Exchange launch of MAID in 1994 wearing a Donald Duck waistcoat; his wild staff parties where the invitations instruct staff to “dress funky”; or, how he met his model girlfriend in Tokyo by pretending to be a reporter writing a story about European models working in Japan.

The climb to the top has been tough. Once, he refinanced his Aston Martin DB6 for \$130,000 to fend off a hostile takeover. But Dan Wagner is not in it for the money. “I’m not particularly motivated by money. What drives me on is this business.”

—David Lennon

DUBLIN

BIG MAC

Once the sleepy Irish town of Killorglin was known for its annual ritual of capturing a wild male goat from the surrounding mountains and, in ceremonies dating from pagan times, installing it on a high platform as “King Puck.”

Those ancient bacchanalian-style summertime revels still go on—now largely as fun-filled, five-day, eye-raising tourist festivals. But the “puck fair” is one of the few concessions the County Kerry town (population roughly 2,000) makes to the past. Instead, Killorglin’s 1998 claim to fame is as one of Europe’s leading high-tech centers, a thriving local economy, little unemployment, and now boasting its first traffic warden. Residents say it’s all due to one man: Brian McCarthy.

Affectionately known as “Big Mac,” McCarthy is the antithesis of a high-flying businessman. His ambling six-foot four-inch frame; his shyness; his quiet, deferential manner—all disguise a razor-sharp mind and vast entrepreneurial flair recognized throughout Europe and further afield.

Dublin-born McCarthy, son of a banker, began his working life as a lowly bank official. During the 1970s a prolonged strike closed banks throughout Ireland. McCarthy set out with a bus conductor’s bag and a handful of differ-

ent currencies and started a mobile bureau de change for tourists, exchanging Irish pounds for dollars, francs, deutsche marks, and other currencies.

That gave McCarthy his start-up capital and the ambition to create his own company. In 1981, he left his safe, pensionable job in banking to start his own foreign exchange business over a ladies’ hairdressing salon in his adopted town of Killorglin.

Within four years, he had opened bureau de change offices throughout Ireland, started processing tourist Value Added Tax (VAT) returns and won a ten-year contract to administer the Irish Prize Bonds—all directed from a disused train station.

Today, McCarthy’s Foreign Exchange Company of Ireland (FEXCO) is known throughout Europe and the Middle East. McCarthy’s company processes more than 70 percent of tourist VAT returns in the United Kingdom alone, ser-



Brian “Big Mac” McCarthy’s shyness and deferential manner disguise this Dublin-born entrepreneur’s razor-sharp mind and vast entrepreneurial flair.

vicing blue-chip companies such as Harrods, Liberty, Fortnum and Mason, Aqascutum, and Marks and Spencer.

The company operates a range of activities in the financial services area, including worldwide money transfers through Western Union, administers business tax refunds, provides international payments services, software devel-

opments, data processing, tele-services, endowment policy exchange, credit card management, stockbroking, and customer assistance for companies such as Coca-Cola and Guinness. McCarthy modestly predicts his firm’s newest venture, a computerized tourist reservations network, could become one of the biggest and most efficient in the world.

McCarthy’s companies now operate in twenty-two countries and employ more than 500 young, bright, articulate, and computer-literate people.

Last month, Irish Prime Minister Bertie Ahern traveled to Killorglin to open FEXCO’s new state-of-the-art office complex—offering official recognition of the part McCarthy’s company plays in the booming Irish economy.

The compact four-story building covers some 32,000 square feet and includes plenty of surrounding space for future development.

Bob Ryan, who worked alongside McCarthy in his early banking days, has remained a close friend and advisor. He says McCarthy’s success is based on a fine brain, his personal vision, his ability to motivate staff at all levels, and the facility to identify and hire the right people for key positions.

McCarthy abhors bureaucracy (all his staff, from the tearoom lady and the office cleaners to the highest-ranking employee, are encouraged to call him “Brian”).

He takes his meal breaks in the staff canteen. He enjoys classical music but can also be found joining in ballad singing in local bars. He participates in a range of sports activities and sporting organizations. He provides advice and financial support for a range of local charities.

Although he is a Roman Catholic, McCarthy is an ecumenist credited with being the driving force behind the building of Killorglin’s new Church of Ireland—the first Protestant church to be built in County Kerry for more than a century.

McCarthy belies his fifty-three years. He has a young mind, enjoys the company of young people, and says they, in particular, have largely contributed to his success. He downplays his own contribution, claiming that good luck has been the main ingredient. “You need to connect with the right people at the right time,” he says. “You need to have people who will work together with a common goal.”

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He says "good systems and a better product" make success. "Pricing doesn't matter that much if your system is reliable and reasonably priced, and the quality of customer-service is vital."

McCarthy already has some operations in the United States and Australia. He plans to develop those and is now setting his sights on Eastern Europe and Asia. (His multilingual staff are mainly Irish, but he also employs Japanese and Russians.)

"There is a huge and largely untapped source of computer-literate young people in Russia and the former Soviet world who can provide a new impetus for our operations," he said.

Although McCarthy's roots are firmly anchored in County Kerry, in the fringe of the Atlantic Ocean, his vision is worldwide.

—Mike Burns

ATHENS

SUPERFAST SUCCESS

Pericles Panagopoulos planned to retire at the age of fifty-five after selling the cruise company he founded, Royal Cruise Line, to Kloster Cruise of Norway for a reported \$300 million in 1990.



Pericles Panagopoulos's "SuperFast" concept has revolutionized the ferry business in Greece.

Panagopoulos's two ships, the 1,000-passenger *Cruise Odyssey* and the 472-passenger *Golden Odyssey*, were among the most luxurious ships afloat at the time. As one of the pioneers of Mediterranean cruising in the 1970s, he kept ahead of rivals by offering innovative facilities, flexible itineraries, and high-quality service.

But instead of just keeping a hand in the shipping business by operating a few cargo vessels, Panagopoulos was back four years later with a new concept for Greece's passenger shipping industry. He built a pair of new fast ferries that could make the crossing between Greece and Italy in less than twenty-four hours, allowing for daily departures in each direction.

The *SuperFast I* and *SuperFast II*, which came into service in 1995, outpaced the other thirty ships competing for truck and tourist traffic on the Adriatic crossing by a wide margin, cutting traveling time between Patras in Greece and Ancona in Italy by as much as eight hours. Panagopoulos also introduced the first computerized booking service for Greek ferries.

"The SuperFast concept has revolutionized the ferry business in Greece," says an Athens-based shipping analyst. "The ships are basically designed to serve truckers. They have all the facili-

ties for refrigerated vehicles, for example, but they also give passengers a comfortable trip with cruise ship standards of service."

Bucking the trend among Greek shipowners, who usually keep tight control of their businesses, Panagopoulos floated his company on the Athens stock exchange. It has become a blue-chip stock favored by institutional investors from abroad.

Panagopoulos started in passenger shipping at the age of fifteen, spending weekends and school holidays working for a relative, Eugene Eugenides, who founded a successful steamship company, Home Lines. Nineteen years later he went out on his own to set up Royal Cruise Line, but he always found time to operate his own fleet of cargo ships.

"Quality of service set the Panagopoulos ships apart, along with very high standards of maintenance, which can add another decade at least to a ship's life span," says a former associate.

Attica Enterprises says the SuperFast ferries captured a 43 percent share of truck traffic and a 49 percent share of cars and campers on the Patras-Ancona route this year. The company's turnover the first nine months grew 17 percent to \$43.9 million, while net profits increased by 27 percent to \$16.2 million.

Another pair of fast ferries, *SuperFast III* and *SuperFast IV*, built at the Kvaerner-Masa shipyards in Finland, is about to start operating. The new vessels will take over the Patras-Ancona route, while the others will be switched to the southern Adriatic route between Patras and Bari.

Most Greek exports to the EU—and an increasing amount of Turkish goods—travel by sea across the Adriatic in order to avoid delays at border crossings in the former Yugoslavia. About 1 million tourists also make the crossing, most traveling in their own cars.

Competition is sharpening now that Attica's main rival, Minoan Lines, has taken delivery of its second fast ferry from Fosen, the Norwegian yard. Minoan, based on the island of Crete, will start operating a third fast ferry on the Adriatic crossing this summer.

But with negotiations underway with several shipyards for starting construction of *Superfast V* and *Superfast VI* later this year, Attica Enterprises is likely to stay ahead.

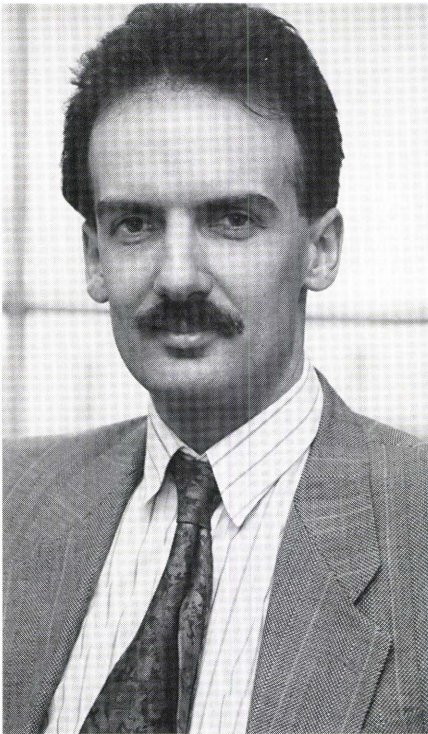
—Kerin Hope

MADRID

A BRIT TWIST ON SPAIN'S MAIL

Spotting a trend and identifying a need to be filled are mother's milk to entrepreneurs, and an Englishman who has built up a successful niche business in the postal sector in Spain is a perfect example of that rare breed.

A decade ago, Simon Chisnell was working at Britain's Royal Mail in the international department where his skills in the French and German languages were much appreciated when he landed in the rotating post of secretary of the European Federation of Postal Administrations.



Simon Chisnell, a former British Royal Mail worker, started EPCO, a company pioneering the way in international marketing by mail.

It was a plum job for an international civil servant, jetting off to Paris, Brussels, or Rome to argue rates, weights, and delivery times over long business lunches.

Chisnell and his colleagues also often talked long and hard about closer cooperation in handling the mail around Europe to give customers better service, but after several years of much talk and little action, he decided it was never going to happen.

"Royal Mail believed the same, and when I told them there was nothing to stop us from going into other countries

and grabbing some of the local postal business, they told me to go ahead," he recalls.

Chisnell chose Spain, as at the time he was wooing a lovely, young Spanish woman who would eventually become his wife, and with a consultancy contract from Royal Mail in hand, he set up a business called EPCO for European Postal Consultancy in Madrid.

"What my company does is ship bulk mail abroad from Spanish magazine publishers, catalogue sales firms, direct mail companies etc. Business has skyrocketed, and I now have several dozen clients," Chisnell said.

Among those are Spain's biggest selling magazine *Hola!*, a company that produces training videos, and a wine club that sends bottles of the country's premier vintages to customers in Britain and Germany.

"Right now I am speaking with a company which wants to sell gourmet Spanish food and drink, like wine, ham, and cheese, overseas through the Internet."

"This is going to be the future of retail marketing in Europe, distance selling through mailings, the Internet, and direct-response television from one point. No need for offices or warehouses in each country," he explains.

EPCO also handles foreign firms coming into the Spanish market and needing a hand in logistics and marketing. "Companies which want a 'Spanish look,'" Chisnell says.

—Benjamin Jones

LUXEMBOURG

THE BUSINESSMAN OF STEEL

Joseph Kinsch is one of the most powerful men in Luxembourg and a commanding figure throughout the European steel industry. He's also one of the most reclusive.

Mr. Kinsch, sixty-four, is the chairman and chief executive and a thirty-eight-year employee of the giant steel company ARBED. Not known for making headlines, per se, Mr. Kinsch made a big splash last year in Luxembourg business circles when he masterminded a merger between ARBED and the state-owned Spanish steel company Aceralia (formerly known as CSI).

Effectively, the deal creates a new steel making group that catapults ARBED to the top of the European

league, making it bigger in terms of production than any of the giant corporations of Britain, Germany, and France. Only in Japan and South Korea are there larger producers.

The deal has Mr. Kinsch's fingerprints all over it and neatly caps his career as ARBED's financial wizard. But, like many serious money-men, Mr. Kinsch is not one to break into a song and dance over things like this.

What makes the deal particularly sweet is that while ARBED becomes the controlling partner, the move has cost it practically nothing in cash. The Luxembourg company has taken a 35 percent equity stake in Aceralia, with an option to buy a further 15 percent, while the Spanish producer gets in return just less than 10 percent of the ARBED equity and somewhat larger stakes in its trade and marketing subsidiaries and in its interests in Brazil.

The deal has Mr. Kinsch's fingerprints all over it and neatly caps his career as ARBED's financial wizard. But, like many serious money men, Mr. Kinsch is not one to break into a song and dance over things like this. His reserve and modesty are remarkable even in a country where such qualities abound.

"You have to dig information and opinions out of him with a trowel," says one of the few journalists to have interviewed the ARBED chief in recent years, adding "Richard Branson he ain't."

Comments in the technical press nevertheless suggest that the Aceralia deal represents a "coup" for the Luxembourg company. "It gives ARBED access to new, rapidly growing markets in Spain, especially in the flat products sector, with consolidation elsewhere in Europe, and it neatly complements the company's product line—all at a pretty cheap price," wrote the *Motal Bulletin*.

The announcement of the deal came as a major surprise last summer, given that the French company USINOR was the strong favorite to do a deal with the Spanish government over Aceralia and was offering cash as part of the bargain. How did Mr. Kinsch do it?

The best guess is that he won by pledging to maintain production and employment levels in Spain—a bold promise in that most mergers of this kind are normally put together precisely to make cuts.

But the approach is typical of ARBED, which has traditionally kept its foreign subsidiaries on a long tether and not used them as cannon fodder when unemployment looms. The French company was apparently not trusted by the Spaniards to behave as well.

ARBED has now added Spain to a market reach that already extended across northwest Europe taking in the Benelux countries, Germany, and France. The new group's annual raw steel production will be about 16 million tons this year, rising to 18 million when a new minimill in northern Spain is completed shortly.

Since the ARBED/Aceralia deal, the

remaining equity in the Spanish company has been traded off to smaller Spanish steel groups or sold to the public, completing the final privatization in the European steel industry. A final irony though, the largest shareholder in ARBED, with 27.9 percent of the equity, is the Luxembourg government.

—Alan Osborn

VIENNA

BUILDER, BUSINESSMAN, POLITICIAN

Richard Lugner marches to the beat of a different drummer. The head of one of Austria's most successful small construction firms, he has made his millions focusing on renovation and reconstruction projects, rather than building

towering skyscrapers and sprawling apartment complexes.

He built a shopping center in a working-class neighborhood about a half mile from Vienna's most popular shopping street, yet business is booming and not a storefront stands vacant.

His special guests for the city's famous Opera Ball have ranged from Sophia Loren to Grace Jones to Sarah Ferguson, the Duchess of York.

Now, he has set his sights on the political arena, making a bid to become Austria's next president in elections scheduled for April.

With Austria assuming the European Union presidency in the second half of the year, the introduction of the euro in 1999, and the EU's eastward expansion in the coming decade, "they all are economic problems, not political problems," Lugner said, arguing that his experience makes him a prime candidate for the job.

NEWSMAKERS

With clockwork regularity, Switzerland changes its president every year. Each of the seven federal ministers take a turn at the helm of the Swiss confederation. On January 1, **Flavio Cotti**, a fifty-eight-year-old Christian-Democrat, succeeded to the presidency. It was the second time around for Cotti; he first held the post in 1991.

Last year, as minister of foreign affairs, Cotti was among those who tried to limit the damage caused to the Swiss national reputation by the Nazi gold affair. Now he has fixed himself another goal that would change Switzerland's international status forever. Cotti wants to convince his fellow citizens to join the European Union. "When a country does not belong to the United Nations or the European Union, it is punishing itself," he declared in a recent interview.

For a one-year term, Cotti has set himself a difficult challenge. Even though he has the majority of Switzerland's politicians, employers, and unions on his side, the last word belongs to the Swiss voters, and they have always refused to consider joining either the UN or the EU. With the economy finally making a comeback after several years of stagnation, it will take a lot of persuasion before they change their minds.

•••



Flavio Cotti takes a second turn at the Swiss presidency.

Playing the stock market for the price of a sandwich and a cup of coffee, with potential returns of a 100 million percent, sounds like a dream but is now virtual reality. In December, three enterprising Norwegians launched **Global Stock Games** on the Internet.

For a basic \$5 fee, paid in advance by credit card, punters can choose one of fourteen equity markets to play. When a listing of fourteen stocks quoted on that market flashes onto their screen, they

have to predict whether those equities will rise or fall or stay the same in the course of the next day's trading. Whoever gets it right, shares in a jackpot representing 70 percent of all the money collected on the Web site that day. Global Stock Games keeps 30 percent of the takings to cover operating costs and give itself a profit margin.

The idea for the stock market game dates back to 1993, when the Norwegian newspaper *Norge pa Vei* sponsored a

Things didn't come easy for the sixty-five-year-old Lugner. He last saw his father, an attorney, on Christmas Day 1942. The elder Lugner headed out that day for the Russian front and was killed in the war.

Growing up in Vienna, Lugner persuaded his mother to enroll him in technical school, where he studied structural engineering. After graduation he went to work for a construction firm. In 1962, he and a friend landed a job to build 300 apartments. With that work under his belt he set up his own company, Baumeister Ing. Richard Lugner.

In the early days, there were times when a project was wrapping up on Friday afternoon, and Lugner didn't know where he'd send his crews on Monday morning. But through hustle, connections, and a healthy dose of luck, he always managed to have a project lined up by the time they reported for work.

Today it's a different story. With an average of 600 employees and offices in Vienna and Graz, Lugner's firm juggles eighty or ninety projects at a time.

Richard Lugner marches to the beat of a different drummer. The head of one of Austria's most successful small construction firms, he has made his millions focusing on renovation and reconstruction projects, rather than building towering skyscrapers and sprawling apartment complexes.

"I'll always be different from the others," he said. While other small construction firms may seek out \$2 million projects, his work is often in the \$400,000 range. And other firms might take three years to finish their work, while most of Lugner's take three to nine months to complete. "There's not so much risk making small things," he said.

Yet even these small projects can bring in big bucks. Last year, the firm's turnover increased 28 percent, to \$66.5 million.

And Lugner doesn't shun bigger jobs. Right now his firm is building a \$2 million office building for Die Erste Bank and Giro Credit near the stock exchange and is renovating the Stafa department store on Mariahilfer Street.

Lugner also owns Lugner City, a five-story shopping center and office complex that opened in 1990. Until last year, Austrian shops could remain open in the

contest asking its readers for innovative ways to encourage general interest in shares. The winning entry was the Global Stock Games concept.

It took some time to find a backer for the scheme, but it was eventually picked up by **Steinaar Mikkelsen**, Norway's main importer and distributor of wines and spirits. His two partners are **Nikolai Prydz**, marketing director of Global Stock Games, and **Jon Moslet**, editor of the company's Web site (<http://www.stockgames.com>).

Although the game is a purely Norwegian invention, it was set up in Switzerland because the pragmatic Swiss were the first to accept that it was not outright gambling but also a test of skill and knowledge. "I think the Swiss authorities realized that if what we were doing was gambling, then so were the Swiss stock markets and that, of course, just couldn't be true," says Prydz.

For now, the daily jackpot averages a modest \$5,000, but the three founders have high hopes of multiplying those figures by one hundred. They are aiming at 400,000 visits to their site everyday, with the majority of people who decide to play probably being stock market neophytes. With each game allowing 4,782,969 different combinations, anyone who plays totally at random stands a one in 4.8 million chance of winning. But there are bound to be quite a few market experts taking a flutter at Global Stock Games, too. For them, the game is a rare chance

to do some insider trading that is legal.

•••

Knut Kjaer has a big problem, but it is hard to work up much sympathy for his plight. As project manager of the **Petroleum Fund at Norges Bank**, he has to help find a safe home for Norway's bubbling oil billions. The fund totals \$15.4 billion so far and is predicted to grow to \$60 billion by 2001. As much as \$6 billion is being unleashed on the global equity market, but no one knows exactly where.

Norway is the world's second-largest oil exporter and has wondered for some time now how to invest its vast petroleum profits without upsetting the neighbors or its own conscience. The minority government led by **Kjell Magne Bondevik**, a former priest, made an election promise to set aside a large slice of the oil fund for ethical investments, whatever those may be. The oil and energy minister, **Marit Arnstad**, would like to see 10 percent of the fund invested in ecologically friendly concerns, seemingly unbothered by the irony of his proposal since oil drilling is hardly an environment enhancing activity. Environmentalists may be outraged at the thought of such dirty money, but they may want to take it anyway.

•••

In his native Norway he is as well known and is read as often as **Henrik Ibsen**; in Germany, where he has lived for the last twelve years, **Ingvar Amb-**

jornsen, forty-one, is still anonymous enough to be able to work in peace and quiet.

He has published twenty-six books since he started writing sixteen years ago. His career as a cult author who represents people living on the edge of society began with his first novel, a story based on his own experiences while working in a psychiatric hospital. Two years later, *The Last Deal* (1983), a novel about drug dealers and users, did not just make it to the top of the bestseller list—it also won the distinction of being the most-stolen book in Norway. It was followed by a steady stream of at least one book per year offering tales of squatters, small-time criminals, addicts, and misfits of all kinds. His latest book, a collection of short stories, raises the total number of copies of his works in print in Norway to 900,000.

Ambjornsen is unimpressed with his literary fame back home. He lives quietly in Hamburg with his wife, who has translated most of his books into German. Collecting fine wines is his one hobby, but most of his time is consumed by his writing. He contributes a weekly column to *Verdens Gang*, Norway's biggest daily paper, and works tirelessly on his books. He attributes his prolific literary output to "an exaggerated need for self-confession, probably," but adds that "basically, writing is a pretty cowardly way to share your feelings. You can think things over,

afternoon only one Saturday per month. While everyone else stayed open late on the first Saturday of the month, Lugner City was open late on the second Saturday, bringing in strong revenue for the center and its shops.

Last year, Lugner City generated \$67.6 million, a 3 percent increase from the previous year.

He also has raised interest by hiring celebrities like Fergie and Sophia Loren for an autograph session at the shopping center, then inviting them to the Opera Ball.

His choice of guests has raised eyebrows in traditional Viennese society, but Lugner remains unperturbed. "My success is my fun, not my money."

—Susan Ladika

PARIS

AN ENTERPRISING FREE SPIRIT

With unemployment holding steady around 12.5 percent, it takes a lot of enterprise to be a successful French entrepreneur these days. Olivier Cadic,

thirty-five, has come up with an original solution to the morose business climate currently prevailing in France.

In the past two years, he has made a lot of headlines. The terse question

With unemployment holding steady around 12.5 percent, it takes a lot of enterprise to be a successful French entrepreneur these days. Olivier Cadic, thirty-five, has come up with an original solution to the morose business climate currently prevailing in France.

"Hero or Traitor?" in the London paper *City to Cities* pretty well sums up the contradictory opinions he has aroused by moving part of his high-tech software and

printing company, Info-Elec, from Paris to Ashford, Kent, in southern England.

Mind you, he is not the only French CEO to take his business elsewhere. Growing numbers of them are crossing the Channel to escape France's restrictive legislation and hefty taxes, but most of them leave quietly. What makes Cadic different, is that he went public with his decision because he did not want to "give the impression of deserting." If he could no longer create jobs in his native France, he explained, he would do it in England and make enough noise that just maybe the French government would hear "the alarm bell" he was ringing and do something about the crippling costs that he cites as his reason for leaving.

Not that Cadic is a quitter. When he started his company at age twenty, he was earning only \$750 a month, and he had to spend the first six months working his way through the Paris phone book to drum up business. But he persisted and built up a healthy company with a staff of twenty-five and annual net profits of \$90,000—a made-in-France success story to be proud of.

edit them, express them again, more clearly. It's ideal for shy people like me."

•••

Five mice per second, which works out to more than 30 million of them a year—the man responsible for such a massive infestation is Swiss-born **Daniel Borel**, forty-seven, CEO of **Logitech**. He is the undisputed mouse king of the world, but the little critters over which he rules only scurry around computers.

Borel, produces mice for eighteen of the twenty top computer manufacturers, heavyweights like **IBM**, **Apple**, **Hewlett-Packard**, **Toshiba**, and **Compaq**. Every year eighty to ninety different models are designed in Logitech's research and development unit in the Silicon Valley and manufactured in its production plant in Taiwan. The company employs 2,800 people worldwide, and last year had a turnover approaching half a billion dollars.

Borel launched Logitech in 1981, just a few years after finishing his degree at Stanford. Before that, he studied in Lausanne, Switzerland, and before that, he spent his teenage years becoming a champion water skier. In California, in the seventies, he watched a new tide of

technology gathering momentum, preparing to sweep the world. "At the time, the world was divided between those who were going to ride the wave and those who were going to miss the boat," he remembers.

He decided that he wanted to be among the ones surfing the crest. When he founded Logitech with a few friends, IBM had just invented the personal computer. Borel tried to sell his mice everywhere, particularly to **Microsoft**, which was already a legend in the field. For three years, **Bill Gates** turned him down. In 1984, to try and survive, Borel placed an ad in *Byte* magazine, offering his mice at a rock bottom price of \$99, instead of the \$159 his competitors were asking. It was the turning point. A flood of orders followed, and within a few months Logitech signed its first contract with Hewlett-Packard.

Borel now divides his time between Switzerland, California, and London, where his wife and three children live. He has started to diversify and has become the leading producer of scanners for home use, even ahead of bigger competitors like Hewlett-Packard. Just recently, Logitech has further branched

out into making the small microphones and cameras that can be hooked up to computers.

Microsoft is no longer a customer Borel is trying to court, just a bit of competition that his mighty mice have long since left in the dust.

•••

The world's number one tennis player, **Martina Hingis**, eighteen, has Olympic ambitions but not just in one sport. The Swiss prodigy, who is defending her top spot on the tour this year with the help of former world champion **Chris Evert**, wants to represent Switzerland at the Olympic Games in both tennis and show jumping.

Last year her passion for riding cost her an important tennis title. Undefeated until she took a tumble from a horse and required surgery on her left knee, Hingis lost the first tournament after the fall, the French Open, to her fellow teenager and close friend, **Iva Majoli**. "I was still recovering from my surgery when I went to Paris and wasn't playing my best," admits Hingis. "Winning the tournament is my biggest goal for 1998. That and not falling off my horse."

—Ester Laushway

But in 1996 Cadic found out that he was being steadily undersold by British competitors and did a little investigating. The arithmetic was quite simple. In France, an employer has to pay approximately 45 percent social charges to the government for every salary on the payroll; in the UK the equivalent costs only amount to about 10 percent. Cadic calculated that on British soil his profits would be nearly four times what they were in France.

"So I had a choice," he says. "Either I could stay, gradually price myself out of the market, and have to start laying off staff, or I could go somewhere where I can be competitive, keep on expanding, and create new positions."

He went, taking fifteen of his staff with him and hiring two more employees in England. Eager to share his relocation experience with other struggling French businessmen, Cadic set up an information service called La France Libre... d'Entreprendre (French Free Enterprise). The name is a tongue-in-cheek reference to General de Gaulle's World War II London-based resistance movement. Cadic's organization provides small to medium-sized companies with advice and help in setting up operations outside France for an annual membership fee of \$90. From forty original members in September 1996, it has grown to more than 300 and has helped some forty French companies set up shop abroad. [Not all of them are located in Ashford, the British city where the Eurostar train makes its first stop after leaving France, but enough have come for the local businessmen's pub "The Tickled Trout" to be jokingly renamed "The Froggy Catcher."]

Cadic currently divides his time between England and France, and preaches the free enterprise gospel with the fervor of a true visionary. To those who think of him as a defector, he answers that he is ready to return just as soon as some constructive changes have been made in France. "What I wanted to let other French entrepreneurs know is that we can rebuild here in England, in a region that is open to free enterprise, a network of French companies aimed at the French market, and that one day, we will come back! I think it's important to show that there are some people who never give up, who carry on, in spite of all the obstacles in their way. For the moment, we're building elsewhere, but we will always be ready to come back."

The British press naturally loves him and has tried to hang the label of Euro-skeptic on him. But Cadic is having none of that. "It is thanks to the European Union that I've been able to do what I've done. If there were no EU, I wouldn't have been able to move the headquarters of my company to England. There would have been no free circulation of capital and labor. For me, Europe means freedom."

—*Ester Laushway*

L I S B O N

PIZZA TOPS EMPIRE

Ibersol became Portugal's first quoted catering company in November when domestic and foreign investors gobbled up 49.9 percent of its shares in the hope of profiting from one of the country's fastest growing service industries.

Like TelePizza in neighboring Spain—a star performer since it came to the Madrid stock market in late 1996—Ibersol is betting on southern Europeans' growing appetite for fast food and new dining experiences. By exploiting internationally known brands, such as Pizza Hut and Kentucky Fried Chicken, and concepts that it has invented, such as Pasta-Caffe and its Brazilian restaurant chain, O Kilo, Ibersol has seen its sales go from \$2.15 million in 1990 to almost \$43 million in 1997.

From sixty-five restaurants now, Ibersol plans to open new outlets at the rate of one every twenty-five days through the year 2000. It's aiming for more than 100 by then, with about half of them Pizza Hut units.

Ibersol is the brain-child of Alberto Teixeira and Antonio Pinto de Sousa, who built the business under the sheltering wing of Sonae group with interests ranging from media through property and retailing to building materials. Both men entered the group in the 1980s, when it was establishing its reputation as Portugal's most aggressively managed and fastest growing conglomerate under Belmiro de Azevedo.

De Azevedo, himself a self-made man who battled for and won control of Sonae in the 1980s, usually likes to maintain control over his holdings. But as part of the reorganization that led to the share sale in November, Teixeira and de Sousa got the chance to profit directly from their company's projected growth, re-

ceiving a 25 percent stake. Other employees also could take part in the share offering on preferential terms.

Since Imparsa is retaining slightly more than 25 percent of the company, Ibersol will continue to benefit from its links with the Sonae group. One of the major factors in its success so far is its restaurants' location in shopping malls that are built and managed by Sonae Investimentos, Portugal's largest developer of malls. It recently opened the largest in the Iberian peninsula, Colombo Center in Lisbon.

With new sites thus assured, Ibersol is basing its sales forecasts on the fact that Portugal has the lowest penetration rate for restaurant chains in the European Union. Chains currently account for 4.5 percent of the market, against an EU average of 14.6 percent.

For now, Pizza Hut remains Ibersol's money maker, generating \$27 million in revenue last year. It also introduced a nationwide telephone number for its delivery service, bolstering its leadership in what is one of the fastest growing segments and the one that has driven TelePizza's growth in Spain.

In a country in which tens of thousands of small companies have little access to capital, Ibersol proves that being part of a larger group doesn't rule out entrepreneurial success.

—*Alison Roberts*

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ARTS & LEISURE

BOOKS

Europe Adrift

By John Newhouse; Pantheon Books; 339 pages; \$28

The European Union is on the verge of two huge steps—the launching of a single currency and expansion into Central Europe—which represent the most ambitious bid to unify the continent since the move to European integration began in the 1950s.

The aim is—for the first time in history—to unite the whole of Europe peacefully, rather than by force of arms, with a closely knit group of countries linked in an economic and monetary union at the center.

For most of the 1990s, the Europeans have repeatedly affirmed their determination to press ahead with this huge undertaking, which is obviously of vital importance to US economic, financial, and security interests.

Yet many Americans remain unconvinced that Europe will actually carry through its plans and are skeptical of its chances of success were it to try to do so.

One of those skeptics is John Newhouse, a distinguished American expert on European and transatlantic affairs, who is currently a guest scholar at the Brookings Institution and a consultant to the State Department in Washington.

Mr. Newhouse has the distinction of having, some years ago, written the first readable book about what

was then known as the European Community. *Collision in Brussels* offered a vivid account of French President Charles De Gaulle's clash with the European institutions in the mid-1960s.

One would expect any work by Mr. Newhouse to be well-written and to reflect the opinions of the intellectual, Atlanticist US foreign policy establishment of which he is a member. His latest book *Europe Adrift*, fulfills both those expectations.

But while the book benefits from a large infusion of the kind of enlightened Atlanticism that has long served European interests so well as a component of US foreign and security policy, it also suffers from the blind spots of that viewpoint.

Pragmatic Anglo-Saxons, both in America and Britain, have always had great difficulty understanding the dynamics of the drive toward closer economic and political integration in Europe. They tend to see it in practical terms of trade and economics—and miss the visionary, conceptual element that is so germane to the continental, but not the Anglo-Saxon, mind-set.

That blind spot is magnified, at least in the United States, by a tendency to see the European Union as a creation of US postwar diplomacy, made possible by the Marshall Plan and the American security umbrella.

Mr. Newhouse writes that NATO and the EU are “two organizations that were set up for the same purpose—to provide security and stabil-

ity,” and that the US intervention in the Anglo-French Suez invasion of 1956 provided the energy that led to the signing of the Treaty of Rome in 1957. That is the truth, but not the whole truth.

What is missing is an appreciation of the importance of the visionary fire that inspired Europe's founding fathers in much the same way as America's. That fire has now dimmed, but its embers are still glowing, most of all in Brussels, which Mr. Newhouse's book almost entirely ignores.

Failure to understand the conceptual commitment to European unification among continental policymakers (if not the general public) has constantly led Anglo-Saxons to underestimate the chances of the EU achieving its objectives, as Mr. Newhouse does.

So has the continuing tendency among US foreign policy analysts to see the world through a politico-military prism. If the EU is judged solely by its politico-military efforts, in Bosnia, for instance, or in trying to forge a common foreign and security policy, its success rating is not going to look very high.

Thus Mr. Newhouse pours great bucketfuls of cold water on both economic and monetary union and the EU's plans for enlargement, suggesting that the single currency may have to be postponed and that the Europeans may “hide behind” NATO enlargement to defer the EU's eastward expansion, perhaps indefinitely.

The single currency, Mr.

Newhouse writes, is “a flawed project” and “a massive distraction,” of which the importance has been greatly overstated. Reflecting a fairly common view in Washington, Mr. Newhouse argues that it will not help Europe to create jobs and trim its overburdened welfare states, but it could make eastward enlargement more difficult. Both judgments would be rightly questioned by European enthusiasts.

Mr. Newhouse's negativity appears to have been heightened by a tendency to seek the views of skeptics more than those of the enthusiasts and by the fact that much of his intensive reporting was done when there were more questions marks over the single currency than there are now.

What emerges is a gloomy picture of an aimlessly drifting European Union, which “crested” in 1989 and is now in a period of decline that is likely to continue.

Many of Mr. Newhouse's criticisms are accurate. It is true, as he writes, that “Europe is now redefining itself in ways that most Europeans don't recognize,” because what is emerging is unprecedented and that there is a glaring absence of political and moral leadership.

But at a time when the EU is taking on its biggest challenges in forty years—perhaps ever—Mr. Newhouse has underestimated the amount of steam that is driving the good ship Europe forward.

—Reginald Dale

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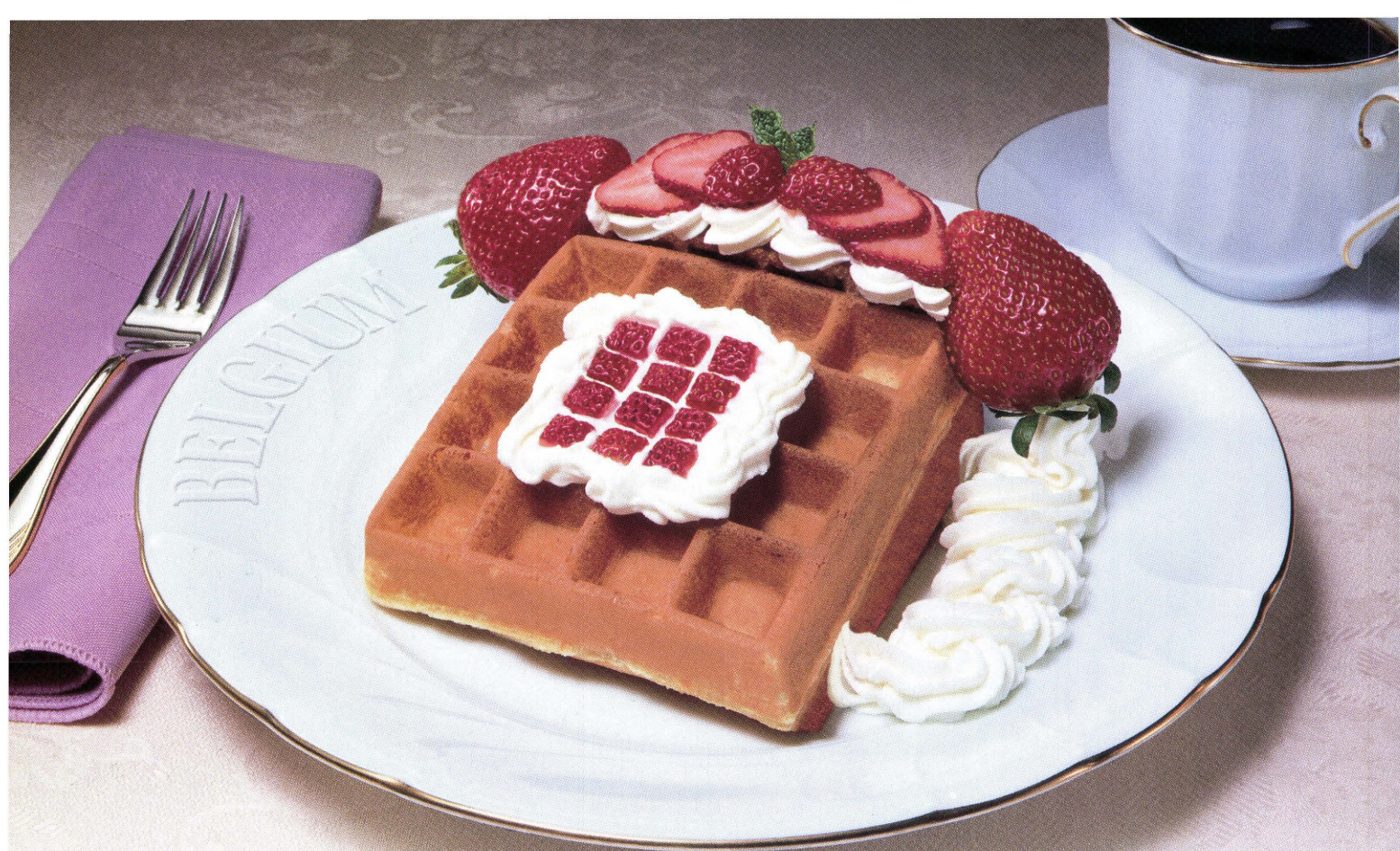
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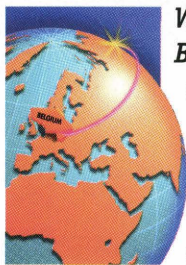
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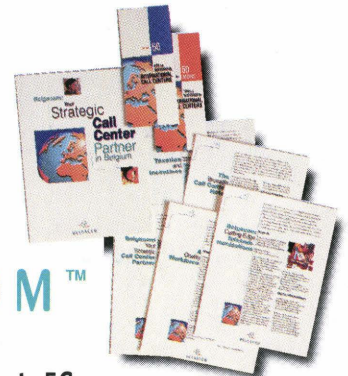
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