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PIEDMONT
AN OPEN REGION FOR FOREIGN INVESTORS

Interview with Andrea Pininfarina, Chairman of ITP Agency for Investments in Turin and Piedmont

Andrea Pininfarina, 40, is a native of Turin and for the past year has held the post of managing director of Pininfarina Industries, one of Italy's leading automobile designers and manufacturers. Also president of the Federation of Mechanics (Federmeccanica) and member of the executive board of the Italian industrial federation Confindustria, he became the new chairman of the Agency for Investments in Turin and Piedmont (ITP) in June.

Q: Mr. Pininfarina, why should a foreign company choose Piedmont for setting up a successful European base?

A: Piedmont offers three main competitive advantages to foreign investors: its advanced technology, the quality of its work force, trained in excellent schools and universities, and organizational expertise which is the result of the region's longstanding, widespread experience in industry and business.

Mind you, competitive advantages are never to be taken for granted, and even having several on your side does not mean victory from the start for foreign direct investments over other competitive European regions.

ITP functions along the same lines as other economic development agencies, such as those in France and in the UK, for example. So, I think an important part of maintaining and improving a competitive edge over other regions is to promote our particular advantages, as clearly as possible, to international investors.

Q: Do you think that the three key factors you mentioned are sufficient to attract new investments into the region?

A: No, attracting investments is not only based on competitive advantages. A potential investor must also be able to benefit from these resources as quickly and economically as possible. In other words, to attract investments it is necessary to have public authorities working together, in order to minimize difficult administration and settlement timing. ITP is a concrete sign of the commitment of the public administration in Piedmont to encourage inward investments.

Q: Just recently, Motorola signed an agreement with the Polytechnic of Turin to set up a research center for mobile telephones. This choice confirms the great tradition—and the great attractiveness—of Turin in the telecommunications and information technology sector. What other industry areas offer favorable conditions for international investors?

A: Information technology is a very important cross-border sector and Piedmont has all the right cards to play in this field. I think, in any case, that the two most promising areas are telecommunications applications, which belong to a rapidly growing worldwide market of services, and the application of electronics and information technology to other industries.

By using electronics and information technology, the traditional design of products can be changed, thereby affecting the entire manufacturing sector. Just think of how electronics is changing the automobile industry, and how much innovation it will bring in the future. We will witness a strong growth of applied electronics within various industrial fields.

Piedmont has everything it needs to be in the vanguard of this trend, which is destined to develop and enrich the region.

ITP

AGENCY FOR INVESTMENTS IN TURIN AND PIEDMONT
AGENZIA PER GLI INVESTIMENTI A TORINO E IN PIEMONTE

Q: Just a last question: What type of experience has the Agency had in its first year of activity?

A: The ITP agency was established to offer complete assistance to foreign investors interested in setting up a business in Piedmont. To date, we are the only agency in Italy able to assure—free of charge, by the way—this kind of comprehensive service. That is a competitive advantage very dear to ITP and one we intend to keep on improving.

For this reason I invite investors to contact us without hesitating: in every phase of project location and development, from supplying initial information to defining financial incentives and credit inducements, to the after-care of completed projects, ITP will be there to help them. I give you my word as an industrialist on that!

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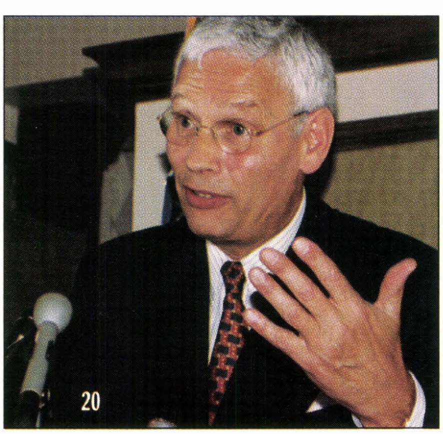

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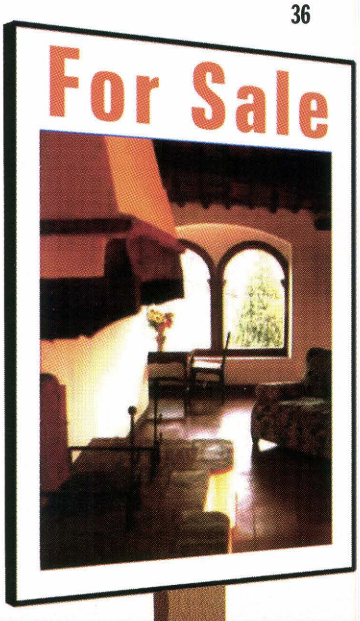

wel!come to europe

Tyrol has a lot to offer businesses:
A vigorous economy, international infrastructure, world-class financial and economic services, highly-qualified workforce, trade and industrial parks, a central location in Europe, an efficient infrastructure and high standard of living.

Come contact tyrol

Vigorous economy:
Tyrol is not only a province of natural beauty and tourism. Tyrolean businesses are establishing strong footholds in international markets, exporting more than 50% of total production. A dynamic economy is backed up by heavy investment and high productivity levels.

An international infrastructure:
The international highways „Inntalautobahn E60", „Brennerautobahn E45", as well as others, connect Tyrol with other European centres. Tyrol occupies a strategic location for passenger transport and international commodity traffic. The same applies for the railway network, and Innsbruck international airport offers connections to all of Central Europe's airports.

Highly level of training:
Training standards are extremely high. The region boasts nine schools of engineering, 10 commercial colleges, the University of Innsbruck and a variety of training and further education institutes providing a high level of education in the Tyrolean workforce.

Tyrol in numbers:

Surface:	12.647 km2
Inhabitants:	654.000
Capital:	Innsbruck
No. of households:	231.100
No. of businesses:	32.085
Employees:	251.820

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Tech-Tirol can assist you in starting up your business and promoting your business activities in Tyrol. Information and counselling in selecting the right location - Advice in financing and financial support - Minimal bureaucracy through concentrated processes - International network (EU, EEA) - Industrial parks

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TECH-TIROL Technology Center GesmbH
Eduard-Bodem-Gasse 5
6020 Innsbruck, Austria
Tel.: 0043/512/36 40 00
Fax: 0043/512/36 40 00-20
E-Mail: office@Tech-Tirol.co.at
http://www.tech-tirol.co.at/tech-tirol

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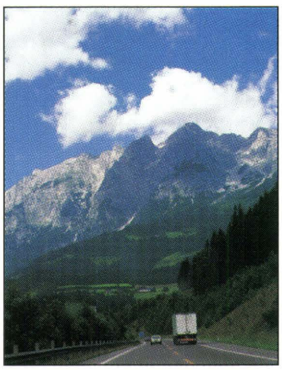
wel!come to tyrol

Letter from the Editor

"Making Europe fit" will be Austria's theme of its six-month presidency of the European Union as the Alpine nation takes over the chair from the United Kingdom on July 1. In an exclusive interview, Austria's federal chancellor, Viktor Klima, says, "We want to make Europe as fit for employment as for the euro, the common European currency. Our most important concern we want to emphasize during our presidency is employment."

Austria is in an important position as Europe enlarges eastward. Austria's state secretary for foreign affairs, Benita Ferrero-Waldner, comments that "Austria is the country rightly placed for enlargement speaking from our geopolitical, historical, and traditional position. Enlargement toward our neighboring countries is, finally, the accomplishment of Europe."



Austria: a crossroads of the new Europe.

EUROPE looks at Vienna as a hub for international firms doing business in Central and Eastern Europe. American companies view Austria and Vienna, in particular, as "a terrific platform to do business in the East," according to US Ambassador to Austria Kathryn Walt Hall.

Europe's Eastern enlargement is one of the essential goals of the European Union. The EU has started official negotiations with six candidate countries: Czech Republic, Cyprus, Estonia, Hungary, Poland, and Slovenia. Although the process for joining the EU won't take place until the next century, European Commissioner Hans van den Broek says, "The process is really taking shape."

EUROPE looks at the enlargement process and the progress and the problems that the prospective new members are experiencing as they get ready to meet all the requirements for EU membership.

Our Vienna correspondent, Susan Ladika, profiles Slovenia and Slovakia and reports that the two countries are going in quite different directions economically and politically.

In the beautiful mountains of Salzburg resides an internationally known educational institution with an American connection. The Salzburg Seminar boasts an impressive "part-time faculty," which has included numerous influential figures, from First Lady Hillary Rodham Clinton to Supreme Court justices to heads of state.

In our travel section, Kenneth Danforth offers a "different" European vacation, taking our readers on an unforgettable journey through Croatia.

Finally, *EUROPE*'s Capitals correspondents look at real estate in each of the EU countries.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

EUROPE

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Robert J. Guttman

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VIENNA: Susan Ladika

Design
The Magazine Group, Inc./Glenn Pierce

Advertising Information
Fran Grega tel. (410) 897-0297
fax (410) 897-0298

Interns
Celeste N. Legg
Jacqueline Ross

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

EYE ON THE EU

Profiling Personalities and Developments Within the European Union

During his ten years as president of the European Commission, Jacques Delors made an incalculable contribution to European integration, leaving his mark on almost every aspect of the European Union's work. Of the nine men who have held the post, only the founder—Walter Hallstein—has played as significant a role.

When Delors' final term ended, many of his admirers hoped that he might be able to continue his service to Europe by becoming president of his native France. Opinion polls strongly suggested that he would win, but for a mixture of personal and public policy reasons, he declined to stand. Perhaps he doubted whether, after ten strenuous years in Brussels, he still had enough puff to survive seven years as president of the French Republic. Therefore, the way was left open for Jacques Chirac to emerge as François Mitterrand's successor.

Now Chirac has done his erstwhile rival the signal honor of proposing him as chairman of a committee of 'wise men' (and presumably women) to advise the EU heads of government on what institutional changes will be necessary before the candidate members from Central and Eastern Europe can take their places within the European Union. These institutional questions were meant to be settled at last summer's Amsterdam summit, but the differences of opinion, largely but not exclusively between the larger and the smaller member states, were so great that decisions were put off, and the Amsterdam Treaty contains no reference to them.

The issues involved included: how large should the Commission be in the future; should each country continue to have the right to have a commissioner; what adjustments should be made to the weighting of votes in the Council of Ministers; and should qualified majority voting be extended to all but the most fundamental questions.

Chirac believes it was a mistake to duck such decisions at Amsterdam and wants his fellow national leaders to settle these matters with a minimum of further delay. For this purpose, the choice of Delors to head an advisory group could hardly be better. Undoubtedly a visionary, he is also a master of nuts and bolts and knows the EU system—both its faults and its virtues—inside out. He is also someone used to setting—and keeping—tight deadlines.

At a recent press conference held by the think tank Notre Europe, of which he is chairman, Delors was asked if he would accept Chirac's call if he was formally invited. He indicated that he would but only if he was given a clear mandate and received the support of the other fourteen heads of government.

He has not waited upon the call but has already come out with a bright idea about how the next president of the European Commission is to be appointed. The choice will probably be made in June 1999 at a summit meeting in Germany, but the nominee will then need to be approved by the European Parliament under new powers granted by the Amsterdam Treaty.

Delors was asked if he would accept Chirac's call if he was formally invited. He indicated that he would, but only if he was given a clear mandate and received the support of the other fourteen heads of government.

The last time the heads of government had to make an appointment turned into a fiasco. Meeting at Corfu in June 1994, eleven out of the then twelve member states wished to nominate Belgian Prime Minister Jean-Luc Dehaene. British Prime Minister John Major promptly vetoed their choice, while the other favored candidate, the Netherlands' Ruud Lubbers, was unacceptable to German Chancellor Helmut Kohl. A fresh summit had to be convened a few weeks later at which Luxembourg Prime Minister Jacques Santer was selected as a compromise choice.

In order to avoid such maneuverings next time, Delors has suggested that each of the European Parliament's political groups should pick their own candidates and campaign for them in the European parliamentary elections next June. This would, he argues, give a powerful steer to the heads of government as to who would be the most acceptable candidates. It would also make them much better known to citizens throughout the European Union and would be likely to boost the turnout in the European Parliament elections, which hitherto has been disappointingly low.

Delors' proposal has the support of five former European prime ministers who have joined Notre Europe. Two of them, Felipe Gonzàlez of Spain and Giuliano Amato of Italy, have themselves been widely tipped as potential candidates to head the Commission.

Delors may be too ambitious in expecting his proposal to be adopted in time for next year's elections. Yet he has provided a possible blueprint for the future, and there is little doubt that if the political parties were to follow his lead it would add to the democratic legitimacy of the president of the Commission.

—*Dick Leonard*

DIANA REMEMBERED

Princess Diana had a Web following long before her untimely death last year. The sites were devoted mostly to her style and her continual struggles with the royal family. Since August 31, the gossip and frivolity has turned into expressions of mourning and reflections on her life in the public eye.

With the first anniversary of her death approaching, media Web sites and those of her admirers will undoubtedly re-examine every detail of her life and the car crash that ended it. Personal Web sites tend toward the maudlin, with flickering candles, roses, photos, poems, and synthesized songs from the traumatized admirers of the late princess. Official sites—representing Diana's family, her memorial fund, and the monarchy—are largely bland and uninformative. A few media sites, however, stand out for the design, tastefulness, and depth and breadth of coverage in special reports compiled shortly after her death.

CNN Interactive followed in the tradition of its sister television network by providing an impressive series of reports. Its coverage from last September, titled *Death of a Princess* (www.cnn.com), includes photos and video clips from the funeral, reaction to Diana's death from world leaders and those who knew her, and a profile of her sons. It also chronicles her royal courtship, marriage, and divorce, including her own thoughts about royal life as told to the BBC in 1995. CNN's video archive is what makes the site compelling, even to those with a casual interest in Diana.

The photos and video clips are missing entirely from the official site of Althorp House, Diana's childhood home and burial site. Throngs are expected to tour the grounds in July and August, when the princess' brother, Earl Spencer, opens the gate to ticket-holding tourists. The Web site (www.althorp-house.co.uk) includes one photo of Diana, a few quotes from Earl Spencer, a brief history of the house, and information on the tour. It promises that Althorp and a Diana museum in the newly renovated stable block will be "a unique tribute to a woman who captivated the world with her all-too-brief existence." Unfortunately, the site itself is no tribute at all.

FOLLOWING THE TOUR

The Tour de France challenges its competitors and allows thousands of spectators from all parts of France, and this year Ireland, to be a part of the action.

The official Web site of the tour (www.letour.fr) is updated at each stage of the race, which begins this year in Dublin, July 11 and finishes in Paris, August 2. There is a synopsis of the most recent stage, maps, photos, and video-audio clips. Visitors also can track the progress of the twenty-two teams or a particular rider. A rules section explains restrictions on the bicycles, when and how competitors eat along the course, and how repairs are made.

A section of the site called Legendary Tours features the highlights since the race began in 1903. The debut of the now-famous yellow jersey, which is worn by the leader, came in 1919.

Several other Web sites, such as *USA Today* (www.usatoday.com) and CBS (cbs. sportsline.com), have featured packages and daily updates on the tour once it begins.

SITE OF THE MONTH: THE VIENNA BOYS CHOIR

It's hard to imagine competing for a job that forces retirement at puberty, but hundreds have devoted their young lives to be a part of the internationally acclaimed Vienna Boys Choir. The choir marking its 500th anniversary this year has become one of Austria's best musical ambassadors.

The Web site for the choir, put together by the Austrian National Tourist Office (www.austria-info. at/saengerknaben), highlights both the history of the group and its present mission. In 1498, Emperor Maximilian I summoned a dozen boys to create a group of court musicians. Known as the Court Boys Choir, it attracted many boys who would go on to become professional musicians, most notably Franz Schubert. The choir nearly fell out of existence during World War I with the end of the monarchy, but through the efforts of rector Joseph Schnitt it re-emerged in 1924 as the Vienna Boys Choir.

Boys who are interested in the group attend a special school in the beautiful Augarten palace in Vienna beginning in kindergarten, and after primary school they must audition for a place in one of four groups of twenty-five. Girls are not permitted to join the choir, but they gained admission to the primary school beginning last fall.

The choir frequently tours abroad and has already returned home from an extensive concert series in the United States this spring. The Vienna Boys Choir has an impressive Web site (www.wsk.at) which provides tour schedules and music clips which should entice those traveling to Vienna to take in Sunday mass at the Hofburg chapel, where the boys have performed weekly since the days of Maximilian.

—Christina Barron

TYROL

A PEAK LOCATION FOR BUSINESS

Tyrol is not just a region of breathtaking natural beauty, with splendid mountain views. It is also a peak region for business, where innovative people have created successful enterprises of international standing.

Since only 14 percent of the total area of Tyrol is suitable for development, its population and economy are concentrated in the Inn River Valley and the few adjoining valleys. The mountainous terrain makes Tyrol unsuitable for major industry, but all the more attractive for small and medium-sized firms with an innovative outlook.

As a solution to the scarcity of land and its resultant relatively high cost, a number of attractive industrial parks and science and technology center have been established throughout Tyrol. They offer ready-to-build sites as well as ready-to-use office space, with excellent infrastructure. Recently, an increasing number of innovative companies in the high-technology and service industries sectors, from Italy, Germany, and Switzerland, have located in Tyrol. The advantages these firms have discovered of establishing operations in the region include:

Immediately available industrial sites

A minimum of red tape and a client-friendly attitude among all responsible authorities and institutions

A highly efficient transport network: Tyrol's unique position in Europe is strengthened by its proximity to two international highway systems which connect Tyrol to southern Germany and northern Italy. The Innsbruck-Brenner axis is also an important link in the European rail network. A potential market of 8 million people lies within a 2 hour drive of the regional capital Innsbruck.

The high-performance rail system, the international airport of Innsbruck, the central location and the outstanding high-tech telecommunications network further add to the accessibility of the region.

Tyrol disposes over the densest fiber optic cable network in all of Europe. Over 80 percent of all businesses and more than 70 percent of all private households are within 1.1 miles of the nearest connection point. The age of telecommunications is well underway in Tyrol. Due to the exceptional infrastructure, the cost of value-added services and data transmission is particularly reasonable.

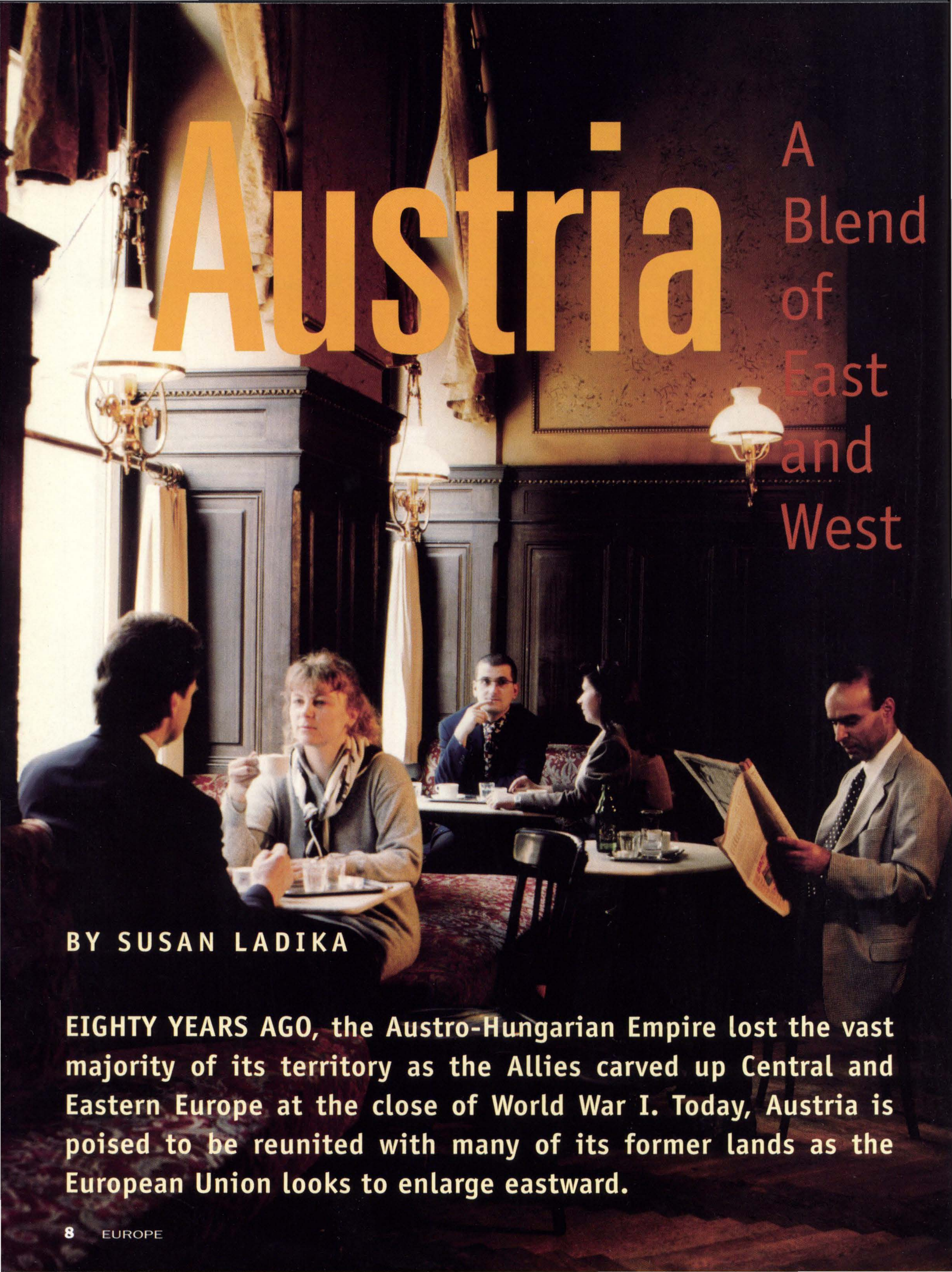
Business-friendly taxation and financial incentives: Compared to Italy and Germany, corporate taxes in Tyrol are more than 20 percent lower, and the region's economic development policy offers attractive investment incentives and financial support. Tyrol has an exemplary record of political and economic stability. Strikes can be measured in milli-seconds, i.e. within the last decade, the region has not suffered from any work stoppages resulting from strikes.

A highly motivated and skilled workforce: The region's university, its technical colleges, economic and engineering schools, and the outstanding quality of the professional training assure companies a pool of highly qualified and motivated workers in all branches of technology and economics. The proverbial Tyrolean diligence is an additional guarantee of high productivity and high-quality products.

A strong regional economy: Tyrol's economy is based on a sound structure that can resist crises. The 60 percent export quota of the regional manufacturing industry is proof of its international outlook. In addition to globally successful business enterprises, Tyrol is also known for its smaller firms skilled in expert craftsmanship and its excellent service industry in the technological and commercial sector.

Reliable support and advice: Tech-Tirol Technology Center guides investors through the entire process of setting up operations in the region, from the first contact to when the company is actually up and running, and even beyond. It provides expert information and assistance with project development, site selection, land acquisition, financing and financial aid, official procedures, networking etc. Right from the beginning, Tech-Tirol is there to ensure that when a company comes to Tyrol, its path is smoothed every step of the way.

FOR MORE INFORMATION, CONTACT:
TECH-TIROL TECHNOLOGY CENTER; EDUARD-BODEM GASSE 5; 6020 INNSBRUCK, AUSTRIA
TEL: +43 512 36 40 00; FAX: +43 512 36 40 00-20; INTERNET: HTTP://WWW.TECH-TIROL.CO.AT/TECH-TIROL



Austria

A Blend of East and West

BY SUSAN LADIKA

EIGHTY YEARS AGO, the Austro-Hungarian Empire lost the vast majority of its territory as the Allies carved up Central and Eastern Europe at the close of World War I. Today, Austria is poised to be reunited with many of its former lands as the European Union looks to enlarge eastward.

Many of these enlargement talks with Poland, Hungary, Estonia, Slovenia, and the Czech Republic will be held under the watchful eye of the Austrian government, which this month takes over the reins of the EU presidency. For a country steeped in history, past political, social, and economic links with Central Europe aren't easily forgotten.

For centuries, Vienna was the seat of a thriving empire of 50 million, stretching north into what today are Poland and the Czech Republic, east to Ukraine and Romania, and south to Bosnia and Italy. Hundreds of thousands of Central and Eastern Europeans poured into the capital during that time.

Even after World War II partitioned Central Europe, Austria fiercely clung to its neutrality, creating a sort of buffer between Western powers and the Soviet Bloc. Trade with the East peaked during that time, with Austria shipping 20 percent of its goods to countries behind the Iron Curtain in the mid-1970s.

Now, nearly ten years after the collapse of communism, Austria maintains its place as a link between East and West. About 800 international corporations, including such American giants as IBM, Coca-Cola, and McDonald's, use Vienna as their Central European headquarters.

Along with its proximity to capitals like Prague, Budapest, and Bratislava, Vienna offers the acumen of banks, law firms, and other institutions that have years of experience dealing with the East.

Since 1989, Austria's exports to Central and Eastern Europe soared more than 120 percent, while imports jumped by 100 percent. Its trade surplus with the East was about $3 billion last year.

The country's success in the region "isn't only nostalgia," said Jan Stankovsky of the Austrian Institute of Economic Research. "There's a mutual understanding of language and a mutual understanding of psychology. Business is not only a rational question but also an understanding of how to deal with your counterpart."

However, not everyone is eager to embrace his or her Eastern neighbors. Members of the far-right Freedom Party, led by Jörg Haider, often blame foreigners for Austria's rising unemployment, although according to Austrian National Bank statistics, it stands at only 4.4 percent, far lower than many EU countries.

Some, fearing a wave of immigration, have proposed legislation prohibiting residents of these former communist countries from freely moving to EU nations for several years once enlargement happens. Others worry about the competition Austrian industry will face as these low-wage countries enter the European Union.

At a recent conference on EU enlargement, Austrian President Thomas Klestil said that expansion means not only removing border controls, but also "barriers in our mind. There's no longer any room for narrow-mindedness. Solidarity is the key word of today and tomorrow."

Austrian President Thomas Klestil (right) recently declared that EU enlargement means not only removing border controls but also "barriers in our minds."

During Austria's presidential tenure, Chancellor Viktor Klima said he also will work to foster solidarity within the EU, overseeing preparations for the introduction of the single currency. On January 1, 1999, Austria, along with Germany, France, Italy, Luxembourg, the Netherlands, Belgium, Finland, Ireland, Spain, and Portugal, will begin the final stage of EMU (economic and monetary union) using the euro.

Austria also plans to focus on job creation during its time at the helm of the European Union. "A Europe with a currency union is too little. A Europe with 18 million unemployed has no future," said Klima. Last year, the former finance minister succeeded Chancellor Franz Vranitzky, who stepped down after ten years in the post. The move was designed to give Klima plenty of time to prepare for Austria's term as EU president.

Vranitzky's decision to resign was spurred by sagging voter support for his Social Democratic Party at the polls. At the same time, Haider's Freedom Party had made solid gains, winning between 25 percent and 30 percent of voter support in European Parliament and Vienna City Council elections in the fall of 1996.

Buoyed by his party's success, Haider vowed to run for

Coffee is but one example of how Austria blends Eastern and Western culture. Having imported coffee from the East centuries ago, today Vienna is renowned for its coffeehouses.

Austria & the Euro

AT THE JULIUS MEINL STORE ON GRABEN, one of Vienna's main shopping streets, a two-liter bottle of Coca-Cola costs 24.90 schillings, or 1.80 euros ($1.99). Around the corner at the Libro shop on Kärntnerstrasse, a Peter Pan video is 249.90 schillings, or 17.97 euros ($19.96).

Although the introduction of the euro is still months away and actual bills and coins won't be available until 2002, several of Austria's major retailers are working to get their customers accustomed to the new currency. It's especially important for the elderly, who trust in the stability of the schilling and may be wary of any new currency.

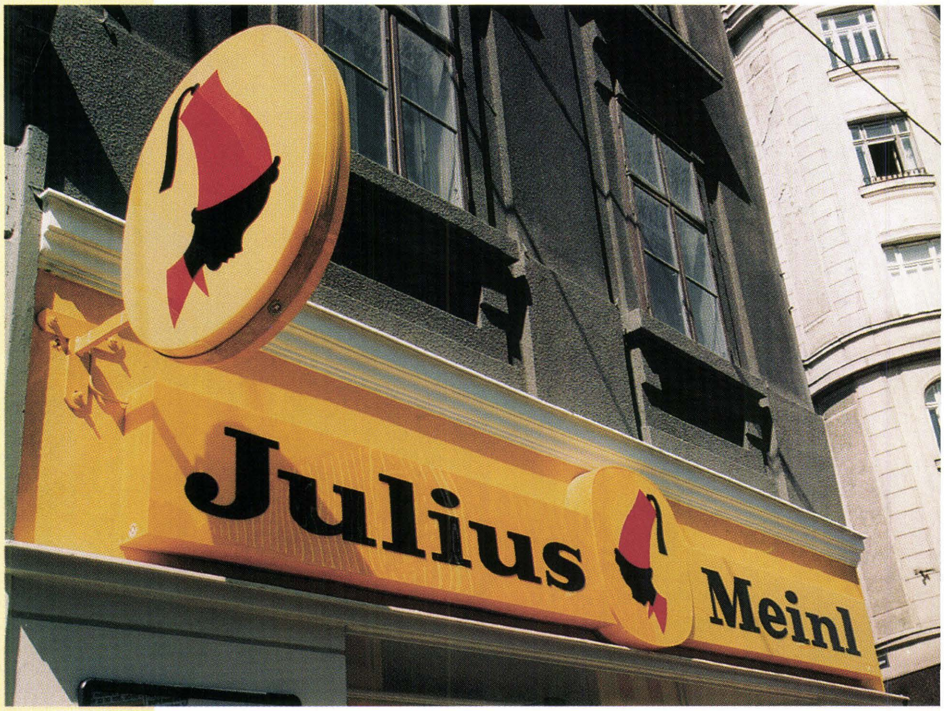
The Austrian government has begun a campaign of its own to promote the single currency. A bus has carried officials from city to city to discuss the euro with residents, and meetings now are underway with consumer protection groups. Seminars also are planned for owners of small and medium-size businesses, along with those who have special needs, such as handicapped and the poor.

The finance ministry has published booklets outlining the pros and cons of the single currency. Although it will cost an estimated 1 percent of gross domestic product, or 25 billion schillings ($2 billion), to switch to the euro, businesses will save approximately 16 billion schillings ($1.28 billion) per year.

Commercial banks and the Austrian National Bank also are working to allay fears, offering seminars for special interest groups and issuing reams of documents explaining the workings of the single currency.

"The smooth introduction of the euro is really the most important project we will have during our presidency," said Finance Ministry State Secretary Wolfgang Ruttenstorfer, who welcomes efforts to help spread information about the currency's debut. "The government alone cannot really do this job efficiently enough. We have to cooperate with partners who are prepared to share the burden with us."

Being part of the single currency is particularly important for Austria as a small, export-oriented country. Having stable export conditions is a necessity. Moreover, keeping in lock step with Germany is essential because the schilling has been tied to the mark for twenty years. —*Susan Ladika*



Austria's major retailers are working to get their customers used to the new currency and now display their prices in both schillings and euros, including the upscale grocery chain Julius Meinl.

chancellor in 1999. However, he recently suffered a setback when a Freedom Party parliamentarian absconded with millions of dollars and is thought to be hiding in Brazil.

With Haider now on the defensive, the job of governing Austria looks likely to remain in the hands of the Social Democrats, who have dominated the country for decades, and the Austrian People's Party, the junior member of the coalition government since 1986.

Although it has provided stability, the unbroken dominance of the Social Democrats has led to a heavy bureaucracy, where state jobs are divvied up based on party membership of the two coalition parties. The economy remains heavily regulated, with the various layers of government holding stakes in many of the country's largest corporations and institutions.

The coalition, however, remains split on whether Austria should become part of the North Atlantic Treaty Organization. While Poland, Hungary, and the Czech Republic are poised to join next year, and Slovenia is pushing to be invited in the next round, the Austrian government is hesitant to abandon the neutrality it adopted in 1955.

The conservative Austrian People's Party and the Freedom Party say it's time to join the security alliance. However, the Social Democrats aren't so sure. Although Conservative Party leader Wolfgang Schüssel said he doesn't expect advances before NATO's summit next year in Washington, "it's only a question of when, not if" Austria will join the alliance, Schüssel said.

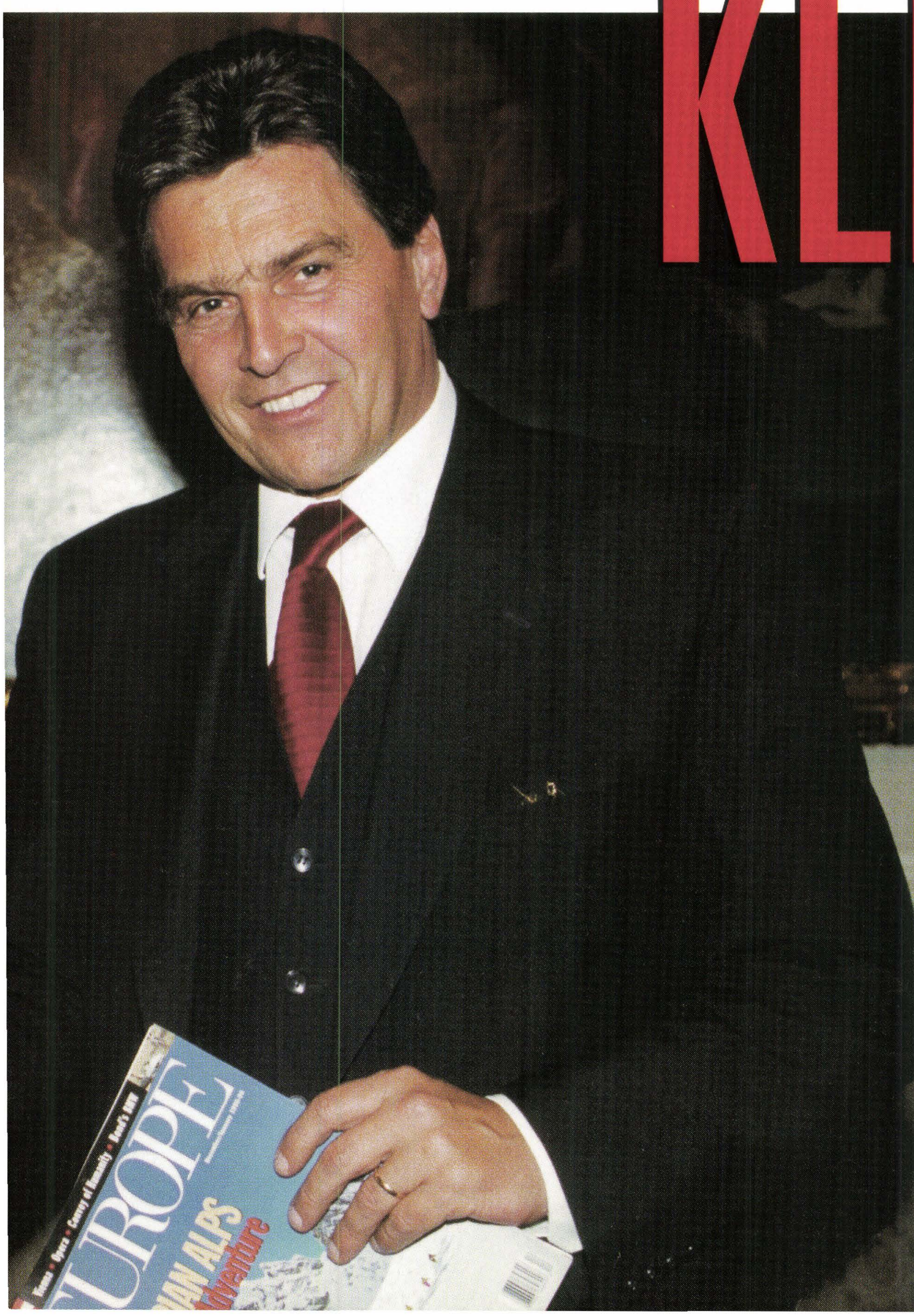
For a country that has prospered by holding the middle ground for so many years, giving up its neutrality may be tough to do.

Susan Ladika is EUROPE*'s Vienna correspondent.*

EUROPE INTERVIEW

Austrian Chancellor VIKTOR KLIMA

Viktor Klima, the federal chancellor of Austria, in an interview with *EUROPE* editor-in-chief Robert J. Guttman, discusses Austria's goals for its six-month presidency of the European Union. Austria, which became a full member of the EU along with Finland and Sweden on January 1, 1995, is the first of the new members to hold the presidency.



You are at the helm of the European Union for the next six months. What are your overall goals and objectives for the Austrian presidency?

We want to support and speed up the development of the European Union. We are aware of the fact that a presidency must not be misused for pure national goals. So, our most important concern we want to emphasize during our presidency is employment. Other main topics are care of the environment and security.

What would you like people to say about the Austrian presidency when it is over on December 31, 1998? What would you like to see as your main accomplishments?

The best result would be if people say at the end of 1998 that our presidency had been successful in defeating European unemployment. During our presidency, we want to acquire and put into action effective measures for employment at national as well as at European levels. "Making Europe fit" will be the motto of our presidency. We want to make Europe as fit for employment as for the euro, the common European currency.

EUROPE INTERVIEW

You are the first "new" country to take over the presidency. Will this cause any problems for you? Do you hope to set your presidency as a model for other new countries when they have the presidency?

We are well prepared to take over the presidency of the European Union. We are working together with the United Kingdom and Germany within the scope of the so-called "Troika." We have ambitious and well-trained staffs that will do a good job. I am convinced that Austria's presidency in the second half of the year 1998 will be successful, and I hope that our presidency will indeed become a model for other member states of the European Union.

How will you help alleviate the high unemployment rate across Europe during your presidency? Will you be hosting any extra meetings on the employment problem?

As I said before, employment will be the most important topic during our presidency. At the end of 1997, an employment summit in Luxembourg took place. Every member state of the European Union committed itself to develop a national action plan for employment. During our presidency, we will check these plans and their implementation. If necessary, we will initiate extra meetings on this issue.

Austria was once at the edge of the European Union, but when the new enlargement is completed, the country will be almost in the center. How important is enlargement to the East for Austria and for the European Union?

Concerning the enlargement process, the European Union has taken a clear course. During our presidency, talks with the "Five-Plus-One" countries—Estonia, Poland, the Czech Republic, Slovenia, Hungary, and Cyprus—will proceed. We absolutely support this course. As concerns Austria, the process of enlargement offers opportunities as well as risks. Austria, as well as the countries that have applied for membership, are aware of the fact that extensive and detailed preparations are necessary before enlargement will become a reality.

Is Austria a hub or a gateway to the emerging markets to the East? Why would it benefit an American or European firm to establish its operations for Central and Eastern Europe in Austria?

A common history of Austria and these countries is the reason for our very close links in political and economic terms with the Central and Eastern European countries. This gives Austria, in fact, great sensibility and awareness for tendencies in political, social, and economic development in this region. Basically, we had these links before the fall of the Iron Curtain in 1989; and therefore, we have been very encouraged to give advice and support in establishing these new democracies. It has been a main target of Austrian politics to intensify the existing contacts. Naturally, this also means strong support for the economies in these countries.

Our internationally reputed, highly trained, and educated employees and businesspeople provide an excellent basis for the close economic cooperation between Austria and the new democracies. Austria can provide an outstanding infrastructure and excellent business contacts. Certainly, we have started a lot of common economic projects.

Do you believe that there is a possibility that some of your neighbors like Slovakia could join the European Union in the near future?

In principle, the European Union is open for all European countries who want to join and who meet the conditions for such a step. Twelve countries have already applied for membership. With six of them, the European Union has started the negotiations for their accession to the EU. Three of these six are immediate neighbors of Austria. It cannot be foreseen when our neighbors will be members of the European Union, but it can be said that it will happen after a transition period during which the newcomers will adapt their economies.

How will Austria help launch the euro smoothly during its presidency? What is your government doing to persuade Austrians that the euro is positive for them and for the economy of Austria?

Any currency needs the faith and confidence of the people. The success of the euro is dependent on the approval of the European citizens. In Austria, the federal government has launched a nationwide campaign in order to give information about the new common currency to as many people as possible. What we have in mind is not biased manipulation. We inform about the advantages as well as about the drawbacks of the euro. We are convinced that joining the euro club after all brings many more benefits for Austria and the European Union than being isolated. As a result, nearly 60 percent of Austrians support the introduction of the euro.

Will a single currency lead to a common foreign and security policy (CFSP) in the European Union?

It is one of the chief goals of the European Union to establish a common foreign and security policy that ensures a peaceful development in Europe and makes an essential contribution to a

"'Making Europe fit' will be the motto of our presidency. We want to make Europe as fit for employment as for the euro, the common European currency."

worldwide zone of nonviolent solution of conflicts. Europe should be enabled to settle regional conflicts on its own. Some years ago, people didn't imagine that there would be a single currency in Europe. Now we know that it will be a reality. The deadlines are agreed upon. I believe that also in some years, a CFSP will be an element of Europe's presence in the world.

Are you concerned that Kosovo could become another war zone like Bosnia? Will you be doing anything special to try to resolve the Kosovo conflict during your presidency?

The European Union has learned from the crisis that the former Yugoslavia entered a few years ago. We try to settle conflicts before they escalate. As concerns Kosovo, we condemn violence committed by both sides involved and strive for a peaceful solution with an enhanced degree of autonomy for Kosovo. I am confident that a solution will be found that all persons concerned can agree to. I believe that the mission of the former Spanish prime minister, [Felipe] González, is one of the key elements of the role of the EU in the Federal Republic of Yugoslavia....

Many people are concerned about more extremist elements in Austrian politics. Is there any worry on your part that right-wing parties could ever join a coalition government?

First, I want to stress the fact that Austria since the end of World War II has developed an exemplary and good working, parliamentary democratic system. There are no more extremist elements than in any other respected democracy. Except for this fact, one of my first statements as federal chancellor was to make clear that no right-wing party will ever enter a coalition government as long as I am federal chancellor.

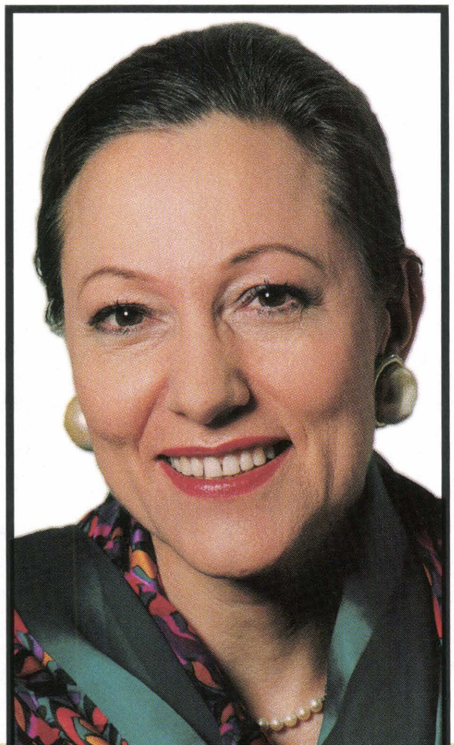
The Austrian parliament was recently hosting a play about Anne Frank, and there were discussions about Israel turning fifty. Is Austria making a conscious effort to discuss the World War II years, and is Austria compensating Jewish survivors of the Holocaust and their families?

I am the first Austrian federal chancellor who was born after World War II. As a member of the postwar generation, I always said that we will never forget what happened, and we will never forget that many Austrians were involved in crimes during the Nazi period. We cannot undo the cruelties that happened. But we are dealing with our past and our responsibilities. We have the duty to pass on our knowledge to the generations following us in order to guarantee that what has happened will never happen again.

In addition to the day of remembrance, which we celebrated on May 5 for the first time, the Republic of Austria has founded the National Fund for Victims of National Socialism three years ago. Up to now some 30,000 applications for this fund have been registered. Moreover, the ownership of the works of art that are in possession of the state is being analyzed by a group of experts. Wherever it is possible, we try to find out the legitimate owners. I am convinced that we have the duty to find a fair solution. Ⓔ

The Austrian Enlargement, the Euro,

By Robert J. Guttman



"Personally, I would say enlargement is going to be our number-one goal. Austria is the country rightly placed for that, speaking from our geopolitical, historical, and traditional position. I would not even say enlargement to the East. The accomplishment of Europe is a better and more positive way of seeing it. Enlargement should be seen as completing Europe. That is why I feel enlargement toward our neighboring countries is finally the accomplishment of Europe," reflects Austria's state secretary for foreign affairs, Benita Ferrero-Waldner.

The state secretary, who will be in charge of many of the day-to-day details of the Austrian EU presidency (July 1–December 31), also says her country will focus on the unemployment situation in Europe, illicit trafficking of drugs, environmental questions, and "all the important matters of the common foreign and security policy, such as Kosovo, Cyprus, Bosnia, Great Lakes district in Africa, and Algeria."

"I feel enlargement toward our neighboring countries is finally the accomplishment of Europe."
–Benita Ferrero-Waldner

Wolfgang Schüssel, Austrian vice-chancellor and foreign minister, spoke quite enthusiastically about his country's goals for the EU presidency. "The EU presidency is a national priority," he said. "And all parties will combine their efforts to make it successful."

On enlargement, the foreign minister said, "The door is open to all candidates, even Norway and Switzerland. Slovakia has to become more democratic and allow more rights for minorities. Romania and Bulgaria, politically, are doing well. If they move ahead with their reforms, they could catch up. All parties can accelerate to come in."

Discussing Turkey and Cyprus, the foreign minister believes that "it was right to give Cyprus the right to be included. They have to solve their political problems peacefully. The EU wants to create a situation for peace and trust." On Turkey, Mr. Schüssel states that there needs to be "a new approach."

"The EU needs to give Turkey a specific approach to membership and do our utmost to convince Turkey that they won't be excluded. We have said the door is open. The time for polemics with Turkey is over, and we need to go forward to build momentum."

Saying that the European Union "is paying for a lot in the Middle East," Mr. Schüssel says the EU can help in that

Presidency and Employment

troubled region "only if both sides are willing to work with negotiators," but he adds that the United States has the lead role in the Middle East negotiations.

Rudolf Edlinger, Austria's finance minister, relates that "one of the most important goals of our presidency is the smooth transition to the single currency. Mr. Edlinger praises the introduction of the euro, stating that "Europe's economic power in international competition will be improved, and the EU economies will be strengthened." He goes on to point out, however, that "the euro is not a miracle drug to make jobs."

"After all," the finance minister remarks, "it is hard to have a positive attitude if a person has been unemployed for a long time. The rate of unemployment in the EU is a problem that has to be dealt with even in Austria, which has the second lowest rate of unemployment in the Union."

In addition, Mr. Edlinger "hopes to simplify things during our presidency" by trying to harmonize tax systems. "Austria will launch the issue that has been held back and try to harmonize tax systems. It is important to introduce tax standards. Progress is possible in six months, but it can't complete the project. The next EU presidency has to follow up on tax harmonization."

State Secretary Ferrero-Waldner believes smaller countries have a great role to play in running the presidency and would like to see Austria make progress in several areas by the end of their presidency on December 31.

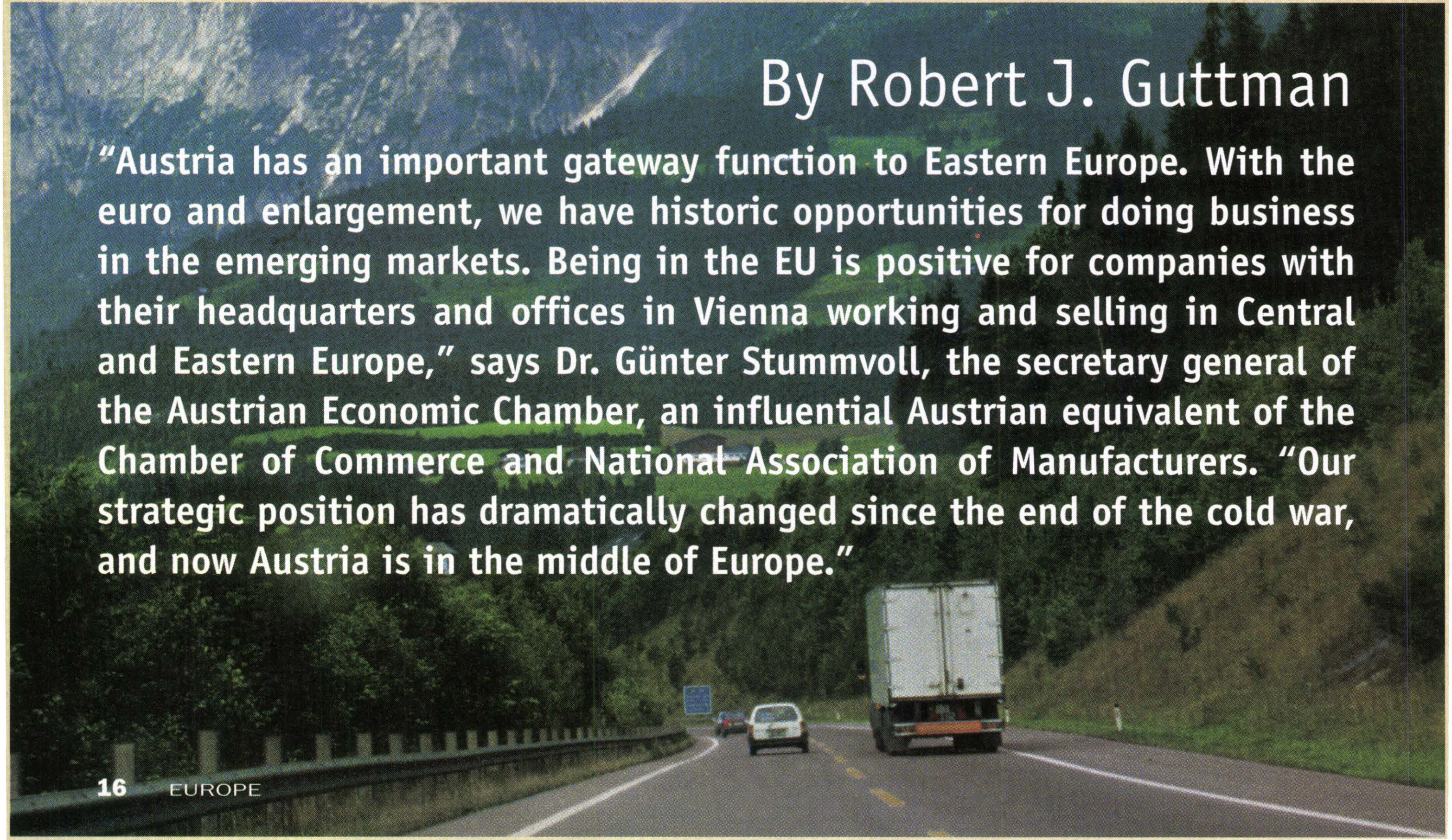
"I would be very happy," she comments, "if I could say: first, on enlargement, that at least we have closed one chapter with all the 'Five-Plus-One' first round in the Agenda 2000 (Poland, Czech Republic, Hungary, Slovenia, Estonia, and Cyprus), that the important pillars for agricultural and structural reform could be done, that in our common foreign and security policy (CFSP) we could find some sort of possibility to make a more flexible position with the Greeks and Turkey and avoid a crisis in Cyprus, and that we could overcome having a crisis in Kosovo, this would be a successful presidency."

"The EU presidency is a national priority, and all parties will combine their efforts to make it successful."
—Wolfgang Schüssel

"One of the most important goals of our presidency is the smooth transition to the single currency."
—Rudolf Edlinger

Robert J. Guttman is EUROPE*'s editor-in-chief.*

AUSTRIA: A HUB FOR THE EMERGING MARKETS



By Robert J. Guttman

"Austria has an important gateway function to Eastern Europe. With the euro and enlargement, we have historic opportunities for doing business in the emerging markets. Being in the EU is positive for companies with their headquarters and offices in Vienna working and selling in Central and Eastern Europe," says Dr. Günter Stummvoll, the secretary general of the Austrian Economic Chamber, an influential Austrian equivalent of the Chamber of Commerce and National Association of Manufacturers. "Our strategic position has dramatically changed since the end of the cold war, and now Austria is in the middle of Europe."

Kathryn Walt Hall, the dynamic new US ambassador to Austria, is very enthusiastic about US firms using Austria as a hub for doing business in the newly emerging markets of Central and Eastern Europe. "Austria is a terrific platform for American firms to do business in the East," declares Ambassador Walt Hall. "McDonald's, Oracle, IBM, Chrysler, and many other small and medium-size US firms are based not only in Vienna but throughout Austria [and conduct] their business in the new democracies to the East."

Kathryn Walt Hall, the dynamic new US ambassador to Austria, with Helmut Tuerk, the Austrian ambassador to the US.

She adds that "more than 500 US businesses are located in Austria. They feel that Austria is a hub and a strategic location for conducting business. Austria has a good infrastructure, supports business, has a good work force, and has a tradition of doing business in these markets."

"Central Europe is the fastest growing segment of our business. We are rapidly re-investing in Central Europe," states Stefan Hoffinger, marketing manager and head of US operations for Julius Meinl Company. Julius Meinl, an upscale Austrian supermarket chain that makes its own coffee, tea, and other gourmet retail brands, seems to be on every corner of Vienna and Salzburg. Indeed, the company, which was founded in 1862 and is known for its bright yellow logo depicting a Turkish boy wearing a fez, operates 350 stores in Austria and generated $2 billion in revenues last year.

Austria is selling itself as an excellent location for doing business with the emerging markets of Central and Eastern Europe.

According to Mr. Hoffinger, Julius Meinl was the first company to preroast and package coffee and was one of the largest retailers in Europe before World War II. "Our brand is remembered in Central Europe for its quality," he says. "Today, we have 200 stores in Hungary and ninety stores in the Czech Republic. We are also in Slovakia and southern Poland. Romania and Russian are distant markets to be conquered. Our customers in the East now think Western, and Julius Meinl is considered to be a sign of prosperity."

The Austrian banking sector is playing an important part in Austria's role as the region's business capital. Bank Austria, which combined with Creditanstalt Bank in 1997 to create the country's largest and strongest financial group, is a major player in Central and Eastern Europe.

According to Bank Austria's chairman, Gerhard Randa, "Our group has an unrivaled presence in the CEE countries. With a total of nearly 3,850 on the ground staff and 135 outlets, the group provides the entire range of financial services. In commercial banking, Bank Austria is one of the market leaders among foreign banks in this region. Measured by total assets, we rank second. While in terms of employees and local offices, we believe we outnumber every one of our foreign competitors."

Heimo Hackel, also of Bank Austria, remarks that "Central Europeans feel comfortable doing business with Austrians. We are the port of first call. As the thirty-sixth largest bank in Europe, we are still expanding in Central Europe today. We have branches in Croatia and are doing business in the Ukraine and Russia. Our main competition in Central Europe is [Dutch banking group] ING and investment banks like Goldman Sachs, Lehman Brothers, and Merrill Lynch." Hackel says, "Austria is still a gateway. Austrian Airlines does a good business in the newly emerging markets. We help many businesses having a base in Vienna but setting up local operations in Central Europe."

Even the Vienna stock exchange is modernizing in order to become a hub and a key player in the newly emerging markets. Dr. Schafer of the new Vienna Bourse says, "The restructuring of the Austrian capital market was the highlight of 1997. The Vienna Stock Exchange and Austrian Futures and Options Exchange were merged to form the Vienna Bourse. Our goal is to create Vienna as an independent market for Austrian and Central and Eastern European securities and their corresponding derivatives instruments. We also have a strategic alliance with the Deutsche Bourse."

Dr. Schafer continues, "We hope to be a niche market as a know-how center for Austria and the newly emerging markets, with the goal of transforming ourselves into an international center of finance within the European Union."

Whatever one calls it, a "hub," a "gateway," a "platform," or a "bridge," Austria is playing an important role in the newly emerging markets. Moreover, with Austria's EU presidency focusing on enlargement, the view of this country as a springboard to the East will only rise in people's minds.

As Dr. Stummvoll says, "For the next ten years, we will have this bridge function between the European Union and other nations. Our goal is to promote Vienna as a business gateway." ⓔ

WELCOMING A NEW WAVE OF INVESTMENT

Central and Eastern Europe have achieved liftoff, registering economic growth for the fourth year in a row in 1997.

Russia's battered economy also grew last year for the first time since the collapse of communism.

Equally important, this year marks the beginning of the historic Eastern enlargement of the European Union, with membership negotiations underway with the Czech Republic, Poland, Hungary, Estonia, and Slovenia. Five more countries are queuing up to start talks: Romania, Bulgaria, Slovakia, Latvia, and Lithuania.

By Bruce Barnard

Foreign and local investors alike are brimming with confidence that the region is poised for sustainable growth. "It is possible that in twenty years' time some of the world's 'tiger' economies will be found in the region," the European Bank for Reconstruction and Development (EBRD) declared in its latest transition report.

But there remains a long way to go—only the Czech Republic, Poland, and Slovenia are expected to achieve a higher gross domestic product (GDP) this year than in 1989, the year the Berlin Wall came down. Moreover, their GDP per capita is only a quarter of the EU average.

Meanwhile, the financial crisis that erupted in Russia in May reminded Western companies of the risks involved in investing in an immature, untested market. The news that Philips, the Dutch electronics giant, was pulling out of a joint venture in Russia having failed to turn a profit after several years was another warning light.

The economic turnaround has quickened the pace of foreign investment, as outsiders seek to buy into potential success stories, satisfy pent-up consumer demand, and participate in the steady stream of privatizations.

Foreign direct investment into the

entire region surged to $17 billion last year from $13 billion in 1996, with Russia, Hungary, and Poland topping the popularity rankings.

Foreign investment accounts for a relatively small share of the region's economies: just 2.5 percent of GDP in the Czech Republic, 2.3 percent in Poland, and 4.7 percent in Hungary.

However, the bald figures greatly understate the essential role foreign investment plays in prime-pumping the region's economies. Inflows are often directed at select sectors such as automobiles, engineering, and electronics, which have an immediate spinoff effect on the rest of the economy by forcing local suppliers and subcontractors to improve delivery and quality standards.

The Dutch brewer Heineken has led a group of European brewers to invest in Eastern Europe.

Communism's crown jewels, like the Skoda car company in the Czech Republic and Hungary's Tungsram lighting factory, were snapped up years ago. Coca-Cola bottling plants, Philip Morris cigarette factories, and Nabisco food operations are dotted around the region. European brewers, led by Heineken, have formed joint ventures in many East European countries, and banks and insurers are well entrenched. Ford, Fiat, GM, and Volkswagen assembly plants are scattered throughout the region.

Now, Eastern Europe is bracing for a new wave of foreign investments. Ikea, the Swedish furniture manufacturer, is planning to build a string of factories across the region. Intel executives visited Prague recently to examine the possibility of locating a $500 million computer chip plant in the Czech Republic. ICN of the US, Eastern Europe's second-largest pharmaceuticals firm with annual sales of $450 million, is buying small drugs companies in other emerging markets. Also, five Western forest products groups are competing fiercely to build a $960 million pulp mill, one of Europe's biggest, in Latvia.

The EU's eastward enlargement will also create a bonanza for foreign investors as the ten "candidate" countries seek outside help to meet an estimated $200 billion needed to modernize their telecommunication and transport networks, water and waste treatment, and energy industries.

There have been some sparkling regional success stories, raising hopes that the fast-track East European economies can compete head-on with the EU within a decade. Skoda, now owned by Volkswagen, has ousted Fiat as the biggest car supplier in Central and Eastern Europe. Elcoteq, a Finnish manufacturer of computer parts, which began operations in Estonia in 1992 with a staff of fifty, is now the country's biggest exporter with sales of more than $130 million and is looking for an additional 1,000 workers.

However, the EBRD adds a warning note: "The potential for growth is large, but so is the possibility of being trapped by vested interests, monopolistic practices, and bureaucracy."

Even the star performers can falter, forcing foreign investors to look elsewhere in the region. Foreign investment in the Czech Republic has fallen during the last three years from $2.5 billion in 1992 to $1.3 billion in 1997, as high interest rates, a poorly functioning capital market, and political interference deterred outsiders. The country "has lost its momentum," according to Jan Havelka, head of CzechInvest, the state inward investment promotion agency.

Despite the problems, Eastern Europe has made great strides in reshaping its industry and foreign trade. More than 70 percent of imports to Poland, Hungary, and the Czech Republic come from the EU, which, in turn, takes more than 60 percent of their exports.

The EU is also Russia's biggest trade partner, with two-way flows soaring from $19.2 billion in 1992 to $47.9 billion in 1996.

While European firms are leading the export race, they are lagging their US rivals in investment in essential markets. US firms will account for about a third of the estimated $10 billion foreign direct investment in Russia in 1997 and 1998, according to the EBRD. The high-profile oil industry will account for barely a third, with the bulk of spending going to automobiles, foodstuffs, and metals.

Nevertheless, the Europeans are catching up. Continental, the German tire giant, plans to open shortly its first Russian plant; French oil company Elf Aquitaine recently acquired a 5 percent stake in Yuksi, the newly formed Russian oil group, for $528 million; and the United Kingdom's Commercial Union is about to sell life insurance policies to Russians. ⓔ

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

Enlargement to the

By Robert J. Guttman

"We have started official negotiations [on joining the European Union] with six of the candidate countries: Poland, Hungary, the Czech Republic, Slovenia, Estonia, and Cyprus. One can say that the process is really taking shape, although there is still a long way to go, because we all realize that integrating into a political, economic, and monetary union called the European Union is an extremely complicated affair," remarks Hans van den Broek, a former Dutch foreign minister and currently the European commissioner for external relations with the countries of Central and Eastern Europe and the former Soviet Union.

The commissioner goes on to say, "As soon as Lithuania, Latvia, Slovakia, Romania, and Bulgaria have reached the same degree of readiness as the six countries mentioned for enlargement, we will recommend to open negotiations with them as well."

While in Washington, DC this spring, the commissioner spoke enthusiastically with *EUROPE* about the enlargement process, which is one of the key areas European leaders are working on, not only in Brussels, but also in Vienna, as the Austrians have designated enlargement as one of the main issues during their six-month EU presidency, which lasts until the end of the year.

The euro has been the major topic in the news since its historic launch in Brussels in May. But Mr. van den Broek says the enlargement process is just as important as the single currency. The commissioner believes that "the two processes run in parallel. Monetary union was decided, in fact, at the end of the 1980s and the beginning of the 1990s. We were not yet familiar with the idea that enlargement would, indeed, encompass the Central and Eastern European countries. After all, the Berlin Wall only fell in 1989."

Commenting that the enlargement process is going ahead on schedule, van den Broek points out that "it is realistic to state that none of these countries will become a full member of the EU before the early years of the next millennium. And one shouldn't be surprised by that. In economic terms, the combined GNP of all these countries together is not much larger than the GNP of the Netherlands and Belgium taken together. Differences between the members of the EU today are very significant. But we are very committed to make this enlargement process a success. We are doubling our financial assistance for these countries preparing to join the European Union."

When asked about why it seemed easier for some of these nations to join NATO than to join the European Union,

the commissioner pointed out the vast differences in becoming a member of these two different organizations. "There is a fundamental difference between the two," the commissioner states. "NATO is a purely intergovernmental organization, where all the countries maintain their sovereignty. But it is quite different if you are joining the European Union, which has a legislative capacity on its own, where [a country] accepts sharing power with fourteen other member states that conduct very significant policies together. All EU members abide by the same rules and are subject to the scrutiny of a court of justice in Luxembourg. The kind of integration that the EU has is unprecedented in world history where nations join all their efforts together and adopt a single currency. This is quite something."

European Commissioner for External Relations with the Central and Eastern European Countries Hans van den Broek believes that the EU's single currency and enlargement processes "run in parallel."

On the issue of Cyprus entering the European Union, the commissioner comments, "Our member states and the European Commission prefer, by far, the entry of a united Cyprus. We are not looking for enlargement with a divided island. But at the same time, the European Union has said that we cannot continue to keep Cyprus hostage by the lack of political will, notably on the side of Turkey, to reach a political solution here."

Concerning Turkey, van den Broek comments, "We don't underestimate the importance of Turkey as a partner for Europe. They are of a very strategic value to us. The only thing that the EU is asking from Turkey is to sit around the table and to address these problems that are weighing so heavily and for such a long time on our relationship."

"I think one of the main priorities and urgencies is that Turkey should now cooperate to persuade the [Turkish Cypriot] political leader Rauf Denktas to accept an invitation from the UN secretary-general to join in political talks with [Cyprus] President Glafcos Clerides about a political solution for the island of Cyprus. There is every reason to encourage Turkey to take certain concrete steps forward and not to indulge in recriminations against the European Union that continues to see them as an important partner. Further cooperation is being offered to Turkey. We are not isolating Turkey in any way. On the contrary, we are looking for ways and means to further strengthen this relationship. But again, it takes two to tango." Ⓔ

SLOV Tiny Country on

Although its population is smaller than some American cities, the tiny country of Slovenia has managed to put itself on the map with its economic and democratic reforms in a region where these qualities have been in short supply. Since breaking away from former Yugoslavia in 1991, Slovenia has become the richest country in Central and Eastern Europe and is a front-runner to join the European Union.

By Susan Ladika

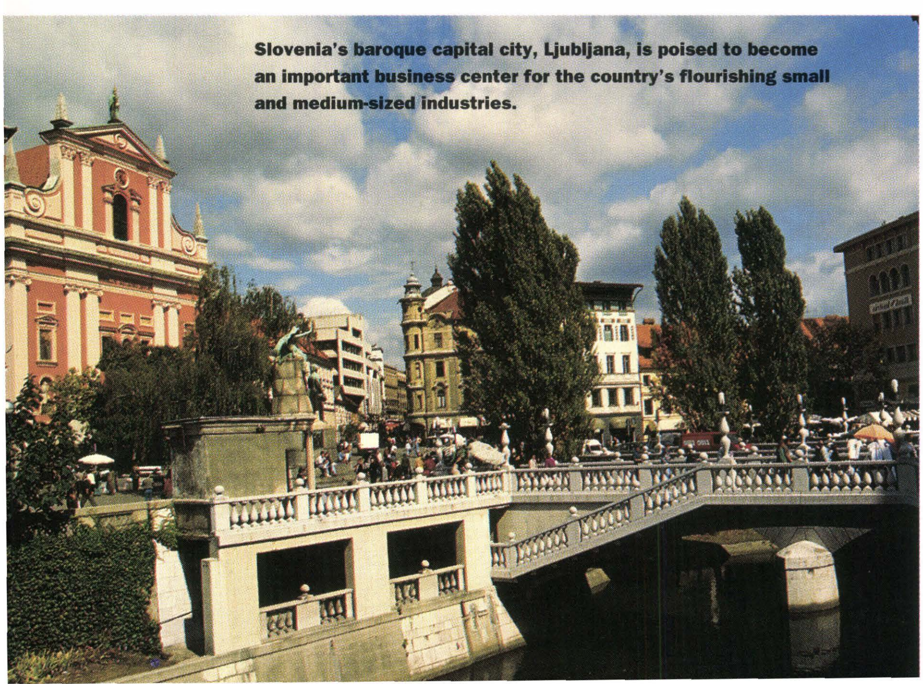
However, the past year has taught Slovenes not to be overconfident. The country of 2 million people was bitterly disappointed when it was passed over for inclusion in NATO despite strong support from Italy and France.

"He who leads the race does not always finish first, and this is something we are aware of in Slovenia," the country's president, Milan Kucan, said philosophically. "Slovenia will be a successful country only if it is a learning society, if it is successful in the race for knowledge, which has now become the most prized commodity in the world."

Slovenia already has been through quite a learning process in the past seven years. Once a part of Yugoslavia, the country had to start from scratch in developing political and economic institutions.

Bound together with other republics to form Yugoslavia, it became a communist country following World War II. Although Yugoslavia was freer than its neighbors, with no central planning and citizens free to travel to the West, the capital, Belgrade, controlled all political decisions.

Tired of seeing its revenues disappear into the capital's coffers and confronted with rising Serb nationalism, Slovenia declared its independence from Yugoslavia in 1991, triggering a ten-day civil war. In a republic dominated by ethnic Slovenes, the Yugoslav army had few interests to defend and quickly withdrew.



Slovenia's baroque capital city, Ljubljana, is poised to become an important business center for the country's flourishing small and medium-sized industries.

However, Slovenia's decision set off a domino effect, as Croatia and Bosnia sought their freedom as well. Vicious ethnic clashes left thousands dead or homeless, and Serbia and Montenegro came under crippling economic sanctions.

Slovenia, in contrast, set its sights firmly on the West and never looked back. In large part, it was a matter of survival. Before independence, the bulk of Slovenia's trade was with other Yugoslav republics. However, the bottom fell out because of war and international embargoes.

As part of Yugoslavia, Slovenia alone accounted for one-third of the country's exports. With hard work, it was able to turn those long-

EU Fast Track

standing ties with the outside world to its advantage, and today two-thirds of Slovenia's trade is done with EU nations. That percentage looks likely to increase when Slovenia becomes a full-fledged EU member.

Secretary of State Madeleine Albright met with Slovenian President Milan Kucan in Ljubljana in July 1997.

Slovenia has flourished since its close association with the European Union. Always the wealthiest of the Yugoslav republics, Slovenia now has the highest per capita income in Central and Eastern Europe, a balanced budget, and steady growth projected at 3.5 percent this year.

Its per capita income in 1996 was $9,400, comparable to less affluent EU members like Portugal and Greece. However, its prosperity can be seen as a double-edged sword. Because average monthly wages are twice those of Hungary or the Czech Republic, "we simply don't compete for the same investors. We are competing with Spain and Portugal," said Igor Strmsnik, deputy director of the Institute of Macroeconomic Analysis and Development.

Much of Slovenia's growth has been fueled by small and medium-sized industries. At the same time, the pharmaceutical manufacturers Lek and Krka, the sporting goods maker Elan, and the appliance producer Gorenje are household names in Europe.

Nevertheless, like every transition country, there's plenty of room for improvement. Slovenia has often been criticized for dragging its feet on privatization and has been less eager than others in the region to sell stakes to foreign investors. Instead, employees have purchased many firms, or shares have been offered on the stock exchange.

Slovenia has been slow to reform its tax system, and a value-added tax is only being introduced next year. Certain prices remain under state control and must be liberalized, and the pension system still must be overhauled.

The country "is still looking for a modern balance between the responsibility of every person for their social security, and the role of the state in this area," said Kucan, who was first elected president in 1990 when Slovenia was a republic of Yugoslavia. Two years later, he was elected president of an independent Slovenia.

Despite its recent independence, EU and NATO membership remain the overriding foreign policy objectives in Slovenia. "Membership in the EU is, for us, an opportunity to participate in a modern integration, which is contributing decisively toward the forging of European civilization as we enter the third millennium, toward a better way of life, and toward more creative and equal relationships between European nations," said Slovenia's president. "This is a time when Europe has the chance, after centuries of conflict and war, to become a continent of peace, cooperation, and prosperity."

Peace is particularly important to Slovenia. The country borders Croatia and is quite close to Bosnia, which are still picking up the pieces after years of war. One US diplomat said NATO is encouraging Slovenia to play a greater role in the region, where stability is essential. "We think Slovenia can take a role in this in one way or another," he said. Slovenia's progress also sends a strong signal to the rest of the Balkans, he said. "It is an example of what a country on the periphery of a very volatile region can accomplish with the right attitude and boldness," President Kucan said. Being part of NATO would provide a strong security guarantee for Slovenia, and the government is retooling the army, hoping to have it ready for possible NATO membership early next century.

Although Slovenia initially distanced itself from the republics of former Yugoslavia, Kucan said his country is ready to play a role in formulating solutions for the strife in the Balkans. However, he cautioned that "the solutions will only be good if international intervention is principled and decisive, as was the case in preparing the Dayton Agreement (for peace in Bosnia), and if it is not weak in the face of aggression, if it does not attempt to purchase peace and to trade for a price with elites which are involved in the mutual conflicts." ⊜

Ostrava-Challenging Opportunities in the Czech Republic

The City of Ostrava lies in the northeastern region of the Czech Republic, 200 miles east of Prague. Situated in North Moravia, the industrial heartland of the country, Ostrava is the third largest city after Prague and Brno, with a population that has grown from under 20,000 at the turn of the century, to 330,000.

Its geographical position in the border triangle between Poland and Slovakia offers export excellent opportunities to these markets and to other emerging economies in Eastern Europe.

The transition of the entire Czech Republic from one based on heavy industry to one oriented more towards the industrial/commercial and service sectors, is being repeated at a regional level in North Moravia. Ostrava is currently undergoing extensive restructuring of its industrial base.

In July 1996 the prestigious American ratings agency Standard & Poor's assessed the City of Ostrava. As such, it was one of the first municipalities in the Eastern Europe to be rated after the fall of the Communist regime. Ostrava was awarded an A+ long-term and A-1 short-term issuer rating, with a stable outlook, equaling the top rankings for the whole Czech Republic. A second Standard & Poor's rating in December 1997 assigned the City the same mark, and local authorities have every confidence that the rating will stay at the same high level.

With the Standard & Poor's "A" rating, Ostrava offers excellent investment opportunities, either in the City Centre or at the nearby international aiport.

The strong points and investment opportunities in Ostrava can be summarized as follows:

STRONG POINTS

- A hub for industry, trade and services
- Strong engineering, chemistry and food processing industries
- Efficient infrastructure
- A strong institutional base for business support
- Two universities

OPPORTUNITIES

- Major restructuring of heavy industry
- Several development areas in the City Centre, including a Science Technological Park
- Establishment of a businesspole and a tax-free zone at the International Ostrava-Mošnov airport

http://www.mmo.cz

For more information, visit Ostrava on the Internet

Inside EUROPE

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EU NEWS

CARDIFF SUMMIT SETS DEADLINE FOR EU REFORMS

European Union leaders have set an ambitious nine-month deadline for wrapping up negotiations on a package of internal reforms needed to prepare the EU for enlargement to Eastern Europe early next century. The nine-month deadline—agreed at a summit in Cardiff—is part of an exceptionally heavy work program that EU leaders have set themselves over the next year.

In the next twelve months, no less than five summits are due to take place. These include an intimate get-together in Vienna in mid-October where the fifteen heads of government will debate the future development of the EU in the context of Eastern enlargement and the prospective launch of the euro on January 1, 1999.

The Cardiff summit had been billed as the highlight of the six-month British presidency. But it turned out to be a rather humdrum affair compared to the tense drama six weeks before when the French and Germans haggled for almost twelve hours over the choice of who should head the European Central Bank.

The focus in Cardiff was a joint letter from President Jacques Chirac and Chancellor Helmut Kohl calling for more decentralization of power in the European Union. The letter was viewed in some quarters as a device to bolster Mr. Kohl's election campaign in Germany and to restore flagging confidence in relations between Bonn and Paris; but it reflects long-standing unease about the remoteness of EU institutions from ordinary people.

Tony Blair, the British prime minister and summit host, joined the debate with a call for more democratic legitimacy in the Union. One idea is to involve national parliaments more closely, though there are concerns that this could add another layer of bureaucracy to decision-making in Brussels.

Another idea is to create a new "Super-Council" comprised of deputy prime ministers which would coordinate policy more effectively and counterbalance the growing power of the ECOFIN council of the EU finance ministers, who meet every month in Brussels.

Before leaders take any new steps, they must secure ratification of the 1997 Amsterdam treaty. In addition, they must clear up the unfinished business of Amsterdam that is necessary to adapt the Union to cope with enlargement. This includes an extension of majority voting, a reweighting of voting power in the decision-making Council of Ministers in favor of large member states, and a reduction in the size of the European Commission. The British would like to hold a quick negotiation next year; other countries are less pressed.

One reason is that negotiations over internal reforms affecting the Common Agricultural Policy, regional aid, and the EU budget have barely begun. The British had hoped to secure strong language in the final summit communiqué, but other EU countries diluted the text in deference to powerful lobbying groups among the farmers and the poorer regions, which stand to lose out once enlargement goes ahead.

To an extent, EU leaders were constrained by the upcoming German general election in late September. Neither Mr. Kohl nor his SPD opponents are able to offer concessions on their demands for a sizeable reduction in Germany's contribution to the EU budget until after the election.

The problem is that this leaves little time to strike a budget deal by the informal deadline of late March—well ahead of the European Parliamentary elections in June. The European Parliament's assent is required for a new seven-year budget deal; therefore, the idea is to reach an agreement before MEPs hit the campaign trail.

Without such a deal, says one senior EU diplomat, enlargement will have to wait for the new German government and the new European Parliament to find their feet. "Unless there is a deal, we face a lost year," says a senior EU diplomat.

Another shadow on the horizon is the EU's relationship with Turkey. Despite British efforts, EU leaders failed to offer new incentives to Ankara beyond those agreed at the Luxembourg summit last December. Meanwhile, Greece continues to block $416 million of financial aid to Turkey. Other EU countries share Athens' hard line toward Turkey's demand to be put on an equal footing with the ten candidates for membership from Central and Eastern Europe.

The Turkish government's reaction to Cardiff was surprisingly mild compared to the outrage expressed after Luxembourg. Some interpreted the response as a sign that the Turks are cooling their interest in long-term membership in favor of a new geopolitical strategy based around the US and a bigger regional role in the Caucasus. Others believe Ankara is biding its time until an external crisis—perhaps over the divided island of Cyprus, itself a candidate for membership—force the EU to think again.

—Lionel Barber

International Criminal Court Proposed

Diplomats from nearly 150 countries are meeting in Rome at a United Nations sponsored conference this month to try to write a broad new treaty on international criminal law. If the treaty is approved, a new permanent international criminal court could be established by the beginning of the next century to prosecute war criminals. The most likely location for the new court, if approved, would be the Hague.

European Central Bank Names Spokesman

Manfred Koerber, the chief spokesman for the German national bank, the Bundesbank, will now speak for the new European Central Bank based in Frankfurt. Koerber will become the director of external relations for the ECB. The Bundesbank is the largest single shareholder in the ECB with 24.4 percent. The Bank of France is the next largest stockholder with 16.8 percent.

EU Finance Ministers Approve New EBRD Head

EU finance minister unanimously approved German banker Horst Koehler to be the new head of the London-based European Bank for Reconstruction and Development. Koehler has been the head of the German Savings Banks Association, the nation's largest group of banks.

EU Tightens Sanctions on Yugoslavia Over Kosovo

In early June, the EU banned new investments in Yugoslavia and froze the country's assets abroad. The move came in addition to previously announced measures, which include a ban on arms exports and restricted travel visas for Yugoslav officials. The EU imposed further sanctions because of what it called the "new level of aggression on the part of Serb security forces."

EU Clears Emergency Aid for Kosovo Refugees

In June, the European Commission cleared a $1.7 million emergency aid package for refugees fleeing from the violence in Kosovo. The aid will be managed by the European Community Humanitarian Office (ECHO) and will fund UN and other non-governmental organizations operating in the region for the next three months.

New US Ambassador to the UN

The former US ambassador to Germany and former assistant secretary of state for European and Canadian affairs, Richard Holbrooke, has been nominated to be the new US ambassador to the United Nations. Holbrooke, who hammered out the 1995 Dayton peace accords that ended the war in Bosnia, has recently been President Clinton's special envoy to Cyprus.

EU Summit Planned for October

A special summit meeting will be held in Vienna in October to bolster national autonomy in the European Union. EU leaders began debate in June about the issues to be addressed in the conference. Proposals include reform of EU institutions, the bloc's future after all national governments ratify the Amsterdam Treaty, and subsidiarity at a regional and national level.

"I hope there can be strong agreement that we need a decentralized Europe, not some European federal superstate," British Prime Minister Tony Blair said at the beginning of the June EU summit meeting in Cardiff, Wales.

EU Leaders Take a Stand for Kosovo

In the June summit meeting in Cardiff, leaders of the European Union demanded that Yugoslav President Slobodan Milosevic withdraw security forces from Kosovo, saying that violence in the ethnic Albanian-majority province constitutes a serious threat to regional stability.

Aside from the removal of Serbian forces used for "civilian repression," EU officials called for international monitoring in Kosovo, the full return of thousands of refugees who have fled to the province in recent weeks, and rapid progress in the political dialogue between leaders of Kosovo's Albanian community.

European Tourism Continues to Increase

Despite a twenty-year fall from 69 percent to 59 percent of total world arrivals, Europe remains the favorite destination for today's tourist. The World Tourist Organization (WTO) reported some 363 million tourist arrivals last year to Europe. Brussels, Munich, and Amsterdam airports registered double digit gains.

Air travel within Europe rose 10 percent last year because of cheaper fares and popular short breaks. Cross-border, high-speed trains also brought cities closer.

Europe accounted for half of world tourist receipts, estimated at $450 billion. Tourism has become as important for the European economy as farming, construction, or manufacturing automobiles.

"No sector will provide so many direct and indirect jobs over the next decade," predicts Geoffrey Lipman, president of the influential World Travel and Tourism Council (WTTC). The WTTC has been instrumental in setting up the new high-level group, which will liaise with European Commission President Jacques Santer. "It could be as many as 2 million," Lipman said.

The WTTC's statistics, which embrace direct jobs and tourist related employment—including suppliers, transport, malls, museums, clothing firms, printing, and various services—point to 19 million people currently in this enlarged sector and 16 million more in Eastern Europe (the latter could grow by 6 million in 10 years, says Lipman).

On this basis, the sector could provide one in eight jobs, 13 percent of gross domestic products, and $333 billion in investment around the year 2007.

Francesco Frangelli, the WTO's secretary general, thinks the euro "will allow tour operators, hotel chains, and car rental companies to operate in a broader market with more open and transparent pricing."

"The ability to compare prices more readily in European destinations will increase competition, produce lower prices, and strengthen the tourist industry. The euro zone will be the number-one force in world tourism, outperforming the US for arrivals, receipts, and outbound trips," Frangelli said.

Last year, France and Spain (both plus 7 percent), Ireland (plus 4.9 percent), and Switzerland (plus 4.5 percent) stood out among Europe's leading tourist destinations. The United Kingdom attracted 3 percent more despite a very strong currency. Four million American visitors represented a 13 percent jump, and among these were many older, well-heeled travelers.

Some European countries more than others seek to raise the quality of tourists' visits and thus encourage higher spending. Spain is outscoring France in receipts, and the "Bravo Espana" campaign this year seeks to continue this trend. Portugal, which is staging Expo '98 in Lisbon, expects a 15 percent jump over last year's 10 million tourists.

Ireland's hotels are booming, while Greece, which slumped in 1995 and 1996, recovered last year (plus 10 percent). Tourist chief Nikos Skoulas is aiming for quality via golf, tennis, health centers, marinas, and better entertainment. "Our economic future depends on tourism," said Skoulas.

As the popularity of different regions changes—East Europe is currently less popular—Rolf Freitag of the influential Munich-based European Travel Monitor, notes that the Mediterranean remains well in front as Europe's top destination. Some tastes don't change.

—Alan Tillier

WHAT THEY SAID
...about the situation in Kosovo

"I am more convinced than ever that this powder-keg can ultimately only be effectively defused by joint efforts by Europe and the United States. A growing involvement of NATO will probably prove unavoidable if the conflict escalates."

—Wolfgang Schüssel, Austria's foreign minister, speaking in June after having been the first EU foreign minister to visit the Kosovo capital of Pristina since the beginning of the recent crackdown by Serb forces on ethnic Albanians.

"Kosovo has the potential to become another Bosnia. We cannot allow this slaughter to occur."

—Senator Trent Lott, the Senate majority leader

"We must send the strongest message possible to [Yugoslav President Slobodan] Milosevic to tell him the international community will not just stand idle and watch Kosovo become a new Bosnia."

—Tony Blair, the British prime minister

"Milosevic has gone beyond the limits of tolerable behavior. We are showing that we are willing to back up international diplomacy with military means."

—Javier Solana, NATO's secretary general, discussing NATO air exercises conducted over Albania and Macedonia last month

"This scandal must end. We must try to find a political solution."

—Beniamino Andreatta, Italy's defense minister, commenting on the Kosovo situation after meeting with Secretary of Defense William Cohen in Rome

BUSINESS BRIEFS

Corporate America's love affair with Europe has been rekindled. Next January's launch of the single currency, the **euro**, combined with the financial crisis in Asia have enhanced Europe's charms to transatlantic investors.

US investors are spreading across all sectors, from manufacturing to services, as firms seek growth opportunities to compensate for stagnant domestic markets.

Among recent moves, **American Express** paid more than $140 million for **Havas Voyages**, a Paris-based travel agency with the biggest network in France. Meanwhile **Agco**, the American tractor maker, signposted its interest in **Claas** of Germany, Europe's leading manufacturer of harvesting machines. **Caterpillar**, the US construction machinery giant, is said also to be interested in Claas.

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Italy's fashion wars moved from the catwalk to the boardroom with **Prada** poised to take over its archrival **Gucci**.

Prada spent more than $250 million secretly acquiring a 9.5 percent stake in Gucci and was expected either to mount a full bid or to join forces with other investors to take control.

Both firms have undergone a spectacular revival in the 1990s as new management and design teams took advantage of the surge in sales of luxury goods in the past five years.

Gucci owes its success to Domenico de Sole, an Italian industrialist who took over after the Gucci heirs sold out, and to Tom Ford, its US-born designer. Prada was rescued from obscurity by the flair of Miuccia Prada, granddaughter of the founder, and the business skills of her husband, Patrizio Bertelli.

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Volkswagen's upmarket crusade

continued as it sought to add the **Lamborghini** and **Bugati** to a luxury stable that now includes **Rolls Royce**.

VW is also mulling plans to develop a new sports utility vehicle with **Porsche**, the German sports car manufacturer.

However, even as it negotiated to acquire Lamborghini from Hutomo "Tommy" Mandala Putra, the youngest son of former Indonesian president Suharto, VW was consolidating its position as the European market leader.

The German car maker took a 17.1 percent share of the market in the first five months of the year, way ahead of its closest rivals, Italy's **Fiat** at 12.5 percent, and **Peugeot-Citroen** of France at 11.6 percent.

Acquiring Rolls Royce and the two Italian marques will boost VW sales by only 3,000 cars a year compared with the 1.09 million it sold in January–May 1998. Nevertheless, they will give the firm the invaluable prestige of owning some of the most famous names in the business.

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Norway's North Sea oil and gas "nest egg" grew by more than 6 percent to around $16 billion in the first three months of the year after the central bank invested in global shares for the first time.

Norway, the world's second-largest oil exporter after Saudi Arabia, owns stakes in 2,000 companies around the world after the petroleum fund transferred 40 percent of its portfolio from bonds to shares.

The government is investing surplus cash from the oil and gas industry to cushion the country against declining revenues in the next century when North Sea production peaks.

• • •

Ryanair, the Irish low-cost, no-frills airline, capped another spectacularly successful year by sharply increasing profits, unveiling plans to list its shares in London, and preparing to expand its route network.

In the year to March 31, pre-tax profits surged by 51 percent to $51.9 million on revenues 34 percent higher at $255.6 million.

The airline, viewed as the most successful product of the European Union's "open skies" regime, carried more than 5 million passengers in 1998. It added flights to Sweden, Norway, France, and Italy last year and is talking with more than twenty European airports about new services.

Meanwhile, the company hopes to get a listing on the London stock exchange in addition to its listings on the Dublin market and the **NASDAQ** in the United States.

• • •

Kone, the Finnish elevator manufacturer, has formed an alliance with **Toshiba**, the Japanese electronics group, in a bid to challenge the global dominance of **Otis** of the US and **Schindler** of Switzerland.

The new group will make about 30,000 elevators and escalators a year and generate annual revenues of $3.2 billion, of which Kone will contribute $2.4 billion, giving it a 14 percent share of a $10 billion-a-year world market.

Kone, the world's third-largest elevator manufacturer, has stolen a lead over its rivals with its **EcoDisc** system, which does away with the requirement for a machine room above the elevator shaft.

The alliance will concentrate initially on China and Japan, two of the world's fastest growing markets.

• • •

Allianz, the insurance giant, is the latest German company to announce its ambition to seek a share listing in New York.

Moreover, like other companies that have already crossed the Atlantic, such as **Deutsche Telekom** and **Daimler-Benz**, Allianz must "open" its books to satisfy US regulators.

Allianz hopes a New York listing will help it fund acquisitions in the US.

—Bruce Barnard

INSIDE EUROPE

Correspondents
Lionel Barber
Bruce Barnard
Alan Tillier

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

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SLOVAKIA LAGS

By Susan Ladika

While the rest of Central and Eastern Europe scrambles to climb aboard the NATO and European Union bandwagons, Slovakia marches along to the beat of a different drummer.

Recent events in Bratislava have not been encouraging for Slovakian reformers.

It is the only country in the region repeatedly criticized by Western institutions for its lack of democratic reforms. And it is the only country operating without a president, consolidating power in the hands of Prime Minister Vladimir Meciar, the one person most criticized for the backsliding.

President Michal Kovac's term expired March 2, and a successor has yet to be found. Despite monthly parliamentary votes, no candidate has mustered the three-fifths majority needed for the job. It probably will take September parliamentary elections to end the impasse. Meanwhile, most presidential powers have passed to Meciar.

"It's bad when political parties cannot agree on a head of state, which is so necessary. It hurts the image of Slovakia abroad," said Eduard Kukan, chairman of the opposition Democratic Union Party.

The country's image has been repeatedly tarnished in recent years. For decades, Slovaks and Czechs were joined as Czechoslovakia. However, Slovakia sought independence in the 1993 "Velvet Divorce." The richer, more modern Czech Republic is a front-runner to enter the NATO and EU folds. The poorer, less developed Slovakia is a subject of concern.

"I...regret that democracy does not yet appear sufficiently deeply rooted in Slovakia," European Commisioner Hans van den Broek said during a June visit to Bratislava.

Although the government professes EU and NATO admission to be leading objectives, little has been done in those regards. The government blames Western officials, saying Slovakia is judged differently than the rest of the region.

Meciar claims his country has made necessary reforms. "We can announce to Slovakia and others with pride that...the fundamental tasks of building a democratic state, democratic law and order, and civic freedom have been completed," he told a recent party conference.

Others aren't so sure. "Western countries have logical questions when they follow the deeds and not the words of Meciar and the government," opposition leader Kukan said.

Last year, Kovac scheduled a referendum on NATO membership and direct election of the president. But the government tampered with the ballot, throwing out the election question. An investigation abruptly ended when Meciar used his powers to halt the probe.

He also stopped an investigation into the kidnapping of Kovac's son, Michal

Jr., sought by Interpol in a fraud case. The younger Kovac was kidnapped in 1995 and dumped in Austria. He was allowed to return home when the kidnapping became known. Some claim Kovac staged the abduction. Others say it was the work of Meciar's allies in the intelligence service, and an ex-policeman who said he could prove the link died in a car explosion.

Concerns over Slovakia's politics have in part kept foreign investors away. The country has gained about $1 billion in foreign investment, compared to nearly $7 billion for the Czech Republic.

Although growth topped 6 percent last year, the numbers aren't always as they seem, said Zbenek Lukas, an economist at the Vienna Institute for Comparative Economic Studies. "You can artificially initiate growth by state and private consumption, and state consumption plays a very important role in this economic growth."

The country also can boast a falling trade deficit, but that's because of trade barriers that place a 7 percent surcharge and tough quality certification standards on imports, Lukas said.

Slovakia's political and economic future may hinge on September elections. Polls show a majority of Slovaks favor opposition parties. Meciar "knows of this danger, therefore he is trying to change the election law," Lukas said. In late May, the government changed the law to require that parties receive at least 5 percent of the popular vote before gaining parliament seats, preventing several small parties from being part of an opposition coalition. Also, candidates can now only advertise on state-run radio and television.

The changes prompted Stephen Flanagan, President Clinton's assistant for Central and Eastern European affairs in the National Security Council, to hold a press conference in Bratislava to express US concern as to whether the elections will be free and fair in the wake of the new laws.

So far, Slovaks have put up with the situation. The collapse of communism brought a new way of life to Slovakia. "A certain group of citizens follow Meciar with blind eyes because they're used to being told what to do," Kukan said. "For them, Meciar is the ideal type of leader." ⓔ

Austria's Nuclear Neighbor

Slovakia's decision to begin testing its new nuclear power plant has set off a politically charged dispute with its neighbor Austria.

Slovenske Elektrarne (SE), the company responsible for operating the Mochovce nuclear plant, began activating nuclear fuel rods in June, despite concerns from international experts that the facility is unsafe.

Following the start-up, Austrian Chancellor Viktor Klima called the decision, "an irresponsible and unfriendly act."

While Slovaks see the plant as a means to decrease their dependency on imported electricity, Austrians see it as an accident waiting to happen just seventy-five miles from their border.

Part of the conflict is a clash of philosophies between the two countries. Austria is staunchly anti-nuclear, going so far as to outlaw nuclear power. In the late 1970s, Austria even constructed a nuclear plant, but citizens voted in a referendum to keep it from going on-line.

In contrast, Slovakia has had one functioning nuclear power plant since 1979, and insists it needs to activate Mochovce. Today the country imports 14 percent of its electricity but must charge customers less for the electricity than it costs to import it.

Mochovce has been built in fits and starts for two decades. The Soviet-designed reactor has been retrofitted with Western technology, under the supervision of the Vienna-based International Atomic Energy Agency. Companies such as America's Westinghouse, Germany's Siemens, and Electricite de France have been involved in the project.

Still concerned about Mochovce's safety, Klima reached agreement with Slovak Prime Minister Vladimir Meciar to have a team of experts from such countries as Austria, Germany, the United States, and Ukraine inspect the plant in early May.

At a press conference following the inspection, Wolfgang Kromp, the Austrian heading the team, praised modifications made at Mochovce since 1995. Just days later, however, he sent a letter to SE Director General Tibor Mikus, along with Klima and Meciar, raising concerns that the reactor vessel was unsafe and could eventually crack.

"Due to the hesitant and restrictive information policy of the SE management, it was neither possible to discuss these problems to the desirable extent within the Expert Team, with external experts, or even with your own staff," Kromp wrote.

In response, Klima sent a diplomatic note to Meciar, requesting that start-up be delayed until safety issues were resolved. SE officials dismissed the concerns as unfounded and said Kromp was being subject to political pressure back home to write a negative report about Mochovce.

"The probability of the pressure vessel cracking is the same as your chances of walking out of this building and having the Statue of Liberty fall on your head," Milan Mikus of Slovakia's Nuclear Energy Institute said at a Bratislava press conference.

The Slovaks also criticized the experts for not handing over their report on Mochovce when promised. SE officials even arranged a press conference in Vienna, bringing in officials from Slovak, Czech, Russian, German, and French companies involved in the design and construction of Mochovce to assure Austrians that the plant is safe.

Mikus told the crowd, "We have at our disposal the best that has been achieved by thousands of engineers, thousands of experts. Improvement of nuclear safety at Slovenske Elektrarne is an ongoing priority." SE began testing the 440-megawatt reactor at 5 percent of power in June, and it should be operating at full capacity by late July. A second bloc is scheduled to go on-line about a year later.

David Kyd, spokesman for the International Atomic Energy Agency, said dozens of the VVER 440-type reactors are operating throughout Central and Eastern Europe. Although they do not meet Western safety standards, there have been no major problems at such power plants. "The shortcomings are well documented and well-known," he said.

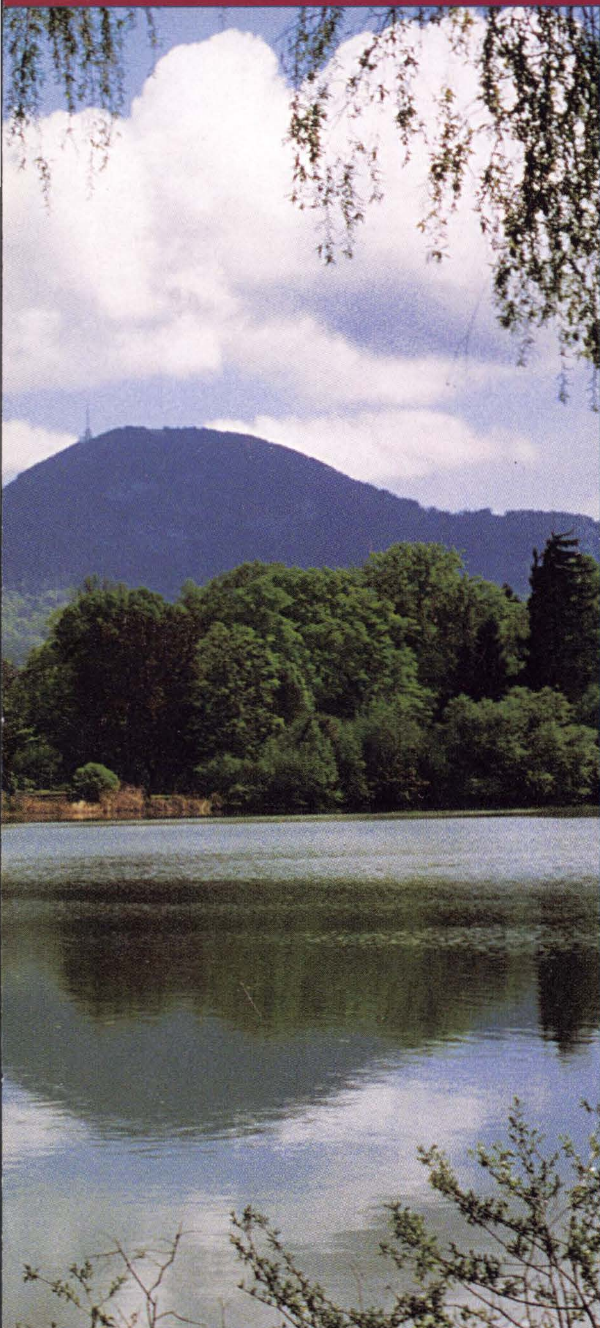
Kyd said it is standard practice for countries to test new nuclear power plants at 5 percent of power, make necessary adjustments, then gradually increase power. Comparing the procedure to an automobile, Kyd said, "The Slovaks are intent on edging the car out of the garage.... They certainly aren't bringing it up to full speed and taking it out on the autobahn."

—Susan Ladika

SALZBURG

The Schloss Leopoldskron, which served as the location for the von Trapp family home in the movie *The Sound of Music*, is the home of the Salzburg Seminar.

The American Connection



"Salzburg has a strong American connection," says Dr. Arno Gasteiger, vice-governor of the province of Salzburg. In his office overlooking a prominent statue of Mozart, the city's most famous native son, and the gorgeous Alpine scenery that dominates the city, Dr. Gasteiger relates the importance of Salzburg being occupied by American forces after World War II.

BY ROBERT GUTTMAN

"We were quite lucky in Salzburg that we were in the American zone because the Russians in Vienna and lower Austria destroyed factories and took away machinery and transported it back to Russia. Therefore, the postwar economic development in the eastern part of Austria only began in 1955, when the Russians left Austria. However, our economic development began in 1945, so we had a ten-year head start. There was a great rapport between the Americans and the Austrians here in Salzburg. They were our partners, and they helped us. So we were really lucky and had a big advantage. Many of the American officers who served here after the war come back today as tourists with their families," comments Dr. Gasteiger.

The American connection continues today at the beautiful 250-year-old baroque palace called Schloss Leopoldskron. Most Americans have seen the outside of this very impressive building because it served as the location for the von Trapp family home in the Academy Award-winning 1965 movie *The Sound of Music*. Several of the film's scenes were filmed at this stunning location.

However, today the Schloss Leopoldskron is the home of the internationally known and very well respected Salzburg Seminar, which was started more than fifty years ago by three students from Harvard.

Today, the chairman of the board of directors is Roy Huffington, a former American ambassador to Austria, and the president is Olin Robison, president emeritus of Middlebury College in Vermont.

Mr. Robison says, "The seminar prides itself on promoting American informality in a setting of European elegance."

The Salzburg Seminar is a "non-profit, international educational institution, which brings together leaders from around the world to discuss political, economic, social, and cultural issues," according to Tim Ryback, the director of the seminar in Salzburg. However, the seminar is not a dry collection of academics gathering to rehash old topics. The Salzburg Seminar attracts an all-star cast—not only from the United States but from around the world—to lead a variety of topical discussions. First Lady Hillary Rodham Clinton led a gathering last year entitled "Vital Voices: Women in Democracy." Supreme Court justices Sandra Day O'Connor, Ruth Bader Ginsburg, and Warren Burger have been guest lecturers, as have numerous congressmen, senators, and American journalists. A recent discussion group entitled "Europe on the Eve of the Year 2000" featured European Commissioner Franz Fischler and Pascal Lamy, former chief of staff to former European Commission president Jacques Delors, on the roster as visiting faculty. Heads of state from across the globe have participated regularly in past seminars.

The Salzburg Seminar attracts an all-star cast of leaders from around the world, including First Lady Hillary Rodham Clinton.

Originally, the Salzburg Seminar was conceived as a place to bring people together after World War II to discuss the essential issues of the day in a neutral location. The founders believed "Europe needed to be rebuilt not only physically and economically but also intellectually and spiritually, that it was incumbent on Europe's young generation to re-establish dialogue as a means of healing the wounds of war."

For the first few decades of its existence, the seminar's discussions focused on American and European topics, but today's groups focus on global issues from the future of the Internet and East Asian societies to health care and higher education. In December, there will be a session focusing on "the international impact of the European monetary union."

John Richardson, deputy head of the European Commission Delegation in Washington, DC, who will be a member of the faculty for that session, knows the seminar well. "What is remarkable," he says, "is the way that people from thirty to forty different countries interact and learn from each other in the calm surroundings of the schloss."

While the Salzburg Seminar has gone global, it still has an American Studies Center "as a significant component of its academic program."

Moreover, a significant amount of the funding for the seminar comes from the United States from the Kellogg, Ford, MacArthur, and Hewlett foundations.

The widow of Max Reinhardt, the Austrian theater director and co-founder of the summer Salzburg Festival, donated her house to the Salzburg Seminar in 1947. The palace, which was built in 1744 for an archbishop, underwent a massive restoration to restore its original grandeur. Today, it is one of the most impressive buildings in Europe with its mirrored Venetian Room and elegant library, not to mention its views of the mountains.

The Salzburg Seminar, which defines its primary purpose as "promoting the exchange of ideas, experience, and understanding, and to build networks among professionals around the world," can boast of having more than 18,000 alumni from nearly 150 nations around the world. More than 1,200 of these alumni are from the United States.

It would be hard to find a more conducive environment or more qualified instructors than the unique, challenging, and globally aware Salzburg Seminar. And when you finish discussing how to solve the key issues of the day, the nearby sites in Salzburg, including Mozart's house, the Hohensalzburg fortress, the Mirabell Gardens, the Residenz, the Getreidegasse, and the marionette theater, are well worth visiting.

Of course, one can visit the best-known American connection to Salzburg, which exists in the form of the various locations seen in the film *The Sound of Music*. Even First Lady Hillary Rodham Clinton, after lecturing at the Salzburg Seminar, wrote that her first thoughts about Salzburg were "when my father and I saw the movie *The Sound of Music*."

The first lady goes on to praise the original mission of the Salzburg Seminar, which she says "was the idea that men, who just a short time before had faced each other on the battlefield, could sit across from each other at a table and exchange ideas. Today, the seminar's mission has remained constant: to help people come together across their differences to find common ground." ⓔ

Advertisement

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Austria has become an increasingly attractive business location in Europe. One of Austria's unique selling propositions is its position as the preeminent bridgehead to Central and Eastern Europe (CEE). More than 1,000 international companies, including *3M, Alcatel, Coca-Cola, Henkel, Hewlett Packard, Master Foods McDonalds, Mitsubishi, Nestle, Siemens,* and *Unilever*, have selected Austria over other EU and CEE locations as headquarters for their CEE business operations.

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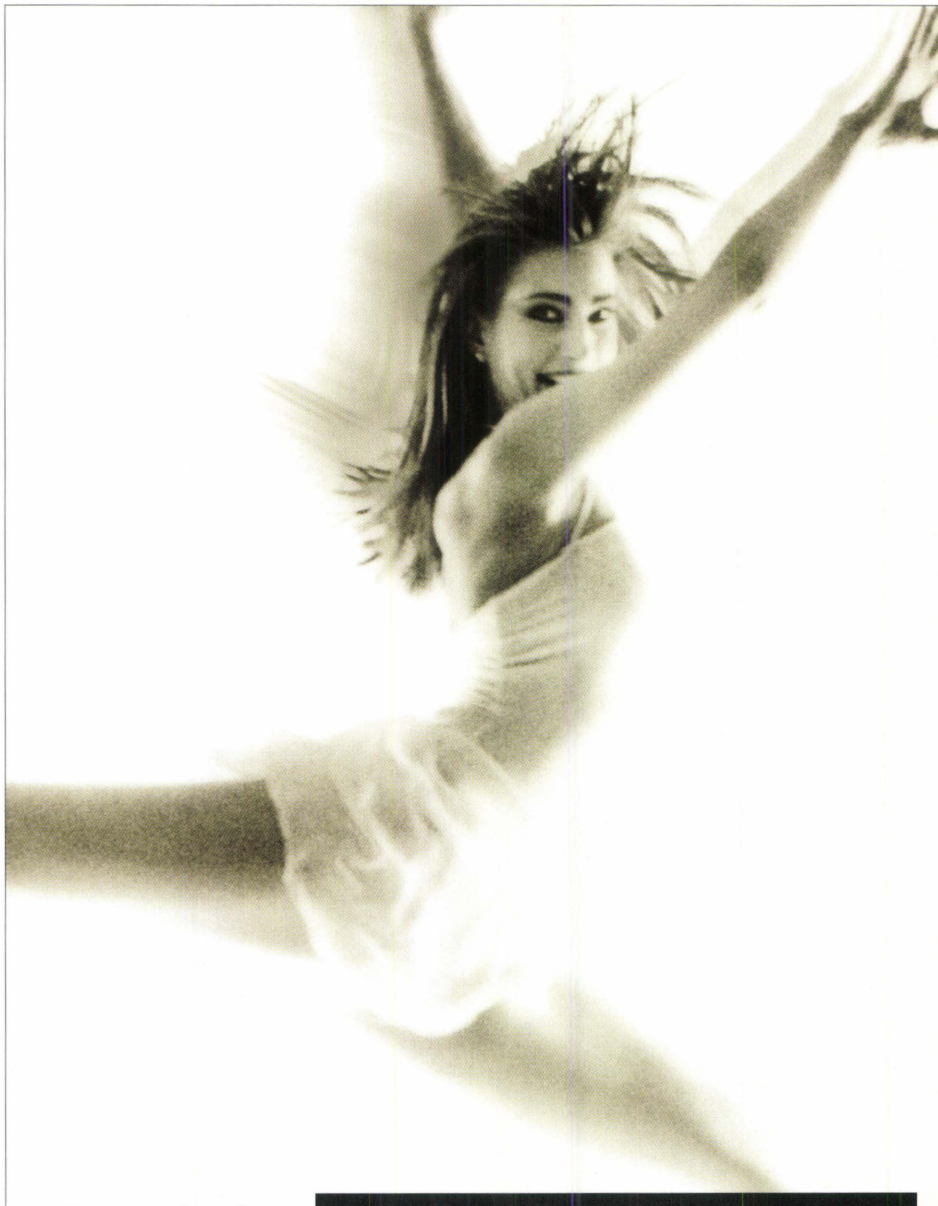

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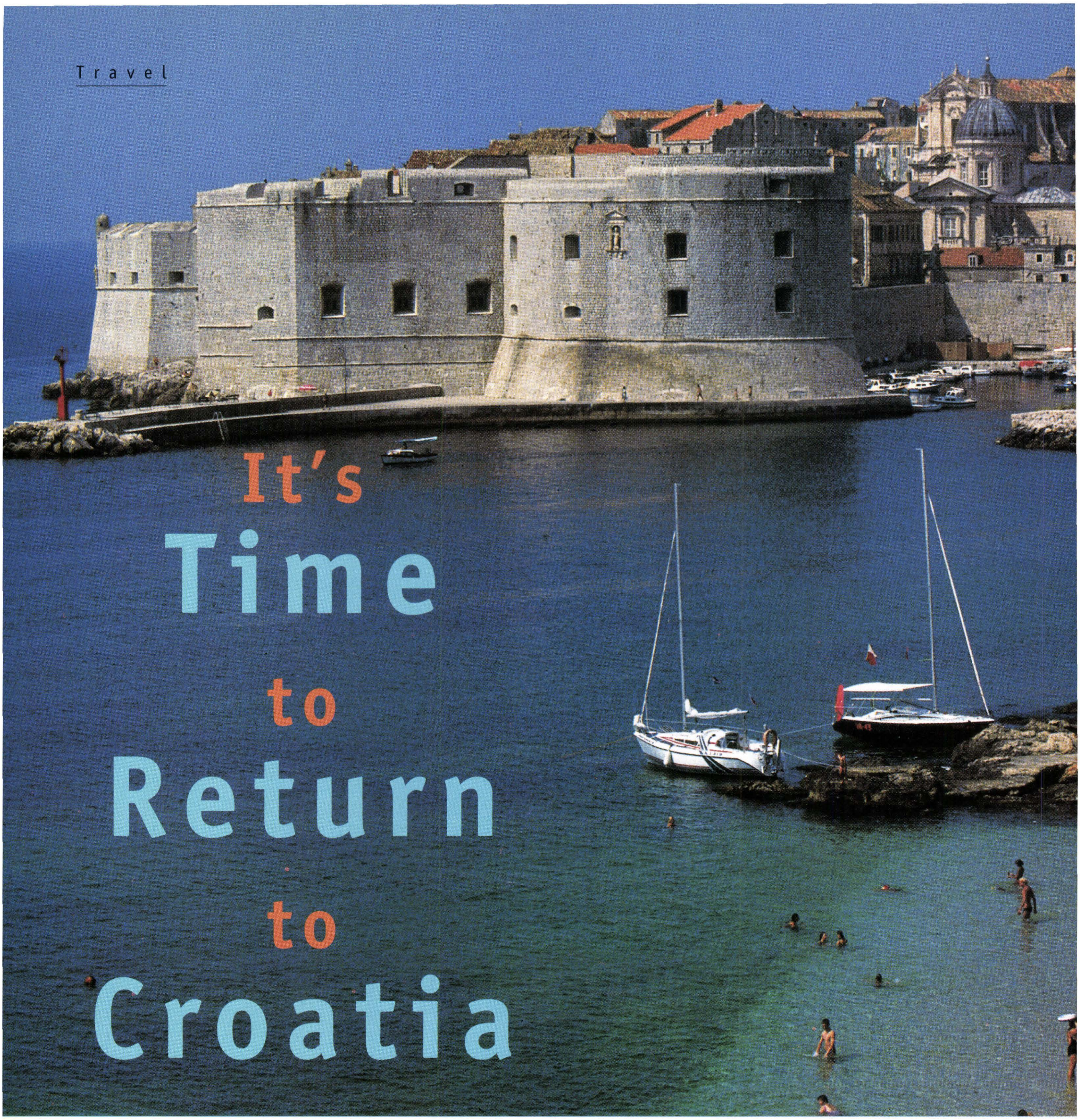
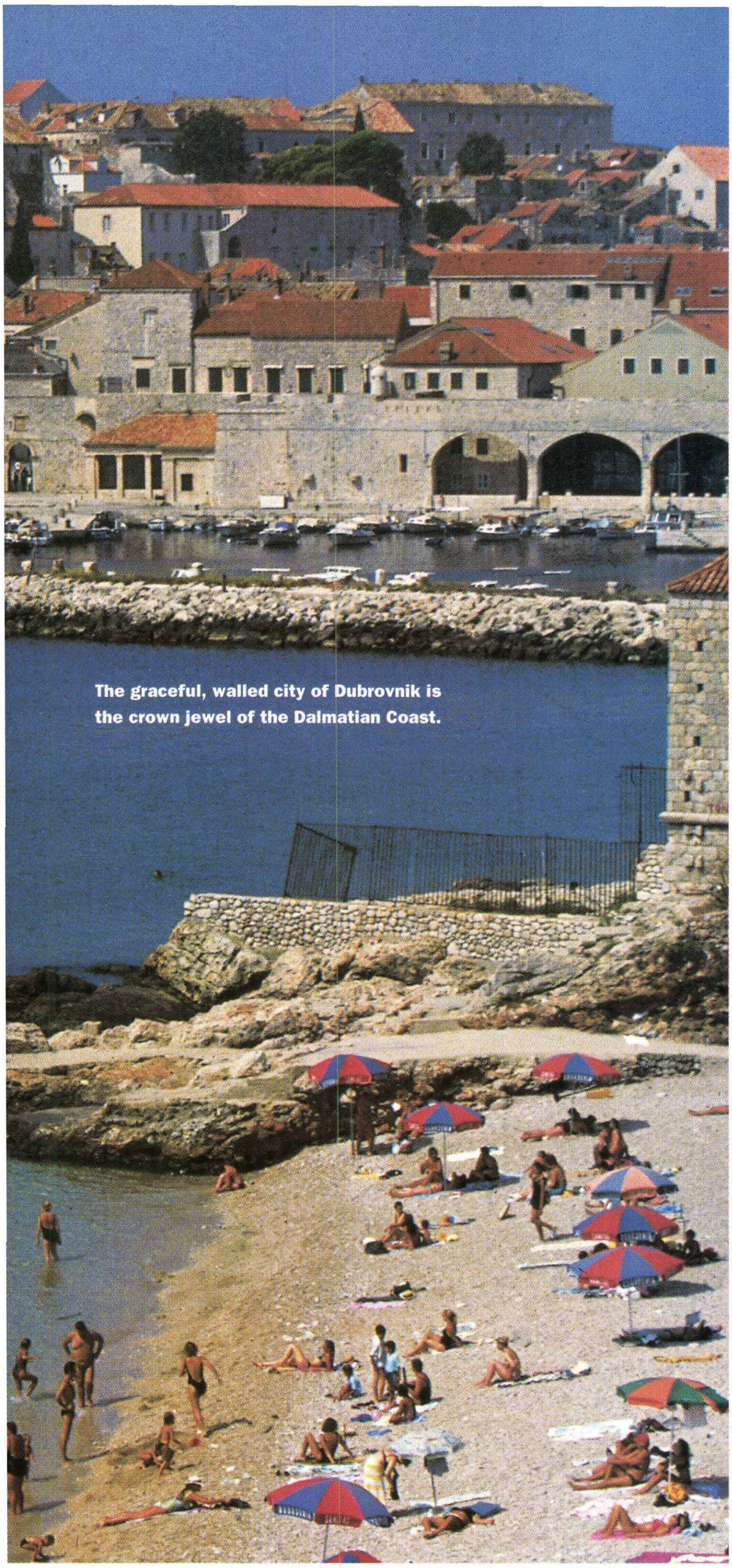


It's Time to Return to Croatia

CROATIA ALWAYS CALLS OUT to the travelers who have been there. I have seen it time and again in people who have traveled all over Europe but who feel a special tug from Croatia—a land of castles and campaniles, mountains and lakes, ancient turreted cities, and radiant islands scattered along the Adriatic Coast like gems on a blue velvet jeweler's cloth. **By Kenneth C. Danforth**



The graceful, walled city of Dubrovnik is the crown jewel of the Dalmatian Coast.

Croatia has come out of its time of troubles, an unprovoked invasion and partial occupation, looking better than it ever has before. Gone are the drab strictures of the cursed Yugoslav federation to which it was shackled. Now the country is moving into a new era brightened by the liberty and independence it has sought for hundreds of years.

In the process, it is offering foreign tourists an Eden of sun, sea, and sky at prices not seen in Europe for years and a freedom from crowding that is increasingly difficult to find. Foreigners are being greeted with a national hospitality enriched by a deep appreciation for being once again "discovered."

The first time I ever saw Croatia was from the deck of an Italian ship bound out of Venice for Greece. We put in at Split at dawn. I saw the blossoms of yellow broom on the mountainsides contending with the sky for brightness. I saw the sleek sailboats sliding past the mole, their rudders bent for the subtropical charms of the Croatian archipelago. The immense walls of Diocletian's Palace dominated the tight little harbor, testimony to the attraction that even a Roman emperor, with all of his vast empire to choose from, descried in this bit of shore.

I have returned often, visiting Croatia and the other reluctant partners in the Yugoslav house of burning cards, for fourteen years. On my second visit I took my wife and three young children, sheltering them on the idyllic island of Hvar for two weeks while I played journalist on the mainland. It was the grandest holiday of their lives.

It is the Adriatic Coast that I know best and best love. I've driven every mile of the sinuous Jadranska Magistrala—the Adriatic highway—from the Slovenian border in the north to Montenegro in the south. It is a road that demands respect, both for its spectacular seascape vistas and for its undoubted perils. Many of the highway's curves swing out over the sea, with nothing but air between the edge and the surf-blasted crags hundreds of feet below.

Geographically (though not politically) Croatia can be divided into Adriatic Croatia and Continental Croatia.

The coast has strong historic associations with the Venetian Empire and Italy, which have tried, with only temporary and tenuous success, to rule it.

The slender strip of land that runs between the sea and the rugged Dinaric Alps is known as Dalmatia. Dalmatians are an outgoing, outdoor people. The evening *korzo*, when they gather on some central plaza or tree-lined quay to stroll, flirt, and gossip, is an institution with roots deep in the soul of people who live south of what I call the Olive Line—the northernmost boundary for olive trees and all that they mean for culture and cuisine.

With a thousand islands and a deeply indented coastline, Croatia has the longest shoreline in Europe except for Norway and Greece.

Sixty-six of the islands are inhabited. They were far enough from the recent war to escape bombardment and occupation, though they did suffer economically and emotionally. The same applies to the entire Istrian Peninsula, which is only a few miles from northern Italy and fairly isolated from the main body of Croatia.

Istria has a beautifully preserved Roman amphitheater at Pula, an old Italian-style resort at Rovinj, and an old Austrian-style resort at Opatija. Inland, the hilltop town of Motovun could easily be mistaken for a village in Tuscany.

Croatia's admirable intracoastal ferry system, Jadrolinija, has taken me to the most charming islands I've ever known. Hvar, Brac, Vis, Korcula, Mljet, Zlarin, Kolocep, Sipan, Lopud, Solta, Pag, Rab, Krk, Lastovo—the names have a register in the mind that calls up days of quaint villages and homemade wines, hot fields of lavender and grapes, tight little anchorages, freshly caught fish grilled on a sunset-reddened quay, and the slap of water against the hull of a sailboat.

And, of course, I remember the crunching of pebbles underfoot as I gingerly eased my way across a baking beach to enter the chill and translucent Adriatic. Its rich burden of salt enabled it to take on another burden—me, floating effortlessly on my back and looking up at the looming gray heights of the Biokovo Mountains. The Makarska Riviera and the resort town of Donja Brela beckon to those who simply want to loaf on spectacular beaches while groves of aleppo pine offer nearby shelter from the aggressive sun.

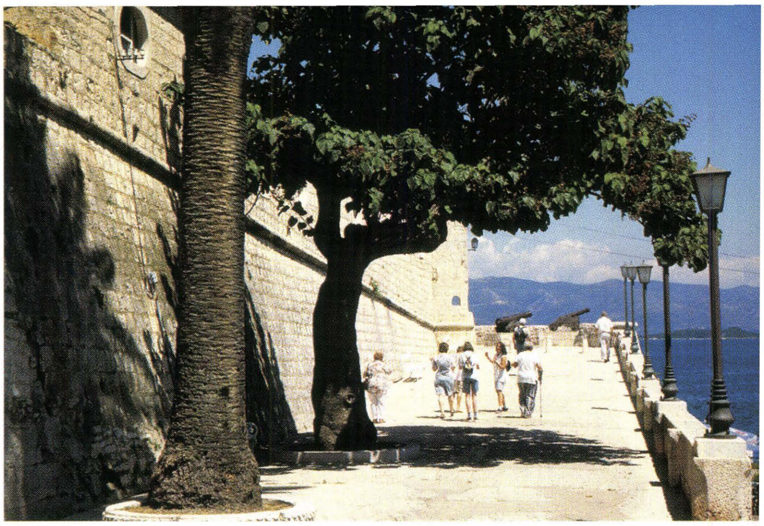
As might be expected in an area with a long maritime tradition, nautical tourism is well developed all up and down the coast. Sailors can choose among forty-two modern marinas. Many Italian yacht owners berth their vessels in Croatia because they prefer sailing among the islands to sailing up and down the relatively unaccented Italian coast.

The crown jewel of the Adriatic Coast is Dubrovnik. Once a rival of Venice, Dubrovnik started in 1272 to build the wall that today still encircles the old city with massive curvilinear majesty. Its glowing white limestone is ice cream to the eyes. In places the walls are twenty feet thick, and they are more than eighty feet tall with towers that rise even higher. Yet, they always look graceful.

Automobiles are not allowed inside the walls, so visitors today can still enjoy sitting at dozens of outdoor cafes, soaking up the vibrant Renaissance culture that seems to surge out of the ancient, dignified buildings. The main promenade, Stradun, also called the Placa, is so old that countless millions of shoe soles have buffed its marble paving to a glassy polish.

Inland, on the far side of the Alps, lies Continental Croatia. Its historic influences are more Hapsburg and Viennese than Venetian to a foreigner's eye, though to a Croatian they are simply traditional Croatian. This can be seen most dramatically in the pastel-toned architecture of Zagreb, the capital, and the colorful towns and castles that surround it.

In a drive from the Adriatic Coast to Zagreb, the most delightful and amazing site is that of Plitvice, a series of thirty steeply stacked lakes that flow, one into the other, in a sylvan wonderland of countless leaf-fringed waterfalls. Unobtrusive wooden walkways lead visitors across the surging waters and dynamic riverine landscape. The Plitvice Lakes region offers a thickly forested haven that contrasts dramatically with the sun-smitten coast and the cosmopolitan sophistication of the capital.



Visitors can take a leisurely walk along the promenade on the island of Korcula, where local people claim Marco Polo was born.

Away to the east of Zagreb lies Eastern Slavonia. For the time being, most travelers will not want to go there, for they would see the ravages of a violent invasion. On the other hand, for those hardy enough to make the drive through that unfortunate region near the Sava River and the Serbian border, such a foray would certainly be a graphic and sobering history lesson. But the war-torn region, tragic as it is, as beautiful as its baroque cities and green fields used to be, was never a part of the country that tourists were likely to seek out.

Zagreb is a colorful city with scores of buildings that look much like they did during the days of the Austro-Hungarian Empire. In fact, many movie producers have gone to Zagreb to film stories that took place in the late nineteenth century and the first forty years of the twentieth. Streetcars whisk along the streets into the wee hours while at sidewalk cafes, just as in Paris or Berlin, people talk passionately (and sometimes languidly) about the issues and non-issues of the day.

All in all, Croatia offers the variety of a continent within a workable compass. With a cultural ambience and scenic wonders that are among the most attractive in Europe, Croatia holds promise for travelers who are willing to explore beyond the beaten-out paths of tourism in Western Europe. Ⓔ

Kenneth C. Danforth writes about Central Europe and the Balkans for EUROPE.

A Traveler's Guide

Croatia can easily be reached from Western Europe by four different means of transportation.

By rail, the EuroCity Mimara runs daily between Munich and Zagreb, with stops in Salzburg, several Austrian Alpine stations, and Ljubljana, the colorful capital of Slovenia. Much of the journey affords spectacular Alpine views.

By air, Croatia Airways and other European airlines offer nonstop flights from major airports in Western Europe.

Highway travelers can easily reach Croatia (via Slovenia) by way of superhighways in Italy and Austria. It is possible to come through Hungary, but I would not recommend that route to most travelers coming from the West. As for car rentals, it is better to rent a car in Germany or Austria, where rates are cheaper than in Slovenia or Croatia.

Italian ships and Croatia's excellent Jadrolinija (Adriatic Line) sail regularly from Ascona, Pescara, and Bari to the Dalmatian ports of Split, Zadar, and Dubrovnik. Cabins are inexpensive.

Although I have overnighted up and down the Dalmatian Coast and its islands, I am reluctant to recommend any specific hotels. Scores of well-situated hotels adorn the coast, but the hotel scene continues to change as tourism recovers from the exigencies of invasion.

Zagreb has five excellent hotels, all centrally located. I prefer the spacious nineteenth century Palace or the luxurious old Excelsior, but the modern Inter-Continental, Sheraton, and Dubrovnik are also good. Hotel Dubrovnik is only a few steps from Jelacic Plac. The Palace is across the street from the city's downtown parks and an easy walk to the railway station and Jelacic Plac.

As far as I know, no one has published a guidebook on Croatia since the breakup of Yugoslavia seven years ago. Libraries still have the old travel guides; they can be usefully consulted, but not relied upon. The best source of tourist information today is the Croatian National Tourist Office, Ilica 1a, 10000 Zagreb and the Zagreb Tourist Bureau, Kaptol 5, 10000 Zagreb.

These offices can put travelers in touch with knowledgeable travel agencies, such as Atlas, which specializes in the Adriatic Coast, and General Tourist, which can make arrangements for travel in Zagreb and the interior.

The Croatian Embassy also has travel information. Contact the press and cultural attache, Marijan Gubic, at 2343 Massachusetts Avenue, NW, Washington, DC 20008. Telephone (202) 986-9479.

—Kenneth C. Danforth

CAPITALS

AN OVERVIEW OF CURRENT AFFAIRS IN EUROPE'S CAPITALS

This month we asked each of our Capitals correspondents to write about buying a home in his or her respective country. From Ireland's building boom to the rising number of co-ops in Swedish cities to the high percentage of Finnish homes that feature saunas, the European real estate market can best be described as a complex and varied landscape.

ROME

REAL ESTATE BENEFITS FROM ECONOMIC BOOM

Italian real estate would like to express its gratitude to the stock market boom. For a decade, Italians had almost stopped buying houses, mainly for two reasons: soaring prices and extremely high taxes. Taxes on home sales vary between 4 percent and 11 percent, depending on whether it is to be the main residence or a second home, and annual taxes range between 27 percent to 34 percent.

Now, though, there are very clear signals that things are about to change, that there is a renewed interest in real estate investments. The merit goes to the flood of liquid assets created by Piazza Affari, the stock market located in Milan, which, although small, is racking up world records in growth rates. The thrifty Italian saver, in part satisfied with having tripled and sometimes quadrupled his stock investments, and in part worried that sooner or later this bonanza is going to end, is starting to view real estate once again as a shelter.

Everyone had been taken by surprise by this sudden disinterest in buying houses. Italians are well known for putting their family first; as soon as they have a bit of money put aside, they use it to get a real estate mortgage. The dream of being a homeowner was—and is—very important in Italy, as elsewhere. So much so that in the past twenty years, the percentage of families living in rented apartments had fallen heavily—from 41 percent in 1979 to less than 23 percent in 1996. Consequently, during that same period, the number of Italians living in homes they own increased from 59 percent to 77 percent.

But one must keep in mind the very particular situation that exists in Italy in order to understand this race to buy houses, which would seem to contradict the crisis in the real estate market.

One thing, above all, keeps the market from reflecting the true situation: the very consistent amount of real estate owned by public institutions. Big private real estate companies, like those that exist in US, are rare in Italy; they own less than 7 percent of all apartments. The majority, more than 67 percent, is divided up in the hands of small owners, very often people who own only the house they live in, or at most, a second home at the seaside or in the mountains.

However, the fact that public institutions own 25 percent of the buildings causes a majority of the shortage. Consequently, politics have always played a role in the real estate shortage. All of the Italian governments that have risen and fallen since the end of World War II have traded support for low rents for electoral support from the powerful renters' associations and left-leaning parties. The meager "political" rents of this vast number of public apartments have kept the market on the decline.

Now, though, the government is forcing public institutions to sell at least a part of their real estate holdings to create new liquid assets to invest in the market. The unions agreed that these houses could be sold but argued that the people renting them should be given the first option to buy them and at a discounted price. Contractors and real estate agents protested, saying that this would inflate

the market and make it impossible to build new apartments. Interference by political power has caused real estate to become increasingly unappetizing as far as investments are concerned.

The market, however, is now beginning to register a slight revival. Insiders say that the negative cycle, which has lasted over a decade, is almost over. Moreover, the center-left government led by Romano Prodi has given a helping hand. The prime minister has pushed for lower interest rates on bank loans for buying primary residences, bringing them down to the lowest levels in the past forty years and putting them on a par with the European average: between 4.5 percent and 7 percent. Furthermore, for the first time, tax benefits are available to homeowners who would like to renovate and modernize their homes. For the next two years, they can deduct 41 percent of the renovation costs from their tax returns. This applies not just for their home but for any other buildings they own. The plan behind this unexpected generosity is to put older houses on the market as well.

The first results indicate that it is working. Homeowners everywhere in Italy are planning renovations in the kitchen, the bathroom, or the children's room. Secondly, real estate investments, although they aren't offering incredible returns, at least appear interesting again. The gross yield has increased an average 6 percent. Subtract 2 percent for tax incidence and 1.8 percent for inflation, and you come up with a net interest of 2.2 percent. Not much, but better than before. Above all, young couples are again encouraged to buy a home, whereas before they were the first to give up their dream of building a "nest." Inheritance taxes have also been kept low. An inheritance from parent to child is tax-free up to a maximum average value of $150,000. Above this amount, and when a non-luxury home is involved, the tax is 3 percent.

Two factors indicate just how appealing real estate investments are becoming. First, the number of apartments that are being rented out has increased by 4 percent. Again, the government gets the credit. It is eliminating the "political" rents, which allowed certain tenants to live in big, centrally located apartments at a ridiculously low rent. Speeding up the legal process allows owners to rescind rental contracts and regain possession of their house. Until now, this took up to ten years and an infinite series of bureaucratic procedures. For this reason, many owners preferred to keep their houses empty, although this meant not making any income.

The second factor comes from Germany. The Deutsche Bank has initiated an investment fund in Italy dedicated to real estate investments. It is the first bank to do so. According to the director of this operation, Gerardo Solaro del Borgo, the net return for investors could reach 5 percent.

—*Niccolò d' Aquino*

HELSINKI

FORGET THE GARAGE, FINNS WANT SAUNAS

Most Finnish homes are condominiums or detached houses, with some 70 percent of all Finnish houses owned by their occupants. Investors, trust funds, and municipalities own roughly 30 percent of the apartments in Finland and rent them out. Moreover, the number of rented flats has been steadily increasing for most of the last ten years. There are two reasons for this increase. One is that young people do not seem to crave owning their homes like the post World War II generation did. The other reason could be attributed to the low inflation over the last ten years. Under such circumstances, a substantial mortgage can be a tough burden. Especially when only a limited part of the interest is tax deductible. Some thirty years ago, there was no limit for tax deduction, and the yearly inflation could be a two-figure number. In those days, it was advantageous to take out a large loan. Now it's different, and a shortage of apartments for rent exists, not only for the one-bedroom "starter homes," but also for larger condominiums in fashionable areas. Pre-furnished apartments or houses are very rare. Most Finns prefer to bring along their own furnishings.

The Finns are among the heaviest taxed people in the world, but when it comes to housing there are various tax modes from which to choose. If you live in a villa or estate that you have turned into a housing corporation, you have an array of potential deductions available to reduce the tax burden. Although Finland's direct tax on income can easily exceed 50 percent, the tax on capital and unearned income is very moderate. In fact, it is among the lowest in Europe.

A company-owned flat is a less favorable option since the tax code regards such an arrangement as a direct income. The employee must then pay tax on the value of that benefit at the direct income rate. However, if you live in a place owned by a relative, it is not considered a benefit, even if you pay no rent. Nor is the taxman particularly grim if you inherit a flat or a house. If you are the child of the deceased owner, the tax is only some 10 percent. If an uncle or more distant relative leaves the property, you pay more. If some non-related admirer leaves you a house, you could pay as much as half the value. The assessed value is usually less than the market value, but recent economic turbulence has produced situations in which the taxable value has been more than double the market value.

Both apartments and houses are expensive in Finland. As such a comparison of the prices does not tell very much. Like anywhere else, the same type of flat in a fashionable seaside area is much more expensive than in the middle of nowhere—of which there is a lot in a country with an average population of only forty-three people per square mile. It is, however, the climate, that adds a lot to construction costs in this country. Only places like Siberia, Alaska, or Greenland demand similar extreme degrees of insulation and heating for the winter months.

Finnish homes are special in that they all have saunas. A Finn cannot exist without a sauna. Every detached house has one. In 1996, more than a million apartments had one. The Finns also have their summer cottages (with roughly half a million saunas) usually by a lake. All together, Finland has about 2 million saunas—not bad for a population of 5 million.

—*Thomas Romantschuk*

LUXEMBOURG

HOME OWNERSHIP IS EXPENSIVE BUT ATTAINABLE

It's a reasonable claim that private homes in Luxembourg are larger, more imaginatively designed, and better equipped than those of any other European country. They are surely, on average, the most expensive.

You would expect this in a country whose citizens are the richest in Europe, with a standard of living almost twice as high as the European Union average. Nevertheless, there are other factors at work to give the Luxembourg housing market its distinctive features.

There is, for instance, the practice—less common now—of families buying large plots of land and building houses on them when their children grew into "nesting" age. Demand for land for this purpose has been so vigorous in recent years that it's said that many farmers "fell from the hayloft into the Cadillac."

The development served two purposes: It brought home ownership into the reach of many young families that might never have managed the cost otherwise, and it produced a diversity of house designs. However, inevitable land shortages have pushed up prices and made the practice less attractive than it was. In addition, the huge influx of immigrants into Luxembourg in the past twenty or thirty years has created a demand for a different kind of accommodation—ready-made houses (for purchase or rental) and apartments.

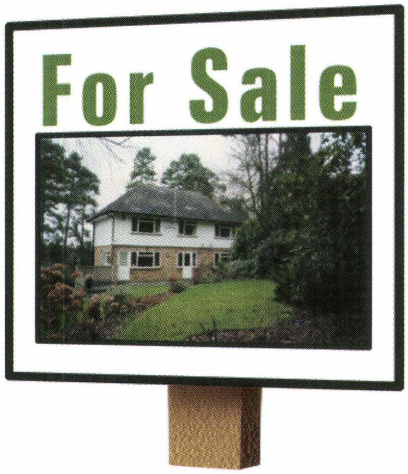
The more or less constant pressure from foreigners has kept house prices high in Luxembourg. They shot up in the 1970s and 1980s and have stayed on a high plateau ever since. You will not find much of a selection of homes for sale at less than $250,000. Although mortgages are easily available, the buyer is normally expected to put down at least 25 percent of the purchase price in cash.

Yet Luxembourg is a surprisingly egalitarian society in many ways, and the government offers an impressive range of financial support, in particular for first-time buyers, large families, and those with small incomes.

First-time buyers who meet certain means test criteria can, for instance, qualify for cheap house purchase loans from the state pension scheme. For every child, the government will provide a subsidy equal to three-fourths percent of the interest rate so that, for a family with four children, a typical 4.5 percent house loan would cost very little in interest.

Generous relief is also available to cover what would otherwise be the remarkably high house-purchase registration, notary fees, and duties, which can amount to 10 or 11 percent of the selling price. These can be cut to just 1 percent or so for low-income families and others.

Other allowances and grants are provided by the government to help pay architects' fees, to encourage saving for a house, and to reduce taxes for people



renovating older properties or buying brand-new houses. Tax breaks are available for those paying off mortgages.

"It's quite a generous package for poorer and larger families," says Karl Horsburgh, a tax consultant, "but bear in mind that houses are relatively expensive." He attributes the level of house prices to the high cost of land and the high average disposable income in Luxembourg compared with surrounding countries.

The average Luxembourg income is around $40,000 a year, and traditionally between one-third and two-fifths of net income goes toward housing. It's the dream of every young couple to own their own house, and an impressive number do so by their late twenties. In the country as a whole, nearly two-thirds of all households represent owner-occupied properties, though in Luxembourg City the figure drops to only 40 percent.

A novelty of the house market in Luxembourg is that anyone can find out the price paid for a property from the Registry Office. That's not quite so useful when you realize that the official price—on which taxes and duties are calculated—could be 20 or 30 percent lower than the actual price paid. Nobody needs to translate the expression "doing a bit of black" in the Luxembourg real estate business.

—Alan Osborn

LONDON

UK HOUSING SIMILAR TO US MARKET

An Englishman's home may not really be his castle, but it certainly is his largest single investment. Levels of home ownership in the United Kingdom are similar to those of the United States, at around two-thirds of total housing owned by the occupants. An important distinction between the UK and the US housing system is that 22 percent of the population here live in social rented housing, compared to 2 percent in the United States.

One consequence of this is that the proportion of people living in private rented accommodation is unusually low at just less than 10 percent, compared to 33 percent in the US and 43 percent in Germany.

This was not always the case. At the beginning of the century, 90 percent of all accommodation was private sector lets. The introduction of rent controls, the expansion of the charitable Victorian social housing projects through massive public funding, and the increasing wealth of the middle class changed all that.

It may seem surprising that home ownership has reached comparable levels to the US, considering that about 80 percent of UK home loans are variable rates, compared with only 10 percent in Germany or the Netherlands.

Furthermore, tax relief on the loans has always been limited by a ceiling, and successive governments have whittled down these benefits so that today the tax benefit is marginal.

On the other hand, there is no capital gains tax on the sale of your primary residence. This means that millions of people have made a profit on the sale of their house. For many, it represents their life savings and the asset they intend to pass on to their children.

The value of the majority of homes is such that parents can pass them on to their children without incurring any taxes or death duties. Unfortunately for many, especially those "twenty-somethings" who bought at the end of the 1980s' house price boom, the whole exercise can turn into a trap. For millions of people in their twenties, the early 1990s was a period when their properties had negative equity. Their homes were worth less than they paid for them so they could not sell without loss.

Despite the cyclical nature of prices in the UK housing market, private home ownership grew throughout the century and got a massive boost during the Thatcher years. When she came to power in 1979, about 55 percent of homes were privately owned. At the peak of the boom almost a decade later, that figure had risen to 65 percent. By the mid-1990s, there were almost 16 million owner-occupied dwellings in the UK, two-thirds of the total housing stock.

Although the population is stable, the stock of housing is constantly growing, as new and better homes replace older buildings. Apart from the 100,000 public housing units constructed each year, private developers build a large majority of the housing. It is, however, quite unusual for people to build custom-designed homes.

One trend imported from the US is the Manhattan loft style of accommodation where the buyer decides how to use the open space. This has been used in the development of former commercial properties, public or private office blocks, and disused warehouses. This trend has helped to revitalize various parts of the inner cities and is expected to continue.

I must declare a personal knowledge of this trend. I recently moved into an apartment in the converted County Hall, the former city hall of London, right on the river Thames opposite the Houses of Parliament.

—David Lennon

VIENNA

VIENNESE REAL ESTATE REMAINS COMPLICATED

Private home ownership is a mixed bag in Austria. In smaller cities and the countryside, it's common; while in Vienna, it remains a relatively rare phenomenon.

In this Alpine country of about 8 million, slightly more than half the residents live in private homes and apartments. But in Vienna, which boasts about one-quarter of the population, less than 15 percent live in private residences. Property laws can make both buying and renting in the Austrian capital a rather complicated procedure.

Much of the complication dates to 1918, when the city first established rent-control procedures, freezing rents as long as the tenant or his heirs remained in the apartment.

"In a big house with old contracts, the tenants pay almost nothing, and there's no possibility to get more rent. If you're so lucky to have an old contract, you can live very cheaply in Vienna," said Georg Rukavina, a board member of ÖRAG, Österreichische Realitäten AG, the real estate arm of Creditanstalt Bank. While a tenant who has been in her apartment for decades might pay $80 in monthly rent, her new next-door neighbor could pay $1,600. It's tough to sell just one or two units in a building, and if the owner decides to sell the entire property, he essentially has to hand over the tenants along with the apartment building, Rukavina said.

Another complication is a law that makes it very hard to oust tenants who've been in an apartment for more than three years. Therefore, many landlords will write three-year contracts.

The city encourages the construction of low-cost, long-term housing by granting subsidies to builders who keep rent prices low. Alternatively, a group of people will pool their money as a sort of down payment to pay for the construction of an apartment building, then pay monthly rent for the apartment. When they move out, they get their down payment back. In both cases, developers recently have begun selling the units to long-term tenants.

Although each of Austria's nine provinces has different laws, tax incentives to encourage people to purchase private homes are rare. A person who buys a home pays a 3.5 percent tax, while the seller pays nothing. Property taxes are low, and anyone who buys a home and lives in it for two years doesn't pay taxes when it's sold.

Many Viennese rent apartments in the city and own weekend homes in the countryside.

Some single-family homes are built in the outer districts of the city, but public transportation and other facilities are limited. There also has not been a mass migration of people leaving Vienna for a house outside the city.

Each year, about 17,000 single-family homes are built in the country. To hold down costs and speed construction, about one-quarter of Austrians are opting for prefabricated homes, many of which look nearly as nice as custom-built homes.

One slice of Americana can be found just south of Vienna, where Austro-Canadian millionaire Frank Stronach has developed a golf course community called Fontana. The project features 3,000 upscale homes and apartments nestled around a golf course and includes tennis courts, a clubhouse, and a small lake.

—Susan Ladika

STOCKHOLM

CO-OPS CATCHING ON

After bottoming out during the recession of the early 1990s, the Swedish housing market is back with a vengeance. Average prices for single-family homes increased 7 percent last year, with prices up 15 percent in greater Stockholm.

While buying a house has long been the goal of many Swedes, the idea of apartment ownership is relatively new. During the 1980s, the government provided subsidized loans for renovation and tenants in many rental buildings.

Consequently, many chose to buy out building owners and form associations roughly equivalent to cooperatives in the United States. Apartment dwellers own shares in an association that in turn owns the building and the apartments. The cooperative, rather than the condominium format, offers tax advantages. The association, rather than individual apartment dwellers, pays taxes on the property, and real estate taxes on apartments are much lower than on single-family homes.

While various subsidies are available both to apartment and house owners for repairs and energy efficiency improvements, straight tax breaks for mortgage interest are nowhere near as favorable as in the United States. Property owners can deduct only a maximum of 30 percent of mortgage interest on a first home. Swedes also often subscribe to the idea that no matter what the tax breaks, it's always going to be more expensive to own a home or apartment than to rent. The goal of ownership, therefore, has had more to do with providing a good home for the family than with major financial advantage.

As in most other parts of the world, Sweden's hottest real estate markets are located in and around major cities. Move just a couple of hours from Stockholm in any direction, for instance, and prices fall dramatically. The greater metropolitan areas are also experiencing housing shortages following the explosion of pent-up demand after the recession. While some new homes and apartments are now being built, construction companies were slow to catch up with the real estate market, and new construction is nowhere near to filling the void.

The problem is most acute in the Stockholm area. While that's a boon for sellers, it can be a real nightmare for potential buyers, who may have to decide on the spot if they want to bid and often find themselves in bidding wars. Bidding among prospective buyers frequently drives prices up 10 percent to 15 percent, from the average $162,000 asking price. Buyers also generally have little choice about when they can move into their new homes; rather, the sellers decide when they want to move out.

A peculiar twist in Swedish law is that real estate agents represent both the buyer and the seller. While in theory this is equitable, in fact, since the seller is paying the agent, the seller gets the lion's share of representation. Even agents from large, supposedly reputable real estate companies are primarily interested in their commissions, and buyers rely on them at their peril.

Because real estate sales contracts are much less detailed than in the US, lawyers are generally not part of the buying and selling process. Standard contracts are provided by the real estate agents. It behooves the buyer, however, to specify in writing anything that's been agreed to orally.

While inspections prior to sale are common with single-family homes, that's not the case with apartments. However, apartment buyers always have the right to review a cooperative association's finances, and statements are usually provided by real estate agents during viewings.

Arranging for a mortgage is also relatively simple compared to the States, since credit checking in Sweden is far less stringent. It is possible to borrow 100 percent of the purchase price, and myriad combinations for mortgage loans, involving fixed and variable rates over different lengths of time, are available. Normally, however, mortgages are renegotiated every one to five years.

Currently, with banks and other financial institutions competing for mortgage customers, it's possible to negotiate rates that are substantially lower than official ones, depending on your financial circumstances. The good news for buyers is that mortgage rates have tumbled in recent years, but the bad news is that's helped push housing prices up.

—Ariane Sains

DUBLIN

IRELAND'S BUILDING BOOM

Just five short years ago, half of all Irish mortgages were for homes in the $57,000 to $85,000 bracket. Developers and builders had to make appointments to meet their bank managers. Now the biggest slice of the mortgages market is for houses up to $212,500, and the bank managers make appointments to meet their builder-clients.

Ireland, and Dublin in particular, is facing its fifth successive year of house price rises, up by 15 percent in 1995, by 20 percent in 1996, and by up to 30 percent last year.

Tentative figures for 1997 indicate more than one-third of first-time buyers were in the twenty-five to thirty age group, a quarter in the thirty to thirty-five bracket, and about a sixth in the twenty to twenty-five age group.

Demand for newly built homes is high, with 38,842 completions in 1997, representing 10.6 units per 1,000 population—the highest in Europe.

A starter home in sprawling West Dublin that cost about $71,000 three years ago now sells for $142,000. New one-bedroom apartments in Dublin's city center can sell for more than that, depending on location.

In wealthy South Dublin, exclusive properties frequently sell for more than $1.4 million. Prices in the scenic coastline suburbs of Dalkey and Killiney (home to Bono of U2, Formula One driver Damon Hill, writers, playwrights, and broadcasters, such as Maeve Binchy, Hugh Leonard, Robert Fisk, John Simpson, and a host of other glitterati) fetch double and sometimes triple that figure.

Part of the building boom has been fueled by the Celtic Tiger's unprecedented period of economic prosperity. The other side of the coin is the continuing Irish hunger for home ownership—one of the largest in Europe (some 80 percent own their own properties in Ireland, compared with 66 percent in the United Kingdom and an EU average of 56 percent).

These family homes—19 percent of which were one-story bungalows in 1997—are usually, though not always, passed on to a son or daughter when their parents retire or die, sometimes resulting in bitter family disputes over wills.

Lines of people waiting to see a new property are a regular feature of the weekend landscape. Moreover, thousands of new homes are being bought from architect's plans, long before the foundations are laid. However, booming businesses and spiraling prices have their own downside, particularly for couples intent on buying their first "dream home."

Those of modest means, including young civil servants, teachers, and secretaries, are finding it almost impossible to buy in the greater Dublin area. They are forced to rent or join the growing numbers of commuters who travel distances of fifty miles and more to work in the capital—boosting the local economies in commuter towns and villages but placing heavy demands on utilities, sewage, transport, and other facilities.

Low interest rates and the mushrooming economy are only partly responsible for the housing boom. The population is also rising dramatically, with thousands of Irish people returning from the United Kingdom, North America, Australia, and New Zealand to jobs in computer and other high-tech companies (official figures show some 44,000 people moved to Ireland last year, sharply reversing the historical trend of emigration).

Government stamp duty on established homes has forced many would-be buyers out of this segment of the market. Buying a new house relieves them of paying stamp duty and entitles them to a first-time buyer's grant of $4,250. (Up to 10,000 new house grants are paid annually.)

Tax relief on first mortgage or loan interest is also available. In the 1998–99 tax year, the ceiling on mortgage interest tax relief is around $3,500 for a single person and $7,000 for a married couple.

This relief is generally on 80 percent of interest paid, but persons claiming relief for the first time can benefit up to 100 percent for the first five years of the mortgage. This popular feature looks set to continue for some time, albeit on a descending scale.

In 1991, a shared-ownership system was introduced to facilitate households aspiring to home ownership but unable to do it in the one-step conventional manner. The ownership is initially shared between the occupier, who pays 40 percent of the cost, and the local authority's share of the property and a subsidy toward rent costs is available to lower income households.

In addition to the shared ownership arrangement, local authorities may also provide traditional house purchase loans to low-income households unable to get financing from commercial lending agencies.

Tenants of local authority have the option of purchasing their houses. These local authorities, which are the main providers of social housing, originally

built almost one-third of a total housing stock of more than a million dwellings. Since the 1930s, two-thirds of these houses have been sold to tenants at discounted prices.

On rented property, Irish tenants are also allowed to claim $700 on their rent, but only if they declare details about their landlord, a program designed by the Irish government to root out untaxed rental incomes.

The government, under pressure to resolve what has now become a housing crisis, commissioned a report by consultant Peter Bacon to establish the causes of the boom and possible solutions.

Bacon proposed—and the government immediately accepted—that lucrative tax incentives for property investors should be axed in order to allow first-time buyers to regain entry to the housing market, minus crippling costs. Moreover, interest on borrowings could no longer be set off against rental income.

The construction industry received the recommendations with horror. Industry insiders forecasted disaster for urban building and for the private rented sector. They predicted investment in property would collapse, new housing schemes would be abandoned, thousands of construction workers would be laid off, young couples would be forced to live in roadside shacks, and rents would soar.

Not so, said Finance Minister Charlie McCreevy, who said the new government measures would hopefully "restore a degree of parity between the owner-occupier and the investor" and "remove the fear of further major price increases."

Real estate agents reported an immediate response by first-time buyers as investors were forced out of the residential investment sector.

Ronald Duff, president of the Institute of Professional Auctioneers and Valuers (IPAV), said an earlier reduction in capital gains tax from 40 percent to 20 percent on development land would also help to ease the housing crisis.

A shortage of serviced land in the Dublin area will cause prices to continue to rise for another year or eighteen months. However, Ronald Duff says speeding up lengthy planning procedures and increasing housing density to complement EU levels would help to ease this problem in both the short and long term.

—Mike Burns

BERLIN

HOUSING MARKET REMAINS UNEVEN AFTER REUNIFICATION

Germany had a tremendous housing crisis after World War II when many towns and cities lay in ruins. In the early 1950s in West Germany, there were only 10 million dwellings available for just less than 17 million households. Gradually, however, the crisis in West Germany was overcome by means of a housing program under which as many as 700,000 dwellings a year were built.

The communist regime in the former German Democratic Republic kept rents extremely low. Thus, the local authorities, cooperatives, and private owners had hardly any funds for maintenance and modernization.

Today the main problems are in the metropolitan areas. Young couples, large families, foreign laborers, and students have difficulty finding affordable accommodation that meets their needs. Roughly speaking, 20 percent of an average household's net income goes to rent. The rents are higher in some cities, lower in the countryside.

Since unification, the federal government has spent more that DM 100 billion ($56.2 billion) for the modernization and construction of dwellings in eastern Germany. Despite this huge infusion, large differences remain between the quality of accommodation in the western and eastern parts of Germany. Housing in the western part is, on the whole, much newer than in the eastern part, where some 55 percent of the houses were built before 1948. Many of them are in a poor state. They lack modern sanitary facilities, and the heating systems are outmoded. More than 30 percent of all apartments are still heated with coal stoves. (In western Germany, that figure is only 17 percent.) According to the Federal Statistic Office's latest figures (1995), the number of apartments in eastern Germany had increased by 500,000 (some 6 percent), and the average four-room apartment now has 753 square-feet. In western Germany, an average four-room apartment has 947 square-feet.

German families dream of owning a house or a flat. Germans do not regard houses and apartments as a commodity, as something to be bought and sold. For most people, it is an enormous step, signifying that they've made it and are settling down for life. Indeed, in western Germany only around 40 percent of the population (27 percent in eastern Germany) own houses or flats compared with 82 percent in Ireland, 79 percent in Norway, or 66 percent in the United Kingdom.

There are tax benefits if you own property. The low cost of borrowing money is providing another incentive to buy. Interest rates for home loans have decreased to around 5 percent. In Frankfurt or Cologne, prices range from $280,000 for a three-room apartment in good location to $840,000 for a detached house. Rents range from 80 cents to $1.30 per square foot, depending on size and location. The cost of financing a mortgage is often below the rental costs of living in a similar property.

At the top end of the market, there is no shortage of properties. Tenants in Germany enjoy ample legal protection, and it is almost impossible for the landlord to give notice to a tenant unless he can prove that he needs the accommodation for himself.

—Wanda Menke-Glückert

THE HAGUE

TAX BREAK SAFE, FOR NOW

Although Dutch politicians occasionally suggest that, maybe, the generous rules allowing tax deductions for interest charges on mortgages should be revised, the issue has long been considered sacrosanct. However, there are rumblings that change is coming, which has provoked a hot debate among Dutch taxpayers and politicians.

The Netherlands is the only European country where mortgage interests are fully deductible from the highest bracket of the income tax. Not just for the first house, but for any kind of real estate, including summer homes. With high marginal tax rates (the income tax brackets are 37, 50, and 60 percent), the deduction is widely used. In fact, it is one of the major tax breaks in the Netherlands. Thus, people use their mortgages not just for buying houses, but also for buying luxury goods, boats, cars, and increasingly, stocks. While the interest rate on a mortgage is tax deductible, capital gains are tax exempt in the Netherlands (although share dividends and bond interest are taxed). A flourishing market has sprouted in primarily tax-driven financial products.

Although a major overhaul of the Dutch tax policies is in the making (and will be introduced by the incoming government), including limits on the use of mortgage constructions, the unlimited deduction of mortgage interests for the first house has been declared untouchable. This spring, during the middle of the election campaign, a leading member of the Social Democratic Party mentioned the possibility that this tax break ought to be scrutinized, all the other leading parties jumped to defend the mortgage payers. Newspapers jumped on the issue depicting the Social Democrats as totally unreliable for homeowners. The Social Democratic leader, Prime Minister Wim Kok, was forced to declare hastily that under his rule mortgage-holders would be safe. Earlier, he had bluntly turned down a resolution of his own party convention to limit mortgage rate deductions. He went on to win the elections handsomely.

Private home ownership is growing fast in the Netherlands due to changing socioeconomic conditions. For many years, home ownership was limited mostly to wealthy people, while the large majority of the Dutch rented their homes and apartments. Public housing was in the hands of so-called "building societies," which received government subsidies in order to keep rents low. These building societies, with their roots in unions or in the late nineteenth century church charities, were made into independent corporations in the early 1990s. They lost most of their subsidies, and instead, families receive subsidies when their income is insufficient to pay the rent. These rent subsidies are the main government instrument to ensure that housing is affordable to low-income families.

During this period, private home ownership has increased. Nowadays, more than 50 percent of all housing is privately owned. Plans are in the works by the building societies to encourage the sale of rental houses to their low-income tenants.

Largely, the Dutch housing market continues to boom. During the past few years of above average economic growth and low interest rates, the prices of real estate have gone up about 10 percent a year. These price increases reflect the growing demand resulting from abundant mortgage availability, the higher spending power of two-income families, and the limited supply of dwellings. Though developers are building new suburban neighborhoods everywhere, the demand for residential housing in the major cities far exceeds the supply.

The previous boom in housing prices, which occurred during the high inflation period of the late 1970s, ended in a sudden bust, burdening many first-time homeowners with high mortgages. Now, with low inflation, low interest rates, and high consumer confidence, such a downturn does not appear to be in sight. Moreover, the unlimited tax deduction of mortgage interests is assured for the next four years—at least for the first house.

—Roel Janssen

COPENHAGEN

DENMARK'S 'AMERICAN DREAM'

The Danish equivalent of the American Dream is having your own career, family, and house in good working order by age thirty. It is a dream that comes true for the majority of that age group, helped along by the strong economy and the near-totality of two-family incomes. However, the government is planning to make it more difficult in the future.

House and condominium prices have risen by about 50 percent over the past four years, but most of the price rise has been offset by lower mortgage rates. The result is that it costs about the same for a new buyer to own a home now as it did before the real estate market got hot. Fifty-two percent of Danes live in their own homes, while 45 percent live in rented housing, which remains subject to rent control and thus, relatively cheap.

The Danish central bank, the equivalent of the United States' Federal Reserve, has repeatedly warned the Danish government that the sharp rise in real estate prices has overheated the Danish economy. This price increase has triggered a boom in imports of cars and other consumer durable goods that has eliminated Denmark's balance of payments surplus at a critical time. Denmark will not be a charter member of economic and monetary union, which begins January 1, 1999, but the Danes are seeking a bilateral agreement creating a firm link between the euro and the Danish currency. The terms of such an agreement will obviously be influenced by the strength of the Danish balance of payments.

Heeding the advice of the central bank, the government is now preparing to reduce the tax incentive to own a home in an attempt to encourage Danes to save more before they buy. Presently, a young couple with two reasonable incomes can expect to have a thirty-year mortgage at a fixed rate for 80 percent of the value of the property, and they will have no problem borrowing the remainder of the money from a commercial bank.

Interest on the mortgage, like the interest on any other loan in Denmark, is fully tax deductible, with no cap on the sum but a cap on the tax rate of about 48 percent, depending on local taxes. The value of this tax subsidy typically reduces the cost of living in the house by between one-third and one-half. The government now wants to reduce this tax subsidy substantially.

Critics stress that while it is true that house prices, though they have risen sharply in the past four years, actually fell by about 25 percent in the early 1990s. In real terms, prices are, in fact, now lower in Denmark than in the mid-1980s. Moreover, major tax and mortgage changes may cause current price levels to slump by 15 percent to 20 percent, leaving new homeowners—especially the young first-time buyers—with negative equity and possibly slowing the economy faster and much more than desired.

With more than half of all Danes owning their homes and a minority government that has to find a majority in parliament, such a dramatic scenario is unlikely. Nevertheless, little doubt exists that tax incentives will be reduced and that Danes will have to save more before they buy a first home. (The typical Danish home is generally about 1,100-1,300 square feet with a price range of $100,000–$250,000, with smaller, provincial cities at the low end of the price spectrum and the greater Copenhagen area at the other).

Construction of single family homes almost ceased during the crisis years of the early 1990s but has now resumed. The combination of very low interest rates and the boom in prices of existing real estate has made new construction very competitive. The major constraint is the lack of space, as most formerly commercial sites are in unattractive locations or hampered by zoning laws. The only major conversion is in the harbor area of Copenhagen, where condominiums and high-priced rental apartments with a view are being developed at a rapid rate.

Virtually all new single family houses are built from standardized drawings and components but allowing flexibility within these limits. Only a small percentage of Danes build custom-designed homes, which cost considerably more than those from standardized plans.

Owner-occupied housing is certain to remain popular in Denmark. In a country with a marginal income tax of 60 percent, the fact that no capital gains tax is paid on the sale of one's home is the only major tax break available to the ordinary Dane. Inheritance taxes have been reduced in Denmark in recent years, but most Danes would not wait for their parents to leave the family home. As the elderly in Denmark are provided with daily hot meals and, if necessary, daily visits by a nurse, they have no incentive to leave. Moreover, living with your in-laws in Danish family culture is often a prescription for divorce.

—Leif Beck Fallesen

PARIS

SECRETIVE SELLING SLOWS FRENCH MARKET

When we were looking for a house in Dallas, our real estate agent had a list of about thirty prospects, each with a large "for sale" sign on the front lawn. When we moved to France, we had a choice of three, which we had to track down with the persistence of a bloodhound, because all were tucked away anonymously, with no visible signs that their owners had put them on the market.

The French approach real estate sales with a completely different attitude than Americans do. Instead of frankly peddling their property, they go about it furtively, reluctant to let anyone know that they are involved in anything so crassly commercial as selling.

Given that mentality, French real estate agents have to work in a hush-hush atmosphere that is closer to being an undercover agent than a salesperson. The last statistics published by INSEE, the French national institute of statistics and economic surveys, show that in 1996, 54 percent of the French owned their homes (representing 12.6 million privately owned residences). Nevertheless, real estate transactions still tend to be carried out in a climate of near secrecy.

The real estate system in France is also not designed to encourage open publicity of properties for sale. Gérard Pons, who owns a real estate agency in Aix-en-Provence, explained some of the trials and tribulations and hopes of his profession.

Among the definite disadvantages, he mentioned is the fact that there is no such thing as a multiple listing service (MLS) in France. Hardly any agents are ever given exclusive sales rights to a property. Instead, the owners hedge their bets and list their house with several agents, who have to try to sell, without giving too much away. "If we advertise too openly, giving too many details, anyone who wants to can go and see the owner directly, and then we would lose our commission," says Pons. "So all our work would be for nothing. We'd take pictures of the house, do an inventory, list it, and then end up with nothing for all our trouble."

The cloak-and-dagger approach to selling real estate means that, on average, it takes six months to a year to sell a property in France. Usually, the asking price has to be lowered, whereas it is statistically proven that with an exclusive sales contract, the average time to make a deal drops to three months. (In the States, houses sell in about half the time.)

The process is gradually becoming more "Americanized," in part due to international real estate franchises breaking into the French market. A leading example is ERA Franchise Systems, founded in 1971 in the United States. It started operating in France in 1993, now has franchises in twenty countries, and has become the fastest growing real estate network in all of Europe.

For its part, the French government actively encourages new construction because the construction industry is a trusted barometer of how well the economy in general is doing. To encourage people to build or buy a new home, some attractive tax incentives are offered.

"During each of the first four years, you can deduct 10 percent of the cost of a new, never lived-in property; for each of the following twenty years, you can deduct 2 percent," explains Pons. "So, by the end of that time, the government has effectively let you deduct 80 percent of the cost."

Homeowners whose principal residence was built more than four years ago can deduct up to 20 percent of major renovations and repairs from income tax, and up to 15 percent of maintenance and redecorating costs. On the other hand, if you can afford to buy a really old building, one that is listed as a historic monument—and there are an astonishing number of small châteaux scattered around France—then the government does not believe you need financial help. The only fiscal advantage to owning a piece of French heritage, which likely has a leaking roof and antediluvian plumbing, is that your successors will not have to pay any inheritance tax on it.

Interestingly, over the last ten years, French people increasingly are buying older homes. Back in 1986, 60 percent of French homeowners had a house more than four years old; by 1996, the figure had risen to 71 percent.

Those who decide to throw themselves in at the deep end and build from scratch usually avoid having a home custom designed by an architect. Pons compares that process to a military endurance course. "It is so incredibly complicated and difficult," he says. "First of all, to get all the permits, then to obtain the necessary loans, that people prefer to go through real estate developers or specialized contractors who look after everything, from construction permits to financing."

No matter if your home is old or new, a very real disadvantage to selling it in the present market in France is the 10 percent transfer tax the government takes on every property sale. Prices have dropped by 10 to 20 percent in the 1990s, after an earlier construction boom created too much housing. "Today, if you re-sell," says Pons, "instead of recuperating what you actually paid, i.e. the purchase price plus 10 percent in taxes, you have to expect to lose those 10 percent."

Even when the sales market is more attractive, the French tend to hang onto their homes longer than Americans, who tend to regard a house more as an investment and re-sell it on average after eight years. In France, a man's home is indeed his château, which he offers for sale only reluctantly, to a select few (secret) agents.

—Ester Laushway

BRUSSELS

LOW PRICES, RELATIVELY LOW RATES

Property prices in Belgium, including in Brussels, are substantially lower than in all the neighboring countries, and sensationally lower than in London, Paris, or Bonn. Yet relatively few members of the large expatriate community take the plunge and buy their own homes. Nor would they be wise to do so, unless they are fairly confident that they will be staying in Belgium for many years ahead.

There are two main reasons for this. One is the existence of a large and flexible market in rented housing. It may require a certain amount of hunting around—there is a great variation in the level of rents charged—but it is usually possible to find appropriate accommodation at a reasonable price without signing a long-term commitment. The market is stimulated by the fact that landlords do not normally have to pay tax on rental income, which is another factor in keeping rent levels down.

The other main reason is the excessive cost, over and above the asking price, involved in buying a house or apartment. If you buy a newly built house you must pay 21 percent of the cost in value added tax, while on existing properties there is a 12.5 percent registration tax, payable by the buyer. Consequently, even if you later sell the house at a higher price you are unlikely to make a profit on the deal. In fact, most people who sell within three to four years of the purchase realize a sizeable loss.

On the other hand, the long-term prospect—in Brussels if not in the country as a whole—is that property values will gradually rise. So that for people remaining in Belgium for five years or more—and certainly for those staying for ten to twenty years—house purchase could turn out to be a good investment. Most Belgian banks, too, offer a variety of mortgage options to homebuyers.

Mortgage interest rates currently vary from 5.25 percent for standard five-year adjustable loans to 7.19 percent for a twenty-year fixed-rate on a loan for 100 percent of the property value. Adjustable-rate mortgages are reassessed every five years according to market developments. Several banks are presently offering three-year adjustable-rate loans for as little as 4.95 percent. The single market means that it is possible to borrow from banks in other EU states—notably in the Netherlands.

A warning to would-be buyers: Be certain that you want to buy the property before you sign an agreement to purchase. This is a legally binding document, and you will lose your deposit of 10 percent or 15 percent of the purchase

price if you back out later. It is also binding on the seller who will have to compensate you by an equivalent amount if he changes his mind.

—Dick Leonard

LISBON

LIBERALIZED LENDING HELPS BOOST HOME SALES

Home ownership has exploded in Portugal in recent years, thanks to a heady mix of rising incomes, tumbling interest rates, and generous state subsidies.

Until the early 1990s, when about 65 percent of the population lived in a family-owned dwelling, few who had not inherited a home had the means or the incentive to buy, as strict rent controls kept a lid on housing costs. The loosening of such restrictions—to encourage landlords to renovate a deteriorating housing stock—helped change that, as did the liberalization of the market for home loans in 1992. Before then, only three institutions could offer low-income borrowers either the state subsidies that reduce interest rates on home loans by between 10 percent and 44 percent or the tax breaks on savings used to fund home purchases.

In the meantime, Portugal's recent above-average economic growth and the prospect of its joining European monetary union in 1999—which has slashed market interest rates—has brought home ownership within the reach of more people.

Last year, $7.6 billion in new home loans were handed out, almost four times the level in 1993. Young people, who get special terms, are even keener for home ownership than their elders, with new loans in that segment growing by 47 percent in 1997 alone, even as pent-up demand pushed up selling prices. (The average age of borrowers was thirty-two in 1998, from thirty-seven in 1978.)

"There's no possibility of housing prices falling in the coming years," said Eudardo Evangelista Luis, head of the Portuguese Association of Real Estate Dealers, in a recent market review. He estimates there is a shortage of 500,000 homes in Portugal, while the construction industry can build no more than 70,000 a year.

Of the 60,000 new homes built in 1997, half were houses rather than apartments, according to the National Housing Institute. While people don't often design and build their own homes, institute officials say, the high proportion of houses suggests that many were commissioned by individuals. With the market for office space very tight in many towns, the current trend is to turn homes into commercial properties.

In their eagerness to grab a share of the fast-expanding market, banks are paring their loan spreads—the difference between the lending rate and the cost of financing it—to as little as one percentage point. That compares with three percentage points two years ago.

Effective lending rates, after tax breaks, are currently as low as 3.2 percent, at least for the first year of an adjustable-rate loan. The only remaining disincentive to taking out a mortgage is the 4 percent stamp duty levied on interest.

—Alison Roberts

MADRID

SPANIARDS SEEK A PLACE TO GET AWAY TO

For six months, Ana Jimenez and her husband spent almost every weekend touring the rural towns and villages around Madrid looking for a second home where they could get away from the stress of big city living and breathe freely.

"We live in a small apartment in the city and need to get out someplace at the weekend to putter around in a garden and go for walks," she says. Also, our three-year-old daughter has to have a place where she can run and fly kites and chase rabbits and have adventures."

Ana and her family are part of a booming trend of young, Spanish urbanites who are snapping up old village houses an hour or two out of the big cities to use as retreats on the weekend or for the country's many holidays and long summer vacations.

Fueling this boom is the new wealth among young, double-income couples earning good salaries in Spain's hot economy, coupled with a fad for rural tourism and the necessity to have somewhere, as Ana explains it, to get away from it all.

After exhausting areas closer to Madrid where the homes they viewed were well beyond their budget, Ana and her husband eventually bought a two-story house with an acre of land and a small swimming pool on the edge of a tiny village about ninety minutes from the capital.

Although there is no store, there is a bar that run somewhat cooperatively by the residents, and the baker from a nearby town drives up the one-lane road each day to sell his crusty loaves to the villagers. Their house cost around $60,000, and they are spending more on fixing the pool, reviving the derelict garden, and putting the house in order.

"Just a short drive away is a huge reservoir with swimming, boating, and fishing, and there are several decent restaurants in some of the other villages," Ana says. "We are very happy."

And lucky. Other couples cite incidents of finding their 100-year-old dream house in some charming village but then discovering the place is owned by six squabbling siblings who are unable to agree on a reasonable price. Or the deed is a legal mess. Or the place needs thousands of dollars of repair and restoration before it is livable.

Those wanting to avoid such problems seek out chalet or villas in the new developments purposely built for weekend users, most of which are springing up along Spain's Mediterranean coast, just a four-hour drive from Madrid.

—Benjamin Jones

ATHENS

SECOND HOMES VERY POPULAR

More than 70 percent of Greeks are homeowners, one of the highest percentages in the European Union. What makes the Greeks different from their European partners, however, is that almost 50 percent own a second home in a village or on an island.

In a region that has suffered political upheaval and where capital markets are still underdeveloped, many Greeks see property as the most secure form of investment. Until recently, Greece's cultural tradition prescribed that families should build a house as a dowry for their daughter. Buying a plot of land on the outskirts of Athens or the northern city of Thessaloniki was the practice.

The rush to the cities in the 1960s and 1970s, together with emigration to Germany and Australia, meant that many families abandoned their village homes. Mountain villages, where the level of emigration was higher, are filled with crumbling stone houses. Many are for sale, but tracking down their owners—or their descendants—and finding title deeds is often difficult.

Owning an old house overlooking the sea or on the Aegean islands is now something of a status symbol. Real estate prices on popular islands that are easily reachable from Athens on weekends, such as Mikonos or Spetses, are among the highest in Europe.

Until recently, illegal building was tacitly allowed on the large tracts of state-owned agricultural land. Now, however, planning regulations are more strictly enforced, and Greece is to acquire a modern land registry thanks to aid from EU structural funds.

In Athens, the residential property market is focused on the city's suburbs. The ambition of most middle-class Greeks is eventually to build a home. The persistence until the mid-1980s of the dowry system meant that there were few mortgage loans available. Funds were raised from family or through the sale of an apartment acquired as an investment.

Now the mortgage lending market is among the fastest-growing segments of Greece's banking sector. Interest rates are steeper than in Western Europe, and the level of funding tends to be lower. However, the availability of mortgages to young people is enabling them to leave home earlier, which is changing the structure of the property market.

The commercial property market is also developing at a rapid rate. Like the residential market, it is based on outlying districts. There are few big properties or commercial sites available in central Athens. Moreover, traffic arrangements in the city center (the "odd-and-even" driving ban in force for more than a decade allows drivers into the center on alternate days, according to their license-plate numbers) have encouraged many businesses to relocate outside the city.

Purpose-built office blocks are going up in what used to be olive groves in the northern district of Maroussi. Telecommunications companies, accountants, blue-chip companies, and a few ship owners have moved into glass and steel headquarters with views across the city.

The commercial property market is set to boom, analysts say, with the construction of a new international airport for Athens, which is due to open in 2001. Land prices around Spata, a former wine-growing area where the airport is being built, have soared. Airport hotels and several business parks are planned for a development zone that will also be within easy reach of northern Athens.

—Kerin Hope

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ARTS & LEISURE

SPORTS

Three Nations Submit Joint Olympics Bid

While most Olympics focus solely on sportsmanship, a proposal to hold the 2006 Winter Games across three countries is aimed at mending fences in a region frequently beset by ethnic conflicts and territorial disputes.

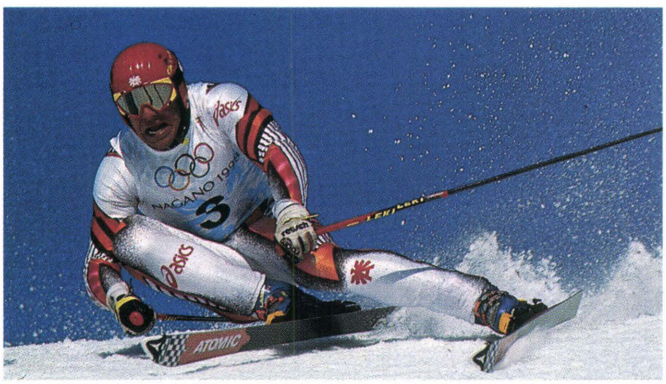
Rather than battling one another to host the Olympics, Austria, Italy, and Slovenia have joined forces in an effort to bring the event to this Alpine region. "The movement inside this idea is peace," said Pier Giorgio Baldassini, the Italian secretary general for Senza Confini, the group organizing the bid for the games whose name means "without borders."

For centuries, the areas of Carinthia, Austria; Friuli-Venezia Giulia, Italy; and the republic of Slovenia struggled in the face of rising nationalism and shifting borders, despite all being part of the Hapsburg Empire. The end of World War II sealed divisions among the three regions, placing Slovenia, as part of Yugoslavia, behind the Iron Curtain. Italy, meanwhile, became one of the founders of the European Union, and Austria joined in 1995.

The collapse of communism in 1989, followed by the great political and economic strides Slovenia has made since its independence from Yugoslavia two years later, has worked to make Slovenia a prime candidate to join its neighbors as part of the European Union.

However, the dream for a borderless Olympic Games even predates the collapse of the Communist Bloc. Back in 1979, volunteers from Austria, Italy, and Slovenia agreed to organize a cross-country skiing race. Competitors began in Kranjska Gora, Slovenia, crossed over to Tarvisio, Italy, and wrapped up the race in Arnoldstein, Austria, a distance of fifteen and a half miles.

The unity the three countries displayed, however, was not being played out in other parts of the world. The United States and more than sixty other nations boycotted the 1980 Summer Games in Moscow. The Soviet Union and much of the Communist Bloc retaliated by sitting out the 1984 Los Angeles Games.



In the 2006 Winter Olympics, Austrian skier Hermann Meier could find himself competing on the slopes of Austria, Italy, and Slovenia.

Austria, Italy, and Slovenia decided to take a different tack and proposed a joint bid to host the Winter Games. They received a polite response from the International Olympic Committee, telling them their idea wasn't allowed under the Olympic charter. Not to be undone, the group started a campaign to revise the rules.

In 1990, the International Olympic Committee agreed to change the charter, and in 1994, the three nations made their first bid for the games. Although the region lost out to Salt Lake City, Utah, officials weren't about to give up on the idea.

This year, the region again made a bid for the games, with Klagenfurt, Austria, proposed as the host city, and various venues scattered among the three regions.

Former Austrian skiing star Franz Klammer is an essential proponent of the shared games. "With Slovenia being a [former] communist country and now trying to be part of the EU, this is integration in my opinion," Klammer said. "Sometimes sports is better for this than politics."

Today Klammer, who won a gold medal in the 1976 men's downhill, travels the world, promoting the bid for the Olympics. "My message is that it's not only about sports. It's about peace and getting the regions together."

Baldassini said tragedies like the war in Bosnia show that peace isn't necessarily guaranteed in Europe. In southwestern Austria, northeastern Italy, and northwestern Slovenia, "the old people especially remember it wasn't always like it is today."

In its bid for the games, each country is to equally shoulder the burden. A joint-stock company has been formed, and the three nations would share profits or losses. Every country would have to finance the venues within its borders that need to be built or improved.

Already, 80 percent of the facilities are in place, and the remaining 20 percent have already been planned to meet existing needs in the communities. However, many of the existing facilities are old, and need to be improved. The ski jumping facility in Krajnska Gora, for example, "is a very historical venue. It's wonderful, but very old," Baldassini said.

The organizing committee has a projected budget of $755 million to stage the games. At the same time, Austria would spend $116 million; Italy would invest $18 million; and Slovenia would contribute $72 million.

Other regions competing for the games are Sion, Switzerland; Poprad-Tatry, Slovakia; Turin, Italy; Zakopane, Poland; and a joint bid from Helsinki, Finland, and Lillehammer, Norway. Olympic officials will select the winner on June 19, 1999.

—Susan Ladika

Nelson Mandela

Yesterday & Today

From Political Prisoner to Political Leader: (Top) South African State President Nelson Mandela spent twenty-seven years in prison because of his efforts to end apartheid in South Africa. He was released in 1990, and four years later he was elected state president of South Africa on May 10, 1994. (Bottom) President Mandela met with European leaders German Chancellor Helmut Kohl, French President Jacques Chirac, and UK Prime Minister Tony Blair at the Cardiff Summit in June, 1998.

Photo by photoscope

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