DUTCH DO BUSINESS • BALKAN UPDATE • ECONOMIC OUTLOOK • GOLF

EUROPE

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June 1999

The EURO changing the way Europe conducts business

A New Breed of

Entrepreneurs

Italian cosmetics businesswoman goes global

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INVESTORS FAVOR

High Tech UK *in the New Europe*

Multimedia company Optibase established its European headquarters at Chippenham in South West England. The Israeli company, whose equipment converts video into high quality digital recordings, also has an office at San Jose, California.

The launch of Europe's single currency has focused attention anew on the business potential of the world's largest single market. As the Euro establishes itself in the City of London and other leading foreign exchange markets, companies from across the world see it as a further symbol of the removal of barriers to growth in the fastest developing era of technological sophistication the world has ever known.

Although the UK remains outside the Euro-zone, its role in the liberalization of global trade and investment, its commitment to economic stability and competitiveness, and particularly its scientific and technological excellence, all ensure that it continues to attract the lion's share of Europe's foreign direct investment - more than a third at the last count by the United Nations. In any case, the UK Government is committed in principle to joining the Euro-zone if five key economic tests, including business convergence, are met and the electorate agrees in a referendum.

Since the beginning of the year, international companies have made it clear that technological innovation, specialist expertise and profit potential remain the real reasons why the UK is the obvious point of entry to the wider European market. In the first three months of 1999 alone, the Invest in Britain Bureau's daily news service showed a rise of 39% in high tech investments compared with the same period of 1998.

Where California has Silicon Valley, the UK has Silicon Fen in Eastern England, Silicon Glen in Scotland, and the high tech ribbon of development west of London Heathrow, the world's busiest international airport. All are renowned for their clusters of cutting-edge technology companies. Many overseas investors seek to profit from intellectual capital and establish research and development operations in the UK to remain competitive. The UK draws the greatest proportion of US and Japanese R&D facilities in Europe and this is now one of the fastest growing areas for inward investment.

Among the country's particular strengths are world leadership in fields such as software, telecommunications, multimedia, and semiconductor design. British ingenuity in database packages, virtual reality, and real-time and safety-critical software is well known, and with Europe's most liberalized telecoms market, the country's suitability as a launch pad for continental-wide expansion is clear.

With thousands of call centers and shared service centers, the UK is well ahead of any other European country in its ability to provide communications right across the single market. London alone has the largest concentration of call centers in any European city and new research has identified over 200 operations there, employing more than 20,000 people. Over a third of call centers are multi-lingual, offering pan-European services by native language speakers.

Not surprisingly, in view of the UK's world-beating financial services industry, that sector also represents the highest proportion of London call centers, followed by telecoms, leisure, retail, IT and transport. Recent months have seen major new investments by Air France, MCI Worldcom, Global One and Delta Air Lines, among others.

In pharmaceuticals too, overseas investors take advantage of the UK's world-class academic-linked skills base. It was there that Pfizer developed the year's most publicized drug, Viagra, and British researchers also discovered and developed five of the world's top 20 most prescribed medicines. The work of British-based researchers of many nationalities has implications not just for healthcare, but the life sciences and biotechnology, too. From monoclonal antibodies to cloning, molecular biology and genetic research, the UK has a clear lead.

The new Europe offers business opportunities certain to attract any corporation in search of global growth. The UK provides the front door to those opportunities. Just step inside.

For more information on investing in the UK, contact:

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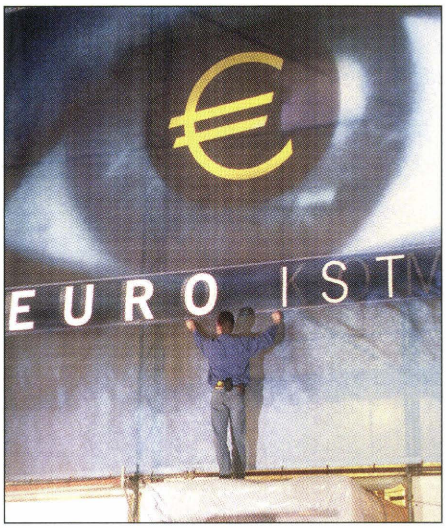

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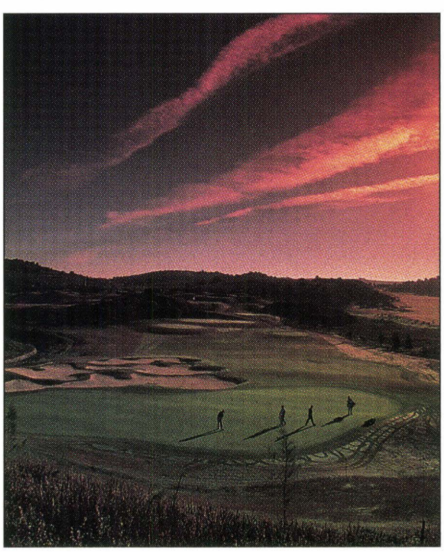

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LETTER FROM THE EDITOR

The euro, after only six months in existence, is having a major impact on the way Europeans are conducting business. So much in fact, writes our Brussels contributing editor Bruce Barnard, that the new currency "is at the core of a business renaissance that has given Europe a chance of catching up with the vibrant US economy." In his article entitled "The Euro: Transforming Europe," he reports that "the arrival of the euro has finally allowed big firms to plot pan-European strategies and has made it easier for savvy investors to spot undervalued assets across Europe."

Barnard notes that some financial analysts believe the euro is giving a boost to entrepreneurs across Europe. "Europe is not yet about to produce a crop of tycoons to equal Bill Gates or companies to match Yahoo," he writes. "But with the help of a six month old currency, it is on its way." We asked three experts to give their analysis of the new currency's beginning and the state of world economics. In a series of provocative interviews from Brussels, Paris, and Frankfurt, European Commissioner Sir Leon Brittan, Deutsche Bank chief economist Norbert Walter, and chairman of JP Morgan-France Philippe Lagayette discuss the single currency's role in Europe and the global economy, a new financial architecture, currency controls, and Europe's overall economic future.

Europe's changing business climate is creating a new breed of entrepreneurs, including Madina Ferrari, whose cosmetics company will open its first US store in New York this fall.

EUROPE also looks at the role of entrepreneurs in each of the fifteen European Union countries. Our Capitals correspondents profile successful entrepreneurs in their respective countries. In Rome, we spotlight a woman who offers 450 shades of lipstick in stores around the world; in Luxembourg, we find three women who are making award-winning movies; and in Madrid, we talk to a true believer in the virtues of olive oil. His firm sold more than 100 tons of it in the US last year.

Barry D. Wood, who has reported from sixteen economic summits, writes about the past, present, and future of economic summits and looks at the upcoming Cologne summit (June 18–20) in our series entitled, "Europe in the New Century."

Elizabeth Pond writes that there is an "alternative to eternal hatred in the Balkans" in her profile of Bulgaria, whose leaders are successfully pursuing peaceful "European" policies. Our Athens correspondent Kerin Hope, reporting from Albania and the Former Yugoslav Republic of Macedonia, writes that fears of destabilization run deep in both countries. However, both see the refugee crisis "as an opportunity to press for closer ties with NATO and the European Union."

EUROPE's Hague correspondent, Roel Janssen, reports on the collapse of Wim Kok's second coalition government. (At press time, the three parties that had formed the first two coalitions appeared to be on their way to settling their differences and forming a government.)

Finally, for all of our readers who enjoy golf, Benjamin Jones, our Madrid correspondent, spotlights some of Europe's best courses and profiles Spain's top golfers.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

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EYE ON THE EU

Profiling Personalities and Developments Within the European Union

REBUILDING THE BALKANS

The United States has been responsible for 80 to 90 percent of the firepower—and probably a similar proportion of the financial cost—of the NATO action against Yugoslavia—an inevitable consequence of the military disparity between America and its European allies. However, the disproportionate American contribution to the war effort is likely to be counterbalanced by a much larger European effort in meeting the costs of postwar reconstruction.

It is evident that it will be the European countries—and in particular the European Union—that will foot the major part of the bill for reconstruction and the resettlement of refugees. It will also be the EU—probably in conjunction with NATO and the UN—that will be responsible for the postwar political settlement in the Balkans.

This likely scenario was recognized at the special one-day EU summit in Brussels in mid-April, when German Chancellor Gerhard Schröder produced a draft "stability pact" aimed at creating "lasting conditions for democracy, a market economy, and regional cooperation that would anchor southeastern European countries firmly in the Euro-Atlantic structures." Explicit in the German draft was the recognition that all the countries in the region—including Serbia—would eventually be eligible for full membership of the EU once essential conditions, including the firm installation of democratic institutions, had been met.

The German initiative provoked an immediate response from the Albanian government, which is terrified that its already shaky stability would be fatally undermined by the large influx of Kosovar refugees. In an interview with the *Financial Times*, Albanian Foreign Minister Pascal Milo made a passionate plea for a fast-track entry into the EU. "We are carrying the burden of the region, and we are reacting in a European way to these difficulties, not with a Balkan mentality but with a solidarity not previously known in this region."

The EU, Mr. Milo said, should overlook normal membership criteria in response to the crisis. He admitted that Albania could not fulfill EU standards "both economically and sometimes democratically. If they tell the Balkan countries, and especially the Former Yugoslav Republic of Macedonia and Albania, to fulfill all their standards first, that will take years and years and then the Balkans will never be stabilized. And the Europeans will suffer much more."

It seems unlikely that the EU would permit such a shortcut to full membership, but a detailed plan to speed up Balkan association with the Union has just been produced by the Center for European Policy Studies (CEPS). Entitled "A System for Postwar Southeast Europe," it is the work of a top-level study group led by Michael Emerson, formerly the EU's ambassador in Moscow.

The plan—which has already been discussed with Romano Prodi, the president-elect of the European Commission—proposes two new categories of membership that the EU would extend to southeastern European states. These would grant them some at least of the benefits and responsibilities of

The EU is already looking ahead toward the postwar resettlement of refugees in Kosovo and the reconstruction of cities like Pristina.

full membership and would help to close the widening gap between them and those East European countries currently negotiating membership.

The Emerson group suggests that countries such as Croatia, Albania, and FYROM might become "autonomous states of the EU," while entities needing special protection, such as Bosnia and Kosovo, could become "autonomous regions of the EU." Countries in both categories would receive a limited right of representation in the EU institutions; would be eligible for economic assistance on a similar scale to the pre-accession program for the candidate members; and would be invited to join an enlarged European Economic Area.

It seems unlikely that the EU would permit such a shortcut to full membership, but a detailed plan to speed up Balkan association with the Union has just been produced by the Center for European Policy Studies (CEPS).

The cost of such a program, Emerson argues, "would in normal circumstances be moderate (about $5.5 billion per year maximum, even supposing that all the countries, including Serbia, became eligible). This figure, he says, would be well within the margin of available budgetary resources, following the European Council's Berlin agreement on Agenda 2000. However, exceptional postwar reconstruction costs would inevitably raise the total bill.

The essential next step must be to open a process of dialogue with political and opinion leaders in southeastern Europe, possibly in the context of a Balkan Conference, as already proposed by Romano Prodi. It is perhaps unlikely that the CEPS proposals, as they currently stand, will emerge as a generally accepted solution. Yet they offer a promising way forward and stand a good chance of influencing the tough bargaining that lies ahead.

—Dick Leonard

END OF THE TIETMEYER ERA

Hans Tietmeyer will shortly step down as president of the Bundesbank. His retirement in August—after six years at the helm—marks the end of an era in which Germany's central bank dominated Europe's monetary landscape.

For half a century, the Bundesbank was revered at home and abroad as the guardian of the deutsche mark's stability and guarantor of West Germany's postwar prosperity. Mr. Tietmeyer—upright, orthodox, and often downright intimidating—embodied the doggedly independent spirit of the institution, though his political skills made him take a more flexible attitude toward the European monetary union (EMU) project than some of his more dogmatic "Buba" colleagues.

Ernst Welteke, the next Bundesbank president, inherits a very different agenda. Although the Bundesbank ceded control over monetary policy to the European Central Bank (ECB) last January, the deutsche mark will only be phased out in favor of euro notes and coins in the first half of 2002. In this sense, Mr. Welteke's chief task during his six-year term will be to oversee the final stage of the transition from national currencies into the single European currency and to inspire confidence in the euro.

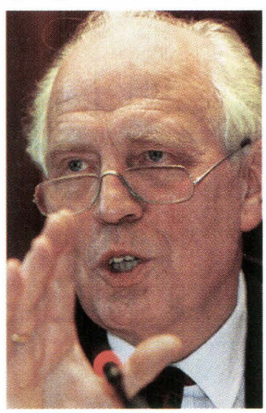
Ernst Welteke has only four year's experience as a central banker, having abandoned a previous political career with the Social Democrats. He enjoys a sound reputation in Frankfurt banking circles, having spent a good deal of time studying financial markets. But he also benefits from a close relationship with Hans Eichel, Germany's finance minister and a former government colleague in the region of Hesse.

The most interesting question is how Mr. Welteke intends to exert his influence as one of the eleven national central bankers inside the ECB's seventeen-strong policy-making Governing Council (which includes the six members of the ECB's executive board). This raises a separate issue: the balance of power between the supranational ECB and the national central banks, which still command the affections of their respective publics.

Since the launch of the euro on January 1, 1999, the Bundesbank has enjoyed a preponderant role in the ECB. One reason is that Mr. Tietmeyer remains a formidable advocate and a powerful behind-the-scenes influence on Wim Duisenberg, the ECB president. Another is the strategic placement of Ottmar Issing, an old Buba man, as chief economist. But the most important reason is that there is an imbalance in resources between the euro-zone central banks (with 53,000 staff) and the ECB (with a relatively small 620 staff, though rising).

A senior US policymaker spelled out the implications of this imbalance during a recent interview in Washington. The European Monetary Institute—the forerunner of the ECB, which completed the lion's share of technical preparations for the launch of the euro this year—was so short of money that it could not afford to send staff abroad for high-level consultations with its counterparts at the US Federal Reserve. Furthermore, national central banks continue to balk at suggestions that Mr. Duisenberg should be the sole representative of euro-zone central banks at meetings of the Group of Seven industrialized countries.

Robert Rubin, outgoing US treasury secretary, observed in one of his last significant policy statements that the US and other countries would sooner or later lose patience with Europeans' overrepresentation at the G7 grouping, whereby the United Kingdom, France, Germany, and Italy insist on a place at the same table as the ECB president. "When Chairman Greenspan turns up at these meetings, he does not tell the Europeans that he intends to bring along the president of the Kansas City Fed," says one US official, "it is time for the Europeans to exercise restraint."


Bundesbank President Hans Tietmeyer will retire in August this year.

The departure of Mr. Tietmeyer may encourage such changes at the G7 level. But in the early stage of the euro, national representatives on the ECB's governing council were necessary in order to bolster the legitimacy of the new currency. The risk is that the dominance of country representatives could make them vulnerable to the pressures of narrow national interests as opposed to the broader European interests (as identified by the six-member executive board led by Mr. Duisenberg).

Insiders say this has already been apparent in the conduct of Antonio Fazio, the highly respected governor of the Bank of Italy. He has barely disguised his own personal ambivalence toward the single currency project, notably by refusing to join wholeheartedly in last year's coordinated interest rate cut among euro-zone countries. The real test will be in the event of a banking crisis in which there is no formal ECB supervisory role as lender of last resort or in the case of a regional economic shock.

In the near future, it seems unlikely that the ECB will attempt to redress the balance through an amendment to the Maastricht Treaty. More likely, Mr. Duisenberg and his colleagues will exploit fully the scope for informal changes in working practice, which will allow the ECB to play its role. In the meantime, the lesson of the first chapter of Europe's single currency is that national interests, far from being subjugated in the euro zone, are alive and kicking.

—Lionel Barber

VIRTUAL EURO

Even though euro coins and notes won't appear until 2002, travelers to Europe should get to know the new currency. The European Commission's Web site (**europa.eu.int/euro/html/entry/html**) has several pages that deal exclusively with explaining the monetary union.

The site, which is accessible in eleven languages, uses a ticker to describe the euro's evolution from economist's pipe dream to a fiscal reality. The site also offers a handy currency converter to give visitors a sense of what the euro is worth. Punching in a figure in Italian lire or Belgian francs instantly gives the amount in euros. This feature and the ticker are about as high-tech as the site gets. The rest is largely press releases and links to related sites, such as the European Central Bank (**www.ecb.int**).

The Quest database includes answers to frequently asked euro questions, such as what will it look like; will it change national identities; and how it will affect salaries, mortgages, and investments in the soon-to-be-eliminated national currencies?

FINDING RELIEF

The flood of Kosovar refugees into neighboring Balkan nations highlighted the work of several relief organizations. Life in the camps, although grim, would have been more so without the efforts of groups like Doctors Without Borders, UNICEF, and the International Red Cross. These nonprofit organizations and others used the Web as a way of keeping the world informed about what they saw and letting people contribute to their humanitarian efforts.

Doctors Without Borders, an independent medical aid agency started in France as Medecins sans Frontier (**www.msf.org**), touts its missions to some eighty countries in 1998. Its special report on Kosovo (**www.msf.org/projects/yugoslavia/kosovo**) details eyewitness accounts of deportation—whole villages cleared out of their homes, stripped of money and identity papers, then forced to walk toward the border. Once the refugees arrive in Macedonia or Albania, a doctor like Fokko de Vries might be among the first westerners to see them. Dr. De Vries has written a diary of his experiences and findings for the Web site.

The International Committee of the Red Cross site posts similarly sad stories from eyewitnesses. The site (**www.icrc.ch**) features a "Crisis in the Balkans" special report, including reports from workers in the field and the organization's efforts on reuniting families. The site is somewhat stark but does include photos of bread lines and makeshift tents in the refugee camps.

The United Nations Children's Fund (UNICEF) does not have the most informative site, but what it does include is good reading (**www.unicef.org**). The best element is a bulletin board for children to share their thoughts about military action in Yugoslavia. A recent visit found youths from France, Mexico, Jamaica, and Malta either agreeing with NATO's line on involvement in the Balkans or urging peace and an end to the bombing.

All three organizations use their sites to appeal for funding, but none does so in an aggressive way. The groups' focus on the stories of human suffering, however, makes it difficult for visitors to remain detached.

SITE OF THE MONTH: BULL RUN

The annual spectacle transforms an otherwise unassuming Spanish town into a destination for party-seeking pilgrims from all over the world for a week in early July. The running of the bulls put Pamplona on the map, but the early morning mad dash with some perturbed toros is only a part of the town's weeklong San Fermin festival.

A few young entrepreneurs who made a business out of selling t-shirts to festival goers some ten years ago have the definitive San Fermin Web site. The company, called Kukuxumusu, provides details on how to get to the fiesta, what to do, where to stay, and what to eat (**www.webcom.com/fermin/index_eng.html**). Visitors can learn a bit about the saint himself, a bishop from the area who was killed in France around the third century AD. The site also provides the details of the *encierro*, as the running of the bulls is called. Mostly young men race in front of several angry bulls en route to the arena as onlookers cheer from behind wooden barricades. The one-mile race lasts only two or three minutes—unless a bull gets turned around—and takes place every morning of the fiesta. The day after San Fermin ends, a mock bull run is often staged when groups of youths run in front of the first bus or taxi to enter what was the course. Other than the race, festival goers attend *corridas* (bull fights), listen to live music, watch parades and fireworks displays, and stay out till the wee hours of the morning.

The colorful and easy to navigate site includes a Pamplona map, which offers users the ability to zoom in on specific parts of the town. Another page features short news items related to the fiesta. Visitors can post questions and comments on the site's message board. Those thinking of taking part in the encierro should look at the photo and video galleries, which include several shots of near run-ins with bulls. If the pictures don't knock some sense into would-be participants, the bulls just might.

—*Christina Barron*

What role will Europe's single cur

By Bruce Barnard

ency play in world markets?

It is just over six months old, but Europe's single currency, the euro, will be at the heart of the economic debate at the G7 summit in Cologne.

True, the euro has been falling steadily against the dollar from its first day of trading on January 4—it lost nearly 8 percent of its value in the first three months of the year. It has even softened against the yen, creating a public perception of a puny currency and confounding market watchers who confidently predicted it would climb steadily against the greenback and the Japanese currency throughout its debut year.

However, the fledgling currency has survived a baptism of fire—its first three months witnessed the war in Kosovo; the dramatic departure of Oskar Lafontaine, the controversial German finance minister; the mass resignation of the European Commission; and the thinly veiled attacks on the European Central Bank (ECB) by center-left German and French governments.

Meanwhile, the once-in-a-lifetime economic boom in the US has pushed the dollar to new highs at the expense of the fledgling euro. According to Wim Duisenberg, the ECB president, the euro's fall reflects "predominantly the strength of the dollar rather than the weakness of the euro."

On the positive side, the euro has enjoyed a remarkably orderly entry into the global trading system. It has not shown any signs of challenging the dollar as a reserve currency, nor has it benefited from a massive shift of portfolios by investors seeking to diversify out of the dollar. Observers have been struck by the unexpected normality surrounding the new currency—and that will be a major plus for the participants at the G7 summit.

Nevertheless, the relative weakness of the currency of the world's biggest single trade bloc, the continued softness of the yen, and the resurgence of the dollar have added urgency to the perennial debate over exchange rate relationships in the G7. The debate, itself, has changed as three of the G7 currencies—the deutsche mark, the French franc, and the Italian lira—have been fused into the euro. This consolidation should make it easier to coordinate monetary policy between the three large currency blocs—the dollar, the euro, and the yen. In time, some suggest, the G7 will become the G3.

Europe, however, does not yet speak with one voice although three of its participants will share the same currency at a G7 summit for the first time. It cannot offer anything to match the double act of Treasury Secretary Robert Rubin and Federal Reserve chairman Alan Greenspan.

The arrival of the euro was expected to aggravate instability of the G7 currencies. The ECB's mandate is solely to ensure price stability. It has no exchange rate policy and has not intervened in the foreign exchange markets to pull the euro out of its dive in the first four months of the year.

This spells trouble, according to economists such as Fred Bergsten, director of the Washington-based Institute for International Economics, who fears Europe will be tempted to "emulate America's benign neglect of the currency."

"The dollar and the euro will provide the bulk of global finance, and large fluctuations between them will be highly disruptive for the rest of the world," according to Bergsten.

During the first few weeks of the euro's existence, Germany sought to enlist France's support for establishing foreign exchange policy in the single currency area around target zones. Paris distanced itself from Germany's call for targets for the euro to achieve against the dollar and the yen, and Finance Minister Dominique Strauss-Kahn offered France's services as honest broker between the US and the EU on future euro-dollar exchange rate policy.

The US firmly rejected calls by Germany and Japan to consider coordination of exchange rates among G7 economies through target zones. "The floating exchange rate system is the worst possible system, except for all the others," according to Treasury Secretary Robert Rubin, who will leave office in July.

Talk of target zones tailed off after the departure of their most prominent advocate, Oskar Lafontaine. France, however, continues to press for a more proactive stance on currencies through "enhanced cooperation." This would be achieved through reinforced coordination within the G7 on macroeconomic policies and closer surveillance of exchange rates.

The G7 meeting will also give an insight into Japan's attitude to the euro. Earlier in the year, Prime Minister Keizo Obuchi expressed fears the yen's already diminished status would be further undermined by a strong euro and appealed to euro members France, Germany, and Italy, to support the use of the yen as an international currency. Japan sees the euro as a way to reduce the dominance of the dollar, which some officials partly blame for the Asian currency crisis in 1998.

The euro's decline has not fazed the ECB. Rather, its officials argue that the currency will strengthen rather than weaken in the longer term thanks to the huge US balance of payments deficit, the likelihood the US economy will slow down, and the diversification of public and private investments into the new European currency.

Even as the euro was touching new lows, Mr. Duisenberg insisted the ECB had no exchange rate target, no exchange rate regime, "and not even a figure at the back of the mind that would cause us to be concerned" about the currency.

The launch of the euro meanwhile changed attitudes about money management in the EU, with Mr. Duisenberg noting that the impact of exchange rate movements on the large eleven-nation euro zone is far less than on individual countries previously.

The G7 leaders will be well aware that talk of a weak euro is overdone. Its exchange rate was about the same as that at which the deutsche mark, the French franc, and other euro member currencies were trading against the dollar up to last September.

Nevertheless, the slide of the euro against the dollar in the first half of the year has fed suspicions in the US that Europe is benefiting from a cheaper currency to boost its exports at the expense of American companies and that it isn't playing its part in helping to revive a sluggish global economy. These perceptions risk fueling protectionist sentiment in the run-up to the presidential campaign next year, prompting Alan Greenspan to express concern that Americans are losing faith in free trade.

The combination of a fast-expanding US deficit and a strong European surplus has put an additional burden on a transatlantic relationship strained by trade disputes. And it is going to worsen: Investment bankers at JP Morgan estimated that by the second quarter of the year the US trade deficit will have ballooned to $288 billion against a European surplus of $102 billion. Treasury Secretary Rubin has said the coexistence of US deficits and European and Japanese surpluses cannot be sustained indefinitely, and Vice President Al Gore has complained the US is becoming "the importer of last resort."

Claims that the EU is not playing its role in revving the world economy are exaggerated. In 1998, the eleven-nation euro zone booked merchandise imports worth $770 billion according to the OECD, not that far behind the $920 billion of imports into the larger US economy. Similarly, claims that European exports benefit from a cheap domestic currency are overstated, as a large slice of companies' "overseas" sales go to other euro-zone countries.

The euro's successful launch combined with financial crises around the globe has popularized currency unions. Mexico's finance minister, Jose Angel Gurria, and its central bank governor, Guillermo Ortiz, recently suggested the North America Free Trade Agreement (NAFTA) should be broadened into an eventual currency union. There has also been talk about establishing a single Asian currency based on the yen.

The dollar, however, has a big head start on the euro and remains the favored currency for countries seeking price stability. Argentina and El Salvador have spoken about "dollarizing" their economies, prompting other countries to follow suit while Mexico's suggestion for a NAFTA currency union was aimed mainly at deflecting calls for a dollar-based economy.

The euro has not reached such an elevated status, but a growing number of countries are waiting to join the single currency. The United Kingdom, Sweden, Denmark, and Greece are likely to join the euro zone by 2002, when the first coins and notes enter circulation. Meanwhile, the six countries negotiating EU membership—Poland, Hungary, the Czech Republic, Estonia, Slovenia, and Cyprus—are all committed to adopting the euro. Ⓔ

In April, the G7's economic ministers met in Washington and discussed coordination of the G7 currencies. From left are Canadian Finance Minister Paul Martin, Japanese Finance Minister Kiichi Miyazawa, Italian Treasury Minister Carlo Ciampi, US Treasury Secretary Robert Rubin, British Chancellor of the Exchequer Gordon Brown, German Finance Minister Hans Eichel, and French Finance Minister Dominique Strauss-Kahn.

Bruce Barnard is a EUROPE *contributing editor in Brussels.*

Sir Leon Brittan

Vice-President of the European Commission

EUROPE INTERVIEW

EUROPE Editor-in-Chief Robert J. Guttman interviewed Vice-President of the European Commission Sir Leon Brittan during his recent visit to Washington, DC. Sir Leon discusses the euro, the Transatlantic Economic Partnership (TEP), EU relations with China, and the launch of a new trade round.

Are you concerned about the euro falling against the dollar?

No, I'm not concerned about that because, of course, the level of the euro now is about the level of the deutsche mark a year ago. One of the constituent parts of the euro rose in value because of the excitement of the creation of the euro. It was never any question of this being a fixed rate regime, and therefore one shouldn't get too obsessed about the short-term movements.

The euro's been around about four months. How is it doing in your opinion?

It's established, and the main interesting thing is the extent to which bonds have been issued in euros, which has been very considerable. It's something like 45 percent of the total.

Do you think the introduction of the euro has caused this recent wave of mergers and acquisitions?

It's certainly led to a considerable degree of structural change in industry in Europe.

Do you see the world made up of euro, yen, and dollar zones?

It's never been the objective of the creation of the euro to create a zone in that sense. It has been our objective to strengthen the European economy. The extent to which people will wish to trade in euros and have reserves in euros is difficult to tell and will happen over a period of time, where people are content to deal with that as it arises, but it's not something that we're pursuing in the sense of trying to make happen.

Do you favor currency controls?

Not for us. I'm not saying that for some countries it may not be a very short-term palliative if particular kinds of controls or restrictions were produced, and I'm not saying that for those that have got them, removing them will be the top priority. But I don't think that they are in any sense a solution to problems.

Besides Kosovo, what do you think are going to be the key issues at the Cologne economic summit?

Two things: the review of the progress in dealing with the Asian crisis and looking forward to the WTO ministerial meeting of the new trade round.

Speaking of the November WTO meeting in Seattle, what do you want to see happen there?

I want to see the launch of the millennium round, which we have been arguing for three years. We have received increasing support for it from Latin America, from Eastern Europe, from Australia, from New Zealand, and most recently from the United States. I've been trying to persuade other countries which have not so far agreed to do so. I've had some success, for example, with Indonesia and Pakistan. And I am hopeful we're finally going to see the launch of that round in Seattle at end of November. The least important thing is the name. I started calling it the "millennium round" three years ago, but what matters is the launch of the round.

What would be the goal of the next trade round?
The goal of the round is to advance with a substantial liberalization of trade—which, in the past, has led to growth and jobs and will do so again—and the handling of new issues, such as investment rules, international aid for the admission of investments, and increasing competition as well as the classic trade issues of agricultural services and industrial tariffs.

Do you think the euro is sparking a new entrepreneurial spirit in Europe?
It's a little early to say, but I think that there's certainly been a great deal of excitement about it, positive excitement.

A recent Reuters article said that Europeans are increasingly turning their noses up at US exports of gene-modified produce and that a consumer revolt could explode into a transatlantic trade war. Is this going to happen?
We have no wish for such a trade war, and we would do everything we can to avoid it. Anticipating trade wars is not a tremendously good idea.

Why is there this difference of opinions between the EU and US on these issues?
Sometimes there are classic protectionist issues and pressures, like, for example, steel. The United States is under pressure. There's draft legislation going through Congress which would impose steel quotas, and that is quite simple protectionism in order to protect the US steel industry. This kind of issue is not in order to protect any European commercial interest. It is genuinely the case that there are a lot of ordinary citizens with nothing whatsoever to do with this trade who don't care for genetically modified products and don't want them. Now, they may be right or they may be wrong, but they are not trying to protect anyone in that view. That does not appear to be the case in the United States and that is the source of the problem. Now we don't think things should be banned if there is no scientific basis for banning them. But the problem arises because a lot of our citizens don't take that view. It is a health issue, yes.

Is this all stemming from the mad cow disease?
It's certainly the case that the mad cow episode undermined people's confidence in scientists in Europe, so that people said, "we were told that this disease could not go from animals to human beings, and that was perfectly okay, and we were given every kind of assurance years ago. Suddenly, somebody stands up and says that we're not so sure now. Well, if you change your position on that, how can we be so sure that you're right in saying that these GMOs (genetically modified organisms) are okay?" So it has helped to undermine confidence in scientific advice.

Where do the EU and the US stand on the beef hormone issue?
Beef hormone, is of course, different from the GMO question. That's an issue that has already crystallized. There, we are seeking agreement as to the way in which we can comply with the WTO ruling, and we think it would be better to have some kind of market opening arrangement rather than some market closing arrangement. In other words, we would prefer to negotiate compensation with the United States because compensation means not the giving of money but the opening up of the European market wider than it currently is. Retaliation means the closing of the American market. It may have the same effect on the trade balance, but it's much better because there should be more trade rather than less.

On data privacy, you've been recently quoted as saying that it looks like there's going to be an agreement in the near future?
Yes. We haven't got there yet, and until there is an agreement, you can't say anything. You can't be sure. But we have negotiated very positively for some months, and there is a common desire to reach agreement on these issues...I hope there will be such an agreement.

"I want to see the launch of the millennium round, which we have been arguing for three years."

If you had to give a report card to the Transatlantic Economic Partnership (TEP), how would you rate it so far?
I think good in terms of the spirit and the will and getting the thing underway. Perhaps a little slower [in] actual achievement.

What would you like to see done that's not been done?
I'd like us to get going on the mutual recognition agreements in some of the new areas.

How do the EU and the US differ on China joining the WTO?
We've been working very closely together for years now and have an overwhelmingly common view on most of the issues. We applaud the progress that's been made between the EU, United States, and China, and we, of course, have our own distinctive interests which you can't expect the US to look after. In the talks, we will seek to make progress on those, which will be of interest to the US and beneficial to the US, but of even greater interest to us. So, there's no conflict at all. It's just that we have, obviously, extra priorities and different priorities from the US. And China, of course, has to reach agreement with each of us.

Do you have a different view on human rights than the US?
We are as concerned as the US about human rights in China and have no hesitation in raising these issues with the Chinese, as I myself have done on numerous occasions.

Is Romano Prodi the right person for the job as European Commission president?
He has gotten off to a good start. He made a very good impression on the European Parliament, and I'm sure he'll do very well.

ECONOMICS

The US View of the Euro

By Bruce Barnard

Federal Reserve Chairman Alan Greenspan (right), flanked by Deputy Treasury Secretary Lawrence Summers, believes the euro can benefit US interests.

The US is one of the most enthusiastic supporters of the euro although the fledgling currency someday may challenge the global hegemony of the dollar.

US policymakers view European monetary union as a win-win situation for American business. "If it's good for Europe, it's good for the US," is outgoing Treasury Secretary Robert Rubin's stock response to questions about the euro's impact on the United States. Put simply, the euro will strengthen the European economy, thus bolstering demand for products imported from the United States. It will also reduce the cost of doing business for the hundreds of American corporations in Europe. Moreover, US firms have always regarded Europe as a single market and are better placed to exploit the new currency than the European firms, which are only now abandoning their national mindset.

Almost all the pundits' predictions about the euro-dollar relationship have proved wide of the mark in the first six months of monetary union. The US economy is robust, and the dollar is soaring; Europe's economy is faltering, and the euro is sliding.

These are still early days, and the euro's anemic performance is no guide to its likely impact on the US a few years from now. It will not register with the European public or American tourists until 2002, when euro notes and coins enter circulation and the national currencies of the eleven euro nations are no longer legal tender.

To be sure, it has already affected the financial markets. It is the world's second-most traded currency after the greenback, and Europe's previously fragmented bond and stock markets are becoming more integrated and liquid much faster than expected.

While analysts overestimated the euro's value, they underestimated its impact on Europe's capital markets. They predicted it would account for between 30 percent and 40 percent of all international bond issuances, with the dollar maintaining a large lead. In fact, the euro is running almost neck-and-neck with the dollar, and other global currencies, including the yen, the Swiss franc, and sterling, account for the remaining 10 percent.

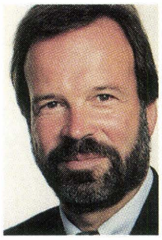
Thus, the euro has clearly established itself as a junior partner to the dollar in an embryonic bipolar financial system. But does this mean it will challenge the dollar as a reserve currency and erode its dominant position as the main invoicing unit in international trade?

Some commentators predict the euro will challenge the dollar and destabilize the transatlantic relationship. Nevertheless, US policymakers, at least officially, are unfazed saying they had long called for the deutsche mark to play a great reserve role and that a liquid euro capital market would help stabilize the value of the dollar.

To be sure, the euro will in time become an alternative to the dollar, but it will take some time for the new currency to find its feet. But that is a long way off. The president's Council of Economic Advisers says the euro is not likely to topple the dollar as the world's premier currency given the greenback's long reign at the top and the importance of US markets. Even if it did, the US would not necessarily suffer. "Whether a country's currency is an international currency or not has little to do with (its) long-run well-being, as the experience of many successful economies whose currencies do not have international roles attests."

The jury of US economists and policymakers are still out on whether monetary union will prove a success. US companies in Europe, by contrast, don't enjoy that luxury and are going all out to exploit the huge potential of the new currency. Ⓔ

Europe's Economic Future? A German ba



Norbert Walter
Chief Economist, Deutsche Bank

Norbert Walter is among Europe's most prolific and well-known economists. Since 1990, he has served as chief economist of Deutsche Bank Group, becoming managing director of Deutsche Bank Research in 1992. (Deutsche is Germany's largest bank and its pending merger with Bankers Trust of the US would create the world's largest financial services group.)

A staunch defender of market economy principles, Mr. Walter is known for his research in the field of monetary and fiscal policy. His tireless campaigning for a single European currency has earned him the nickname "Eurofighter."

Many governments are now talking passionately about the need for a new 'global financial architecture.' What exactly does that mean?

Well, it means two things: First, that there's mounting dissatisfaction with the present state of the global monetary system, which has been aptly described as a "non-system." Secondly, the crisis in Asia has made politicians and financial market participants painfully aware that in the age of globalization financial crises no longer halt at national borders. As the world grows closer together economically, decisions by individual governments substantially affect other countries. Yet, there are no mechanisms in place to stabilize the global financial system.

If the financial system is to be redesigned, will the G7 assume the role of architect?

A 'G3' would be far better suited to the task. This would consist of the United States, the only global superpower; Japan, the world's second-largest economy; and the European Union, which is still evolving. A G3 is probably the only grouping appropriate for tackling macroeconomic coordination and creating a new global financial architecture. But at this point the G3 lacks nearly all the prerequisites for the job.

What would the prerequisites be for an effective G3?

To begin with, the US needs not only to *be* the sole superpower but also to *recognize* itself as such and *act* accordingly. It would do well to recall the qualities and orientation it had during World War II and immediately thereafter. Japan, for its part, needs to snap out of its trance and recover from its largely self-induced paralysis. And Europe—to play its role in a G3—must first define itself. Its current suggestions on how to represent itself in international institutions are merely reflexes rooted in Europe's past divisions—not

Philippe Lagayette
Chairman, JP Morgan-France

Ever since the Morgan Bank launched banking operations in France in 1868, it has maintained its role as a leading player on the nation's financial scene. JP Morgan moved into its present, elegant, headquarters on the Place Vendôme in the center of Paris in 1917, and there Philippe Lagayette, its current chairman, spoke to *EUROPE* contributing editor Axel Krause about the euro and the economic outlook.

During the early 1980s, Mr. Lagayette served as chief of staff for France's then finance minister, Jacques Delors, who in 1984 moved to Brussels to become president of the European Commission, while Mr. Lagayette became deputy governor of the Bank of France. From 1992 until assuming his present post in 1997, he was head of the Caisse des Depôts et Consignations, France's largest, government-controlled savings and loan association and investor.

What is your reaction to the 8 percent drop in the value of the euro versus the dollar since it was introduced in January?

The drop is not significant in itself. When you look at the rate differential between the French franc and the dollar over the past year and a half—fluctuating between 5.40 francs and 6.20 francs—you have to admit that is absolutely normal. The world economic system could not function otherwise. Fluctuation between the main currencies is a necessary component of the system.

What is the importance of the euro?

The euro was the last missing element in the creation of a banking, financial market that is truly European. And it has proven beneficial for banks like ours. We are by nature a European bank, and we have been preparing for the euro for quite a few years. We are not, however, engaged in all kinds of banking. We are primarily an investment bank. So what is happening, partly as a result of monetary union in Europe, is very favorable in that we see much more corporate restructuring, including trans-border operations, emerging. In this context, we consider ourselves well placed.

Will there now be more industrial restructuring within the EU?

Yes. Because size has become increasingly important for the actors involved, in relation to the increased size of the market. In the field of insurance, there are groups of a European dimension being created, such as [the French group] AXA, for example. If we take the top thirty European financial institutions—whether they be in insurance or banking—and look at their stock market capitalization at the end of 1994 and their capitalization now, the level has quadrupled.

But doesn't this reflect generally rising stock prices in this period?

Yes, but it accounted for just over half of the increase. Restructuring and growth in size account for the rest. It is not important whether the restructuring took place within an EU country or across an EU border. What matters is that actors are being created at a European level.

Turning to the European Central Bank, which is independent but not accountable.

Yes it is [accountable]. The difference [compared to the US Federal Reserve] is that it doesn't publish very quickly the positions taken [during meetings] proof of a vision for shaping the future and contributing to the architecture of an international order. Europe lacks self-confidence and is conceptually weak. Before there can be a functioning G3, Europe must first begin to exist; it must establish functional institutions and speak with one voice.

Germany will be hosting this year's G7 summit. Is that expected to have any noticeable effect on the agenda or tone of the meeting?
Hosting such a meeting involves more than just incurring costs and fulfilling duties. Given that Germany has recently had a change of government, it would be appropriate for that to have an influence on the character of the summit. Issues being discussed now in Germany and Japan—such as target zones for exchange rates and regulation of financial markets—would seem to fit well into the G3 concept and could be topics in Cologne. There's very little being heard on these issues from the United States. The US Treasury still rejects the idea of exchange rate target zones. The Treasury and the Fed are in the same boat with the European Central Bank on this question. By default, monetary policy continues to be a matter of national interest. And exchange rates are left to market forces. Politicians in the US are not particularly interested in international subjects. So, lacking clear leadership, the G3 remains a body without a head.

Has the mid-term appointment of a new finance minister in Germany changed the country's position on G7 related issues?
Oscar Lafontaine's interventionist style will certainly not be followed by his successor, Hans Eichel. Instead, the new finance minister is consensus-oriented, willing to listen to his negotiating partners, and seeks the support of the ECB for international initiatives. Thus, Germany will now be less of a nuisance in the G7 process.

What are the main economic challenges facing G7 countries on the eve of the millennium?
In 1999, the world is still feeling the effects of a serious crisis on financial markets. And the risk of deflationary developments is not limited to Japan. The G3 must be alert to these dangers. It's vital that the G3 be prepared to move forward on macroeconomic coordination. In the absence of conceptual clarity and vision, all that remains is hope—hope that the American economic engine continues to produce growth; hope that—despite a growing current account deficit—the US dollar remains relatively strong against the yen; and hope that Europe—despite its inability to reform fiscal and social policy—manages to overcome structural weakness and avoid recession.

Terry Martin is a journalist in Berlin.

ıker and a French economist speak out

by each of those responsible. But the ECB authorities are required to appear before the committees of the European Parliament, the bank makes reports public; a minister may attend meetings, without the right to vote. It is not an institution that works in secrecy.

So why, unlike the Fed, can't we find out quickly how ECB members voted on, for example, interest rates?
Because it is very important that each of them vote on what is in the interest of Europe as a whole. It is obvious that each of them also represents a distinct nationality. If the results of the votes were made public, a French representative, for example, would be asked why he or she had not defended French interests, and the same would be true of the German, etc. Therefore, I believe, given its European identity, they [the ECB founders] were absolutely right to agree on not making public how individual members voted. But this does not mean the bank is not accountable.

What is your reaction to the proposal put forward by Germany's former finance minister Oskar Lafontaine, supported by some in France, to establish a system of target zones for stabilizing exchange rates between the dollar, yen, and euro?
I am extremely skeptical. This is because I feel it natural that the [world monetary] system breathes. It is a fact that today capital is invested in essentially three main currencies—the dollar, the yen, and the euro—and it is possible to switch from one to the other at any moment. If a system of controls were imposed blocking this, it would lead to some hard knocks to the system.

So how should monetary authorities in the three zones function?
There is nothing preventing the world's most important economies from closely coordinating their economic and monetary policies to reduce the risk of major swings in the markets. And this certainly does not exclude interventions in the currency markets by central banks. But not as a counterpoint of the entire market.

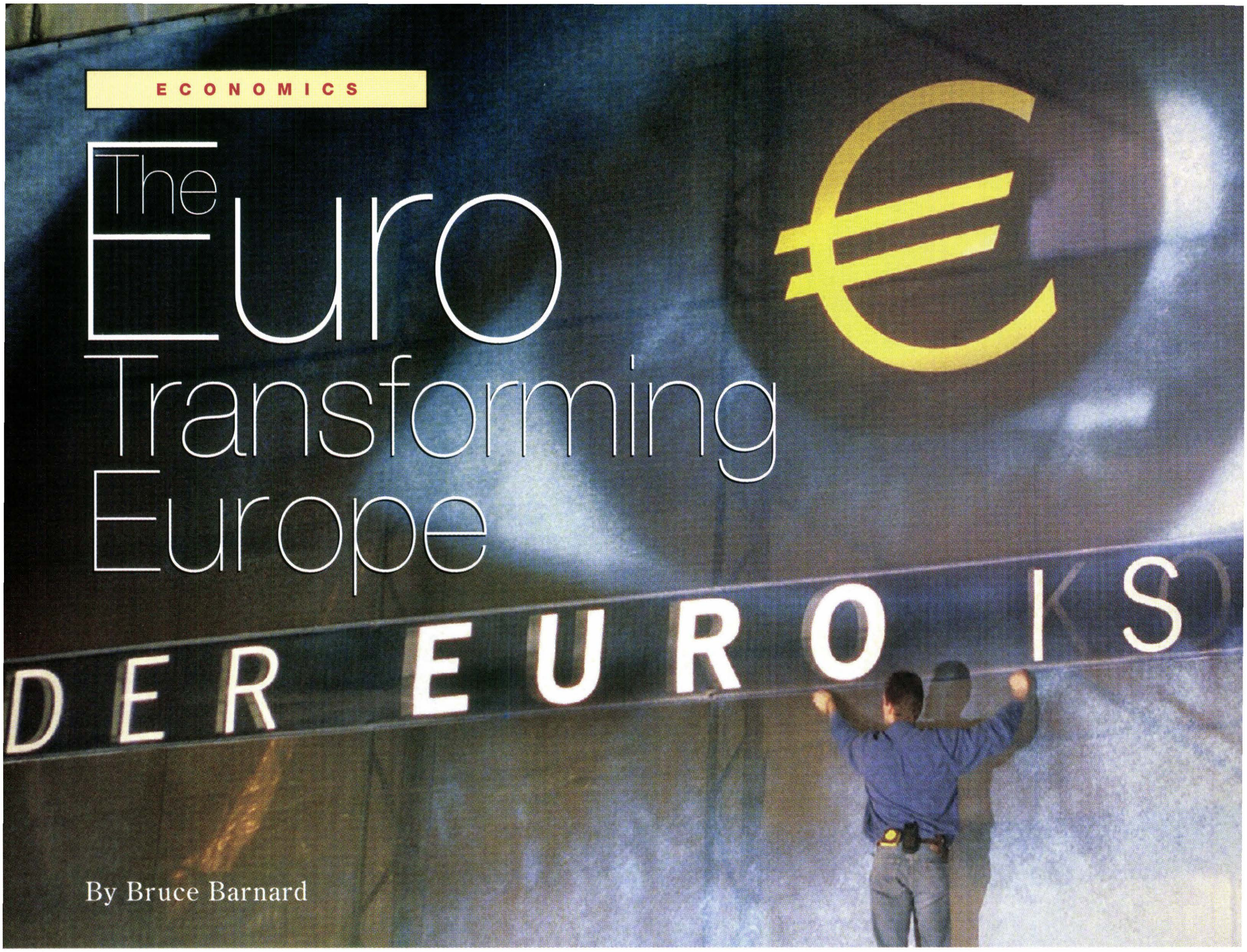
How do you view the lively debate over whether Paris and Frankfurt can compete against London as the EU's leading financial capital?
The question regarding a financial capital can no longer be posed as before. For years, there was in Europe one financial center associated with each major currency. The context has changed in the EU. There is a single European currency, whereas London will continue to represent a major concentration [of trading] services, each of the other financial centers must now find new reasons to attract financial activities.

How do you evaluate growth prospects in the EU today?
The outlook is rather good, after a first half year of slow growth. Restructuring (of major EU industries) is underway. Monetary policy has been eased. Interest rates are at very low levels, so financing operations are relatively easy to organize. Above all, the levels and the forces for growth in the EU are now well established. Improving the outlook considerably, particularly here in France, is the sustained, high level of consumer confidence in the future, stemming largely from the fact that salaries are rising somewhat and that inflation is at virtually zero.

Axel Krause is a EUROPE *contributing editor in Paris.*

ECONOMICS

The Euro Transforming Europe



By Bruce Barnard

Europe's new single currency has convulsed the continent's corporate culture after just six months of existence and promises further seismic changes well before the first euro coins and notes hit the streets in 2002.

The euro's well-publicized decline against the dollar has overshadowed its accelerating impact on European business, which is filtering down from giant companies to small start-up firms.

The arrival of the euro—after years of planning and several near terminal setbacks—has finally allowed big firms to plot pan-European strategies. The most spectacular evidence of this is provided by a surge in cross-border merger activity, which scaled new heights in the foiled bid to merge Deutsche Telekom and Telecom Italia into a $200 billion behemoth.

However, is the 'euro effect', which will hasten the transformation of Europe's six-and-a-half-year-old single market into a replica of the US economy, reserved to the big battalions? Or will it also give birth to a new business culture that will encourage US-style entrepreneurship, something that is in short supply in risk averse Europe?

To be sure, large corporations are at the frontline, but there is already evidence the single currency has unleashed a domino effect that will spread its influence across the entire European economy.

The launch of the euro acted as a spur for continental European companies to adopt "alien" Anglo-American techniques, notably hostile takeovers. It also ushered in a new era of low-interest rates in the eleven-nation euro zone, which is encouraging raids by firms on their inefficient rivals. Meanwhile, high share prices have made stock-swap acquisitions easier. The planned merger of European stock exchanges, another byproduct of monetary union, will also facilitate cross-border raids.

The arrival of the euro has also made it easier for savvy investors to spot undervalued assets across Europe and profit from US-style share-buying, arbitrage, and stalking underperforming managements. Privatizations, which are likely to reach an all-time high in the euro's first year, also are providing fresh targets for these corporate raiders.

But mega-mergers and takeovers on their own will not create a new European business culture. In many cases, they involve large well-established firms, which are mainly motivated by a collective desire to protect their domestic markets from foreign rivals. Many deals lack industrial logic or clearly identifiable synergies and rarely involve radical restructuring—including plant closures and layoffs—to improve efficiency.

Nor have the mergers created genuine pan-European firms, especially in financial services. ABN-Amro accounts for nearly half its domestic Dutch market but less than 2 percent of euro zone deposits, while the mighty Deutsche Bank controls only 3 percent. Europe

A workman at the Frankfurt Stock Exchange puts up a new banner announcing "The Euro Is Here," replacing one that read, "The Euro Is Coming."

still has a long way to catch up with the US where the market share of the top five American banks jumped to 22 percent from 12 percent last year, following a massive wave of consolidation.

The most far-reaching impact of the euro will be the creation of a single European capital market to replace fragmented national markets. Before monetary union, currency risks made investors reluctant to send funds abroad. Moreover, those who wanted to invest in foreign assets were held back by regulations requiring insurance companies and pension funds to match the currencies of their assets and liabilities and other restrictions.

National capital markets are relatively small and easy to control and underpin continental Europe's so-called stakeholder capitalism, which balances the interests of employees, shareholders, subcontractors, and local communities. Therefore, funds are not allocated based on earning the best returns. When making loans, continental banks, which often hold stakes in their big industrial customers, are motivated as much by social and political considerations as by the performance of companies. Under this system, shareholders and share prices can be ignored.

The giant European capital market that is rapidly evolving cannot be controlled. No longer restricted to their domestic markets, investors are seeking the maximum returns. This changing environment has heightened competition between companies for their attention. But change will not happen overnight. Europe's capital markets remain very fragmented. In the United Kingdom, the most open European market, less than 20 percent of financial assets are invested overseas; meanwhile, in France, Germany, and Italy, the foreign take is only 5 percent.

European business was transforming itself before the launch of the euro. Companies are more sensitive to shareholders' needs, evidenced by the growing popularity of share buy-backs and employee share option programs. Intensifying global competition is the catalyst, but the single currency is hastening the transformation to Anglo-American-style capitalism.

The euro is at the core of a business renaissance that has given Europe a chance of catching up with the vibrant US economy. Deregulation and liberalization have intensifed competition in sectors that were dominated by state monopolies, benefiting budding entrepreneurs and consumers alike. New telecommunication companies created 40,000 jobs, and phone charges fell by as much as 70 percent in Germany in 1998, the first year of full competition, outweighing the 12,000 job losses at Deutsche Telekom, the former monopoly.

By driving down interest rates, the euro is forcing private investors to seek better returns, often in the new stock exchanges that have sprung up across the continent specializing in high-tech start-up companies. Germany's Neuer Markt surged 170 percent last year and accounted for the bulk of the country's seventy initial public offerings (IPOs) involving telecommunication, biotechnology, media, Internet, and entertainment firms. Germany—long a byword for hidebound, overregulated, risk-averse industry—is becoming fertile ground for dorm room and garage start-ups. The success stories include Teles, a telecommunication equipment supplier established sixteen years ago by a Berlin-based academic. The company was listed on the Neuer Markt last year and is now worth more than a $1 billion. Another German winner is Hancke & Peter IT Service, a computer services company, set up fifteen years ago, which has sales of $90 million and raised $22 million earlier this year to fund acquisitions. The story is repeated in all European countries, including France and Italy, once regarded as the most inhospitable terrain for high-tech start-ups. France, for example, took the lead in introducing rules for euro zone investment. Last October, it permitted French bond fund managers to allocate assets throughout the euro zone.

Budding entrepreneurs in Europe still face greater problems raising finance than their US counterparts—some still cross the Atlantic in search of backing. But the growth of a euro capital market, the development of secondary stock exchanges, and the search by investors for growth opportunities will make it easier to get seed capital. That is already happening. Europe attracted some $23 billion in venture capital funds in 1997, and private equity firms increased spending by more than 40 percent to $11.3 billion, according to the European Venture Capital Association. Some venture capitalists are reaping spectacular returns. Techno Venture Management of Munich made thirty times its investment in SCM Microsystems, a German smart card manufacturer, which floated on the Neuer Markt.

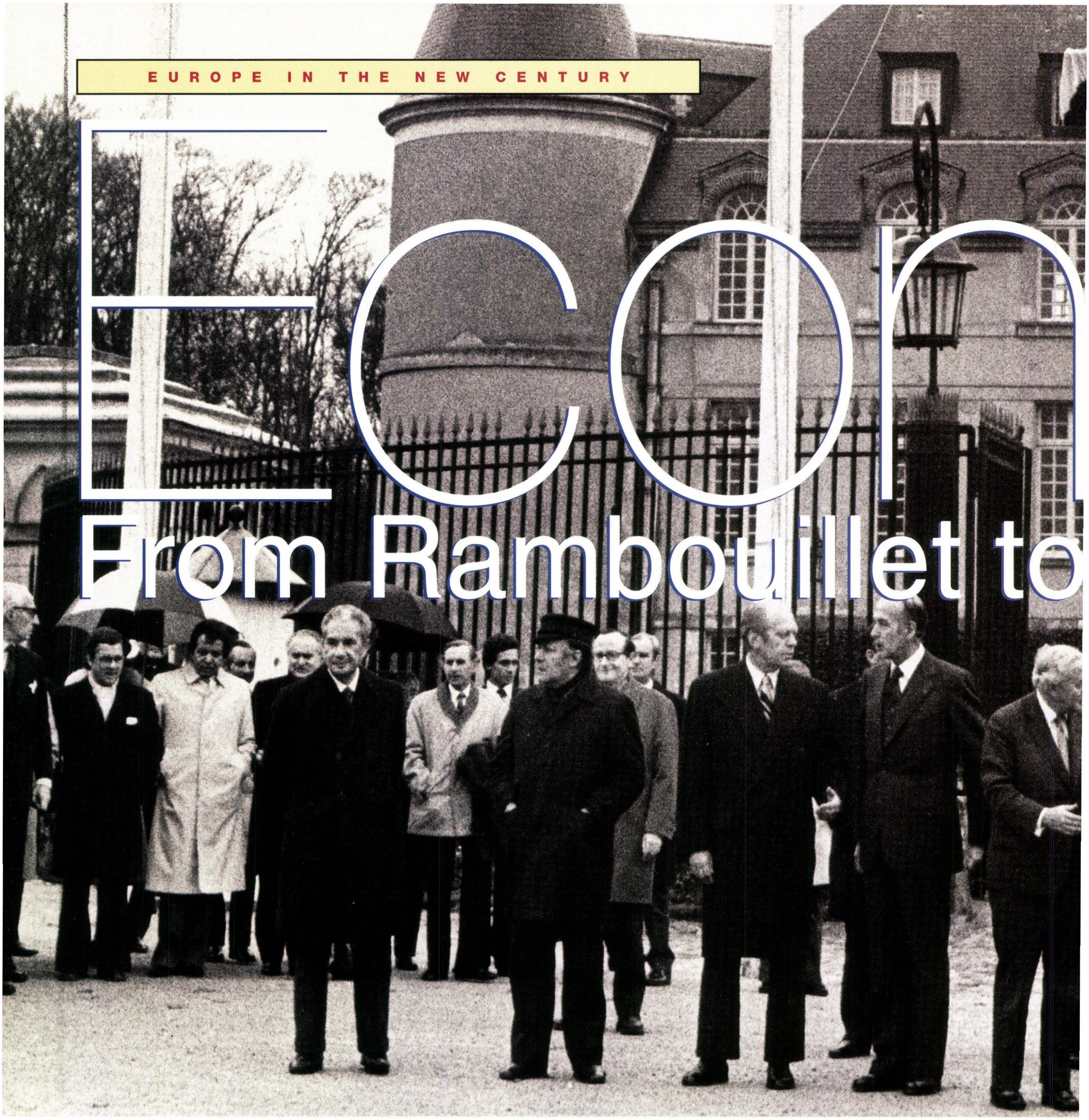
The launch of the euro has also attracted high-profile American investors like Hicks, Muse, Tate & Furst Inc, which is establishing a $1.5 billion European fund for buyouts.

Europe's fastest, best-performing market this year has been the Easdaq, the first pan-continental stock exchange, modeled on the Nasdaq, where any company regardless of its size can list so long as it signs up to international accounting standards and US-style reporting guidelines.

Europe is not about to produce a crop of tycoons to equal Bill Gates or companies to match the likes of Yahoo. But with the help of a six-month-old currency, it is on its way. ⓔ

Econ

From Rambouillet to



Past

The Best Meal I've Ever Had

"The best meal I've ever had," writes Margaret Thatcher, "was at the gala final banquet at the 1989 Paris economic summit celebrating the 200th anniversary of the French revolution." In her memoirs, *The Downing Street Years*, Lady Thatcher remembers the event as one long procession, choreographed as only the French or Hollywood could do. With a cast of thousands, it was a fantastic party where, "everyone left happy and little of note was achieved."

This, after twenty-four years of G7 and now G8 summits, has become the standard critique. They cost too much (some as much as $20 million), are mostly glitz, and produce ten to twenty pages of platitudinous words. John Sewell, the head of Washington's Overseas Development Council, dismisses them as "ritualized Kabuki plays absorbing huge amounts of bureaucratic time which produce few results." They are, he says, largely irrelevant to economic issues.

While the summits started as informal, private gatherings where leaders discussed economic policy coordination, they grew progressively bigger and more ceremonial. The first, in the

In November 1975, the first economic summit—the brainchild of German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing—took place in Rambouillet, France, and included the leaders from France, West Germany, Italy, the United Kingdom, the US, and Japan.

omic Cologne Summits

By Barry D. Wood

relative tranquility of Rambouillet, thirty-one miles from Paris, took place in November 1975 and included the leaders of France, West Germany, Italy, the United Kingdom, the United States, and Japan. The brainchild of then German chancellor Helmut Schmidt and then French president Valéry Giscard d'Estaing, the ostensible purpose was examination of growing current account imbalances and the then new system of floating exchange rates. President Gerald Ford, wanting to project a statesmanlike image as an election loomed, quickly convened a second summit in Puerto Rico the following June. Feeling the need to offset the preponderance of Europe, Ford invited Pierre Trudeau of Canada. Thus was created, without conscious planning, the Group of Seven.

By 1977 in London, an understood format had evolved, and the president of the European Commission had been added as a regular attendee. The meetings were usually two and a half days in length. Finance and foreign ministers met separately and took part in expanded plenaries with the leaders. The meetings were planned by the leaders' personal representatives known as "sherpas" (which refers to the Nepalese tribe known for guiding mountain climbers to summits in the southern Himalayas). The sherpas met at least twice and consulted frequently to prepare the way to the summit. The venues would rotate among the seven countries. While the sherpas were matched by a G7 finance deputies group, there would be no secretariat. The purpose, unchanged from the beginning, is to allow leaders to grapple with economic problems they might otherwise not address and to develop close personal working relationships with their peers.

If the summits are about cooperation and deal making, the late seventies and mid-eighties meetings are the winners. Henry Owen, Jimmy Carter's sherpa for four summits, regards 1978 in Bonn as unquestionably the best. The leaders ordered their trade officials to complete the stalled Tokyo round of tariff cuts. And as part of a coordinated growth strategy, the Germans agreed to reduce taxes to boost their own economy while the Americans promised to end oil price controls. It was a widely acclaimed grand bargain. It was, in retrospect, in the pre-Thatcher-Reagan era, the apogee of Keynsian demand management.

Fred Bergsten, the number-three treasury official under Jimmy Carter, agrees that Bonn 1978 was a triumph, representing "the most far-reaching

In her memoirs, Lady Margaret Thatcher remembers the 1989 Paris economic summit celebrating the 200th anniversary of the French revolution as a fantastic party where "everyone left happy and little of note was achieved."

agreement ever achieved on international policy coordination." But Bergsten sees 1985 to 1987, when the pragmatic James Baker replaced the free market zealots at the Treasury Department, as the zenith of the summit process. In September 1985, finance officials met at the Plaza Hotel in New York to announce a cooperative effort to bring down the sky-high dollar exchange rate that threatened global financial stability. In February 1987, they met at the Louvre in Paris to say the dollar had fallen enough and that then prevailing exchange rates should endure.

Not surprisingly, Bergsten—who for nearly two decades has presided over a respected economic think tank—finds recent G7 performance disappointing. The effectiveness of the summits, he says, has declined sharply. Not only is policy coordination, in his view, absent, but the summits failed to foresee the Mexican financial debacle and the more recent Asian crisis. Inevitably, the summits gradually became less economic and more political. By 1986, observes former British summit planner Nick Bayne, economic policy had been handed off to finance ministers, while the leaders gave increasing time to noneconomic issues.

Is the world a better place because the leaders of Europe, North America, and Japan have met annually these past twenty-four years? While some experts shrug and pundits tend to give a thumbs down, Canadian academic John Kirton answers with a resounding "yes."

For Professor Kirton, the failing grades handed up by so many are ill informed and dead wrong. The G7/G8 summits, he says, have emerged as the center of global governance, surpassing the United Nations in significance and power. The head of the University of Toronto's G7 Research Group, Mr. Kirton has concluded that the summits in fact are very substantive and that real decisions are taken. He has persuasive research proving, he argues, that the leaders and countries generally keep the commitments they make. He points to trade. "The Uruguay Round of trade liberalization talks," he asserts, "was launched at the 1986 G7 summit and completed only because a vital market access agreement was hammered out at the G7 Tokyo summit in 1993." "The world is manifestly safer," says Professor Kirton, because of summit agreements, for instance, to punish aircraft hijackers, limit the export of missile control technology, and tighten nuclear power plant safety standards.

That is not all. Kirton's list includes demonstrable progress in eliminating greenhouse gases, debt relief for the poorest countries, and aid to Russia as important summit achievements. "The leaders actually keep many of the commitments they make," he says. "The compliance rate is far higher from the summits than, say, for the president's State of the Union speech in the United States." Compliance is greatest in trade and energy, and the countries most likely to keep their word are the UK and Canada. The least compliant are France and the United States.

Present

A New Generation of Leaders

When the first economic summit was held at Rambouillet in 1975, Tony Blair was twenty-two, an Oxford graduate, and a law student. His future political career was no more than a twinkle in his, or his father's, eye. Bill Clinton was twenty-nine, five years past Oxford, a recent graduate of Yale Law School, and now a law professor at the University of Arkansas. Newly married, Clinton had only recently returned to Arkansas where the following year he would be elected attorney general and then governor in 1978. Gerhard Schröder was twenty-six, still a Marxist and a fixture of the German left, and practicing law in Hanover. Three years later he would become chairman of the Young Socialists, a stepping stone to entering West Germany's parliament in 1980.

Now, as German chancellor, Schröder is hosting (June 18–20) in Cologne his first and the twenty-fifth annual economic summit. As with the EU Cologne summit that precedes it, the G8 is likely to be dominated by the conflict in Yugoslavia, the biggest test yet for these new generation leaders.

Cologne seems particularly fitting for this year's meeting. Laid waste by allied bombing during World War II, this vibrant city by the Rhine—like its magnificent Gothic cathedral—somehow endured the war and was reborn to prosperity generated by commerce and trade. The summit venues—Cologne's Ludwig Museum of modern art and the Roman Germanic museum—were chosen by Helmut Kohl, who after sixteen years in power must have taken it for granted that he would be the host. Now, as Schröder escorts Bill Clinton, Boris Yeltsin, and the other guests past the brooding twin towers of Cologne cathedral and onto a Rhine riverboat, inevitably he is compared to Kohl. For Germany, the Cologne summits are a symbolic farewell to the tranquil republic of Bonn–just upstream from Cologne—be-

Russian President Boris Yeltsin (fifth from left) attended the 1997 summit in Denver. There is a consensus among summit watchers that the annual meeting became less effective and more political after 1991—the first year that Russia was invited.

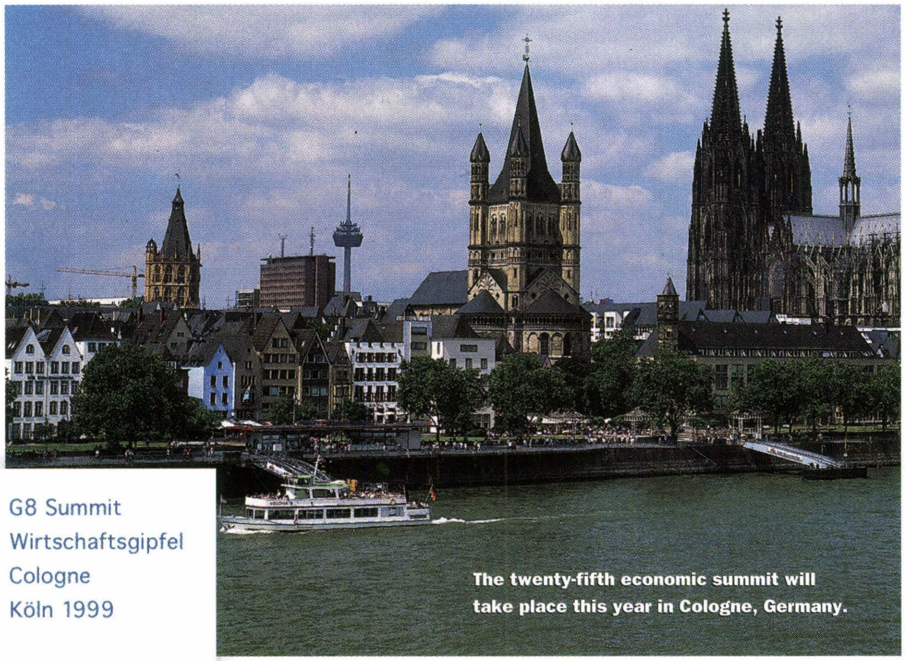
fore the momentous move east to Berlin.

There is a new center-left dynamic now shaping these annual meetings. Just as the free market, anti-communist crusade of Ronald Reagan and Margaret Thatcher (to the annoyance of Kohl and François Mitterrand) dominated the G7 in the 1980s, a reforged Anglo-American axis has emerged over the past eighteen months. It is built on deepening friendship and like-mindedness of President Bill Clinton and Prime Minister Tony Blair.

Like Blair and Clinton, Schröder is a purported "third way" social democrat, an economic modernizer who would discard the rigidities of the old left while maintaining the essential elements of the social compact. Schröder joined Blair, Clinton, and Massimo D'Alema of Italy at a third way seminar held on the final day of NATO's April summit in Washington. The event was a condensed version of the productive brainstorming session Blair and Clinton held at Chequers following last year's Birmingham summit. Pursuing broadly similar policies that Blair likened to a "voyage of discovery," these new age politicians emphasize community, responsibility, and participation—the middle ground between left and right.

Schröder is continuing with the more relaxed, informal format that Blair is given high marks for creating during a nearly day-long country retreat that opened the Birmingham gathering. John Kirton of the University of Toronto credits Blair with other positive innovations at Birmingham, where themes—crime and employability—had been set. The summits, says Kirton and other observers, have become far more complicated since Russia became first an add-on guest in 1991 and finally a full member of the club last year. Implicitly acknowledging, as Fred Bergsten observes, that it is a "farce" to include Russia in the economic discussions, the G7 persists as a parallel entity within the G8. At Birmingham, the G7 leaders met for two hours of substantive macroeconomic talks before Boris Yeltsin's arrival. They will do so again in Cologne. Blair also recast the summit as just for leaders, moving the foreign and finance ministers into separate, earlier meetings. Kirton believes that after two years of drift (Lyon 1996 and Denver 1997), Blair skillfully moved the discussions back toward economics at Birmingham. Nick Bayne, the former British summit planner, says by finally meeting alone at Birmingham—fulfilling the original objectives of Schmidt and Giscard—the summit leaders "gained a freedom of action they never had."

The economic accomplishments of the Cologne meeting are likely to be substantive but probably will attract relatively little media attention. There will be far more generous official debt relief for the world's poorest countries and a stronger commitment to battle global warming and convert unsafe nuclear power plants to less dangerous alternatives. The much discussed but relatively modest new financial architecture proposals will be endorsed and sent on to the International Monetary Fund for implementation. The leaders will say that new IMF lending facilities and stricter supervision of emerging markets—key components of the new architecture—provide an improved early warning system for preventing the kind of financial crisis that swept through Asia beginning in 1997.


The twenty-fifth economic summit will take place this year in Cologne, Germany.

G8 Summit
Wirtschaftsgipfel
Cologne
Köln 1999

Future

We Can't Go On Like This

"We can't go on like this," said Dan Tarullo, President Clinton's sherpa in 1995 and 1996. Speaking before last year's Birmingham meeting, Tarullo was referring to Russia's ambiguous, awkward status within the summit club. This despite Russia having been made a full member of what is now the G8. As Nick Bayne, the former UK sherpa, observes, "Inviting Gorbachev to London in 1991 changed the nature of the G7 summit. Having once invited the leader of the former superpower, it was impossible not to do in every succeeding year."

Fred Bergsten says it was a "huge mistake" to start inviting Boris Yeltsin to the summits beginning in 1992. "It was," he says, "done as a political sop, a mistake for which all G7 leaders are to blame." That said, Bergsten acknowledges that you cannot get anyone out once you've brought them in. But the result, says Bergsten, has been a series of "limp" summits, which have failed to act on ten years of asymmetry among the major economies.

There is general consensus that the summits became less effective and more political after 1991. And, it is argued, if Russia with an economy the size of Denmark's is a member of the club, what about China or Brazil or India?

"We should start to involve China," but not bring them in straight away, says Robert Zoellick, George Bush's sherpa at the important 1991 and 1992 meetings. Zoellick, who recently resigned as the head of Washington's Center for Strategic and International Studies, says China needs to be given incentives for good behavior and establishing democracy, a key requirement for summit participation. Fred Bergsten argues that it is "tricky" to bring the Chinese in since their economy is so different, but over time, he would expand the summit to include China. Henry Owen, Jimmy Carter's sherpa for four summits, is forthright, "don't include the Chinese."

What these summit critics favor is a reassertion of a G7 emphasis on economic issues. Whether this is to remain mostly at the finance ministers level or be elevated to the G7 leaders is a matter of disagreement. Zoellick applauds the recent in-depth involvement of G7 finance ministers on IMF and financial market reform. He sees the challenge as how to integrate this reinvigorated process with the leaders' summit. Henry Owen says the ideal summit would be exclusively economics and include only the European Union (and the European Central Bank), Japan, and the United States. But he concedes this is unlikely ever to happen. Fred Bergsten acknowledges that the summit process is essential. But he too advocates a G3 of Europe, Japan, and the United States as a steering committee for the world economy.

Cologne is the twenty-fifth economic summit. A quarter century after Rambouillet, summits remain a work in progress. There have been failures, like the discord over relations with the Soviet Union that marred the 1982 meeting in France and the imprudent promise in 1992 of a $24 billion aid program to make Russia into a market economy. Later, the summits failed to foresee the Mexican crisis in 1994 and the Asian meltdown in 1997. They have failed to devise ways to make Japan's economy grow or Europe's to produce jobs and faster growth. Many say the G7 has failed to adequately respond to globalization and the challenge of emerging markets.

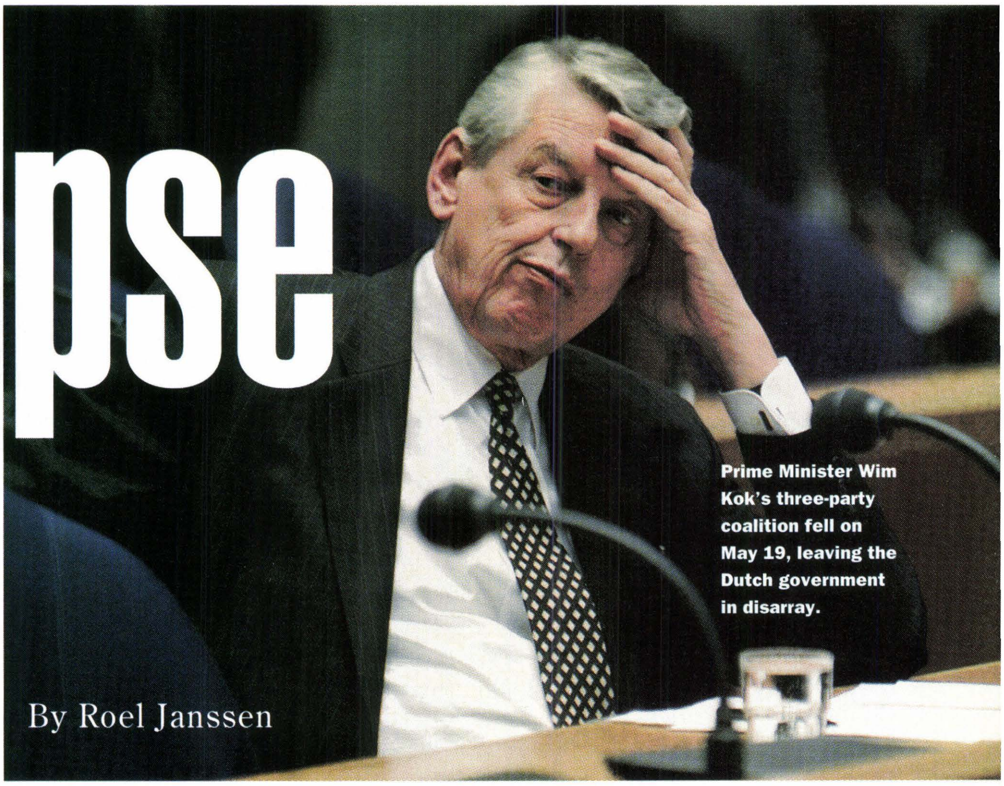
But there have been successes too, the unity that has developed on dozens of issues from debt to nuclear power to climate control to aircraft hijacking penalties. It was the G7 at the momentous summit in Paris in 1989—with communism collapsing in Hungary and Poland—that created the European Bank for Reconstruction and Development to help build markets in the East.

So, the summits continue into the millennium. But then, if Russia is in the club when do they play host? This was left unresolved at Birmingham with Yeltsin making a big pitch to play host in 2000, his last year in office. The Japanese, whose turn it is, said nothing doing, go to the end of the queue. Some analysts expect the outcome to be two summits in 2000. Ⓔ

Barry D. Wood, a broadcaster and economics journalist, has reported from sixteen economic summits since 1980.

Coalition Collapse

Despite a healthy Dutch economy, Wim Kok's coalition government fell in the wake of a controversial constitutional vote.



Prime Minister Wim Kok's three-party coalition fell on May 19, leaving the Dutch government in disarray.

By Roel Janssen

This spring, the Netherlands was plunged into a sudden political crisis. A single vote in the parliament's largely ceremonial upper chamber caused the collapse on May 19th of the three-party coalition led by Prime Minister Wim Kok.

It was pure political theater leading up through the final vote on a constitutional reform introducing a limited form of public referendum in the Netherlands. There never was much enthusiasm for the referendum in the two largest governing parties, the social democratic PvdA and the free market liberal VVD. In the end, they accepted a watered-down version. However, the reform was the pet project of the junior partner of the coalition government, the social liberal party D66, which was founded in 1966 with the aim of making Dutch politics more open to democratic scrutiny.

Amending the constitution is a lengthy process in the Netherlands, requiring a two-thirds majority for the final vote in the Dutch parliament's upper chamber. To the astonishment of the entire political establishment, the bill was overturned by one vote of a longtime senior member of the VVD. In protest, D66 pulled out of the coalition government, forcing Kok to offer the resignation of his cabinet to Queen Beatrix and leaving the government in total disarray. The coalition's dissolution also marks the end of a five-year period of Dutch government without the participation of the Christian Democrats, who had previously dominated Dutch politics. The cherished Dutch *poldermodel*, which combined economic reforms and social cooperation, appears finally to have been breached.

After less than 300 days in office, the legalization of prostitution may have been the most headline-grabbing legislative achievement of the second Wim Kok-led government, which was formed last August after the May general elections. Because of the combination of conservatives and social democrats and their respective trademark colors (blue and red), these governments were dubbed 'purple' coalitions.

Unlike Purple I, Purple II lacked innovative appeal perhaps because the now familiar political combination had lost its freshness or maybe because in its initial months the new government was haunted by difficult issues. Among these was the political turmoil surrounding the proposed membership of the crown prince, Willem Alexander, in the scandal-ridden International Olympic Committee and the ongoing debate about the reduction of the environmental degradation caused by the country's massive hog breeding industry.

According to political pundits, a clear policy perspective was lacking. In the Netherlands, there is no debate about the "new middle" (as in Germany), or the "third way" (as in the United Kingdom). The Dutch continue to cherish their polder model (the name refers to the low-lying Dutch land reclaimed from the sea) with its cooperative approach, prudent fiscal policies, and moderate economic reforms. Without major divergences over political issues, not even the main opposition party, the Christian Democrats, managed to put a dent in the government's business. Only the left—particularly the Green party—was successful in attracting dissident voters. With the emergence of Gerhard Schröder's Socialist-Green coalition in neighboring Germany, the Dutch Greens are contemplating seriously, for the first time, the possibility of taking part in a future government.

There is also a grim sense of political realism in the Netherlands. For example, parliament almost unanimously supported Dutch participation in the NATO campaign against Serbia in the Kosovo crisis. It is worth noting that it was a social democratic-led government that entered the Dutch in the first major European military operation since the end of World War II (as was the case in Germany). Even the Greens, whose ranks include both former communists and pacifists, supported the government's Kosovo policies. The level of support is even more remarkable considering the humiliating retreat by the Dutch army from the Bosnian enclave of Srebrenica in 1995. That trauma has haunted both the previous and the present governments. The plight of the many thousands of displaced Kosovars has brought about reminiscences of the Nazi deportations and has cemented deep public and political support for the NATO campaign.

The Purple II government, however, enjoyed less popularity than Purple I and endured increasing political strains. In March, it was briefly rumored that Wim Kok might be convinced by his European counterparts to accept the presidency of the European Commission after the sudden resignation of Jacques Santer. However, at that time, Mr. Kok's departure to Brussels might have caused the collapse of his coalition government, which had been suffering from thinning cohesion over the previous months, so Wim Kok stayed on in the Hague.

In April, the two vice-prime ministers came under attack. Along with Mr. Kok, Annemarie Jorritsma, the economics minister, and Els Borst, the minister of health, were hit with the fallout from a

Dutch Do Business With an eye on the US

It is not likely that any country can ever match the track record of the Dutch as investors in North America. After all, it was the Dutchman Peter Minuit who in the early years of the seventeenth century negotiated the acquisition of the island of Manhattan from a tribe of Native Americans in exchange for beads and trinkets reputed to have a value equivalent of $24. Some 350 years later, the accumulated value of Dutch investments in the Untied States stands at roughly $85 billion, on an historical cost basis. This figure ranks the Netherlands third in terms of foreign investment in the United States behind the United Kingdom and Japan.

Recently, it was a Dutch insurance company, AEGON NV, which took control of Transamerica Corp and its landmark pyramid building that is so prominent in the skyline of San Francisco. The Dutch insurance sector is heavily invested in the United States, with holdings having an historical cost basis of $14 billion. The combination of AEGON and Transamerica, announced in February 1999, created the third-largest insurance firm in the United States. Other significant Dutch holdings in the insurance sector include the Equitable of Iowa and Security Life, which are part of ING.

Because Dutch-owned firms like AEGON and ING issue policies to insure the lives of many Americans, it is only fitting that other Dutch companies contribute to the health and well-being of these same Americans. Dutch companies have assembled extensive holdings in the food and food retailing sectors. Royal Ahold is owner of one of the largest groups of retail supermarkets in the United States, including some 830 stores, among them Giant Food Stores as well as Tops Markets and Stop and Shop.

And on the shelves in the Dutch-owned supermarkets, shoppers can fill their carts with many branded products that are produced by Dutch-owned companies. For example, Unilever, the Dutch-UK company includes among its brand-holdings Lipton, Bird's Eye, Breyers, Ragu, Lawry's, and I Can't Believe its Not Butter, to name but a few "household words."

The Dutch also boast major holdings in the consumer electronics sector, with various Philips Electronics companies providing a range of the hardware one needs to listen and look at audio and video entertainment, as well as computer products. In May 1999, two Dutch companies announced major technology acquisitions in the United States. Philips Semiconductor agreed to pay nearly $1 billion for California-based VLSI Technologies, and the Dutch firm Getronics agreed to pay $2 billion in cash to acquire Massachusetts-based Wang Global's computing and telecommunications network services business, which employs 33,000 people worldwide and has annual revenues exceeding $5 billion.

Americans can carry their hardware and software in products supplied by a Dutch-owned firm. Case Logic, the Boulder, Colorado-based company that designs and manufactures soft cases for compact discs, CD players, and computers, is now owned by Hagemeyer, a Netherlands company.

If an investor should find himself or herself in a legal dispute, they might identify an American lawyer in the Martindale-Hubbell legal directory, which is now owned by the Anglo-Dutch publishing group, Reed Elsevier. In turn, the lawyers may have occasion to utilize in their research the LEXIS-NEXIS service, also part of Reed-Elsevier.

The scale, breadth, variety, and success of Dutch-owned businesses in the United States is remarkable, especially when one considers that the population of the Netherlands is only about 14 million. Of course, this is very much a two-way street.

Officials at the Massachusetts headquarters of Wang Global announced that part of the company is being acquired by Getronics NV.

The Netherlands, despite its relatively small size, is ranked as the fifth-largest recipient of American foreign direct investment, with a total of $37 billion invested over the years.

—Frank Schuchat

EUROPE Update

JUNE 1999 VOLUME VII/NUMBER 6

WHAT THEY SAID...MARY ROBINSON ON THE HORRORS OF KOSOVO

Mary Robinson has seen the face of human suffering many times before. As the first woman president of Ireland, she was reduced to tears during a visit to famine-ravaged Somalia in 1992. Nevertheless, it did not prevent her from making a number of subsequent visits to Africa, including Rwanda at the height of that country's suffering.

Now, as the United Nations high commissioner for human rights, she has persisted in visiting Tibet, despite the reluctance of her Chinese hosts. She freely admits, however, that nothing had prepared her for the cruelty and misery among the thousands of refugees she encountered last month during a visit to the Balkans (May 2–13).

As the NATO bombing continued overhead, Mrs. Robinson toured refugee camps in the Former Yugoslav Republic of Macedonia, Albania, and Montenegro and met with scores of families "ethnically cleansed" by the forces of Yugoslav President Slobodan Milosevic.

Those faces of human conflict so incensed the fifty-five-year-old mother of three that she called on the Yugoslav government to immediately halt its "vicious abuses" against human rights in Kosovo. That promptly earned her a snub from President Milosevic, who refused to meet with her during a visit to Belgrade (although she did have a meeting with Foreign Minister Zivadin Jovanovic).

Two days later, after returning to Dublin for a brief visit and still emotionally drained after her harrowing Balkan tour, Mrs. Robinson spoke with *EUROPE* contributing editor Mike Burns about the work of the United Nations High Commission for Human Rights, her experiences during the twelve-day visit, and what must be done when peace is restored.

On May 13, UN Commissioner for Human Rights Mary Robinson spoke to reporters in Belgrade after Yugoslav President Slobodan Milosevic refused to meet with her.

How do you define your role and that of the UNHCR?

The office of the United Nation's High Commissioner for Human Rights was established by a resolution of the General Assembly in December 1993, and there's a very broad mandate which, essentially, is to spearhead human rights on behalf of the United Nations, to promote a human rights culture, to develop strategies for human rights by governments, to address issues of violation, to link with the civil society in different countries and help them with their work on human rights. Just before I took up office, Secretary-General Kofi Annan gave my office another responsibility, namely to mainstream human rights throughout the UN system, to make sure that all the agencies—like the Office of the High Commissioner for Refugees, the UN Children's Fund (UNICEF), the UN Development Program—had a strong human rights language and a rights-based approach, as we call it, in their own work. So, even though it is a small office based in Geneva with a liaison office in New York and twenty small field presences in difficult areas like Cambodia and Colombia, it is also a very key one to influence the whole.

After your recent visit to the Balkans, how do you think that mandate is working out?

I expressed concern when addressing the opening session of the Commission on Human Rights on March 22, that as the main intergovernmental human rights body which meets for six weeks annually in Geneva, one of its problems was in dealing with gross violation of human rights. How do we address such terrible violations? Two days after the commission began its plenary session, the bombing campaign started in the Federal Republic of Yugoslavia and the huge exodus of refugees came about as a result of a vicious, cruel, deliberate policy of ethnic cleansing. The response, I think, has at least meant that human rights are being addressed. I immediately deployed three teams of monitors to the Former Yugoslav Republic of Macedonia (FYROM), to Albania, and to Montenegro. Part of the subsequent mission to the neighboring countries and to Montenegro and Serbia was to assess the coordination of the human rights monitoring, the work of our own team linking with OSCE and linking with the staff of the International Criminal Tribunal [for the former Yugoslavia], which has jurisdiction for war crimes in the area.

People are very traumatized, maybe even scared, may not want to relive that ordeal, but some are very keen to be witnesses. If we find, for example, a particularly egregious case of human rights violation, a really bad case with a willing witness, then we are coordinating to direct that to the staff of the criminal tribunal and say, "There's a good case." They can only deal with a small number of the most serious cases.

I'm reporting to the Commission on Human Rights. I've already furnished four reports while they were in plenary session, and I'm reporting now to the chair and bureau of the commission. I'm very proud of the fact that the chair of the Commission on Human Rights is Ambassador Anne Anderson [an Irish diplomat] who has been very supportive and skillful, and it's good to be able to continue this reporting of the direct evidence of human rights violations.

As well as that, I'm directing particular types and patterns of abuses to relevant mandates. So, where there is a pattern of sexual abuse and rape of women as part of the warfare, we are getting this material to the special rapporteur on violence against women. We are directing material to the Committee on the Rights of the Child, evidence of abuses to the Committee Against Torture and special rapporteur. All of this to marshal the evidence so that we can build the case for accountability, for breaking this terrible impunity from gross violations.

So the visit was important from that point of view, and it was important that I went to Belgrade. I did seek to meet President Milosevic directly. I had met the presidents of the other five countries, including the three-person presidency in Bosnia-Herzegovina.

I believe I got my message across very clearly to President Milosevic, perhaps even more clearly by *not* meeting him, because it was noted that he would not meet me and my message to him was a very clear one. It was saying: I have heard first-hand accounts from a significant number of refugees myself, that they did not leave their homes because of the bombing. They left because they were driven out by people in military uniform. They had their homes burned. They had their papers taken from them and so on.

I wanted to make that case. I made it in detail to the foreign minister [Zivadin Jovanovic], who said, "Oh, we don't have a policy of ethnic cleansing." I was able to reply, "But if you know of the huge numbers of incidents that I'm telling you about, that my human rights monitors are telling, that OSCE are telling, that the staff of the tribunal are telling, then you do know, and if you are not stopping it, by implication you have a policy."

Did you feel hurt at being snubbed by President Milosevic?
No, it proved my point and it got the message across perhaps even more effectively. In many ways, I was trying to envisage how when I meet him, will I get time and opportunity to say what I need to say, whereas the fact that he declined to meet me, that he was uncomfortable presumably about meeting me, helped in that I could get across the message of what I would have said to him.

How could this happen in 1999?
That is the terrible tragedy. It is particularly a tragedy for that region. In Bosnia and Croatia, I was discussing the return of refugees from, in fact, Serbia, to parts of Croatia, to parts of Bosnia, years afterwards, under the Dayton [Accords] and other return programs. Why didn't we learn the lessons? But there are war criminals walking around in those countries, and people know where they are, so there's a lack of political will in relation to that.

How does this compare with other terrible events in Europe during this century?
Clearly, it is not as devastating as the genocide against the Jewish population in the Second World War. However, I think it is very serious to have human rights violations against such a high proportion of the population, to so bully and harass and cruelly traumatize families.

I have heard so many direct accounts. One man in a tent—together with seventeen of his wider family, in front of his mother, his brother, his sister-in-law, his own wife, younger girls—started to tell of how they had been forced out of his village, how the villagers had all been rounded up, how they saw their houses burned, how all their money and possessions were taken away, and by the time he had finished everyone in the tent was crying. They were reliving what they had gone through.

That happened to others so many times. Most times. In fact, as you go through the camps you see men, woman, and children weeping, silently crying, just trying to forget the trauma. The worst thing for them, two terrible situations: their homes burned and no papers. Where are they going to go? What's going to happen to them, apart from all the suffering?

How do you feel about the NATO bombing and the killing of civilians?
It was important in going to Belgrade and the city of Nis to express deep concern about the number of civilian deaths and injuries, and indeed the cutting off of electricity and water that affected the civilian populations. I saw in Nis cluster bombs which had dropped in residential areas, some still unexploded. I spoke to the mayor [Zoran Zivkovic], who described the hospital being bombed the day before, killing fifteen civilians.

It is very important not to equate the NATO campaign resulting in civilian casualties and the deliberate targeting of the Kosovo Albanians. However, there is a worry about the issue of proportionality in the military campaigns. The principle of proportionality is very important, as is the principle of legality of the bombing campaign, which is being addressed by the Hague international court at the moment.

How do you see the conflict being brought to an end?
How will it end? The sooner we get a political resolution the better. The UN secretary-general is working with his two special envoys, with the Group of Eight, with the president of Finland [Martti Ahtisaari], with Russia. Everybody is absolutely focused, and there aren't different tracks. There's a coordinating of efforts, because it has to be brought to a political resolution.

Do you feel it will then be necessary to create a Marshall Plan-type program to help restore the whole area?
Yes, I believe that it is going to be necessary to have a Marshall aid type plan because in each of the six countries I visited there was a very sharp downturn in the economy because of the war, the cutting-off of the market of Serbia itself, the lack of a tourist season, and the huge number of refugees putting great strains on those countries. So, yes, if we're to have a lasting peace, that is part of the package.

Is Slobodan Milosevic a war criminal?
That's not for me to judge. It's for me to help gather evidence.

Blair Holds off the Nationalists

"The Scots voted with a cool head not a brave heart," commented one relieved politician as the ruling Labor Party won the most seats in the May elections to the new Scottish Parliament and the Welsh Assembly.

Prime Minister Tony Blair fought off the nationalists in the elections for the first Scottish Parliament in nearly 300 years, but he was surprised by an unforeseen surge in support for the nationalist party in Wales, which meant Labor failed to win an outright majority in either election.

Labor, as the party with the most seats in both houses, is forming coalitions with the centrist Liberal-Democrats in Scotland and Wales, in effect creating a new centrist block in British regional politics.

The Scottish Nationalist Party did not poll as well as expected, winning thirty-five seats in the 129-member parliament, compared to fifty-six for Labor. Nonetheless, the SNP did achieve its first target of depriving Labor of outright victory. The Conservatives took eighteen seats, and the Liberal-Democrats won seventeen seats and hold the balance of power.

In Wales, by contrast, the expected Labor majority did not emerge. The shock came with the surge of support for Plaid Cymru, the nationalist party that took seventeen seats in the sixty-member assembly. Labor only managed to win twenty-eight seats, leaving it again dependent on the Liberal-Democrats to form a ruling coalition.

The UK is on the crest of a wave of constitutional change fundamentally altering the framework of the union. However, devolving powers to the constituent nations of the United Kingdom does not mean granting them independence.

The new Scottish Parliament will have power over many domestic Scottish issues, such as health, education, and social services, but the government in London will retain control over those areas that affect the UK as a whole, the economy, foreign affairs, and defense.

Symbolically underlining the continuation of the union, the new Scottish Parliament will be opened in Edinburgh on July 1 by Queen Elizabeth.

Italy and Germany Elect New Presidents

Last month saw the election of new presidents in two of the European Union's biggest member countries. On May 18, Carlo Azeglio Ciampi took office as Italy's tenth president, and five days later, Johannes Rau won a five-year term as Germany's president.

The seventy-eight-year-old Ciampi rode a wave of broad political support to win on the first ballot by Italy's parliament. He replaces Oscar Luigi Scalfaro, who had served since 1992. Mr. Ciampi had served previously as prime minister of a caretaker government and as the governor of Italy's central bank. Most recently he had been Italy's treasury minister and has been widely credited with preparing the way for Italy to join the euro, the EU's single currency.

Currently, the Italian parliament elects the president to a seven-year term; however, lawmakers are considering constitutional reforms that would make the presidency a popularly elected post. Although the presidency carries little power in day-to-day governing, the office does play an important role during elections (designating which candidates may form governments) and in times of political crisis (deciding whether to dissolve parliament and hold new elections).

During a speech before parliament, Mr. Ciampi commented that although the war in Kosovo was "a wound in the body of Europe," the bombing campaign against Yugoslavia was necessary. A longtime supporter of European integration, he declared that "a lasting peace can be reached only by expanding the borders of the [European] Union."

In Germany, Mr. Rau, a member of the ruling Social Democrat party, got an absolute majority of 690 votes out of 1,338-member federal assembly to win the largely ceremonial German presidency.

In his victory speech, Mr. Rau said he will work to further integrate western and eastern Germany. "It is for me not just a self-evident duty," he said, "but a personal responsibility to be president of all Germans..." He also stated his support for Germany's role in NATO airstrikes against Yugoslavia.

The sixty-eight-year-old son of a pastor will officially succeed the current president, Roman Herzog, on July 1. He will become the first German president to serve entirely in the restored capital of Berlin.

UK, Luxembourg Oppose Savings Tax

At a Brussels meeting of European Union finance ministers, Chancellor of the Exchequer Gordon Brown emphasized the United Kingdom's opposition to a proposed EU-wide tax on interest accrued by savings and investments. Mr. Brown argued that the tax would have disastrous effects on the trading of euro bonds, which constitutes a lucrative part of London's financial sector.

The EU has long been trying to close tax loopholes that allow EU investors to avoid national taxes by moving funds to low-tax havens, such as Luxembourg and London.

The UK and Luxembourg are seeking exemptions from the tax for a range of investment instruments. EU tax issues require unanimous agreement among the fifteen member nations.

French Economy Grows

The French Institute of Economic Indicators (OFCE) predicts France's gross domestic product will increase by 2.6 percent during 1999. Furthermore, the institute remains optimistic that unemployment will decline by an "exceptionally dynamic" 10 percent. OFCE president Jean-Paul Fitoussi said that the French economy is expected to have generated more than one million jobs in three years (1998–2000). The OFCE estimates that the French economy would have to maintain a blistering 3.5 percent growth in each of the next six years to reach full employment.

Slovaks Choose New President

For the first time, Slovaks turned out to the polls to vote for a president. On May 30, they elected Rudolf Schuster with 57.2 percent of the vote. He defeated the former prime minister Vladimir Meciar, who took 42.8 percent. Slovakia's presidency, which is a largely ceremonial post, had been vacant for more than a year because parliament could not agree on a candidate. The rules were subsequently changed to allow a direct popular vote to fill the office.

Mr. Schuster, who represents a pro-West coalition, has said he plans to lead Slovakia to European Union membership. Foreign governments and markets had been closely watching the election for signs that it would bring greater stability to Slovakia's tumultuous political scene and a renewed commitment to democratic reform.

Strike Closes Acropolis

A weekend strike by employees of the Greek Culture Ministry forced the closure of some of the country's top tourist attractions, including the Acropolis, on May 15 and 16. The strikers, who work at a variety of cultural and historical sites throughout the country, are demanding back pay and additional staff.

BUSINESS BRIEFS

Olivetti continued its foray into the telecommunications sector by outbidding Germany's **Deutsche Telekom** for **Telecom Italia**. Olivetti offered $64 billion for 51 percent of its larger rival's stock. The hostile bid stunned Deutsche Telekom, which had planned to merge with Telecom Italia and build a pan-European telecom giant to compete with the likes of US giant **AT&T**.

Adding insult to injury, Olivetti helped finance the deal by selling its stake in two Italian subsidiaries—cellular operator **Omnitel** and fixed-line unit **Infostrada**—to **Mannesmann AG**, Deutsche Telekom's main German rival.

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The establishment of a pan-European stock market moved closer after the London and Frankfurt exchanges abandoned their go-it-alone strategy and opened talks with six other bourses over a plan for a single electronic share-trading platform for blue-chip corporations with common rules and regulations. The **Amsterdam**, **Brussels**, **Madrid**, **Milan**, **Paris**, and **Zurich** bourses signed an agreement with **London** and **Frankfurt**, ending months of tension over rival plans for a common trading platform.

Peace moves accelerated in February after the **New York Stock Exchange** said it was considering extending its trading day to compete more effectively with European exchanges.

The planned European exchange will be a joint company whose ownership will reflect how much business each exchange brings to the venture. Shares will be quoted in euros.

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More than 13 million Europeans had opened a euro bank account, and 9 million had made a payment in euros four months after the launch of the new single currency, according to a poll of 12,000 people in twelve European countries.

The poll found growing enthusiasm for the euro, with 80 percent of respondents saying it was beneficial to them. They rated convenience—not having to convert currencies when crossing borders—and economic stability as its main attractions.

The survey, by **Europay International**, found that 3 out of 100 European adults had opened a euro bank account in the first four months of 1999 and 2 percent had paid in euros, using a credit or debit card. Euro coins and notes will not enter circulation until January 2002, and national currencies will remain legal tender until June 30.

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Europe's stock markets are bracing for share offers worth a record-breaking $100 billion-plus in 1999 with the telecoms sector setting the pace. The value of new shares has doubled over the past four years, boosted by massive privatization programs, to break through $100 billion for the first time in 1997 before slipping to $98 billion in 1998 in the wake of the Asian and Russian financial crises, which are thought to have led to the postponement of $30 billion of deals.

These deals are expected to be revived in 1999, helping to take total share offerings to well more than $100 billion as large companies float shares to aid restructuring programs. The single biggest deal will be **Deutsche Telekom's** $10.6 billion offering, half of which will be targeted at individual investors in the eleven euro-zone countries.

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Grupo Endesa, the Spanish utilities group, clinched victory in a hard fought two-year battle for control of Chile's biggest electricity generator, paving the way for a new Spanish invasion of the Latin American power market.

Endesa paid $1.85 billion for 30 percent of **Endesa Chile**, giving it a 55.3 percent stake in Latin America's largest private utility and thwarting a counter bid by **Duke Energy** of the US. In March, it took control of another Chilean power group, **Enersis**, for $1.45 billion.

Spanish energy firms are set to invest more than $20 billion in Latin America in a bid to gain control over the continent's biggest private energy assets to compensate for the decline in their margins in Europe where deregulation has greatly increased competition.

The Spanish invasion gathered pace after **Repsol SA**, the oil, gas, and chemicals group, launched an unsolicited $13.45 billion bid for the 85.1 percent of **YPF**, the state-controlled Argentinean energy group, that it doesn't already own. It was the only bidder when the Buenos Aires government auctioned a 14.9 percent stake in YPF in January.

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Microsoft was poised to take a dominant position in the UK's fast-growing cable television market with a $4 billion budget to acquire stakes in leading players.

The Redmond, Washington-based software giant has also moved into the Dutch cable market and Sweden's mobile communications industry.

Since January, Microsoft has spent $500 million for a 5 percent stake in New York-based **NTL**, the UK's third-largest cable television company, committed itself to buying a 29.9 percent stake in **Telewest Communications** held by **Media One**, the US cable operator acquired by **AT&T** in May, and was poised to take a 30 percent stake in **Cable & Wireless Communications**, worth some $3 billion.

Microsoft's presence will give the cable industry the capital to compete with **BSkyB**, the satellite broadcaster controlled by media magnate Rupert Murdoch, in the emerging digital television market.

Microsoft also established a beachhead in mainland Europe through a $300 million investment in Amsterdam-based **United Pan-European Communications**, the continent's largest cable television provider.

Microsoft stepped up its assault on Europe's fast-growing mobile telecoms market by paying around $130 million for **Sendit**, a Swedish developer of Internet access services. The deal gives Microsoft a strategic toehold in the Nordic region, which leads the world in developing wireless technology.

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Another legendary American product, Ray-Ban 'shades', passed into European ownership after Italy's **Luxottica Group** paid $640 million for **Bausch & Lomb's** sunglasses business.

The deal immediately gave Luxottica, which owns the **Lens Crafters** retail chain, nearly half of the estimated $1.3 billion global market for premium sunglasses costing more than $30. Luxottica is taking over a business that was losing market share despite Ray Ban's status as a US cultural icon. California-based **Oakley** boosted its share of the US market from 13 percent to 18 percent since 1995, while Bausch & Lomb's share fell from 40 percent to around 36 percent.

The acquisition will make Luxottica the world's premier manufacturer of premium sunglasses after it adds Bausch & Lomb's 36–38 percent market share to its current 10–12 percent. Oakley will trail a poor second with 15 percent.

EUROPE Update

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parliamentary inquiry into the crash of an El Al cargo plane in October 1992. The jet hit an apartment building just south of Amsterdam resulting in scores of dead and injured. Ms. Jorritsma and Mr. Borst, who had both held office since 1994, bore the brunt of the blame for the poor governmental handling of the crash's aftermath.

The events of 1999 present a stark contrast to those of 1994, when Wim Kok's first cabinet enjoyed a much more auspicious beginning. However, that year saw two unprecedented events occur in Dutch politics. For the first time since 1917, the Christian Democratic Party was blocked from participating in the government. Secondly, two perennial ideological antagonists, the conservatives and the social democrats, agreed to put aside their differences and form a government with the mediation of the liberal democrats. Thus, the three-party "purple" coalition emerged with the market oriented VVD, the reform-minded D66, and the left-leaning PvdA and Wim Kok, a former union leader and finance minister, as prime minister.

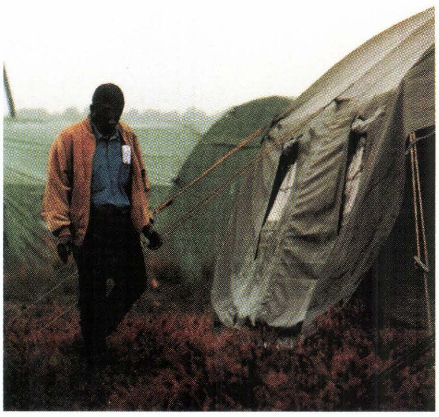
The combination of the political novelty, innovative policies, and sheer luck made Purple I a success. Its so-called polder model became something of an example all over Europe for its ideas about reforming the costly welfare state without giving up the traditional European sense of social justice. In Germany, former Chancellor Kohl and Bundesbank President Hans Tietmeyer both hailed the Dutch approach. President Clinton invited Mr. Kok to discuss it at the 1997 G8 meeting in Denver.

In truth, there was little magic to the polder model. At its root, it is based on the cooperative spirit that has prevailed in Dutch labor relations and in economic policymaking over the past fifty years. A significant amount of the coalition's success can be traced to a deal closed back in 1982. With unemployment rising dramatically, the labor unions, which were then represented by Wim Kok, and the employers' organizations agreed to restrain wage demands.

With this past success and Mr. Kok's credibility across a broad political spectrum, Purple I carefully pursued the breakup of cozy arrangements between employers and unions and a reform of the social security system, which was partly privatized and made less generous. At the same time, the government moved to significantly liberalize product and labor markets. The overall result was spectacular job growth and a steady decline of unemployment, which currently at 3.6 percent remains among the lowest in the European Union.

The government was also lucky. Like other relatively small European economies, the Dutch economy continued to grow while the large continental economies stagnated. Low inflation, declining interest rates, an early start on fiscal consolidation, and a strong boost from the world economy helped explain the economic optimism of the first Kok government.

An asylum-seeking refugee lives in a temporary camp in the Dutch town of Ermelo.



The second Kok government, however, faced a more difficult situation. The economic perspectives were less buoyant, though economic growth continues above the European average and the government's finances comply easily with the ceilings for deficits and debt imposed by the European economic and monetary union. However, the Dutch economy continues to feel the effects of an international slowdown and, particularly, the stagnation in major European countries like neighboring Germany.

Despite all efforts, the social security system still shows huge deficiencies. Unemployment may be at record lows—in many sectors there is a scarcity of labor—but some 400,000 people remain on welfare. About 900,000 have been declared unable to work, and most efforts to reintegrate them have failed thus far. Though new reforms have been announced, the sense of urgency that existed in the early nineties has vanished.

The government was confronted with another legacy of the previous one—the refugee question. With asylum policies relatively more liberal than in surrounding EU countries, large influxes of asylum-seekers continue to pour into the Netherlands. Many of these people—most of whom are fleeing civil wars, oppression, or economic hardships in their home countries—have paid criminal organizations that promise to get them into the European Union. With the EU's Schengen Treaty in place, having entered one EU country allows them access to the entire European Union.

It is a European-wide problem, but it weighs disproportionately on some countries, including the Netherlands. Partly due to its geographical location and partly to its relatively generous policies toward would-be asylum seekers, the Netherlands has received the largest amount of immigrants relative to its population within the European Union. Until recently, there was insufficient political support for tighter asylum policies, but the mood has changed. There is a sense that the influx of asylum seekers outnumbers the absorption capacity and could put heavy strains on the country's social fabric. Recently, a new immigration law was introduced, and the government hopes it will discourage the refugee flow toward the Netherlands. In the long run, a pan-European solution is preferred, but that is hard to attain as most countries insist on national priorities for immigration policies.

The new millennium looms with uncertainties for the Netherlands. A small country politically, with a powerful economy and one of the strongest financial sectors in the EU, it has rendered its monetary autonomy to the European Central Bank, giving up the guilder, one of the oldest currencies in Europe. At the same time, it is anxious to maintain its autonomy in national fiscal and economic policies. The polder model, after all, has brought a huge benefit to the country in terms of jobs, social cohesion, and economic growth. Though it is showing breaches, it continues to work well. After all, dikes and polders are inalienable parts of the Dutch history. ⓔ

Roel Janssen is EUROPE*'s Netherlands correspondent.*

Bulgar

Providing an alternative to eternal hatred in the Balkans

There is an alternative to eternal hatred in the Balkans, Bulgarians argue.

Their evolution is noteworthy, because a century ago Bulgarians too considered it normal to commit the same terrible atrocities against others as did the Serbs, Albanians, and Turks in the bloodthirsty Balkan wars. In World War II, this mentality still prevailed; Bulgarians seized the chance to ally themselves with Hitler Germany and occupy Macedonia. And as recently as the 1980s, the Bulgarian Communist leaders conducted their own ethnic cleansing; they closed mosques, persecuted Turks, made them Slavicize their names, and expelled 350,000 of them, or almost half of the Turkish community in Bulgaria.

Moreover, Bulgarians might well have felt just as deep a grievance about the Former Yugoslav Republic of Macedonia today as the Serbs express about Kosovo. The seat of the medieval Bulgarian Orthodox Church was in Macedonia, just as the seat of the medieval Serbian Orthodox church was in Kosovo. Macedonia was the cradle of Bulgarian civilization just as Kosovo was the cradle of Serb civilization. In addition, forfeiture of the national heartland was even more bitter for the Bulgarians, since they lost Macedonia altogether, while Serbs still governed Kosovo as a Serbian province. Bulgarians note that their cold war with Macedonia predates the East-West cold war, harking back to 1913.

Yet after the Berlin Wall fell, Bulgarians made a deliberate choice not to perpetuate past feuds. They, like all the Central Europeans, yearned to be part of the zone of prosperity and peace they saw in Western Europe. They were strongly attracted by the magnets of the European Union and NATO, and they instituted policies of good neighborly relations to meet the preconditions of membership.

Bulgarian President Petar Stoyanov talks to reporters at the NATO 50th anniversary summit held in Washington in April.

Initially, in Bulgaria as in Yugoslavia, it was the old communist *nomenklatura,* comparable to Slobodan Milosevic, that continued to rule even after the collapse of communism. The Bulgarian Socialists, as they now called themselves, did not pursue the path of chauvinist conquest and rape that Milosevic's men did. However, they blocked any real reform of the old command economy and conducted only the kind of crony privatization that enriched old party and secret police apparatchiks. This course led to hyperinflation, collapse of the banks, and a drastic drop in real wages—and that condition led in turn to popular revolt.

Street protesters demanded and won early elections in 1997, and a center-right majority was elected. It instituted serious economic reform, set up a currency board that restored discipline and the value of the lev, jacked wages back up to their previous levels, produced a budget surplus and 4 percent growth last year, and even began to erode the power of the corrupt mafia gangs that had developed in the early 1990s.

Moreover, in both foreign policy and treatment of minorities, the new government sought reconciliation. Bulgaria mended fences with next-door ia

By Elizabeth Pond

Turkey after six centuries and even—this year—with Macedonia, after those eighty-six years of cold war. President Petar Stoyanov apologized publicly in Turkey for the earlier mistreatment of Turks. Prime Minister Ivan Kostov formed close ties with his counterpart in Ankara. Importantly, a formula was found by which Bulgaria could accept Macedonian as a language of its own (rather than a Bulgarian dialect) while Macedonia could forego any claim to speak for a Macedonian minority in Bulgaria. The two neighbors signed treaties of friendship, and as a goodwill gesture, Sofia gave Skopje several hundred decommissioned tanks and artillery pieces.

Almost the most striking aspect of this rapprochement was the role played by Bulgaria's infant civil society. When thousands of angry Bulgarians demonstrated daily in the streets in the early 1990s against the return of expelled Turks and against reinstatement of optional Turkish language instruction in schools, a small band of human rights activists formed a Committee on National Reconciliation to urge civility on their compatriots. Despite death threats, they persevered, touring the country and mobilizing intellectuals to plead their cause on television. Bulgaria, they preached, should capitalize on its good international reputation for having saved its Jews in World War II and having given refuge to Armenians a half century before that.

At a news conference at NATO headquarters in Brussels, Bulgarian Prime Minister Ivan Kostov discusses Bulgaria's intention to allow NATO to use part of its air space.

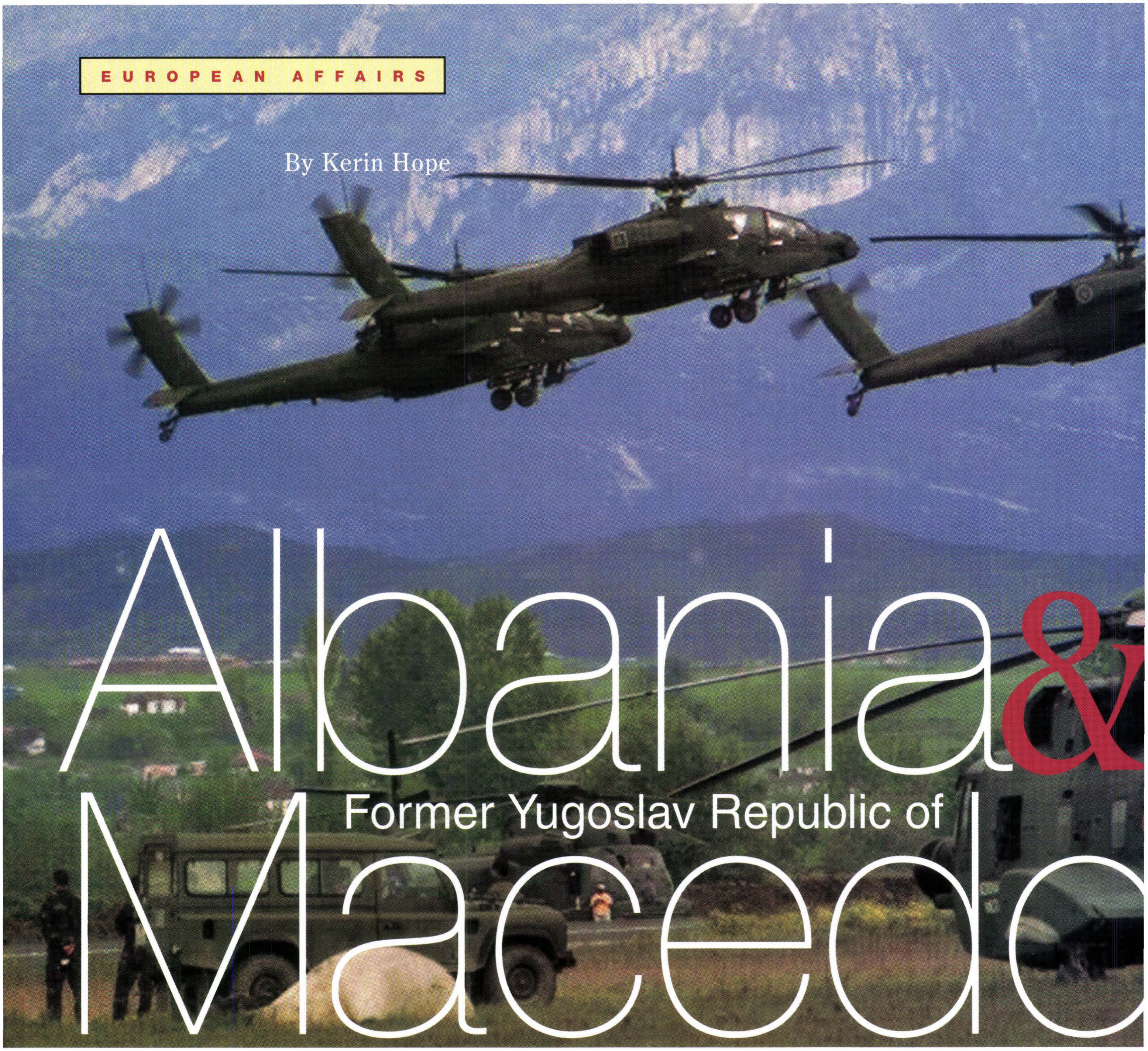
Their campaign worked. In the end, there was no significant violence against the returning Turks, and some of the activists have now moved on to the more difficult crusade to eradicate prejudice against the Romany.

On the government level, the new Bulgarian government helped organize a pan-Balkan peacekeeping battalion that will bring together even the Greeks and Turks and will have a permanent command staff based in Plovdiv starting next fall. With other Balkan states it has launched a "southeast European ministerial format" of periodic meetings of regional ministers with their Italian and American counterparts. It has helped formulate common policies at these meetings compatible with positions taken by the US-European-Russian Contact Group. Moreover, as part of its effort to qualify for membership in the alliance, after NATO bombing began in Yugoslavia, the government asked parliament to approve a fifty-mile swathe of airspace on the border with Serbia for the use of NATO warplanes.

The Bulgarians use various adjectives to describe their championing of cooperation and renunciation of old Balkan quarrels. Their new policy, they say, is "civilized," "European," or even "transatlantic." Its aim, concludes Deputy Foreign Minister Konstantin Dimitrov, is "to demythologize the essence of southeastern Europe. It's not an accursed part of Europe." Ⓔ

Elizabeth Pond is a frequent EUROPE *contributor and the author of the recently published* The Rebirth of Europe.

By Kerin Hope



Albania & Former Yugoslav Republic of Macedo

Fears of destabilization run deep in both countries.

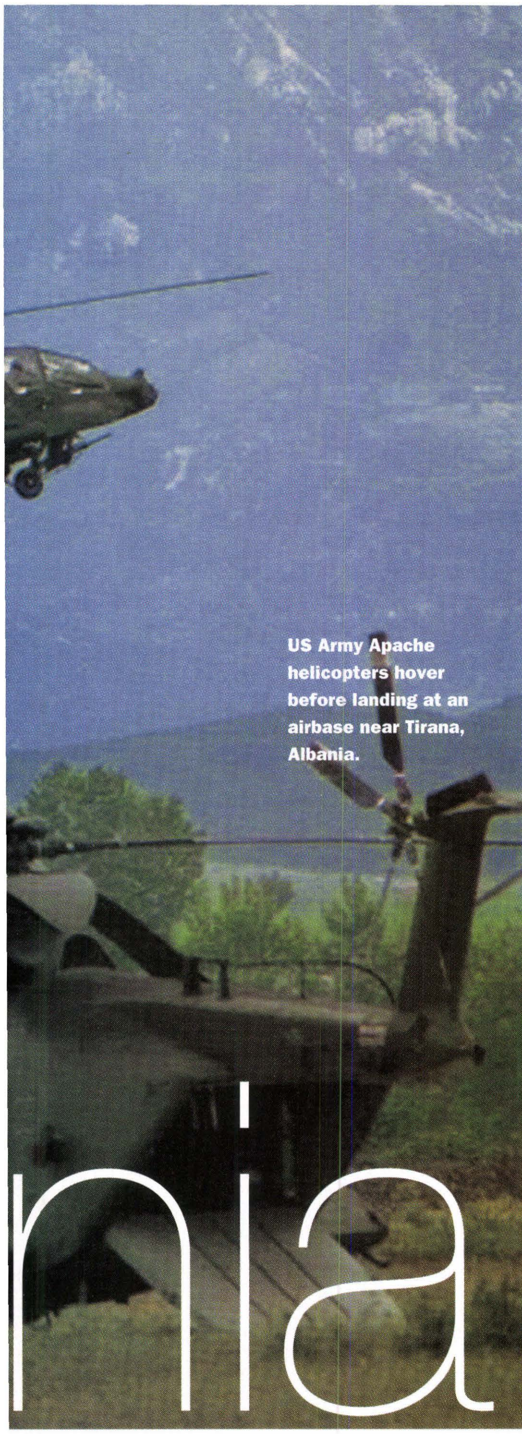
The burden of sheltering more than 500,000 refugees from the war in Kosovo has fallen overwhelmingly on two of Europe's poorest countries, Albania and the Former Yugoslav Republic of Macedonia (FYROM). As refugees continue to pour across their borders, both countries have stepped up appeals for international aid to cover the cost of providing humanitarian assistance and help repair economic damage caused by the fighting.

By April 30, Albania had taken in more than 370,000 refugees, while FYROM had accepted 170,000. The sprawling tent camps built by international relief agencies in northern Albania and by NATO troops in western FYROM are filled to overflowing. Tens of thousands of refugees have also found temporary shelter in Albanian homes, where they rely on supplies provided by relief agencies.

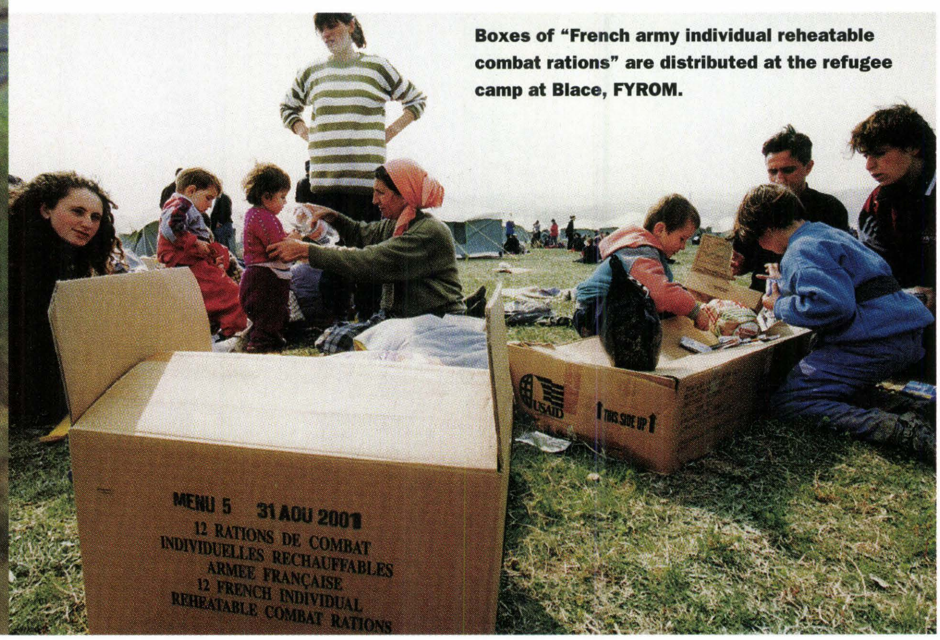
So great is the pressure on both countries that the United Nations High Commission for Refugees has reversed its policy of trying to keep refugees as close as possible to Kosovo, to speed their return home when the war is over. Countries outside Europe are being asked to provide temporary homes for more than 30,000 refugees.

But Albania and FYROM want political support, too. Both governments see the Kosovo crisis as an opportunity to press for closer ties with NATO and the European Union. Panteli Majko, the Albanian prime minister, has called for accelerated EU membership for Albania. Ljubco Georgievski, his FYROM counterpart, is demanding immediate associate membership of NATO in return for allowing more troops to be based in FYROM to participate in armed peacekeeping forces for Kosovo.

Fears of destabilization run deep in both countries. Albania's Socialist government is still locked in a political feud



US Army Apache helicopters hover before landing at an airbase near Tirana, Albania.



Boxes of "French army individual reheatable combat rations" are distributed at the refugee camp at Blace, FYROM.

with the opposition Democratic party led by Sali Berisha, the former president. With their power base in northern Albania close to Kosovo, the Democrats have strong ties with Kosovo Albanians. The Socialists are struggling to restore order in Europe's most lawless country. Mr. Majko fears the continued presence of large numbers of refugees may encourage the Democrats to try to undermine his fragile government.

In FYROM, interethnic tension between Slavs and Albanians is running high. There is growing concern in the Slav-led coalition government that the refugee influx could upset the country's delicate demographic balance, and trigger demands for autonomy by the ethnic Albanian minority, which makes up about 30 percent of the population. Some in FYROM fear that by backing autonomy for Kosovo, NATO is indirectly supporting the creation of a Greater Albania, which would include Kosovo and parts of western FYROM, where most Albanians live.

Such fears would diminish, say government officials, if Albania and FYROM caught up with other Balkan countries that are farther along the road to membership of western institutions. Their links with the EU are still tenuous compared with Bulgaria and Romania, which both have association agreements guaranteeing membership, although the accession date is unspecified. Both Albania and FYROM are members of NATO's partnership for peace. They were disappointed that the Washington summit set no clear timetable for the next enlargement of the alliance.

Both countries are deeply involved in NATO's campaign against Yugoslavia. Albania has handed over its military infrastructure to NATO to support the airstrikes. US Apache helicopters operate from Albania against Serbian troops and special police in Kosovo. In FYROM, the 12,500-strong NATO peacekeeping force is being increased to 18,000. More armored vehicles are being shipped through the northern Greek port of Thessaloniki.

NATO has provided only temporary security guarantees for both countries as frontline states in the Kosovo conflict, but defense ties are expected to strengthen in the medium term.

"The extension of partnership for peace programs and NATO's future peacekeeping role in the region will effectively provide a security umbrella over [Former Yugoslav Republic of] Macedonia and Albania," said a western analyst in the FYROM capital, Skopje.

Preliminary estimates by the International Monetary Fund indicate that Albania, FYROM, Bulgaria, and Romania may need more than $10 billion in loans to help overcome the economic impact of the Kosovo conflict. The EU estimates the cost of rebuilding the Balkans at around $30 billion.

Albania is hoping to receive an $800 million international aid package to help cope with the refugee influx and the damage to trade and investment. The EU has already given assurances that negotiations on an association agreement for Albania will be accelerated. FYROM expects to receive about $300 million in aid to help look after refugees and offset a sharp decline in trade with Yugoslavia. In the longer term, both countries would be among the biggest beneficiaries of a coordinated international effort to rebuild the southern Balkans to develop as an integrated economic region. ⓔ

Kerin Hope is EUROPE*'s Athens correspondent.*

EUROPE Loves Golf

Sport moves to the fore in Europe

Prince Andrew (center) receives a handshake from Scottish actor Sean Connery (second from left) at the eighteenth-hole during the Monarch Challenge, held at Gleneagles in Scotland.

On the snowy golf courses of Finland, colored golf balls are provided and golfers can rent a reindeer caddy to haul the clubs around.

By Benjamin Jones

An afternoon foursome under the midnight sun in Scandinavia, playing at historic St. Andrews of Scotland where golf was virtually invented, or facing the dogleg at a course on the Greek island of Corfu where legend has it Odysseus was shipwrecked are all pleasures available to those who play golf in Europe where the sport is growing increasingly popular.

According to the European Golf Association, there are an estimated 4 million golfers on the continent playing at 5,523 courses from Iceland to Turkey, Portugal to Russia. And the game is taking off in former communist countries like Poland, the Czech Republic, Croatia, and Slovenia where new courses are under construction to add to the few already in operation.

Historically, golf is a thoroughly European game. Scholars say it originated from a game known in eastern Scotland in the fifteenth century and was influenced by similar pastimes practiced in Holland and Belgium. Players using a stick or club would swat a small stone around a course of sand dunes and animal tracks.

King Charles I of England helped spread golf around his realm in the sixteenth century, and Mary Queen of Scots introduced it to France. Scholars say the word caddy evolved from cadet, the term for the queen's assistants. In 1692, the Leith golf course, near Glasgow, Scotland, hosted the first international match between Scotland and England and, in 1744, was the first club to be organized.

But perhaps the most famous club in Europe—and the world—is St. Andrews, where the Society of Golfers was established in 1754 and honored with the title Royal and Ancient Golf Club of St. Andrews by King William eighty years later in 1834.

Today, St. Andrews and the other older courses in the United Kingdom and Ireland are known as "links courses," which means they have a more natural, less landscaped environment and are located near the sea.

"These are the kinds of courses American golfers enjoy," says Adrian Stanley, the owner of AGS Golf Limited, which organizes tours of the more prestigious courses in Scotland, England, Ireland, and other European countries for visitors from the United States.

"They want to play the great courses like St. Andrews, Royal Dornoch, Carnoustie, and Muirfield," he says. "They want the history of these places and the challenge of the rougher, less-manicured links layout. And after a round they like a chat with the locals in the clubhouse bar and to sample the ale."

Today, St. Andrews and the other older courses in the United Kingdom and Ireland are known as "links courses," which means they have a more natural, less landscaped environment and are located near the sea.

Stanley says the rules of some of these historic courses, such as the requirement for coats and ties in the clubhouse and no women allowed on the fairways, may rankle some American visitors, but his clients tell him they like the speed of play in Europe compared to back home.

And there are other differences in golf culture, says Nigel Burton, a British executive for a US company, who has played on both sides of the Atlantic and now makes his home in Spain.

"In America, the golfers are much more methodical in that they follow exactly what they've learned from the how-to books and their instructors. They go through their practice swings and all that," he explains. "In Europe, they just tee off and away they go."

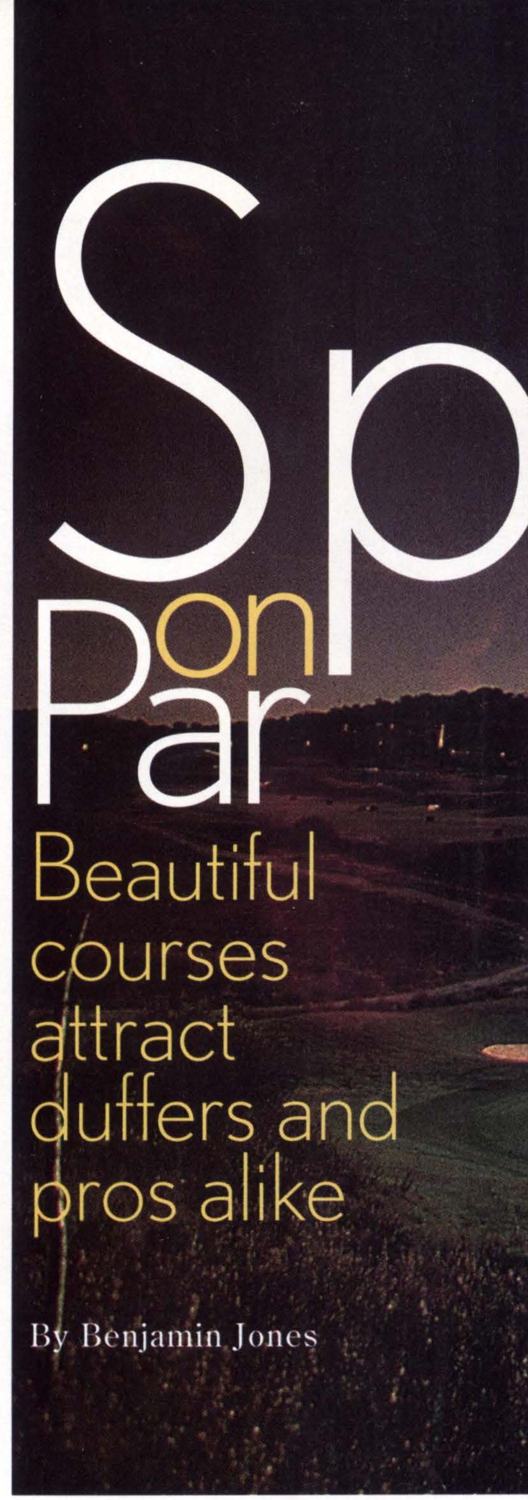
But stranger customs exist. In Sweden, golfers are known to sally forth on a winter's day to play eighteen holes on a course of prepared snow in Arvidsjaur in the Lapland region. Colored balls are provided for easy detection on the white fairways, and one can rent a reindeer caddy or sled to haul the clubs around.

In neighboring Finland, the number of players has grown tenfold over the past fifteen years to around 45,000, and there are now sixty courses around the country. In summer, when the sun never really sets, Finnish golfers can play twenty hours a day.

"Golf has really taken off in the Scandinavian countries," notes AGS Golf's Stanley. "But for some reason, we haven't seen that kind of phenomenal growth in Germany or France, for example."

In those European countries where it is growing, Stanley credits several factors for golf's new popularity. "The game is being televised more, and so increasing numbers of people are familiar with the sport," he says. "Plus, there are more international stars coming out of Europe, which is spreading interest, and probably most importantly, these days more people can afford to play." ⓔ

Benjamin Jones is EUROPE*'s Madrid correspondent.*



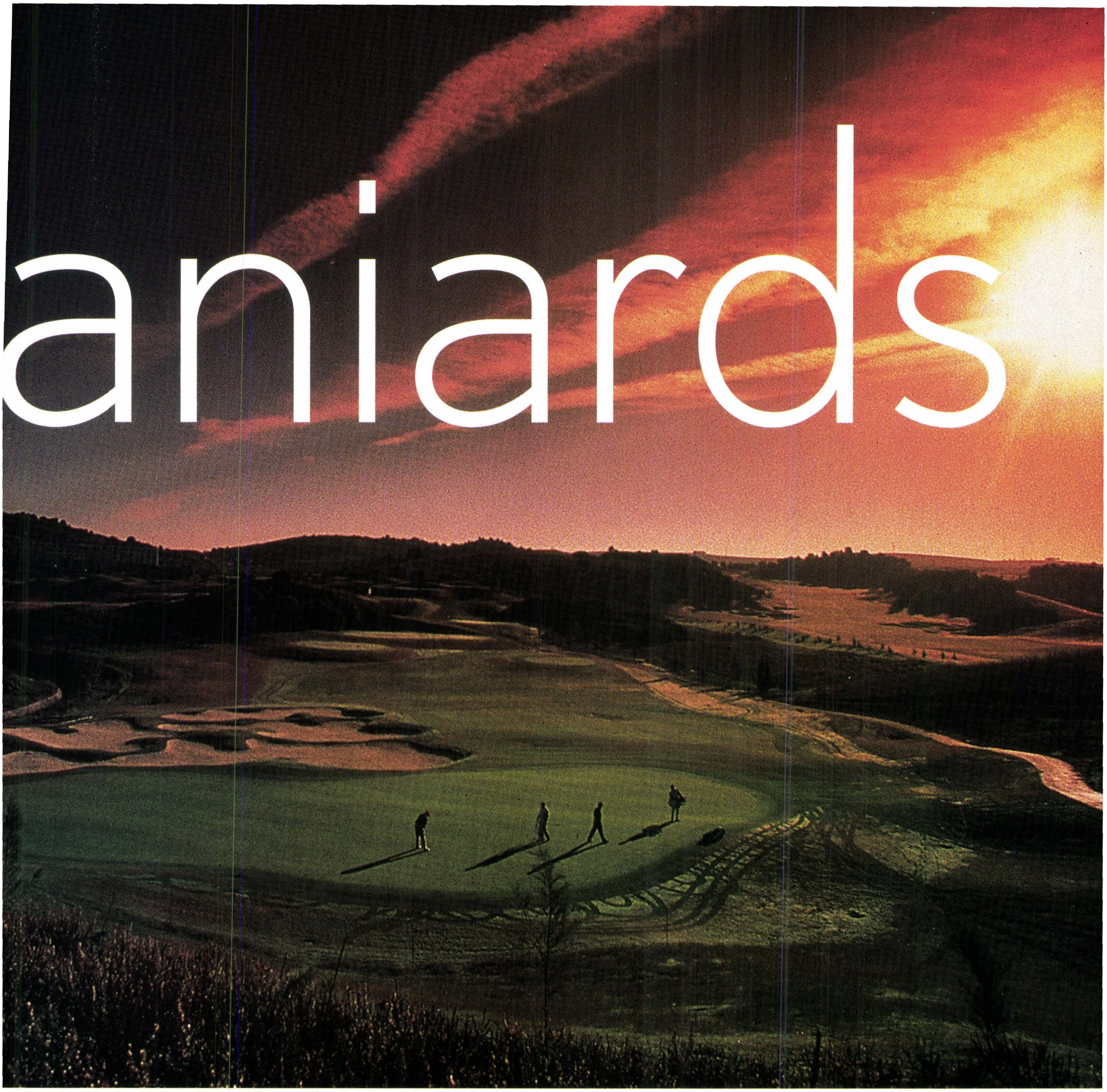
Sp on Par

Beautiful courses attract duffers and pros alike

By Benjamin Jones

On any day throughout the year in Spain, even in deepest mid-winter, lucky golfers are teeing off under sunny skies at world-class courses scattered across the country that is attracting more and more foreign players from northern European and further afield.

Many escape for a few weeks for a sporting vacation to these warmer climes; others retire here where the aniards



The Montecastillo golf course is one of Spain's finest. Spain is considered a golfer's paradise with beautiful greens and year-round sunshine.

courses are many and the living is easy. Many resort areas boast complexes with apartments and luxurious homes for those planning a permanent stay.

"Spain is a great place to play golf because of its magnificent climate, its long tradition as a European golf center, and the quality of its players," says Royal Spanish Golf Federation President Emma Villacieros.

Indeed, many look upon Spain as the perfect golf paradise with year-round sunshine along the Mediterranean coast from the French border in the northeast to Gibraltar in the south and the balmy, subtropical temperatures of the Balearic and Canary Islands.

"In Europe, Spain is considered like California or Florida is in the United States," explains Villacieros.

According to Spanish tourism officials, an estimated 200,000 foreigners arrive each year on golf holidays, and the majority of them are Germans, followed by the French, Swedes, and British.

Despite the high numbers, there is always plenty of room for everyone on the fairways as new courses are designed, planned, and built each year. Twenty-five years ago there were just a handful of golf courses in the country; now there are hundreds.

Golf Federation officials say several factors are fueling the golf boom in Spain—the outstanding success in international play by such homegrown heroes as Severiano Ballesteros and Jose Maria Olazabal (who won the Masters in Augusta, Georgia, in April) and rising income and leisure time among the middle class.

Then there are the wonderful courses. Visitors to Madrid with a few free hours and a bag of clubs at hand can play the course in La Moraleja designed by Jack Nicklaus or the Herreria Golf Club in El Escorial within a driver's range of Felipe II's sumptuous sixteenth-century palace.

Spain's second city of Barcelona has more than two dozen excellent courses, many frequented by the executives of the big Japanese multinationals that have plants in the area. There is the twenty-seven-hole Royal El Prat Golf Club and the Terramar Golf Club in the nearby charming seaside resort town of Sitges.

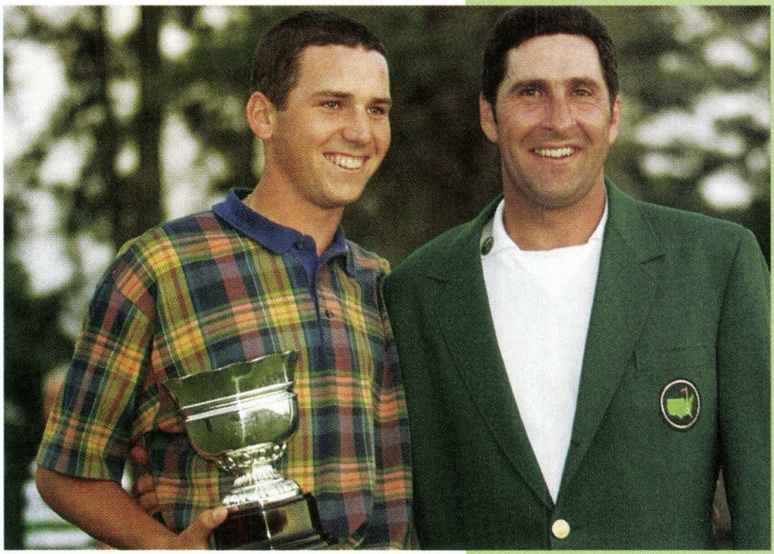
Moving south along the coast, there is El Saler's eighteen-hole course in the Valencia region and located on the grounds of the government-run Luis Vives Parador. In Spain's lush and wet northern region of Cantabria, there is the Royal Pedrena Club where Ballesteros got his start working as a caddy.

However, it is in the southern region of Andalusia where golf really rules. More than fifty courses welcome local and visiting players. Professionals make an annual pilgrimage here for two of golf's premier tournaments, the Volvo Masters and the World Golf Championship, held at Montecastillo and Valderama, respectively.

Almost constant sunshine, spectacular beaches, Moorish monuments, and world-class hotels also make Andalusia popular with those non-players who get dragged along on a golfing holiday. Ⓔ

Spain's Dynamic Duo

It was a doubleheader for Spain this year at the Masters in Augusta, Georgia, when veteran Jose Maria Olazabal took the green jacket for the second time and nineteen-year-old Sergio Garcia won the amateur title. Olazabal's triumph was particularly sweet as it marked his return to grand form after overcoming crippling illnesses that almost ended his golf career.



The 1999 Masters champion Jose Maria Olazabal of Spain (right) stands with amateur winner and fellow countryman Sergio Garcia after winning this year's tournament at Augusta National.

"My victory at the Masters was also important because it shows that European players are still world-class," says the thirty-three-year-old bachelor from the Basque region. Spain's other great professional, Seve Ballesteros, is also from the north of the country and of modest background. But while Ballesteros got his start in the sport working as a caddy, Olazabal began playing when he was a tender four years of age, encouraged by his greenskeeper father.

Olazabal's amateur career was spectacular. He is still the only player ever to win the 'triple crown' consisting of the British Amateur, Youths, and Boys titles. Turning professional in 1985, he went on to be chosen Rookie of the Year in 1986 after winning the first seventeen European Tour titles. The following year saw him play in the Ryder Cup, and in 1994, he won his first Masters.

Then disaster struck. Olazabal had to pull out of the 1995 Ryder Cup because of a toe injury and then developed rheumatoid arthritis in three joints of his right foot. Bed ridden by the condition, he missed the entire 1996 season, and it was feared that he might not play golf again. But the tough, young Basque began his amazing comeback by winning the Dubai Classic in 1998.

"Every time you overcome a situation like I had to, you become stronger mentally," Olazabal explains. "And this gives you more self confidence to face new challenges. I'm going to work as much as I can to keep myself at the top."

He also has words of advice for Garcia, who turned professional just two weeks after his US Masters amateur win to place a joint twenty-fifth in the Spanish Open. "Sergio has everything necessary to be a truly great golfer, but he has to be left alone so he can develop his game and just be himself. He shouldn't be pressured," Olazabal says.

Perhaps the veteran sees something of himself in the young Garcia, who also began playing golf when he was barely out of diapers. The son of a club pro in the Mediterranean region of Castellon, the young Garcia quickly earned the nickname "El Niño" or "The Kid" from his older Spanish National Golf Federation teammates.

According to his father, Garcia began showing potential on the golf course as an adolescent, and over the next several years, the proud papa saw his talented son win almost all the national individual and team tournaments he entered.

After doing well in international play in places like the Philippines, Mexico, the United Kingdom, and the United States, and last year on the Nike circuit, Garcia won the British Amateur title and received his invitation to Augusta. One day, Spanish golfing fans predict, he'll be donning the professional Masters green jacket, just like his compatriots and heroes, Olazabal and Ballesteros.

—Benjamin Jones

TRAVEL

Keukenhof A flower lover's paradise

By Roel Janssen

Each spring the Keukenhof exhibition transforms a centuries-old park into a seventeen-and-a-half-acre sea of tulips and other flowering bulbs.

For the Dutch, tulips have come to signify much more than just another species of beautiful flower. Indeed, they have become part of the national identity. Though the flower actually originated in Turkey, the Dutch made them famous. The seventeenth century saw 'tulipmania' sweep Dutch society and spawn the first known speculation boom (which was in tulip bulbs) with disastrous effects. More recently, the flowers—along with wooden shoes and windmills—have taken their place as a Dutch trademark.

The most famous place to see tulips—as well as other bulb flowers—is the Keukenhof. This annual open-air exhibition is the largest and most exuberant display of flowering bulbs. Though it is only open for eight weeks in spring, it is also one of the Netherlands' biggest tourist attractions. The park is located in the midst of the bulb cultivating region and is surrounded by large tulip fields that look as if the earth was painted with colorful brushes. The village of Lisse, nestled between the Hague and Amsterdam, is the foremost center of the bulbs-growing business in the Netherlands.

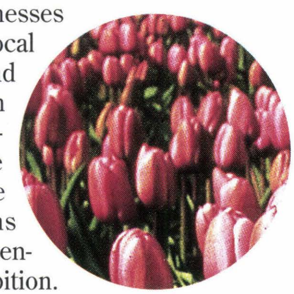
This year, the Keukenhof celebrates its fiftieth anniversary with several special events, a special Web site (www.keukenhof.nl), and, for the first time, a summer exhibition from August 19 through September 19. Called Zomerhof, this late season exhibition will show roses, dahlias, lilies, begonias, gladioli, fuchsias, chrysanthemums, and dozens of other summer flowers.

In spring, the Keukenhof exhibits an overwhelming array of locally grown flower bulbs—6 million tulips, narcissi, daffodils, hyacinths, and many other bulbs. The flowers are arranged in a centuries-old park, which becomes a seventeen-and-a-half-acre sea of flowers, seemingly comprising every conceivable color, shape, and fragrance.

The name of 'Keukenhof' dates back to the early fifteenth century when the woodlands and virgin dunes were the hunting grounds of the Van Teylingen castle. At that time, the castle belonged to the Countess of Holland, Jacoba van Beieren. In the castle garden, servants cultivated herbs and vegetables for use in the kitchen. Thus, it got its name *Keukenhof* (kitchen garden). The fierce Jacoba was particularly fond of falcon hunting. Today, actors in historic costumes portray Jacoba van Beieren, her hunting party, and her court and give demonstrations of how falcons were used for hunting.

The old castle was destroyed long ago, and a new one was built around 1700. It belonged to a variety of noble families and merchants. In the nineteenth century, the garden architecture was designed. The park has remained largely the same. The castle, which is separated from the exhibition park, is still used by its present owner, Count Van Lynden.

The flower bulbs exhibition began in 1949. After the Second World War with their businesses still in ruins, local bulb growers and exporters in close cooperation with the mayor of Lisse developed plans to create an open-air flower exhibition. Count Van Lynden was all too willing to rent out part of his estate. The German occupiers had seriously damaged his properties during the war, and he badly needed the money. So, with the income of the Keukenhof, he could pay for the reconstruction of the castle and the park. Ironically, many of the foreign tourists visiting the Keukenhof from the 1950s onward were Germans.



The Keukenhof was meant to serve as a permanent showcase for the bulb and flower industry and to promote bulbs to the public at large. Initially, forty bulb growers participated. It was an instant success, attracting a spectacular 250,000 visitors in its first year. Today, ninety firms are selected to show their horticultural marvels, and the Keukenhof attracts about 850,000 visitors each year, 70 percent of whom are foreigners.

Queen Beatrix opened this year's fiftieth anniversary exhibition, just as her mother, Queen Juliana, had opened the first exhibition in 1949. Ⓔ

A New Breed of Entrepreneurs

Once a year, we attempt to check Europe's entrepreneurial pulse and ask each of our Capitals correspondents to profile a local business owner. From their current dispatches—which detail the tribulations and fortunes of, among others, a Belgian animation start-up, Italy's lipstick queen, and a Finnish snowplow builder—it appears that, indeed, Europe's entrepreneurial beat continues and in some surprising new industries.

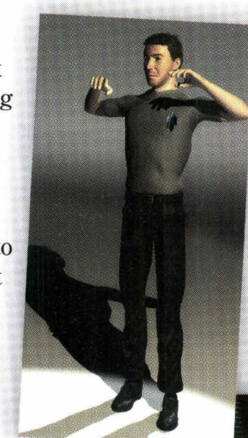
BRUSSELS

READY FOR RAPTOMS

Less than five years ago, thirty-two-year-old Flemish entrepreneur Rudy Verbeeck set up his company, Imagination in Motion (IIM). He had three partners—his younger brothers Eric and Marc, and their friend Kim Goossens, who became artistic director of the firm.

IIM specialized in creating credit titles for television programs and illustrations for Web sites. Their most profitable activity proved to be the production of computer animations for advertising campaigns. With the cash flow that this generated, says Mr. Verbeeck, "we were able to finance our true ambition, which was our own film project."

Last December, Mr. Verbeeck's firm hit the big time when it pulled off a $30 million contract with Twentieth Century Fox to produce a ninety-minute animated film, comparable to *Toy Story* and *Antz.* The film will feature Raptoms—peculiar little creatures who combine the characteristics of rappers and phantoms—hence their name. The film should hit the silver screen in about two years' time.



Mr. Verbeeck had been working on the idea for seven years, but things only started moving when IIM got into its stride. Its first effort was to produce a three-minute spot in which the character of the Raptom was introduced. Things started to move when their agent put the four Flemish entrepreneurs in touch with Steven Spielberg's film company, Dreamworks. Against fierce competition, they won a contract to produce a music video for the film *Small Soldiers*, which to general amazement they completed in a mere four weeks.

Mr. Verbeeck was recently asked by the magazine *Flanders* to explain the success of his company in breaking into the Hollywood scene. He replied, "We are really good, for instance, at portraying feelings in facial expressions which are linked to a certain intonation in the voice syllable by syllable. Once you have mastered this technique—and believe me it is no trifle to achieve this—you can consider yourself one of the best. For instance, a top producer can usually count on producing ten seconds of film in one day if they are working on complicated images. We can sometimes complete one minute in one day."

Mr. Verbeeck continued, "The days when money was no object have long gone. The shareholders of film companies want value for money. That's great for us. The American producers don't have too good a reputation when it comes to productivity. We work longer hours. We are flexible and are able to take on a project quickly without it resulting in an exponential increase in our fees."

Flemish animator Rudy Verbeeck's (in a 'self portrait' above left) company recently won a $30 million contract with Twentieth Century Fox to produce a film featuring the "Raptoms."

Rudy Verbeeck insists that all the work on his film projects should be done in Belgium, and the size of his work force is rapidly expanding. The Raptom film production will generate seventy-five new jobs, tripling his payroll, and he expects to be employing 200 people within the next two years. Shrewdly, he has kept all the copyrights to the Raptom characters. "Just like Tintin and the Smurfs," he says, "the Raptoms should become a commercial product, born of Belgian culture, but with truly international appeal."

—Dick Leonard

DUBLIN

NO-FRILLS FLYING

His boyhood dream was to play center forward for Manchester City, the English professional soccer club. Instead, at thirty-eight, he heads Europe's largest and most successful low-fare airline, with a rapidly escalating personal fortune of more than $135 million. Not bad for a small farmer's son from the Irish Midlands.

Michael O'Leary went from university to one of Ireland's largest accountancy firms, specializing in tax consultancy but hating the rigid conformity. "After two years, I couldn't wait to get out," he admits.

So he started his own business, dabbling in property development, buying and selling newsagents and convenience stores, and looking after the tax affairs of a few clients. Among them was businessman Tony Ryan, who in 1985 had started Ryanair, an independent Irish airline built on the back of Mr. Ryan's success through the aircraft leasing company Guinness Peat Aviation.

Twice Mr. O'Leary refused to join Mr. Ryan in the airline business. He accepted Mr. Ryan's third offer in 1988—without a contract—and two years later became what he terms "the quasi-financial controller and deputy chief executive."

Ryanair, with three old BAC 111 aircraft leased from the Romanian state airline, had gone through a bad patch. Its initial success, operating on the Dublin-London route, created its own problems. In trying to repeat that success the company took on other Ireland-Britain routes that drained its resources and failed to meet its financial targets. It was in danger of going out of business.

By the time Mr. O'Leary took over as chief executive in 1993, Mr. Ryan's deep pockets were closed. He gave Mr. O'Leary a free hand but told him, "You can do what you like with the airline but don't ask for more money."

However, he did spend money on taking Mr. O'Leary to the United States where he introduced him to Herb Kelleher, boss of the most successful low-cost carrier in the United States, Southwest Airlines.

For Mr. O'Leary, it was a revelation. "This was the way to make Ryanair work," he recalls. "No frills, low fares. If it worked in the United States, then patently it could work in Europe. It just needed someone to push it." Mr. O'Leary has been pushing it ever since.

The Southwest formula adapted to European routes has seen Ryanair soar from success to success. The drive toward offering low fares had never before been seen in Ireland or the rest of Europe. It did not please the big national carriers, starting with the Irish national airline Aer Lingus, which has seen itself supplanted by Ryanair as the main carrier between Ireland and Britain and on other European routes.

However, Mr. O'Leary claims his company's low fares, no-frills policy has attracted customers the other airlines never thought of cultivating.

"Ryanair offers the lowest fares in Europe and uses those fares to create and carve out an entirely separate business in any market we enter," he contends, adding, "We don't take traffic from the existing carrier. We simply go in with our low fares and create an entirely new market. But we dominate in those markets."

Creating the Southwest-style niche on short-haul European routes meant no free snacks, no free newspapers, no tea, no coffee, and no packets of sugar—although drinks are sold on board.

If you sell customers peanuts and cookies, Mr. O'Leary explains, they start making a mess. So, with little to tidy other than plastic cups and cans, there's no need for cleaners to come aboard at any of the airports the airline serves. The result: less staff (three cabin staff against six on many other airlines) and a faster turnaround time.

The company, which operates a non-union policy, now has twenty-seven aircraft, among them the new generation 189-seat Boeing 737-800 series. Another twenty aircraft are on order.

This year Ryanair will fly 6 million passengers between Ireland, Britain, Belgium, France, Italy, Norway, and Sweden and, two months ago, to Germany. Mr. O'Leary says that figure will rise to 10 million inside the next four years as it extends its routes to other European destinations from its UK base at Stansted Airport.

"We are now the second-largest international airline operating out of the UK to Europe," says Mr. O'Leary. "We carry more international passengers and have more route destinations out of London than British Midland, which would be perceived as the UK's second-largest airline behind British Airways."

In the process, the original Ryan family stake of $20 million has netted them about $678 million, with the current capital value of the company placed at around $1.5 billion.

Mr. O'Leary says European deregulation has been helpful in achieving the company's growth, but he believes it is still only a halfway house. "It's been too controlled, what I call 'French deregulation' where Air France controls most of the traffic in France. Lufthansa was allowed to buy all its competitors in Germany. BA was allowed to buy most of its competitors in the UK. So they still operate as very large national flag carriers controlling all the slots at the primary airports."

Mr. O'Leary, who works a fourteen-hour day, still socializes and plays soccer with his staff. "It's more fun than going to the gym three times a week," he says, "and you also get to mix with staff at every level."

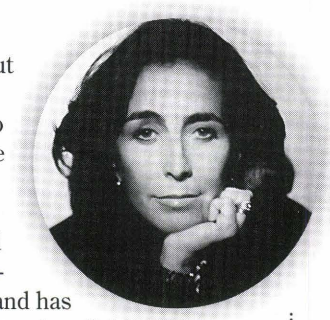
—Mike Burns

ROME

ITALY'S QUEEN OF COLOR

For now the offering is 250 different types of eye shadow and 450 shades of lipstick. However, Madina Ferrari, whose name is becoming increasingly well known in European fashion circles, does not intend to stop there.

In October, she will open her first US store in the heart of New York's Soho. It will be called "Madina Milano." Next on her global tour will be Tokyo, thanks to a joint venture with the company, House of Roses. "I think that for the moment that will be enough. I don't want to even hear about franchising; I want to do it all in person."



Italy's Madina Ferrari offers 450 shades of lipstick.

A businesswoman, yes, but above all Ms. Ferrari loves to have fun as she works. In this way, she has created a small network of successful stores and has attracted the attention of specialized magazines. Her clientele is in constant growth. Her clients, mainly young, are attracted by the elegant but innovative colors of Madina Ferrari's very personal chromatic palette. And they are willing to stand in line to buy one of her lipsticks. Her stores—she has three in Milan, her hometown—are not easy to find. "I like the idea that the girls have to spend some time to find out where my stores are. This means that they really want to buy my products," she says.

Her business began almost as a game. Before, she was a theatrical director and had worked nearly everywhere in Milan, from small theaters to La Scala.

She began her activity in cosmetics thirteen years ago when she married Dario Ferrari, her second husband and the owner of Intercos, a company that produces cosmetics for multinational companies in the sector. She left the theater and for a while dedicated herself to her family and small children. But Ms. Ferrari is a person who likes to keep busy. She opened a small fashion company and began to take a good look at her husband's business.

Her training at Milan's art school came to the fore and her old passion for colors was reawakened. She decided to create her own line of cosmetics. First, she opened a pilot store in Bergamo, a city near Milan.

Then she took on the Italian fashion capital. She follows every step of her business personally, including decorating her stores, which are all white and quite simple. "So that attention is drawn only to the products," she says.

Success arrived quickly, and other cosmetic producers became worried, including, surprisingly, her husband, who plays a dual role as supplier of the raw materials for Madina Ferrari's cosmetics and as a potential business rival. "But why should we fight?" Ms. Ferrari defends herself. "The world is big; there is room for everybody."

Especially in Europe. After launching her stores in New York and Tokyo, she will open a store in Paris. And maybe then her business will really have become too big to refuse franchising offers.

—Niccolò d'Aquino

LISBON

CAN PLANET PRODUCE PROFITS?

Portugal throws up few rags-to-riches tales. The economy is dominated by a few well-established conglomerates, the subsidiaries of multinationals, and small family-owned businesses. However, there are exceptions. In the past four years, a trio of graduates of the University of Virginia's Darden Business School—two Portuguese, one American—have built a successful business selling top-notch photocopying, computing, and graphic services. Despite the small scale of their enterprise, the names of Pascal Monteiro de Barros, Luis Quartim Bastos, and Michael Melloy are now well known in Portugal, where this kind of initiative-based success is rare.

Planet, as they named their company, opened its first outlet in central Lisbon in 1994. It had a simple formula: up-to-the-minute equipment available twenty-four hours a day, overseen by a youthful staff. The shop sold stationary and related office products and refreshments to students, who made up the bulk of its customers. Two years later Planet opened a "Megastore," which featured more services and fancier equipment and, in turn, was followed by an outlet in Carnaxide, outside Lisbon. The stores were a hit with the many young Portuguese who could not afford the latest equipment but who were keen to keep up with the latest technology.

Five years on, Mr. de Barros describes the problems that would-be entrepreneurs face in Portugal. By far the biggest is finance.

"Access to all forms of capital is difficult," he says. "Portuguese banks are very conservative lending institutions. They're asset-based lenders, not cash flow-based."

Planet faced rates of 18 percent, partly because Portugal was engaged in a prolonged (and ultimately successful) battle against inflation, but also because of wide bank spreads. Now, with fat profits available in the exploding home loan market, banks have little reason to change their stance. So having good connections or rich friends to provide guarantees remains crucial. Venture capital, which could plug the gap, barely exists. Because overseas lenders and investors know little about the Portuguese market, they're not an option, either.

Bureaucracy is less of an issue, since petty corruption has virtually disappeared. However, annoyances remain, such as the fact that a company can only be registered with a foreign name if it is registered abroad first (as Planet was). Some other problems have eased, such as supplier financing, which is now more widely available. However, some are more ingrained.

"In the US, people accept failure—the culture of success comes from trying again and again," Mr. de Barros says. "In Portugal if you fail, you won't get another chance."

He does not see Portugal as different in this respect from other European countries, except the UK, which is more entrepreneur-oriented. However, there is a dearth of qualified people, so big companies snap up graduates from top universities, curbing any entrepreneurial potential. If they are from a humble background, they may well be the first in their family with a degree, so there is strong parental pressure to play it safe.

"Looking around, I see a few more of my peers doing things, but access to capital isn't any easier," Mr. de Barros says. "The reluctance to take risks hasn't changed much."

For the climate for new businesses to improve, though, institutional change is needed. For instance, investment funds could get tax breaks if they invest in small businesses, as in the US. "Once there's a big pool of capital waiting, the projects will come," Mr. de Barros argues. In general, share ownership is viewed with suspicion in Portugal. When Planet floated the idea of share options for employees, it found that none had ever owned equities.

Even once Planet was established, it had problems funding expansion. It had to table plans to enter Spain because its package proved too expensive for potential franchisees.

"We had a very American model," Mr. de Barros admits. "It didn't work because the assumptions were contradicted—for example regarding the availability of outside capital. We decided to retrench, build our business in Portugal and then go abroad."

In the past two years, Planet has focused on corporate business, which has wider margins and better growth prospects. It halved its payroll in eighteen months, upgraded its equipment, and closed its poky original store, while opening three "corporate centers." With 1998 sales ten times the level of 1994, at $5.86 million, Planet expects its first profit in 1999.

—*Alison Roberts*

LUXEMBOURG

THREE WOMEN AND A PRODUCTION COMPANY

Keen movie buffs might have noticed Luxembourg's official nomination for Best Foreign Language Film at this year's Oscars—the feature *Back in Trouble* about Johnny Chicago's attempts to find an easier way to make money after a ten-year spell in prison. The film caused little stir in Hollywood but has been a smash in Luxembourg where it packed the cinemas for weeks after its opening. "There aren't that many films which come out every year in Luxembourg, so we can't really feel too proud, but it was wonderful to get the nomination," says Lynne Polak, founder of Lynx Productions, which made the movie with a German co-producer.

Lynx Productions has become one of the outstanding successes of Luxembourg's audiovisual industry since Ms. Polak founded the company in 1992 with Gina Bonmariage and Larue Hall. The three women are not just accomplished filmmakers—they also bring a remarkable range of international contacts to a business that, in Luxembourg at any rate, depends heavily on outside sources of finance and co-production facilities. Ms. Polak, a Dutch-American, has worked in media production in New York; Ms. Bonmariage, a Belgian, was born in South Africa where she is a production and development consultant; and Ms. Hall, an American, is an award-winning writer, producer, and theater director.

Reflecting the global flavor of Lynx, the three women live far apart. Ms Polak lives in Geneva at present, Ms Bonmariage in Johannesburg, and Ms Hall in Akron, Ohio. But more significant perhaps is that all three are mothers, which lends "a certain sensibility to what we're doing," says Lynne Polak, who has six-year-old twins. "We've all tried to keep a little bit of space for our personal lives and our kids. We're all working mothers, and that's always been a complication, but it has brought a certain atmosphere to the company." One man, David Claikens, was brought into the partnership in 1996. The women were all freelance producers before being spurred to form their own company by the Luxembourg government's decision to create a tax shelter scheme to stimulate filmmaking in the Grand Duchy. The tax breaks are reckoned to cut production costs by about 30 percent, offsetting the handicaps imposed by the need to import film production hardware and expertise.

The tax shelter scheme has now been extended for a further ten years "and that's a very positive step. It may mean that people will come in and invest and maybe bring other services that haven't been available in Luxembourg before," says Ms. Polak. "Because this is a small country, you can't get your whole financing together here. You have to persuade broadcasters in other countries who of course have their own local producers and that makes things harder," she says.

Success for a Luxembourg filmmaker is measured not so much by box-office returns as by the ability to arrange co-production deals and to win the esteem of critics and professionals. Lynx is one of the few Luxembourg companies to have set up co-productions with public television in the United States. PBS carried Lynx's award-winning documentary, *Battle of the Bulge,* chronicling the most savage battle ever fought by American soldiers.

Lynx remains essentially a small company that takes a craftsman-like approach to filmmaking, concentrating on relatively few productions, and expanding its work force concertina-like with freelancers when necessary. But the company also operates a "bread and butter" casting service for major international feature films, with a database of thousands of actors, models, voice talent, and extras and is active in corporate communications where it helps design internal and external communication strategies and produces corporate videos.

This broad range of services has not made Ms. Polak and her partners rich, but it has earned them considerable acclaim within the European audiovisual community. You don't look to Luxembourg to turn out a *Titanic*—what you will get is small-scale productions where a wealth of creative talent has been applied to often esoteric subjects. Recent Lynx films include a profile of the Spanish poet Federico Garcia Lorca, a documentary on Native American rock music, and a sympathetic look at the cultural and linguistic complexities of life in multicultural Luxembourg.

However, the commercial possibilities are there too, and after the success of *Back in Trouble*, high hopes are riding on *The Day of the Whale*, an examination of national identity based on a novel about an Italian immigrant in Luxembourg. The novel has just been published in France and is about to be translated into German. The scriptwriter is Belgian, the director a Luxembourger. "We love international projects," says Lynne Polak. You can say that again.

—*Alan Osborn*

ATHENS

BUILDING A PACKING PRODUCTS EMPIRE

Michael Maillis returned to Greece from Germany in the 1970s with a degree in metallurgical engineering and a driving ambition to create his own manufacturing company. What he lacked was capital, in a country where banks are notoriously cautious about financing business start-ups and entrepreneurs tend to be backed by family and friends.

Mr. Maillis imported packaging materials before setting up his own production plant for steel strapping in 1977. "It was a difficult time to be starting a manufacturing business. The industrial sector was already beginning to shrink as the country moved away from production toward trade and services, but I was doing the opposite. I spent much of my time at banks, looking for financing," he said.

His persistence has paid off. M.J. Maillis is now the biggest European producer of industrial packaging materials, ranging from steel and polyester strapping for heavy goods, such as steel and timber, to polypropylene for transporting lighter goods on pallets, such as soft drinks in cans. Maillis exports 95 percent of production at its two plants, one near Athens and the other at Alexandroupolis in Thrace, near the border with Turkey.

Greece's Michael Maillis is the biggest European producer of industrial packaging materials.

While more than 70 percent of exports go to European markets, Maillis is expanding sales in the US, Middle East, and Asia. "Even after the [economic] crisis, Asia is the fastest-growing packaging market in the world," Mr. Maillis said.

Institutional investors in Western Europe and the US have become shareholders in Maillis, listed on the Athens Stock Exchange five years ago and now one of the market's top performers. Group turnover is projected to double in the next two years to around $157 million, with earnings next year forecast at around $18 million.

Mr. Maillis has built a network of distributors in Eastern Europe, where the market for packaging materials has grown at a rapid rate. Undeterred by the Russian crisis, he recently set up distribution operations in Russia and Ukraine. A Maillis plant in the Romanian capital of Bucharest produces shrink film and adhesive tapes for the local market—the biggest in the Balkan region.

Mr. Maillis expects strong growth from the Romanian operation as the country's export trade increases with Western Europe, where safety regulations for imported goods require much bigger use of packaging materials.

This year, the company has acquired three French packaging companies, "one in heavy duty packaging, our traditional business, and two in light packaging—the growth end of the industry." The aim is to expand in Western Europe through acquisitions, "so we don't lose any time in building a customer base." Maillis has already joined the market in Spain through the acquisition last year of a plant that makes polypropylene strapping.

Further afield, a joint venture in the US with a polyester strapping producer has given Maillis direct access for the first time to technology development in the packaging industry. "Polyester strapping is a product that's becoming increasingly important in the packaging industry, and we'll be making a heavy investment in Greece in that segment, now that we've reached a dominant position in the metal strapping market."

Acquisitions abroad, which will increase Maillis's market share while at the same time reducing costs, will remain an important part of the company's strategy. However, increased output in Greece of new packaging materials is also essential. "There's no question of being able to sit back. We have to go on growing," Mr. Maillis says.

The transition from an entrepreneurial management style, in which Mr. Maillis personally handled most decision-making is underway. "We're at a critical point," he said "It's become a simple matter to increase production and to raise finance. Our task now is to transform ourselves into a company with a European structure and management style."

Twenty years on, M.J. Maillis's ambition is still undimmed. "I'd not only like to be much bigger than we are in Europe, I'd like to see us becoming a global player."

—*Kerin Hope*

VIENNA

WAR THREATENS AUSTRIAN ENTREPRENEURS

NATO airstrikes are not just taking a toll on that Yugoslavia's economy. Even corporations hundreds of miles away are feeling the pinch as contract negotiations stall and customers' businesses falter.

"We've lost a lot because of the war. For us, it's very expensive," said Josef Las, managing director of the Vienna-based Industrial Supply and Machinery Trade (ISM). Just a few months ago, business prospects in Yugoslavia were bright for Mr. Las's company, which helps firms construct and expand paper and packaging production facilities, providing the necessary machines, supplies, and experience.

In the early 1990s, Yugoslavia was slapped with stiff international embargoes for its role in fomenting the wars in Bosnia and Croatia. With the signing of the Dayton peace accord in late 1995, those sanctions were gradually eased. But everything has been turned upside down since the Serbs began their intense crackdown against ethnic Albanians in the restive southern province of Kosovo, prompting NATO to launch airstrikes.

"If this war would not have started once more, it would've been a very successful market. The country now will be damaged completely," says Mr. Las. Business that had been nurtured over the past three years has come to a halt, and flickers of economic cooperation between tiny firms in Serbia and Croatia have been snuffed out.

Other markets are flourishing. In Croatia, for example, Mr. Las is negotiating with a firm that wants to set up a production line for cement bags—something that is in great demand as the country rebuilds after years of war.

Josef Las has seen many changes since he and his wife, Klara, founded ISM twenty-two years ago. Originally formed to represent paper, board, and printing machinery manufacturers in former Yugoslavia and Hungary, the company gradually expanded its base to represent a larger line of products. "In the time of communism, it was impossible to represent one company or one group of products. People were interested in learning about a lot of products in a lot of branches," he says.

Following the collapse of communism in 1989, many of those involved in the paper and packaging industries launched their own firms, providing a wealth of new clients. "At first, the companies were very small. Then they grew unnaturally quickly," he said.

To meet the demand, ISM has set up subsidiaries in the Czech Republic, Slovakia, Hungary, Croatia, Serbia, Bulgaria, and Romania, employing forty people throughout the region. ISM now buys machines and supplies from producers in Western Europe and the United States, selling them to its subsidiaries in the East, or directly to clients.

While countries like the Czech Republic and Hungary have been successfully developing market economies over the past decade and are nearing Western standards, others have much room for growth. "Bulgaria, Romania, and Serbia are twenty years behind us," says Mr. Las.

That gap could grow as the NATO campaign against Yugoslavia runs the risk of isolating those in Eastern Europe. The Danube River already is blocked, following NATO attacks that destroyed bridges spanning the Danube, dumping tons of debris into the waterway.

Nevertheless, Josef Las sees much potential for Serbia whenever the airstrikes end, and the country begins to rebuild. "I think a Marshall Plan for southeast Europe is necessary," he says, "including the Serbs."

—Susan Ladika

PARIS

SHIRT MAKER DISCOVERS CYBER SALES

Armed with measuring tape and credit card, a reluctant MGP (male guinea pig) sat (glaring) in front of the computer and typed in www.frenchshirt.com. Up on the screen flashed a crisp white shirt set off by a chic black-and-white tie and beside it the message: "Dear Friend, Welcome to our shirt-making shop in the heart of France…"

On this site, a young French couple, Nathalie and Fabien Valmary, set up shop last January after winning the first Webmasters trophy offered in 1998 by Microsoft France for the most innovative French business project on the Web. Three years earlier, they had taken over the small company that Fabien's father had created in 1972, specializing in bulk shirt production for the army and other government services.

"We didn't want to relocate," explains Nathalie, "we wanted to keep our know-how in France."

They realized that the company would need to diversify, however, if it were to survive. Having decided to branch out into made-to-measure, quality shirts, they decided to focus on "original classics." "We offer every man classic shirts to be worn with suits," says Nathalie," but each with its own original touch. For one client it will be the fabric that is different, for another, it will be something else, but each one can create his own shirt, which we make at a price that's a good price for this kind of personalized product."

The first collection of handmade shirts was sold by mail order, but the Valmarys found the catalogue printing costs so high that they started looking at the possibilities of a shop front on the Internet. Less than a year later, they took the Webmasters trophy home plus $35,000 in prize money, which paid for the creation of Victor, their virtual tailor.

Based near the town of Carcassone in southern France, the Valmarys have proven that high technology need not be a threat to a small, traditional enterprise. Thanks to the Internet, their cottage industry of thirty employees has been able to prosper in its native rural setting *and* do business on a global scale.

French entrepreneurs Nathalie and Fabien Valmary have won recognition and customers by selling custom-made shirts via the Internet.

Nathalie and Fabien live in an environment that is far removed from the high-stress commotion of a big city. They pick up their four-year-old daughter from pre-school every day for lunch because they live only five minutes away.

The virtual shop front they have created cuts out the expensive frills that a real, exclusive shirt boutique would entail, and has given a genuinely French product a niche on the international marketplace—a niche that is growing.

A year ago, the custom-made shirts produced by hand in the Valmary workshop represented only 5 percent of sales. Now, they are bringing in 10 percent of the company's total sales of $2.1 million, and within the next five years, the made-to-measure end of the business is expected to expand to 50 percent of the sales figures.

It was this tailoring service that MGP had been asked to test. Once logged onto the "Frenchshirt" site, still reluctant and glaring, his task was to design a handmade shirt, specifying the fabric, color, size, price, and style he wanted, and the result would be delivered within ten days.

Instead of a made-to-measure shirt, which implied all sorts of complex measurements, not designed to improve MGP's temper, the simpler "personalized" category, which adds personal details to a standard-size shirt, seemed the safer bet. Material (cotton), color (white-on-white), and price ($82) quickly decided, the collar had to be chosen next. Muttering darkly that he could not remember what style his darn collars were, MGP scrolled down from English to button-down, past Italian, Mandarin (a snort was heard here), to Venetian. Hmm… Venetian it was, followed by square two-button cuffs and no pockets (MGP picks them off store-bought shirts). Finishing touches, such as hand-embroidered buttonholes and monograms, all costing extra, were skipped with some regret.

A Valmary shirt can get quite extravagant, with genuine mother-of-pearl buttons, folded *mousquetaire* cuffs and Aviator pockets. Any non-standard requests from the client are also taken into consideration and indulged if possible. There was the man who wanted a cuff with a hole in it, through which he could consult his watch. It could not be done, but the Swatch company might want to consider the idea of producing watches that are directly built into a shirt cuff. (Remember, you read it here first!)

At this stage, MGP was starting to look rather pleased with the shirt sketched on the screen. Then it was time to select the shirt size. "Waist?" came the question. "Oh my…!" came the answer. The measuring tape was stretched tight ("I ate a lot of supper tonight") and the circumference was compared with the choice available. None came even close! MGP started glaring again, until a light dawned. The on-screen measurements, ranging from 14 to 20½ inches, were for the *taille* (size), which had been mistakenly translated into "waist," when it is actually your neck that is measured for a shirt. Relieved laughter, a mollified MGP, and the shirt should be on its way shortly.

So there are still one or two wrinkles to iron out with Victor the tailor—at least when he speaks English—but to be fair, the company was in the throes of redesigning its Web site when MGP put it to the test.

The Valmary concept remains a great one. Not only shirts, but also made-to-measure pajamas, accessories, such as cuff links and ties and other fine-quality men's wear items are as close as the computer keyboard.

—Ester Laushway

LONDON

A NATION OF SMALL SHOPKEEPERS?

Napoleon may well have referred sneeringly to England as "a nation of shopkeepers," but Margaret Thatcher, whose father was a shopkeeper, saw this as a badge of honor. Indeed, during her years as prime minister, she pursued policies designed to create what she called an enterprise culture in which small businesses would be encouraged and supported. Consequently, the number of small and medium-size enterprises almost doubled during the 1980s. Of the total 3.7 million businesses in 1997, 2.5 million were sole traders, and another million enterprises had less than ten employees. Each year 480,000 new enterprises are launched, and though only a small number survive, this does not appear to prove a deterrent.

Pippa Sutherland is a typical example of the United Kingdom's army of self-employed one-person businesses. The forty-seven-year-old runs Roo Tu Clothing, which puts logos and embroiders names on work wear and other items.

Working from her home in the Peak District in Derbyshire, Pippa began six years ago with a $65-a-week grant from the government's Business Enterprise Scheme and was helped with guidance from the local Business Link, another government program for helping small businesses. Business Links brings together various national and local business support services and provides integrated advisory services.

Among the help provided by the Trade and Industry Department to start-up businesses is on the spot, tailored advice from a range of specialist personal business advisors. They can assist companies in writing and implementing a business strategy.

This service is independent, affordable help available over short or long periods. About 75,000 businesses use these services annually. Thanks to such government assistance and unrelenting hard work, today Pippa Sutherland has three big Japanese embroidery machines, one employee, and a turnover of $200,000. "I make about $40,000 a year," she says, "but you have to keep working at it. I panic every month when the bills are due."

The Small and Medium Enterprise Council of the Confederation of British Industry (CBI) says there are two areas where major change is necessary. One is to simplify all the regulations that currently are a major burden for small businesses. The second is to change the tax laws regarding capital allowances.

Pippa certainly agrees. Like most small business owners, she has to cope with myriad problems, from value added tax to an increasing tide of red tape, which she says is getting worse despite what the government says.

On the other hand, the UK's refusal to sign up to the EU Social Charter means that British businesses do not have to grant their employees the same rights as their counterparts in the rest of the European Union. Some changes are being made, such as the recent introduction of a minimum wage and planned parental leave, but change is coming slowly.

Even then, the Federation of Small Businesses wants to see the UK adopt the same attitude as the US, where businesses that turn over less than $500,000 per year or employ fewer than fifteen people are exempted from such regulations as the Fair Labor Standards Act, the Equal Pay Act, Civil Rights Act, as well as age discrimination and disabilities provisions.

The government said that this year's budget was good for small businesses, with particular reference to the introduction of a lower corporate tax of 10 percent. However, the CBI said this decrease is not likely to have significant impact on growth firms. Although the Treasury was proud to claim that the lower tax rate would benefit 270,000 businesses, lobby groups worried about the other 3.5 million, which did not derive any benefit from this change.

—David Lennon

HELSINKI

BUILDING A COMPANY WITH SNOW-HOW

There are those who would argue that the only effective way to stop wars is to abandon the weapons trade. Only by cutting the connection between war and economic profit, can lasting peace be achieved. True or not, one thing is certain: The conversion of weapons industry into peaceful means is very difficult. The economic disaster of post-Soviet Russia—where some 30 percent of all engineering was for military purposes—bears tangible proof of that. Such a conversion is even more difficult for a small non-allied country, like Finland, that needs to keep up a reasonable level of defense. How to combine a profitable business with the needs of the army without joining the club of traders in disaster and death?

The leaders of Patria Engineering believe they have found an answer. Patria Engineering, a Finnish company based in Vammala, manufactures armored vehicles, which are extremely sturdy, operate well in the snow, and carry a very large price tag. However, the company cannot sell that many vehicles to the Finnish military in one year. A team of entrepreneurs decided that the best way to maintain the know-how of Patria's highly specialized work force was through the company's 'snow-how'. If there is one thing the Finns really know how to deal with, it is snow. The whole country can be covered by snow for four to five months, and northern Finland can endure nine months of the white stuff during extreme winters. Therefore, the idea occurred to Patria's engineers, why not develop heavy-duty snow removal equipment for places with exceptional needs—such as busy airports?

Project 'Snow-How' was born, and the engineers set to work building machines that can clean a couple of feet of snow off a runway at nearly forty miles per hour.

The company makes two models. The VAMMAS PSB 5500H is the larger of the two and Patria's flagship. With an eighteen-foot working width, it enables effective and safe operation because it requires fewer machines making fewer passes to clear snow and keeping traffic to a minimum on a crowded, snowy airfield. With one pass, the PSB 5500H can effectively clear a runway in all normal conditions.

The PSB 5500H combines a snowplow followed by a brush and a blower. In addition to normal front-wheel steering, the engineers built in hydraulic cylinder-controlled frame steering, which ensures maximum control. Driving the powerful behemoth does not significantly differ from driving an ordinary truck.

Snow-susceptible airports in northern North America have taken notice. So far, Patria Engineering has sold one PSB 5500H to New York's JFK, one to Boston's Logan Airport, and two to Toronto's Pearson International. Sales may not yet be soaring, but for this product, Mother Nature may provide the best marketing campaign. Next winter's snowstorms could see to that.

—Thomas Romantschuk

COPENHAGEN

SOFTWARE FIRM DEFIES GRAVITY

Michael Gaardbo's company grew faster than any other in Denmark did over the last four years. It is a success story by any standard, but in a welfare state like Denmark with a culture—not to mention a tax system—that traditionally has deterred entrepreneurship, his firm, Columbus IT Partner, seems to defy gravity. It grew from two employees in 1994 to 706 worldwide at the end of last year and multiplied profits fifty-seven times during the same period.

Yet this is what Mr. Gaardbo, forty years old, who left business school before graduating, has accomplished with Columbus IT Partner. When the company went public last year, Michael Gaardbo earned a cool $150 million. The value of the stock has increased about 60 percent since the initial public offer, making it one of the star performers of the Copenhagen Stock Exchange in 1998.

Columbus IT Partner is a software company that specializes in selling and servicing financial and management IT solutions for small and medium-sized companies that abound in Denmark. Mr. Gaardbo still runs it much like a small family firm. His closest business associate, Lars Andersen, is also a friend and two years ago became chief executive officer with an equity stake. With Mr. Andersen to handle the day-to-day, Mr. Gaardbo has been free to concentrate on what he likes best—developing new ideas and finding new business.

Mr. Gaardbo says he counts people as the prime assets of his company, and he proudly notes that in an industry where high turnover is the norm, employee number five was still around when employee number 500 was hired. Though highly hypothetical, he claims that his long-term dream is to retire to run a small Tuscan hotel that offers preeminent personal service.

About half of Columbus IT Partner's business is still in Denmark, a quarter elsewhere in Western Europe, and the remainder spread worldwide, with a strong presence in Eastern Europe and a recent foray into the Far East. The next stop is the US, where Mr. Gaardbo moved last year to oversee personally the acquisition of small firms that will be the forefront of his US expansion. He concedes that this is the greatest challenge since the early years of his company, but the potential is equally rewarding.

He may have to change his lifestyle to build credibility in the United States. Conspicuous consumption is not stylish in Denmark, and until recently, top managers in Denmark were expected to accept modest pay and enjoy luxuries discreetly. Last year his pay in Denmark was less than $100,000, and he said that he regretted buying a used Porsche because, he felt, it transmitted the wrong signal to the market.

Columbus IT Partner apart, there are signs that entrepreneurship is acquiring stronger roots in what most Americans would call a hostile business environment in Denmark. Politicians acknowledge that the public sector can no longer be an engine of growth in a society where public expenditure is equal to about 60 percent of GDP, twice that of the United States. In addition, with restructuring of industry making thousands of employees redundant, job growth is almost exclusively the domain of newer and smaller companies.

Though critics claim that the politicians are still paying lip service to reducing the bureaucracy and tax levels that the majority of studies show are the main barriers to establishing a new business, signs are emerging that the entrepreneurial spirit is alive and gaining strength in Denmark. The number of new companies established in Denmark grew from 6,100 in 1996 to almost 9,800 in 1998. Company failures decreased slightly from 1,900 in 1996 to 1,800 in 1998. In this year's first quarter, almost 3,100 new companies were established and only 400 failed.

A new government study shows that 55 percent of the companies that were established in 1994 still survived in 1997. The service industry had survival rates of 65–70 percent, and businesses owned by male entrepreneurs older than forty enjoyed the best survival rates. Venture capital is notoriously absent in the early stages of business development, and the publicly funded Technical Information Centers are usually the most important contacts for start-ups.

Opinion polls have recently shown that the prestige of entrepreneurs has grown over the past few years, eroding the cultural barrier against starting your own business. However, Danes are still more critical toward business failure than Americans are, in fact, they are twice as critical, according to a new study. So entrepreneurs like Michael Gaardbo still face an uphill struggle to succeed.

—Leif Beck Fallesen

STOCKHOLM

SWEDEN'S DARING STENBECK

At least one university classmate of Swedish media and telecom mogul Jan Stenbeck will never forget him. At a party one night, she took off her shoes to dance. Mr. Stenbeck grabbed one, announcing he was ready to drink champagne from her slipper. But there was no champagne. Instead, he poured a sickly-sweet, sticky liqueur concoction into the shoe and imbibed. The shoe was ruined. And almost forty years later, the classmate is still fuming.

At fifty-seven, Jan Stenbeck may no longer be drinking from women's shoes. However, as he's built his empire, his reputation for flamboyance has only grown. To help Stockholm celebrate the millennium, for instance, he's planning a $12 million bash in Gamla Stan, the old town, complete with medieval balladeers, fireworks, and a concert with top international stars.

One of Sweden's wealthiest people, Mr. Stenbeck can well afford such a party. His holdings include Netcom, a telecom and Internet company; Modern Times Group, a media concern; and investment company Invik. His investments just in the telecoms and media businesses total more than $1.4 billion. Mr. Stenbeck built the businesses, all listed on the Stockholm Stock Exchange, on the legacy of his father's investment company, Kinnevik. Moreover, he did it with an entrepreneurial style that's shaken up the staid Swedish business establishment.

Those who know him say Jan Stenbeck takes his management and marketing cues from hard-driving US entrepreneurs. His management approach is pure carrot and stick, with the carrot being a top salary and the stick being a pink slip. It could be an approach fashioned in his youth, when his father offered him a sports car in return for earning top grades.

Mr. Stenbeck is known for giving managers completely free reign to develop ideas but is equally known for firing them without compunction if those ideas don't quickly show a profit. He once described his approach to business by quoting Sean Connery in the movie *The Rock*: "Doing your best is just losers' talk; a master wins and then goes home."

Brought up on the ritzy east side of Stockholm, Jan Stenbeck today divides his time among New York, Stockholm, and Luxembourg, where he owns a small castle. While having a reputation as a hard partier, he claims to actually be shy, although he owns print media, radio, and television stations, he's loathe to give interviews.

Mr. Stenbeck built up his companies in less than twenty years. Realizing that the state-owned telecom company, Telia, was vulnerable, he laid his own telephone lines for corporate customers and built the telecom company Tele2. When third-party access was granted to Telia's network, Mr. Stenbeck expanded Tele2 to household customers. The company offers lower prices and itemized telephone bills and other premium services at no extra cost, compared with Telia, which charges for itemization and special services.

Tele2 was also one of the first Swedish Internet providers, and from the beginning Mr. Stenbeck offered the service to household customers, guessing that the market would explode. He was right, and Telia was left scrambling to catch up.

While Jan Stenbeck has never had the problems a small entrepreneur faces—lack of capital or high employment expenses that can wipe out a small company's profit, for instance—he has his tribulations. Like many other entrepreneurs in Sweden he finds government bureaucracy burdensome and thinks income taxes are too high. Unlike owners of smaller businesses, however, he's been able to officially move his residence to minimize personal taxes.

Given his financial success, he can also afford to drink from fine crystal glasses these days, or at least a Manolo Blahnik stiletto.

—Ariane Sains

MADRID

OLIVE OIL MAKER EXPANDS

At the age of fifty-three, Jesus Mejia Begines has another forty-seven years to prove his contention that regular consumption of the extra-virgin olive oil will allow a person to reach the century mark.

"Olive oil is so good for you, it will help you live 100 years," the native of the southern city of Seville claims, and he hopes that anyone who wants to take up the challenge uses his very own Plaza de España brand.

Founded in 1972, Mr. Mejia's company, Promociones M. Begines, grows, processes, and markets high-quality olive oil from its own groves in Spain's southern region of Andalusia. It also sells cans and jars of roasted *piquillo* peppers from the northern province of Navarra as well as *jamon serrano,* dry-cured ham from the eastern province of Huesca.

Since 1995, the company has been selling its products in the United States where Mr. Mejia says olive oil sales are booming, thanks to increased interest in Spanish cooking and food products. Growing health concerns among Americans who have heard of the benefits of the so-called "Mediterranean Diet," which is low in bad fats and high in vegetables, grains, and of course, olive oil, are also helping the company's marketing efforts.

"Last year, we sold 100 tons of olive oil in the United States, and in just five months so far this year, we've already reached that amount," Mr. Mejia says. The company's US operations are handled by his twenty-eight-year-old son, also named Jesus, who works out of Miami and came up with the innovative idea of selling olive oil in capsules so the health conscious don't have to pour the stuff on salads if they want to enjoy its benefits.

The distributor is Blue Sky Trading Overseas, Inc. in Fort Lauderdale, Florida, but it will soon change its name to Plaza de España Gourmet Foods. The company also distributes its products in Canada, Japan, Brazil, Argentina, and Puerto Rico.

"We started in Miami because of the Hispanic market there but now have distributors in New York, Seattle, San Francisco, and we are just beginning operations in Chicago," the elder Mr. Mejia explains. "But starting up an olive oil distribution business in the States has not been easy, mostly because the Italians had a strangle hold on the market."

This is a common complaint of Spanish olive oil producers. For decades, Italian companies bought up nearly half of Spain's best olive oil each year and resold it in other countries, including the United States, under up-market Italian labels. Now the Spanish producers are fighting back.

Mr. Mejia's company is launching a new marketing effort in the United States through the Publix supermarket chain with the help of the Andalusian government, which is heavily promoting food products from the region in a campaign starring native heartthrob and actor Antonio Banderas. The Spanish firm also has a website in English (www.blueskyfoods.com).

—Benjamin Jones

BERLIN

FORMER POLITICIAN RESUSCITATES EASTERN FIRM

Jenoptik AG, a telecommunication, engineering, and optical company, based in the industrial town of Jena, is one of the rare manufacturing success stories in eastern Germany. At the beginning of the decade, Jenoptik AG, then known as VER Carl Zeiss Jena was just another bloated and unprofitable East German *Kombinat* (combine). Under East Germany's communist regime, the Zeiss combine employed some 30,000 people. They manufactured sophisticated precision optics primarily for the Eastern Bloc military sector. After reunification in 1990, the combine disintegrated into individual companies heavily in debt. One of these was named Jenoptik.

As good luck would have it, in 1991 Lothar Späth resigned as premier of Baden-Würtemberg, one of the bigger and richer western German states, and accepted the challenge of breathing new life into the downtrodden Jenoptik. The challenge was exactly what the Christian Democrat from Swabia found so exciting. "You cannot revive a dinosaur," he stated. "It is the insects which survive the evolution." He left no doubt that the future would require sacrifices. "We have to make a radical break with the past in order to create something new"—a message that was just as honest as it was painful.

When Mr. Späth took the job as chairman of Jenoptik, he found a company with many different talents and products, but none of them was marketable. The products were not competitive; there was no brand name recognition, no marketing, and no sales structure. "In the East," Mr. Späth says, "there are two types of companies: those that were bought by westerners who created a stripped-down 'extended conveyer belt' of their operations back home and those that remained eastern and in their existing markets, which failed."

Mr. Späth's job was to convince the Treuhand, the federal agency responsible for privatization in the former East Germany, to grant funds for his radical restructuring program. Initially, the agency held out little hope for Jenoptik. However, eventually with state subsidies amounting to almost $2 billion (of which $1.5 billion came from the Treuhand and the rest from the state of Thuringia), Mr. Späth began his hyperactive restructuring program, which included completely renovating its facilities and establishing a new product portfolio. Lothar Späth's strategy was to keep workers employed and create a better physical environment for small and medium-sized businesses in Jena through new business parks, shopping centers, and small manufacturing units. The inspiration for much of this can be found in Mr. Späth's home state of Baden-Württemberg, a traditional home for technology-oriented, medium-sized companies.

Last June, Jenoptik listed on the Frankfurt Stock Exchange in a heavily oversubscribed initial public offering, which brought in $442 million for the company's shareholders, the state of Thuringia, and a collection of western banks.

In 1994, using his Swabian contacts, Mr. Späth found and acquired Meissner and Wurst, a Stuttgart-based builder of computer chip plants. The purchase not only gave Jenoptik a new business, but also brought the company established sales and distribution channels in new markets. In 1996, Mr. Späth orchestrated the purchase of Krone, a Berlin-based telecommunications company. A year later, he acquired ESW-Extel, a specialist in traffic and military technology. With these acquisitions, Jenoptik has grown into a profitable high-tech company.

Last June, Jenoptik listed on the Frankfurt Stock Exchange in a heavily oversubscribed initial public offering, which brought in $442 million for the company's shareholders, the state of Thuringia, and a collection of western banks. It also introduced thousands of eastern Germans to equity investing for the first time. The company, which employed some 30,000 people when the Berlin Wall came down, had only 8,540 workers at the end of 1998, of whom 5,819 worked in Germany. It swung from a loss of $301.6 million in 1992 to a net profit of $57.8 million last year. Moreover, sales have surged to $1.7 billion from $66.5 million over the same nine-year period.

—Wanda Menke-Glückert

THE HAGUE

ACCOUNTANT TURNED TYCOON

Business tycoons who own their own sports clubs are a common feature in the United States and in southern European countries like Italy and Spain. This is not the case in the Netherlands. There is, however, an exemption. Dirk Scheringa, a forty-eight-year-old self-made billionaire businessman, owns a soccer club, a long-distance skating team, and a private museum. He has been dubbed the 'Silvio Berlusconi' (referring to the Italian media tycoon-politician who owns the AC Milan soccer club) of Alkmaar, a provincial town with 93,000 inhabitants about forty miles north of Amsterdam.

Mr. Scheringa, the son of a cheese maker, never even finished junior high school and started out as a policeman. But he discovered a special talent in helping friends fill out their tax forms. In 1977, he started his own business, consulting on tax affairs, mediating on insurance, consumer credits, and mortgages. Today, his privately owned holding company DSB includes a print shop, a mail order and marketing company, a software company, a construction business, and his flagship company, Frisia Financing, specializing in personal finance and mortgages. DSB has an annual turnover of about $1.5 billion and, three years ago, earned the Dutch government's annual business award. Mr. Scheringa, acknowledges a personal wealth of about $750 million, making him one of the richest people in the Netherlands.

In 1993, AZ, the local soccer club in Alkmaar begged Mr. Scheringa to become its main sponsor. AZ was in terrible shape, burdened by debts and playing in the second league. Mr. Scheringa agreed to invest millions of guilders in the team, but in return, he demanded to become the president of the club and to display the Frisia name on the team's jerseys.

AZ's sporting results, however, remain mixed, marked by quarrels with the coach and another year playing in the second division. This season, however, things have improved. AZ is playing major league soccer again but is nowhere near qualifying for the profitable European games. But that has not stopped Mr. Scheringa from thinking big. He is building the team a new 13,500-seat stadium due to be completed in 2001 and is also examining the possibility of floating AZ on the Dutch stock exchange like Ajax, the Amsterdam soccer club.

In addition to his passion for soccer, Mr. Scheringa has started putting together a skating team. An avid skater himself, he has twice completed the 120-mile Elfstedentocht. But his interests extend beyond sports. Two years ago, he founded a museum for his private art collection. He is particularly fond of Dutch 'magic realists' painters like Carel Willink and Pyke Koch.

Not all Dirk Scheringa's endeavors have been successful. His foray into politics began by winning election to the local city council as a Christian Democrat, but he failed to be nominated as a candidate for a seat in the Dutch parliament in the last elections.

—Roel Janssen

ARTS & LEISURE

BOOKS

Dark Continent: Europe's Twentieth Century

By Mark Mazower; Knopf; 487 pages; $30

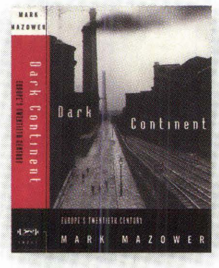
Some authors and publishers sometimes just get lucky, even if their luck is of the grimmest sort. Just imagine a book based on the premise that Europe's democratic vocation is shaky at best and have it come out in America at the moment when television screens are full of current news pictures showing trainloads of European deportees being shipped out of their homeland.

That is the timing that has greeted the publication of *Dark Continent: Europe's Twentieth Century*, Mark Mazower's iconoclastic history of modern Europe, one that has already attracted considerable attention on that side of the Atlantic and is now doing so here. As this bloodiest of centuries reaches its conclusion, fifty-five years after the end of World War II, historians are searching beyond politics and diplomacy and into such terrain as economics, psychology, and sociology to analyze the conditions that produced so much organized violence and murder on a continent that likes to think of itself as the epicenter of civilization. Mr. Mazower, a British history lecturer and author of two previous books on Greece, is in this new stream of history writing. His sweep is immense and his conclusions often jarring. No matter where readers sit on the European political spectrum, few are likely to draw comfort from the insights offered.

While ostensibly a history of the entire century, this book really focuses on the years from the end of World War I through the cold war. In particular it zeroes in on the failures of the so-called inter-war years, the 1920s and 1930s, when a vision of triumphant liberal democracy throughout the old empires of Europe collapsed in a rubble of economic mismanagement and the brute strength of totalitarian ideologies.

With a keen ability to turn a detail into a telling point, the author cites numerous examples of how leading European figures initially welcomed the ascendancy of Hitler's order in their countries in contrast to the democratic squalor it replaced. He quotes a close advisor to Belgium's King Leopold, whose manifesto after the 1940 German invasion asserted, "This collapse of a decrepit world, far from being a disaster, is a deliverance." Moreover, the author points out that while a majority of Germans may not have voted for Hitler, neither did a majority resist his rule. The worst of Nazi brutality was carried out not only by select SS cadres but by thousands of ordinary people.

For Mr. Mazower, the twentieth century in Europe can really be divided into two periods—pre-1950 (when more than 60 million people died in wars and slaughters) and post-1950 (fewer than 100,000 deaths). In the latter, certainly in Western Europe, democracy was able to take root in a social-political consensus that coupled a booming capitalist economy and ever freer trade (which he cites as the main contribution of the Marshall Plan to postwar Europe) along with a flourishing welfare state. While he never explicitly uses the term "third way", now so currently popular with President Clinton, British Prime Minister Blair, and other politicians, the author reminds that the real third way is the Christian Democracy of the German CDU and its European sister parties that tries to steer between socialism and the American version of capitalism. This is one example—the willingness to pay taxes being another—of how European politics remains different from the American model.



This kind of analysis reflects how *Dark Continent* is history of a different sort. Many of the book's essential points are as economic as political, certainly its conclusion that post-1989 Europe represents far more a triumph of capitalism than of democracy. Europe's test in the next century will be to maintain social stability as global capitalism unleashes new disruptive forces.

The author's iconoclasm extends to many pan-European endeavors, especially the European Union. He is scathing in his appraisal of Europe's handling of the Yugoslav crisis. He sees nothing that will diminish the role of European nation states; indeed their role is essential now that they do not constitute a threat to peace in Europe. The EU, he forecasts, will remain an economic entity, helping Europe adjust to global capitalism.

Considering all that has gone on before this century, Mr. Mazower concludes, Europeans now enjoy a remarkable combination of individual liberty, social solidarity, and peace. The hardest thing for them to adjust to is Europe's diminished place in the world.

Alas, these days, even the most careful books come with publishing quirks. On the first page, there is a reference to a meeting of ex-monarchs taking place in "192–". In addition, the haunting cover of a darkened train station, obviously meant to evoke the trains going to concentration camps, turns out to be a 1948 picture from Halifax, Canada. My advice to readers: fill in the blanks and do not worry about reality getting in the way of art.

—Michael D. Mosettig

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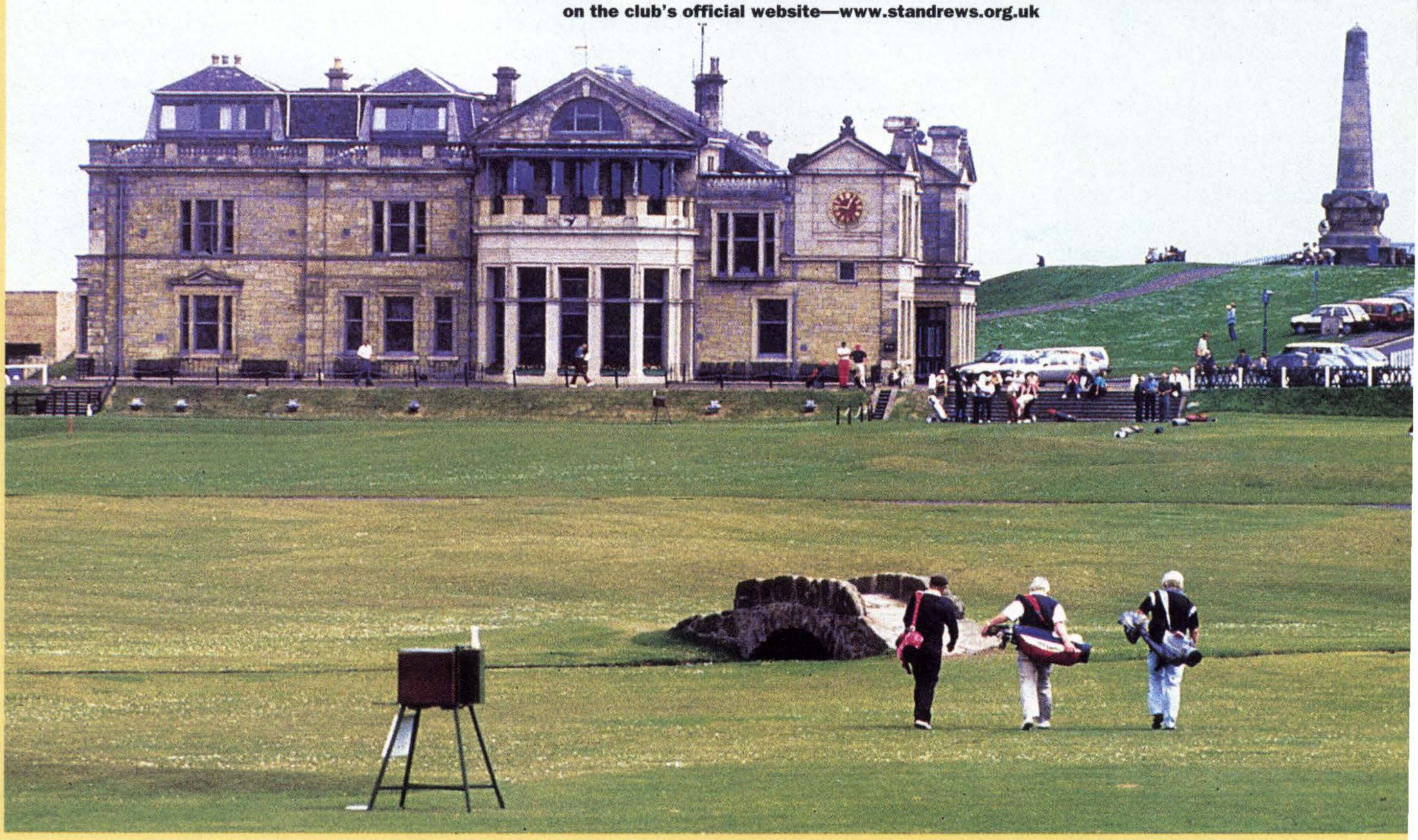
GOLF'S ROYAL ROOTS

During the winter of 1563, Queen Mary stayed for several months at St. Andrews, where she yielded to the spell of the beautiful surroundings and played golf through a rather difficult course of heather and bushes.

YESTERDAY & TODAY

Today, the pristine greens of the Old Course at St. Andrews Links—the "home of golf"—attract enthusiasts from all over the globe. The course originally consisted of twenty-two holes, eleven out and eleven back. In 1764, the Society of St. Andrews Golfers, which later became the Royal and Ancient Golf Club, decided the holes were too short and combined them. This reworking reduced the number to eighteen holes and created what became the standard round of golf throughout the world.

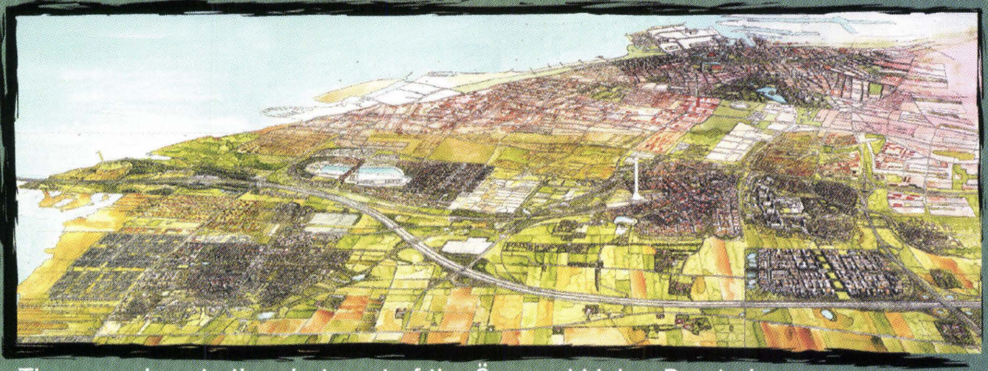
St. Andrews is the largest golfing complex in Europe and has five eighteen-hole courses and one nine-hole course. Web-savvy golfers can book tee times and check out the courses on the club's official website—www.standrews.org.uk



Seven strong reasons for establishing in Malmö

- Malmö and Copenhagen will be integrated by the Öresund Link – a new centre of development will be created
- Malmö is the administrative and cultural centre of the Scania region
- Malmö lies on the coast, surrounded by open countryside and offers excellent recreational possibilities
- Malmö has attractive development areas – Brostaden and the western harbour area
- Malmö university is a new, dynamic centre of academic diversity
- Malmö is renowned for its high quality housing
- Malmö is home to a rich cultural scene

The western harbour area



The area close to the abutment of the Öresund Link – Brostaden

City of Malmö, Sweden

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