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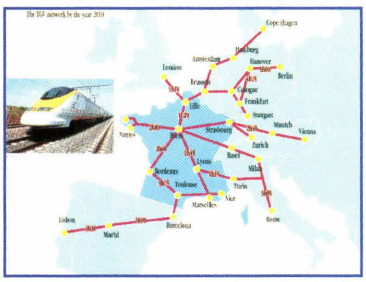

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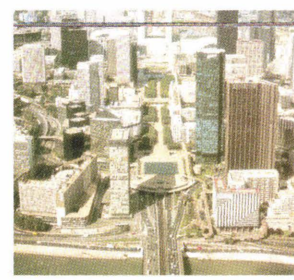

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Paris-Ile de France Region:
Where Business Is Capital

Paris, and the Ile de France region surrounding the capital city, is not just the vibrant heart of France. It is also a prime candidate, ideally placed and suited, to become the business capital of the new, expanded Europe now taking shape.

Last year a total of 134 foreign companies, 60 percent of them from the United States and Canada, settled in the region, generating 3,400 new jobs.

Created in 1991, the **Paris-Ile de France Capitale Economique** organization regroups more than one hundred French companies, many of which are among the country's leading enterprises. A totally independent body, it enjoys a privileged relationship with the Paris Chamber of Commerce and Industry and counts all levels of government among its partners, including Paris City Hall, the regional Council of the Ile de France and the French Ministry of Finance.

Its president is Jean-Maurice Esnault, who is also honorary president of the Economic and Social Council of the Ile de France region.

Q: Monsieur Esnault, what are the principal goals of "Paris-Ile de France Capitale Economique"?

JME: We have two main objectives. First of all, to promote the French capital region in the entire world, particularly to investors in the United States, South America, Asia and Europe. Secondly, we are working on strengthening the capital region in relation to the other European capitals which are its main competitors: London, of course, Brussels, Amsterdam and, in the near future, Berlin.

Q: Beyond the obvious advantages of being the capital region, what does Paris-Ile de France have to offer international investors?

JME: An important strength is the

quality of the labor-force, of the men and women who work in the region. Labor costs, on the other hand, are high, but when you compare productivity, then Paris-Ile de France emerges as one of Europe's top regions.

A second advantage is the outstanding network of research centers in the region, recognized as unique among Europe's capital areas.

A third strong point is the transport infrastructure of the region. No other European capital has an airport such as Roissy Charles de Gaulle, which currently deals with 64 million passengers a year, can still expand considerably and is located at the center of a dense network of autoroutes and high-speed TGV trains linking Paris to the big cities of northeastern Europe.

Q: What are some of the areas which are not so strong, in which the Paris-Ile de France region still needs to do some work ?

JME: We are currently developing a major project, which consists of an underground toll route between downtown Paris and Roissy Charles de Gaulle airport. It will reduce transit time between those two points from an average of one hour down to 20 minutes.

Another domain in which we are intervening is the improvement of relations between research and industry. Research is one of the region's strong points, but communications between research centers and companies should be improved.

In the field of education, we have another important project: the building of an international school in the east of Paris, which will be affiliated with the international "lycée" that already exists in St. Germain-en-Laye, in the western suburbs.

Q: Besides these major projects already underway, do you have any other projects in the pipeline for improving and promoting the attractiveness of the Paris-Ile de France region to international investors?

JME: Yes, we do. Plans are underway for a major event early next year, which will be the first of its kind. We are inviting top international "prescribers", by which I mean those organizations which have a great deal of influence on investors looking for a new site: major investment banks, the economic press, big marketing groups, financial consultancy firms, internationally known economic gurus, and so on. It will be a Mini-Davos, if you like, with a majority of American participants, such as Arthur Andersen, Ernst & Young and Ted Turner.

As you can see, we are hard at work to make Paris-Ile de France the perfect choice for international investors.

Last year, for the 7th year in a row, more foreign firms chose the capital region than ever before. Among the biggest American newcomers were SITEL (call-center), Cheasapeak Corporation (packaging), Techdata (distribution) and Cambridge Technology Partner (IT and management services).

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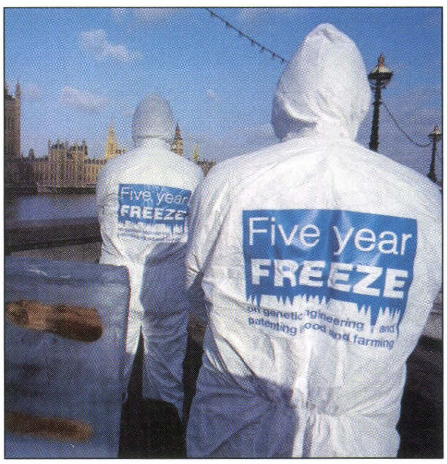

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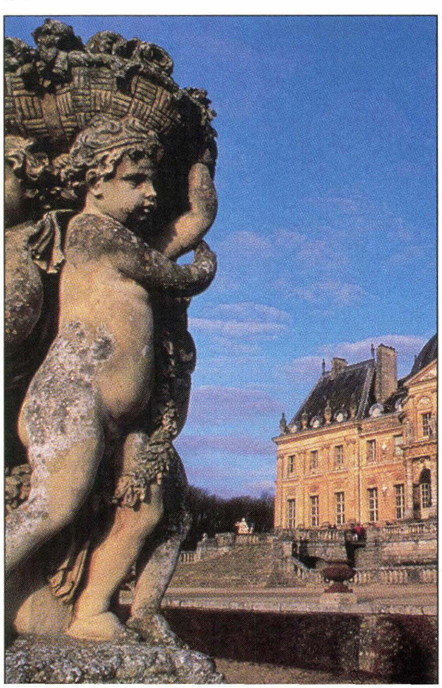
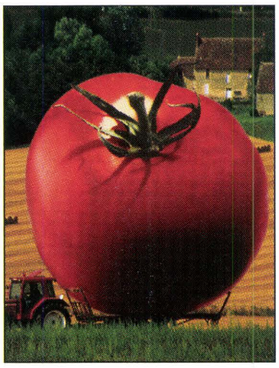


LETTER FROM THE EDITOR

"Europe is in a funk about food safety," writes contributing editor Lionel Barber from London. Europe is experiencing a food scare over genetically modified organisms (GMOs). Barber discusses the concerns of a large number of European consumers about GMOs. "A chorus is growing in favor of a ban—or at least a moratorium," he writes, "on planting GMO crops and on the sale of imported foods containing them."

In addition to being worried about genetically modified food, Europeans are also discussing the European Union's Common Agricultural Policy (CAP). It is not a new subject, however, as Bruce Barnard notes, "The CAP has courted controversy since its inception in 1962." In addition to explaining what the CAP is and what it costs the European taxpayer, Barnard reports that "the CAP will face a fresh onslaught in November when the European Union sits down with its major trading partners at a ministerial meeting of the World Trade Organization (WTO) in Seattle."

While many Americans may think the major food companies are based in the United States, Barnard writes about the global reach of Europe's food firms, including Nestlé and Unilever, two of the world leaders. Furthermore, new star performers in the European food business are becoming better known in the US, including Raisio, a Finnish company that is manufacturing the world's first cholesterol-cutting margarine.



Controversy grows over genetically modified food.

Elisabeth Guigou, the justice minister of France, who is frequently mentioned as a possible future prime minister of her country, speaks out on unemployment, crime, corruption, and a host of other issues in an interview with *EUROPE*. Guigou says her new "European crusade" is to establish a "European FBI."

French business is changing dramatically these days, and Robert Lever profiles two of France's richest businessmen, François Pinault and Bernard Arnault and their well-publicized fight for control of Italian luxury designer Gucci.

NATO has a new boss. *EUROPE* profiles NATO's new leader, George Robertson, the former defense minister of the United Kingdom, who has already "hit the ground running."

EUROPE also looks at the European Union's leading role in helping the Balkans recover from the war in Kosovo. Susan Ladika, reporting from Vienna, outlines the goals of Bodo Hombach, the official overseeing the EU's stability pact, and of Bernard Kouchner, the UN administrator for Kosovo.

In our monthly "Eye on the EU" department, we look briefly at the new European commissioners chosen by Romano Prodi to serve with him in Brussels. After the European Parliament confirms the new commissioners later this month, we will present extensive profiles of each new commissioner in our October issue of *EUROPE*.

For travel ideas, Ester Laushway writes about the events happening in Marseille and the 400th anniversary of its chamber of commerce—the world's oldest. Axel Krause takes us on a bike tour of Ile-de-France.

Robert J. Guttman

Robert J. Guttman
Editor-in-Chief

EUROPE

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EYE ON THE EU

Profiling Personalities and Developments Within the European Union

PRODI'S PROPOSED TEAM

After several weeks of backroom diplomacy, Romano Prodi has put together his new team to run the next European Commission. The new twenty-member executive body will take office in September, conditional on approval from the European Parliament, and will hold office for just more than five years. Its first task will be to restore public confidence in an institution tarnished by allegations of cronyism and mismanagement.

Prodi, a former Italian prime minister, set a positive tone by pushing through a new code of conduct covering all commissioners at the executive's first meeting in a chateau near Antwerp in late July. He also signaled he wants to assume a more presidential role than Jacques Santer, his self-effacing predecessor; that means sacking or removing any member of his team who fails to come up to scratch.

The new Commission contains only four holdovers from the old Santer Commission. Neil Kinnock, the former Labor Party leader, becomes a vice president in charge of cleaning up the Commission and cracking down on fraud. Erkki Liikanen, the talented Finn, takes over information technology and the industry portfolio. Franz Fischler, the Austrian, retains the agriculture portfolio. Mario Monti, the Italian responsible for the single market, assumes the critical competition portfolio.

One of the big surprises was the nomination of Pascal Lamy as trade commissioner. Lamy was chief of staff to Jacques Delors when he was president of the Commission between 1985 and 1994. His big job will be to oversee the next global trade round.

Another significant appointment is Chris Patten, the former governor of Hong Kong. He will handle the general external relations portfolio. This job will require working closely with Lamy in the Commission but also Javier Solana, the outgoing secretary general of NATO who is moving over to the EU to head the common foreign and security portfolio in the Council of Ministers.

Gunther Verheugen, one of the German commissioners, will handle enlargement, while Poul Nielsen of Denmark will handle development aid. Prodi himself intends to take a lead role in the shaping of foreign policy, notably in reconstruction in the Balkans.

Another familiar face is Pedro Solbes, the former Spanish finance minister who prepared his country's entry into the euro. He will take over the economic and monetary affairs portfolio. Michel Barnier, a Gaullist, will take over the regional affairs job. Antonio Vitorino of Portugal will take over the increasingly important justice and home affairs portfolio.

Like the outgoing Santer Commission, the new team has five women and a strong Social Democratic slant. Two faces to watch are Michaele Schreyer, a member of the German Green party who will handle the budget and personnel, and Loyola de Palacio, the Spaniard who has been awarded the title of vice president with responsibility for relations with the European Parliament.

The Parliament has the right to vote down the whole Commission if it is not satisfied with the caliber of nominees. Few are predicting that it will go so far as to press the "nuclear button;" but few believed that the MEPs would precipitate an institutional crisis earlier this year when it forced the resignation of the entire Commission.

—Lionel Barber

THE UK AND THE EURO

Once again, questions about the United Kingdom's commitment to eventually join the single currency are surfacing in London and other European capitals. The latest word in Whitehall is that Tony Blair has penciled in 2004 as the earliest possible date for the UK to enter economic and monetary union (EMU). This timetable contrasts with a more optimistic target of late 2002 when euro notes and coins will be in circulation.

Blair insists there is no change in policy, but rumors of a shift in emphasis coincide with an increase in public skepticism toward the euro in the UK, where most polls show more than half of the population is against joining. There is a "feel-good factor" in the economy where employment is at record highs and talk of an imminent recession long since forgotten.

In this climate, Blair has found it harder to present a watertight case for signing up to a single currency. The prime minister has begun to get cold feet as his advisers in Downing Street and the Treasury have driven home the size of the task he faces in mobilizing voters in a future referendum on the single currency, especially after Labor's defeat in the European Parliament elections in June where the Conservative party ran on an unashamedly anti-euro ticket.

The UK was never going to be present at the creation of the euro on January 1, 1999. Even the most ardent euro-enthusiast understood that. Blair entered office in May 1997 on the back of a landslide election victory; but he had no intention of putting a putative second (or even third) term at risk over an issue that had split the previous Conservative government asunder.

Blair, supported by Gordon Brown, his pugnacious chancellor of the exchequer, therefore put in place a bridging strategy ahead of a referendum on the euro, which he pledged would take place early in the next parliament, that is to say after the next general election, most likely in 2001–02.

Brown set out the strategy in the form of five economic tests that the UK will have to meet before it can enter EMU. They are:

- Business cycles in the UK and Europe must converge.
- Labor markets in the UK and the European Union must become more flexible.
- EMU must benefit investment in the UK.
- It must benefit the UK financial sector, notably the City of London.
- EMU must have a positive impact on the real economy—on growth and employment.

British Airways chairman Lord Marshall supports joining the euro.

The advantage of the "Brown tests" is that they are infinitely elastic and therefore subject to political interpretation. The other plus from the government's point of view is that the economic tests have deflected attention from sensitive political questions related to EMU, notably whether it will usher in a new "European government" at the expense of the nation state.

Blair and Brown hoped they could persuade business to make the case for joining EMU until they were ready to wheel out their own heavy artillery after the next election. Their calculation was that once EMU became a reality in 1999, the case for joining on economic arguments would develop its own momentum. This strategy has foundered for three reasons.

First, business is by no means united on the euro. The Confederation of British Industry is broadly in favor, but the Institute of Directors is not. Establishment figures, such as Lord Marshall, chairman of British Airways, or Niall FitzGerald, chairman of Unilever, support British entry; but anti-establishment figures, such as Sir John Craven, chairman of Lonrho, or Sir Stanley Kalms, chairman of Dixons retailers, are against.

Second, the forced departure of Peter Mandelson, the trade and industry secretary, over a housing loan scandal last Christmas has removed a powerful pro-European voice from the cabinet, exacerbating the sense of drift. The pro-euro lobby has again postponed the launch of its campaign, while Business for Sterling's counter-campaign is in full swing.

Third, the economic cycle has made it much harder for the government to make a strong case for imminent convergence between the UK and Europe.

Europe's recovery is still hesitant, but the UK, particularly in the southeast of England, is buoyant. The faltering performance of the euro in foreign exchange markets against the pound and dollar has hardly helped its cause, although perversely a cheaper currency may be fueling a recovery, notably in Germany.

In the end, the question is whether Blair is pursuing a tactical approach to Europe or a strategy. A generous interpretation is that the prime minister has been preoccupied with the conflict in Kosovo and the peace process ongoing in Northern Ireland and that the general goal of joining the euro remains intact. To quote Mandelson, it is not a question of "whether" it is merely a question of "when."

Just before the summer parliamentary recess, Blair delivered a strongly pro-Europe speech that dismissed the Conservatives as euro-phobes fighting old battles. He insisted that he wanted the UK to play a full role in the EU, which, he implied, meant joining EMU. However, he remained coy about a timetable.

In effect, Blair is saying "Trust me." Europe may be prepared to give the UK the benefit of the doubt. But we cannot be sure.

—Lionel Barber

FRANCE AND THE INTERNET

Apple Computer did itself no harm when it presented Dominique Strauss-Kahn with one of the first Macintosh computers in France. DSK, as he is widely known, became minister of economy and finance and also the politician in charge of transforming France into an Internet society within the next two years. He doesn't favor Apple in the purchase of computers for the state sector, but this powerful politician has become by far the leading "computer nerd" in the government. His portable computer goes with him as he travels the country urging the widespread adoption of the Internet in firms, colleges, and homes.

In February, France's minister of economy and finance cited 3.6 million Internet users in France. In April, it was 5.6 million, or some 12 percent of the population older than age fifteen.

His crusader's zeal is being rewarded by Internet growth. The figures for users rise every time he makes a keynote speech—which is quite often. In February, he cited 3.6 million Internet users in France. In April, it was 5.6 million, or some 12 percent of the population older than age fifteen. His latest forecast is 7 million *internautes* at the end of this year and 10 million by the end of next year.

Meanwhile, personal computer prices are tumbling. In the spring they fell below $500. Recently, Daewoo launched the $160 machine. Free Internet access is being offered by big groups. One free Internet subscription, called Libertysurf (**www.libertysurf.com**), is financed jointly by luxury-goods tycoon Bernard Arnault (Dior, Vuitton) in collaboration with the British Kingfisher stores group. The selling is done at the Darty stores in every major French town.

France, at last, is closing the Internet gap with Germany and the United Kingdom. Some analysts say the government's exhortations and, importantly, its new tax incentives, could move France to a penetration level close to that of the US in perhaps three years time.

As with other "revolutions" in telecommunications, the French hesitated at first then leaped forward. It happened originally with telephones, once a laughing stock, before massive state funding led to digital switching and the worldwide export of telephone equipment. Then came the tremendous leap in the past two years with mobile phones. The old French expression *"reculer pour mieux sauter"* ("step back in order to leap better") has new meaning with the Internet.

DSK has announced a range of tax concessions to encourage investment funds to back French startups and to build up the Nouveau Marché, France's fledging answer to the US's NASDAQ. French risk capital, which last year was going into Californian startups, is now coming home. The big funds linked to France Telecom, the Vivendi services group, and the Axa insurance giant are now acting as "business angels" to their compatriots following the blandishments of DSK. Sums upward of $20–$30 million are being invested in some French startups. There are moves toward US-style stock options. At the same time, DSK is backing Education Minister Claude Allegre in inundating schools with computers, a process now well underway, and in cajoling the prestigious state-funded research laboratories to bring the fruits of their research to the marketplace.

Large companies, such as the nationwide FNAC record chain, are turning to e-commerce. Japan's Softbank, which has financed so many US startups, including Yahoo, has recently linked with Vivendi. Bernard Arnault, who has turned his energies from haute couture and perfumes to the Internet, will work with them.

One of the most spectacular moves that caught the public imagination was DSK's decision to allow small firms to make valued added tax (VAT) declarations via the Internet starting next year. In one stroke, a vast Kafka-esque chunk of French bureaucracy with its ten of millions of printed forms will disappear.

DSK, in a summer speech, said the IT and communications sectors now represented 5 percent of GDP, more than tourism and the equivalent of the combined automobile and energy sectors. The minister said he wants one French firm in two to be firmly in the Internet world very soon. "What we are seeing with [the] Internet and e-commerce," he noted, "is the emergence of the almost perfect marketplace."

If he ever has doubts, these vanish when he returns home to his wife, Anne Sinclair, a former star interviewer and now a television executive, who is completely "sold" on the Internet. She admits to surfing French and American sites practically every evening. The minister's wife, a role model to many Frenchwomen, is now widely emulated by female internautes who make up 37 percent of the French total.

SITES OF THE MONTH

www.camembert-country.com

Only in France, a country with more than 400 native cheeses, would there be a web site devoted entirely to Camembert cheese. The Land of Camembert web site offers information on the village that gave its name to the famous cheese, the production process, and Marie Harel, the folkloric milkmaid who created the creamy dairy concoction. Web surfers can even find a listing of references to Camembert by famous politicians, artists, and writers such as Clemenceau and Dali. This site is available in both French and English.

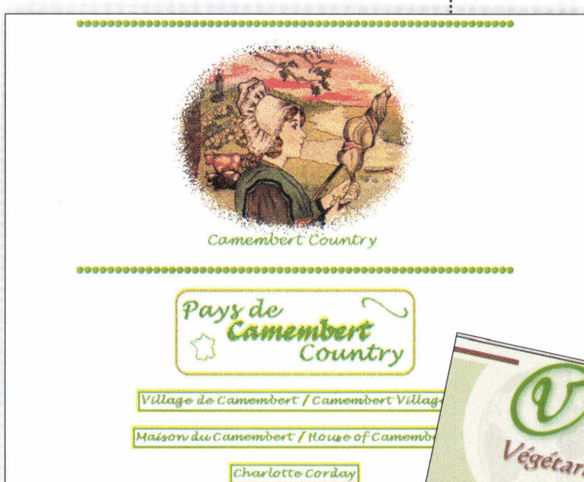
www.asterix.tm.fr

Astérix, the official site of France's Gaulish comic book heroes, can be accessed by even the most un-French Anglo-Saxon since it is available in English. The site features a step-by-step demonstration of how a comic book is put together, contests for kids to win prizes, Astérix and his friends around the world, the recent Astérix movie, and an on-line store. In addition, there is a featured story every week and a link to the Astérix amusement park near Charles de Gaulle Airport.

www.vegetarisme.org

In a country where only 1 percent of the population professes to be vegetarian, this site is somewhat of an anomaly among the wide range of gastronomic pleasures produced in French kitchens. Végétarisme.org offers veggie recipes and listings of restaurants in all major French cities that cater exclusively or partially to vegetarians. The discerning vegetarian will also find nutritional information, veggie terminology, and links to vegetarian organizations in France. However, this site is only in French, though it does offer a link to a UK site that has a listing of veggie restaurants in France.

—Alan Tillier and Richard A. Flanagan



AGRICULTURE

Consumers' food safety concerns threaten to snarl transatlantic relations

Food

By Lionel Barber

Europe is in a funk about food safety. Beef hormones, Coca-Cola, eggs, genetically modified foods, or mad cow disease—in each of these cases public confidence plummeted this summer.

The immediate cause is a succession of food safety scares that have wrong-footed governments and forced traditionally powerful food producers in Europe and the US onto the defensive.

In Belgium, worries about cancer-causing dioxin obliged the government to recall millions of eggs and hundreds of thousands of pounds of meat products. The shelves in supermarkets were so bare that many believe the embarrassment deprived Prime Minister Jean-Luc Dehaene of re-election in the June poll.

At the same time, Coca-Cola was forced to make the biggest product recall in its 113-year history after admitting that it had injected substandard carbon dioxide into some bottled drinks at its Antwerp, Belgium factory. Coca-Cola's tardy response ensured that it became the butt of many cartoon jokes, including its trademark polar bear changing its name to Coca-Colic.

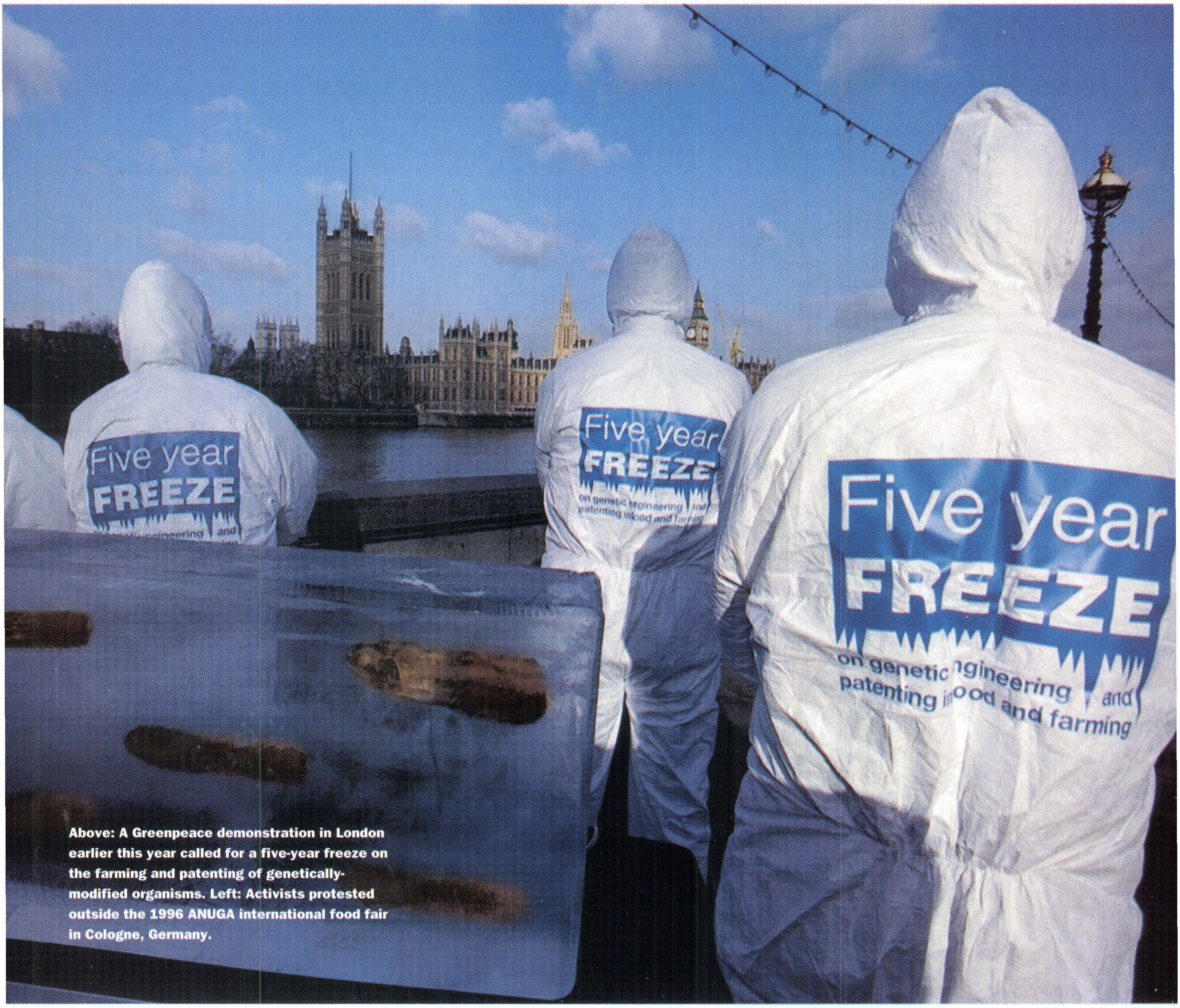
But all these scares have been overshadowed by a powerful campaign in Europe against food produced using genetically modified organisms (GMO) that has forced even the broadly pro-GMO government in the United Kingdom to take heed. A chorus is growing in favor of a ban—or at least a moratorium—on planting GMO crops and on the sale of imported foods containing them.

The US has become irritated by the apparent willingness of EU governments' to bow to public anxieties about food safety, chiefly by outlawing products without demonstrating that they are unsafe. Trade tensions are increasing, and there is not much hope for an improvement in relations because the two sides fundamentally disagree about how to tackle public confidence.

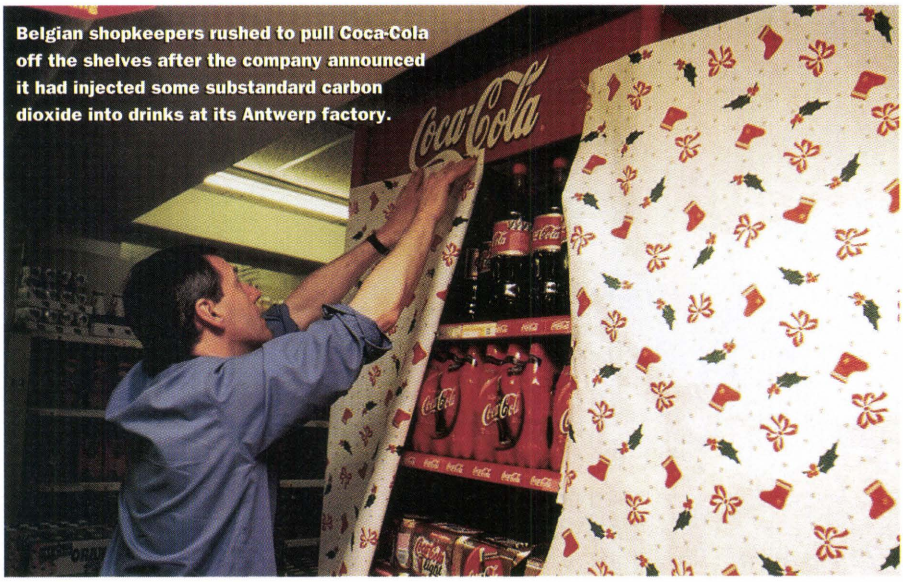
Europeans believe that the lack of scientific certainty about the effects of GMO foods (and beef hormones in meat products) means that consumers are instinctively reluctant to accept that they are safe. Rightly or wrongly, they are unwilling to accept a vote of confidence from the US Food and Drugs Administration (FDA) or indeed numerous scientific committees in Europe.

Americans, on the other hand, insist that the present discontent lies in a lack of public confidence in government, rather than an inherent mistrust in science. They blame public misgivings on the EU's opaque and secretive system for regulating food safety that, they argue, encourages decisions based on political opportunism rather than hard

Scare



Above: A Greenpeace demonstration in London earlier this year called for a five-year freeze on the farming and patenting of genetically-modified organisms. Left: Activists protested outside the 1996 ANUGA international food fair in Cologne, Germany.



Belgian shopkeepers rushed to pull Coca-Cola off the shelves after the company announced it had injected some substandard carbon dioxide into drinks at its Antwerp factory.

scientific evidence.

Even EU officials agree that the system in Brussels is far from perfect. Requests for product approvals move at a leisurely pace through various committees of national experts as well as the European Commission and the EU Council of Ministers. Delays are inevitable. The temptation for politicians to play to a gallery of activist consumer groups is often irresistible.

In practice, the burden of responsibility lies with the Commission, which has to decide product approvals if the member states cannot agree. Yet the Commission faces a difficult dilemma: if it vetoes products without clear scientific guidance, it risks violating WTO rules. If it approves them, it risks the wrath of member states and a popular backlash.

Thus, the Commission has been powerless to stop Austria, France, and Luxembourg from blocking the sale of GMO crops approved by Brussels. Although the Commission is preparing legal action against France, officials worry that if it steps up the pressure too fast, the fifteen EU member states could go their own way, causing the disintegration of the single market.

The handling of the mad cow disease scandal is a useful pointer to the politics of food safety in Europe. First, the Commission allowed itself to become too close to farm producers, many of whom put profits (and EU subsidies) far ahead of health and environmental concerns. Then, after the mad cow crisis erupted in Britain in 1995–96, it found itself under irresistible pressure, mainly from Germany, to propose a worldwide ban on British beef exports.

Three years later, the ban has finally been lifted, long after the Commission itself judged British beef to be safe. While the Commission may have acted with proper caution, public confidence has been shaken further by a succession of other food safety scares in other agricultural sectors.

So what is to be done? One option is to create a new pan-European independent food regulator with powers similar to the FDA, as it has already done for pharmaceuticals. However, whether such a new body would command more respect than the Commission is an open question.

A second option is mandatory labeling of GMO foods in stores. The US has long opposed such schemes on the ground that they are expensive and risk being discriminatory against US exports. But the US has hinted that it might be open to such an idea to resolve the beef hormone problem.

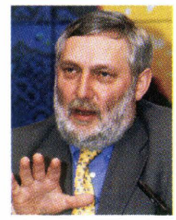
The third option is to wait for public confidence to return. That could in turn depend on the attitude of European farmers who could argue that a failure to follow the US advances in GMOs risks consigning Europe to a technological backwater.

At the very least, there is a serious risk that food safety could become a defining issue in transatlantic trade relations in the next few years. Ⓔ

Lionel Barber is a contributing editor to EUROPE *and the news editor of the* Financial Times.

Euro

Will Brussels Cap the CAP?



By Bruce Barnard

The Common Agricultural Policy (CAP) has courted controversy since its inception in 1962, hailed by supporters as a symbol of the European ideal, damned by detractors as a gigantic confidence trick on European taxpayers and consumers.

The CAP has undergone three reforms, the first in 1988, the most recent in March, but it remains basically intact, a devilishly complicated subsidy system that absorbs around half of the European Union's $90 billion annual budget. Its domestic critics associate it with waste, corruption, and fraud; its foreign critics allege it grossly distorts world trade and closes markets to poor agriculture-exporting nations.

The CAP will face a fresh onslaught in November when the European Union sits down with its major trading partners at a ministerial meeting of the World Trade Organization (WTO) in Seattle, which is expected to launch a new round of global trade liberalization negotiations.

Farm trade has disrupted EU-US re-

Farmers riding their tractors in Berlin demonstrated against the farm reforms announced by European Commissioner Franz Fischler (at left).

lations in recent months, following high-profile spats over bananas, hormone-injected beef, and genetically modified crops that are now threatening to sour the atmosphere in Seattle.

At one level, the CAP has been a triumph, making Europe self sufficient in food production and transforming it into a major agricultural exporter. This success explains why it has consistently won high approval ratings in polls of ordinary Europeans even as it is attacked for inefficiency and waste.

But the system, engineered by Germany and France to guarantee export markets for productive French farmers in exchange for freedom for German manufacturers, was flawed from the start because it linked subsidies to production. It committed the European Commission, the EU's executive, to buy up produce at fixed prices regardless of whether there was a market for it. Since these so-called intervention prices were well above world market levels, the EU had to pay a second time to store unwanted produce or subsidize its export.

The system has a built-in incentive to overproduce. The result was the legendary beef, butter, and grain 'mountains' and wine and milk 'lakes' that brought the CAP into disrepute. The fact that 80 percent of the subsidies went to 20 percent of the EU's richest farmers, who were able to produce the most, further tarnished its image. The wealthy grain barons of the Paris Basin thrived while the hill farmers of Wales faced bankruptcy.

The CAP looks decidedly out of place in Europe today because it has not kept pace with the dramatic demographic and economic changes during its thirty-seven years of existence. Farming accounts for only 4 percent of the EU's working population and contributes even less of its economic output. Even in France, still the EU's leading agricultural power, farming accounts for 4.2 percent of the active population and generates only 2.4 percent of its gross domestic product. Yet the country's one million farmers, who pocket 22 percent of CAP handouts, wield political power far greater than their economic clout.

The first substantial reform of the CAP in 1988, five years after the Commission published its proposals, capped the growth of farm expenditure to 74 percent of the overall EU budget and was followed by other measures, including the extension of production quotas and the introduction of so-called set-asides under which farmers were paid to leave land fallow.

The follow-up reform, agreed at a marathon fifty-hour ministerial meeting in May 1992, was a historic breakthrough because it marked the first move away from production-based subsidies to direct income support for farmers.

The EU came under intense pressure from the United States, Canada, Australia, Argentina, and other agriculture-exporting nations to make further CAP reforms during the 1986–1993 Uruguay Round world trade negotiations. It stood its ground, even risking a collapse of the round, as France cajoled a reluctant Germany into backing its protectionist stance.

At that point, however, the cows were out of the barn. The Uruguay Round had put farming on the world trade agenda for the first time since the establishment of the GATT (General Agreement on Tariffs and Trade) in 1947. Its final package capped EU export subsidies and committed it to further liberalization in the next trade round beginning in 2000.

Rural French mayors holding their town signs joined in a farmers' demonstration near Toulouse in February this year ahead of the Brussels debate and proposed reform of the EU's Common Agricultural Policy.

There is another compelling reason to reform the CAP again—the EU's future enlargement to the former communist nations of Central and Eastern Europe. If an unreformed CAP is extended to agriculture-intensive countries like Poland, it would quickly empty the EU's coffers.

After twenty months of negotiations, EU leaders approved lower farm spending as part of a new budget for 2000–2006 at a summit meeting in Berlin in March. They significantly diluted the plans of the farm ministers, who had, in turn, watered down the original proposals by the Commission, with France, as usual, leading the campaign to blunt reform.

Nevertheless, the summit did agree to freeze farm spending at an annual average of 40.5 billion euros ($42 billion) until the end of 2006. Guaranteed prices for cereals will be cut by 15 percent by 2001, and some 10 percent of land will be compulsorily taken out of production for each year to 2006. Beef prices will be cut by 20 percent over three years from 2000. The reform of the dairy sector was delayed until 2005, when prices will be cut by 15 percent.

The Berlin package failed to impress the EU's trading partners. The EU is responsible for 85 percent of the world's agricultural export subsidies, probably "the largest distortion of any sort of trade," according to Charlene Barshefsky, the US trade representative.

The European Commission's proposed agenda for the new global trade round has called for sweeping liberalization and said the talks should be widened to cover issues such as investment, anti-trust policy, government procurement, the environment, and consumer health. But it did not mention further farm trade liberalization, fueling the fears of the EU's trading partners that the watered down CAP reforms will be Brussels' bottom line. Franz Fischler, the agriculture commissioner, confirmed they were "not an opening bid for the WTO negotiations."

Brussels watchers say the Commission's timidity on the farm dossier reflects its desire to avoid an internal EU row that might jeopardize the launch of a new round in Seattle. The Commission privately accepts the fact that the CAP package will have to be renegotiated.

But the current global recession in world agriculture, which has slashed prices for everything from wheat and hogs to rice and sugar, has raised fears that governments will be reluctant to embrace liberalization and be more sympathetic to subsidies. The US, which is committed to driving subsidies from agriculture, last year accelerated payments of $5.5 billion of aid to farmers and handed over an additional $6 billion in direct handouts and disaster relief.

As it approaches new challenges, EU agriculture can at least count on continuity in Brussels. Franz Fischler is one of only four members of the previous Commission to be reappointed to the new executive and only the second agriculture commissioner to be give a second term in the job. ⓔ

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The Corporate Food Chain

By Bruce Barnard

Europe's food industry does not make the headlines like the glamorous telecommunication, auto, and banking sectors, which have launched massive takeovers and mergers over the past year in a bid to challenge US rivals for global leadership.

But Europe's food business is already challenging the US industry in world markets, providing three companies in the top ten rankings. Nestlé of Switzerland is the world's biggest food company, followed by Unilever, the Anglo-Dutch group in second spot, and Danone of France in seventh place in a league dominated by American companies. Europe also boasts the world's biggest liquor group, Diageo, formed two years ago by the merger of two British companies, Guinness and Grand Metropolitan.

Nestlé and Unilever are in a league of their own with revenues dwarfing those of their leading US rivals. Nestlé employs 220,000 people in nearly 500 factories in 70 countries, making 15,000 food and drinks products. The company generated profits of $3.1 billion on sales of $52 billion in 1998 with 98 percent of its revenues coming from outside its native Switzerland. Only Unilever can match its product range and geographical spread.

However, Europe's food business is composed of a lot more than these two behemoths, with scores of innovative companies carving niche markets around the world.

The star performer of the European food business is Raisio, a company that was virtually unheard of beyond its native Finland a few years ago until it unveiled Benecol, the world's first cholesterol-cutting margarine. The "miracle" margarine, which went on sale in Finland in 1996, is being introduced in Europe and the US this year. Raisio is building four new plants—in France, the US, Chile, and a second facility in Finland, to ensure supplies keep pace with demand. The potential is massive: in the US alone an estimated 100 million people suffer from high cholesterol.

Europe's medium-sized food companies are moving abroad to grow their business, especially in the US, the world's biggest single market. Among the most recent large deals was the $2.5 billion acquisition by Numico, the Dutch specialty foods group, of General Nutrition, a leading US supplier of vitamins and health supplements.

Europe is also producing world-class food companies that are grabbing top spots in certain sectors, and for most, a US presence is essential. That is why Barilla, a privately held $2.25 billion-a-year Italian firm, recently opened a $100 million pasta manufacturing plant in Iowa, and why Danone paid $112 million last year for AquaPenn, a US mineral water company, to add to its Dannon brand, the country's best-selling mineral water.

Both companies are aiming for global reach in select food products. Franck Riboud, CEO of Danone, wants to reduce the group's dependence on Europe which accounts for 76 percent of sales, with France alone generating 39 percent. By 2000, he wants 33 percent of sales to originate outside Europe.

Danone ranks number one in dairy products with a 15 percent world market share, but more than 70 percent of sales come from Europe. In a bid to stay ahead of its nearest rival, Nestlé, it is buying into local water companies, including Indonesia's Aqua and Health of China.

Barilla, the Italian pasta company, recently opened a $100 million manufacturing plant in Ames, Iowa.

Barilla, whose 32 percent share of the Italian pasta market makes it the world's number one pasta company, has also moved into foreign markets, including the US, where it has a 9 percent share. It made a significant move into the non-pasta business earlier in the year by paying nearly $315 million for Wasa of Sweden, the world's biggest producer of crackers, with plants in Germany, Denmark, Norway, Poland, and Sweden.

The potential of Europe's food industry was underscored this spring by the $1.3 billion acquisition of Hillsdown Holdings by Hicks, Muse, Tate & Furst, the Texas-based private investment group, which plans to use its new British unit as a springboard to build a pan-continental food manufacturing operation. ⓔ

AGRICULTURE

The Future of

By Axel Krause

High-tech tools and methods and a growing number of younger, business-minded French farmers are changing the image of the typical French farmer.

France's Farms

Farmers fear growing threat to subsidies

"I have always found that the only way to get the attention of the Americans is to stand up to them and to resist," says Luc Guyau, president of the Federation Nationale des Syndicats d'Exploitants Agricoles (FNSEA). As leader of France's largest and powerful farmers' union, Guyau had just hosted a lunch for Agriculture Secretary Dan Glickman at his Paris headquarters. The former Democratic congressman from Kansas had come to France in late June with a message from the Clinton administration. To avoid an approaching "train wreck" in transatlantic trade relations, he warned, France should take the lead in helping Washington negotiate agreements with the European Union over farm issues and new products, particularly genetically modified foods.

"I told Mr. Glickman we don't need another battle, considering we already have ongoing trade disputes over bananas, hormone treated beef, and dioxins," Guyau explained after their meeting. He said he had urged Glickman to take home the following message: France is prepared to help Washington negotiate settlements affecting EU agriculture, but on the condition the administration stop attacking the EU's Common Agricultural Policy (CAP). "We both have similar situations and problems," Guyau said, echoing the views of top French government officials, including Socialist Agriculture Minister Jean Glavany, whom Glickman also met and invited to Washington before the end of the year.

Faced with depressed farm prices at home and abroad, the Clinton administration sees France as the key to expanding world markets for everything from wheat and soybeans to genetically-engineered products, which their critics call "Frankenstein foods." Glickman told reporters at the US embassy that "we want France to play the leadership role" in establishing consumer confidence in these and other farm-related products, starting with bilateral talks and studies on scientific aspects of new foods. This dialogue would eventually include the European Council and the Commission.

Glavany said that study and further discussions could help improve strained transatlantic trade relations and that he planned to accept Glickman's invitation and visit Washington in October. But doubts about the Clinton administration's motivations continue to run deep among French government trade strategists, who view agriculture as crucial for the country's trade balance and projecting France's image as a global economic power.

As the world's second-largest exporter of agricultural products after the United States, France has enjoyed annual surpluses of around $10 billion during the past several years. Cereals, dairy products (notably cheese), plus wine, champagne, and cognac have generated the bulk of the surpluses. Agriculture accounts for roughly 13 percent of all French exports—roughly equal to the nation's deficit in the energy sector—buttressed by generous support from the CAP, which was crafted by President Charles de Gaulle during the early 1960s and has never stopped.

Thus, French officials were annoyed at US Trade Representative Charlene Barshefsky when, on June 23 testifying to Congress, she described the CAP as "$60 billion in trade-distorting subsidies...certainly the largest single distortion of agricul-

Top: A French farm family harvests grapes in 1947. Bottom: Chevreuse valley grain farmers Jean-Michel and Annie-France Pithois are among the growing number of farmers who subsidize their income by renting rooms to tourists looking for a green escape.

tural trade in the world." She then urged that CAP reform be the "central focus" of the new round of world trade-liberalization negotiations scheduled to begin under her chairmanship during a ministerial meeting scheduled to begin November 30 in Seattle.

The 134 World Trade Organization member nations are heatedly debating the agenda for the Seattle talks, with leading EU governments urging that the agenda include agriculture but also extend to other trade-related issues, such as the environment, labor rights, competition, and investment rules. Defending the CAP, Glavany says that it "must be fully recognized in the framework of any trade liberalization," and that recent cuts in EU price supports were facilitating "progressive adjustments" in world farm prices, while preserving "Europe's presence" on world markets.

"This new round won't concern only agriculture and will be global," Glavany insists, with a view to providing the new European Commission in Brussels a mandate along those lines early in the fall. Sources in Brussels agreed that the proposed commissioner for trade policy, French Socialist Pascal Lamy, most likely will prove as able and possibly tougher in defending the EU position than his predecessor, Sir Leon Brittan.

While Barshefsky testified on Capitol Hill, an equally strident rallying cry went up in Paris at the National Assembly. Gaullist Deputy Hervé Gaymard thundered that any agreement with Washington to reduce, much less eliminate, EU support to France's agriculture involves "an unacceptable risk." Added Gaymard, whose constituency is the cheese-producing region of Savoie, summing up another widely held view, "We need to reaffirm our role as an exporter." He was reflecting France's bipartisan determination not only to resist US demands for opening wider EU farm markets to American exports but also to maintain worldwide clout in a dynamic, important, and traditionally protected sector of the French economy.

By late August, the protests had turned nasty and more anti-American. French fruit and vegetable growers, hard hit by depressed prices caused partly from overproduction, demonstrated for government protection and blamed discount supermarkets and fast-food operators, notably McDonald's. One of its new restaurants under construction was badly damaged earlier in the month by protestors, prompting Glavany to warn that "anger did not justify violence." Nevertheless, both the minister and militant farm unions intensified their attacks on Washington's trade-expansion strategy and the US boycott of French agricultural products, notably cheese, although the US action was taken in retaliation against the EU's illegal resistance to imports of US hormone-treated beef.

Long gone is the popular image of a typical French farmer—elderly, clad in a blue smock, driving an aging tractor, Gauloise cigarette dangling from his mouth, while struggling to make ends meet in scenic but isolated rural areas. As recently as 1980, France still counted some 2 million farmers, twice the current number who now run the nation's 700,000 farms. Similar to trends elsewhere in the EU, although many retired farmers are not being replaced, a growing number of younger,

In March, French Agriculture Minister Jean Glavany (left) met with his German counterpart Karl-Heinz Funke (right) in Brussels.

business-minded newcomers have moved in. The agriculture ministry estimates that more than half of all farms in France today are being run by men and women younger than forty years of age, many of whom hold college degrees in agronomy and farm management.

Guyau, whose union and its affiliates represent the majority of French farmers, reports that their total incomes have

Bovine Beauty Queens

On September 26, the fashionable ski resort of Megève in the French Savoy region is hosting a beauty pageant with a difference. The contestants will be wearing nothing but a fur coat, will walk on all fours, and make cow's eyes at the judges.

Not so surprising, really, since they *are* cows. The deep-red and white Abondance breed, with its white face and fetching circles under the eyes, is particularly adapted to the steep, rocky terrain and severe climate of the northern French Alps. Named after the small town of Abondance, known for producing a rich mountain cheese of the same name, the breed was officially recognized in 1891, with the creation of a Herd Book in 1894.

Small-boned but sturdy, the 250 beauties parading past the judges' stand in Megève this year will be noted on such physical attributes as the tilt of their pelvis, indicating their veal-bearing capacity, which for their breed is known to be remarkable. Other characteristics that make the Abondance the envy of lesser bovines include the quality of their milk and meat and their resistance to extremes of temperature and topography.

Raising cattle in the Upper Savoy region has always required a lot of stamina from both the cows and the farmers. Traditionally, farms around Megève were built at around 4,000 feet above sea level, with man and beast housed together under one roof. In these winter quarters, when snow and freezing temperatures drove each family inside and isolated them from the outside world, they and their fifteen head of cattle lived on the reserves of food, hay, and wood stored up during the summer.

Once the good weather came in June, the cattle were moved up to the summer grazing grounds, at around 6,000 feet, where the wealthier farmers owned a summer chalet. Neighbors not so well-off would "farm out" their cattle, creating a communal herd of been rising on average 3 percent per year, thanks to a combination of high-tech oriented investments, expanding exports, and not least important, controversial subsidies from Paris and Brussels. Of the EU farm outlays of some $49 billion last year, covering everything from direct subsidies to export refunds, France came out on top with some 23 percent of the total, followed by Germany and Italy, each with about 14 percent, Spain 13 percent, and the United Kingdom and Greece with 8 percent. An additional $15 billion is paid to EU farmers directly from national budgets.

However, pressed by the austerity-minded German and British governments, moderate cutbacks in EU farm spending and related reforms were approved by the EU Council of Ministers last spring. They were diluted, however, after some 30,000, French-led farmer protesters clashed violently with police in Brussels' European Quarter. Nevertheless, most EU member states now agree that farm spending should remain stable over the next five years, yet France, similar to its EU partners, continues spending on its own. Thus, under new farm-reform legislation proposed by Glavany, French farmers this year will receive new forms of government financial support, including national subsidies totaling some $51 million initially if they refrain from dismantling farms that could be run by younger people and take into account conservation and environmental protection.

Understandably, Jean-Michel Pithois, a successful, forty-seven-year-old grain farmer near Paris for more than two decades, is satisfied. No active protestor, but an FNSEA member, he basically supports the way things are going. "We are always being accused for being responsible for everything going wrong in the environment," which is unfair, he says, yet aggressive pork farmers in Brittany, faced with depressed prices and who led the Brussels demonstrations, went too far.

"By the same token, we have to produce to survive," adds Pithois, whose wife, Annie-France rents two furnished apartments in adjoining buildings to tourists attracted by the quiet countryside. This side business is yet another example of rural tourism expanding throughout Europe. Like its EU partners, notably Ireland and the UK, where the trend began several decades ago, France today counts some 43,000 lodgings on farms, known as *gîtes*, roughly a third of which are owned by farmers, like Pithois.

How is he otherwise doing on his 385-acre spread in the Chevreuse Valley, where he grows mainly wheat and corn? Last year, his output was up nearly 20 percent, providing a taxable income of around $50,000. His subsidies that come through the French government in direct payments now total around $61,666. "Without it," he says, "no agriculture." Ⓔ

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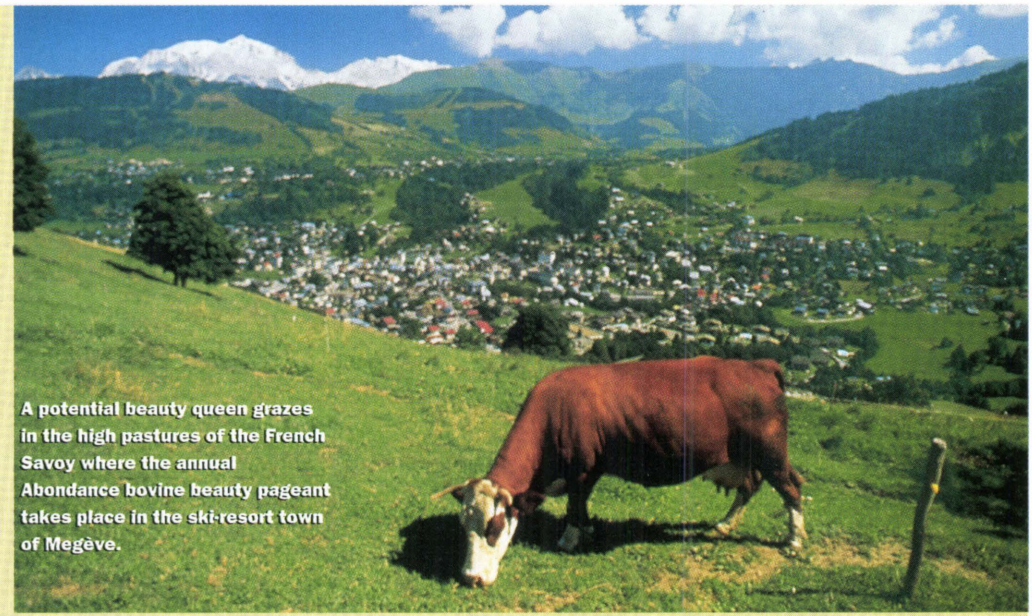
about sixty-five animals. The women looked after the cows during the summer while the men stayed down below on the farms, storing up as much feed for the coming winter as possible. In early September, the cows, fat and glossy from their Alpine grazing, were herded back down and the prize specimens were sold at market.

In the nineteenth century, 200 working farms dotted the mountain slopes around Megève; this century, eighty remain.

For the past two years, the Abondance cattle market has been combined with another Megève tradition that dates back to 1282, when Savoy was still an independent duchy. Beatrix de Faucigny, known as the "Grand Duchess," created an annual agricultural fair, the *Foire de la Croix*, to celebrate local farming traditions and mark the return of the herds from their summer pastures.



A potential beauty queen grazes in the high pastures of the French Savoy where the annual Abondance bovine beauty pageant takes place in the ski-resort town of Megève.

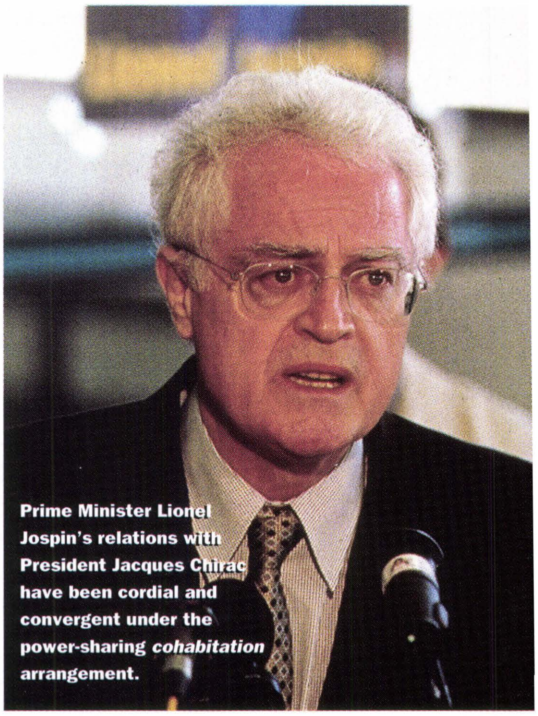
On fair day, Megève turns back the clock and transforms itself from an elegant playground for the jet set into a marketplace for local livestock. Cows, goats, sheep, and horses are joined by the occasional llama (very efficient at keeping the underbrush in the region trimmed back), and a few bison now being raised on one of the farms near Megève. While the animals show off their finer points to potential buyers, the farmers sell cheeses, honey, jams, and other local produce. A popular event for pundits is a contest to guess the weight of a magnificent cowbell, hung around the neck of an Abondance steer. The prize for the most accurate guess is the cowbell, minus the steer.

The fair's finale is the parade of the Abondance beauty queens, sashaying slowly past the admiring crowd before they head back to life on the farm. Megève will clean up then and start getting ready to welcome a two-legged breed of fur-clad beauties arriving for the winter ski season.

—*Ester Laushway*

France Faces Rapid Change

By Axel Krause



Prime Minister Lionel Jospin's relations with President Jacques Chirac have been cordial and convergent under the power-sharing *cohabitation* arrangement.

New aggressive business climate sets tone for looming election battle

Financial markets were severely jolted July 5 by the sudden, daring bid to create the world's fourth-largest oil company—not only because it was another striking example of a wave of mergers and acquisitions sweeping Europe. But it happened in the country where such a deal had seemed virtually impossible—France.

Thierry Desmarest, the fifty-three-year-old chairman of France's largest oil company, TotalFina, exemplifies a new, younger breed of French business leaders. He led his company's $44 billion-bid to acquire Elf Aquitaine, a smaller energy giant. Elf's management had firmly believed France's interventionist-minded Socialist government would protect it from the unsolicited proposal, the biggest of its kind in recent European history.

However, the following day, in a move that sent the stock prices of both companies soaring, Finance Minister Dominique Strauss-Kahn declared that if the deal went through, he would not impose a governmental veto. The acquisition, even if hostile, the minister explained, would protect TotalFina and Elf, both French and both privately-controlled, from a takeover by "an Anglo-Saxon or American company." The veto power stems from a minority share the state kept following Elf's privatization in 1994 in order to block any merger that threatened national security.

"I think it is a good thing if a French group is nearly on the same level with the world's three biggest oil groups," said Strauss-Kahn, referring to the top-ranking Exxon Mobil, BP Amoco, and Royal Dutch/Shell groups, each controlled mainly by either American or British shareholders.

The bid, although fiercely challenged by fifty-four-year-old Elf chairman Philippe Jaffré, provided the most recent example of bold, unprecedented—and occasionally hostile—corporate mergers, streamlining France's corporate sector. It also dramatically challenged the ever-present mixture of myths and half-truths that extend well beyond business, frequently voiced inside and outside France, such as:

• Socialist France is isolated in the European Union with a rigid, archaic, centralized, state-controlled system of governance that contrasts with moderate, leftist governments elsewhere.

• Abroad, France insists on going it alone, obsessed by American "hyperpower" and determined to enhance French influence by challenging Washington permanently.

• Economic weaknesses abound, with economic growth nowhere near the 3 percent expansion promised by the Socialists for 1999. Unemployment remains at double-digit levels.

• Taxes and social charges remain too high, stifling business confidence, a trend being worsened by the government's controversial plan for a thirty-five-hour work week.

• The Socialist-led coalition government of Prime Minister Lionel Jospin is weak, divided, and ideologically motivated, threatening the nation's sovereign rights in the European Union.

"The Grand Illusion" is how the *Economist* magazine recently summed up France in a cover story headline. The article concluded that France's long resistance to "Americanism" best explains its continuing, frantic efforts to preserve a national identity, while introducing modernizing, US-style economic reforms. Perhaps. But social, economic, and political changes are accelerating faster than many people realize.

In light of French diplomatic and military involvement in Kosovo, France's economic performance, plus the currently upbeat mood about the future, and with national elections looming in 2002, consider the following realities:

• In the June 13 European Parlia-

President Jacques Chirac visited French troops based in the Former Yugoslav Republic of Macedonia in February.

ment elections, French Socialists triumphed, while far more moderate British Labor and German Social Democrat candidates were defeated.

• Contrary to popular belief, France is operational inside NATO and with its EU allies, notably Germany and the United Kingdom, and is pressing for a European defense pillar within the alliance.

• Economic growth next year, according to most forecasts, will rise by between 2.5 and 3 percent, up from 2.3 percent growth expected this year, with gradually falling unemployment.

• Taxes and charges remain high, but this has not slowed domestic and foreign investments, while half of all large French-based companies are now negotiating for a thirty-five hour work week.

• Amid open, acrimonious debate within his leftist coalition, Jospin has managed to avoid any cabinet resignations and major clashes with conservative President Jacques Chirac.

Debate over these alleged half-truths and realities is fueling early maneuvering aimed at winning control of France's National Assembly and the presidential Elysée Palace that will be decided in separate, national votes scheduled for the spring of 2002. As voters headed back from summer vacations, the central political question being asked throughout the country was: How, in the coming months, will *cohabitation* evolve? (Referring to the delicate power-sharing arrangement in which Jospin, whose leftist coalition controls parliament, shares executive powers with Chirac, who controls the presidency.)

Since Jospin was named prime minister following a massive leftist victory in the June 1997 parliamentary elections, his relations with Chirac have been cordial, relaxed, and convergent, particularly in foreign policy and notably throughout France's active, continuing role in Kosovo. The naming of France's two European commissioners in July also went smoothly, with Chirac picking former European affairs minister Michel Barnier, a centrist, who will be responsible for EU regional policy. Jospin named Socialist Pascal Lamy, chief of staff for former European Commission president Jacques Delors, who will be in charge of EU trade policy. Both, in important spots, are expected to fully support further EU integration, reflecting a pro-European Union stance shared by the president and the prime minister.

Such moves, however, have angered and frustrated Chirac's critics, including centrists and other conservatives, who alarmingly warn that his conciliatory stance will erode, and perhaps eliminate, his chances to challenge—and defeat—Jospin in the presidential election. Former president Valéry Giscard d'Estaing told the daily newspaper *Le Monde* in July that cohabitation was now accepted as "normal" in French political life and that by being "consensual" Chirac had fallen into a trap.

To escape with credibility, assuming he decides to run for the presidency, Chirac should develop a strong platform clearly "antagonistic" to that of his rival, Giscard d'Estaing said, proposing that Chirac dissolve the National Assembly and call elections for next year. This, he further said, should be accompanied by a constitutional amendment providing for a five-year term for the president, instead of seven years currently.

Many other conservatives agreed that the French leader should begin vigorously attacking Jospin and outline an alternative strategy for domestic and foreign policy. A nationwide poll published on the traditional July 14 Bastille Day showed that 74 percent of all conservative or rightist voters wished Chirac would be "more on the offensive" facing Jospin and his Socialist-led government, which includes communists and environmentalists. Considering that his conservative party, Rally for the Republic, remained on the verge of collapse following its defeat in the June European Parliament elections, its third battering in two years, counterattacking is proving easier said than done.

In a July 14 interview at the Elysée with several leading French television commentators, Chirac quickly rejected Giscard d'Estaing's proposals. France's main political problem today is not institutional, Chirac declared, but its capacity for "adapting" to change, meaning the implementation of reforms in French society. He described cohabitation as a "constructive" arrangement fully supported by the French people and that he intended to serve his full term as president.

Even if early elections were held as Giscard d'Estaing proposed, he added, there would be no guarantee that voters would elect a parliament and president of the same party, and thus, the power-sharing arrangement would continue. The present arrangement was introduced by Socialist President François Mitterrand, following a conservative victory in legislative elections in 1986, who then named Chirac as his prime minister, representing the majority.

Responding to critics, the smiling, relaxed president said a strong opposition movement was necessary, describing Jospin and other, leftist opponents as ideologically biased, rooted in a commitment to governmental regulation. Rightists, like himself, Chirac continued, were motivated by a culture of "responsibility" involving a maximum of liberty for individuals. Assuming he were in charge, Chirac proposed the following: draw on rising tax revenues being generated by "exceptional" economic expansion to lower the nation's debts; reduce taxes and charges; and improve retirement benefits for all citizens by establishing US-style pension funds. "Enormous amounts of money" are coming into government coffers, he said, "as always in periods of growth."

Critics described Chirac's July 14 declarations as weak and lacking vision and noted that they reflected few basic differences between the president and Jospin. Not surprisingly, both leaders do equally well in national opinion polls, scoring approval ratings of around 60 percent or slightly more—consistently. What this means, political observers say, is that the 2002 elections could well be decided on the basis of the candidates' personalities, rather than fundamental issues, meaning a very close contest. Obviously, observers say, the outcome could easily be changed by unforeseen events, such as a downturn in the economy.

Meantime, across the river Seine, at the prime minister's offices in the Hôtel Matignon, Jospin and his team were continuing to avoid direct confrontation with the president, convinced that the 2002 elections will be decided on how they perform during the next two years. "We intend to be judged on acts, results, not words," said a Socialist insider. "I prefer to follow our path," Jospin said, "that of the modern left, that of a plural majority (within his leftist coalition), social progress, and modernity." Brushing off comparisons with "Third Way" moderate leftist policies of Germany and the United Kingdom, Jospin says, "the French left doesn't imitate; it expresses itself," terming his approach "Democratic Socialism."

This means, above all, reducing unemployment by creating government-subsidized jobs for young people and pursuing introduction of the thirty-five-hour work week, down from thirty-nine hours, and with little or no loss in pay. As a result of the subsidized work-reduction plan introduced by Social Affairs Minister Martine Aubry a year ago, a total of 57,000 jobs have been either created or saved, while one out of two French companies is currently negotiating to introduce the compulsory plan by the January 1 deadline. Daughter of former European Commission president Jacques Delors, Aubry recently told the newspaper *Libération* that initially she had projected only 40,000 jobs, pledging that "totaling everything, we will wind up with 450,000 jobs (created or saved) at the end of the process," meaning around the time of national elections.

Other measures being implemented include: cuts in public spending; legalizing the status of tens of thousands of immigrants, mainly from Africa; streamlining the nation's controversial, financially-strained systems of justice and health care; and encouraging mergers, corporate streamlining, and privatization. Finance Ministry sources note that the Jospin government has already privatized more ($29 billion in shares sold) than the two previous conservative governments combined ($24 billion) notably France Telecom, Air France, Aerospatiale-Matra, Crédit Lyonnais, and several other leading banks and insurance groups.

Jospin and key members of his cabinet have taken a hands-off attitude not only with regard to the proposed, controversial TotalFina-Elf merger but also to the hostile bid made in March by Banque Nationale de Paris (BNP) to acquire Société Générale (SG) and Paribas banks in a share-swap deal worth nearly $40 billion.

Following six months of highly-publicized struggling for shareholder support, BNP wound up with a controlling 65 percent of Paribas but only 39 percent of SG, which plunged the banks into more controversy and discussions with banking regulators. Although Finance Minister Strauss-Kahn continued avoiding any direct role, government sources made it clear they were motivated by fears that SG would turn to a non-French white knight. On August 18, French banking authorities ruled that BNP could not retain the SG stake, leaving the retail bank open to another takeover attempt, possibly from a foreign country. Ⓔ

Not surprisingly, both leaders do equally well in national opinion polls, scoring approval ratings of around 60 percent or slightly more—consistently.

FRENCH JUSTICE MINISTER Elisabeth Guigou

EUROPE contributing editor Axel Krause recently interviewed Elisabeth Guigou, the justice minister of France, at her office in Paris. Guigou, formerly a minister for European affairs, discusses organized crime, Europol, French politics, and Europe in the twenty-first century.

What are the greatest dangers facing Europe as you look to the twenty-first century?

First and foremost—unemployment. And then, I would say, organized crime. Not everyday, ordinary crime. But organized criminality, as a worldwide system. True, it is not a problem that is specifically European but worldwide. But Europe should set the example.

How can Europe fight organized crime effectively?

What is needed today, in particular with regard to combating organized crime, is the establishment of a European-wide system of investigation. We need a European FBI, operating with police agents, and under the authority of investigating magistrates. We need a European law aimed at organized crime. This is my new, European crusade.

What do you deal with in your regular meetings of the EU Council of Ministers for justice and for internal matters?

There are many subjects, and the Treaty of Amsterdam has provided a wide agenda. Among the most seriously discussed issues are the rights of asylum and immigration. They are taken up in a very serious, concrete

French Minister of Justice Elisabeth Guigou met earlier this year with Attorney General Janet Reno in Washington, DC.

EUROPE INTERVIEW

manner. Fine. But regarding everything else, we have no visibility, no choice of priorities. During the past year, I have submitted papers, made many proposals regarding what has already been mentioned, such as European-wide investigations. But to have this, we need a European law to combat organized crime, with common, agreed-upon definitions, common ways of [suspect] incrimination, and sanctions. Unfortunately today, we are still operating under a very cumbersome system of conventions.

But how do you get there, and why has there been there so little progress?

Following the euro, which is done, we must continue vigorously pursuing development of a European defense system, and we are making progress. But the crowning achievement of a political Europe would be making sure we are also strong internally. The problem we face is that our [member] states are absolutely powerless. The means [for combating crime on a European scale] are national, and will remain so. Yet, when you begin talking about organized crime and laundered money, you need to think in European and global terms because the organizations involved operate on this scope. And when we try to act across borders, with extraditions, for example, it is extremely time-consuming. I have done as much as I can, but there are limits.

What are the limits?

First, there are all the differences in laws within the EU. And when you consider that funds move around at the speed of light and that it takes years to obtain extraditions, you realize how senseless our system is. We need laws with enforcement procedures that would apply to tax havens, particularly those that are offshore, and if and when they don't respect the rules, we should be prepared to cut off all relations with them. It could be done quickly. You cannot say there is nothing we can do.

Is Europol in operation?

Yes, in the Hague, and they have a headquarters building. Shortly after arriving here, [June 1997] I went to see them. And I was the first [EU] minister of justice to do so. They are police officers [seconded] from various member countries. They exchange information, and they showed me how they pursued a Moroccan drug trader. But we need something more than just a police force.

How can you make progress?

In a very crucial sense, by recognizing the legal validity of court decisions taken in other countries, including those involving civil cases, divorces, contracts. Here we are making progress.

The OECD recently signed a convention against bribery and corruption. What next?

We have signed it, and now we need to move forward in other areas. For example, for those under investigation, we need to remove the rights of bank secrecy.

You have introduced legislation that would ease France's unusually harsh rules on preventive detention, but your critics say it does not go far enough.

One can always say a reform is too timid. I say we must avoid falling into the Anglo-Saxon accusatory system. Why? Because it leaves the police, which are accusing, with considerable powers facing the defendant. Those able to get out of the system are those able to pay for good lawyers. My preference is for a system in which an investigative judge presides. The problem we have with our inquisitorial system *à la française* is the need for a counterbalancing power with regard to the judge, that he, or she, no longer be the sole person to decide on preventive detention. Thus, I would establish another judgeship, specialized in preventive detention, to establish a system of dialogue. This will reinforce our system of defense for those accused. I believe our proposed system is better adapted to our country.

How do you foresee the presidential election here in two years?

I am certain that no one on the left will present a candidacy against Lionel Jospin, as opposed to those [potential candidates] on the right. But I do not believe that Jacques Chirac can win.

What are the biggest challenges you see on that presidential horizon?

Our capacity to battle unemployment. That challenge is essential and counts with French people, as we saw in Lionel Jospin's 1997 election campaign. Then, there is the question of retirement. These two issues will be decisive for the presidential election. But there are other issues, such as morality in public life, which involves judicial reform, plus the battle for [removing] cumulative functions of [elected] office-holders.

You have been mentioned for various policymaking posts in the future.

I believe I need to complete what I began here—reforms that could lead to real breaks with the past. I consider this very important, and I want to finish the job. This is not to say that Europe doesn't interest me. It motivates me enormously. Ⓔ

BUSINESS

Luxury Titans Battle for Supremacy

By Robert Lever

François Pinault and Bernard Arnault fight over Gucci

François Pinault (left) recently invested $2.9 billion in the Italian luxury house Gucci, outbidding Bernard Arnault (right).

France's two richest men have been slugging it out in the business world and the courts for the bragging rights to supremacy in the prestigious market for consumer luxury goods in France. In one corner is François Pinault, sixty-three, France's richest man (worth $6.4 billion, according to *Forbes*), a self-made tycoon who made a fortune in timber before taking over the department store chain Printemps and acquiring the fashion house Yves St. Laurent. In the other corner is Bernard Arnault, fifty, the angular, impeccably elegant chief of Louis Vuitton Moët Hennessey (LVMH), worth an estimated $6 billion, whose company controls a slew of brands associated with luxury, including Christian Dior fashion and Veuve Clicquot champagne.

Arnault had been the undisputed king of the upper crust market, earning the nickname "Napoleon of luxury" and "wolf in cashmere clothing." A graduate of the elite Ecole Polytechnique, the native of Roubaix earned prominence when he became chairman a decade ago of LVMH, a merger of the Louis Vuitton fashion group and the Moët Hennessey wine and spirits company that now owns the trademark for names such as Givenchy and Lacroix.

But Pinault's group took LVMH by surprise this year with a $2.9 billion dollar investment in Gucci just as LVMH was attempting a gradual takeover of the Italian luxury goods manufacturer. Pinault's upmarket move has posed a new challenge for supremacy in luxury.

Until recently, Pinault's PPR group was known for the discount mail order catalog retailer La Redoute, the middle-of-the-road Printemps, cut-rate retailer Prisunic, and the books and music FNAC superstores. But Pinault—who in the course of his buying spree gobbled up the British auction house Christie's—also recently paid $1 billion for Sanofi Beauté, which owns Yves St. Laurent, after Arnault and LVMH had been rebuffed. That gave Pinault a foothold in high fashion as well as the lucrative cosmetics market.

The battle became more intense and personal in March when Pinault stepped in as the "white knight" for Italian luxury house Gucci in the face of a hostile bid by Arnault's LVMH. A Dutch court eventually ruled legal Gucci's move to issue special stock for PPR—giving Pinault a victory. Then Arnault, in a magazine interview, accused Pinault of "defrauding" minority shareholders, and Pinault sued for libel. Arnault countersued, claiming the first lawsuit is baseless.

In court, Arnault's lawyer waved copies of an unauthorized biography of Pinault that maintains, for example, that he received soft loans from state banks for many of his most lucrative investments.

The two titans are both symbols of the new aggressive style of French businessmen, but their paths have differed. When the Socialists took power in the early 1980s, Arnault went to the United States in protest. Pinault, a high school dropout, managed to work with the Socialist government while building his business empire.

"François Pinault never much liked the Socialists, but he knew how to talk to them," writes Pierre-Angel Gay and Caroline Monnot in their biography, *François Pinault, Billionaire: Secrets of an Incredible Fortune*, which describes his empire-building, often with state assistance. And he nonetheless managed to cultivate a close relationship with Jacques Chirac, now France's president.

Pinault's empire extends around the globe with interests in Colorado's Vail and Beaver Creek ski resorts, Converse sneakers, Samsonite luggage, Chi Chi's restaurants, Telemundo broadcasting, and Florsheim shoes.

Although Pinault clearly emerged the winner in the recent bare-knuckled battle, Arnault is not to be counted out. With LVMH, his Louis Vuitton and Céline boutiques are expanding in the United States. And through his own holding company, Arnault recently invested some $100 million in Internet companies that could give him a head start in cyberspace luxury retailing and possibly a way to outflank his rival, Pinault. Ⓔ

Les Capitalistes

A wave of hostile takeovers roils the French business world

The world of French business has suddenly taken on a new look. What had been a clubby, old-boy network of state *dirigistes* and corporate chieftains has suddenly become a jungle as French firms adapt to a single European marketplace and globalization of industries.

The year began with a bitter battle between two big French giants—Pinault-Printemps-Redoute and LVMH—over control of Italian luxury goods manufacturer Gucci, which finally ended up in the hands of PPR and France's richest man, François Pinault, Gucci's "white knight" in the face of a hostile bid from the reputed "Napoleon of luxury," LVMH chief Bernard Arnault.

But more surprising is the new aggressive posture of French firms, even

Société Générale chairman Daniel Bouton (left) and Paribas chairman André Levy-Lang announced in February that their banks were merging. Later, Banque Nationale de Paris declared its intention to buy them both.

former state-controlled companies, in trying to gobble up each other to better position themselves to compete globally. Witness the $40 billion hostile bid by former state-owned Banque Nationale de Paris for two rival banks in the process of merging, Société Générale and Paribas.

If that were not enough, TotalFina, born from a merger in June of former French oil group Total SA and Belgium's PetroFina, took aim at Elf, a former state-run oil company, for some $43 billion dollars. It was clearly not a back-room deal. Elf President Philippe Jaffre quickly announced the group would fight off the hostile bid and began looking for a white knight. But the merger would create the world's fourth-largest oil company even after the spate of consolidations in the industry, including Exxon-Mobil, BP Amoco-Arco, and Royal Dutch/Shell.

It is clear the French are embracing a fiercer brand of capitalism than they have in the past. Observers say the French establishment—the old-boy network of company chiefs with government economic planners that manage the big companies—is now crumbling if not entirely dead.

The removal of European barriers to trade and investment flows has made consolidations and mergers more feasible and has made companies more accountable to investors. There is no place left to hide for many companies that once had protected markets and state aid or bailouts.

"There's definitely a new climate in Europe now," says one US-based merger analyst who asked to remain anonymous. "These kinds of hostile bids [in France] would not have been seen several years ago."

In the first six months of 1999, the estimated value of hostile takeover bids in France was $94 billion—more than the last five years combined, according to Securities Data Corporation. Overall in Europe, there were twenty-four hostile bids with an estimated $158 billion—on pace for a record, according to SDC.

A report by the investment bank JP Morgan notes that three big bids in the first few months of 1999 worth $122 billion "exceeded the total of all prior hostile bids on the Continent from 1990 to 1998."

"Hostile bids are not new in Europe but they are infrequent, particularly on the Continent," the JP Morgan report notes, citing 222 hostile bids in Europe—the lion's share in the United Kingdom—since 1990, compared with 436 in the United States.

European authorities have come to understand "that the historic protections in place [for many industries] were not achieving enough change to the industrial base."

European authorities have come to understand "that the historic protections in place [for many industries] were not achieving enough change to the industrial base," says Paul Gibbs, head of mergers and acquisitions research at JP Morgan in London.

Gibbs says the more closely managed corporate cultures in countries such as France are giving way to a more "Anglo-American" approach that includes hostile bids and highly leveraged buyouts.

In France, authorities "want to have a national champion who can play at the top table, and that could not take place on a friendly basis in France."

While governments in the past may have stepped in to manage any dispute on corporate matters, now "they're letting the markets decide the outcome." Why? "The reason is probably a feeling that there is a major consolidation taking place in Europe," Gibbs said, citing studies showing the average size of European firms to be about half that of those in the United States.

The result in France has been an unprecedented level of acrimony in the corporate world, with lawsuits and volleys of charges and countercharges. Société Générale, for example, filed complaints in New York, saying BNP would be guilty of a "criminal offense" for failing to file required documents in that state on the takeover.

The new aggressive posture in French corporate life is a major shift and is accompanied by moves by French companies to consolidate and expand as industries become more global.

Several big French firms, including some former state-owned firms, have already begun flexing their muscles in the United States and around the world in the race for global leadership in their industry, with hostile or friendly takeover bids. Vivendi, for example, a water utility with big interests in telecommunications, recently paid billions for US-based USFilter water group and Superior Services, a solid waste firm. Suez Lyonnaise des Eaux, a rival water company, not to be outdone, jumped in with a $4.1 billion dollar cash takeover bid for Illinois-based Nalco Chemical, a water treatment group, on the heels of a buyout of Pittsburgh-based Calgon Corp. Both Vivendi and Suez Lyonnaise are trying to cash in on the trend toward privatization of water utilities around the world.

And telecom maker Alcatel has been on a major buying spree in the United States, including the $2 billion purchase of Xylan, as it pursues its quest as a leader in telecom equipment, switching, and Internet transmission systems like the high-speed DSL.

In France, it remains unclear whether French authorities will remain on the sidelines if non-European firms seek to take control of key national firms. The state still holds "golden shares" of some firms like Elf and has yet to fully privatize major groups such as Air France and France Telecom. France eventually approved the Coca-Cola acquisition of Orangina, the most popular French soft drink, but only after eighteen months of wrangling with regulators resulted in a deal. Furthermore, many corporate leaders come from the same elite schools and have close ties with the government's top officials.

For the most part, French authorities have steered clear of a heavy-handed approach in the most recent mega-deals, but "the real question is how they would act if it were a non-European company," says Gibbs. "That is the acid test of this new acceptance of Anglo-American techniques."

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EUROPE Update

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WHAT THEY SAID...THE REBIRTH OF EUROPE

Elizabeth Pond, author of the new book The Rebirth of Europe *(Brookings Institution Press) and a contributing editor to* EUROPE *based in Cologne, discusses with* EUROPE *editor-in-chief Robert J. Guttman why she is optimistic about Europe's future.*

What is the overall theme of the book?
My overall theme is that Europe has really developed a new dynamic in the post-cold war era, and it's in striking contrast to the Eurosclerosis of the 1970s and 1980s. There are several miracles of Europe in the whole post-World War II era. The first, and the pattern for everything else that has happened, was French-German reconciliation. This has led to deliberate imitations or repetitions of this in German-Polish reconciliation, Polish-Ukrainian reconciliation, and Ukrainian-Romanian reconciliation. It's a requirement for these countries if they're going to be admitted to the EU and NATO that they not have unresolved border conflicts and that they not try to resolve conflicts with force. And in Europe, in a continent that author Paul Johnson says has now endured the longest peace in 2,000 years, this is something that's quite new. The astounding thing is not the fighting in Yugoslavia. The astounding thing is that there hasn't been fighting elsewhere. And the momentum of the single European Union, of German unification, and the push that this gave to European unification and European integration, has started a whole new momentum in Europe. This is my basic thesis.

Did the European Union start this new momentum?
Absolutely. It's a combination. One can't speak of Europe today without thinking of the United States as, let's say, an honorary member of Europe. Because the transatlantic community is so intertwined, not only from globalization and trade, investment, and economic ties [but also] from the realization that none of us can cope on our own with pollution, instant transfers of capital of billions of dollars, and drug running; therefore, we have to cooperate. But what the European Union has done is to provide a vision, although too many [of its] statements are reluctant to use that term. They would much rather speak pragmatically than in terms of idealistic goals. But it has given Europe a concept of itself as Europe, which is quite new.

Is Germany the key player in Europe?
Yes, but Germany in Europe or Germany in tandem with France. Germany cannot and will not act alone as a leader. This is one of the reasons that the United States is so important as a partner because the US provides the kind of leadership that if it didn't come from outside, would have to come from inside. And the French don't want the Germans as leaders; the Danes don't want them as leaders. The Germans don't want to be leaders. And therefore, the involvement and the leadership of the United States help in this very new construct in Europe.

Do you think most EU members like the United States being a power in Europe?
Yes, that's quite true. The French complain the most about American hegemony or American bullying, but perhaps the aphorism that somebody coined a long time ago is probably still true: The Europeans like to be led by the United States as long as it is in the direction the Europeans want to go. The United States is still a stabilizing force.

You mentioned "coopetition" in the book. What is that word?
Coopetition. I think it was coined by businessmen initially, meaning both a cooperative and a competitive relationship. It may have started with the oil business, where in the last decade a lot of companies have been cooperating upstream because of the costs of production and transport of fuel but then being very competitive downstream. And this characterizes the US-European relationship very much. The other part of the theme, or development of the theme, in my book is that what we're witnessing now is really a post-national Europe. I say this despite Kosovo. I think that Yugoslavia is the last gasp of a nationalist Europe. And this is a real change in the last 300 years, since the peace of Westphalia. It doesn't mean that the nation state will cease to exist. It doesn't mean that the EU would ever become a federation. There's much too much diversity in Europe for that. And the Europeans—the Italians, the French, the Germans—want to maintain this diversity. But the EU already is astonishingly more than a confederation, both in terms of the 80 percent of economic decisions that are made in Brussels rather than in national capitals. This percentage will increase with the new European Central Bank and in terms of the much less noticed competence of the European courts. Without any enforcement body of their own, the courts have said, "We have competence for European law." The different member nations of the EU have, in fact, enforced it. It's quite extraordinary.

Is the European Union gaining power?
Power may not be the right word. Perhaps, soft power. This is a phrase that Professor Joe Nye coined for the United States, and it's true. In a way, it's kind of funny that the United States is slow to

realize how much soft power there is in the European Union. After all, these countries are going through, in a space of a decade or two, an impossible set of revolutions, political, economic, social, psychological—the kind of transformations that Britain, France, and the United States took a century and a half to go through. If your definition of foreign policy is trying to influence others, then the impact of the EU along with NATO on these countries is tremendous.

Looking back on the rebirth of Europe. Who are the key players? Is Helmut Kohl one of the key players?
Absolutely. In a way, he's the unsung hero. He's the hero of this book because he was determined. When the opportunity came for German unification, he kept saying again and again that German unification must mean unification of Europe. It can't work toward a renationalization of Europe. And without Helmut Kohl, we would not have the euro today. We wouldn't have monetary union. Although he never quite admitted it, he had to give up his idea of political union for Europe. But what he said in terms of monetary union was that if we can get this, it would push Europe also toward political union, with more steps toward political union afterwards. And that's already beginning to happen.

Any other heroes in the rebirth of Europe?
In a sense, there are a lot of heroes in a sort of pragmatic development of the European Union. The EU has come out as being recognized by a lot of different countries as really advancing their interest. Take Spain and Portugal. Their transition to democracy after the end of the dictatorships was very much an aspect of the EU. The Irish are becoming, for the first time since the potato famine, a country of immigration because it's so successful economically. Probably even the self-confidence of the Irish to sign the Good Friday peace agreement [can be related to the success of the EU]. There are problems with [the peace agreement], but for thirty years, nobody would sign anything. And that process has started. So, in the sense there are a lot of heroes who have made the EU work on a very pragmatic level and have advanced this idea of a democratic Europe.

Do you think the European Parliament is going to grow in power?
I think it will. I'm not convinced that the European Parliament is pure as far as corruption is concerned. I'm not sure that they could withstand the kind of magnifying glass that they've turned on the European Commission. But it's probably healthy that this has developed. The system was rather crazy saying either the entire Commission resigns or they all stay. Out of this will come a greater sense of individual responsibility, for example.

So, if we're looking down the road twenty, thirty years, what are we going to see in Europe? What's going to be the rebirth?
It will be more of the same, which is good news. I would imagine that Norway and even Switzerland would eventually join. I would imagine that the ten candidate members would join. I don't think that Turkey will be a member by then. That's another category of issues.

What is it about European countries that they are willing to give up some of their sovereignty to the EU?
It's interesting that the word they use now is "pooling sovereignty" rather than giving it up. Because there is the sense—particularly with European countries that are as small as they are—that they just can't cope individually with the problems that exist today. They developed a habit of cooperation, necessarily in the cold war years in the European Community. And, in a sense, you could say that this was an incubator. They had to because of the Soviet threat. It became a habit, and people began to see there is a better way of doing things. Today's young French and young Germans find it simply incomprehensible that their grandfathers or great-grandfathers could have considered the other as enemies. It's a real change of mentality.

Do you think young people across Europe feel 'European' today?
I think they do. The thing that Chancellor Kohl was concerned about—and the reason that he wanted to accomplish as much as he could on his watch—was that he wasn't sure that younger people might not just take Europe for granted and therefore not exert the kinds of efforts that would be necessary to really move European integration forward.

What other themes are in your book?
One of the things that I've tried to do in the book is to go through, step by step, with what I see developing. Maybe each of the steps that I described is not controversial and that somehow the synergy of them isn't recognized in what I see as the new dynamic of Europe. I'm talking particularly about an American audience and what is reflected in American coverage of Europe. If there's one thing I would like to do with my book it's to change the story line of American reporting about Europe. The story line up until now has been—we saw this particularly with the euro—Europe can't get its act together after each EU summit. And this doesn't really reflect what's happening in Europe. It doesn't reflect a sense of this very peculiar system of consensus, of continued sovereignty in many areas, of a pooling of sovereignty in other areas.

Yet, what has happened since the end of the cold war is a sense of momentum and a sense of dynamism. If the Single European Act had not been passed and not been on the way to implementation by the time of German unification, I can't imagine that the developments that we see now would have happened because Europe could not have absorbed German unification. I'm not saying that you would have another 1870, 1914, 1933. But the strains would have been much greater, and it would have been much more difficult to form a Europe that could contain the German energies and use them in a positive way.

So you think the US media does not understand events today in Europe?
That's right. That was my real reason for writing the book. Europe is working together, and it's a slow process. It's a really odd kind of process, and it doesn't fit any of the categories we've seen in the past. But it is a post-national Europe, and they're figuring out ways not to get stuck in the most common denominator decisions but to use the process that was developed in agreeing on a monetary unit. You use benchmarks to take the target of the highest accomplishments and say, "Okay, this is the bar that you've got to get over." And there was a real incentive for Italy to meet the qualifications to join monetary union. And they did it.

Did monetary union, the euro, surprise you?
No, I wasn't. I thought it was a political decision. It wasn't an economic decision. And there are a lot of economic problems, and again, perhaps the American coverage of the development toward the euro tended to focus on the economic problems. But that coverage has focused, let's say, on the birth pangs of Europe without noticing that there's actually a birth going on here in Europe. The whole European Union itself is unique. It's a confederation-plus or a federation-minus.

EU NEWS

EU Sends Aid to Turkey

The European Commission announced it would send more than $2 million in emergency humanitarian aid to Turkey following the August earthquake that killed more than 14,000 thousand and left thousands more homeless. A statement issued by the Commission said that the aid was intended to provide "immediate relief supplies to the areas worst hit by the earthquake." ECHO, the EU's humanitarian aid arm, will direct the funds through non-governmental organizations on the ground in Turkey to the places most in need. The funding is intended to supply items such as tents, blankets, medical supplies, mobile clinics, and kitchens, as well as water purification and sanitation items.

EU Observers to East Timor

On August 30, the European Union sent an observer group to monitor a United Nations-organized referendum in East Timor. The group was led by the Irish Foreign Minister David Andrews, who was acting as a special representative of the foreign minister of Finland, which currently holds the EU presidency. The vote is to decide whether East Timor should have wide-ranging autonomy under continued Indonesian rule or move toward independence under the auspices of the UN. The EU presence was intended to signal its political support to the referendum and for a peaceful solution of the island's prolonged conflict.

Indonesia occupied the former Portuguese colony of East Timor in 1975 and annexed the region the following year. A quarter century of violence ensued, claiming more than 200,000 victims. In May this year, Portugal and Indonesia agreed to UN-led negotiations to organize a referendum.

EU Expresses Concern Over Dagestan

The European Union issued a statement urging Russia to use "proportionate force" in its efforts to restore order in the Dagestan Republic. The region is part of Russia and borders the republic of Chechnya, which fought a bloody two-year war with Russia from 1994–1996. The EU's statement, however, condemned "the seizure of several villages by armed groups and the declaration of the so-called independent Islamic state of Dagestan." It is believed that armed guerrillas infiltrated Dagestan from Chechnya.

Prodi to Address Parliament

European Commission President-elect Romano Prodi will present the Commission program to the European Parliament for a full day debate in Strasbourg on September 14. The Parliament is scheduled to vote on the new Commission on September 15.

REPORTER'S NOTEBOOK

The Berlin Republic

Forget Bonn. Germany is now being governed from Berlin. Chancellor Gerhard Schröder officially took up his duties in the former imperial capital on August 23. It's the first time the country has been governed from Berlin since World War II. Coming ten years after the fall of the Berlin Wall, the move represents an important step in Germany's ongoing unification process.

"A dozen years ago, anyone predicting this would have been dismissed as crazy," said Schröder at a reception hosted by Berlin mayor Eberhard Diepgen. Until 1990 one half of Berlin served as the capital of communist East Germany. The other half was a Western enclave technically occupied by the military forces of the United States, the United Kingdom, and France.

Like most buildings intended to house the government in its new location, the chancellor's office is still under construction. So, Schröder and several of his ministers have moved into temporary quarters. The chancellor himself is making due with a modest structure formerly used as headquarters by Erich Honecker and other East German rulers. Foreign Minister Joschka Fischer, whose arrival in Berlin coincided with the chancellor's, will be working in a building that once housed the Nazi central bank and later the East German communist party. It will be at least another year before the chancellor and his team can move to their permanent offices.

The new government buildings and the staff who fill them will change the face of the German capital. What was once a grassy meadow next to the Reichstag building will soon be covered with the gleaming glass facades of the chancellery. The Reichstag itself—a nineteenth century renaissance-cum-baroque building—has been completely renovated and capped with a futuristic glass dome. Parliament has already held its first session there.

Hoping to transcend Berlin's negative associations, Schröder has incorporated the city's name into his slogan for a new political era. The "Berlin Republic" is what Schröder has dubbed the current chapter of German history. It's a useful phrase for the chancellor in so far as it suggests a departure from the Kohl era. It also suggests a spirit of renewal in a country still recovering from its cold war wounds.

While the move provides the government an opportunity to cast itself in a new mold, it's also adding a bit of polish to Berlin's beleaguered image. Schröder is convinced that Berlin is on its way to becoming "one of the world's great metropolises." Bonn, meanwhile, will retain a few ministries, but it's clearly lost its claim to fame. The city that served for forty years as Germany's provisional capital now seems destined for obscurity.

BUSINESS BRIEFS

Two French supermarkets have joined forces in preparation for **Wal-Mart**'s inevitable entry into the French market. **Carrefour** has agreed to buy its chief rival, the **Promod** chain, for $16.3 billion in a stock swap. The deal creates the world's second-largest retailer with combined sales of nearly $50 billion. Wal-Mart, the biggest retailer with $138 billion in 1998 sales, has not announced any plans to enter the French market; however, it owns 95 stores in Germany and 225 stores in the United Kingdom.

•••

Volvo's $7.5 billion acquisition of Swedish rival **Scania**, creating the world's second-largest heavy truck and bus manufacturer after **DaimlerChrysler**, paved the way for another round of consolidation in the European industry.

The deal marked a setback for **Volkswagen**, Europe's biggest car maker, which toyed with a bid for Scania to fulfill its ambition of breaking into the heavy truck market. It is expected to cast around for other prey, with **MAN**, the medium-sized German truck manufacturer, tipped as a likely target. Other companies are mulling takeovers and mergers to attain critical mass to survive in an increasingly global market. **Fiat**, the Italian manufacturer, is seen as a possible bidder for **Navistar** of the US, and **Renault** of France is touted as a likely partner for **Paccar**, the family-owned American group that owns **Daf** of the Netherlands.

Buying Scania with the proceeds of the $6 billion sale of its car division to **Ford** in early 1999 has made Volvo the European market leader and a stronger rival to DaimlerChrysler. "Now we're a force to be reckoned with across the globe," said Leif Johansson, Volvo's chief executive.

• • •

Deutsche Telekom consolidated its transformation from a lumbering, underperforming state monopoly to a leading global telecommunication player with the acquisition of **One2One**, the United Kingdom's fourth-largest mobile phone company in a $13.5 billion deal that is set to reshape Europe's telecom market.

The purchase, from **Cable & Wireless** of the UK and **MediaOne Group** of the US, has given Deutsche Telekom its first substantial presence in the British market and brought it closer to its goal of creating a pan-European operator capable of challenging the UK's **Vodafone AirTouch**, the world's leading mobile operator.

Deutsche Telekom, which outbid several other contenders for One2One, including **France Telecom**, **Telecom Italia**, and **Mannesmann** of Germany, is already the biggest player in Europe. It owns **T-Mobil**, Germany's largest mobile company; has interests in Austria, Italy, and Eastern Europe; and is now expected to pursue a big acquisition in the US, with **Sprint**, the Kansas-based group in which Deutsche Telekom has a 10 percent stake seen as a potential target.

• • •

The Norwegian government is mulling a merger of the two state-owned energy companies, creating a $50 billion group with oil and gas reserves rivaling those of **Exxon-Mobil**, **Royal Dutch Shell**, and **BP Amoco**, the largest Western oil majors.

The merger of **Statoil** and the so-called **State's Direct Financial Interest**, which controls forty percent of the country's North Sea oil reserves, would be followed by the partial privatization of the new company in the biggest ever initial public offering in the Nordic region.

The merger and privatization are among plans being considered to ensure a Norwegian oil company can remain internationally competitive following a wave of consolidation among many of the top Western oil companies. Norway is the world's second-largest oil exporter after Saudi Arabia.

• • •

Denmark's **AP Moller** became the world's biggest container shipping line after the $800 million acquisition of the international operations of **Sea-Land**, the shipping unit of **CSX**, the US railroad company.

Moller is folding Sea-Land into its container carrier, **Maersk Line**, creating a behemoth with a fleet of 250 ships and 500,000 containers, nearly 13 percent of the world's total, serving scores of ports around the world.

The deal, which catapulted the merged company, **Maersk-SeaLand**, above Taiwan's **Evergreen Line** in the global rankings, will put pressure on rival carriers to consolidate. The Anglo-Dutch **P&O Nedlloyd** is seen as a suitable partner for **Hapag-Lloyd**, the top German container line.

Moller, one of Denmark's largest and most profitable companies, is also involved in oil tankers and bulk carriers, runs its own shipyard, and has a fast growing, short-haul airline.

• • •

British American Tobacco moved closer to its goal of ousting **Philip Morris** of the US as the world's biggest cigarette producer with a $6.8 billion bid for control of **Imasco**, Canada's leading tobacco company.

The Canadian deal, coming hot on the heels of BAT's $8.2 billion purchase of **Rothmans International**, the South African group, takes the company, whose brands include Lucky Strike, to within an ace of global leadership. BAT decided to focus on tobacco in 1997 when it sold its financial services division.

EUROPE Update

Correspondents
Bruce Barnard in Brussels *Terry Martin in Berlin*

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INVEST IN EUROPE'S FUTURE

Invest In France

"Global strategies are a necessity. To maximize profit, corporations have to expand in Asia, North America and Europe. France offers the most competitive base in the Euro zone for expanding in the European market, which, with 370 million consumers, is the world's largest marketplace."

Didier Lombard

As Director General for Industrial Strategy at the French Ministry of Economy, Finance and Industry from 1991 to 1998, Didier Lombard played a key role in defining the future direction of French industry. By promoting high-tech sectors, particularly IT and telecommunications, he helped these industries develop into the leading growth areas in France.

In February 1999, Didier Lombard was appointed to succeed Jean-Daniel Tordjman at the Invest in France Mission in the post of Ambassador at Large, Special Representative of France for International Investment. He is a vital contact for American corporations wishing to invest in France.

Where does France stand compared to the other countries in the Euro zone?

Didier Lombard: France's foreign direct investment doubled from $87 billion in 1990 to $174 billion in 1997. France has become the leading country in the Euro zone for attracting international investment.

It stands to keep that position, because last year, with 445 new investment projects, up 23% on the previous year, foreign investment reached a ten year peak. The United States is the main international investor, with 105 US companies choosing to locate in France.

For the first time, IT and communications attracted the biggest share of new investment in 1998.

Why has the high-tech sector developed into such an important international investment sector ?

D.L: High-tech is the biggest sector of our economy. It accounts for 95 % of new growth and for + 9.8% of the trade surplus, ahead of the United Kingdom (+8.8%), Germany (+2.4%) and Italy (- 4.8%). Two-thirds of new enterprises are computer services companies and more than 50% of all patent applications are in telecommunications, computer technology, and biotechnology.

Innovation is part of our culture, and France has always encouraged scientific education. As a result, we have a highly educated, creative and innovative workforce, renowned worldwide for its technological skills and research capacities.

France is at the forefront in many sectors, including the smart card, telecommunications, and computer services. The Minitel, France's electronic yellow pages and information guide, was the precursor of the Internet, and accustomed French consumers to electronic commerce in advance of its present expansion.

This technological and scientific expertise, along with our central location in Europe, excellent infrastructures, and our quality of life, has attracted many American companies, including IBM, Microsoft, Oracle, ATT, Lucent Technologies, Motorola, Hewlett Packard, Dell, and Compaq.

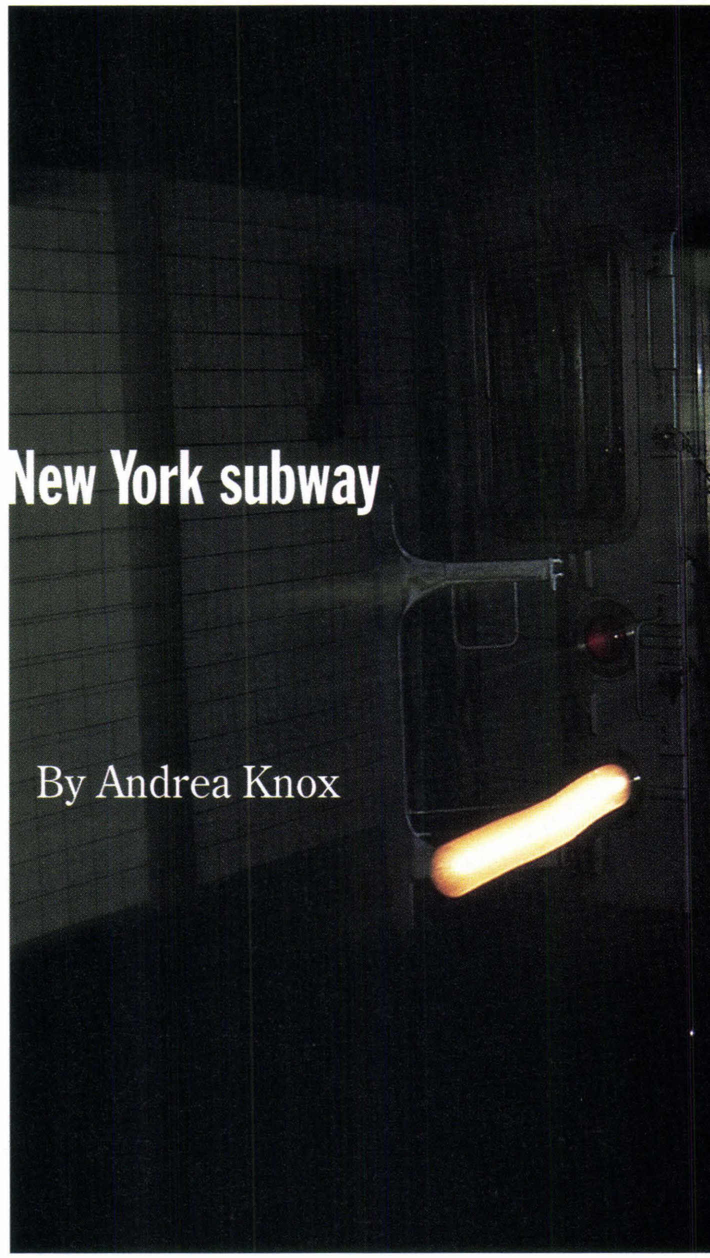
Visit the Invest in France Mission at:
www.investinfrancena.org

INVEST IN FRANCE MISSION

BUSINESS

The French Switch

French firms bring haute-tech to New York subway



By Andrea Knox

Foie gras and Givenchy may be more familiar to New York consumers, but Alcatel, Alstom, and Matra Transport will soon have a bigger impact on New Yorkers' everyday lives. The three French companies are vying for the leadership role in the multiyear, multibillion-dollar upgrade of the signal system on the New York subway. The project—the biggest subway signaling project ever—will demand technological advances that are expected to set the standard for the next generation of subway signals throughout North America.

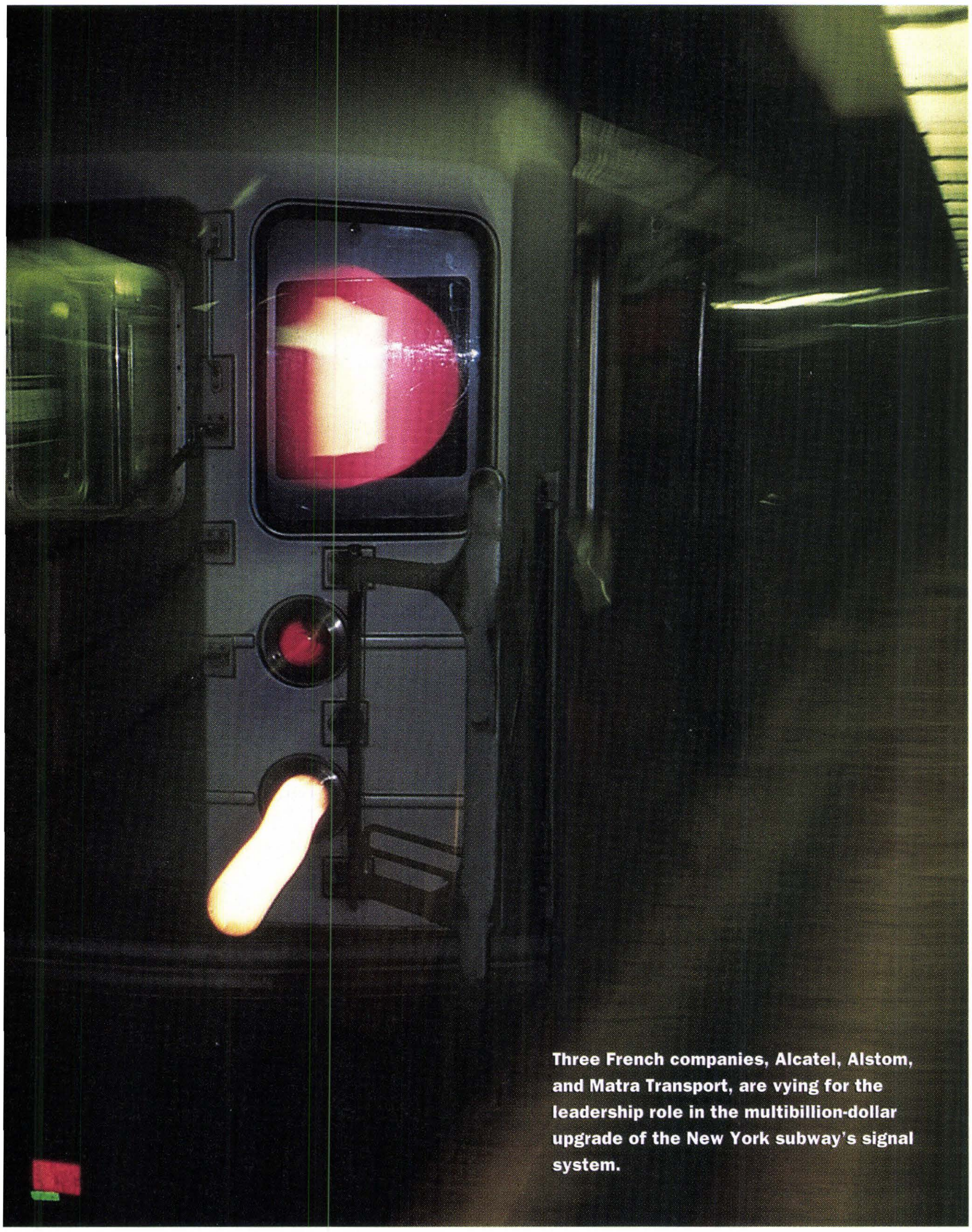
New York's goal is to replace its antiquated hard-wired train controls with a system based on software and radio communication. No longer will drivers control how fast the train moves or where and when it stops. Those functions will be handled automatically by the signal system, which will allow trains to run closer together even as it reduces the chance of accidents. The total value of the contracts will be between $2 and $3 billion, to be drawn down at a rate of $150 million to $200 million a year—a bonanza in the relatively small subway signaling industry. New York City's Canarsie Line will be the first line equipped with this innovative signaling technology.

Many subway systems around the world already use automated train control—in the Paris Metro, for example, drivers open and close doors and give the signal to start the train, but acceleration, speed, and braking are all regulated automatically. However, the existing automation systems send signals to trains either through the rails or through loop cables laid in the tracks. In New York, a data radio network will handle the controls and allow two-way communication between the trains and the wayside signal stations. The signal stations will not only send commands to the train but will also receive information from the train about its speed and position—information that will allow trains to run more frequently.

Since New York accounts for more than half the entire North American subway signaling market, the system developed there will almost certainly become the standard for all North American subways, says Alan F. Rumsey, who heads the consulting team for the project. Rumsey is vice president of advanced technology programs for Parsons Transportation Group of Washington, DC.

That French companies should dominate the competition (three non-French companies were eliminated in the first round) is a tribute to the historic French interest in mass transit. No other nation has put as much effort as the French into developing mass transit technology, from the super-fast TGV inter-city train to the electronics systems for Airbus jets, from the Concorde supersonic jetliner to driverless light rail lines used in subways and airports. The French presence in the New York project is "a reflection that the Europeans, and perhaps the French in particular, are more advanced than the traditional North American suppliers," says Rumsey.

The French companies involved in the project are Alcatel, Alstom, and Matra Transport International. Alcatel, a conglomerate with interests in telecommunications, has become visible in the United States over the past year with its purchases of four US data switching companies, including Xylan, for a total of $7 billion. In subway automation, it is known for the 1986 SkyTrain in Vancouver, one of the earliest automated (driverless) subways, created in partnership with Canada's Bom-



Three French companies, Alcatel, Alstom, and Matra Transport, are vying for the leadership role in the multibillion-dollar upgrade of the New York subway's signal system.

bardier. The same team is building the automated line that will link John F. Kennedy Airport with the New York subway system.

Alstom, which had been a part of Alcatel but was spun off into a separate company, earned its spurs as a serious contender in subway automation by landing the contract for a new Singapore line that will go into operation in 2002.

Matra Transport's showpiece is the new Line 14 of the Paris metro, opened in October 1998 and known for its high-concept stations and its tube-like trains that allow passengers to walk from one end to the other and get a drivers'-eye view of the track ahead from the wraparound front window. But behind the glitz lie some groundbreaking technological innovations, including the capability of mixing automated trains with driver-controlled trains on the same stretch of track. It is a useful feature for many reasons but primarily because "it allows you to progressively upgrade a conventional line to full automation without stopping traffic for a long time," says Matra Transport president Bernard Sillion. Although Matra Transport was purchased in 1998 by German giant Siemens, it remains autonomous, with its headquarters near Paris and development centers near Paris and in Lille.

The New York project is a standard-bearer partly because of the size and complexity of New York's subway system and partly because it will "demand real technological innovations," says Rumsey.

New York is one of the world's largest subway systems and definitely its most complex. No other system in the world has so many intersecting and overlapping lines, with different lines sharing track in many places. In most systems, no two lines share any track at all.

"Of our twenty-two lines, only two are isolated. For the others, there are 198 interlockings," places where trains are shunted from one track to another, explains Nabil Ghaly, chief signaling engineer for New York City Transit (NYCT) and supervisor of the upgrade project. While the London and Tokyo subway systems rival New York's in length (740 track miles) and number of stations (468), they consist almost entirely of lines that operate independently of each other. New York, then, will be the proving ground for the creation of a signaling system that can handle such a complex task.

The French companies were chosen based on criteria including their technology, their track records in doing big projects elsewhere, and the strength of the management teams they offered for the New York project. Each company has been allocated a two-mile stretch of track on New York's Culver Line to test and demonstrate the methods it proposes to use in a signal system. The testing began in March, and the city hopes to name one of the three companies as lead contractor, with the two others serving as alternates, by the end of the year.

Then comes another innovation. Instead of one company designing a proprietary system, as has been the practice in the past, the three finalists are expected to collaborate and share technical information. They will also be expected to make technical specifications available to any other company that wants to bid on subsequent phases of the project. This forced information sharing will free New York from being "held hostage" by a single supplier and will also create an open system that could be adopted in other cities and used by other suppliers—which is why a French-designed signal system is likely to become a de facto standard throughout North America.

Andrea Knox is a writer based in Paris.

New NATO Boss

By Bruce Barnard

The UK's George Robertson takes over as NATO secretary general

George Robertson hit the ground running. In the five days between being nominated and appointed NATO secretary general, the United Kingdom's former defense minister had already drawn up his game plan for the world's most powerful military alliance.

His first priority is clear: to boost Europe's military capability, which was cruelly exposed during the Kosovo conflict. Around 70 percent of the planes in the operation and the bulk of the weapons were American, and American pilots flews 80 percent of the sorties.

"One of the clear lessons of the Kosovo conflict is the need for Europe to enhance its military capabilities. European countries now spend about two-thirds of what the United States spends on defense, but we don't have anything like two-thirds of the capabilities. That is because we compete with each other; we duplicate each other; and that era is now over."

Robertson, the third Briton to hold the post since the creation of NATO in 1949, was nominated at the last minute after Rudolf Scharping, his German counterpart, ruled himself out of the running. But this doesn't mean the fifty-three-year-old Scotsman is considered "second best." His appointment was warmly welcomed in Washington, Paris, and Berlin, the three key NATO capitals, because he has strongly promoted European defense cooperation while at the same time strengthening ties with the United States. An added bonus is his close personal relationship with Secretary of Defense William Cohen.

As an Atlanticist with strong pro-European sympathies, Robertson is an ideal leader for the nineteen-nation alliance that has often been undermined by transatlantic tensions. His experience will help him to perform the delicate balancing act of carving out a distinctive European role in NATO without alienating the United States. Robertson is aware of the risks, conceding that a greater European military capability would tilt the balance of the alliance, but he has pledged to work with Washington to avoid this.

A policeman's son born on the isolated Scottish island of Islay, Robertson shot to international prominence during the Kosovo war, his aggressive stance toward Slobodan Milosevic, the Serbian leader, marking him as the toughest defense minister in the alliance.

A labor union organizer for the whisky industry before entering Parliament in 1978, Robertson became defense secretary in the Labor government elected in 1997. He quickly made his mark, publishing a strategic defense review last year aimed at making the United Kingdom's armed forces more flexible and mobile and better able to work together. It became a model for military reform elsewhere in Europe, including France, and closely resembles a new "strategic concept"

In May, George Robertson (center), then the UK defense minister, accompanied British Foreign Affairs Minister Robin Cook (right) and United Nations General Sir Charles Guthrie to the fiftieth anniversary NATO summit held in Washington.

document he will inherit in Brussels defining NATO's role.

Robertson faces a packed in-tray at NATO's Brussels headquarters following the alliance's first military campaign in its fifty-year history. NATO's continuing military involvement in Kosovo and Bosnia requires his immediate attention, but he must also keep a close eye on their Balkan neighbors, the Former Yugoslav Republic of Macedonia and Albania, which he sees as "pivotal" to European security.

NATO's new boss must make a quick start on patching up relations with Moscow, which were already strained before being set back further by the alliance's bombing of Yugoslavia and the rows over Russia's peacekeeping role in Kosovo.

Robertson must tread carefully over NATO's enlargement to Central and Eastern Europe and the Baltic states. Russia reluctantly accepted the accession of its former Warsaw Pact allies, Poland, Hungary, and the Czech Republic, after being rewarded with partnership in a permanent joint council. The next expansion will prove more problematic, but Robertson isn't daunted by a possible Russian backlash. "The door [to NATO] is not closed," he said. It was the promise of NATO membership that won the cooperation of aspirants like Bulgaria to cooperate with NATO's campaign in Kosovo.

Robertson will also seek to build meaningful cooperation between NATO and the European Union—eleven of whose fifteen member countries are members of the alliance. Luckily, former NATO secretary general Javier Solana is staying on in Brussels as the EU's first high representative in charge of foreign and security policy. Robertson has already earned his "Eurospurs," playing a key role last December at St. Malo where the UK and France agreed on a defense initiative that calls for NATO's European members to develop the capacity to operate on their own while working inside NATO's structures.

Robertson will also hope to make headway in easing the historical tensions between NATO members Greece and Turkey.

Most of Robertson's time and energy will be spent cajoling European governments to maintain defense spending to modernize their forces so that they can undertake more Kosovo-type deployments. Kosovo showed that most of NATO's deficiencies were European: lack of smart weapons, transport aircraft, surveillance facilities, and suitably trained and equipped soldiers. Meanwhile, NATO's peacekeeping force in Kosovo is 20,000 short of its planned strength.

The challenge facing the new NATO boss is how to raise Europe's capability without upsetting its delicate transatlantic balance. Robertson is well aware of the risks, but he knows that's why he is in Brussels. Ⓔ

Balkan R

Donor conference yields $2 billion for Kosovo

In an attempt to bring peace and stability to the battered Balkans after years of ethnic conflict, the European Union has taken on a lead role in reconstruction of the region.

The wars in Bosnia and Croatia and the recent conflict in Kosovo have shown that "instability in the Balkans has a broad impact on the whole region," said Nicolaas Wegter, spokesman for Hans van den Broek, outgoing external affairs commissioner. "We have to play our role as [the Balkans are] an integral part of Europe."

Just days after Yugoslav President Slobodan Milosevic signed an accord aimed at ending the punishing NATO air strikes, the European Union earmarked 500 million euros ($538 million), "which in our view should cover about 50 percent of the needs in the next three years," to rebuild the war-ravaged province of Kosovo, Wegter said. The World Bank is expected to contribute $161 million.

At the same time, a Balkan stability pact is planned to help breathe life into the economies of nearby Albania, Bosnia, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia, and Romania, all of which have struggled to throw off the vestiges of their communist past and develop thriving democratic and capitalist institutions. "We will use all the means at our disposal to get as close a relationship as possible with this region," Wegter said.

Now, working hand-in-glove with the United Nations and the Organization for Security and Cooperation in Europe (OSCE), the EU hopes to prod these nations to become further integrated into Europe and to strengthen ties with one another.

At a Sarejevo summit July 30 to discuss regional reconstruction, Finnish President Martti Ahtisaari, whose country holds the rotating EU presidency, said, "the ability of countries within the region to cooperate and establish good-neighborly relations...will be an important criterion for evaluating their prospects of full integration with the European Union."

His views were echoed by Bodo Hombach, the EU official overseeing the stability pact. "The international community will match the scale of its commitment on the southeast Balkans to the strength of the political will manifested by each and every country in the region," he said. However, "the EU and NATO will not look favorably on anyone dashing headlong toward Brussels without even a backward glance to see how their neighbors are faring."

More concrete plans are to be discussed at a September meeting, which will be followed by a donors conference in October.

The first donors conference, held July 28 in Brussels, did bring commitments. Altogether, $2 billion was pledged for immediate repairs to Kosovo, the war-ravaged province of Yugoslavia, where Milosevic launched a brutal ethnic-cleansing campaign this spring.

Large swathes of the country were damaged by Serb forces and NATO bombing. More than 850,000 ethnic Albanians were forced from their homes by Serb police and paramilitary forces, and untold thousands were slain.

The EU's European Agency for Reconstruction offered nearly $700 million for rebuilding. The US government pledged $500 million, while Germany offered $190 million and the United Kingdom $145 million.

More than half of the 200,000 homes in Kosovo were damaged during the attacks, with repairs estimated to cost more than $1 billion, according to an EU report.

A UN survey found 40 percent of the water contaminated, nearly 80 percent of health facilities destroyed, and 60 percent of schools damaged. The fighting made planting virtually impossible, and Kosovo, which relies heavily on agriculture, will see its wheat harvest halved and its corn crop slashed by 90 percent.

However, damage to much of the infrastructure was less than originally estimated. A World Bank team found far less significant damage to homes, power plants, and roads than expected, with most of the destruction in the western part of Kosovo. In most of the province, electricity and telephone systems are operating.

Originally, the cost to rebuild Kosovo over a three-year period was estimated at $3 billion to $5 billion, but World Bank officials have now put the price at the lower end of the spectrum.

The EU has sent its own team to the province to assess damage and draft an action plan. An independent agency also will be established in Kosovo this fall to oversee efforts. The EU will "try

By Susan Ladika

ebuilding

Bernard Kouchner, chief UN administrator of the Kosovo province, is greeted by ethnic Albanians in July outside of the UN headquarters in Pristina.

to avoid all the bureaucratic obstacles that arise in Brussels," Wegter said. The EU, UN, and OSCE want to ensure new economic, governmental, and legal structures are in place.

Former French Health Minister Bernard Kouchner, who was appointed UN administrator in Kosovo, told a news conference in the capital, Pristina, "We must not be held prisoner by the past. We must go beyond that and create a democratic and just self-government in Kosovo. It is in our hands today to begin making Kosovo safe for all the decent people." But many Serbs and Gypsies have fled the province following retribution by ethnic Albanians.

Another goal is the development of a healthy market economy. But the EU "doesn't want to impose an economy" on the region, but to help it create its own market economy, Wegter said.

That is particularly tricky because the province remains part of Serbia, the largest republic in present-day Yugoslavia. While the Serbian government has been opposed to major changes, Montenegro, the junior partner in the Yugoslav federation, is pushing for economic reforms and closer integration with the West. International organizations have vowed to withhold economic aid from Serbia while Milosevic remains in power. Ⓔ

Susan Ladika is EUROPE's *Vienna correspondent.*

Ile-de-France

By Axel Krause

Region offers green getaways

Step aboard a sleek, red, white, and blue regional B train in the heart of the Latin Quarter in Paris and relax as it slips through the sprawling city, then heads southwest to quiet suburbs and new research and high-tech centers. Within three-quarters of an hour, you arrive in the heart of the Chevreuse Valley, a scenic, rural area, surrounded by small villages, working farms, old castles, churches, and forests that protect roaming boar and deer. Welcome to a choice spot in the Greater Paris area, known as Ile-de-France.

With Paris as the hub, and a population of about 11 million people, the region is far larger and richer than any of its twenty-one competitors—notably Normandy, Britttany, Alsace, Rhône-Alpes, Provence-Alpes-Côte d'Azur—and yet Ile-de-France has a mixed, fuzzy image. This is understandable, considering that the region, roughly equivalent to a US state, comprises eight *départements* extending from the wealthy, rural Essonne and Yvelines in the southwest to the poorer, urbanized Hauts-de-Seine and Seine-Saint Denis, north of the nation's capital.

"Many foreign visitors think we are just Paris, but we are much more," says Jean-Paul Huchon, Socialist president of the regional council, whose total annual budget now tops $2.5 billion. That is less than half that of Paris, which operates a separate budget and administration. The Ile-de-France budget goes for education, regional transport systems, tourism, and attracting even more foreign companies to invest; the region already boasts the highest concentration of EU headquarters for multinational companies—thirty-eight, mostly in or near Paris, compared to twenty-seven for Greater London with a population of 17.5 million. Furthermore, the region and the city are currently planning to submit a joint bid for the 2008 summer Olympic Games, which Huchon believes will draw more investments.

The 36 million tourists who are drawn to the region from around the world each year regularly flock to the familiar sites of Paris, such as the Louvre, to the royal palaces of Versailles, Fontainebleau, Chantilly, and the attractions at Disneyland. Not many tourists realize the region offers lots more: sixty golf courses, hundreds of miles of hiking and biking trails, some 500 horseback-riding centers, 126 camping sites handy to fishing, swimming, rock climbing, as well as concerts, theater, and dance festivals that run from spring through late autumn.

Of the region's 4,600 square miles, nearly 3,800 are vast, protected forest areas, parks, and farmland. These features have helped make the region attractive to Paris residents, potential investors, and increasingly to tourists. There are, of course, many ways of getting around to explore—the car, motorcycle, walking, organized tours, hiking, or using the region's efficient public transportation network of subways, trains, and buses. An increasing number of the reasonably fit prefer biking.

Bike rental shops have sprouted in many of the city's neighborhoods, and protected bike lanes crisscross even the most congested areas—the Latin Quarter, the rue de Rivoli, Montparnasse. Today, despite the dense, weekday traffic, you can explore much of Paris by biking casually, or commuting, stopping whenever the fancy strikes. Several tour operators now offer guided visits for small groups. For those seeking green spaces within and just outside the city, try the extensive, car-free, paved paths in the Bois de Boulogne, Vincennes, and the Parc de Saint Cloud; the latter involves a steep climb, but the view from the hilly, wooded area is spectacular. Each of the parks offers plenty of picnic areas, restaurants, and cafés and a convenient way of breaking from the city's intense atmosphere.

If you are seeking pure countryside, as well as culture à la carte, the Ile-de-

Ile-de-France Means Big Business

"To Many Americans, we're still better known for luxury goods and tourism, but we are also the nation's economic and business center and determined to expand," says Nicole Touquoy-Morichaud, chairwoman of the Ile-de-France region's agency for corporate development and responsible for attracting foreign investors. "We already are the largest economic region in France, including Paris, and new business investment is a top priority," she said, adding that her current focus is attracting electronics, biotechnology, and service companies.


Left: Biking is a popular way for tourists to see what the diverse region of Ile-de-France has to offer. Right: One of the region's attractions is the beautiful Vaux Le Vicomte.

France outside Paris is unmatched. My preferred approach is relying on regional, or *banlieue,* trains operated by the SNCF national railway. You handle your own bike, there is no extra charge, but hours are limited to non rush-hour periods on weekdays, with no restrictions on weekends and holidays. Rentals are available in many stations, clearly marked on the suburban train schedules.

Where to go? Any one of the city's six main SNCF stations provide gateways to the Ile-de-France, and it is best to rely on guidebooks, given the diversity of routes and attractions. A total of ninety bike routes are detailed on a map published by the National Geographic Institute, grading them easy, average, or difficult, each involving at least several hours of biking. The region publishes its thirty choices of biking routes in the form of a booklet that also lists hotels, restaurants, and recommended sites, including a selection from the region's 200 museums. Bike rentals are available in many stations, but also, increasingly, in the downtown areas of popular tourist centers, such as Fontainebleau and Versailles.

"We are particularly proud of having convinced Motorola to come," she said, noting the large, multinational US-based electronics company is in the final stages of establishing its main European research center in the small town of Gif-sur-Yvette, near the Chevreuse Valley. Local officials refer to the area as a small French version of Silicon Valley because of the proximity of several science parks and Ecole Polytechnique, France's rough equivalent of MIT.

"We located in Paris-Ile-de-France partly for the expertise of its scientists...often populated by alumni of the most prestigious American universities, and all perfectly fluent in English," said Jean Lavigne, head of Motorola's French operations. Officials add that some 2,500 government and private research labs operate in the region, employing 120,000 people, representing roughly half of the nation's research capacity.

Motorola is only the most recent example of foreign, multinational companies that have chosen Ile-de-France over competing regions in France and elsewhere in the European Union. Others include IBM, Andersen Consulting, Federal Express, Disney, Sony, Microsoft, and Canada's Nortel. "Many of us work closely with foreign investors, because there is a lot of competition," said Jean-Paul Huchon, adding that the region is currently seeking funding from the European Commission to help rebuild poor urban areas, such as Saint Denis and Argenteuil, north of Paris. "Our other cities also need help to attract business, said Huchon, who served as chief of staff under former prime minister Michel Rocard and last year was the first Socialist elected president of the region's 209-member legislative body.

Roughly equivalent to a US state, Ile-de-France boasts an economy that is nearly as large as Texas. Paris, of course, is a major drawing card.

With the economy continuing to pick up steam in late August, jobs being created, and despite unpleasant memories of transport strikes earlier this year, Touquoy-Morichaud's office processes between five and six requests for detailed background information on the region from potential foreign investors every week. She said Americans were on top of the list. "But we are now hearing more and more from China, which is seriously looking at Europe, and the Koreans are coming," she added.

—Axel Krause

Marsei

Much to Celebrate

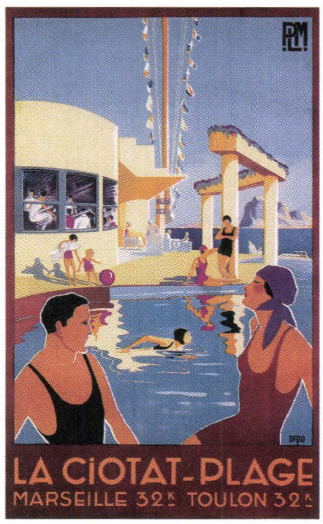
Twenty-six centuries ago, Greek sailors from Asia Minor discovered a deep-water harbor on the Mediterranean of such natural splendor that they decided to cast anchor and go ashore. They found themselves gate-crashing a banquet that the chieftain of the local tribe had organized to marry off his daughter, Gyptis, to the suitor of her choice. The princess ignored the local hopefuls and singled out the handsome commander of the Greeks, Protis. It was mutual love at first sight, the two were married, and as a wedding present, Protis was given the northern shore on which to build a trading post, called Massalia.

Even if the love story is only a romantic legend, it does capture the spirit of the settlement that was to become Marseille. It *is* a magnificent marriage of land and sea, and it *has* always welcomed strangers to its shores. Take away the beautiful princess, and you are still left with a site that any sea captain could fall in love with—a long inlet of sparkling blue waters, protected by white limestone cliffs, with a hill from which to overlook the sea and a clear spring for drinking water.

From being France's oldest city, Marseille grew into its second largest and most diversified. It has sixty-six consulates—only Paris has more—and 111 different neighborhoods, each with its own, distinctive character.

Character is what Marseille is all about. If you only buy your chicken shrink-wrapped, wear rubber gloves for most house and garden chores, and NEVER speak to strangers, then Marseille is probably not the place for you. Even its mayor, Jean-Claude Gaudin, who loves the city passionately, says, "Those who don't like multiculturalism, shouldn't come to Marseille."

It is also wise to at least know the name of the local soccer team, the OM (Olympique de Marseille). This is soccer city; its 60,000 seat *Vélodrome* stadium is crammed for every game with season ticket holders. Depending on whether the OM loses or wins, the whole mood of Marseille changes. The morning after a victory, everyone smiles and waves each other through the traffic; after a defeat, drivers curse and honk their horns. Soccer is the city's emotional barometer.



Marseille does nothing by halves. Throughout its history, it has rebelled against outside authority. Louis XIV built the St. Nicolas Fort, which guards one side of the port entrance, with its cannons turned *facing* the city, to keep the rebellious population in line. Later, when the French Revolution started, Marseille was the first city to demand abolition of the monarchy. A battalion of 500 soldiers marched on Paris and along the way popularized the bloodthirsty marching song that became known as "La Marseillaise," France's national anthem since 1879.

So, do not expect quiet decorum here. It is a lusty, gutsy, vibrant place, alive with sounds and smells and aglow with colors. In its downtown department store, the Galeries Lafayette, sleekly groomed ladies with a dark tan and light blond hair line up at the cash register with African matrons in brightly dyed robes and Arab women swathed in layers of black cloth.

In the Rue de la Mode, just off the Canebière, Marseille's main avenue, some of France's most talented young fashion designers have set up shop. Half a block away, Turkish pastries are for sale, and just a few feet further, the local fishermen hawk their daily catch in the Old Port. Marseille is a patchwork—of sights, sounds, sensations—stitched together over twenty-six centuries into a city that celebrates life in all its diversity.

Marseille's rich ethnic mix makes it bubble with creativity. It has twenty-five

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By Ester Laushway

The beautiful harbor of Marseille has been drawing sailors and visitors for twenty-six centuries.

theaters, providing more theater seats per inhabitant than Paris, and its opera is always sold out. It features twenty-two museums, including the beautiful Château Pastré, which stands in an immense park outside town and houses a unique collection of china and porcelain, and the very *à la mode* Fashion Museum, which exhibits French and international creators like Andy Warhol.

It is true that Marseille has suffered from a rough and tough image in the past, particularly abroad, through films like *The French Connection*, which played up its seedy side. Gene Hackman kept numerous tourists away, who were afraid of being gunned down in the street. I confess I had a vague idea I would be going slumming the first time I went to Marseille and was frankly amazed by how spectacularly beautiful it is.

Luckily, more and more people are discovering the real Marseille. Its cruise-ship traffic, for example, has exploded from 8,500 passengers in 1992 to 150,000 in 1998. One of the best vantage points for an overview of the city is from the terraces of the basilica of Notre Dame de la Garde. It dominates the skyline of Marseille, with a thirty-foot gilded statue of Our Lady keeping watch from the top of the bell tower. The nineteenth-century basilica in its flamboyant Roman-Byzantine style offers a breathtaking panorama of the city, the sea, and the nearby mountains. The history of Marseille is spread out below in an exuberant jumble of centuries and cultures that is part of the city's unique personality.

Right next to the *Centre Bourse*, the big midtown shopping center, are the most ancient remains of Massalia: part of the original Greek fortifications, a piece of Roman road, the limits of the ancient port, now dry land, so humbly presented in a small garden that they can easily be overlooked. At the bottom of the shopping center itself, with an elevator leading directly from the boutiques to its door, is the History Museum of Marseille, which features a remarkably preserved Roman merchant ship as its central display.

Behind the seventeenth-century Italianate *Hôtel de Ville* (City Hall), the *Panier,* Marseille's medieval quarter, winds uphill through a maze of narrow streets and steep stairs, with laundry drying outside the windows. Children play in the streets; people stand gossiping in the squares or play *boules*; and you imagine yourself far more easily in Greece or Turkey than in France. Some of the best little restaurants in the city are tucked away in the Panier, around a landmark that once took in the poor and hungry. The former charity hospice, La Vieille Charité, is a Baroque showpiece with three levels of elegant galleries built around an interior courtyard, now housing museums and cafés.

Another complete surprise in Marseille is the Palais Longchamp: a monumental water palace built at the end of the nineteenth century to celebrate the arrival of water in Marseille via the Provence Canal. Flanked by the Fine

Arts and the Natural History museums, it is an astonishing sight of pools, fountains, and cascades, set in an ornate stone framework of elaborate plant and animal sculptures.

First-time visitors to Marseille should accept a little help discovering the city. Although it is a sociable place where people talk a lot, with their voice and hands, it does not yield its best secrets easily. The Marseille Tourist Office understands this and has come up with some excellent initiation circuits. For people intent on doing their own thing, a red *Fil de l'Histoire* (Thread of History) has been traced on the sidewalks, leading past seventeen explanatory plaques in French and English of some of the main monuments and sights. A twenty-eight-page booklet provides more details, and the whole stroll takes about two hours. Even more leisurely is the *Taxi Tourisme:* a truly wonderful idea that takes visitors along one of four circuits lasting from one-and-a half to four hours in an air-conditioned taxi, with a recorded cassette explaining the sights in French, English, German, or Italian. Dominique Guilleux, the managing director of the Marseille Tourist Office, says, "The taxis are a big success with American tourists, particularly those who stop off here on a cruise and don't have much time to explore."

Any exploration of Marseille should involve the sea, because the city is unthinkable without it. Dotted around the harbor are several islands, of which the most famous one is the *Château d'If* where the author Alexandre Dumas had his fictional Count of Monte Cristo imprisoned. A lot of people do not realize the count was just a character in a book and visit, looking for his cell and traces of the tunnel he dug to freedom and revenge.

A drive along the Marseille coast, which stretches for nearly forty miles, takes you past some of the most beautiful scenery anywhere—idyllic little fishing ports, like the Vallon des Auffes, mile after mile of natural and artificial beaches and the Calanques, twenty little inlets with crystal-clear water, not built-up or crowded like the Riviera, but unspoiled, with room to sail, swim, go for walks, climb, go snorkeling, or scuba-diving.

Inland from Marseille, the rest of Provence, with all the diversity that it has to offer, is within a one or two hour drive. The whole region is only 140 miles from north to south and just a few miles wider, so nothing is very far. Marseille is the ideal starting point, the gateway to the rest of the region: to the hilltop villages of the Luberon, the marshes of the Camargue, pastel-colored seaside resorts like Cassis, historic towns like Arles, Avignon, and Aix-en-Provence—all of Provence lies within easy reach.

Above: This summer the city featured a land-and-sea festival, the Massalia, as part of a year-round program of events celebrating the history of Marseille. Left: The mood of Marseille is dominated by the wins or losses of its soccer team—the Olympique de Marseille.

This year, though, the attention of everyone in the area is focused on Marseille. A whole clutch of historic anniversaries are being celebrated throughout 1999: twenty-six centuries since the founding of Marseille; 400 years since its Chamber of Commerce and Industry was created; 150 years since the Canal of Provence brought water to the city; 100 years since the OM soccer team played its first game.

A year-round program of special events allows visitors to participate in the festivities, but there is no doubt that the mother of all parties, the highlight for local inhabitants, was a land-and-sea extravaganza, the Massalia, on June 19. It involved 6,000 people, including 2,600 children, taking part in different parades that converged onto the Old Port, lasted from afternoon until the next morning, and brought about 300,000 spectators into the city. It was launched by a flotilla of boats of every type and size, from a majestic navy ship down to yachts, fishing boats, and rubber Zodiacs, all of which entered the Old Port together, saluting the spectators on land with a loud, exuberant siren concert. The Massalia ended long after the sun had sunk into the burnished sea, after floats, which ranged from beautiful to bizarre, had passed, after Spanish, African, Italian, Armenian, Oriental, Brazilian, and rap dancers and musicians had performed on a giant outdoor stage, after a spectacular white and blue fireworks display (Marseille's colors) had faded into the night sky.

One image stands out from that evening—a longhaired, muscular young man, sitting astride the peaked edge of a bank building on the port, blowing a massive didgeridoo. He was not part of the official entertainment, and he was certainly not French, but he was blissfully, resonantly happy to be up on that roof in the evening sunshine, and like so much that is unexpected in Marseille, he belonged. ⊜

Ester Laushway is EUROPE*'s Paris correspondent.*

CAPITALS

AN OVERVIEW OF CURRENT AFFAIRS IN EUROPE'S CAPITALS

European Agriculture

The Spanish region of Rioja is facing tough competition for its wines from lower cost producers from South America, Eastern Europe, and California.

ON THE VERGE OF THE TWENTY-FIRST CENTURY

Farmers across Europe are facing immense challenges as the new millennium begins. What was once the predominant industrial sector in Europe has undergone tremendous change in a relatively short period. Improved farming methods, high-tech implements, transportation advancements, and global markets have revolutionized the way food is grown and distributed. Small farms have dwindled; big farms have specialized; and governments have fretted over questions of sovereignty over their national food supplies. With these and other issues coming to the fore as the World Trade Organization prepares to discuss agricultural issues this fall, we asked our Capitals correspondents to report on the dominant agricultural issues in their countries—from reforming the EU's Common Agricultural Policy to the rise of the organic food market to reindeer farming. Together their dispatches provide an overview of the challenges European farmers face as they enter the twenty-first century.

MADRID

RIOJA WINES FIND TOUGH COMPETITION

Globalization, free trade, and new producing nations are making things hard for one important sector in Spanish agriculture—wine. For decades, Spanish vintners enjoyed the niche market they had carved out for themselves. At first, it was the cheaper table wines that were exported to northern European nations and earned the hard-to-live down reputation of being barely drinkable "plonk."

Then in the 1980s, international connoisseurs began noticing that there were some very fine wines coming out of Spain, especially from the region of La Rioja where vintners had long been producing good wines for the Spanish market.

Helped along by the boom in the domestic economy and sharp marketing and rave reviews abroad, Rioja sales took off, prompting other Spanish vintners to jump into the market. Soon, wines from half a dozen other producing regions were gaining notice, and the Riojas began to lose market share.

At the same time, there was a boom in production and sales of the so-called "New World" wines from New Zealand, Chile, and California. Even producers in the countries of the former Soviet Union, eager for hard currency earnings, got into the act by hiring foreign expertise in everything from blending to marketing.

Lately, world wine prices have been rising, fueled by the general prosperity. Rioja wines, once cherished for their affordability as well as their quality, found themselves priced out of the market.

The situation became alarming and in the first quarter of this year, Rioja exports abroad fell by 20 percent. Now the regional government is fighting back. Recent approval by the European Union for another 24,700 acres of land to be turned into vineyards, along with millions of dollars invested in new technology by the vintners themselves means that Rioja remains a force to be reckoned with.

However, all this new product will have to be sold, and so new marketing strategies are being explored. The regional government, along with producers and exporters, are joining a multinational effort to promote wines made from the Balkans to the Atlantic and dubbed the Mediterranean Wine Route. Grouping twenty-one wine-producing nations, the program has already signed up Albania, Algeria, Bulgaria, Croatia, Cyprus, Greece, Israel, Lebanon, the Former Yugoslav Republic of Macedonia, Malta, Morocco, Portugal, Romania, Syria, and Turkey.

Rioja authorities are also working with their counterparts in the renowned French and Portuguese wine and grape-based spirits producing regions of Bordeaux, Cognac, Champagne, and Porto to jointly promote their prestigious products at the expense of the upstart competition.

—Benjamin Jones

THE HAGUE

MANURE PRESENTS ENVIRONMENTAL DILEMMA

The Netherlands' agricultural sector is in deep manure—literally. The overpopulation of pigs and chickens has created a veritable manure mountain that is causing major environmental problems and political strains. In June this year, the agricultural minister suddenly resigned because of his failure to put legal limits on the number of pigs that farmers could produce.

Of the quarter of a million people working in Dutch agriculture, pig farmers have caused most of the recent havoc. Dairy farmers are well off under the European Union's Common Agricultural Policy (CAP). Grain farmers have been doing well during the past few years thanks to EU subsidies and higher than expected prices, although they fear future adjustments of the European agricultural policies.

The Netherlands, densely populated with about 16 million people, also counts an annual average population of 11 million pigs, 100 million chickens, and 4.4 million dairy cattle.

In the past twenty-five years, livestock agriculture has turned into an intensive industry in the Netherlands. This small country, densely populated with about 16 million people, also counts an annual average population of 11 million pigs, 100 million chickens, and 4.4 million dairy cattle. The pigs and chickens are bred for slaughtering and export. With the annual export of 5.4 billion eggs (on a total production of 9 billion eggs), the Netherlands is one of the world's largest egg traders.

With so many animals, naturally comes so much manure, and large amounts of manure byproducts eventually drains into fresh water reserves, creating nitrate and ammonia concentrations far beyond European standards. In fact, a large portion of environmental pollution in the Netherlands comes from the agriculture sector. With ever-tighter EU rules, Dutch farmers are under increasing strains to change their methods of disposing manure.

Three years ago, an outburst of swine fever forced politicians and industry leaders to look at the pig problem. It took months to get the rapidly spreading epidemic under control, and the government spent more than half a billion dollars killing pigs and piglets in order to prevent further contamination. Before that crisis, most efforts to restrict the manure production had failed because of obstruction by the pig farmers. However, in 1998, the government—the first Dutch government not to include the traditional ally of the agricultural sector, the Christian Democratic Party—passed a bill through Parliament that forced a 25 percent reduction of the total amount of Dutch pigs. The farmers hotly disputed the bill, and a Dutch court declared part of the law illegal, particularly the authority to expropriate rights to raise pigs without full compensation to the farmers. The decision was upheld by a higher court but can be overruled later this year as part of a broader judicial proceeding.

While the legal fight continued, an inexperienced agricultural minister suddenly resigned over the pig issue. He had vowed to be more lenient toward the farmers but found no support within the government for his softening. His successor, Laurens Jan Brinkhorst, a former member of the European Parliament and former director general of the environmental department of the European Commission, immediately reconfirmed the government's tough stance. In addition to the pigs, the chicken population will have to be reduced in the next few years in order to attain the desired reduction of manure.

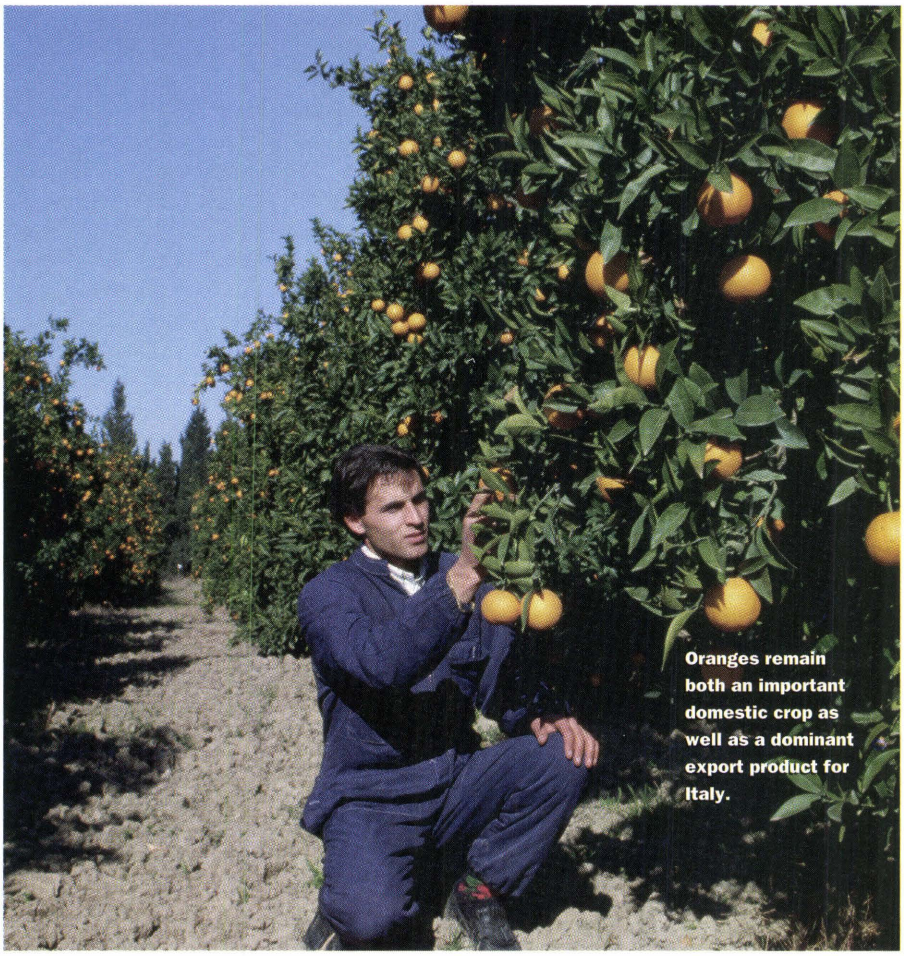
—Roel Janssen

ROME

ORGANIC MARKET GROWS

At the words "Italian agriculture" one's thoughts immediately tend toward wine, tomatoes, and oranges. Even on the verge of the new millennium, these are still the dominant products from Italy, both for domestic consumption and for export. However, a new sector is rapidly expanding and attracting the attention of economic analysts—organic cultivation.

Last year, Italy experienced a veritable boom in companies that offer natural produce grown without pesticides, fertilizers, or other chemical enhancements. In just a few short years, the amount of acreage converted to organic agriculture has multiplied dramatically—from the



Oranges remain both an important domestic crop as well as a dominant export product for Italy.

173,000 acres in 1997 to more than 1.73 million last year. The total annual turnover is still relatively low at roughly $600 million. However, half of this is bound for export, signaling analysts that the seed for creating a new, important sector has been planted.

A new way of viewing life and nourishment—which is actually a return to the old way of doing things—is becoming a billion-dollar business. Some 35,000 agricultural establishments, each with an average surface area of fifty acres, have been converted.

In short, organic agriculture has left the niche market it found itself forced into by consumption trends decreed (or imposed) by the big shots of the food industry. Part of this is thanks to the increasing debate at the European level concerning the economic compatibility of agriculture in the year 2000 and to the new norms passed by the European Commission concerning certification and controls of these products. Up until recently, organic agriculture was the target of harsh criticism, but its market is growing. Nowadays, even the large food distribution networks have had to take notice of the fact that consumers want more "natural" products. These can now be found not only in small, specialized stores, and usually at a very high price, but also in supermarkets throughout the country. Furthermore, the big name brands have begun to sell their own organic food products.

For now, the phenomenon is limited to wine, pasta, bread, jams, fruit juices, and cheeses. Fresh biological fruits and vegetables still control a quota that is less than 20 percent of total sales. The exponential increase in Italian organic agriculture is still far from the levels of other countries in northern Europe, such as Germany and Austria. In addition, it must still resolve a few problems that are typical of sectors that undergo rapid growth, and a large gap remains between north and south. Southern Italy is becoming a big producer of organic agriculture, but at the same time, it is a small consumer. The situation is the reverse in the north. Nevertheless, the good news is now confirmed: the "good" wine of the old days is available once more.

—Niccolò d'Aquino

LISBON

LOW PRODUCTIVITY AND PROBLEMS WITH THE CAP

It is impossible to get a sense of the upheaval that Portuguese agriculture has undergone in recent decades without throwing out a few figures. For example: in 1950, 48 percent of the population worked in agriculture; in 1990, barely 10 percent did. In 1950, agriculture generated more than one-quarter of Portugal's economic output; in 1990, the figure was 5 percent. In 1950, half the country by area had three-quarters of residents living off the land; now just a few scattered areas in the northeast and east now survive mainly from farming.

Portugal's entry into the EU in 1986 accelerated the trend, with farming employment as a share of the total halving in the following decade, to 11 percent.

In economic terms, the exodus from the countryside that accompanied this trend away from the agrarian life was positive. From having an excess of workers in agriculture, Portugal developed concentrations of more productive industries in the developing coastal strip and enviably low rates of unemployment.

However, the fact that the decline in agricultural output was steeper than that of the sector's work force suggests that the change was not accompanied by gains in productivity. In 1988, Portugal imported 2.3 times as much agricultural produce as it exported; by 1997 the ratio was 4:1.

Change could undoubtedly have been managed better, with less harm done to the communities affected and with more attention to long-term environmental effects. Portugal has suffered rural depopulation far faster than in larger countries known for their traditional peasant societies, such as France. Yet, it still has more of its people in farming than any other EU country except Greece and, narrowly, Ireland.

Growing income inequalities between the rural interior and the coast last year led to pressure for establishing regional governments. Voters rejected the idea, but the Socialist administration in Lisbon pledged to find other ways of evening out development.

Farmers complain that recent governments have pumped vast sums into roads and bridges while neglecting agriculture. Many are convinced that policymakers—eager to shed the image of a country of landless laborers, small holdings, and donkey carts—have abandoned them. Moreover, foreign direct investment in agriculture has been negligible compared with that in manufacturing.

Portuguese farmers are also unsatisfied with the EU's Common Agricultural Policy (CAP), which was devised to benefit farmers in the six founder states. Its system of subsidies is skewed toward typical northern European products—cereals, beef, and milk. Traditional Mediterranean products—olive oil, fruit, and wine—are less favored, resulting in, Portugal, the EU's second-poorest member, being a net contributor to the CAP. Portugal's quotas are based on past levels of output that were low because of poor productivity, meaning that the CAP is holding farmers back, not helping them modernize.

Portugal still has more of its people in farming than any other EU country except Greece and Ireland.

However, some young entrepreneurs are finding ways of exploiting natural advantages (such as more sunshine than the EU average) by entering small-scale but high-margin markets that face no product quotas, such as flowers, horticulture, and medicinal plants. Wine producers, too, have greatly stepped up their marketing efforts in response to competition from low-cost rivals in South America. They have also joined vintners in other member states in lobbying for the lifting of ultra-tight EU restrictions on the amount of land that may be planted with vines.

—Alison Roberts

LONDON

FARM INCOMES SLUMP

UK agriculture has been dominated in recent years by a series of difficulties and uncertainties, highlighted in recent years by a collapse in farm incomes and questions as to whether this is simply a low point in a cycle or an indication of an industry in need of radical adjustment.

Farm incomes are at their lowest level since the 1930s and have been in consistent decline over the past twenty-five years. The underlying decline is due to the fact that farm gate prices of agricultural products have not kept up with inflation, while at the same time the volume of production in many sectors has remained unchanged or even fallen.

The National Farmers Union believes that the industry is in deep crisis. "British farmers and growers continue to struggle in the depths of a crisis unparalleled in modern times," according to their spokesmen.

An NFU report in May said the crisis is reflected in the fact that farm prices continue to slump; incomes are down 75 percent over the last two years and are still falling; 90 percent of allied industries have had to reduce their staff; confidence in rural business is at an all-time low; and agricultural investment is at best stagnant.

The number of people employed full-time in the industry has fallen by a third in the last twenty-five years. Unless the industry adapts, employment will continue to decline. "Either incomes in agriculture will fall behind those in the rest of society, or the number of people earning a living from farming must fall," says one report.

The total labor force, according to the UK's Ministry of Agriculture, Fisheries, and Food, was 615,000 at the end of 1998, compared to 670,000 a decade earlier. The period was characterized, says the government, by a steady fall in the total and a shift from full-time to part-time working among farmers.

As in many Western countries, the long-term trend is toward larger holdings, which in general are more competitive. The total area of agricultural land is 46 million acres, which is 76 percent of the UK land area.

The current problems facing the rural economy, says the farmers union, are the continued strength of the pound, especially against the other European currencies, the highest interest rates in Europe, increased indirect taxation, increased regulations, and the collapse in world commodity prices due to the Asian and Russian crises.

The farmers are constantly pressing the government to do something about the strength of the pound. "The strong pound opens up our domestic market to cheaper imports while making our exports more expensive," they say.

As an example, they point to the chicken market. Consumption was up nearly 10 percent last year, but the British farmers share of the market fell by 6 percent. It is estimated that between 30 and 40 percent of all white poultry meat consumed in the UK is imported.

In practice, the industry is already adjusting to the new reality and two broad types of farm businesses are emerging. The first are increasingly efficient food producers, combining economies of scale with the latest technology. They will produce the majority of UK food production in the twenty-first century. The second type, generally smaller farms, will diversify their ability to generate income beyond just that of food production.

—David Lennon

LUXEMBOURG

FARMERS GUARD THE LANDSCAPE

I climbed a small rise, and there it was before me, a model village straight out of the eighteenth century with only the thin plumes of chimney smoke and the grunt of cattle to tell me I was not looking at a painting. Narrow cobbled streets wound between elegant houses, public buildings, stables, and barns that looked unchanged since the days of the Empress Marie-Thérèse. I was at the tiny Luxembourg village of Christnach, which lies in between Echternach and Luxembourg city. It was here, more than 200 years ago, that Austrian settlers came, found the land good, and established a rural community that has survived intact in all-important aspects to the present day.

The striking point about Christnach today is that it is not a kind of open-air museum where you pay to enter and where artifacts are carefully preserved behind glass but rather a living link with the past. The buildings have been preserved because farms were handed down from one family generation to another and because the same rural husbandry, the same love of the land, was respected throughout the centuries. Behind the village's immaculate frontages, some serious farming is still going on.

Christnach is one of the best examples of its kind in Luxembourg, but it is far from unique and indeed it may be said to represent the kind of rural development that the whole of the country aspires to. Luxembourg is a rich industrial country with not many farmers—fewer than 6,000 people were employed in agriculture at the last count. The problems facing them are familiar ones—overproduction, weak prices, and falling incomes. As in other EU countries, the sons and daughters of farming families are increasingly drawn to the cities in search of better jobs and less strenuous work.

Barred by its wealth from subsidizing farming per se, Luxembourg has hit on an imaginative and successful method of preserving its 2,518 farms (of five acres or more). In effect, it pays farmers to be guardians of the landscape. Jean-Pierre Dichter, head of the government's Rural Development Program, explains, "Nearly all farmers benefit from subsidies that are paid to maintain the landscape, to avoid pollution, to limit the density of animal population per hectare and to limit the use of artificial fertilizers and herbicides. That's a general provision—some can also get money for the proper maintenance of river banks and the preservation of woodlands in the middle of fields," he told *EUROPE*. These payments can amount to as much as farmers get from operating in "less favored areas"—they are in fact a "third pillar" of farming incomes.

Such payments have helped make Luxembourg's farmlands remarkably unspoiled in appearance, fully justifying the country's claim to be "the green heart of Europe." However, they do not specifically aid the preservation of villages like Christnach, and Dichter agrees that many farmers have found it difficult to practice modern land management out of buildings built for the horse and plow era.

Here the Luxembourg Ministry of Culture plays its part, specifically the Monuments and Sites Administration. Classify a farmhouse, barn, or outbuilding as a site of cultural importance and its upkeep can be justified on environmental grounds. Moreover, if the farming family decides to give up the land? The buildings are turned over to the local authority for use as public meeting-houses, cultural centers, and so on.

Outside of the capital and the southern industrial strip, Luxembourg has the look of a model rural community with half of the land devoted to agriculture (most of it pasture), and an additional third covered with forests. Prolific vineyards grace the banks of the Moselle River in the southeast. Luxembourg is never going to be a paradigm for countries practicing farming on an industrial scale, but on its own terms it presents as pretty a picture of modern agriculture as you will find in Europe.

—Alan Osborn


Greece has more than 130 million olive trees.

ATHENS

OLIVE MARKET BROADENS

Olive oil is probably Greece's best known agricultural product. Most Greek families still own an olive grove on a mountainside or an island. There are more the 130 million olive trees around the country, but cultivation is still in the hands of small farmers. Despite competition from tourism, regional economies in several areas, including the southern island of Crete and the Messinia district of the southern Peloponnese, are still heavily dependent on olive cultivation.

Americans and north Europeans, accustomed to the lighter Italian and Spanish olive oils, say the Greek varieties with their strong green coloring and peppery aroma are an acquired taste. Until recently, almost all exports of Greek oil were made in bulk to Italy, to be mixed with the locally produced oil, as well as cheaper olive oil from Turkey and Tunisia, and sold as an Italian product.

Greece annually exports between 90,000 and 120,000 tons of olive oil, depending on the harvest elsewhere in Europe. A drought in Spain, the EU's other big exporter, is good news for Greek growers. However, if prices are pushed too high, Italian importers scour the Mediterranean in search of cheap olive oil. Greek growers say they are concerned that increased planting of olive trees in Morocco, Libya, and Syria will shrink demand for Greek olive oil.

However, Greek producers have started to bottle their oil for sale abroad. The amounts are still small—less than 8 percent at present. Nevertheless, growers are confident that with international demand for olive oil growing at a rate of 10 percent yearly they will gradually be able to penetrate markets like the US and Germany that have traditionally been dominated by Italian olive oil.

Individual Greek producers have found customers in Japan and Taiwan. They are also taking estate-bottled olive oil to trade fairs in Latin America. A handful of growers have started to sell organically produced olive oil in the United Kingdom and Germany.

Olive oil exports to the US rose almost 20 percent last year in line with a steady trend. Most is still sold in cans to Greek-Americans, but some exporters are making a determined effort to compete with Italian brands of bottled olive oil. Exports to the UK jumped 80 percent as leading supermarket chains started to put Greek olive oil brands on the shelves next to Italian brands. Some chains are offering their own brands.

Greece's premium quality olive oil is

labeled as "cold-pressed extra virgin." Growers say that to produce top-quality oil, the olives should be pressed the same day they are picked. Bigger growers have set up their own presses to ensure tight quality control. With large numbers of Albanian immigrant workers keen to find jobs on farms, a higher percentage of the olive crop can be picked by hand, rather than being flailed to the ground.

As a result, some 70 percent of Greece's yearly output of olive oil, amounting to about 300,000 tons, belongs in the extra virgin category, with acid levels of less than 1 percent, compared to just 40 percent in Italy and less than 30 percent in Spain. Though consumers prefer bottles to cans, growers say that to preserve its vitamin content, olive oil should be kept in opaque bottles and stored away from light.

Eleftherios Renieris, a grower in Crete, says, "There should be a great future for olive oil that's properly pressed and packaged, both in the health food and gourmet markets. It's a product that has still to make its mark outside the Mediterranean."

—Kerin Hope

PARIS

MORE TO MAKING HAY

One of my favorite restaurants in Provence has a new meat dish on the menu: rack of lamb roasted in a hay crust. Not just any old hay, you understand, but a blend of dried grasses so pure and nutritious that it is the only animal feed to carry the prized *Appellation d'Origine Contrôlée* (AOC) label.

You cannot help but wonder how the *Foin de Crau* was judged to be worthy of the AOC classification, a distinction it earned in 1997, and which is usually bestowed on quality wines and fine foods, like regional cheeses and olive oils. Who came up with the three pages of closely typed regulations defining where, when, and how it must be produced and specifying the plants that it must contain, like purple field clover? Did a panel of discerning cows stand around, chewing their cud over a selection of hays, until they found one that made them moo with delight? Or did a panel of human connoisseurs nibble at various haystacks, perhaps taking sips of water in between to clear the palate, and exchanging comments like: "slightly on the green side…a bit too stalky for my taste…this one has a nice dry finish"?

Wild plants mix with alfalfa to produce the prized Foin de Crau hay.

Until the sixteenth century, the region where this gourmet hay is produced, a former river delta between the city of Arles and the Mediterranean Sea, was ill suited to any kind of vegetation. Parched dry in the summer, windy all year-round, without any streams or rivers, the stony plain has an impenetrable layer of sedimentary rock not far below the soil, which stops all but the toughest plants from taking root.

Four hundred years ago, canals were built to bring water from the Durance River to the Crau Plain, and gradually, on the irrigated land, a layer of rich silt developed on which a whole new flora of grasses, grains, and wildflowers grew.

To produce the prized Foin de Crau, farmers conspire with nature to turn these meadows into hayfields. After removing the surface rocks, leveling the earth, and making sure there is an irrigation canal nearby, they sow alfalfa. Season by season, wild plants mix themselves in, and after about a decade, the field achieves a natural balance between what was planted and what has seeded itself, and hay that is worthy of the AOC label can start being harvested.

After that, the farmer's role is to preserve the natural equilibrium. More a caretaker than a cultivator, he oversees the irrigation, fertilization, and winter grazing of the field. No pesticides are ever used on the hayfields. Between March and October, they are flooded every ten days for several hours, with most of the irrigation water being recycled afterwards, either back into the ground or the canals.

There are three yearly harvests, in May, June–July, and August–September, each of them producing slightly different hay, suited to the particular needs of different animal clients. The first harvest is snapped up by racing stables around the world, from France to Ireland to Saudi Arabia and all the way to Hong Kong. The other two harvests have been proven to increase milk production in cows, goats, and sheep, which makes them the main item on the menu at some of France's top dairy farms that produce choice cheeses like Roquefort, Reblochon, and Comté (French gruyere).

The total annual yield in the Crau Plain, produced by some 250 farmers, is some 100,000 tons of AOC hay. From October to February, the fields become the winter grazing grounds for herds of sheep, who provide natural fertilizer before they head back to higher pastures in the spring.

Harmonious and earth-friendly as this cycle is, man did have to intervene five years ago when inferior hay was knocking the bottom out of the market. The farmers of the Crau had to ask the EU for help, and it came to the rescue with some green stuff that does not grow in fields. The financial help from Brussels plus the AOC classification are currently helping the Foin de Crau survive tough competition from cheaper, industrially produced hay. A definite edge it has on all the other bargain bales is that none of them have been shown to make horses run faster or cows produce more milk, nor do they feature on any restaurant menus.

—Ester Laushway

DUBLIN

FARMERS FRET OVER FUTURE

The Irish Republic has 145,000 farms—35,000 of which are classified as commercial, meaning they produce a viable income based solely on farming. The rest rely on some sort of outside income to supplement what they earn from the land.

The agriculture sector has a substantial presence in the overall Irish economy—12 percent of GDP, 12 percent of employment, 40 percent in net foreign earnings, and the largest exports of beef in the Northern Hemisphere (500,000 tons). On the surface, then, the outlook is not too gloomy.

However, a report looking ahead to 2015 by Teagasc, Ireland's agriculture and food authority, predicts that the number of "commercial" farms will drop to 25,000 (with dairy production composing the majority). Furthermore, the report expects comparable reductions in the other categories—and possibly 50,000 landholders whose primary income will *not* be derived from farming.

The report forecasts further rationalization in the number of Irish-based multinational food companies—perhaps four, possibly only two, processing about half-a-billion gallons of milk annually. Moreover, the beef processing industry could undergo even greater rationalization.

Ominously, the report says, "the marketplace will be dominated by the globalization, or at least the Europeanization, of the food retail sector." Agri-tourism, farm-forestry, horticulture, and retraining will help to ease the blow, but the overall picture is one of wide-scale traditional farming facing an unpleasant and unpredictable future.

European Union and Irish government supports are helping to improve scale, efficiency, and retraining in Irish farming. But the constraints and rigidities of the Common Agricultural Policy (CAP) market regimes are likely to raise a number of policy implications for most of the next decade.

Not surprising, then, that Irish farming looks with some trepidation to November's World Trade Organization negotiations in Seattle. The Irish Farmers' Association (IFA), which represents some 85,000 farm families, says the EU member states and the European Commission must sing from the same hymnal in the upcoming negotiations and, following the reformed CAP, adopt a clear position on agriculture and defend two principles. First, there must be no further cuts in addition to those agreed at the EU Berlin summit. Second, the direct payments system must be fully protected in the longer term so that the "European model of agriculture" can survive and prosper.

The IFA pleads, "This is the only future for our family farms, our rural economy and society, and for our natural environment."

EU enlargement, initially including five countries of Central and Eastern Europe and possibly five others at a later stage, also worries Irish farmers. The IFA claims accession will cost the EU budget extra money that was not provided for in the Berlin negotiations, and unless additional resources are made available, the cost will ultimately be borne by Irish and other farmers in the existing EU states.

No one denies that EU membership has brought immense financial and other benefits to Irish farmers, although parading their newfound wealth has annoyed lesser well-off citizens, particularly in urban areas.

The powerful Irish Congress of Trades Unions (ICTU), with thousands of members in the farming and agri-food sector, admits that farmers have lost much of their political influence. ICTU claims that the main reason for this decline in influence is "rapidly falling numbers and strident forms of campaigning and militancy, which puts them outside the national consensus."

ICTU says the lukewarm public response to farmers' demands for government aid during a fodder crisis last winter "showed the extent to which they had already cried wolf too often." That sentiment underlines the seemingly constant urban-rural divide, which the majority of Irish farmers must address as they face a seemingly uncertain future.

—Mike Burns

VIENNA

ORGANIC FARMERS LOBBY AGAINST GMO CROPS

Despite European Union directives and the policies of other countries, Austrian officials have managed to maintain strict environmental protection regulations that they have used to nip budding plans to cultivate genetically engineered crops.

This spring, the government unilaterally banned the planting of a genetically modified maize produced by US-based Monsanto Company, and an outcry last year by the public and environmental organizations prompted American seed producer Pioneer to back off from plans to have farmers test plant its genetically modified maize.

In announcing the decision to ban the Monsanto product, Consumer Protection Minister Barbara Prammer said, "Scientific studies have produced evidence that Bt maize can damage useful insects such as butterflies."

In her announcement, Prammer referred to several recent studies, including one conducted at Cornell University, that showed Monarch butterflies died after coming into contact with leaves dusted with pollen from the genetically modified maize, known as Bt maize MON-810.

"These findings make necessary an Austrian ban on cultivation of the only Bt maize which is already permitted, in order to protect the environment," she said.

While Austria has the right to ban the maize for three months, EU officials said the country failed to follow proper procedures because it did not notify the European Commission about the intended ban or detail the reasons for prohibiting the product.

It is not the first time Austria has taken aim at genetically modified crops. Last year, Pioneer withdrew its application to plant genetically modified maize at ten test sites after several farmers who originally had agreed to plant the crop backed down following an outpouring of opposition.

The maize is designed to ward off the European corn borer and thereby boost crop yields. According to Pioneer officials, 40 percent to 100 percent of the maize planted at various sites is infested with the pest.

However, many fear the effects of genetically modified crops, and the impact they can have on nearby plants. It is a particularly sensitive issue in Austria, where organic farms are sprouting up across the country. Already, 36 percent of the EU's organic farms are located in Austria, far ahead of Italy, with a 21 percent share, and Germany with 12 percent, making organic farming a ripe area for specialization. A decade ago, Austria had only 1,500 organic farms. But by 1998, that number had climbed more than tenfold, reaching close to 20,000 and producing a wide range of fruits and vegetables, including peas, carrots, tomatoes, cabbage, cucumbers, apples, peaches, apricots, and plums.

Austria, with its mountainous terrain, is characterized by small farms, which total 8.4 million acres. More than one-tenth of that amount is set aside for organic farming, with average farms ranging in size from fifty acres to seventy-four acres. Moreover, demand is on the rise, with nearly every grocery store devoting a section to organic products commanding premium prices.

—*Susan Ladika*

BERLIN

GERMAN FARMERS AGAINST AGENDA 2000

Even today, agriculture and forestry still constitute an indispensable factor in the German economy. More than 80 percent of the country's land surface is devoted to farming and forestry. One-eighth of all jobs in Germany are based on farming and its related sectors. Agricultural production amounts to $34.5 billion annually and farm-related purchases and investments account for some $25 billion. Every fifth deutsche mark is earned by exports of agricultural produce.

In his 1999 agricultural report, Karl-Heinz Funke, the federal minister of food, agriculture, and forestry, writes, "agriculture finds itself in a difficult situation." Between 1991 and 1998, production was discontinued on every sixth German farm—mostly for age reasons. Government grants to a separate social security program ensure that the contribution burden on active farmers remains acceptable.

This year, Funke expects profits of full-time farms (individual farm enterprises) to decline by 2 percent to 6 percent. Gerd Sonnleitner, the president of the German Farmers Association, says that the German farmers feel the squeeze on incomes already and that with the EU's Agenda 2000 initiative, the introduction of energy taxes in Germany, and the proposed German austerity budget, the farmers would lose between $2,700 to $8,100 per farm.

With countries from Eastern Europe preparing to join the European Union, Agenda 2000 was designed to make the EU financially fit for enlargement by adopting tough measures regarding future financing and farm reform. At the Berlin summit in March, the fifteen EU heads of state agreed unanimously to cap spending on the Common Agricultural Policy by postponing the most radical reforms in the dairy sector and diluting the price cuts for cereals. That means production surpluses will continue. They have avoided imposing "digressive" payments that would have cut farm subsidies by a bit more each year. Furthermore, they have abandoned any attempt at "co-financing," which would have required each member state to pay a share of the costs at home. The result is a package that will have to be renegotiated in the global farm trade liberalization talks, which are due to open in the World Trade Organization before the end of the year.

There was little sense of celebration as 3,000 farmers gathered for their annual *Bauerntag* (Farmers Day) at Cottbus on July 1. "The Agenda 2000 will decrease the farmer's income by 5 to 8 percent," declared Sonnleitner. "While other EU countries were trying to find a national answer to help their distressed farmers, the German government was doing the opposite by introducing taxes and cuts in the agricultural budget. We do not understand the world anymore," he said and urged Chancellor Gerhard Schröder to withdraw the proposed cuts. Schröder ferociously defended his austerity budget. "I have come here to make it clear to you all that we shall push through the austerity package against all individual protests in the interest of our country and its people," he insisted and left the congress amid boos and whistling.

"We will be driven out of business," lamented Josef Schwabl, a farmer from Ebersburg (an hour's drive east of Munich) who farms 138 acres. "It is damn difficult. You must always look to see how it can be done more simply and think of something extra you can do." He supplements his income by running a private contracting business, hiring out heavy machinery. His wife works as well. Agenda 2000, he argues, puts farms like his at a disadvantage.

The majority of the German people share the farmers' fears. According to a recent public opinion poll, 71 percent are convinced that Agenda 2000 threatens the farmers' existence and 80 percent of the population (in Eastern Germany 86 percent) demand that farming should continue at the present scale.

—*Wanda Menke-Glückert*

BRUSSELS

SCANDALS DAMAGE FARMERS' INFLUENCE

Belgium's small but highly organized farming sector was dealt a heavy blow by the dioxin scandal that blew up in late May and was a major contributory factor to the defeat of the center-left government in the June elections. In a crisis that curiously resembled that over the British mad cow disease (BSE) three years earlier, the EU banned the export of Belgian chickens and eggs. Furthermore, many foreign governments, including the US, slapped more general bans on Belgian, and even EU-wide, agricultural products, including pork, beef, and dairy products.

The first signs of approaching trouble appeared in March, when chickens on a Flemish farm began to behave strangely; eggs were not hatched, and birds went lame. An insurance company concluded that processed animal feed was to blame and reported to the Belgian agriculture minister that quantities of cancer-causing dioxins had been found in the products of nine feed producers in Belgium, one in France, and one in the Netherlands.

The Belgians warned the French and Dutch governments that "there may be a problem" but made no public announcement and did not report the matter to the European Commission, as they were obliged to do. It was only at the end of May that the Belgian health ministry issued a short press release advising shops in Belgium to strip their shelves of chickens and eggs, later extending the ban to butter, pork, and beef. Four arrests were made, including the bosses of a fats and oils processing company at Ghent, which was believed to be the original source of the contamination.

Like the British over BSE, Belgium has fallen foul of the European Commission, which strongly condemned the government for its failure to report the situation earlier. The Commission is considering legal action against Belgium and in the meantime is unlikely to be sympathetic to Belgian appeals for CAP funds to help compensate their farmers, whose losses so far are officially estimated at $1.5 billion. By early July, no more than $165 million had been paid to the farmers by the government.

A further blow to the farmers has been to lose their influence at the heart of Belgium's government. The farmers' association, the Boerenbond—generally considered the most powerful lobby in the country—is closely affiliated to the Christian Democratic party of Jean-Luc Dehaene. Indeed, every agricultural minister for the past forty years has himself been a member of the Boerenbond. The defeat of the Christian Democrats in the June elections has ended that influence, and the new agricultural minister, a Liberal, is likely to keep them at arms' length.

Following a massive program of slaughter of potentially infected animals, the danger is now past, and nobody's health has probably been damaged by the relatively small amounts of dioxin consumed during the few months that people were at risk. Nevertheless, it will take a long time to restore consumer confidence in Belgian produce, and the future for the country's 70,000 farmers appears bleak. Many of them may well go out of business in the next year or two.

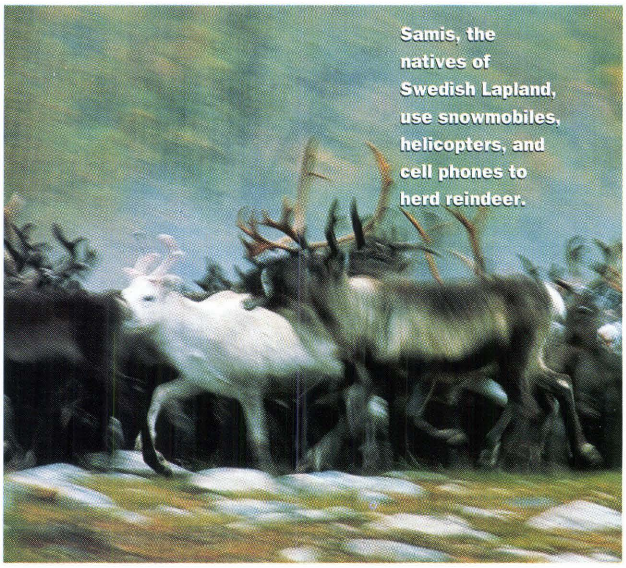
—Dick Leonard

STOCKHOLM

HIGH-TECH FARMING CHANGING THE LANDSCAPE

As the snowmobiles circle closer, the reindeer begin running down the slope, the direction their Sami herders want them to go. The Samis, the natives of Swedish Lapland, are in touch by cell phone to make sure everything is going as planned. Overhead, Samis in a helicopter keep an extra eye on the situation. Reindeer may not be the first thing that comes to mind when you think of agriculture, but in Sweden, they are an integral part of the industry, and the Samis are an illustration of just how high-tech that industry has become.

More traditional farming includes the dairy industry, keeping sheep, and growing such crops as rapeseed, sugar, and of course, potatoes, a main staple of the Swedish diet. However, even these farmers do little without computers, mobile phones, and sophisticated equipment, such as milking machines that record the exact amount taken from each cow.


Samis, the natives of Swedish Lapland, use snowmobiles, helicopters, and cell phones to herd reindeer.

Like the Samis, cattle farmers are more apt to herd animals that have gotten loose back to pasture with all-terrain vehicles than with old-fashioned dogs or horses.

While crop farming is concentrated in southern Sweden, there is virtually no part of the country that does not have some type of agriculture. In part, that is because forestry also comes under the agriculture umbrella, which means much of northern Sweden is included. However, traditional farming exists in the north as well because the midnight sun makes for a short but intense growing season. Even less than thirty miles from Stockholm, rapeseed fields and grazing cows are common sights.

LRF, the main farmers' industry organization, has almost 128,000 direct members, as well as 300,000 affiliate members through local and regional organizations. Among other things, LRF was one of the first groups to take advantage of the country's deregulated electricity market, forming a division to buy in volume at discounted prices for its members. That proved so successful that it began selling electricity to others as well. LRF also trains farmers in business methods and to use high-tech equipment.

Unlike their counterparts in Norway and Finland, Swedish farmers were not as concerned about losing agricultural subsidies because of Sweden joining the European Union. Sweden had already begun phasing out some subsidies before the decision to join the union in 1994. However, while farmers did not see EU membership as threatening their pocketbooks in quite the same way as did their neighbors, they were far from unanimously in favor of joining.

For one thing, membership meant more paperwork. It also meant increased costs since standards had to be harmonized with those of the European Union. Moreover, farmers worried that a more open market would hurt their products' competitiveness. Swedes, however, have largely remained loyal to domestic goods. Concerns about salmonella from Danish chicken and meat and about mad cow disease from British imports are partially responsible, but farmers also mounted a massive advertising campaign to retain consumers' support.

Under a new program, approved by the EU, the Swedish government is trying to simplify regulations for farmers, increase the amount of food grown without pesticides, protect farm animals, and lessen the negative impact of farming on the environment. Some $325 million will be spent between 2001 and 2005.

As in most parts of Western Europe and the United States, small farmers have largely disappeared in Sweden. Ironically, that is partially thanks to new technology. The equipment needed to make a farm run profitably today is also expensive enough that it is not worth buying unless farms are selling sufficient commercial volume. However, without it, farms have difficulty reaching that volume. Much of Swedish high-tech farming got its start thanks to LM Ericsson, the founder of the telecommunications company that bears his name.

When he retired at fifty-seven, after running the company for twenty-seven years, Ericsson bought a farm and devoted himself to mechanizing it as much as possible. For him, Sami reindeer herders using cell phones as farm equipment probably would have been the most natural thing in the world.

—Ariane Sains

COPENHAGEN

DANES DOMINATE PORK

Industry restructuring has been the major business story in the US during the 1990s, and one that is now being emulated in Europe. Few industries in the world, however, are able to match the level of restructuring that has transformed Danish agriculture into the world's largest exporter of pork and a frontrunner in the organic foods sector, which is likely to grow in the next century.

By law, all Danish farms are family operated, and the number of farms has been reduced from 200,000 in 1950 to close to 20,000 this year. In 1990, the number was 34,000, so restructuring of Danish agriculture did not slow in the nineties. A slightly higher number of farms are operated on a part-time basis, but a large proportion of that land is rented to full-time farmers, who need it to dispose of their pig manure to comply with strict Danish environmental laws.

Though industrial management consultants have not been employed, the strategy that has been adopted could have been bought off the shelf of any reputable consultancy—identifying core competencies and moving up the value chain. In the case of Danish farming, this strategy has meant focusing on industrialized production of pork and agro-industrial products.

The strategy has been profitable, though subject to the dramatic price fluctuations of world agricultural markets. Last year, global food prices were low, giving full-time Danish pork farmers an average income of less than $3,000. The year before the average income was $100,000. Predictably, this has reinforced the trend toward even larger pig farms, and one-sixth of the 3,000 pig farms produce more than two-thirds of the 20 million pigs slaughtered annually. The constraint is political, as anti-pollution laws demand that the manure has to be used on land and may not be dumped into the sea.

More than 80 percent of Danish pork is exported, making Denmark the world's largest pork exporter to more than 100 markets. However, the European Union absorbs two-thirds of the total, while Japan, Russia, and the United States are the most important customers outside the European Union. Danish agro-industrial products, including processed foods and agricultural machinery, have also been relatively successful. Moreover, the successful restructuring story explains why Danish agriculture is confident that it will survive, and perhaps even thrive, if the global food trade is liberalized as part of the new WTO trade round that starts in Seattle in the fall.

Though still a wild card, Danish agriculture is also pioneering organic food production on an industrial scale. More than 2,000 Danish farms are now considered organic—meaning they conform to the state controlled requirement that they use only natural fertilizers and pest controls and no chemicals or hormones of any kind. Only about 4 percent of the arable land is tilled organically, but more than 1,000 farms are currently applying for organic status, and Denmark is set to take a dominant position.

Today, Danish consumers, especially the high-earning city dwellers in the greater Copenhagen area, are better educated about food production. Many supermarkets now sell more organic milk than regular milk. Organic cheese and other dairy products are also advancing on the markets. On a national a scale (as well as a globally), the figures for organic food production are insignificant. However, many believe that organic foods will become a premium market in the next century, especially in Europe.

—Leif Beck Fallesen

HELSINKI

FINNS RELY ON LONG DAYS

Finland's national poet Johan Ludwig Runeberg (1795–1867) wrote a very often quoted poem about a peasant named Paavo who year after year must mix ground bark into his flour to make it last throughout Finland's long winter. Today, the poem offers a portrait of Finnish agriculture. Looking at the map, it is hard to understand that anyone in his right mind would even dream of practicing animal husbandry here. All parts of the country infrequently experience frost in the middle of the summer. After all, Finland is situated between the sixtieth and seventieth latitudes—the same as Alaska. However, practicing agriculture in Finland is not just related to its fortuitous position under the Gulf Stream's warming northward swing, which causes the temperatures to be three to four Celsius-degrees higher than other locations along the same latitudes.

Because Finland is nearly 600 miles long from south to north, the climatic conditions vary considerably within the country itself. In the south, the growing season is 170 days. Up north, however, it is a paltry 100 days, but for a month or two many of those are exceedingly long days, with up to twenty-four hours of sun north of the Polar Circle during high summer.

Cultivation of wheat and oilseed plants is restricted to southern Finland. However, barley, oats, grass, and potatoes can be cultivated in all parts of the country.

Finnish agriculture has always been based on the idea of the family farm. Practically all farmland is still privately owned—some 87 percent by the farmer himself, some 12 percent by beneficiaries along with family companies.

The farms are usually quite small here due to a rather peculiar reason. After the Second World War, Finland had to cede most of the province of Karelia (in southeast Finland), including its then second largest city, Viipuri, to the Soviet Union. In this transfer, Finland also lost more than 11 percent of its best farming land and got 400,000 refugees. Almost 10 percent of the whole postwar population had no homes and had to be resettled. Today, more than half a century later, the average size is just larger than thirty-nine acres of cultivated land. In 1998, the total area under cultivation was just less than 5.4 million acres (including 7.8 percent fallow), which is approximately one acre per inhabitant.

Agriculture is definitely a declining industry in Finland. Every year a good number of small farms quit production, but in other respects, structural development is slow. The number of large farms has not increased very much, and few farms are amalgamated into larger concerns. Instead, farmers are increasingly renting additional land to increase production.

Finnish agricultural production is mainly based on livestock because it is the only profitable form of production in most parts of the country. In fact, the Finns are among the heaviest milk consumers in the world. About a third of the active farms practice dairy husbandry as their main production, 8 percent practice some other forms of cattle husbandry, and 8 percent are engaged in pork or poultry husbandry. About 46 percent of the farms grow crops as their main product.

—Thomas Romantschuk

ARTS & LEISURE

BOOKS

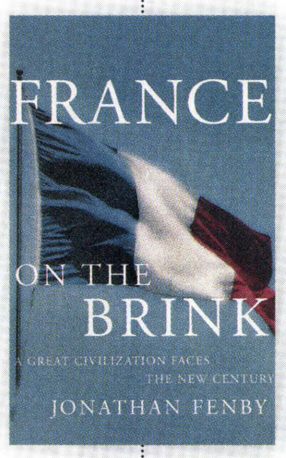
FRANCE ON THE BRINK

By Jonathan Fenby; Arcade Publishing; 434 pages; $28

For most people who have visited France, the memories of gourmet meals, world-class museums, and sumptuous châteaux create a lasting picture of a people united by the love for their language, culture, and country. What is not as obvious to the tourist is the huge rate of unemployment, the stagnant immigrant populations in metropolitan suburbs, and the racist political minority that continues to attract voters at the polls. Jonathan Fenby, an Englishman and self-professed Francophile, delves into the depths of what France as a country is feeling and living as it strives to push itself into the next millennium. Having worked for more than thirty years as a correspondent in France for the *Economist*, the *Christian Science Monitor*, and the *Times* of London, among others, (and married to a Frenchwoman) gives Fenby a unique perspective on a country whose true character is often impenetrable to foreigners.

He explores the many sides of French life that are often overshadowed by perceptions of a homogenous society whose only complaint is about tourists who don't speak French. What irks France, according to Fenby, is an inability to honestly evaluate and confront problems among the country's various interest groups—from overly subsidized farmers to the elitist énarques (graduates of the prestigious Ecole Nationale d'Administration, who dominate French politics), from separatist Corsicans to the Arabs and Africans who live in subsidized housing in Paris, Lyon, and Marseille.

Fenby does not hold that one man or group is responsible for all that is wrong in France. Rather, he asserts that realistic measures have to be taken to assure that a healthy equilibrium between rival viewpoints can be reached. Fenby's chapter on the citizens of the "other" France who inhabit the high-rise public housing complexes on the outskirts of major cities points to an explosive domestic problem that merits increased government scrutiny. Teens of Arab and African origin roam the streets in gangs, acting violently without fear of the police. Tensions between police and teens have escalated into uncontrolled violence, such as the 1997 Christmas riot in Lyon when youths destroyed thirty cars and set fire to a supermarket after hearing stories of a police officer accidentally shooting and killing the man he had just arrested. The recent surge in votes for the racist National Front points to a sector of the population that is fed up with the senseless violence occurring in the metropolitan peripheries. While these marginalized people may not live in the France of green pastures surrounding Renaissance castles or on the narrow streets of the Ile St Louis in Paris, they form, nevertheless, an essential element of who and what France will be in the twenty-first century.



A large portion of the book highlights the five presidencies that France has known since the creation of the Fifth Republic in 1958. As Fenby recounts what made and destroyed the reign of each president, one cannot help but notice the volatile world of French politics, where a closed elitist circle of leaders who hold multiple offices at the same time and switch party allegiances. Regional interests too often appear to supercede what is best for the entire country. High-profile political scandals—such as the meteoric rise and fall of Bernard Tapie, who was appointed minister of towns under Mitterrand, served as a member of the European Parliament, built a successful business, and was jailed in 1997 for involvement in a bribery conspiracy to throw a match of the OM, the soccer team he owned—lead the French and Fenby to question what is going on in the upper ranks of the French government.

Indeed, France is at a major crossroads in its history. No longer can it boast a cultural and linguistic domination in Europe or a worldwide empire. However, France cannot be ignored in world affairs, as it holds a permanent seat on the UN Security Council and exerts a sizable influence in European and international political and business circles. Jonathan Fenby, admired enough by the French to be named a chevalier of the French Order of Merit in 1990, does not attempt to erase any notions of France's prestige, but he does illustrate the difficult internal dynamics of a nation at a serious turning point in its history.

—*Richard A. Flanagan*

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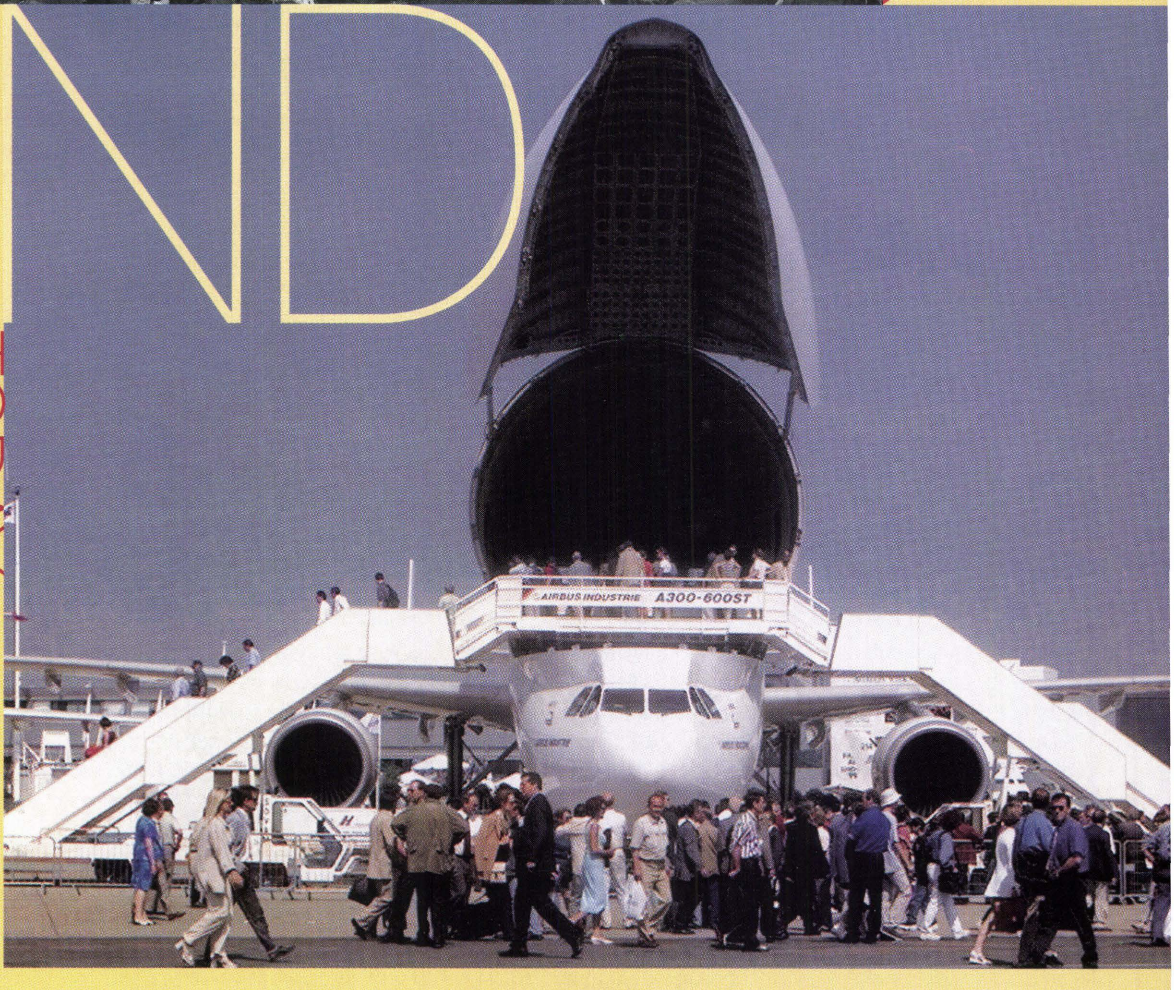
YESTERDAY AND TODAY



THE PARIS AIR SHOW

Crowds gathered around the Boeing 747-100, seen for the very first time at the 1969 Paris Air Show (shown above). The world's first jumbo jet made its debut thirty years ago, providing a dramatic leap in international air travel.

At the 1999 Paris Air Show held in June, visitors line up to visit an Airbus A300 600ST Super Transporter cargo plane parked on the Bourget airport.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