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# EUROPE

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## Transatlantic Trade TIES AND TENSIONS



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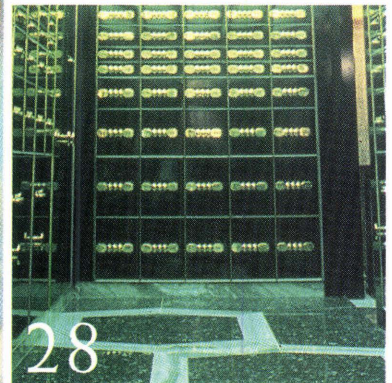
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# EUROPE

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# LETTER FROM THE EDITOR

**T**ransatlantic trade is booming. While the media tends to focus on EU-US trade disputes, transatlantic trading ties far outweigh any problems relating to bananas or beef hormones. "Every year, US and European businesses sell each other roughly \$550 billion in goods and services without a hitch, and the total stock of two-way investment has grown to some \$300 billion," writes Gary G. Yerkey, a trade reporter for BNA, in his article "Dinner Plates and French Champagne."

European Commissioner Pascal Lamy tells *EUROPE* about his recent meeting with his US counterpart Robert Zoellick, the new US trade representative. "Although we will inevitably find ourselves sometimes on different sides of the fence," Lamy declares, "we share the view that the EU and the US have a common interest in working together to advance the trade agenda worldwide. We share a basic understanding about the fundamentals of what we do." Lamy goes on to discuss the banana issue, the looming steel problem, the upcoming trade round proposals, and the G8 and EU-US summits to be held this summer.

Offering a US point of view, Senator Richard Lugar, chairman of the Agriculture Committee and former chairman of the Foreign Relations Committee, speaks out on trade issues relating to agriculture, the proposed missile defense system, NATO, and genetically modified food in a lengthy interview with *EUROPE*.

Writing from Paris, John Andrews, the bureau chief for the *Economist*, looks at transatlantic trade from the European perspective and relates that "Arguably, given the size of America and the EU, there are remarkably few disputes. Indeed, the much ballyhooed trade 'wars' are little more than skirmishes when seen against fifty years of increasingly liberalized trade."

Axel Krause reports from Airbus headquarters in Toulouse on the firm's new super-jumbo jet, the A380, which will ultimately carry more than 800 passengers. Krause interviews Airbus's leading salesman, John Leahy, an American, and questions whether the new plane will bring transatlantic trade battles or fiercer competition with Boeing.

Looking at issues other than trade, Martin Walker, UPT's chief international correspondent, predicts that missile defense, Balkan security, and Europe's proposed Rapid Reaction Force will emerge as "early challenges for the Bush administration" in its relations with Europe. Walker also discusses possible differences between the US and Europe on other issues including Russia, Turkey, and the Middle East.

We also present a question-and-answer discussion with European Commission agriculture counselor Gerry Kiely, who gives a detailed account of the current outbreak of foot and mouth disease and a background on mad cow disease.

Prime Minister of Luxembourg Jean-Claude Juncker outlines the role of smaller nations in an enlarging European Union and talks about the euro and EU-US relations. We profile Luxembourg, Europe's richest country per capita, and find that the prosperous nation is fostering a "new image" as a cultural destination.

Next month, we discuss Europe's future, Ireland, and new high-tech areas.



**Robert J. Guttman**  
Editor-in-Chief

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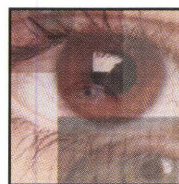
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# EYE ON THE EU

Profiling personalities  
and developments  
within the European  
Union



## KINNOCK CAMPAIGNS FOR COMMISSION REFORM

The second stage in the European Commission's reform program, which Vice President Neil Kinnock is preparing, was launched on February 28, when the former British Labor Party leader set out proposals for a comprehensive shakeup of the career structure of the Commission's 20,000 employees. This came just a year after stage one, which has already yielded significant improvements in the financial control of the EU institutions, the prevention of fraud, increased transparency, and improved disciplinary procedures.

Even if the crisis that led to the resignation two years ago of the entire Santer Commission had not occurred, stage two is clearly necessary, indeed long overdue. As Kinnock remarked on presenting his proposals, the structure and working methods of the Commission "have remained practically unchanged since 1957 [while] the staff regulations have never been comprehensively updated."

Kinnock's new proposals, which will be open for discussion with staff representatives for a period of three months, have eight principal elements: a new career structure; modernization of the pay, pensions, and allowances system; strengthening management; training; encouraging job mobility; promoting equal opportunities; improv-

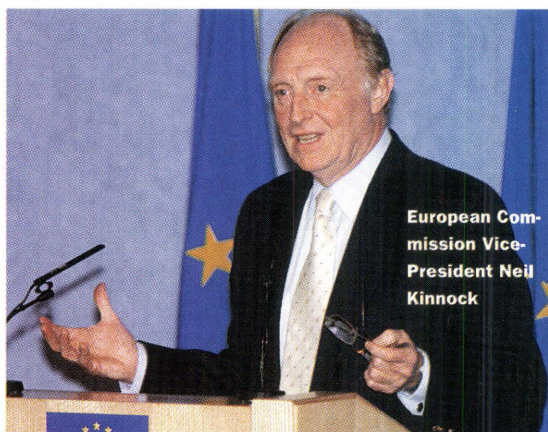
ing the working environment; and dealing with professional incompetence.

Kinnock has produced a promising agenda, but as so often, the devil will emerge in the details. His primary aim—difficult to achieve in international organizations where appointments are often constricted by the requirements of national quotas (open or unacknowledged)—is to link pay and appointments more closely to merit. His new proposals involve replacing the present rigid separation of staff into four categories with a single salary scale, with new methods to appraise performance and ease promotion.

Recruitment to the Commission staff will continue to be on the basis of open competition, but the effectiveness of current procedures will be vigorously probed. A rolling three-year forward-looking program will assess the qualification needs of the various Commission services, and specialist training lasting up to two years will be given to all members of selection boards. External recruitment experts will be brought in where necessary and—in line with the commitment to end "ageism"—the age limit (currently forty-five) for all recruitment competitions will be abolished from July 2001.

A more linear career structure enabling people to move more freely between the dif-

ferent directorates-general of the Commission will be established, and all officials will be assessed annually and promoted on the basis of their achievements. Training will be multiplied fivefold over five years, so that the number



European Commission Vice-President Neil Kinnock

of days that officials will spend in training each year will increase from the current inadequate two days to ten.

Career mobility will be encouraged to benefit individual officials and the institution in general. A career guidance service will be established to assist officials in finding new posts and to collate information on professional profiles for a Commission-wide database in order to help match available officials with suitable vacant posts. Newly appointed officials will be expected to remain in their first post for three years, then move jobs at least every five years. Measures will be introduced to facilitate exchanges with member state administrations and other international organizations in order to learn from each other.

Commission officials are frequently pilloried in parts of the press (notably the Eu-

rosceptical newspapers in the United Kingdom) as fat cats living too well at the taxpayer's expense. In fact, there is little or no evidence that the pay scales are excessive if quality people are to be recruited.

Although there will be no actual salary cuts under the Kinnock plan, some officials will undoubtedly lose out owing to the reduction of over-generous travel allowances, while in any projected reorganization those who have gotten used to the status quo naturally fear the consequences of change.

This has led some observers to predict major obstruction, including strike action, from the four unions representing Commission staff. Their clout, however, can easily be exaggerated, as they have only succeeded in enrolling a quarter of the work force, and early indications are that their reaction may prove less militant than widely forecast.

Stiffer resistance may, in fact, come from certain member states, which may believe their vested interests are best served by the current arrangements, however unsatisfactory. Yet, with the strong backing he is receiving from Commission President Romano Prodi, Kinnock—who has proved himself to be a resourceful and persuasive advocate—has a good chance of getting his package approved by a majority on the Council of Ministers.

—Dick Leonard

# EURO NOTES

Reporting news,  
notes, and numbers  
from Europe's  
financial centers



## EURO ZONE TAMING THE CELTIC TIGER?

If there was ever a contest to find the model member of the euro zone, the smart money would be on Ireland, the “Celtic Tiger” of the European Union. Over the past decade, Ireland’s economy has performed outstandingly. It has restrained galloping inflation; it has grown at more than double the rate of fellow EU members; it has steadily reduced chronic unemployment; it has brought its debt as a proportion of gross national product down to the second-lowest level in the EU.

Yet despite these impressive figures, Ireland has received an unprecedented rebuke from its euro-zone partners for pursuing an expansionary budget. For the first time in the short life of the euro, a member of the single currency zone has been censured by his peers and told to bring his budget into line with guidelines agreed by the EU’s fifteen member states.

The impact of this reprimand administered by the ECOFIN council of finance ministers in mid-February continues to reverberate beyond Brussels because of its political impact. Ireland is one of the most pro-European countries, and although the recommendation does not carry sanctions against a recalcitrant Dublin government, it offers important lessons for the future.

First, the recommendation suggests that euro members—led by France and Germany—are determined to strengthen budgetary coordi-

nation throughout the euro zone. One theory is that these two countries picked on Ireland to put down a marker ahead of the Italian election. The fear is that Silvio Berlusconi’s right-wing coalition could come to power in April with a tax-cutting agenda that could challenge budgetary discipline in the single currency zone.

Second, the reprimand signals a new drive by the European Commission—notably Pedro Solbes, the Spanish monetary affairs commissioner—to strengthen budgetary coordination throughout the euro zone. Solbes, a former Spanish finance minister, is anxious to carve out a role in the post-EMU world. He wants to make sure that the Commission is not excluded by the dominant European Central Bank and the EU’s finance ministers.

Third, the ECOFIN council’s decision could signal a new effort by finance ministers to come closer to the European Central Bank, which has been sending tacit warnings about Ireland’s expansionary fiscal policy for at least twelve months.

On the other hand, many observers expressed profound doubts about the decision to reprimand Ireland, both on political and economic grounds.

Ireland is a small, successful, open economy that cannot be judged by the same standards as a large member of the euro zone where an ex-

pansionary budget would obviously have spillover effects. In other words, it is unfair to censure Ireland for what most would consider a minor misdemeanor, whereas in Italy’s case it would count as—so to speak—a felony.

There is also a strong suspicion that Ireland was sin-

ous in terms of tax cuts and spending increases, the wages pact with the trade unions—the bedrock of Ireland’s economic performance—would have dissolved.

Finally, it is unclear whether all EU finance ministers were entirely comfortable with the censure of Ireland—

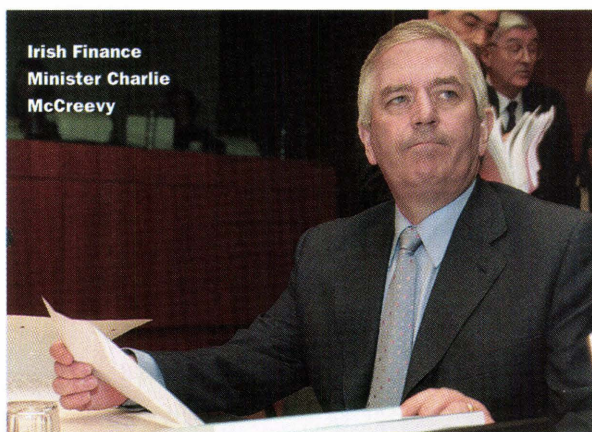
though none of the fourteen formally opposed it. For a start, Gordon Brown, the UK’s chancellor of the exchequer, objected strongly to Commission warnings—later endorsed by the International Monetary Fund—that his expansionary

budget could adversely affect the performance of the UK economy.

Most striking, Brown’s views received some support from Didier Reynders, the Belgian finance minister who chairs the twelve-member euro group. Reynders made clear that he was reluctant to share the Commission’s criticism. One theory, shared by a senior EU diplomat, is that Reynders wants to preserve the euro group as the prime forum for the peer review rather than the Commission.

This suggests that the principle of peer review—not just on budget deficits but also on the general conduct of budgetary and employment policy—is slowly gaining momentum. But in the case of Ireland, Europe may have picked the wrong pupil to administer a sound economic lesson.

—Lionel Barber



Irish Finance  
Minister Charlie  
McCreevy

gled out because of longstanding grievances in France and Germany about the generous tax breaks it offers to overseas investors. The success of its financial services industry in Dublin Docks has aroused the envy of many other euro-zone members, so too the way in which it has attracted US manufacturing investment and thousands of jobs.

Furthermore, the economic case for censuring Ireland looks far from sound. The latest inflation figures are down to around 5 percent, well below last year’s peak of 7 percent in December. In a fast-growing economy that is seeking to “converge” with the euro zone core, an expansionary budget is by no means nonsensical.

Charlie McCreevy, the pugnacious Irish finance minister, also argues that if the budget had been less gener-

# e-EUROPE

Tracking the news  
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## BRITISH GOVERNMENT GOES DIGITAL

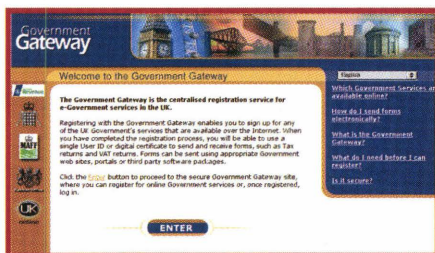
The British government launched the first phase of its five-year plan to allow its 60 million citizens and 3 million businesses to access its services using the Internet. The plan announced last year by Prime Minister Tony Blair envisions citizens paying taxes, farmers applying for subsidies, and businesses submitting value added taxes all using a secure web-based platform designed by Microsoft.

Speaking at a news conference in Seattle during Microsoft's fourth annual government leadership conference, Andrew Pinder, Blair's "e-envoy," said, "It's my job to make the UK the number-one place to do e-business. We have a large number of things to do as a nation to get that right." The complex endeavor involves linking nearly 700 local and national government computers in a seamless, secure network. Microsoft chairman Bill Gates called it the "largest e-government initiative in the world."

Reportedly, the deal with Microsoft came about last fall after a similar project with another software firm fizzled. Under the deal with the Redmond, Washington-based Microsoft, the UK has so far invested \$21.5 million, with more investment expected as further services are added to the system.

The services to go live as part of the first phase of the

"Government Gateway," as the system is called, include the Inland Revenue Tax Bureau, Customs and Excise, and the Agriculture, Fisheries, and Food Ministry. Others will be added over the next months and years, said Pinder. Citizens can register to access these services at [www.gateway.gov.uk](http://www.gateway.gov.uk). The Government Gateway's ultimate goal is to simplify transactions by allowing users to input data once for multiple services and access all the



The British government is building an on-line system to simplify its services for its 60 million citizens.

services using a single password. In his speech to the conference, Gates predicted that the British government, by moving its services on-line, would improve its efficiency and would save taxpayers' money.

On the other hand, privacy groups, including the Electronic Privacy Information Center in Washington, DC, cautioned that security and privacy issues should remain paramount considerations in any projects involving sensitive personal information, such as health records and finances.

The deal comes at an important time for Microsoft as it increasingly is focusing its efforts to build its corporate and institutional e-business, which is based on its flagship Windows 2000 operating sys-

tem. Furthermore, its project with the UK appears to lay the groundwork for lucrative deals with other major governments. As a development partner in the venture, Pinder said the UK government and Microsoft were working on an agreement to package the software and sell it to other countries and possibly collect royalties on each sale. "It would be stupid of any government who had gone through this groundbreaking project not to take advantage of it," he said.

## LATEST FROM THE DIGITAL MUSIC WARS

Real Networks, the Internet media software company, has recruited three of the world's largest music companies to build a subscription infrastructure called MusicNet, which will allow for the legal exchange of digital music.

US-based AOL Time Warner, which controls the Warner Music Group; the German conglomerate Bertelsmann, which owns the BMG label; and UK-based EMI Group, the world's oldest music publisher, have each agreed to license their extensive music catalogs to the service in return for a minority equity share in MusicNet. However, the deal is non-exclusive, allowing the three companies, which combined control an estimated 40 percent of the recording industry's major label copyrights, to license their music to other services. RealNetworks, which, along with Microsoft, has established itself as a leader in media technology

with its RealAudio and RealPlayer software programs, will supply the technology in return for a minority stake in the venture.

In a joint press statement, the companies emphasized MusicNet will not be a web site where consumers go to buy music; rather it will provide the technology to its partners to sell the music through their own distribution channels.

RealNetworks CEO Rob Glaser, who is MusicNet's acting chief executive, indicated that he hoped to include other music companies in the venture, including the France-based Vivendi Universal and the Japanese-controlled Sony Music Entertainment, which have joined forces to build a music service called Duet.

The MusicNet venture comes at a particularly critical time in the development of online music, which heretofore has been dominated by Napster and other "file-sharing" Web services that allow users to download music from each other's computers for free. In a lawsuit brought by the recording industry, a federal court has ruled that such services violate copyright laws and must cease.

Executives from Warner, BMG, and EMI say Napster could license the MusicNet technology once it satisfies their copyright concerns. However, complicating the issue is a separate deal Bertelsmann struck last year with Napster to develop an on-line music service. Napster CEO Harry Bank issued a statement saying, "We read the announcement with interest, and we look forward to learning more about MusicNet."

—Peter Gwin

# Defusing Transatlantic

**Missile Defense,  
Balkan Security,  
and Europe's  
proposed Rapid  
Reaction Force  
emerge as early  
challenges  
for new  
administration**

The new Bush administration and two of its key European allies have moved quickly to defuse three potentially damaging rows within the Atlantic Alliance. The United Kingdom and Germany have made it clear that they will not join Russia and China in challenging US plans to proceed with an anti-missile defense system.

The European NATO allies have combined to reassure the Americans that Europe's planned new Rapid Reaction Force will not undermine NATO. And Colin Powell, the new US secretary of state, has calmed European concerns about an early withdrawal of US troops from peacekeeping missions in the Balkans.

"We went in together, and we'll come out together," Powell told a meet-

ing of NATO foreign ministers in Brussels. This put to rest European fears that had built since last October, when George W. Bush in the first of the presidential candidates' television debates suggested he would be keen, once elected, to start withdrawing US troops from Bosnia and Kosovo.

The difference between Bush the candidate and Bush the president has been marked, as the realities of office and the influence of experienced foreign policy advisers have come into play. National Security Adviser Condoleezza Rice, along with Powell and Vice-President Dick Cheney, all learned the importance of allies during the Gulf War, and Rice moved quickly in the new Bush administration's first weeks to reassure the NATO partners.

Defense Secretary Donald Rumsfeld went to Munich, for the annual Wehrkunde security conference, to stress that while the Bush administration's plans for a National Missile Defense (NMD) were firm, nothing would be decided before close consultation with the allies. Rumsfeld made a point of dropping the 'n' word from NMD, and Rice now speaks of AMD (for Alliance Missile Defense). In Munich, however, Rumsfeld went on to warn the European allies that they should proceed cautiously with the planned new Rapid Reaction Force of 60,000 troops, designed to operate independently from NATO.

"Weaken NATO and we weaken Europe, which weakens all of us," Rumsfeld said. "NATO is at the core of our security efforts. By confusing duplication or perturbing the transatlantic link, we run the risk of injecting insta-



Secretary of State Colin Powell met with European Commission President Romano Prodi in Brussels in February during his first trip as secretary of state to meet with NATO and EU officials.



# ROWS

bility into an enormously important relationship.”

The key word in Rumsfeld’s remarks was “duplication.” The US and the United Kingdom insist that the new European defense force should share NATO’s joint planning staff, which would keep it wholly within the NATO orbit. France, by contrast, argues that the fifteen-nation European Union needs the autonomy and planning capability to act independently when the NATO Alliance chooses not to do so.

In his visit to Washington at the end of February, and his weekend stay with President Bush at Camp David, UK Prime Minister Tony Blair sought to reassure the Americans about missile defenses and the primacy of NATO. Once back in London, Blair had a long phone conversation with Germany’s Chancel-

lor Gerhard Schröder. Blair stressed that the American decision had already been taken; the Bush administration was determined to go ahead with anti-missile defenses. But Blair noted that there was still no decision on what kind of system to develop, no agreement on the main technology to pursue, and that any deployment was some years away. As a result, there was time for the European allies to participate in the American deliberations.

As a result of that talk with Blair, Chancellor Schröder delivered a U-turn in German policy, suggesting that missile defense technology was too important, and too inevitable, for Germany to ignore. This was a sharp departure from the earlier statements of Germany’s foreign and defense ministers, who had echoed Russian and French

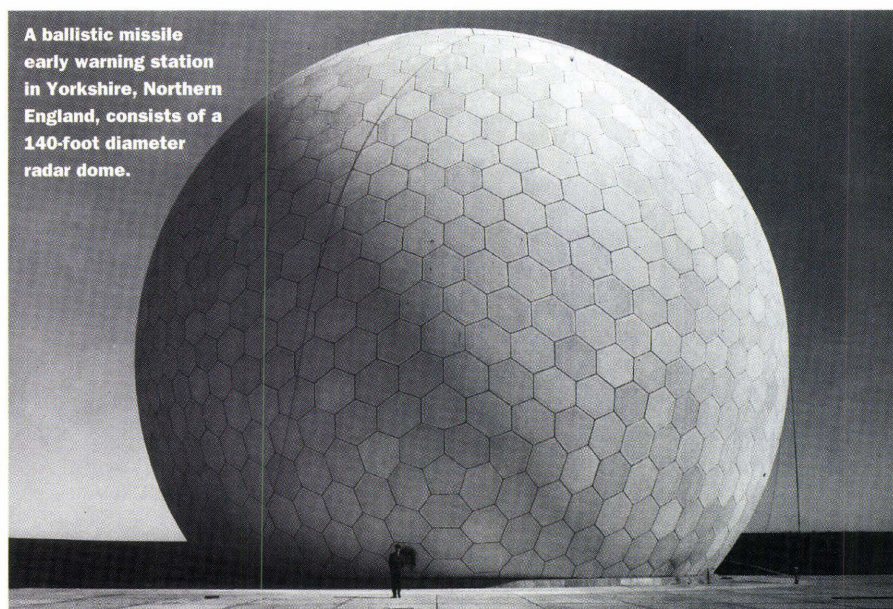
fears that the American system could destabilize the strategic security system that had lasted since 1972, when the Anti-Ballistic Missile Treaty was signed.

“With regard to the planned missile defense system, it would be necessary first of all to discuss specific needs,” Schröder began, in an interview on Berlin’s N24 TV. “What threat scenarios are seen and how should we respond to them: with a purely national defense system or with a system that also includes Europe and does not exclude Russia?” Schröder asked. “It is only then that a decision should be made on building the system and how to build it.”

There remain some serious hurdles to US-European relations in the coming months, from a series of trade rows to differences over the measures needed to tackle global warming. There are potentially serious differing points of view on the Middle East, over Turkey’s twin economic and political crisis, and on the best way to steer Russia toward liberal economic and political reforms.

But none of these came close to the damage potential of the differences over NMD, the European military force, and keeping American troops in the Balkans. Any one of those, once out of hand, could have threatened the alliance itself. The most promising and informative result of the first few weeks of the Bush administration is that nobody on either side of the Atlantic seriously wants to run that kind of risk. ☹

*Martin Walker is chief international correspondent for UPI in Washington, DC.*



A ballistic missile early warning station in Yorkshire, Northern England, consists of a 140-foot diameter radar dome.

# Trading

## What to do when elephants

**W**hen elephants fight, the ground shakes and lesser animals take cover. Assume the United States and the European Union are roughly equal elephants in the world of trade, and it clearly matters that their quarrels should be trivial and quickly forgotten. After all, it was not just anti-globalization protesters who scuppered the December 1999 Seattle meeting of the World Trade Organization, it was also the different agendas of

the US and the EU. Indeed, if their differences persist, or worsen, the chances for renewing the “Millennium Round” will be poor. So how are the trading tensions across the Atlantic?

The optimistic answer is that they are normal and will improve thanks to the presence of a Republican administration—traditionally in favor of free trade—in the White House. The pessimistic view is that the tensions are, indeed, just as before but will, if anything, get worse thanks to domestic lobbies and political sensitivities in both America and the European Union.

Put aside the eight-year long, somewhat ludicrous dispute over the EU’s banana imports. (The EU reckons its new “first come, first served” quota system will satisfy the WTO even if it does not appease some American banana traders.) Inherently more serious disputes concern subsidies to Europe’s Airbus Industrie and fundamental disagreements over America’s use of hormones in beef and genetically-modified organisms (GMOs) in various agricultural exports. Add to that the intractable problems caused by the EU’s Common Agricultural Policy, and the picture begins to look bleak.

One reason is that despite the talents of Robert Zoellick as the US trade representative, it will take time for the new Bush administration to get up to speed. Moreover, it is simplistic to cast the Republicans as necessarily more open on trade issues than the Democrats. The truth is that the Clinton era had a remarkably good record on trade liberalization—and any government is susceptible to pressure from corporate supporters intent on protecting their own interests. It may be true that Zoellick and EU Trade Commissioner Pascal Lamy get on well together, but they are not the only actors in the trade drama.

A second reason is that several EU governments are already—or soon will be—in election mode. In France, for example, there will be presidential and parliamentary elections in a year’s time,



# Tensions

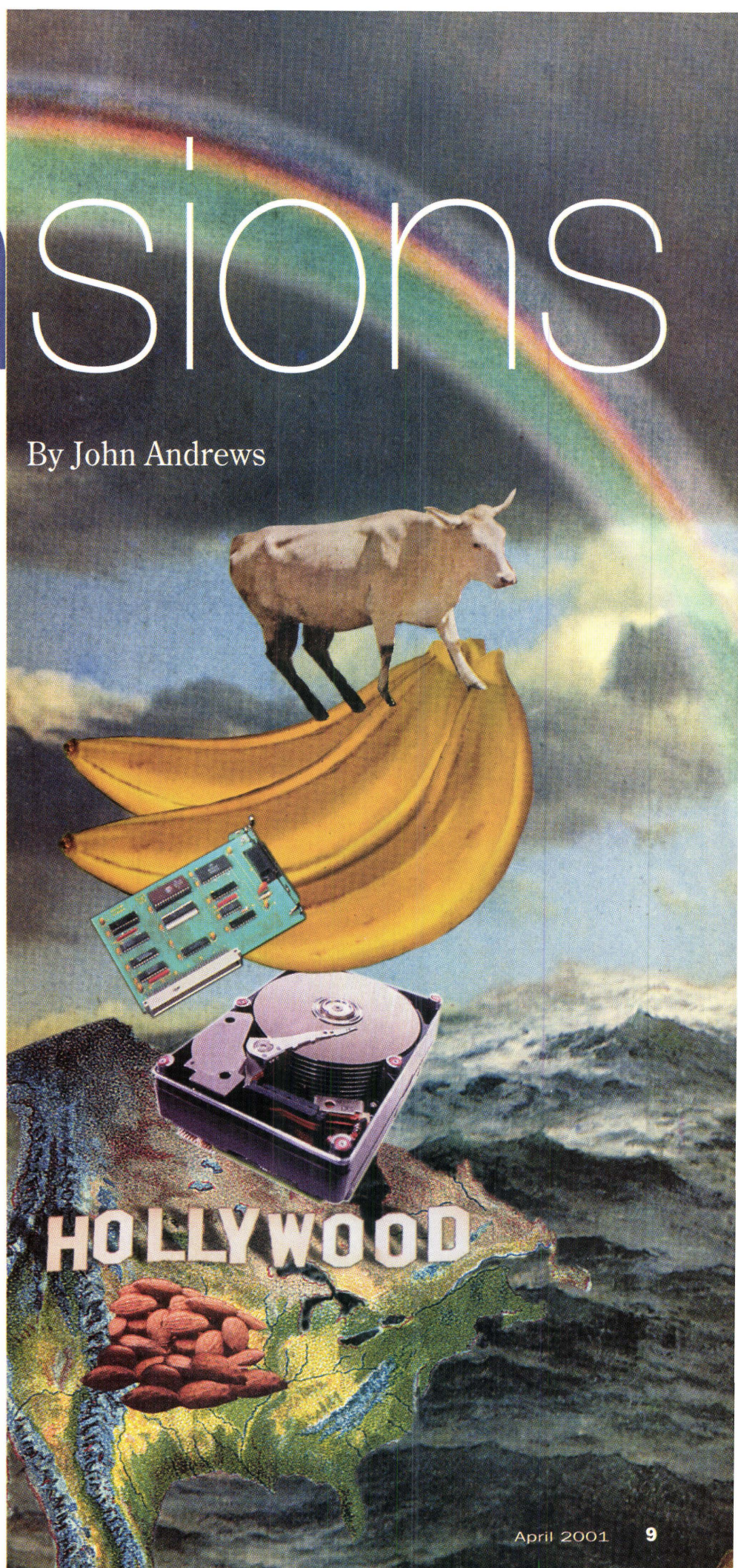
## fight?

By John Andrews

which means that no French politician can afford to approve transatlantic accords that lessen the protection of France's farmers. After all, France's farmers are an extremely powerful lobby, and the nation's beef farmers are furious at the financial damage caused by bovine spongiform encephalopathy, more easily known as "mad cow disease." Similarly, no matter how much US farm exporters denounce as protectionism the EU's use of the "precautionary principle" to ban certain imports, it is a fact of political life that voters throughout Europe will not accept hormone-fed beef or GMO products.

Given that background, it is hard to see how the EU can meet America's traditional demand for the elimination of subsidies for Europe's agricultural exports or an end to the "peace clause" protecting farming subsidies from WTO scrutiny. More likely, the EU will maintain the stance it took at Seattle: trade reform should be comprehensive, and any agreement should recognize the "multi-functionality" of agriculture, notably its environmental role. Indeed, a more plausible spur than American pressure for the reform of the Common Agricultural Policy is the potential cost of extending it to new members from Central and Eastern Europe.

There is, too, a third reason the pessimists can cite. The long-running rivalry between Boeing (in most years, America's single biggest exporter) and Airbus is set to get even fiercer as Air-





One example of trouble-free trade is the US importation of French champagne. Cases of Taittinger Champagne arrive in a New York area warehouse ready for distribution.

# EU Trade

bus launches its giant A380 (see story on page 20). In a dialogue of the deaf, America will continue to argue that repayable launch-aid given to Airbus by European governments is illegal, and the Europeans will argue that Boeing benefits from hidden subsidies in the form of government defense contracts. Ironically, the commercial reality behind the mutual chauvinism is that Airbus spends millions on subcontracting

in America, and Boeing does the same in Europe.

Add other disputes, actual or potential, over Internet taxation or the extra-territorial reach of American law (witness the Helms-Burton legislation in the 1990s, affecting EU investment in Cuba, or the Iran-Libya Sanctions Act, affecting non-American as well as American companies), and it is easy to side with the EU's pessimists as the

Bush administration gets underway.

But step back a moment and look at the broader picture. Arguably, given the size of America and the EU, there are remarkably few disputes. Indeed, the much-ballyhooed trade "wars" are little more than skirmishes when seen against fifty years of increasingly liberalized trade. In other words, perhaps the optimists are right: the elephants usually take care to hurt neither themselves nor innocent bystanders. ☺

*John Andrews is a journalist for the Economist based in Paris.*

*European Commissioner for Trade Pascal Lamy recently answered EUROPE's questions on a range of current trade topics. Formerly a senior French civil servant, chief of staff for European Commission president Jacques Delors, and a banker, Lamy discusses his meetings with US leaders, prospects for this summer's G8 summit, the progress toward a new world trade round, and the problems concerning steel and bananas.*

**You met with your US counterpart Robert Zoellick last month in Washington, DC. What did you accomplish with your talks with the US trade representative?**

Although this was our first opportunity to meet with our 'trade' hats on, we go a long way back from the days when we were both sherpas for G7 meetings. I think the most important thing we came away with was a sense that although we will inevitably find ourselves sometimes on different sides of the fence, we share the view that the EU and the US have a common interest in working together to advance the trade agenda worldwide. We share a basic understanding about the fundamentals of what we do. As I do, Bob sees trade within a broader strategic and global context. We both believe in the need to bring developing countries into the world trading system, and we



Defense Secretary Donald Rumsfeld (right) met with his German counterpart, Rudolf Scharping, in Munich in February.

# Commissioner Pascal Lamy

both care about important issues such as affordable access to medicines to combat killer diseases. This reflects the fact that trade is no longer for technicians but a very political issue. I was heartened to hear from Bob that the US is committed to the multilateral trading system and to the launch of a new round in addition to its regional trade aspirations. Indeed, while our main priority is launching a round, the EU also pursues regional interests notably in our negotiations with Chile and Mercosur. But it is essential that we work together to get the WTO process kick-started again.

We obviously spent some time discussing our bilateral problems and the need for WTO compliance—both in the EU and US—let's not forget that we're only talking about 2 percent of our trade here. I am sure that the approach we have taken to solve problems—or at the very least to manage them in an adult and pragmatic fashion and place them in their proper context—will be shared by the new administration and just as importantly Congress.

**Looking ahead to the EU-US summit in Sweden and the G8 summit in Italy this summer, what will be the major trade issues on the table that you hope to resolve?**

Preparing for the new round is our biggest priority throughout this year leading to the fourth ministerial in Qatar. We need to convince our constituencies on both sides of the At-





Now when I met Bob Zoellick, he asked if I couldn't give him a bit of time before we work that into place to allow him to explore whether there was scope to reach agreement on a new system that would be acceptable to all sides. The US has made it clear they are unhappy with the new system. Despite the fact that we had tried and failed to achieve this in the last few years, I felt it reasonable to do this. So we have a few weeks; let's see what happens. In any event, my priority is to bring this dispute to an end once and for all and lift the sanctions.

**You stated at a press conference in Washington, DC that the steel industry is a "looming, big problem," what is the problem and what are the solutions?**

We all know how important and sensitive an industry steel is. However, for it to survive in today's globalized world, producers have to be competitive and compete on fair terms. In the EU, the industry has gone through a painful but ultimately successful process of rationalization, reducing overcapacity, increasing efficiency and quality. In that context, US steel action on both anti-dumping and safeguards was becoming a very serious problem. The way this is going, I fear we are on a bit of a collision course.

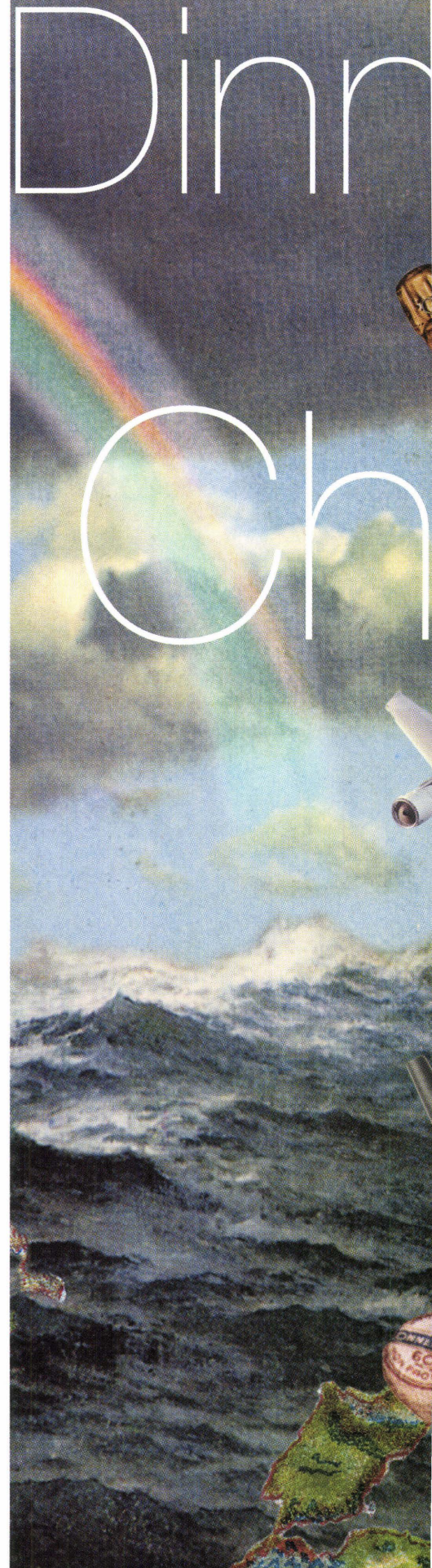
**Will we see a new trade round begin in 2001?**


I don't have a crystal ball, but I hope so, and the EU will continue to do its best to make this a reality. That said, I think the chances of a new trade round this year are better than before. A date's been set in November for the WTO ministerial in Qatar, so we have something to aim for even if at the end of the day it will be the substance and not dates of ministerials that will determine success. I sense a number of key countries around the world are conscious of the fact that if we delay things, the WTO system itself will be seriously undermined. And it is developing countries that have the most to lose as their bargaining power in regional and bilateral deals is nothing like what it can be in the WTO. I think everyone's minds are more focused given talk of economic downturns. A round is the best insurance policy against this by creating the conditions for further economic growth. ☺

lantic—as well as the rest of the world—of the real, practical need for a new round. This must continue with the traditional work of the World Trade Organization in helping producers, exporters, and importers through increasing market access all round, while catering for the concerns of our citizens. This means giving more attention to the needs and aspirations of less-developed countries and working for sustainable development. Among other major trade topics I see featuring on the agenda for this year is the WTO accession process involving China. China must come in soon.

**What is happening now with the long-running banana dispute between the EU and US?**

When I took up my job in September 1999, I vowed to do my best to ensure the EU complied with WTO panel rulings we have lost. Together with my colleague, Franz Fischler, EU commissioner for agriculture, we have worked hard to modify our banana régime to bring it into line with WTO rules. After a lot of efforts by us and by our member states, we believe we've come up with the goods. We will be going to a tariff-only system in 2006, and in the meantime, we will operate a 'first come, first served' system. This system is due to come into force on July 1.



A vertical collage on the left side of the page. At the top is a champagne bottle with a cork popping. Below it is an airplane in flight. In the middle, there are several red tulips. At the bottom is an orange mobile phone. The background of the collage is a map of the world.

# er Plates and am

# French oagne

By Gary G. Yerkey

**A**ssessing the state of commercial ties between the United States and the European Union strictly through the prism of the press would suggest that there's a marriage on the rocks—dinner plates flying over everything from beef to bananas.

But the real world suggests something else again. Every year, US and European businesses sell each other roughly \$550 billion in goods and services largely without a hitch and the total stock of two-way investment has grown to some \$300 billion.

Put another way: More than 100,000 computer hard drives and 22 million pounds of California almonds make their way to Europe each month, while some 70 million tulip bulbs from the Netherlands and 3 million bottles of French champagne find their way to gardens and dinner tables throughout America without so much as an angry word being exchanged.

Charlene Barshefsky, who was the

Clinton administration's chief trade negotiator for the past four years, says that while trade disputes make headlines, they pale in comparison to the sheer volume of trade and economic integration that exists between the two sides.

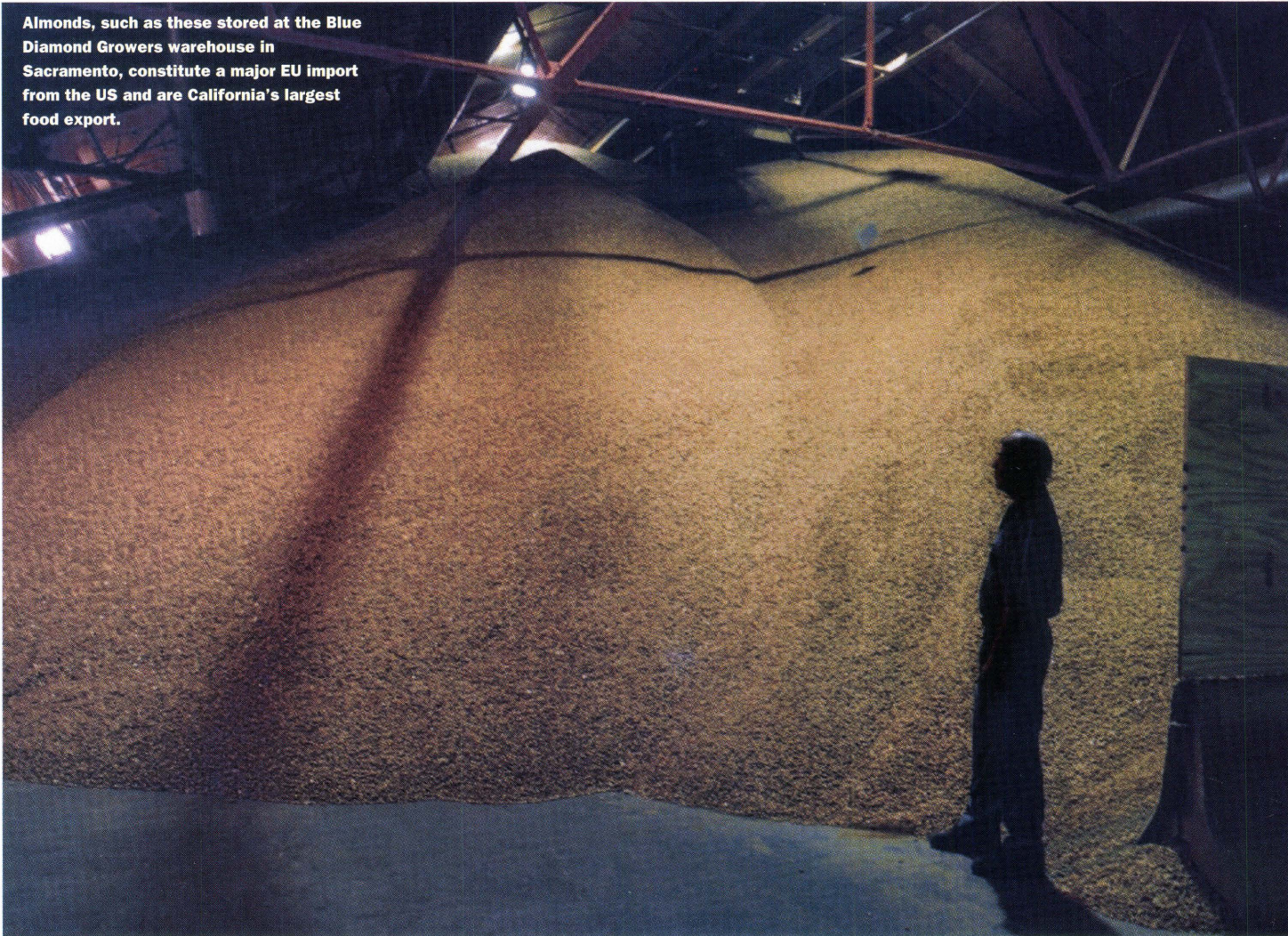
"We should not define a successful relationship by the absence of disputes," Barshefsky said. "Some disputes are inevitable."

Both sides agree, however, that their disputes do need to be managed lest they spin out of control and poison the broader political and security links between the United States and Europe that have helped maintain the peace for decades.

The challenge for President George W. Bush as he seeks to sustain public support for trade expansion as a means of promoting economic growth will be to ensure that member countries of the World Trade Organization follow their own WTO rules, which is where the EU comes in.

US officials have long accused the EU of violating the rules by, among

Almonds, such as these stored at the Blue Diamond Growers warehouse in Sacramento, constitute a major EU import from the US and are California's largest food export.



other things, providing trade-distorting subsidies to European farmers, restricting imports of US beef and bananas, and assisting the development of Airbus aircraft to the detriment of Boeing—and this year has been no exception.

Barshefsky's successor—Robert Zoellick, whose long-standing personal and professional friendship with European Trade Commissioner Pascal Lamy would appear to bode well for improved transatlantic trade ties—has vowed to play tough with the Europeans, calling retaliation a “potentially powerful tool” if the EU refuses to open its market to US exports.

Zoellick has also said

**But other members of Congress have said that the EU will have to live up to its obligations under the WTO or face the prospect of retaliatory trade sanctions from the United States.**

that the United States wants to retake the leadership role in writing the rules of world trade that he said was lost at the WTO meeting in Seattle at the end of 1999. He has even criticized efforts that have been made by the Europeans and Japanese to mobilize support for a new round of WTO trade negotiations. “They shouldn’t be doing it,” he said. “We should.”

At the same time, Zoellick has also offered support for greater cooperation between the United States and the EU through “transatlantic free trade.”

“I will seek to work closely with the European Union and its candidate members in Central and Eastern Europe,” Zoellick

said recently, “to fulfill the promise of a transatlantic marketplace already being created by investment and trade.”

Members of Congress, meanwhile, have also spoken out on US–EU trade ties, sending a message of resolve. Senator Phil Gramm (R-Texas), chairman of the powerful Senate Banking Committee, has proposed negotiating a free trade agreement with the United Kingdom. But other members of Congress have said that the EU will have to live up to its obligations under the WTO or face the prospect of retaliatory trade sanctions from the United States.

“I’m getting really fed up with the way we’re being treated by our trading partners,” Senate Majority Leader Trent Lott (R-Mississippi) said recently, promising to take legislative action against the EU and other trading partners if they fail to play by WTO rules.

What has fired up the congressional rhetoric—and what will demand the at-



tention of the new Bush administration—are a series of high-profile trade disputes left over from the Clinton administration.

Easily the most significant in terms of potential economic impact concerns the US tax regime known as the Foreign Sales Corporations (FSCs) system, which, according to the EU, has provided tax breaks to US exporters that have hurt European business.

The EU took the case to the WTO and prevailed, forcing the United States to replace the regime with another. But the EU has also objected to the new regime and has threatened to impose trade sanctions against the United States that could affect some \$4 billion a year

**Negotiations between the United States and the EU aimed at ending the disputes failed miserably in the waning weeks of the Clinton administration, and the Bush administration has taken up the negotiating mantle this year.**

in US business if the WTO again rules in its favor. A decision by the WTO is expected later this year.

For its part, the United States has already levied sanctions against the EU affecting more than \$300 million a year in European exports in response to separate WTO rulings that found the EU's restrictions on banana and beef imports to be inconsistent with WTO rules.

Negotiations between the United States and the EU aimed at ending the disputes failed miserably in the waning weeks of the Clinton administration, and the Bush administration has taken up the negotiating mantle this year. Most analysts, however, give the

negotiators only a fifty-fifty chance of success. Both disputes have been raging for more than a decade.

The United States, meanwhile, has also accused the EU of effectively banning imports of bio-engineered agricultural products—a dispute that could also wind up in the WTO, where the United States would charge the Europeans with being protectionist, while the Europeans would argue that they have been looking out for the health of their consumers.

Efforts to calm the waters will continue. A US-EU summit meeting has been set for June 14 to chew over the issues. And French champagne will continue to flow at the rate of 3 million bottles a month. ☺

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*Gary G. Yerkey covers trade for BNA's International Trade Reporter, International Trade Daily, and Daily Report for Executives.*



**The US imports 70 million tulip bulbs from the Netherlands each year.**

SENATOR

## Richard Lugar



*Senator Richard Lugar (currently chairman of the Agriculture Committee and former chairman of the Foreign Relations Committee) recently spoke with EUROPE editor-in-chief Robert J. Guttman, in Washington DC about his views on EU-US relations, the new Bush administration, missile defense, NATO, and Russia. He also discusses various agricultural and trade issues facing the transatlantic community, including the threat of mad cow disease, the EU's common agricultural policy, beef hormones, and the new trade round.*

**How would you characterize overall US and EU relations at this time?**

Relations with Europe are good. I note that as foreign ministers have come to Washington during the past three weeks from European countries they have talked about the agenda that Europeans and Americans have discussed at the conference in Munich, namely the status of a separate European force and national missile defense. (They) try to gauge what Americans views are and we try to gauge really the distinct views

that are a part of each European country—given its own interests, its own relationship with the US and the relationship with the EU or with NATO. These are...areas for potential misunderstanding, but likewise, it seems to me that the discussions—whether they are a group affair like in Munich or these individual and bilateral conversations—have been productive in eliminating as much misunderstanding as possible. That is important before it becomes a matter of general debate in the Senate, the House, European Parliament, and other broader situations beyond the leadership area in which much of this discussion is occurring.

**What is your feeling on the proposed missile defense system? Is it necessary, and if so, how does the US convince its allies that they need this system?**

My own view is that probably the United

States is going to develop a missile defense system. It could be a more ambitious system that brings protection to our NATO allies or to other countries in the world that wish to cooperate with us. I don't know what the architecture of the system will be nor do our national officials at this point. Essentially, the general theme that President Bush has sounded is that this is an area we are going to pursue and that we ought to do so with full-fledged diplomacy, first of all with European friends, with the Russians, and with others who might be interested in talking to us before we try to fashion the architecture. There have been at least theorists in the past who have suggested that a particular idea that the Clinton administration had of shooting down of a missile flying over an ocean was the most extreme and difficult of all the applications in missile defense and that we should have explored a long time ago a so-called boost phase idea, perhaps short range missiles being fired off American warships at a missile coming from another country at an early stage. There are all sorts of themes between the short shod and the most extreme case but many of them appeared to be at variance with the ABM Treaty, so that during the Clinton years the attempt was made to persuade the Russians, first of all, that the system as we looked at it was very limited and designed to hit the missiles that would be fired at us potentially by rogue states. North Korea was most often mentioned. There was no possibility that this in any strategic way could inhibit the power of Russia in terms of its force, but the Russians continued to counter with the thought that they felt that the United States could very well break out into a more ambitious system. Furthermore the ABM Treaty would be violated and that has been the major structure of arms control and to some extent they still hold that viewpoint although President Putin has indicated that there are various themes and variations to this that look like avenues to explore. Euro-

EUROPE  
INTERVIEW

peans initially felt a couple of things, first of all that we might in fact be designing something that would be of value to us alone, leaving European friends out in the cold. Secondly, even if they were included, they were afraid that the abrasion with the Russians would be substantial. This is simply more than they wanted to see if they could avoid it, so they have continued to be unhappy about it. In recent conversations with President Bush or Secretary Powell or Secretary Rumsfeld, as each speak more, both Russians and Europeans have the impression that we are going to proceed with something, but they do not know—nor do we precisely—the form that it will take. This is a work in progress and probably an expensive one. That has led the administration to suggest that, as opposed to plunging ahead with a defense budget and adding on more of what we have, we will take some time out now to think through the strategic position of the US and what kinds of weapon systems we ought to be fostering in the future. That is in itself going to be a source of great debate in this country and maybe a source of anxiety around the world again.

**If this all came about, what time frame are we talking about?**

My guess is having listened to many people talk about this that we are some distance from the development of the concept that we want to follow quite apart from the hardware that we need in place to do it. So it becomes a matter of years. The only constraining point is the Rumsfeld report, with regard to North Korea, (which) indicates that within a five-year period of time the North Koreans might be in a position to fire at least a missile at the United States at that kind of range. That is a pretty short period. This is what led President Clinton to have the decision last summer as to whether the first footings [for a missile system] need to be put into Alaska before cold weather set in. Ultimately he decided not to do that, to push it off to the next administration. If the current administration decides that we still have a five-year problem with the North Koreans, then that is a dilemma in terms of taking time to do it the right way.

**What is your opinion about the EU's plans to create a Rapid Reaction Force outside of the NATO Alliance?**

My view is that it must not compete with NATO. If there is to be value in this force, it needs to dovetail completely with the NATO structure and NATO decision-making. If it were not, then it would not be a good idea for it to happen. I say that because there has been long-time skepticism. In the United States as to whether the defense budgets of individual European countries were adequate for their NATO responsibilities. The whole idea of burden-sharing is a long-time argument in this country, and to the extent that European countries are dividing those resources to support another organization is going to intensify concern as to fair shares, who is paying for what. The second thought is that there always has been a certain latent view—never more than a distinct minority—that the US ought to let Europe defend itself, that European countries are wealthy enough, strong enough—in terms of industrial backing—to fend off whatever occurs internally in Europe. This is an invitation for that group to say let's applaud the force. Europeans who are suggesting the creation of the new force are not ones who are suggesting that NATO be disbanded, quite to the contrary. They take it as a given that NATO is going to be there, that there is no change here, but I don't know on what basis they are that confident. I say that because we had a debate last year given the so-called Byrd-Warner amendment to one of our defense bills in which the gist of the amendment was that there needed to be an affirmative vote within a year before we stage in Kosovo or otherwise we withdraw. To his credit, Bush, in response to Republican appeals for his opinion about this, indicated that he thought it was a very bad idea, and that was a very important reason why Republicans voted in large numbers against the amendment and barely lost. But it *barely* lost, and that is the point that Europeans need to grasp. The United States clearly was giving an indicator that about one more year of Kosovo was it. At this point, Europeans feel that we don't appreciate that 85 percent-plus of what is going on in Kosovo is European and that they are fulfilling completely their promises. But the fact is that it was a stretch to begin with when the United States became involved in Bosnia, leaving aside the Kosovo problem down the road. It was a

stretch because during the latter part of the elder Bush administration, Europeans were saying essentially to Americans "we know how to handle Europe." At the end of the day, however, they said we really can't make it without you. You have got to become involved. Bosnia is not Russia; it is a small situation in which Europeans are unhappy because of their own history. In any event, we did finally become involved reluctantly. But I would say it would not take a big shove in our public opinion for Americans to decide that reluctantly they didn't want to be included. You are playing with something that is dangerous when you begin to take NATO as a given and suggest that this other force can be a part of it, even worse still that it might not dovetail perfectly with NATO decision-making. Ultimately, if the separate force should have any logistic capacity, it has to come from NATO and/or a great deal of money needs to be spent by Europeans on almost a replacement for infrastructure that really could not be taken for granted. These are all disturbing thoughts. This doesn't mean that Europeans should forget about the idea. They won't, and they insist upon the value of this, but it does call for very great diligence to make certain that it dovetails as best as possible with the NATO structure.

**Do you think we will see any new NATO members in the next few years?**

I favor that. In the speech that I gave on behalf of the Senate at last year's celebration, I indicated so. It seems to me that two things ought to happen. One is that we have finally come close to a fifty-fifty support in terms of the finances in what we we're doing, and the second is that we carefully monitor each of the potential members and give them every opportunity to indicate what they would bring to the alliance and why their candidacies were strong and able. We ought to have frequent reviews of this.

**Is the US worried that Turkey may be left out of the Rapid Reaction Force?**

We would not be the only country that would be concerned about Turkey's exclusion. I think most European countries that are in NATO understand how important inclusion of Turkey and Greece has been in terms of the maintenance of peace in Europe. The very fact that they have been a part of our al-

liance has led to potential for peacemaking or at least solving disputes that could have been very dangerous...We need to pay more attention to Turkey and pay attention to the fact that they have been contributing members in a very important way for a long time. They are evolving with considerable difficulty, but this is not something to be put aside easily, and I am hopeful that they will not be.

#### **How would you characterize Russia today?**

Russia has to be regarded in the US as an important country to which we must pay very careful attention. It is a country that we always hope has the potential to become a democracy—with all that implies, at least in our view of democracy, human rights, freedom of speech, freedom of religion, development of democratic institutions, non-governmental organizations. We hope that it develops a market economic system that is compatible with Europe and with our system; that it is based upon the rule of law, court systems, banking systems; that it becomes a wonderful place in which to invest and do business because we believe that that would be in the best interest of the rising standard of living in Russia. Russia remains a place in which we invest a great deal of hope, having gone through stages, perhaps not of euphoria, but very unrealistic expectations as to how rapidly all of the institutions that we believe that are important would be embraced by Russians. The Russian situation is not that we change the adjective from ally or friend but, given either exasperation or lack of interest in the world, we ignore Russia. That would be a bad mistake.

A program that my former Senate partner Sam Nunn and I began has been an important tie, even in times in which everything else in American foreign policy was going badly with Russia. Times when we would go through these stretches where military-to-military exercises were cancelled or missions back and forth of our statesmen. One of the things we have in common is that we both built huge arsenals of weapons of mass destruction. We have also the problem that these arsenals are extremely expensive to maintain and for that matter expensive and dangerous to destroy. But we are both attempting to do this, whether it is through the START I Treaty or START II or various

other agreements, simply because some of these weapons have a shelf life that may lead to dangers or accidents within our countries. We have agreed with the rest of the world that chemical weapons ought to be destroyed within the next ten years in any event. Yet the Russians have not had the finances to move on that. And we have had difficult decisions as to what extent we ought be helpful to them, having already crossed that bridge on the nuclear side, really getting more into the chemical and biological weapons. The Russians would say 'weapons' is an inappropriate word, that there were never any weapons, but there were some dangers in some of those laboratories. We are going to have to have an intense interest in this, and the Russians want us to because absent our expertise, our money, and that degree of interest, dangers are created there that the Russians do not have the resources to deal with presently.

#### **A United Nations report recently stated that 100 nations could be at risk of mad cow disease. Do you fear that Europe's mad cow problem could spread to the United States?**

It is unlikely to spread to the United States but it is incumbent upon our Department of Agriculture and other authorities to take every precaution that it does not. Preventative medicine in this case is really of the essence. The food safety issue is extremely important to Americans as it is to Europeans and a great deal of time and money is being invested right now in trying to track down every way in which the disease might spread here and stop that route.

#### **Is the beef hormones issue still a problem between the EU and US?**

There is a gambit of issues that deals with biotechnology. The beef hormone issue annotates genetically modified corn or genetically modified soybeans, for example. But I class them all in a family of situations in which European public opinion, rightly or wrongly, has been concerned and has rejected the thought of accepting foods that have these changes. It is not a matter of food safety in our judgment. Europeans have not adopted something as elaborate as our Food and Drug Administration, although some of us informally have encouraged the Europeans to do so. Otherwise, it is not clear how the gov-

ernment of any of the countries ever establishes consumer confidence in food safety without having an independent organization in which citizens have trust. In many conversations I have had with Europeans, principally in France and Germany on these issues, they have said informally that they understand the issues. I understand they are working politicians, and they have constituents who are extremely emotional about this. This is going to take a lot of time to explain. In all fairness, [EU Trade Commissioner Pascal] Lamy and others from time to time have talked about setting up some type of FDA or food safety auditing group that might bring a sense of confidence, whether it is hormones or a genetically modified product. I hope that will occur in a reasonable period of time because, leaving aside whether Europeans have phobias of this sort or not, some of the biotechnology changes are imperative if people in less-developed countries are to have adequate diets in due course. I buy the general themes that have been announced by Dr. Norman Borlog of the Green Revolution and others who point out that caloric intake around the world is still very low for billions of people. One of the things that we have done in the United States is to increase the yields of soybeans, corn, and wheat to take three good examples, and we have tripled the yields in about a sixty-year period, starting from the 1930s. This occurred largely by changing the seeds, the stems, the elements of the plants so that they grew faster and there was more seed and less stem so they resisted weather problems or pests. If we were to get the kind of breakthroughs that are going to be required—according to forecasts by Dr. Borlog and others—we will need to triple yields again by the year 2050. Some of the fixes needed to accomplish this are in the biotechnology area. If at every point the public in the United States and Europe goes into a trauma over this to the point that this technology is frustrated, we are still going to eat well in the United States and Europe, but it is really not clear exactly what happens in a humanitarian sense. This usually is meaningful to Europeans as it is to the United States when framed in those ways.

I am hopeful that we will eventually have an alliance of Europeans and the United States at the right levels that will



**A Russian engineer guides senators Carl Levin and Richard Lugar around a depot being built with US funds to store 6,000 bombs worth of weapons-grade plutonium and uranium.**

take a humanitarian view and a practical view (while) not stopping food safety for a minute. If any of this should be proven to have potential harm to human beings, it ought to be stopped. I have been to Monsanto and watched the gene being spliced in a soybean and tracing all of this through. As a farmer, I plant Roundup Ready® soybeans (Monsanto's genetically modified product) and have for years in large part because they do better, and they are better soybeans. They have been utilized by our folks here in the United States without difficulty for a long time.

**Are you optimistic about a new trade round starting this year?**

It depends largely on the success of our new trade representative, Bob Zoellick, working with the Congress. He understands that his major objective now is not trying to come to grips with the EU or even with China or whoever, but it is with the US Congress. The basic thing a trade representative requires is a so-called fast-track authority. That is the ability to negotiate successfully with other countries, maybe with 150 nations under the WTO or maybe just with the Western Hemisphere, for example, or with some other regional group, and come back with a treaty that cannot be amended and has to be voted on up or down. Now absent that, other nations

are very skeptical about our ability to make a deal stick or, worse still, fear all of the amendments that are offered and all the demands back home in their countries for similar liberties. As a result, we haven't been facing very many treaties recently.

**Is there any reason for Europeans to worry about President Bush not focusing on Europe?**

He is going to be focused on Europe. But every continent worries. The Asians feel that he is even less focused on them and that a lot of dangerous things are happening out there. But this is the early stage of the administration. His primary public posture has been focused on domestic themes.

**Why does America need to be involved in Europe? Why does Europe need an American presence more than fifty years after the end of World War II?**

Leaving aside appeals by Europeans, I heard the foreign minister of Germany [Joschka Fischer] express this very well when he came over last year and was addressing some of the arguments about getting out of Kosovo. He said that historically it is clear that the American presence, not only in World War II but in these last fifty-five years, has made all the difference in the structure of Europe, its strengths and ability to bring

about a living peace for most citizens of the Continent. It is also, as we often comment, the only time Europe has been at peace for half a century. His view—and I think that this is correct—is that, in terms of our own national security and economic interest, NATO is the area or avenue in which we have influence, in which we make a difference in terms of our interest in Europe. Correspondingly, the Europeans gain a great deal from our participation. Absent that, we would have many more difficulties in these fractious trade businesses we are talking about. I don't think there would have been a

growth of the world economy in a way that clearly has been characterized by a Europe and United States vigor that has come from the NATO structure making that possible. We would have had many more problems, perhaps not the size of World War I and II but security difficulties of some consequence that really were allayed, even given the ones we have finally had to contend with in Yugoslavia. There is a clear path created by NATO that gives us a degree of certainty. It gives Europeans a degree of certainty that no other part of the world has.

**So NATO should continue even though the cold war is over?**

Yes, of course, it is very much in our interests and in the interests of the Europeans for that to happen.

**Does NATO have to redefine itself?**

NATO is the venue or the avenue of American participation in Europe in a constructive constant way. As opposed to an ad hoc intervention in an emergency situation, it is a way in which we grow as a country with the Europeans in a very natural, acceptable form. Therefore, it is not a question of needing an enemy; it is a well-established part of the governments of our countries that makes an enormous difference in political and economic confidence. ☺

By Axel Krause

# Super Jumbo

Will Airbus's new plane renew transatlantic trade battles or bring fiercer competition?



largest commercial airplane ever built—the A380.

“I may be unique, but what really matters is that we have created in Europe what is probably the most international company in the world,” Leahy said in a recent interview at his office, located just outside the scenic French city, which some have dubbed “Europe’s Seattle,” a reference to Boeing’s headquarters city. On the road some 200 days each year, intensely pressing his 500-member sales team, Leahy played a crucial role in carving out a 50 percent share of the world market for jets with capacity exceeding 100 seats, competing against Boeing and earlier, with McDonnell Douglas Corp., which merged with Boeing in 1997.

Airbus’ record \$17.2 billion revenues last year, and even higher sales expected this year plus profits, Leahy explained, stem from American-style streamlining that began shortly after he arrived in Toulouse seven years ago. “We literally broke down office walls, creating business units, grouping design, production, finance, and sales-marketing staff to work on projects—with enthusiasm,” he says. “We ended

**J**ohn Leahy is not exactly the kind of executive you find at the top of Europe’s multinational companies. An intense, fifty-year-old New Yorker, a former commercial pilot and flight instructor, with an MBA from Syracuse University, he speaks only English. Yet, from his base in Toulouse in southeastern France, Leahy successfully runs the critical sales operations of Europe’s four-nation Airbus company, which is mounting a major offensive against rival Boeing’s monopoly of the jumbo-jet market with what is billed as the

(left) Executive vice-president John Leahy, an American, runs the sales operations of Europe’s four-nation Airbus Industrie. The Airbus A380 is being billed as the largest commercial airplane ever built with two passenger decks that will eventually carry 800 passengers.

a great weakness of the traditional European approach—compartmentalization.” Initially, he recalls, “people around here were appalled at the idea of having to work together.”

Leahy, whose full title is executive vice president, customer affairs, reports to Noël Forgeard, Airbus CEO since 1998, himself a hard-driving—and French—executive. Previously, he spent eleven years at the Lagardère group, which has interests ranging from missiles to publishing and is a

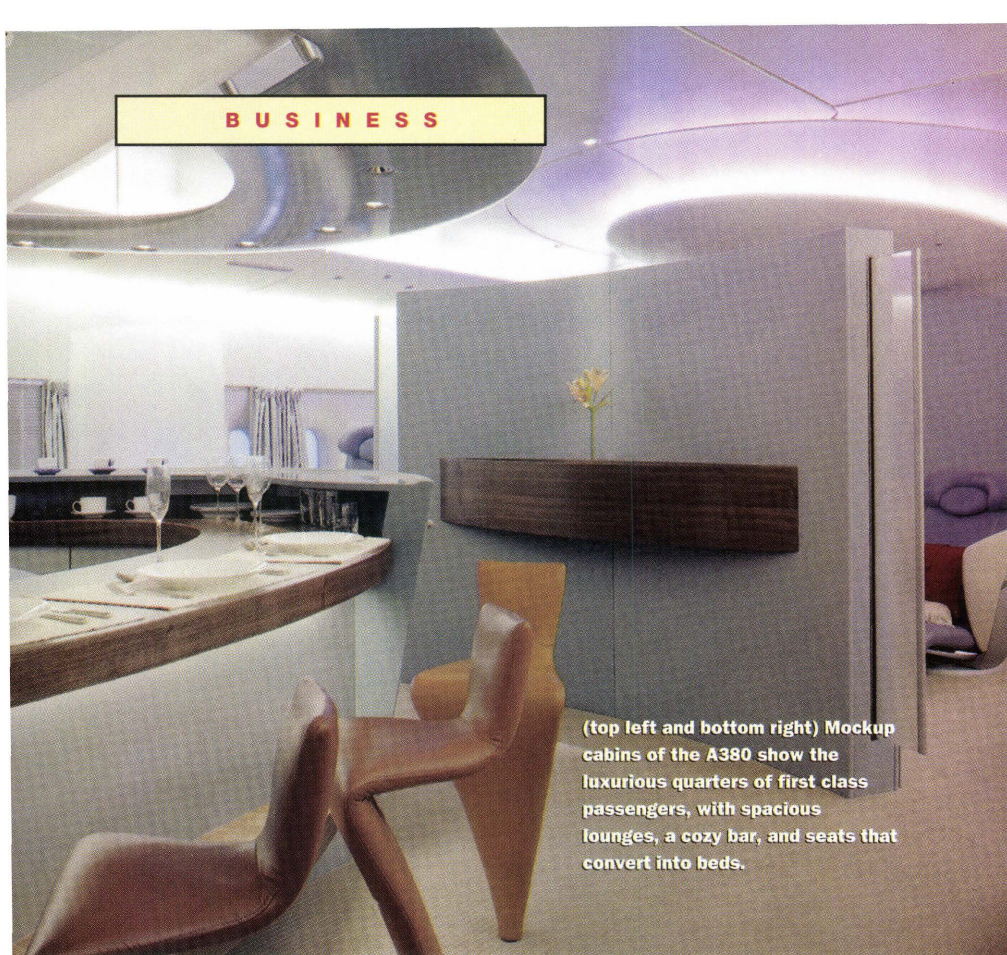


controlling shareholder in the European Aeronautic Defense & Space Company (EADS), which owns 80 percent of Airbus and is the world's third-ranking aerospace company after Boeing and Lockheed Martin Corp.

The remaining 20 percent of EADS, whose stock is publicly traded, is held by the UK's BAE Systems, which last year joined the other shareholders—Lagardère's Aerospaciale Matra; DASA, the aerospace subsidiary of Germany's DaimlerChrysler; and

Spain's Construcciones Aeronauticas—creating what *Business Week* termed “the European equivalent of Boeing.” Civil aviation, mainly Airbus, accounts for 75 percent of sales and most of the operating profits. By April, company sources said, Airbus, too, will have emerged from its consortium status as a fully integrated, European corporation, thus blunting a longstanding, US trade-related argument that Airbus was not structured for fair competition with Boeing.

But other controversies remain unresolved. Last December, former President Bill Clinton threatened trade action against the European Union on the grounds that government-backed loans for developing the A380 were violating the 1992 US–EU agreement on civil aircraft, which covers planes with more than 100-seat capacity. As the outgoing US representative to the EU, Richard Morningstar, explained a month later, “We have requested information from the EU on the terms of the financing....



(top left and bottom right) Mockup cabins of the A380 show the luxurious quarters of first class passengers, with spacious lounges, a cozy bar, and seats that convert into beds.

Airbus has received billions of dollars in direct, low-cost government financing, and Boeing has not received a penny." The envoy added, "Our intention is simply to try to avoid a major blowup in our relationship."

The European Commission in Brussels immediately countered by saying that Airbus financing involved repayable loans, not subsidies, warning that if Washington attacked Airbus over financing, it would retaliate by targeting Boeing's continuing reliance on US government-financed military and space business. Commission officials have repeatedly stated that Boeing's main goal has been to disrupt launching of the A380.

The Bush administration has taken no action so far and is continuing to study the issue, along with a wide range of other US-EU trade disputes and emerging issues. "It is still too early for any kind of action," said a Washington-based spokesperson for US Trade Representative Robert Zoellick, who held talks on transatlantic and world trade issues with his counterpart, EU Trade Commissioner Pascal Lamy, on March 9 in Washington. A spokesman for Lamy in Brussels told *EUROPE* that the Airbus issue was raised during their talks but "only in passing," and that "nothing substantive" was resolved.

"Airbus is better equipped than ever to meet the challenges of the future," Forgeard says repeatedly, emphasizing that his biggest challenge—and Leahy's—is making a commercial success of the A380, whose first deliveries are scheduled for early 2006. As aerospace and airline analysts report, Airbus is off to a good start, amid intense competition from Boeing and charges made by its top executives that the new plane will fail disastrously because of a faulty assessment of the world market for such a plane.

Boeing executives are sticking with earlier forecast that there is a market for only 400 or so of the new jumbos. "We continue to believe the market for a plane the size of the A380 is very small—too small to recoup the enormous cost of developing the plane," Tim Neale, Washington-based spokesman for the company told *EUROPE*. Boeing is proposing as an alternative, a stretched version of its venerable 747, which would be capable of hauling up to some 520 passengers, about 100 more than the largest commercial plane now flying—the 747-400, the latest in a series launched three decades ago.

"Airbus disagrees, of course, and that's fine," Neale said. "However, if they accept billions of dollars from European taxpayers to build the A380,

they should do so on commercial terms that carry a commercial rate of interest and require repayment according to a schedule. If they are right about the market, they should not be afraid of accepting such terms. Boeing does not have such a safety net when it launches a new product. It risks its own money on the venture. If we're wrong, we pay the price, not US taxpayers."

"We are sticking "We are creating a new way of flying," responds the blue-eyed Leahy, gesturing to the heavily-guarded area that houses the life-size, gleaming white mockup of the plane that will be able to handle around 555 passengers initially, eventually 800, in three classes, with a range of up to 9,100 miles, compared to 8,300 miles for the largest 747. "Our radically different approach began three years ago," he says, "when we got twenty leading airlines to work with us in developing it." He says Airbus calculates the world market for the plane at around "1,200 in the passenger format, 300 for freight, over twenty years, which is more than triple the Boeing estimates." Test-flights are scheduled to begin in 2004.

Aboard the mockup, Leahy proudly walks visitors through the roomy, first-class area, dominated by a wide, carpeted staircase, leading to the upper deck, a cozy bar, bookshelves, and behind the cockpit, a bathroom with a toilet and shower. Seats are luxurious, can swivel full circle, complete with computerized telecommunications, and can convert into beds. Down in the third-level hold, there is space for a duty-free shopping area, a cafeteria, casino, exercise rooms, or whatever airlines decide to install, which Leahy says offers "cruise-ship quality."

The catalogue price for the A380 is \$235 million, which compares to an estimated \$200 million for the 747X. Some US industry analysts allege that Airbus is offering unusually generous terms to early buyers, including discounts of up to 40 percent, which could make loan repayments difficult. However, Forgeard, Leahy, and other European executives deny the reports. They insist that the A380, compared to the 747X, offers not only greater capacity and lower operating costs without squeezing passengers in economy class, but—by virtue of projected sales—its pre-tax profit margin should



average around 20 percent, well above the industry average.

Boeing executives had been saying that their 747X could be ready for delivery within a year but as of March 29 had not landed a single order. Largely as a result, Boeing announced that day it was abandoning plans to build the jumbo and instead concentrating on developing a new-generation plane that would fly about 20 percent faster than current passenger jets. European aerospace analysts noted Boeing had provided only sketchy details on the market for such a plane.

In order for Airbus to repay \$10.7 billion in government-backed, development loans—more than half provided by Airbus shareholders and some \$3 billion from EU member governments—the company must sell at least 250 of the A380s. By early March, firm orders totaled sixty, and options for forty-two, from six airlines, including Australia's Qantas Airways, which for four decades operated only Boeing planes. It was widely regarded as a coup for Leahy when FedEx announced in January it was ordering ten of the A380s and taking options on others for deliveries beginning in 2008.

Replacing its McDonnell Douglas MD-11s, the FedEx orders are the first for the cargo version of the new Airbus. The new super-jumbo will be capable of "flying directly from our major service points in Asia and Europe to our hubs in the US, with nearly twice the payload of the MD-11," said FedEx CEO Fred Smith, whose company was one of the twenty carriers working with Airbus to design the A380 and also examined the 747X. While declining to comment on the status of his talks with United, Northwest, and US Airways, all among Airbus' twenty established customers in the United States, Leahy predicts that he will land another fifty firm orders by the end of the year from airlines around the world. "I am not counting options, but considering that Boeing will also be selling into this market, to have this kind of ordering five years before the plane is flying is, I think, impressive."

Meanwhile, the prospects of a Boeing-Airbus trade battle don't seem to bother the Europeans, who repeatedly insist they are in conformity with the 1992 agreement limiting government financing to 33 percent of the development costs of new aircraft. "We are in full compliance and have no reason to reconsider the agreement," says Forgeard, adding that the company is undertaking a major cost-cutting drive that could generate annual savings of \$350 million by 2004. What about the customers? "Most airlines are relatively sophisticated and understand that Boeing gets indirect subsidies and that we have guaranteed loans," adds Leahy, "but I have never heard an airline CEO say he was not considering Airbus until the subsidy issue is resolved."

Boeing executives also question Airbus plans to develop Europe's first large military transport, the A400M, which would require some \$6 billion in development costs from participating governments, which include Belgium, France, Germany, Italy, Spain, Turkey, and the United Kingdom.

The plane, under consideration for more than a decade, is part of Europe's efforts to develop a military force that

could operate independently of NATO and the United States and under a separate airlift command. Defense ministries in these and other countries are also assessing the main competitor, the C130J Hercules transport plane manufactured by Lockheed Martin.

The chances are better than even that the Airbus battle will not start soon. First, US manufacturers currently supply vital components, such as engines, which can represent a third or more of a plane's total cost. Moreover, America's main engine-builders and longtime Airbus suppliers, General Electric and Pratt & Whitney, a subsidiary of United Technologies, are already jointly developing an engine for the A380. They are also offering it to Boeing for the 747X. Second, all big airlines like the idea of having two, rival plane builders competing for their orders. The consensus among many observers is that some trade battling over Airbus will materialize in the months ahead, but given the enormous stakes, the US and the EU will continue fostering competition, however fierce it becomes. ☐

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



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# EUROPE

## update

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## WHAT THEY SAID

**“The arrest is a very good first step, but the end of this road must be in the Hague...He has to be held to justice there.”**

—Robin Cook, British foreign secretary, addressing the arrest of former Yugoslav president Slobodan Milosevic, who has been charged by Yugoslav officials with abuses while in office and is wanted by the International Court in the Hague for war crimes in Bosnia and Kosovo

**“The EU is on the side of trying to continue with the appallingly difficult enterprise, but on one which we’ve been moderately successful in the last year or two, of rescuing southeast Europe from the blood and disaster of the last few years. So we’re supporting a democratic government in Macedonia.”**

—Chris Patten, European commissioner for external affairs, discussing the conflict between government forces

and ethnic Albanian guerrillas in Macedonia

**“Following the successful example of EU-US cooperation in the Balkans, the Middle East should now become a major plank of EU-US foreign policy cooperation.”**

—Romano Prodi, European Commission president, in a statement after meeting with Secretary of State Colin Powell in Brussels

**“Europe must step in to help reduce tension between the two Koreas, not least because the outside world is so worried about North Korean missiles.”**

—Anna Lindh, Sweden’s foreign minister, speaking at the recent EU summit in Stockholm about an increased role for the EU in helping with peace efforts between North and South Korea

**“What would happen to Florida if they closed all the beaches? I have sympathy for**

**the farmers, I really do. I want the disease stopped. Closing the footpaths was probably the right idea. But has anyone noticed that my business is burning down too?”**

—Neil Farrell, restaurant owner in England’s Lake District, as the government closed huge areas of the countryside to keep foot and mouth disease from spreading to other farms

**“Very often there is a tension placed on areas where there may be disputes or some trade difficulties...we must emphasize the fact that there is a huge amount of trade between both the United States and the European Union which continues without any difficulty whatsoever.”**

—David Byrne, European commissioner for health and consumer protection, at a press conference following his meeting with Secretary of Agriculture Ann Veneman in Washington

**“No, we have no interest in implementing that treaty.”**

—Christine Todd Whitman, administrator of the Environmental Protection Agency, discussing the US administration’s decision to reject the Kyoto Treaty

**“The US position is extremely worrying. The US must understand that this is not a marginal issue for the EU. It has implications for external relations including trade and economic affairs, and it cannot be played down.”**

—Margot Wallström, European commissioner for the environment, reacting to a statement from the US administration on their rejection of the Kyoto protocol

**“Climate change is happening now and is a serious threat to the future of mankind. We are prepared if necessary to go**

## WHAT THEY SAID (CONTINUED)

forward without the US. We cannot allow one country to declare as dead the process for addressing this major global issue. However, we still hope to have the United States involved in the protocol as soon as possible."

—Kjell Larsson, Sweden's environment minister, in a statement following meetings with US administration officials on Kyoto

"Nobody should be relieved from his responsibility for climate control."

—Gerhard Schröder, chancellor of Germany, reacting to the US administration's decision to reject Kyoto

"The European Union is not a state which has identified its boundaries, form of organization, and

democratic rules. It is a permanent building site on which we should heed the sign "work in progress."

—Jacques Delors, former president of the European Commission and founder of the think tank *Notre Europe*, during a recent visit to the US

## REPORTER'S NOTEBOOK: NASDAQ GAINS EUROPEAN Foothold

Nasdaq has finally raised its flag in Europe, acquiring a controlling 58 percent stake in Easdaq, the struggling Brussels exchange for high-growth stocks. The second-largest US stock market will spend more than \$60 million upgrading the newly rebranded "Nasdaq Europe" as well as building a new trading platform.

The deal was third time lucky for Nasdaq whose previous attempts to move into Europe were thwarted by the big continental traders and the leading exchanges. It came close last year when it was maneuvering to join iX, the planned merger between the London Stock Exchange and Frankfurt's Deutsche Borse that collapsed in acrimony.

Nasdaq has watched from the wings as European bourses have jostled for market position. Paris teamed up with Brussels and Amsterdam to create Euronext, the first major cross-border European exchange; London fought off a hostile bid by Sweden's OM Group; and the Deutsche Borse has successfully completed an initial public offering.

But the US exchange has never taken its eye off the European ball, even in the midst of its own bear market. Just days before it closed on the Easdaq deal, Nasdaq formed a joint-venture with the London International Financial

Futures Exchange (Liffe) to develop a market for futures on individual stocks, a trading activity that will become legal in the US at the end of the year.

The Easdaq deal isn't risk free. Easdaq, which was originally modeled on Nasdaq, has attracted only sixty stocks since it was established in 1996. It has faced tough competition from other high-growth markets, particularly Frankfurt's Neuer Markt, and it has failed to develop a coherent pan-European strategy to draw a wide following among institutional investors and analysts.

But Nasdaq has to move fast because its great rival, the New York Stock Exchange, is starting to build links with foreign exchanges through its Global Equity Market initiative and could spring a surprise alliance with a big European market at any time.

Nasdaq Europe will be competing directly with other exchanges for share orders and new listings at a time when the volume of European initial public offerings has fallen to a five-year low. It will certainly try to undercut its rivals by offering cheaper pan-European clearing and settlement.

But analysts question whether Nasdaq can succeed where Easdaq failed in creating a pan-European market for growth stocks. Sir Richard

Cohen, chairman of Apax Partners, a British venture capital firm, and vice-chairman of Easdaq, says one of the main problems for the Brussels exchange was that it was itself a startup. Nasdaq's presence, he says, will immediately give it more credibility and market clout.

Nasdaq chairman Frank Zarb predicts Nasdaq Europe will drive consolidation among European stock exchanges: "We believe we have a winning model that others will want to be a part of. Those that stand in the way of consolidation will get buried." He says the creation of a pan-European growth market will act as a "fragmentation terminator."

Initially, Easdaq will give Nasdaq a small foothold in Europe and will allow European investors to trade Nasdaq-listed stocks before the US market opens. And over time it will become the third leg in the US market's global trading plan, with links to Nasdaq US and Nasdaq Japan.

The revamped Brussels exchange will face a fierce challenge from the bigger exchanges like London and Frankfurt, which have given up on consolidation in favor of pursuing their own strategies. The London Stock Exchange is targeting its products to investors and companies across Europe and is challenging the Deutsche

Borse's high-flying Neuer Markt as the must market for young high-tech startups. It also wants to broaden the range of securities on its electronic market, which will make it a direct competitor of Nasdaq Europe.

The acquisition of a controlling stake in Easdaq suggests Zarb has given up trying to team up with a major European exchange—at least for now. But even as he prepares to do battle with them, he is keeping open lines of communication with the big players—he met with the heads of Euronext, the Deutsche Borse, and the London Stock Exchange days before he signed the Easdaq deal. It's an open secret that London, the world's third-largest exchange after New York and Tokyo, is Nasdaq's preferred partner for a global strategic alliance.

Prospects for a single pan-European securities market have receded as the exchanges pursue their individual plans, and that is eroding Europe's competitive position against the giant and extremely liquid US capital market and preventing European firms and investors from reaping the full benefits of the euro.

But European exchanges are certain to try to team up again, and with its flag flying in Brussels, look for Nasdaq to be involved.

—Bruce Barnard

## EU NEWS: ECOFIN CHAIRMAN VIEWS EUROPE'S ECONOMY

Tightening European economic cooperation can offset an economic downturn in the United States, says the man currently chairing the Ecofin group of European finance ministers. But Swedish Finance Minister Bosse Ringholm acknowledges that strengthening those economic ties is already difficult and will become even more so as the countries now in line for European Union membership join the Union.

The gap among the EU countries' economies "is not so big as the gap will be when the candidate countries come in," Ringholm says. While the EU has started discussions with the member designates, Ringholm offers few concrete suggestions about what can be done to even out the economic score.

He believes, however, that "quicker integration will give greater possibility to reduce the gap" because it will give the candidate countries easier access to the EU market and establish members easier access to cheap labor and production.

In general, Ringholm thinks the EU needs to walk a fine line between dictating economic policy to member countries and not having a common strategy. One of the thorniest issues is tax harmonization, something that the

Swedish government has come down on both sides of.

On one hand, Ringholm and others say taxes should be standardized in the EU to encourage multinational consumerism and e-commerce, as well as to help open the European electricity market to cross-border supply. On the other hand, the Swedish government is united in opposing common EU taxes on alcohol, claiming that each country should set its own policy because taxation is a mechanism for controlling how much people drink. Sweden's alcohol tax, at least on hard liquor, is among the highest in Europe, but the government denies it is against a reduction because it would reduce state income.

Ringholm says any EU tax harmonization program should offer only a broad outline. "If it's too detailed, there is a risk that some countries will not accept the legislation," he says. "There's a risk that popular support will decrease."

In Denmark, for instance, there is opposition to tax harmonization because people think that reducing taxes will weaken the social welfare system. Many Danes believe each country should have the right to set its own taxes to support the kind of social system it wants. Ringholm also

notes there is substantial opposition in the UK to a common policy.

But at the same time, Europe is grappling with a rapidly aging population, and Ringholm says steps have to be taken to plan for that and for making sure there's money available to provide the services senior citizens will require. The problem is also acute in the EU candidate countries, since state social welfare and pension programs disappeared or were sharply reduced when the Soviet Union fell, leaving many elderly people in economic crisis.

"It's a real problem, and it will be a greater problem if we wait to do something," Ringholm says. The opening of the EU labor market, with even more freedom for EU citizens to live and work in member countries, coupled with the expected influx of people from the new EU countries to the established countries with better economies is also going to tilt the social welfare picture.

On the opposite side of the social coin, Ringholm rejects the idea of the so-called Tobin tax, a worldwide tax on financial transactions promoted by Nobel prize-winning economist James Tobin. The idea behind Tobin's plan is to curb financial speculation and currency manipulation.

"It's an interesting idea, but I don't think it's a practical idea," Ringholm says. Again, for the EU, he believes broad guidelines should be set with minimum standards.

Ironically, although he is currently Europe's top finance minister, Ringholm cannot participate in discussions about the euro since Sweden doesn't belong to the European Monetary Union. He insists that's not a problem. Those discussions, he says, are informal, and the group of EMU countries has no decision-making power—decisions about the currency are made by the European Central Bank. Despite its initial weakness, Ringholm thinks the euro will become a strong currency and that by joining the EMU Sweden will bring its economy closer to the rest of Europe's.

While he may offer few specifics about changing Europe's economy and finances, Ringholm believes the role of European finance ministers has changed dramatically in a period of only about forty years.

Earlier, "it was a very national situation. There were very few international contacts," he says. "Today, you can never act from a Swedish viewpoint. You have to act from a Europe and an international perspective."

—Ariane Sains

## BUSINESS BRIEFS

Europe's oil companies are on a multibillion dollar spending spree, snapping up rivals and signing deals to develop fields in remote parts of the world.

**Royal Dutch Shell**, the world's second-largest publicly traded oil company after **Exxon**, is setting the pace, using its \$10 billion war chest to expand its global reach. The Anglo-Dutch giant picked up the oil and gas business of New Zealand's **Fletcher Challenge** in a joint \$2.1 bil-

lion bid with **Apache**, the US independent energy company; launched a hostile \$2.2 billion offer for **Barrett Resources**, a Denver-based energy group; and bid for majority control of its affiliate, **Woodside Petroleum**, Australia's largest oil company. It also signed an agreement to invest up to \$3 billion in the development of India's natural gas supplies.

**BPAmoco** beat strong competition from **Exxon** and **Shell** to win an equity stake

in China's first liquefied natural gas terminal, making it a hot favorite to win a twenty-year supply contract worth around \$10 billion. The Anglo-US group is also teaming up with Italy's **ENI** to invest \$2.5 billion in a gas-liquefaction plant in Egypt.

Meanwhile Italy's **ENI** moved out of the shadows of its larger European rivals by winning the right to operate Kazakhstan's Kashagan oilfield in the Caspian Sea, which the Almaty govern-

ment says holds reserves of up to 50 billion barrels, putting it in the world's top three oil fields and the largest discovery in the past forty years. **ENI** also is a favorite to sign agreements with Russian energy giant **Gazprom** to produce oil and gas in the Caspian area.

•••

**Deutsche Bank**, Germany's largest bank, is also the United Kingdom's fourth-largest pub landlord after it paid Whitbread \$2.3 billion

## BUSINESS BRIEFS (CONTINUED)

for its 3,000 pubs. Deutsche Bank's victorious venture capital unit, **Morgan Grenfell Private Equity**, was competing against another German bank, **Westdeutsche Landesbank Girozentrale**, which has a stake in rival bidder **Pubmaster Group**, as well as **Nomura**, Japan's largest investment bank.

Nomura, however, consolidated its position as the UK's largest pub owner, by buying 988 outlets from British brewer **Bass**, bringing its total to 5,546.

While foreign financial institutions buy British pubs for their strong, reliable cash flow, their former owners are trying to disengage from a business they have been in since the eighteenth century.

**Whitbread**, a once famous English brewer, sold its brewing unit to Belgium's **Interbrew** for around \$580 million last year, and following the sale of its pubs, its main activities will be operating UK franchises for **Marriott Hotels**, **Travel Inn**, **Pizza Hut**, and a string of leisure outlets.

While its rivals falter, **Nokia** says it is aiming to increase its share of the global market for mobile phone handsets to 40 percent from 32 percent last year to consolidate its position as the world's biggest mobile phone manufacturer.

Nokia has been pricing its products aggressively this year to put further pressure on its beleaguered rivals, **Motorola**, which is mired in profit warnings and layoffs, and Sweden's **Ericsson**, which faces large losses on its handsets.

Nokia chief executive Jorma Ollila said the company intends to grow faster than the market and brushed aside skepticism about prospects for the mobile Internet following delays in introducing third-generation networks and services. "Mobile telecommunications is on its way to becoming one of the largest industries in the world," he told the group's annual meeting in

Helsinki. "In the coming eighteen months, we are planning to launch several truly epoch-making products and solutions that will change the conception of mobile services and the Internet."

A 40 percent market share for handsets, which would be three times that of world number two, Motorola, would be a staggering achievement as Nokia only wrested the top spot from the American firm in 1998.

Ollila said Nokia is also seeking market leadership in infrastructure products, with a 35 percent share of orders for third-generation networks.

**PPL Therapeutics**, the British company that cloned Dolly the sheep, has won a contract from the US army to genetically engineer and clone a cow that can produce milk with antibodies to combat chemical weapons. The **US Defense Advanced Research Projects Agency** has committed \$3.1 million to the project that will build on the technique pioneered with Dolly, the world's first cloned animal. PPL reckons it will take up to seven years to engineer the so-called Immunocow. When the cows are ready, the US army plans to milk them and keep the antibodies in a secret location to be dispatched to GIs in an emergency.

**Alcatel**, the French telecommunications equipment manufacturer, wants to acquire an optical components company in the first half of the year, taking advantage of the sharp drop in the market valuation of the sector. The company scotched speculation it is a potential bidder for the fiber-optic business of **Lucent**, the US telecommunications equipment company, saying it is chasing a smaller deal.

Alcatel conceded it is not a long-term strategic player in the mobile phone handset market, following a worldwide slowdown in sales that forced it to halt production at two French factories for two

weeks to run down inventory. Nevertheless, the company has "a very good hand to play" in the forthcoming consolidation of the market, according to Alcatel chief executive Serge Tchuruk.

Alcatel made a significant breakthrough in China's telecom market, signing a long-term agreement with **China Telecommunications** to supply the country's dominant phone operator with more than half the equipment it requires to provide high-speed Internet access, in a deal worth up to \$225 million in the first year.

Europe's three biggest airlines, **British Airways**, Germany's **Lufthansa**, and **Air France**, will absorb the other leading carriers in the region in the next few years, according to Jean Cyrill-Spinetta, chairman of the French state-controlled national airline. The consolidation of the US airline industry into three or four leading players will force Europe to follow suit, he forecast. This will start initially with alliances as bilateral air treaties and regulatory barriers on both sides of the Atlantic, especially foreign ownership ceilings, currently prevent global mergers. **Spinetta** expects Europe's small and medium-sized carriers to group around BA, Lufthansa, and Air France, which are leading members of the respective **Oneworld**, **Star**, and **Skyteam** alliances. He estimated membership of Skyteam had added \$75.2 million to Air France's profits in the financial year ended March 31. Spinetta said the regulatory system would "certainly" be reorganized within ten years, and "maybe" in five, to permit international cross-border mergers.

**Prudential**, the British life insurance company, will become the biggest player in the US annuities market, following the \$20 billion acquisition of Texas-based **American General**, the largest ever transatlantic financial services merger.

Prudential moved into the US back in 1986 with the acquisition of **Jackson National Life Insurance**, which it will link to its latest purchase to take 10 percent of the US market for annuities, savings instruments combining investment funds and insurance, allowing their owners to defer taxes.

**Prudential**, which isn't related to **Prudential Insurance Company of America**, brushed aside suggestions it overpaid for American General, claiming the deal will give it scale in the US and generate strong cash flow to finance its growth in Asia. It is building operations in eleven Asian countries, including India, China, and Japan where it recently acquired **Orico Life Insurance**, a small insurer. In Europe, it is seeking alliances with firms that can distribute its products.

The world's number two computer services firm, **Electronic Data Systems**, announced plans to acquire Germany's **Systematics AG**, effectively doubling its business in Europe's largest computer services market. The Texas-based EDS will pay \$570 million in cash and stocks for the Hamburg-based Systematics, which is listed on Frankfurt's Neuer Markt and reported \$570 million in revenues last year.

Germany composes a \$30 billion computer services market, the largest in Europe, and the deal will make EDS the second-largest computer services company in Germany.

—Bruce Barnard



### Correspondents

Bruce Barnard reporting from London  
Ariane Sains reporting from Stockholm

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# CRISIS

## on Europe's Farms

EU agriculture counselor discusses Europe's livestock troubles



*Gerry Kiely, agricultural counselor at the European Commission's Washington delegation, spoke with EUROPE editor-in-chief Robert J.*

*Guttman about the recent outbreak of foot and mouth disease in Europe and continuing worries among European consumers about mad cow disease.*

### What exactly is foot and mouth disease (FMD)?

FMD is a virus that is very contagious and can be transmitted from animal to animal. It can be carried on some-

body's shoes or on machinery and can live for different lengths of time out of the body of the animal depending on humidity and temperature. It is of no risk to human health. Humans can only carry the virus on their shoes or clothes.

### So there have been no cases of a human being having foot and mouth?

Not to my knowledge. In fact, it is not even fatal for animals. It is debilitating. If cows get it, they have lower milk yields, or animals will lose weight. It spreads, and if you don't destroy the animals or vaccinate the animals, it will stay in the system permanently.

### Why is it against EU policy to vaccinate against foot and mouth?

First, a vaccine will only work against one strain of the virus, and there are many different strains, so it is only a solution for a particular strain at a time. It doesn't guarantee that the animal is not going to get it again. Secondly, when inspecting an animal, you can't differentiate the antibodies from a vaccine and the antibodies you will find if the animal has the foot and mouth disease; therefore, many countries, including the EU at the moment, will not accept products from a country that is vaccinating. In other words, you don't know whether the animal had the disease or the vaccination.

**Could the vaccine cause the disease?**

The vaccine would not cause the disease, but a vaccine, by its nature, involves injecting a light dose of the actual infection into the animal. The animal's body reacts and creates the antibodies. Therefore, when a country is importing livestock and tests an animal for foot and mouth, the inspectors will find the antibodies. They can't tell whether they are importing the disease or are they importing an animal that has been vaccinated against the disease, so many countries won't allow imports from countries that are vaccinating.

**What is being done to wipe out the disease?**

The disease has been largely contained in Britain\*. All exports from Britain of livestock or livestock products that could carry the disease are banned. There have been a few isolated outbreaks outside Britain, but to date, it seems the disease has been contained in the regions concerned. These outbreaks outside of Britain seem to be related to exports from Britain prior to the disease being detected. Strict measures apply in these regions also to livestock and livestock products. It should be stressed that to date eleven countries in the EU have not had a case of FMD. Nevertheless, all movement of animals in Europe is banned unless they are going directly to abattoirs, so there are no cattle markets or anything like that. If they are not going to the slaughterhouse, they are banned. There is no movement. Now the British government has authorized the slaughter of about 700,000 animals in areas around where they have infected farms.

(\*Editor's Note: At press time, cases of foot and mouth had been discovered in the Netherlands, France, and Ireland as well as in Britain.)

**Why do you have to kill so many animals?**

It looks like a lot of animals, but actually it is only a little more than 1 percent of the total animal flock in Britain. So you are killing 1 percent to save 99 percent.

**Which animals are affected?**

Beef, sheep, pork, goats, and deer—anything with a cloven hoof. No chickens or horses.

**Could the disease spread to the United States?**

The disease could spread anywhere, but the US has banned all imports of products that could carry the disease, particularly fresh and frozen pig meat. Cooking kills the disease. Different processes that food products undergo like heat treatment, curing and dehydration, and acidification of ham also kill the virus. So any country could import it not necessarily from the European Union but anywhere else. There are outbreaks in different places all over the world. We have been free of FMD for ten years in the European Union (with the exception of one outbreak in Greece last year). This was probably imported. The suspicion is that it was caused by some illegal imports like maybe leftover airline meals from a plane that were given to pigs in swill, which is illegal. That is the suspicion about where it came from. It is the same strain that they had in Japan and Korea and in South Africa. It is an Asian strain. It had to be imported because it wasn't in the EU before now.

**How long do you think this could last?**

It will certainly last some more weeks. The incubation period is two days to two weeks so what Britain is going to do now is a fairly drastic measure, slaughtering all the animals in the surrounding farms. There is a lot of opposition to that from farmers, but the government has been left with no option. Hopefully, that will succeed in containing and eradicating the disease.

**Who is paying the farmers after their animals have been killed?**

The farmers will be compensated for the animals by national and EU money. Where significant losses will arise will be, for example, if you are dairy farmer you will be compensated for the animal that was slaughtered, but of course, there will be no milk production for the rest of the year. Or a farmer might have spent the whole of his lifetime building up the progeny of the dairy herd, and it has been wiped out. Although up to now it has been mainly sheep that have had to be slaughtered, some cattle but not a lot of them.

**What is this going to do for the livestock industry?**

It is devastating for anyone to have had his flocks or herds slaughtered. There

are various estimates of the damage to the British economy. It is not just agriculture. It is also tourism. All sorts of events have been canceled. The estimated cost is running into billions.

**Would you tell an American tourist it is safe to go to the UK?**

It is safe to go. The disease has no implications for human health. It is only a very small percentage of the total herd or flock that is infected anywhere. The thing is to stay away from farms. The only risk in going there is that you would spread the disease within Britain or bring the disease back with you. But if you stay away from farms, that risk isn't there, and you will be walking through disinfecting mats anyway at airports so normally it shouldn't be possible for you to bring back the disease. When you come back from the UK into the US, you certainly walk across a disinfecting mat, and you should not bring back any food.

**So the US has set up for this?**

You have to fill out a card on the plane, and if you have been near a farm, you have to report to the Department of Agriculture, but it is literally only walking across a disinfecting mat.

**How much longer do you think the United States will have this ban on exports?**

We have been making the point that there are eleven countries that have had no case of FMD and three countries with a few cases. France has already taken fairly drastic measures before they ever found a case. They slaughtered all of the animals that had been imported from Britain. We hope that in a few weeks we can go back to a regionalized approach. Of course, that will depend on the evolution of the disease. Does it stay within the presently affected areas or has it got out? But I think that soon the picture should be clearer as to whether it has gone further on the Continent.

**The effect on tourism in the UK could be drastic?**

Yes, but for no reason, as I say it is not the problem of human health, but people would not necessarily know that.

**What about the other food scare in Europe—mad cow disease? Can you explain what mad cow disease is?**



Mad cow disease is believed to have come from the feeding of meat and bone meal that is the offal from animals. Sheep have always had—for more than 100 years—the disease called scrapie. Sheep all over the world have it, but it is not a problem for human health. This disease, officially known as bovine spongiform encephalopathy (BSE), has jumped a species divide, has mutated, and is believed now to cause a new variant of Creutzfeldt-Jakob disease (vCJD) in humans, and about eighty people have died, primarily in Britain, from that disease over the last, say, five or six years. Within the EU, we have taken all sorts of precautions, both to avoid the spread of disease to animals and to protect human health. The scientists know that the infection is found in specific tissues in the animal—the brain and the spinal cord, in particular. These products have been removed from the food chain—both the animal food chain and the human food chain.

**So humans can get a form of mad cow disease, but it is very rare?**

Very rare. Scientists haven't yet been able to put their finger on why some people get it and others don't. While it is very sad that people die from this disease, to put it into context, thousands of people die every year in the US or in Europe from other food-related illnesses.

**Is there a cure for Creutzfeldt-Jakob disease?**

There is no known cure.

**What is the EU doing to solve the problem with mad cow disease?**

Every animal over thirty months now is tested before it goes into the food chain. This is facilitated by the fact that tests have been developed in recent times that can give you a quick result. Every animal more than thirty months of age, destined to enter the food chain is tested; therefore, European meat is now—you could say—the safest from BSE from a health point of view because we are the only ones who are testing to such a large extent. On a weekly basis, about 140,000 animals are tested.

**The EU is doing more than the United States?**

The US is not testing animals to the extent we are. They are doing some kind

of targeted testing on animals with certain diseases, but in the EU, if a cow is over thirty months of age the meat doesn't go into the food chain unless it is tested.

**For Americans and other people around the world, it seems like the dark ages. We have heard about mad cow disease, and now we are hearing about FMD. What is causing these things?**

FMD has always been around. Until the recent outbreaks, we had just managed to have it eradicated in Europe. There are those who attribute it to intensive farming. Actually there is more FMD in countries that have extensive farming than there is in countries that have intensive farming in and around Europe and in Africa and the Middle East, so it has nothing to do with the type of farming. Animals are more mobile. There is more trade going on across borders, and tourism has increased considerably, so in that sense the risk is higher for the spread of the disease, but the incidents of FMD are not linked to the type of farming.

However, BSE is linked to some farming practices in the sense that it is the feeding of meat and bone meal that has caused the problem, so that comes from a certain type of farming practice. But that is a farming practice that is used all over the world in developed countries.

**Will there be more research?**

Yes. It is not so much research. Meat and bone meal is considered safe if it is treated in a certain way, and we have a regulation that obliges people to treat it in a certain way. But there is a suspicion that there may have been weaknesses in the implementation and enforcement of the law, and that is why it is banned for the moment, and we will see whether we will go back to feeding it or not. In addition, new testing methods are actually being examined on validity and effectiveness, including methods by which the disease may be detected in live animals.

**Recently, there have been those who say these disease outbreaks are due to globalization because everything is going across borders.**

If one doesn't have trade, if you didn't have imports, you wouldn't import diseases. But if you don't have imports,

you won't have exports. Trade is a reality. It is a question of balancing the risk and the desire to trade.

**Are Europeans eating less meat these days?**

Yes, the consumption is down almost 30 percent. Not because of FMD but because of BSE. Where the media has it wrong in the sense of BSE, is that there isn't an upsurge of BSE in Europe. In fact, the level of BSE infection in Europe has to be much lower now than it was in the past. The difference is now we have the test. We are testing hundreds of thousands of animals. We didn't have these tests before. The European Commission has been saying for years that BSE may be present in countries that consider themselves free of the disease. Since they imported meat and bone meal or livestock from Britain, they could have imported some infection; it has to be there. They said no. Now that we have the testing; they have found it; and European consumers are reacting, but the European consumers are safer now than they have been for the last few years because all the meat going into the chain is tested.

**So we are not going see a Europe of vegetarians in the next decade?**

No, beef consumption fell quite dramatically when the BSE crisis blew up in 1996, but within twelve to eighteen months, it was back up to normal. So I would expect that it will go back up to normal again, but it will take some time.

**Is vaccination being considered?**

There is no support from the EU member states for general vaccination of animals. However, "suppressive vaccination" might be operated when the volume of animals exceeds the available destruction capacity. A limited number of animals in a restricted area surrounding an outbreak would then be vaccinated. This "emergency" or "ring vaccination" could be used to contain the spread of a disease around a confirmed outbreak in a defined area, in an identified holding. These vaccinated animals would have to be destroyed urgently within a specified period. The Netherlands has been granted such a derogation, and similar considerations are underway in Britain, due to the magnitude and extent of the outbreak. ☺

# Luxemb

## Still Banking on Banking

Europe's richest country awaits outcome of EU financial reform

I asked a recently arrived ambassador in Luxembourg for his first impressions of the country. He replied with one word: "Rich."

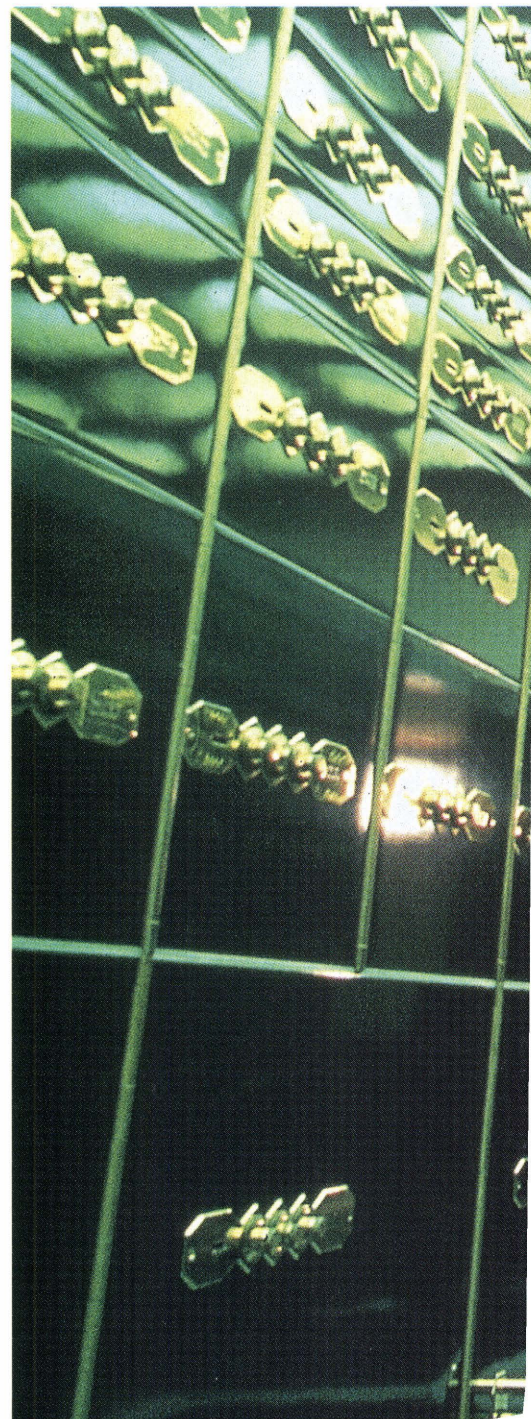
The average Luxembourger does not flaunt his or her wealth, but no one can be in the capital city for long without being made aware of it. Whether it's in the concentration of up-market perfume and fashion stores, the parade of international banks or the long lines of Mercedes cars, Luxembourg seems to ooze financial health.

The statistics tell you that Luxembourgers enjoy by far the highest per capita incomes in Europe (about \$44,000) and top the list for just about every kind of spending. If you have a job here, you are protected by one of the most comprehensive social security systems in the European Union, and when you retire from it, you get a pension that might stop the breath in other countries—some seven-eighths of final salary for many employees.

Too good to be true? Yes, in a sense, and the reason arises from Luxembourg's extraordinary employment pattern. This is a tiny country, measuring just fifty-two by thirty-six miles and with a population of around 440,000, yet the records show that 240,000 people hold jobs. Can it really be true that 55 percent of the inhabitants are employed, when the figure for most industrial countries is between a quarter and a third?

The explanation is that 80,000 workers in Luxembourg actually live in the neighboring countries of France, Germany, and Belgium and cross the borders every day to reach their offices, factories, and other workplaces. They are not citizens of Luxembourg and do not appear on its social and population registers, but they contribute significantly to the country's wealth.

In no other country in Europe, and possibly not in the world, is there such a huge presence of cross-border daily commuters. They include store assis-



# ourgers

By Alan Osborn



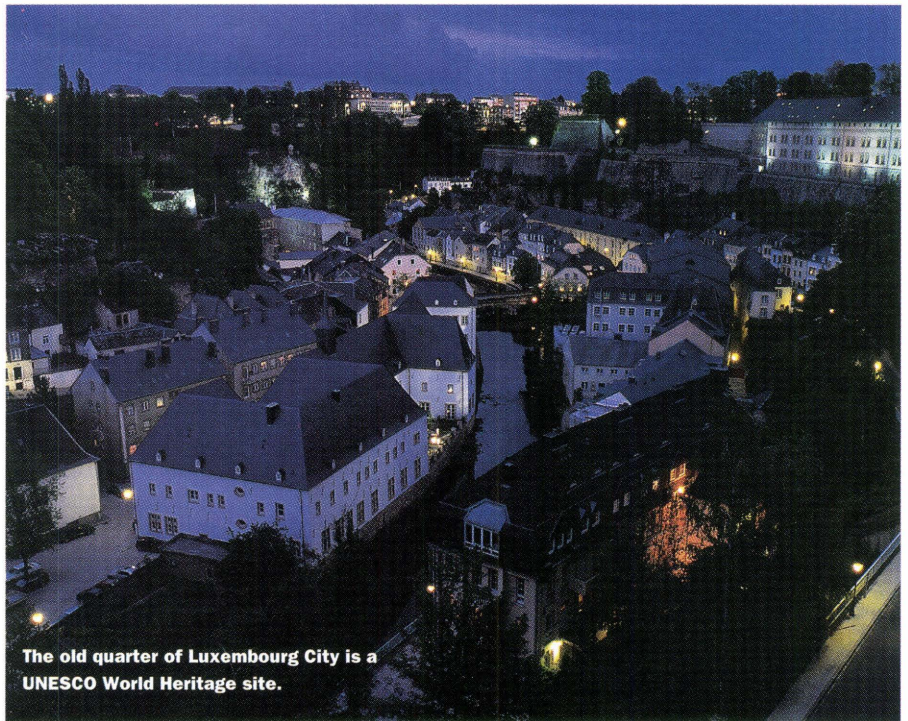
Inside the vaults at Banque Internationale à Luxembourg

tants, steelworkers, clerks, and bankers. Their contribution to the Luxembourg economy is wholesome, even essential. Along with the high proportion of resident foreign passport holders (about a third of the entire population), the *frontainie* workers help account for the remarkable fact that half of all jobs in Luxembourg are held by non-nationals.

This heavy reliance on workers from other countries is the key to understanding Luxembourg's extraordinary ranking in a number of key economic sectors not just in Europe but throughout the world. The Luxembourgers must be sick of hearing themselves described as "punching above their weight" economically, but I doubt that anyone in the steel or broadcast industries—where the international clout of Luxembourg companies like Arbed and CLT, respectively, is undisputed—would challenge that view.

Nowhere, however, is the proposition truer than in banking.

For many years, Luxembourg has been a haven for savers in neighboring countries, drawn by the tax-free returns and guaranteed banking secrecy on offer in the Grand Duchy. The scale of these savings is staggering: The last count put the value of mutual funds handled in Luxembourg at \$721 billion, controlled by more than 5,000 different funds. This is about twice as much collective investment as in London.



The old quarter of Luxembourg City is a UNESCO World Heritage site.

About 90 percent of continental Europe's offshore fund assets are managed in Luxembourg, which has grown to become the sixth-largest financial center in the world.

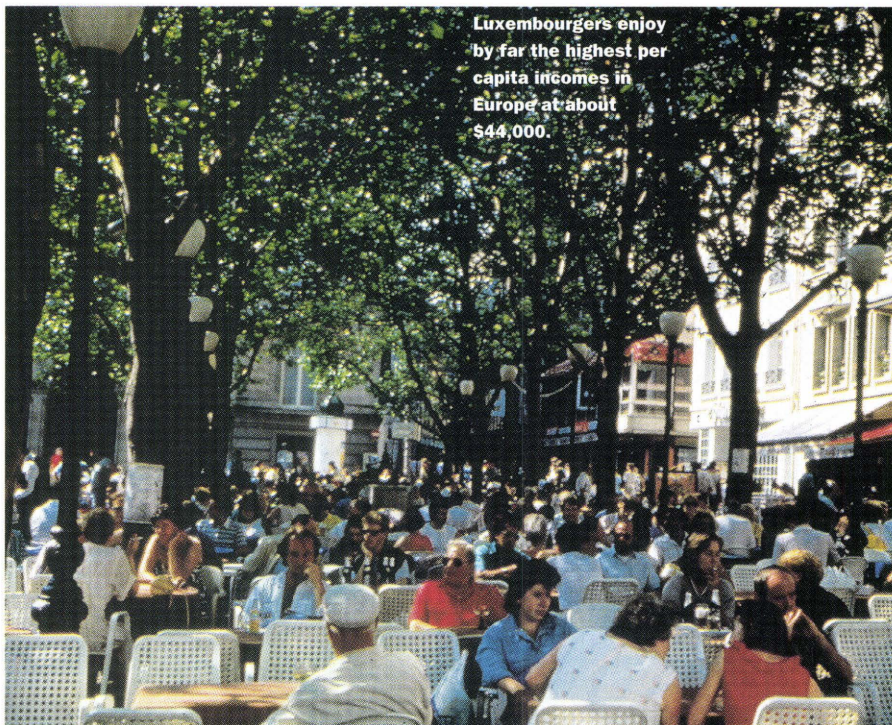
Banking, and specifically fund management, is at the heart of Luxembourg's prosperity, accounting for a higher share of employment, national revenue, and taxation than in any other European country. That is a source of pride to the Luxembourgers—but also anxiety. Put bluntly, what will happen to all those cross-border deposits—indeed to the whole financial services

sector—if the EU pulls the plug on banking secrecy and insists on a EU-wide tax on savings?

This is now the number one topic here following the decision late last year by EU finance ministers to draw up a directive on the subject, with Luxembourg in a minority of one opposing the measure. There is both good and bad news for Luxembourg. Banking secrecy will be ended but not until 2010. Even then it will only take effect if Switzerland and other non-EU countries agree to go along with it. However, there will be a tax on savings of 20 percent, rising to 25 percent, and 75 percent of the proceeds of that tax will go to the saver's country of residence. In the interim period up to 2010, member states can more or less choose between putting an end to banking secrecy or applying the tax.

As a package, this can hardly be seen as a good thing for Luxembourg, but anybody who reads the newspapers has known it was coming for years now, and the question facing Luxembourgers really is "can we live with it?" I found opinion in banking and government circles divided, though more were positive than negative about it.

Those who are most upbeat say that secrecy is no longer crucial given the way Luxembourg banking has developed in recent years, especially in fund management. More important is the intimacy of the financial sector here, the ease of establishment, and the speed of decision-making. A wide-ranging infrastructure has grown up in the past



Luxembourgers enjoy by far the highest per capita incomes in Europe at about \$44,000.

# Moving West in the Post-Nice EU?

twenty years so that all the legal, accountancy, and other administrative backup that a bank could need is readily accessible here. Besides, say some people, the Swiss will never agree to end banking secrecy, so it might never happen.

Others are more skeptical. Private banking may no longer figure prominently in Luxembourg, but it is at the heart of the sector, and an end to secrecy could prove a severe jolt to confidence, they argue. And the Swiss? Don't bet on them refusing to go along. Swiss banks have already agreed to a "qualified intermediaries" deal for providing information to the US tax authorities, so precedent exists for them to open up their books.

The debate rumbles on and, given the importance of the matter to Luxem-

The European Union can be divided into large countries, small countries—and Luxembourg. With a population of only 440,000, or just 0.1 percent of the total in the EU, and much the same share of its landmass, Luxembourg is an oddity—a nation no larger than hundreds of cities in other countries. Yet, in some important respects, Luxembourg commands as much weight in the EU as its much larger neighbors. It appoints one European commissioner out of the twenty in Brussels; has the right to serve as EU president when its turn comes round; and has the same entitlement as any other member to declare a "national interest" in certain contexts.

Luxembourg also has 2.3 percent of the votes in the EU Council of Ministers and a disproportionate six seats in the European Parliament. It has been rightly said that on a per capita basis Luxembourgers carry a heavier punch in the EU than the citizens of any other country.

It's a tribute to successive Luxembourg leaders that none of this seems to bother the other countries very much. It's true that there was talk before the Nice summit last year that the Benelux countries of Belgium, Luxembourg, and the Netherlands should have just one European commissioner between them when the Union was enlarged, but no one pressed the matter very strongly, and nothing was changed.

One could argue that because Luxembourg's influence is so marginal already, other countries are not driven to cut it still further. But a more important reason is that Luxembourg values the EU far more than others and is scrupulous never to do anything that could endanger its cohesion. As Prime Minister Jean-Claude Juncker has said: "Luxembourg knows that it would never have developed as a politically independent, economically competitive, and socially stable country without its integration into



Luxembourg's European Commissioner  
Viviane Reding

the European Union."

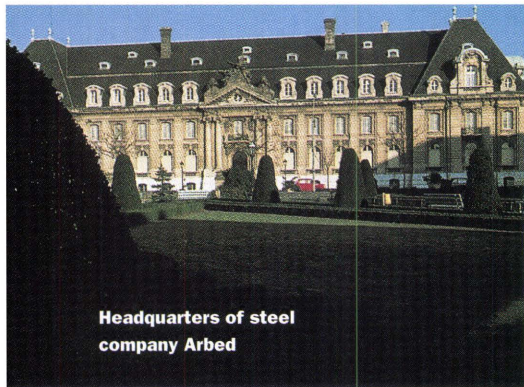
In practice, this means that Luxembourg attempts to play the role of a broker or conciliator rather than take sides. This is particularly true of disputes that pit Germany against France. Juncker stands in a line of Luxembourg leaders who have cultivated personal friendships with their counterparts in the two giant neighboring countries and acted as their go-between.

Linked to this is Luxembourg's keen understanding of the way decisions are made in the EU. What matters is the formation of alliances on specific issues between like-minded countries that can carry a policy without it being pressed to a vote. If Luxembourg can be said to form part of such an alliance on a more or less permanent basis,

it is as a member of the Benelux group along with Belgium and the Netherlands where the three countries are united in their devotion to European integration.

With enlargement of the Union from fifteen to twenty-seven countries, it may become harder to pull off these particular balancing tricks. As the center of gravity of the Union swings toward the east, Luxembourg will lose its place at the center and become part of what will presumably be the "western" group. In public, Luxembourg leaders proclaim their support for enlargement, but it would not be surprising if many did not nurse private worries about the consequences of it for their own country's influence.

—Alan Osborn



Headquarters of steel company Arbed

bourg's prosperity, will clearly do so for a long time yet. In many ways, the issue dwarfs anything else in public life at present. The coalition government headed by Prime Minister Jean-Claude Juncker, which took office nearly two years ago, is under no pressure. The Socialists, the former coalition partners of Juncker's Christian Social Party, are now in opposition, but there seem to be few policy areas where an effective challenge to the government can be made. Even the level of state pensions, usually good for a political fight, has lost its potency for the time being.

The economy is steaming ahead. Last year's growth rate was a remarkable 8.5 percent, and this year is shaping up as just as good. Most Luxembourgers are getting richer, and many are getting very rich indeed. Everything would be fine but for that unease over the future of banking after 2010. ☺

Alan Osborn is EUROPE's Luxembourg correspondent.



Prime  
Minister

## Jean-Claude Juncker

*In June 1999, Jean-Claude Juncker won a new term as Luxembourg prime minister after leading his Christian Social Party to victory in the general elections. At forty-six, Juncker is now firmly established as one of the youngest and most politically secure of Europe's leaders. Over the past ten years, he has played an important role in decisions involving economic and monetary union, including the creation of the euro. Juncker was interviewed by EUROPE's Luxembourg correspondent Alan Osborn.*

### EUROPE INTERVIEW

#### **What is the condition of the European Union at present, both economically and politically?**

Generally speaking, I am quite satisfied with the state of the European Union, but obviously, there is always room for some improvement. As far as the economy is concerned, we witness sustainable growth of about 3.4 percent of GDP. Inflation is under control, and governments are sticking to their commitments as far as sound budgetary policies and structural reforms are concerned. Economic success is not only due to monetary union, but also to a close coordination of economic policies among EU governments.

Concerning the political state of affairs, you know that there has been much criticism about the results of the Nice summit. I would like to draw your attention to the fact

that agreement in Nice was essential because it paved the way for the enlargement of the European Union. It is also important to stress that 'Europe' does not only happen at European Councils. 'Europe' happens every day. What matters is not what the Nice Treaty says. What matters is what we politicians make of it. If, in the years to come, there is a common will to deepen European integration, an imperfect treaty will not hinder us to do so.

Parallel to the process of ratification of the Nice Treaty, EU governments have launched a debate on the so-called "post-Nice," or the "future of the Union" as I prefer to call it. Indeed, we have to look ahead to the next intergovernmental conference that has been scheduled for the year 2004. We will then focus on fundamental issues, such as the distribution of competence between the Union and the member states, the role of national parliaments in the European construction, the fate of the charter of fundamental rights. And let us not for-

get that the EU will continue to work on its defense dimension and maintain its efforts to achieve the strategic goal of Lisbon, that is to make out of the EU a knowledge-based economy, competitive and dynamic, capable of sustainable growth, high quality employment, and social cohesion.

#### **What role is a small country like Luxembourg likely to play in a future European Union?**

For me European integration is a peace project. I do not belong to those who have a naïve view of European history and who think that the plague of war has been banned forever from the European continent. Those vicious demons, which brought pain and suffering to Europeans, are just sleeping. It remains, therefore, essential that a small country like Luxembourg, with its central geopolitical position between two European heavyweights, continues to contribute decisively to the European integration process and, as such, to peace. Even in an enlarged Union, Luxembourg will still be one of the six founding states. This historical *acquis* is obviously an advantage. With our experience, our understanding for the concerns of others, our longing for peace and stability, we will continue to play the role of a compromise seeker and come up with ways and ideas for more 'Europe.'

#### **How are relations between the EU and the US at present?**

I suppose that by "at present" you refer to the new administration in the US. I am convinced that relations will continue to be excellent, and I am looking forward to meeting the new American president. The Swedish presidency is, by the way, trying to arrange a meeting between the heads of state and government of the EU and President Bush in the margins of a European Council.

As far as defense is concerned, I do not see where problems could arise. European defense is not built against the interests of NATO or the US. On the contrary, it is intended to take some of the burden from the US when it comes to interventions on the European continent.

Concerning trade relations, I suppose that there will be disagreement on some issues, such as bananas and beef hormones, but this will not endanger

the strategic transatlantic partnership between the US and the EU.

**How do you think the process of enlargement of the EU will proceed?**

It is too early to know exactly. During the European Council in Luxembourg in December 1997, we have decided that each country's candidature is judged on the basis of its own merits. This principle remains valid. Negotiations are going on at a steady speed. My guess is that in the course of 2004, the EU will embrace the next new members. I also expect more countries to apply for membership in the years to come. It would make sense if countries like Switzerland, Norway, Iceland, and Liechtenstein joined the Union. In my opinion, the perspective of membership could be an incentive for the Balkan states to work a little bit more wholeheartedly on peace and stability in their region.

I do not foresee that particular problems will arise with the admission of new members. Obviously, it will be trickier to manage a Union of thirty members than one of fifteen, but this question should be approached as a challenge, not as a problem.

**About the euro, will the introduction of euro notes and coins proceed smoothly in Luxembourg next year? Has the euro now proven itself? How important is it that the British pound be brought into the euro? Do you think the euro will grow in value against the US dollar this year?**

Since 1997, the government has been active in ensuring that the introduction of the euro should start as soon as possible in all economic and social sectors. Since then, numerous public and private initiatives have developed in this field. At the beginning of February 2001 our Ministry of Finance and the Luxembourg Central Bank started a partnership program with private enterprises aimed at promoting the use of the euro for citizens.

A lot has been said and written about the euro's "weakness" if compared to the US dollar. Although the debate should have been more about the dollar's strength than about the euro's weakness, it is now clear that the euro has, above all, achieved considerable monetary stability inside the euro zone. This is the important factor, not the dollar-euro parity. I am convinced that if

Europeans behaved a little bit like Americans do, the whole euro debate would be superfluous. Ask an American what the dollar's value is, he will answer you that a dollar is a dollar. Europeans should have this confidence as well. A euro is a euro. As far as future developments are concerned, it now looks as though the economic cycles between the US and the European Union have turned; the soft landing of the US economy has started; and the EU's growth is picking up speed. As the economic fundamentals of the EU are sound, I don't really see a reason why the euro should weaken against other currencies in 2001. But then again, financial markets do not only function with reason.

The Economic and Monetary Union was designed for all the member states of the European Union. There would, of course, be an additional value to the euro if the pound sterling became part of it, when the time is ripe. But, I repeat, "When the time is ripe." That does not seem to be the case at the moment, but we are confident that it will be some time in the future.

**What is the condition of the Luxembourg economy at present?**

Our economy is still in excellent shape. With a GDP growth of 8.5 percent, Luxembourg is far above EU average, and our unemployment rate is, at 2.6 percent, far below the EU average. The government's main task is now to channel this very positive economic development from plain growth to a more qualitative approach. With this, we believe, we can make a decisive step to a more sustainable development of our economy but also to greater sustainability in the social domain. In 2000, the government launched its "e-Luxembourg" initiative aimed at promoting the use of new technologies in our country and giving incentives to local and foreign investors to use Luxembourg as a platform for [new technology] initiatives and activities.

**Your economy is heavily reliant on banking. How do you see the compromise over the proposed withholding tax on savings working?**

The compromise which the Ecofin (economic and finance ministers) Council agreed upon in November 2000 could possibly become one of the major

agreements ever reached in the field of direct taxation in the EU. It was under Luxembourg's EU presidency, in December 1997, that a first compromise on the so-called tax package, including a code of conduct for corporate taxation, was found. Ever since Luxembourg has been actively promoting the EU's efforts in this field. But, as Luxembourgers and as Europeans, we must not allow our financial center's competitiveness to suffer from EU agreements in this area that do not include financial centers in countries and parts of Europe which are not actually part of the EU's territory.

This has been recognized by the finance ministers of the EU member states, and it has been agreed that the so called dependent and associated territories of EU member states and key third countries would have to be included in the framework of a European savings tax regulation. These negotiations with dependent and associated territories and third countries started in early 2001, and they should be finished by the end of 2002, when the Ecofin Council is supposed to agree on the future directive on the taxation of savings with the final goal of a generalized system of exchange of information after a transition period and once all the conditions are fulfilled.

For Luxembourg, it is clear that the condition for the adoption of a future directive is directly linked to the success of negotiations with dependent and associated territories and third countries as far as the implementation of equivalent measures in these countries is concerned. This means that if others do not give up their banking secrecy Luxembourg will not do so either.

**Is Luxembourg still on course to meet the "pensions time bomb"?**

We are currently preparing a round table on pensions, which we will organize soon with the parties represented in Parliament and the social partners. We have had a study made by the International Labor Bureau on our pension systems, and this study shows that our current systems are safe in the middle and long term unless we suffer a major setback in economic growth. But you are right, sustainability of pension regimes will be one, if not *the*, major issue in the years to come, for all the European countries. ☺

# Luxembourg

## A world-class cultural center for the twenty

There are many great centers of art and culture in Europe, but plucky Luxembourg does not usually come to mind as one of them—yet. The EU's smallest state has decided that the time has come to change this situation and has embarked upon an ambitious multi-million-dollar cultural program. "Luxembourg simply wants to show that it is not only a major banking center in the world, but that it also has the potential to become an important artistic and cultural meeting place of the twenty-first century," affirmed Erna Hennicot-Schoepges, Luxembourg's minister of culture, higher education, and research.

Cultural policy remains somewhat of an alien concept in the US. In Europe, however, the deliberate articulation and pursuit of cultural goals is considered an integral part of a government's responsibilities. Perhaps it is a sign of Luxembourg's prosperity and security within a stable unified Europe that it can now devote resources to developing a cultural presence. "Luxembourg was a rural country, a military fortress. There is not a history of the arts," explains Arlette Conzemius, Luxembourg's ambassador to the US.

Luxembourg sits at the crossroads of Europe. Throughout history, this tiny patch of land has unfortunately been the site of many clashes, including the historic Battle of the Bulge during World

War II. Rather than dwell upon the past, however, Luxembourg's leaders have decided to look to the future to promote contemporary art, architecture, and multiculturalism. Foremost among these projects are the Grand Duke Jean Museum of Modern Art, the Philharmonic Concert Hall, and the Neumünster Abbey Cultural Center.

In 1997, the Luxembourg government authorized the creation of the Grand Duke Jean Museum of Modern Art. Situated on the Kirchberg Plateau near the historical site of Fort Thüngen, the \$72.8 million Burgundy stone and glass museum designed by I.M. Pei will house a new international collection of contemporary painting, sculpture, and photography. The objective is to highlight the artists and art movements from the end of the twentieth century and pave the way for developments in the twenty-first century.

Luxembourgers will finally get a grand home for their Philharmonic Orchestra, as well as an international venue for orchestral and vocal groups. The Philharmonic Concert Hall project was launched last year and will be completed in 2005. The €77 million (\$70.1 million) center, also situated on the Kirchberg plateau, will house a 1,500-seat auditorium, a 300-seat chamber music room, and a 120-seat room for electro-acoustic performances, which is music performed or assisted by computers. The architect is Christian de Portzamparc, of Paris' Cité de la Musique fame, whose striking design

was chosen in an international competition.

"Luxembourg has always been a kind of 'honest broker' between the Germanic and the Latin cultures and civilizations," explained Hennicot-Schoepges. Modern Luxembourg is even more heterogeneous, with approximately 36 percent of the population consisting of "foreigners."

Luxembourg's third major project, the Neumünster Abbey Cultural Center, reflects this heritage, and according to Hennicot-Schoepges, is part of a wider trend to celebrate diversity in European culture and foster common initiatives with other countries, including the new democracies of Central and Eastern Europe. "Giving European cultures more visibility and thereby enhancing direct contact with cultural actors and institutions all over Europe and the world will certainly help in creating better understanding," she added.

The Neumünster Abbey Cultural Center, to open in 2003, will serve as a focal point for dialogue and research on both cultural and economic issues. It will house the Goethe Institute, the French Cultural Center, and the headquarters of the European Institute of Cultural Routes, a project of the Council of Europe to develop a multifaceted European cultural identity and promote cultural tourism by highlighting historic routes of travel/migration throughout Europe.

The Abbey is also an important historical site. Originally a Benedictine



# uro first century

monastery constructed in 1606, it was used as a prison from 1861 until 1984. It is part of the old city of Luxembourg, which is a UNESCO World Heritage site. Following a \$36.4 million restoration, Neumünster will feature auditoriums, meeting rooms, a theater, a library, a databank, studios, exhibition halls, and accommodations for artists-in-residence.

The Culture Ministry has many more projects slated for completion in the next few years. Among other things, watch for a Sports and Culture Palace in 2002; the Museum of the Fortress in 2003, which will incorporate the remains of Fort Thüngen and link with the Museum of Modern Art; a "rock and pop" music venue also in 2003, and a new Audiovisual Center in 2004.

Meanwhile, there is much to do this year. For instance, on May 26 the Echternach Music Festival (May 11–July 4) will feature the annual performance of the festival's transatlantic chamber orchestra, which consists of faculty and students from the Music Conservatory of Luxembourg City and the Miami University (Ohio) Department of Music. ☺

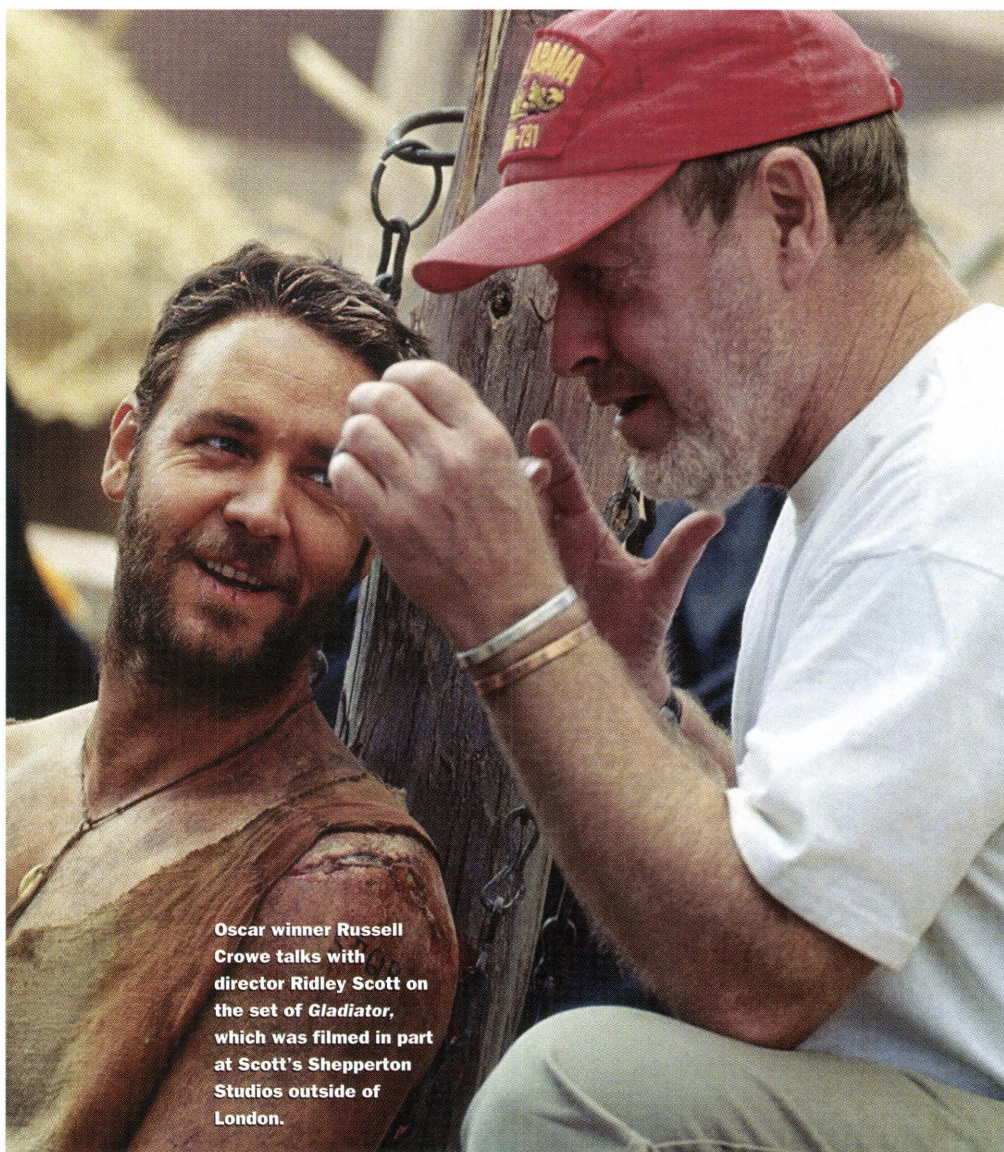
*Shaazka Beyerle profiled Athens' hidden treasures in last month's issue.*

The new history museum is located in New Luxembourg City.

By Shaazka Beyerle

# CAPITALS

An overview of current events and trends in Europe's capitals



Oscar winner Russell Crowe talks with director Ridley Scott on the set of *Gladiator*, which was filmed in part at Scott's Shepperton Studios outside of London.

## LONDON

### BOND AND HANNIBAL JOIN FORCES AGAINST HOLLYWOOD

**P**inewood and Shepperton, the UK's two largest film and television studios and among the biggest studios in Europe, are merging to create a British rival to the traditional Hollywood titans. Pinewood is famous for the hugely suc-

cessful James Bond movies, as well as exploiting its special effects skills to produce space-age spectacles like *Superman*, *Star Wars*, and *Mission Impossible*.

Shepperton, which is owned by *Gladiator* and *Hannibal* director Ridley Scott and his brother Tony, is where fast-paced blockbusters *Top Gun* and *Blade Runner* were followed by the gentler triumphs of *Shakespeare in Love* and *Notting Hill*.

Two-thirds of the work undertaken by

Pinewood and Shepperton comes from American producers attracted by lower British production costs, advanced technical skills, and facilities superior to their US counterparts. However, both studios have been struggling in recent years to attract Hollywood producers, who have found Eastern Europe, Canada, and Australia cheaper and more flexible. Winning back this business is vital for the health of the British film and television industry.

A UK consortium headed by former Channel 4 boss Michael Grade bought Pinewood a year ago for \$100 million. Now Grade, nephew of legendary British impresario Lew Grade, has shelled out another \$50 million for Shepperton. Both studios are located near London, although not that close to each other. Nevertheless, Grade believes merging the two will help to make their combined facilities irresistible to US filmmakers.

"The deal revolutionizes Europe's position in the global film production arena, bringing it head to head with its Hollywood counterparts," says Marek Gumienny, managing director of Candover, the buy-out specialists who helped the

Scott brothers acquire Shepperton in 1995.

As an actors' strike looms in Hollywood, the timing of the merger could attract more filmmakers and help keep the studios in the big time.

Both studios have distinguished pedigrees. The first film shot at Pinewood, which takes its name from the vast pine trees in its grounds, was *Talk of the Devil*, directed by Carol Reed. He later became famous for *The Third Man*, which fea-

tured a chilling performance by Orson Wells and coincidentally was filmed at Shepperton.

The J. Arthur Rank Organization founded Pinewood in 1936 and was the kernel of the giant Rank Organization, which sold the studio last year to the Grade consortium. Shepperton, founded in the 1930s as Sound City Film Producing and Recording Studios, had more varied ownership before the Scotts and Canover took over in the mid-1990s.

This merger may not be the end of the studio amalgamation in the UK industry. "We would not be adverse to putting one or two other companies into the business," says Dan Adler of venture capitalist 3i, which provided the cash for the takeover. The company is hungry for further acquisitions, he said, with a smile that hinted, Hollywood look out, Hannibal Lecter is coming to dinner.

—David Lennon

#### BERLIN

## GERMANS FACE DIFFICULT DECISIONS IN MILITARY REFORM

Germany's military is "too big, ill-composed" and has "no future in its current structure." This damning assessment, proffered by an independent commission last summer, is being taken to heart by Gerhard Schröder's government. The easing of cold war tensions and the drive toward a common European defense policy are inspiring a branch-and-root reform of Germany's armed forces.

The most noticeable impact of the reform is a reduction in the number of troops. Over the next ten years, the number of people serving in Germany's armed forces is to be reduced from 310,000 to around 285,000. At the same time, the number of civilians employed by the military is to be cut by about a third. That would reduce the civilian contingent to about 85,000.

The expected job cuts are predictably unpopular in a country with 9 percent unemployment. Public protest has focused on the slated closing of fifty-nine separate military installations. Some of these are small with just a few dozen personnel, but others are sizable military bases of great importance to local economies.

Fewer locations are being closed than recommended by the independent commission. Still, the reform plans have

drawn political fire. The opposition CDU and CSU parties claim the government is closing an undue number of locations in conservative-led constituencies, particularly Bavaria.

Unfortunately, with so much discussion focusing on base closures little attention has been paid to other aspects of the reform. Conscription, for example, is being reduced from twelve months to just nine. In addition, maintenance and training services previously performed by the military will be privatized. (One major contract has just been awarded to a Canadian company.) Furthermore, following an appeal to the European Court of Justice, women can now serve in combat roles from which they had previously been barred.

The base closings and personnel cuts, of course, will result in significant cost savings. That money is to be plowed back into the military to modernize its weapons, transport, and communications systems. Numerous reviews of Germany's military hardware have revealed serious shortcomings in these areas. It's believed the general lack of readiness would compromise the country's ability to launch a credible defense or participate in joint operations, and that is no longer considered acceptable.

If a militarily weak Germany was desirable in the decades immediately following the Second World War, today the country's allies expect it to shoulder more of Europe's common defense burden. Demands are growing for Germany to make a greater contribution to NATO and the EU's own fledgling defense identity. As Chancellor Schröder said at a recent security conference in Munich: "We Europeans want to be—and indeed by 2003 will be—in a position to implement humanitarian, peacekeeping, and peace-making measures." The planned reforms are part of a larger effort to achieve those goals.

—Terry Martin

#### DUBLIN

## BOOM ECONOMY BOOSTS IRISH CAR BUYING

When I was a boy—and that wasn't yesterday—drive time was something the wealthier mortals spent on the golf course, and automobiles were the heady indulgence of the moneyed classes, the "professionals"—well-paid

politicians, doctors, dentists, lawyers, and like-minded others pursuing similarly enviable trades.

Most roads were winding and hazardous, and there were few stretches where high speeds could be reached with any certainty of safety. Driving was a pleasure or an early chance of entering the newspaper obituaries. In this era, stretch limousines were the stuff of the racier American novels or Hollywood movies.

Now, in the booming economic Ireland of the Celtic Tiger, things are different. Car ownership has mushroomed in recent years, with the young population flashing their newfound wealth as they splurge on the more expensive and exotic car models. Roads have improved beyond imagination, and regrettably, we are now roughly in or near the EU average for road fatalities.

Not bad for a country that doesn't boast a single oil well and, surprisingly in the land of Henry Ford's forefathers, doesn't manufacture a single car. All gasoline is imported from other European countries or the Middle East, and motor vehicles are designed and manufactured elsewhere and imported fully assembled or (rapidly diminishing) in kit form for Irish assembly. Furthermore, the growing Irish love affair with the automobile is even more surprising given the hefty taxes that must be paid to indulge the habit.

According to Keith Butler, statistical officer of the trade group Society of the Irish Motor Industry, taxation is "a huge burden" with value added tax (VAT) of 21 percent and vehicle registration tax (VRT) ranging from 22.5 percent for smaller cars to as much as 30 percent for the larger models.

That's at the purchase stage. In addition, there are hefty annual road tax charges to be paid to your local authority and some of the highest insurance premiums in Europe.

It doesn't stop there. Gasoline is also subject to large value added tax—again at 21 percent—and excise duties. Take unleaded fuel. It costs anything upwards from \$2.31 a gallon. About 68 percent of that cost is tax.

In support of Europe's growing "green" image, leaded fuel attracts a tax of about 70 percent. (The EU is currently considering higher figures, and these will be applied in Ireland.)

These taxes and excise duties, once imposed for improving roads and other

facilities and still used in this area, are also sidetracked “for general government revenue purposes.”

Other motor fuels consumed in Ireland include diesel, mainly used by trucks and some cars, and industrial gas (LPG). In the December budget, excise duty on LPG was reduced to encourage use of this cleaner-burning fuel.

Given the high taxation, it's surprising that more than a million Irishmen and women own their own cars. Admittedly, at thirty-one cars per 100 population, car ownership is still small, but it is growing extremely fast. Last year, the Irish bought more than 140,000 new cars—a record number.

Lack of investment in public transport may be partly responsible for the growing love affair with the car. Railways have been starved of capital investment, and only now are large sums of money being set aside for improved main-line tracks and services.

Bus services have also suffered from lack of investment, which probably accounts for the huge numbers of commuters using private transport.

Even in Dublin, which has a fast, efficient and soon-to-be-expanded electrified rapid transit system (DART), the number of commuters driving cars to work remains very high, adding to the city's pollution.

Moreover, it's unlikely to improve, at least in the short term. The people responsible for Dublin transportation say they expect that, this year, 73 percent of what are called “person trips in peak time” will be by car. However, Keith Butler of SIMI says that while electric or hybrid cars are still awaited, greater fuel efficiency has seen smoke emissions “drastically reduced” throughout the country.

—Mike Burns

## COPENHAGEN

### DENMARK'S HOTTEST DIRECTOR

**H**er contagious, slightly hoarse laughter is heard seemingly everywhere, and her face appears on most television channels. Perhaps, an odd situation for a forty-one-year-old woman who usually works behind the camera and whose seventeen years of filmmaking are fairly described as rather insignificant—until now.

Making the Danes either laugh or cry—often both—with her latest movie



Danish director Lone Scherfig's new movie, *Italian for Beginners*, attracted more than 600,000 moviegoers in the first three months.

*Italian for Beginners*, director Lone Scherfig deserves the attention she's getting. Within its first three months on the big screen, more than 600,000 of the 5.3 million Danes went to see the film. Even the press was charmed, singing the praises of the romantic comedy about six socially and sexually understimulated singles in a gray Copenhagen suburb who enroll in an Italian course for beginners.

During the course, the characters learn to trust and interact with other people and thus escape their misery. “Happiness is within reach for most people,” Scherfig repeats when asked about the theme of the movie.

“When people watch mainstream movies, they often think: ‘I wish I was Michelle Pfeiffer.’ What I wanted to do with this movie was to show real people and serious problems, but in a light-hearted and effervescent movie with plenty of flirts, friendship, and family ties,” Scherfig explains.

Indeed, she has succeeded on all fronts. Her film carries an optimistic view on life—without becoming predictable. Inexplicably, many of the scenes are capable of provoking laughter from some of the audience while sending others to tears.

“When the audience expects fun, I give them something serious,” explains Scherfig. “When they expect heavy stuff, I give them something to laugh about. That's me. I like to use irony as a tool to deliver a serious message.”

Although she is still surprised by the immense success of her film, the media

harbored great expectations from the very start. The reason being that *Italian for Beginners* is the fifth official “Dogma Film”—named so after the Dogma Principles that were created five years ago by four Danish film directors—since then known as the Dogma Brothers, who have a web site ([www.dogme95.dk](http://www.dogme95.dk)) that discusses their film philosophy.

Even before Lone Scherfig became the world's first Dogma Sister, the philosophy evolved into a trademark for Danish film and television productions. Its “Vow of Chastity” commits directors to shooting their films on location with the natural light and sound of the place—not necessarily to keep films on a low budget (*Italian for Beginners* was made for less than a million dollars) but rather to seek new means of expression and not rely on expensive techniques and effects.

“The ‘Dogma’ forces you to get very close to the truth. It adds authenticity and intensity to a film by showing what is going on right here in this very moment,” Scherfig explains with her characteristic devotion, a character trait that is also appreciated by the actors.

They all agree that Scherfig is marvelous to work with because of her contagious humor and her openness to their ideas. However, they must admit that she was terribly wrong about one thing.

“Because of the special humor, irony, and solidarity in *Italian for Beginners*, I thought I had made a very Danish movie. A movie nobody outside Scandinavia would ever appreciate,” says Scherfig.

Just how wrong she was became obvious when the movie won the Silver Bear Jury Prize at the recent Berlin Film Festival. Soon, her creation might soon make the transatlantic crossing to American theaters as Miramax has bought the American rights

—Maria Bernbom

## BRUSSELS

### BELGIUM DOUBLES ITS WORLD HERITAGE SITES

**A** recent decision by UNESCO has doubled the number of world heritage sites in Belgium. The list, compiled as a result of a convention signed in 1972, currently contains some 641 locations that have been chosen by international advisory committees as making an outstanding contribution to world culture or being natural sites of great beauty or of

geographical or historical significance.

The vetting process is extremely arduous, and Belgium was totally absent from the list until 1998, when the medieval *beguinages* (a sort of convent for lay sisters) of Flanders, the Grand'Place in Brussels, and the series of locks on Belgium's central canal, an outstanding example of nineteenth-century engineering, were all added to the list. The following year the imposing series of thirty belfries that mark the center of virtually all Flemish towns was chosen.

Now four other very diverse sites have joined the list. The Neolithic flint mine at Spiennes, in southern Belgium, the most ancient of the chosen sites, are spread out over 247 square acres. They are the largest and oldest of the prehistoric mines in Europe and contain the remains of habitations, which give some idea of the living and working conditions of our ancestors from the New Stone Age.

The second choice was the Romanesque cathedral of Notre Dame at Tournai, built at the beginning of the twelfth century and notable for blending the architectural styles of the Ile de France, Normandy, and the Rhineland, the three regions of which it was the geographical center. Its five enormous towers dominate the countryside for miles around, and it is remarkable for being one of the last major churches to be built before the beginning of the Gothic age. Its choir, rebuilt after 100 years, is pure Gothic in style.

The third site chosen was the central area of Bruges, which with its maze of canals weaving their way through a checkerboard of medieval buildings, is commonly known as the Venice of the North. The cradle of primitive Flemish art, the town's museums still house a wealth of masterpieces by such artists as Jan van Eyck, Hans Memling, and Hugo Van der Goes.

Finally, four houses in Brussels built by the great art deco architect Victor Horta round out the new selections, illustrating the transition in art, thought, and social life between the nineteenth and twentieth centuries. Three of them are private residences, the fourth, Horta's own house, is now a museum.

The designation of the sites is meant to encourage their conservation and undoubtedly will add to their attraction to tourists. UNESCO has a small fund that helps developing countries with designated sites to pay for their upkeep and improvement, but wealthy countries like

Belgium are expected to meet the cost themselves. The main charge will fall on the regional governments, notably that of Wallonia, which needs urgently to find almost \$23 million to pay for a major renovation of the cathedral at Tournai.

—Dick Leonard

## HELSINKI

### FINNS' FROZEN QUEST FOR FISH

**F**inns are among the largest per capita consumers of fish in Europe. They eat an average of thirty-two pounds per person every year; though this figure refers only to fish that has been purchased—and does not include fish they have caught themselves, which could account for an extra four to six pounds to the average consumption.

Fishing is the nation's most popular recreation. This is perhaps unsurprising considering its long western and southern flanks in the Baltic, and there are more than 180,000 lakes with a minimum size of eight square miles.

However, foreigners may gulp at the

thought that fishing is a year-round hobby among Finns. Last winter, the capital experienced an average temperature of ten degrees Fahrenheit, which—when the scything northeast wind was added—brought the wind-chill down to around minus twenty-two—enough to make the unprepared whimper from the pain of it.

So, when few would venture into the silent, snow-deadened streets even to exercise their dogs, when hospital casualty departments were filling with broken bone victims who'd slipped on the gray ice, guess what? It was time for the ice fishers to go about their business.

The Finns are mocked for what others see—often wrongly—as problems with their image, but the sight of a mournful and distant silhouette crouching over an ice hole in temperatures that freeze the breath to the face has an ineradicable Finnishness about it. Fishing in Finland, after all, is a birthright.

An estimated 200,000 Finns pursue this pastime, known locally as *pilkki kalastus*, and no, as the joke goes, they are not motivated by desperate measures to escape their spouses. Rather, a fiercely

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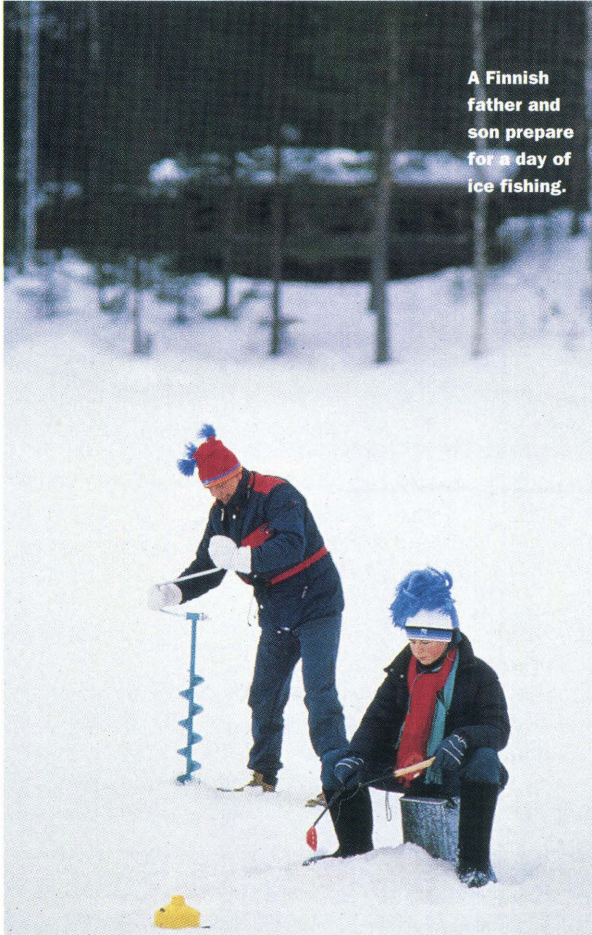


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A Finnish father and son prepare for a day of ice fishing.

competitive spirit drives them to the holes in the ice. That is why they keep a distance from each other's pitches on the ice. Even friends try to avoid the possibility someone else might catch a pike, white fish, turbot, or perch that was rightfully theirs. There is no more envious creature in the world than a fisherman eyeing another's success.

As for the equipment, there can be no compromises: layers of clothing—overalls, boots, fur hats and gloves, yards of scarves—a special drill, lines or nets, a coffee thermos, sandwiches, a flask, a radio, and an electrically heated seat, and, sometimes, a tarp or one-man tent. The prudent also take a special rope with attached hooks that is slung across the shoulders so that, should the angler fall through the ice, there is at least a theoretical possibility he can pull himself out again, but more often than not such accidents are fatal.

Every season, usually in March or April and in different parts of the country each year, there is an ice-hole anglers' marathon, which attracts 10,000 or more participants, including women and children. Foreigners are also taking part in growing numbers. The prize goes to the

one who has the heaviest catch, not the most fish. In one of the lakes up in Ostro Bothnia is the Million Fish—so-called because a fishing lure manufacturer has put an identifying badge on a single fish; if the creature is caught the angler receives a one million markka prize (\$152,845). At the time of writing, it was still uncaught, but no weather deters the effort to do so; sometimes the simplest marketing ideas are best.

Finns dearly love trading anecdotes, a tradition that comes from shooting the breeze in the sauna, an institution that makes even the most taciturn types garrulous. A true and recent story from central Finland concerns an ice fisher observed kneeling immobile over the hole he had drilled. This was odd. An hour or so later he was still in a

prayerful position. Trying to retrieve the lure from a pike too big to pull through the aperture, the fish had locked onto his hand with its backward-ratcheted teeth and a painful deadlock ensued—only to be broken when a neighbor approached across the ice to ask if anything was wrong.

Laugh if you must, I did, but the ice-hole anglers feel different from ordinary mortals and do not take kindly to jests, especially not to the routine suggestion they are insane.

More than the fish they may bring home, more than the mystique that accompanies this expertise, is the satisfaction that their lonely ordeal sets them apart and stamps them as Finns. In ice fishing, loneliness and risk are fused.

—David Haworth

## THE HAGUE

### FROM SNEEK WITH LOVE

**A**larm on the Internet! A new computer virus was detected earlier this year. Although it soon became clear that it was by far not as destructive as the "I Love You Virus" that spread panic around

the world last year after originating in the Philippines, the new computer bug spread rapidly around the world automatically replicating and distributing copies of itself through e-mails. To entice unsuspecting computer users to open the e-mail and thereby infect their computer, the virus's creator named it "Anna Kournikova," betting users would open the e-mail in hopes of seeing a photo of the attractive Russian tennis player. Instead, all the unsuspecting users got was a bad case of an e-virus that sent copies of itself to all the names listed in their e-mail address book. The virus particularly hit hard computers in the US and Australia.

In the Netherlands, concern soon turned into embarrassment as it became clear that the virus originated from a Dutch Internet server and that it actually had been introduced on the Internet by a twenty-year-old Dutch college student from Sneek, a provincial town in the northern part of the Netherlands. When this student found out what panic he had actually caused, he repented, confessed his activities to his parents, turned himself into the police, and subsequently went into hiding from the international publicity.

As a justification for his action, the young man, whose identity was not revealed by the police, said that he wanted to show how vulnerable the Internet still was after last year's "I Love You"—attack and that nobody had apparently learned any lesson from that experience. He had simply used a do-it-yourself program taken from the Internet and created his virus in little more than a minute. He said he'd never realized that the virus would spread so quickly. He also blamed Internet users for opening the unknown file and even Kournikova herself. "She is so astonishingly beautiful," he confessed.

Siem Hartkamp, the mayor of Sneek, discovered to his surprise that the local computer hacker had made his town instant world news. He says that, when he saw the Sneeker Water Gate, the most renowned historical architectural landmark of his town, and the local police station on CNN, he knew that the hacker had actually rendered a 'great' service to Sneek. He reasoned that such a student must be knowledgeable about the Internet and creative. Since he had just put Sneek on the digital map—albeit for a brief moment—he offered him a job as a computer specialist at the municipality.

That was not a smart idea, as spread-

ing a virus is a criminal offense in the Netherlands, with a maximum penalty of four years in jail, and the mayor's office hastily declared that the job offer was only a joke.

In fact, the virus specialist turned out to be only a beginner. He had used a very simple program and had not even bothered to introduce complications, computer experts said afterwards. Others speculated that he created the virus to show his love for the heartthrob. "At least he has good taste," summed up one user who contracted the virus, "I'd rather get the Kournikova virus than the Navratilova virus."

—Roel Janssen

LISBON

## CONTROVERSIAL NEW DAM TO TRANSFORM ALENTEJO

In recent weeks, news reports that up to one million trees are to be chopped down in Portugal's rural interior to make way for a giant reservoir has scandalized many environmentally concerned Europeans. The fact that much of the funding for the \$2 billion project is to come from EU coffers only made things worse.

In fact, the project isn't really news at all. The building of a giant dam on the Guadiana River at Alqueva, in Portugal's southeastern province of Alentejo, near the Spanish border, has been going on for more than a year now, albeit in the face of opposition from Portuguese ecologists. It will probably be another year before it is completed.

Neither is it a secret that the reservoir formed behind the dam will cover about ninety-eight square miles, most of it in Portugal but some of it in Spain. As government officials point out, if the reservoir is to be created at all, the trees must be cut down before it fills up, in order to avoid later problems with flotsam and imbalances in water acidity caused by rotting vegetation.

But what about the aims of the project, which is the largest of its kind in the Iberian Peninsula? Although a small country, Portugal is quite varied in topography and climate. Where water is concerned, by far the worst problems are in the Alentejo, an agricultural region that in recent years has suffered a series of summer droughts interspersed with damaging winter storms. The impact on the small farmers that dominate agriculture

in the region has worsened another major local problem—depopulation. The Alentejo accounts for one-fifth of Portugal's area but less than 5 percent of its population—and declining. That means fewer young workers to tend the land.

The regional development authority says that the Alqueva Dam will transform the local economy. Most of the \$2 billion cost is going toward a massive irrigation system that will add 272 acres of water by 2025, helping farmers grow thirsty crops such as tomatoes that can find a ready market without bumping up against EU quotas. There are also hopes that the existence of such a huge body of water will create a boom in activities such as wind surfing and fishing, as has happened on other reservoirs in rural Portugal.

The question remains, however, who will benefit from the boom? Residents of Luz, a village upstream from the dam that is to disappear beneath the waters, will at some point have to move out of their homes to a newly built replica of the village on what will be the banks of the reservoir. Parish council chairman Francisco Oliveira, among others, is worried

about the kind of development that many say has spoiled large parts of the Algarve, Portugal's most popular tourist region.

"We don't want tourism here to be done just any old way," he said. "We don't want it to become the Algarve of the Alentejo and lose its identity."

For their part, Portuguese environmentalists fret about the nasty side effects that they say such big projects always have, such as the impact on water tables of large-scale planting by forestry companies of fast-growing eucalyptus trees in places of indigenous species, and the way golf courses guzzle water in the Algarve.

—Alison Roberts

ROME

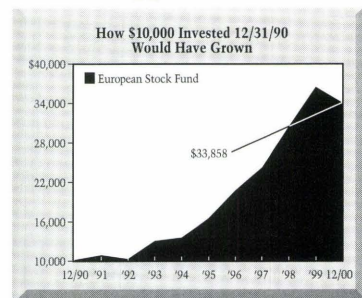
## TAX DODGERS OBSCURE REAL ITALIAN WEALTH

It is a well-known fact that Italians aren't particularly "enthusiastic" about paying taxes. Of course, in this they aren't much different from the rest of the human race.

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But when these descendents of the Roman Empire are confronted with the Internal Revenue Office, their idiosyncrasies reach unimaginable heights, to such an extent that they have become the subject of international studies. Unlike tax evaders in poor or developing countries who justify their crimes as revenge for their miserable financial conditions, Italian tax dodgers have no such excuses. Every year Italy proves itself a rich country and a deserving member of the elite G8. However—here lies the paradox—it deserves this honor in part thanks to its “shadow economy.” Single taxpayers as well as entire businesses, mainly small to medium-sized, create revenue and jobs that, because they aren’t declared, invisibly buttress Italy’s prosperity.

The most recent confirmation of this fact comes from a study conducted by a German economist, Friedrich Schneider, a professor at the University of Linz. He uncovered some truly surprising results. According to official statistics, last year Italy ranked sixth in the list of gross national products, preceded only by the United States, Japan, Germany, the United Kingdom, and France and ahead of Canada, Spain, and Australia. Nevertheless, in his calculations, Schneider discovered that if the product of the so-called shadow economy is added to the official statistics, Italians figure ahead of the English and the French. In short, Italy wouldn’t be in sixth place but would be the fourth industrial power worldwide. The Italian gross domestic product would be a healthy 10 percent higher than France’s, with 10 percent lower employment.

Employment is a case unto itself. Since “unofficial” work is extremely difficult to quantify, there are no precise statistics. But, according to the meticulous German professor, the percentage of jobs and workers in Italy that aren’t declared to tax authorities, at all or only in part, is an astonishing 30 to 48 percent of the total. No other developed country can boast such a dubious record.

This situation puts a heavy burden on honest taxpayers. In fact, according to Schneider, because of those people who don’t pay their fair share to the state, honest citizens find themselves paying 25 percent more taxes than they really should. This adds up to quite a sum to the average family, roughly \$4,000 a year, but when adjusted into true buying power, the amount is more like \$8,000–10,000.

—Niccolò d’Aquino



Spanish actor  
Javier Bardem  
comes from a  
family of  
filmmakers.

## MADRID

## BARDEM HONORED WITH SPAIN'S FIRST OSCAR NOMINATION

**A**lthough he did not win the Oscar for best actor this year, Javier Bardem made history as the first Spaniard to be nominated by the Academy of Motion Picture Arts and Sciences. But the beefy actor with hooded eyes, who was one of director Pedro Almodovar’s favorites, says awards like the much coveted golden statuette can be disasters in disguise.

“Prizes are a brilliant enemy. They’re appreciated and boost the ego, but later they begin to weigh on you and sometimes can work directly against you,” he told the Madrid daily *La Razón*. “Each time I receive an award, I go get drunk and leave it in some corner where I can’t see it very well.”

Bardem received the historic nomination for his role as doomed Cuban poet Reinaldo Arenas in director Julian Schnabel’s *Before Night Falls*. The film chronicles the Cuban authorities’ repression and imprisonment of Arenas because of his homosexuality and his art. Arenas died of AIDS in 1990 in New York, where

he had fled the Castro regime.

After Schnabel approached him for the role, Bardem studied English six hours a day, learned to speak Spanish with the distinctive Cuban accent, and even traveled to Havana to get a sense of the ordeals endured by artists who anger the government.

Until *Before Night Falls*, Bardem’s biggest screen successes were in roles as macho characters in such films as *Jamon, Jamon*, Almodovar’s *Live Flesh*, and *High Heels*, and *Mouth to Mouth*. The thirty-one-year-old native of the Canary Islands admits that he was attracted to playing a sensitive gay artist so he could shed his he-man image and try something new.

At one point in his career, Bardem returned to working as a waiter because he kept getting offers to do the same types of roles. “It wasn’t some kind of affectation; I just got bored,” he told *La Razón*.

Bardem comes from a family of film actors. His mother Pilar, sister Monica, and brother Carlos are all movie stars in Spain, and his uncle, Juan Antonio Bardem, is a famed screenwriter and director. The family also owns a Madrid restaurant, La Bardemcilla.

It’s clear Bardem is now a presence in international film, joining compatriots Antonio Banderas and Penelope Cruz as Spaniards who have made it in Hollywood. He next plays a Peruvian leftist guerrilla leader in his friend John Malkovich’s film *Dance Steps*.

—Benjamin Jones

## STOCKHOLM

## SWEDEN'S EU PRESIDENCY: NOTES FROM MIDTERM

**S**wedes may remain skeptical about the European Union and, especially, European Monetary Union, but they’re proving more than curious about what’s happening during the country’s stint as EU president, from January through the end of June. A well-developed web site covering all aspects of the presidency has proved among the most popular Internet sites in Sweden. The government’s strategy to bring the Union closer to the peo-



ple by scheduling various types of EU meetings all over the country also seems to be working—for better or worse. Here follow a few EU vignettes:

In the city of Norrköping, an EU flag in flames met European social welfare ministers when they gathered for the first meeting of Sweden's presidency. The 150 protesters, from various groups, were objecting to lack of progress in the EU on women's rights and care for the elderly and children.

Far from being fazed by the uproar, Sweden's minister for equality, Margareta Winberg, who hosted the meeting, took it in stride. "It's important that people in a democracy can say what they think," she said.

"I'm not at all uncomfortable with this since I've participated in such demonstrations before the [Swedish] referendum on EU membership," Winberg added, raising a few eyebrows among her ministerial colleagues.

An hour and a half south of Stockholm, Norrköping is Sweden's seventh-largest city, an old textile town of 123,800 people that has successfully morphed into a cross between white and blue-collar. Holmen Paper and the Dutch conglomerate Philips are among the major industrial employers. Several national authorities, including the Migration Board, which oversees immigration, also call Norrköping home.

Among the town's claims to fame, it was host for the European premiere of Joseph Heller's *They Bombed in New Haven*, and the Norrköping Symphony Orchestra was the first foreign job for internationally known Finnish conductor Esa-Pekka Salonen.

Industrial buildings along the Motala River have been rehabilitated into restaurants, a museum, and a fine concert hall. The river played an important role at the next EU meeting in Norrköping, when EU representatives met their counterparts from the thirteen countries seeking EU membership.

Fishing rods were handed out, and everyone was treated to a lesson in salmon fishing. Norrköpingites are proud of the fact that the Motala, once a dumping ground for factories' chemical-laden wastewater, is now stocked with edible salmon.

Some of the guests did have a little trouble with the technique, however. Maltese Social Welfare Minister Helen D'Amato's first cast hooked a Swedish photographer recording the scene. Re-

moving the hook, he said he hoped this didn't mean he was to be lunch. He needn't have worried. The group was treated to fresh-smoked salmon instead.

Meanwhile, ice, not fire, met ministers in Luleå, about 100 kilometers south of the Arctic Circle. Giant frozen sculptures of Minister for Industry, Communications, and Employment Björn Rosengren and Deputy Minister Mona Sahlin were on display as they met with their colleagues to discuss the future of European information technology.

The locale was especially exotic for those from southern Europe, including Greece's Anna Diamantopoulou, the EU labor commissioner. Presented with a pair of *lovikkavantar*, the special mittens Lapland's Samis wear to keep warm, Diamantopoulou pressed them to her cheeks and grinned from ear to ear. The picture made all the Swedish papers.

Like Norrköping, Luleå has had a facelift in recent years, including a complex of trendy apartment buildings facing the Gulf of Bothnia. It's sometimes known as "Sweden's Riviera," and on summer evenings, warm or not, locals enjoy outdoor concerts and dancing. The city of 71,500 is also home to one of Sweden's major technical universities.

Finally in Stockholm, it was only reasonable that Sweden's capital should host a key EU meeting, not long after Sweden took over the presidency. Mayor Carl Cederschiöld, however, was not pleased to have to redecorate Stadshuset, the city hall. Meeting organizers decided that the conference room should be draped in white to match the venue of the first meetings in Norrköping.

The idea was to create a soothing, aesthetic atmosphere without distraction. But Cederschiöld had been looking forward to showing off the splendor of the Golden Hall, with its 18 million mosaic pieces of glass and gold and the massive painting, *Queen of Lake Mälaren*, which dominates the hall. There was no word on whether the Blue Hall, host each year to the famous Nobel Prize banquet—which is in fact red, not blue—also received a makeover.

—Ariane Sains

## PARIS

### PROVENCE'S LIQUID GOLD ON TAP

In Provence, hot summer weather is just a few weeks away. People are starting to fill up their swimming pools, to

water their lawns and flower beds, and farmers are using irrigation to plump up the strawberries and other plentiful fruits and vegetables of the region. No one ever worries about a water shortage, and rationing is never necessary. Water pours out of every tap in Provence on demand, and it is so clean that you can take it directly from the main canal, simply filtering it and zapping the remaining few impurities with a home sterilizer.

Yet not so long ago, Provence was parched every summer. The hot sun, meager rainfall, and scorching winds made stories like Marcel Pagnol's *Jean de Florette* and *Manon des Sources* fictional reflections of a grim reality. Water was so rare and precious a commodity that families and entire villages really did depend on it for their survival.

As far back as the twelfth century, various plans were drafted for diverting water from the two main regional rivers—the Durance and the Verdon. Most failed because of the mountainous terrain, which created a barrier that the technologies of the past could not cross. Two nineteenth century projects, the Canal de Marseille and the Canal de Verdon, provided partial, but limited, solutions to the water supply problem.

Finally, fifty years ago, the local authorities decided to pool their resources to tackle the chronic drought of the region. The multipurpose water supply system that was designed and built as a result of their concerted efforts—the Canal de Provence—is nothing short of an engineering miracle, so beautifully efficient in design and performance that it serves as a worldwide model. It is France's largest interbasin water transfer system and one of the world's most sophisticated hydraulic projects.

To build and operate the Canal de Provence, local authorities, with the help of the French state, created a regional public sector water authority, the Société du Canal de Provence (SCP), in 1957. The French government financed 50 percent of the \$1.7 billion project, with bank loans making up the other 50 percent. SCP is a peculiarly French organization, a hybrid that combines public funding with private management, for the good of a region. Its dual mission is to contribute to the economic growth of the region, like any good public authority should, while at the same time balancing its books, like any viable private enterprise. It manages to juggle those contradictory goals very success-

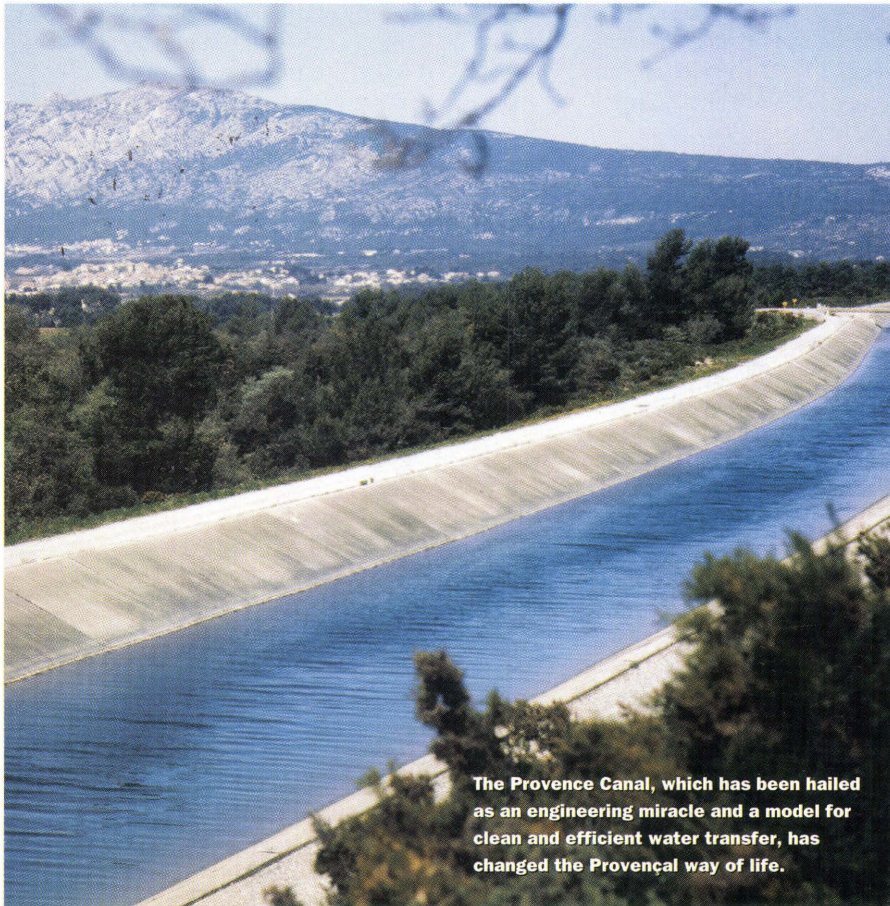
## SMALL BUSINESS ENVOY HAILS AUSTRIA'S UPBEAT ECONOMY

**W**ith the uproar generated last year by Austria's government (a Center-Right coalition between the Austrian People's Party and the controversial Freedom Party of Jörg Haider), it is easy to overlook Austria's impressive economic performance—in spite of politics. Unemployment stands at a US-like 3.7 percent; GDP is forecast to grow 3 percent in 2001; and exports were up 15 percent through last fall (23 percent to the US).

Christoph Leitl, president of the Federal Economic Chamber of Austria, recently carried this message to New York on behalf of Austrian enterprises, where he gave an interview to *EUROPE*. Representing some 300,000 firms in the Alpine republic, Leitl, himself a small business veteran, communicated to Wall Street that "Europe is making economic reforms and liberalizing its economy" and that Austria is "privatizing its (large) state sector, reducing its public deficits, and investing in R&D and education to...remain competitive in the global economy." Furthermore, while taking away new concepts in areas like business intelligence and knowledge management from the US, Leitl also came away confident that some European firms are leading their US competitors, in the mobile communication sector for example.

Sounds impressive, but how easy is it to start a business or subsidiary in Austria, considering its legendary bureaucracy? Very simple, maintains Leitl, particularly to launch a New Economy-style startup. For inward investment, including green field factories, companies can secure planning permission within thirty days in his native province of Upper Austria (where he was once responsible for such matters). "In these questions...we have made much progress and, to date, we can compare Austria (favorably) to most European countries," he says.

What about the vaunted "Social Partnership"—a standing dialogue between trade unions and employers geared toward stability and the needs of the overall economy? It's still effective—Austria has the EU's lowest strike rate (two days per 1,000 workdays)—but needs reform. "In recent years, it has become indefensible because it was about protecting what we have today...If you are not thinking and



**The Provence Canal, which has been hailed as an engineering miracle and a model for clean and efficient water transfer, has changed the Provençal way of life.**

fully and supplies its users with an unlimited, pressurized, high-quality, low-cost water supply.

From 1964 to 1989, the SCP oversaw the construction of the Canal de Provence. The system's life-giving main artery taps the pure waters of the Verdon River in upper Provence, fed every year by melting snow from the Alps, and carries them through ninety miles of tunnels and seventy-five miles of open-air canals through the region, down to the Mediterranean Sea. Along the way, a complex network of seventy-five reservoirs and as many pumping stations ensures that enough water is stored and readily available at all times, while 350 miles of wide-bore conveyance pipes and 2,500 miles of smaller distribution pipes deliver the water wherever it is needed. There is more than enough to irrigate 145,000 acres. The surplus is run off into the sea; some is sold to Spain to provide irrigation during particularly arid periods.

The high-tech crowning touch of this engineering marvel was added in 1971, at SCP's headquarters just outside the town of Aix-en-Provence. There, inside a lovely little château that once belonged to the president of the parliament of Provence, two computers run the entire Canal de

Provence system by remote control. They recalculate the precise water needs of all the users every fifteen minutes, make the necessary adjustments in the system, check that all the components are operating properly, signal any defects, test the quality of the water—and could probably take over the world if they had a little spare time.

The technical prowess of the two electronic watchdogs of the Canal de Provence is so exemplary that it has made SCP known around the world as a leading specialist of automatic canal control. The company took out a patent on its "dynamic regulation" process and is regularly called in by foreign countries to give technical advice and assistance on centralized water control.

Back in Provence, one variable slips through the net of high technology: the trout that swim in the canal. Why are they there? Because no device, however sophisticated, has ever been found that measures pollution more accurately than the *truitomètre*—the "trout-meter." As long as the fish are happy and healthy in the Canal de Provence and are not dying off in greater numbers than they would "in the wild," pollution is not a problem.

—Ester Laushway



**Christoph Leitl,**  
 president of the  
 Federal Economic  
 Chamber of Austria

acting toward the future, you will lose what you have today. We are aiming for a new, proactive partnership based on skills training. If you are defensive, you will be forced out of the market.”

In terms of preparing for the euro switchover in 2002, Leitl estimates that Austria is somewhere in the middle of the pack of euro-zone countries. He is not concerned, however, about the euro's value. “Life is always about ups and downs. A few years ago, the US dollar was down and our currencies were up, and we were going to the US on holiday because it was so cheap. Today the situation is reversed, but it will turn around the other way.”

EU enlargement is, of course, a major issue, yielding an interesting contradiction. In a recent poll conducted by *Eurobarometer*, only 23 percent of Austrians consider enlargement an EU priority, reflecting unease with being a frontier member state in an ever-widening Europe. On the other hand, although relatively small, Austria is the third-largest exporter and importer among EU member states to the ten Central European candidate countries, building on its long-time historical and economic ties in the region.

“The (Austrian) economy is living the process of enlargement every day—we increased our exports to the candidate countries 26 percent in the first six

months of [2000]—while politicians discuss it,” says Leitl. Moreover, he believes it's natural that people have some concerns. “I think there were similar fears in the US when Mexico entered NAFTA... but you can prepare yourself to overcome these by forming a dialogue, stressing that it is to our mutual benefit that these countries join, making us all more secure. And in fields where we have problems—labor markets, agriculture, and small businesses along the border—we have to help with transition periods.”

—*Christopher Matthews*

## ATHENS

### HIT-MAKING MONKS SIGNAL CHANGING TIMES

**G**reece's Orthodox Church, traditionally a bastion of conservatism, is poised for change, and the standard-bearers are a rock group formed by the monks of Saints Augustine and Seraphim of the Sarov monastery. The group, Eleftheroi (which means Free Men in Greek) sold more than 60,000 copies of its first CD, *I've Learned to Live Free*—and decided to set up a website ([www.freemonks.gr](http://www.freemonks.gr)) after phone calls from young people flooded the monastery switchboard.

Father Nektarios, the group's spokesman, who grew up in Detroit, defends the group against criticism from the church's conservative wing. He says the CD, rejected by several Orthodox bishops as scandalous because of its tough lyrics and hard-driving beat, is “about protecting individual freedom and Orthodox values in the new world order.” Greek DJs say the album competes with the best music on the Greek market. And the monks' second offering, *SOS*, sold out the first day it was released.

The group's success has brought hundreds of fans flocking to the monastery in central Greece on weekends to hear Father Nektarios preach and to catch a glimpse of Father Panteleimon, the group's lead singer. Archbishop Christodoulos, head of the Orthodox church in Greece, has voiced disapproval of the way the group is promoted—its video for the new album came under attack—but the songs are broadly in line with the Greek Church's concerns about new technology and its impact on society. Christodoulos, the most popular Greek

bishop in memory, works hard to attract young people back to the church through preaching tours around Greece.

Christodoulos already faces pressure from the Socialist government to modernize. There have been clashes between the church and the government over the adoption of EU-style identity cards for Greek citizens that no longer specify the bearer's religion. The change, say conservatives, would erode the status of Orthodoxy as Greece's official faith. However, civil rights activists say that bringing Greece in line with the rest of the EU on the question of ID cards will help to build a more tolerant society at a time when the country is becoming home to a large number of immigrant workers from mostly Catholic and Muslim countries.

But the archbishop's biggest break with tradition so far has been to agree to a request by Pope John Paul II to pay a brief visit to Athens in May as part of an international pilgrimage in the steps of Saint Paul. The government successfully lobbied senior Greek bishops, who are members of the Holy Synod, the church's governing body, to approve the visit, the first by a pontiff to Athens. But it is fiercely opposed by many parish priests and heads of Orthodox monasteries.

Orthodoxy has an overwhelming influence in Greece as more than 90 percent of the population are Orthodox Christians and the official Catholic minority numbers only around 50,000 people. Although the Great Schism that split the church into Orthodox and Catholic took place more than 500 years ago, its influence is still felt in the eastern Mediterranean. There is lingering suspicion, too, among Greek members of the eastern rite Catholics, who worship according to the Orthodox faith but acknowledge the pope as the head of the church. There are only a few eastern rite Catholics in Greece, but hard-line Greek clerics say the Vatican hopes to increase its influence in the Orthodox world by attracting converts to this sect.

In fact, the visit marks a political compromise as the government had hoped to invite John Paul II to Greece as a head of state rather than an unassuming Italian pilgrim. But it should still help to ease friction between the Catholic and Greek Orthodox churches and, perhaps, open the way for more regular contacts. The pope has already made trips to Romania and Georgia—where Orthodox attitudes are more liberal than in Greece.

—*Kerin Hope*

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# ARTS & LEISURE

Reviewing the new & noteworthy in books, film, and beyond



## MUSIC

### BRITAIN DISCOVERS LATE AMERICAN CHANTEUSE

Picture, if you will, the following scene: It's a late 2000 winter morning, and several million listeners of the BBC's popular *Terry Wogan Breakfast Show* in the UK are hurriedly making their way through the daily morning routine when a song arrives on the airwaves seemingly from nowhere. The massed populous reaches for the nearest computer or telephone, and the BBC is instantly flooded with the same inquiry...all morning: "Who is that singing?" The song causing such a furor was "Over the Rainbow" (famously brought to life by Judy Garland in *The Wizard of Oz*) and the artist in question, one Eva Cassidy.

Born in 1963 in Oxon Hill, Maryland, Eva Cassidy grew up in a musical family environment, and began singing at age nine. After spending several years as a backup singer, she embarked on a solo career and achieved great acclaim on the local folk, blues, and jazz live circuits in and around Washington, DC until her life was tragically taken by cancer in 1996. Despite having one of the most distinctive voices of her gen-

eration, she remained something of a local secret until English record producer Tony Bramwell picked up on a 1998 compilation CD entitled *Songbird*. Bramwell played it for friends at the BBC, hence its subsequent appearance on the early morning breakfast slot.

After the initial buzz, BBC's Radio 2 hastily commissioned a one-hour documentary on Cassidy, and copies of *Songbird* flew out of the major high street record stores with ever-increasing momentum. Early this year, the BBC's *Top of the Pops* television program (the UK's biggest pop music television show) aired a clip of Cassidy performing "Over the Rainbow." That broadcast coupled with the phenomenal word-of-mouth campaign vaulted *Songbird* atop the UK charts by March. Incredibly, it has reached sales in excess of 1 million with a speed that puts most established pop acts to shame. BBC listeners even

voted Cassidy's version of "Over the Rainbow" one of the best 100 songs of the twentieth century in a recent poll. American success now seems imminent.

In the early nineties, following a meeting with veteran soul singer Chuck Brown,



Cassidy released her debut album, *The Other Side* (which originally featured "Over the

up the astounding recordings and released *Songbird*. Impressive Internet sales aside, the albums remained cult gems, until last Christmas when

the BBC helped to skyrocket Cassidy's posthumous career.

*Songbird* is the album that has sparked the majority of interest, although another album entitled *Time After Time* has also garnered both critical plaudits and the seal of approval from the record-buying public. *Songbird* includes tracks mainly taken from *Eva By Heart* and *Live At Blues Alley*, including folk-blues standards, such as



*Rainbow*"). A live album was recorded at the legendary Blues Alley in Washington, DC followed by another studio effort, *Eva by Heart*. Despite the interest of the influential jazz label Blue Note, Eva remained for the most part a relatively quiet local sensation, without a proper recording contract until after her death at age thirty-three. In 1998, a small Los Angeles independent label, Blix Street, picked

## BOOKS

**History of the Present**

By Timothy Garton Ash; Random House; 405 pages; \$30

**A**fter the revolutions of late 1989 that ended communist dictatorship in Central and Eastern Europe, the British strategic thinker Michael Howard reached back 200 years to Wordsworth to draw meaning from those momentous events: "Bliss was it in that dawn to be alive, but to be young was very heaven."

Wordsworth's early homage to the French revolution soon turned to ashes amid the excesses of the guillotine. So too have some of the exuberant hopes of 1989 turned bitter amid the killing of Sarajevo and Kosovo and a more general feeling of missed opportunities that Europe and the United States may dearly pay for in decades ahead.

This decade-plus of high hopes and lost chances is now book-ended by the most astute chronicler of Central Europe, Timothy Garton Ash.

His book on the 1989 revolutions, *The Magic Lantern*, is a classic first draft of history. Now, he has assembled here, in *History of the Present*, a collection of writings over the 1990s, another effort to write history as it is being made.

As a vehicle to present Garton Ash's valuable insights to a wider public than the readership of the *New York Review of Books* and other publications in which these essays originally appeared, this book is a success. As a literary device, the verdict is more mixed. It is often odd to be reading predictions written in the early nineties when you already know the outcome. This work is clearly an assemblage and bears the drawbacks of that genre.

That said, for any serious student of Europe—Western

or Eastern—this is an essential book. Even if continental Europeans will balk at its British (English, really) view of the evolution of the European Union. And even if Americans might take exception to Garton Ash's acerbic comments about the consequences of US attempts to fight casualty-free wars.

Perhaps this reviewer's "must buy" rating is based on the shared sentiment that the West squandered innumerable opportunities to help shape a more peaceful and dynamic continent in the past decade. And we certainly agree that the EU got its priorities wrong after 1989, going for broke on monetary union and making integration of the continent ("a Europe whole and free," in the phrase of the first President Bush), a second or third-tier priority.

This history represents a spreading of the author's canvas from his original specialization in Central Europe to the entire continent and beyond to its transatlantic reality. That will gall some readers who think he has wandered outside his expertise. But even they have to realize these are the thoughts and words of a committed English European who cannot be lumped into the continental stereotype of the British Euroskeptic.

The author's commentaries on Britain and Germany and on modern Britain's inability to move beyond its World War II nostalgia are incisive evidence that this is not a little Englishman railing against Brussels. His insights on the role of intellectuals in politics and what faces the so-called "Berlin Republic" of modern Germany are brilliant reminders of how deeply he is intellectually engaged in continental Europe.

What drives his current contrariness is Europe's own post-1989 record, especially in the former Yugoslavia, a subject of several essays in this book. The illusion of many Europeans that the continent was

free of war was exploded in the barbarism of Sarajevo and Kosovo, among other places. It is still questionable that many European leaders have grasped the consequences of their ineffectual responses to those crises and their reliance, again, on American power to stop the fighting.

The author concludes that many of the issues and potential problems he worried and wrote about in the early nineties—Germany and the emergence of real democracy in Poland, the Czech Republic, and Hungary, for example—have been ameliorated with skill and luck. But, as another decade, century, and millennium commence, there is a gnawing fear whether that luck and skill will hold as the EU moves toward what Garton Ash hopes for in creating a truly continental Europe bound together and linked with the United States in classical liberal values.

—Michael D. Mossett

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"Wayfaring Stranger" and more modern fare, such as a heartfelt rendition of Sting's "Fields of Gold" and the title track—a song written originally by Christine McVie of Fleetwood Mac (whose founder, Mick Fleetwood, would often book Eva to perform at his Washington nightclub). The songs chosen are especially remarkable when considering the popularity and familiarity of earlier renditions by music icons. Critics reviewing *Songbird* have remarked that the range in Cassidy's stunning voice is the clinching factor in claiming such songs as her own, an oft-repeated opinion among first-time listeners. When taking on songs of such magnitude, many of the best singers of the past have displayed a range of vocal styles, jumping from one emotion to the next within the space of three minutes. Eva Cassidy is an artist that understood this, and she has left a body of work to carry on that tradition into the twenty-first century. Perhaps, it is not simply the perfection in her voice that has so captivated listeners across the Atlantic, but also the vulnerability and hope she often exuded in her delivery.

Family and friends fondly remember Eva as being shy and unpretentious. Her father Hugh Cassidy recently remarked that she probably would not have been overawed by the current praise her music is drawing. Her belated success is certainly deserved. Although Eva Cassidy's sound and material often seems more in tune with the nascent 1960s folk and jazz scenes that evolved in and around New York's Greenwich Village, many of today's music lovers are buying her records, proving good music is good music, regardless of place and time.

Stuart Egan, based in London, profiled the British music scene in the June 2000 issue.

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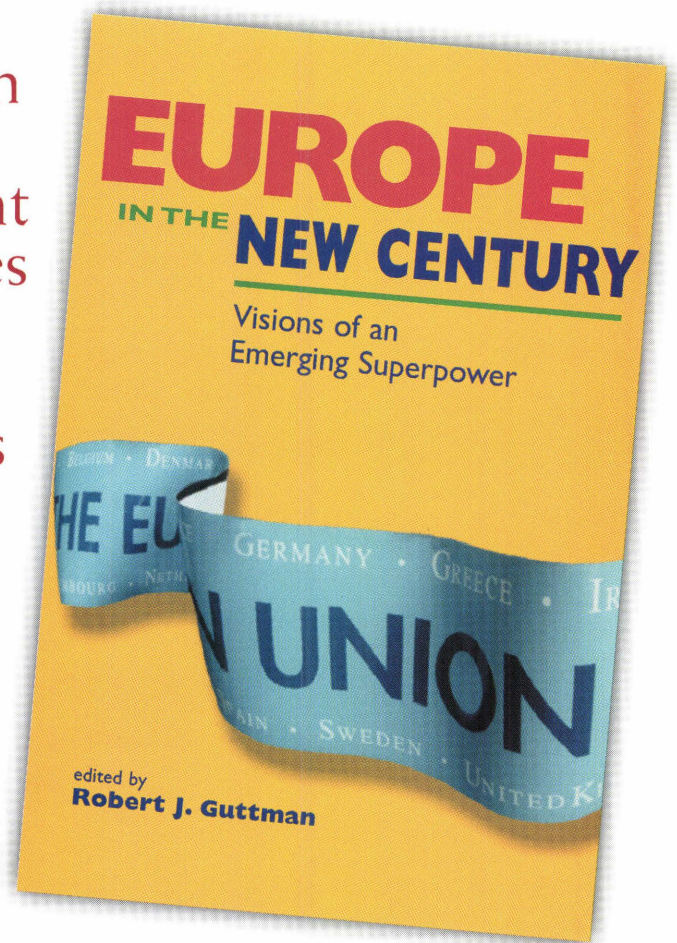
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# Europe in the New Century: Visions of an Emerging Superpower

edited by  
**Robert J. Guttman**

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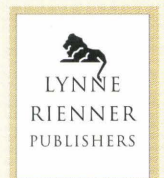
Robert J. Guttman, editor-in-chief of *EUROPE* magazine, has been an adjunct professor of political communications at The George Washington University and of politics and communications at The American University.

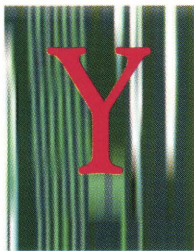
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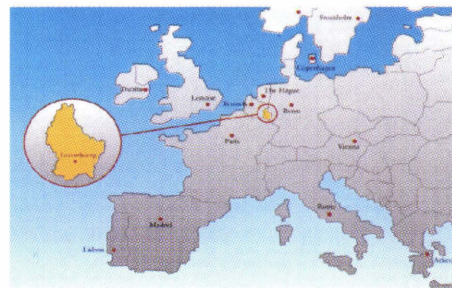
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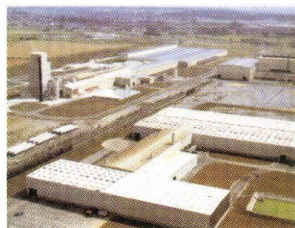


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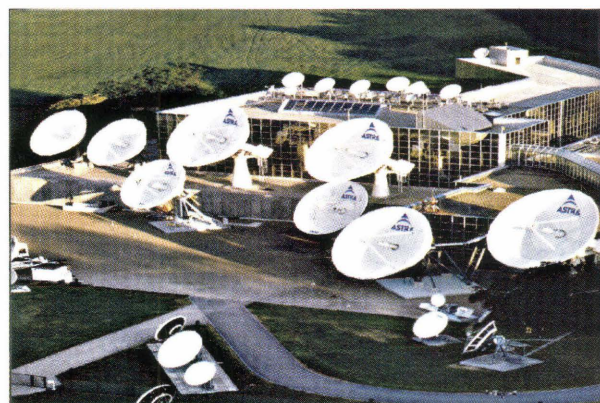
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