Italy's Surprising Economy • Five Transatlantic Challenges • Berlusconi is Back

EUROPE

September 2001

Beating the Odds

How European entrepreneurs are achieving success

Businesswoman Ann-Charlotte Pasquier finds profits with provocative ads

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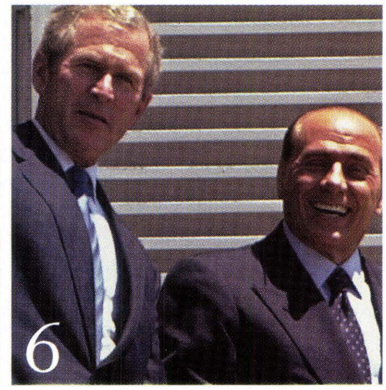

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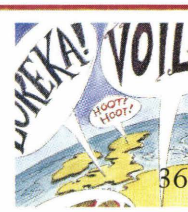

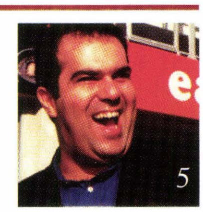

LETTER FROM THE EDITOR

Many European entrepreneurs are, indeed, beating the odds in these days of economic slowdown across the globe by coming up with innovative and profitable products. From the entrepreneur on our cover, Ann-Charlotte Pasquier, the CEO of the lingerie company Aubade in France, to occupational therapists Else-Marie Dalsgaard and Pia Christiansen in Denmark, who have developed and successfully marketed a therapeutic ball blanket, to an Italian bicycle manufacturer based in Sweden to Carlos Quintas in Portugal, who runs Altitude Software, *EUROPE* presents a look at businessmen and women who are using their ingenuity and tenacity to build profitable firms. Many European entrepreneurs have seen their fortunes come and go as the glow has come off the Internet startup firms in the past few years. Peter Kabel of Germany has gone from being named Germany's entrepreneur of the year to declaring bankruptcy this year.

On the business front, *EUROPE* also looks at the story behind the European Commission's decision not to allow the merger of General Electric and Honeywell. Bruce Barnard explains why the Commission rules on matters dealing with American firms attempting to merge.

Silvio Berlusconi, who was briefly the prime minister of Italy in 1994, is back again as that country's leader. This time he has a solid working majority in both houses of the Italian legislature to carry out his reform programs and to stay in office much longer than in 1994.

Berlusconi, one of the richest men in Italy and owner of most of the Italian media, is presenting a positive pro-EU and pro-NATO policy as he has already hosted president George W. Bush and the leaders of the other G8 countries in the riot-torn summit meeting this summer in Genoa.

Niccolò d'Aquino, reporting from Rome, talks about the "highly positive results that the Italian economy is enjoying" at the present time. Ferdinando Salleo, the Italian ambassador to the US, talks to *EUROPE* about the "very special case of the Italian economy" to explain how it is doing much better than some economists predicted.

President George W. Bush faces five distinct challenges in the transatlantic relationship ranging from missile defense to the environment. Lionel Barber, commenting from London, looks at these challenges and asks, "How important is Europe to Bush?"

Finally, on a much lighter note, Stephen Jewkes, takes us on a guided tour of the Umbria region of Italy and spells out the places to visit and the wines and food to eat and drink.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

Niccolò d'Aquino, who has been *EUROPE*'s Rome correspondent for more than twelve years, is a journalist for the Rizzoli Corriere della Sera publishing group. D'Aquino (center) writes about foreign affairs and the humanitarian initiatives of non-governmental organizations. He often travels to Africa and the Balkans and most recently visited India. Before joining Rizzoli, he spent nearly eight years in New York, covering US politics and economics for ANSA, the Italian wire service.
In July, D'Aquino was chosen by the European Space Agency (ESA) to go on an astronaut training flight over the Atlantic and write about a variety of experiments conducted during the trip at zero gravity. "Being at zero gravity is tremendous. This was the thrill of my life," the journalist-turned-astronaut declared.
D'Aquino, who says he would love to return to space in the near future, usually lives a much quieter, albeit busy, life commuting between his home in Rome with his wife and son and an office in Milan.

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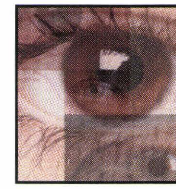
EYE ON THE EU

Profiling personalities and developments within the European Union



A NEW LOOK AT NATO ENLARGEMENT

It used to be a standing reproach that, though the headquarters of NATO and the European Union were in the same town, they might just as well be 1,000 miles away from each other for all the interaction that took place. Happily, things are different these days, and NATO Secretary-General George Robertson and EU High Representative for Foreign and Security Policy Javier Solana are in virtual daily contact, whether in Brussels, Macedonia, or wherever they happen to be.

This new intimacy is partly due to the fact that Solana preceded Robertson in the NATO post but, in any case, has been rendered necessary by the EU's assumption of new responsibilities in the security and defense field, notably its projected rapid reaction force, which will be largely dependent on the availability of NATO hardware. So the two organizations—whose European membership largely but not completely overlaps—have an increasing interest in each other's affairs, in particular, in their respective enlargement strategies.

Following the collapse of the iron curtain, the EU was first off the mark in encouraging membership applications by former states in Central and Eastern Europe, eventually opening negotiations with ten of them, as well as with Cyprus and Malta to the south. NATO was slower to respond to the entreaties of the newly democratic states, but once it did so was quicker to put out the welcoming mat, with Poland, Hungary, and the Czech Republic all joining in 1997.

Now it looks as though a second batch of eastern recruits will be joining NATO before any of them have actually gotten into the EU. The last doubts on this score were removed by President Bush's speech in Warsaw in June, when he spoke of expanding the NATO security system "from the Black Sea to the Baltic," and rejected the Russian thesis that there was some "red line" that NATO should not cross. Even before then, NATO spokesman Jamie Shea had gone on record, saying that "at least one country, and possibly many more" would be invited to join at the next NATO summit, scheduled for Prague in the early fall of 2002.

So the issue is no longer one of whether and when but of how many new members should be admitted. The whole question was thoroughly discussed in Brussels in July at the European Security Forum, organized by the Center for European Policy Studies (CEPS) and attended by scholars from Russia and Ukraine, as well as from the US and EU countries.

Three possible scenarios were discussed, based on a paper presented by Professor Stephen Larrabee of the Rand Corporation. The first was a minimal one, envisaging the admission of only one, two, or just possibly, three new members. Of these, Slovenia is regarded as a virtual certainty, being politically, economically, and militarily better prepared than any of its rivals. Its entry would also close an awkward territorial gap between Italy and Hungary, which opened up when the latter country was admitted in 1997.

Slovakia, which would certainly have joined at the same time as its Czech neighbors had it not been for the deplorable human rights record of the former Mecir government, has now been given a clean bill of health and can also expect the red carpet treatment. Much less certain would be the admittance of "one Baltic state," probably Lithuania, as a token to emphasize that Russia could not claim a veto over the destiny of former component parts of the Soviet Union.

NATO Secretary-General George Robertson and EU High Representative Javier Solana are in virtual daily contact.

Scenario number two, described as the "Big Bang," envisages that all nine of the applicant states should be admitted simultaneously. This would add Estonia, Latvia, Romania, Bulgaria, Albania, and Croatia to the list—an improbable outcome given the very wide disparity between their levels of preparation.

The third possibility is "staggered membership," with the acceptance in principle at Prague that all the applicants would be included but that invitations to those who were less prepared would be deferred until the subsequent NATO summit in 2005 or even later. In practice, the maximum number of countries with a realistic chance of early entry is seven, with at least Albania and Croatia (neither of them current EU candidates) being consigned to the antechamber.

Whatever the scale of the next NATO enlargement, it seems certain to provoke less controversy—at least among the existing member states—than the earlier exercise in 1997. This is, in itself, a tribute to the smoothness with which this proceeded with few, if any, of the earlier misgivings proving justified.

It is also to be hoped that the prospect of a newly enlarged NATO will give a fillip to the somewhat dilatory progress of the EU's own enlargement negotiations. The membership requirements of the two bodies are quite different, as well as the tempo of their negotiating processes, but it would be a boon to both of them—and to their common interest in reinforcing military security and liberal democracy in the former communist East—if the two processes of enlargement could proceed reasonably in step with each other. ⓔ

—Dick Leonard

EURO NOTES

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

SLOWDOWN VIEWED THROUGH GERMAN EYES

For most of this year, Europe's politicians, central bankers, and the European Commission in Brussels have remained strikingly optimistic about future growth prospects. Despite mounting evidence of the severity of the economic slowdown in the US, the consensus was that the euro zone would emerge relatively unscathed. The reason was the euro's favorably low exchange rate against the dollar and the high degree of intra EU-trade, which left members of the euro zone less exposed to the rest of the world.

Over the summer, this thesis has been pummeled by a barrage of negative statistics about employment and growth prospects. The European Central Bank was the first to raise the alarm about the slowdown in Europe. Member government leaders soon followed suit, with Chancellor Gerhard Schröder of Germany, previously almost Panglossian in his pronouncements about growth, bringing up the rear.

Europe's elite seemingly failed to grasp the significance of the collapse in capital spending on technology in the US or the degree to which their own companies, notably in telecommunications and other "New Economy" sectors, would be adversely affected.

The slowdown in Germany has provoked a good deal of comment. Once again, the German economy seems incapable of living up to its potential. This year, it risks falling behind Italy. Schröder is close to abandoning his forecast of around 2 percent growth, itself a revision downward from a bullish estimate of 3 percent or more.

Germany's weak performance matters because the German economy accounts for just more than 30 percent of euro-zone output. In political terms, Germany is more important than most: having committed to abandoning the rock-solid deutschemark in favor of the euro, Germans have to an extent cast themselves as guinea pigs for the whole project.

There are several explanations for the disappointing performance. The first can be summed up as historical: The last time Germany impressed was in the run-up to unification in 1990 when then West Germany experienced a mini-boom on the back of the launch of the single market. Another post-unification mini-boom followed, mainly in the construction industry in East Germany.

However, unification was a double-edged sword. The cost of fiscal transfers to former East Germany has been a crippling $46 billion a year. Moreover, in the words of a former adviser to Chancellor Helmut Kohl, the then-CDU/CSU government was so consumed by the challenging of integrating the command economy in the East that it ignored the pressing need for structural reforms in the West.

The second explanation is political: The present SPD-Green coalition led by Schröder has been overly cautious in his pursuit of economic reforms. Thus, his program of tax reform, widely applauded in the capital markets, has been blunted by his failure to press ahead with labor market reforms. Some analysts in Frankfurt joke that Schröder has no need for an employment minister because all the relevant legislation is written by the trade unions.

In an interview with the *Financial Times* last June, the chancellor played down the criticism, saying it was important to seek a balanced approach to jobs and growth. He rejected private sector criticism of his reform record as exaggerated.

German Chancellor Gerhard Schröder is facing a weaker economy than expected.

The third explanation for Germany's recent economic performance is more kind to the Schröder government. According to this argument, ECB monetary policy may well not be appropriate for the country and that it would in fact be better served with an interest rate cut.

The ECB, whose treaty mandate is to protect price stability, may well be targeting the hot periphery (notably Ireland, Portugal, and Spain) rather than Germany where inflation is expected to fall after the spike in oil and food prices earlier this year.

Finally, there are questions about whether Germany locked into an unfavorable exchange rate against its neighbors (notably France) in the run-up to monetary union. In the early to mid-1990s, a deutschemark devaluation was politically impossible because of the likely reaction by France, which was committed to the franc fort as the price for entry into monetary union; but it may have been economically desirable to help Germany to cope with the post-unification transition.

All this may seem academic, but it explains why French politicians are far more circumspect in commenting on ECB interest rate policy and the euro exchange rate than their German counterparts. In the present circumstances, the relative weakness of the euro may, as Schröder once suggested, be an economic boon to hard-pressed Germany.

There is a sizeable irony here. The Bundesbank's commitment to a strong currency as a tool for containing inflation was legendary. Now, if the euro continues to recover against the dollar, Germany may prefer a weaker exchange rate to help stave off the effects of the continental slowdown.

—*Lionel Barber*

e-EUROPE

Tracking the news and trends shaping Europe's technology sector

GREEK ENTREPRENEUR BUILDING EASY EMPIRE

This summer after landing at Paris's Charles de Gaulle Airport, I experienced the traveler's nightmare of waiting at the airline baggage carousel for luggage that would never show up. Since I was on my way to Brussels, I couldn't wait around for the airline to find my bag, which contained all the contact information for the rest of my trip—not to mention my clothes.

After a brief panic attack and a couple of French beers, I soldiered on to the train station and caught the TGV to Brussels. En route, I considered my situation, and then it hit me—almost as if Obi Wan himself were whispering the words in my ear—"use the Internet." Of course! I remembered that I'd e-mailed the contact information to my Hotmail account, which dedicated netizens know is accessible 24–7 (barring a hacker attack on Microsoft) from any computer connected to the Internet.

So upon arrival, I set out to find an Internet café. Certainly, these establishments aren't new, having grown especially popular during the early days of the Internet craze in countries where computer ownership is less widespread and dial-up charges are expensive, and they have especially appealed to travelers and students.

In my experience, Internet cafés had ranged from cozy little nooks with a few well-worn computers to cramped dungeons run by tattooed teenagers.

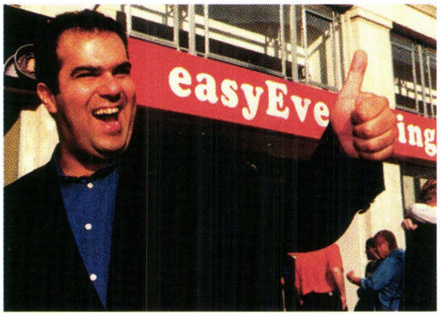
At the Brussels train station, I found the address for an Internet café near the center of town and followed the directions to a shiny storefront. The place was called Easy Everything, and its big orange sign glowed like a beacon of hope just a few blocks from the Grand Place. The brightly lit interior was dominated by long rows of narrow wooden tables divided down the middle with a partition onto which flat-screen computer monitors were affixed. The rows were divided into stations, each with a monitor, a keyboard, an Internet telephone, and a Web camera. Viewed overall, the place

somewhat resembled mission control done in blond wood and hip track lighting—as if NASA had gotten a makeover from Starbucks' decorator.

Along one wall, customers lined up at a service counter where friendly attendants, speaking French, Flemish, and English, sold time on the computers and served coffee drinks and pastries.

The clientele ran a broad gamut. Fresh-faced twenty-somethings bobbed their heads to music as they Web-surfed; mothers with babies on their laps quietly clicked their mice; a few elderly users squinted at the screens and pecked away at their keyboards; and a tourist family noisily debated whose turn it was to check e-mail.

I bought the minimum amount of time—thirty minutes for 100 Belgian francs (about $2.30) and in a matter of minutes had collected my contact information, found a hotel room, and caught up on the baseball pennant races.



Stelios Haji-Ioannou is redefining the Internet café.

It turns out Easy Everything is the brainchild of one of Europe's hottest entrepreneurs. Stelios Haji-Ioannou, the thirty-four-year-old founder of the budget airline Easy Jet, opened the first of these super-sized Internet cafés two years ago in London. Since then, he's added twenty more in seven European countries and New York.

Based in London, Haji-Ioannou, the son of the Greek-Cypriot shipping magnate Loucas Haji-Ioannou, graduated from the London School of Economics in 1989 and then went to work for his father's shipping company before striking out on his own entrepreneurial odyssey.

He says he was late to recognize the importance of the Internet. "When I started Easy Jet in 1995, I said the [Inter]net was for nerds," he recently admitted to the *Guardian* newspaper. However, according to Easy Jet officials, this spring, nearly 90 percent of its passengers were booking their trips on the company's Web site.

Haji-Ioannou says that he took his experience at Easy Jet—making a product or service significantly cheaper than competitors—and applied it to the Internet café.

There are currently more than 150 Internet cafés in the UK alone, most of which are single location, owner-operated businesses; but Haji-Ioannou asserts, "Most of them survive and achieve decent occupancy levels, while charging more than ($7.50) an hour, indicating substantial latent demand."

That's where Easy Everything's founder saw an opportunity for a chain of large-scale locations offering low prices. Furthermore, he is continually adding services, including Web cameras, Internet telephones, Microsoft Office software, and CD burners.

As for the downturn in the dot-com sector, Haji-Ioannou says he doesn't view the Internet as an industry itself but rather as a tool. Therefore, Easy Everything is not focused solely on selling computer time to Web surfers but rather on offering a range of products and services to a variety of customers. To this end, Haji-Ioannou has engineered deals with an array of companies, including Hewlett Packard, Samsung, and Microsoft as well as Douwe Egberts coffee, and the WPP advertising group.

So what's his next great idea? How about a way to find lost baggage?

—Peter Gwin

Berlusconi Is Back

Italian billionaire returns to office seven years later

By Stephen Jewkes

Silvio Berlusconi's dream team is set to go. After sweeping to power in May's general election, the Italian business tycoon-turned-politician lost no time in getting Italy's fifty-ninth postwar government up and running. It took the media magnate just one month to get the team of ministers in place. By Italian standards that's fast, and it would have been much faster if it hadn't been for Italy's cumbersome constitutional arrangements.

Berlusconi's new cabinet, which includes only two women, draws mainly on members of his own party, Forza Italia. With them come five members of the right-wing National Alliance, including its leader Gianfranco Fini, who is deputy premier; three former Christian Democrats; a few independents; and, controversially, three members of the federalist Northern League.

In a significant departure from his previous short-lived first stint as Italy's leader in 1994, Berlusconi has made sure that all party leaders in the governing coalition have portfolios. The idea is to make it harder for his more troublesome allies to make provocative and destabilizing moves that could irritate the premier and upset EU allies.

If most of the key positions were known well before the elections, Berlusconi had to do some hard bargaining to accommodate demands for the remaining posts. So hard did it prove that the first job of the new cabinet was to introduce a law to increase the number of ministries by two so as to fit everyone in. Now, the administration comprises twenty-four senior ministers, seven junior ministers, and fifty-three undersecretaries—a grand total of eighty-five, and six more than the previous center-left government of Giuliano Amato.

Strikingly, most of the important jobs in the executive have gone to people close to Berlusconi and within Forza Italia. Buoyed by the success of his party in the elections, Berlusconi has made sure close party allies have key positions in the cabinet. These include the ministries of economics, defense, industry, and, tellingly, the inte-

Silvio Berlusconi's five-party coalition won a decisive victory in Italy's May 13 elections, returning him to the position he held in 1994.

Foreign Minister Renato Ruggiero (left) and Economics and Finance Minister Giulio Tremonti (right) will provide Prime Minister Berlusconi with a wealth of international experience.

rior, which has gone to Claudio Scajola, the man credited with turning the fledgling Forza Italia into a tightly-knit party.

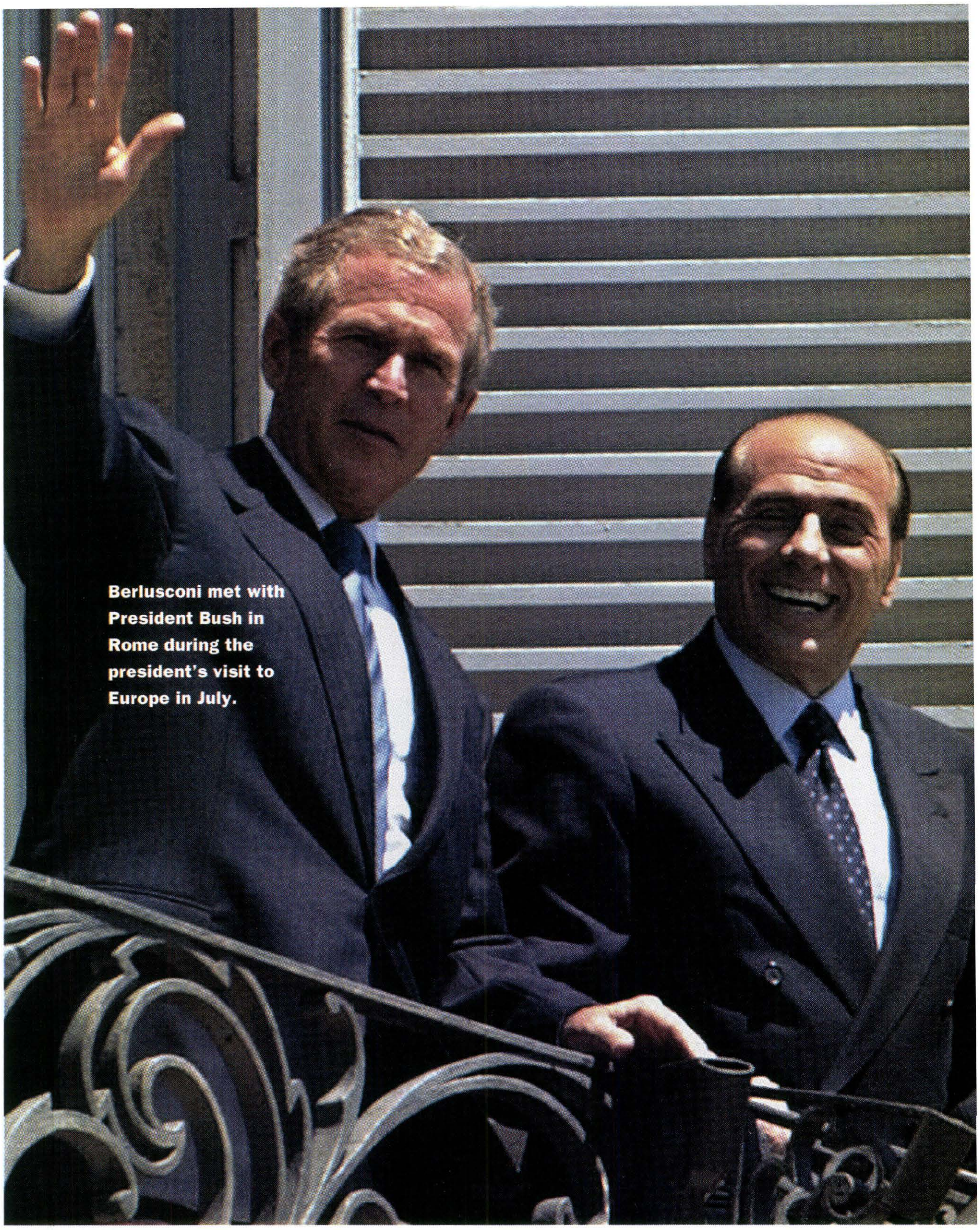
As expected, the top economics spot went to Giulio Tremonti, a university professor and tax lawyer who has been the coalition's main economics advisor since his first stint as finance minister in Berlusconi's 1994 government. Tremonti has a tough challenge ahead. Berlusconi made some extravagant promises in his electoral campaign, including tax cuts of 70 trillion lire ($32 billion), increases in spending on infrastructure, and higher minimum pensions. These won't be easy to deliver in light of Italy's shaky public finances and the slowdown in the domestic economy.

Tremonti has made it clear he will do nothing to undermine Italy's EU commitments on deficit and debt reduction. That should go some way to reassuring EU finance officials. Brussels should also be encouraged by the arrival of the IMF's fiscal affairs chief Vito Tanzi, drafted by Berlusconi to fill a senior post in the economics ministry. Tremonti and Tanzi will be working closely with sixty-six-year-old Antonio Marzano, the Forza Italia economics spokesman who has been given the industry portfolio, as well as with Lucio Stanca, a former IBM executive who becomes minister for innovation and technology.

The appointment of Renato Ruggiero as Italy's foreign minister should help overcome concerns in European circles about elements of xenophobia and Euroskepticism within the ruling coalition. The seventy-one-year old Ruggiero is a seasoned diplomat, who has held senior positions for Italy in Russia, the US, and Latin America. He was a highly influential policymaker and negotiator at the European Union and is a former head of the World Trade Organization.

A Europhile, Ruggiero will likely play a fine balancing act between maintaining Italy's traditionally enthusiastic role in EU integration and Berlusconi's desire to establish a strong relationship with the new Bush administration. The US relationship should also be firmed by the arrival of the fifty-eight-year-old pro-American Antonio Martino at defense. That's a job that requires a fair amount of globe-trotting and international networking, and Martino's experience as foreign minister in the 1994 Berlusconi cabinet will put him in good stead.

More controversially, Berlusconi assigned three senior government posts to the formerly secessionist Northern League, a decision that prompted expressions of concern from some of Italy's EU allies. The ministry for devolution and institutional reform will be headed by the Northern League's fractious leader Umberto Bossi, the man who was instrumental in bringing down the Berlusconi regime of 1994. Bossi, who has attracted much criticism from



Berlusconi met with President Bush in Rome during the president's visit to Europe in July.

ITALY'S FIFTY-NINTH POSTWAR GOVERNMENT

Prime Minister: Silvio Berlusconi, Forza Italia

Deputy Premier: Gianfranco Fini, National Alliance

Foreign Affairs: Renato Ruggiero, Independent

Economics: Giulio Tremonti, Forza Italia

Industry: Antonio Marzano, Forza Italia

Labor: Roberto Maroni, Northern League

Interior: Claudio Scajola, Forza Italia

Defense: Antonio Martino, Forza Italia

Justice: Roberto Castelli, Northern League

Reforms and Devolution: Umberto Bossi, Northern League

Education: Letizia Moratti, Independent

Environment: Altero Matteoli, National Alliance

Infrastructure and Transport: Pietro Lunardi, Independent

Relations with Parliament: Carlo Giovanardi, Biancofiore

Regional Affairs: Enrico La Loggia, Forza Italia

Agriculture: Giovanni Alemanno, National Alliance

Culture: Giuliano Urbani, Forza Italia

Equal Opportunities: Stefania Prestigiacomo, Forza Italia

Technological Innovation: Lucio Stanca, Independent

Communications: Maurizio Gasparri, National Alliance

Health: Gerolamo Sirchia, Independent

European Affairs: Rocco Buttiglione, Biancofiore

Ministry for Italians Overseas: Mirko Tremaglia, National Alliance

Implementation of Government Program: Giuseppe Pisanu, Forza Italia

Public Administration: Franco Frattini, Forza Italia

EU governments for xenophobic remarks that have seen him compared to Austria's Freedom Party leader Jörg Haider, has already said he wants to move fast on devolution to create a new balance of power between Rome and Italy's twenty regions.

The tricky justice portfolio has gone to the little-known Northern League cadre Roberto Castelli, one of Bossi's most loyal aides. He might find himself in a tight corner if Berlusconi's judicial problems return to the fore. The Northern League's controversial former interior minister Roberto Maroni, who at one stage had been earmarked for the justice ministry, has been appointed minister of labor, another troublesome job given center-right plans for labor and pension reform.

Berlusconi has told his government he wants action, not words. The center-right's triumph in May, a landslide victory by Italian standards, should give the new administration a firm enough base from which to address painful and unpopular decisions such as reforming of Italy's generous state pension system, its rigid labor market, and its inefficient bureaucracy.

Berlusconi, who is among the country's richest businessmen, has already said he intends to resolve his own conflict of interest problem (his media conglomerate controls Italy's three major commercial stations) in the first 100 days of office. It remains to be seen whether he is willing and able to resolve other, less personal—but no less pressing issues—in the medium term. ⓔ

Stephen Jewkes is the Milan correspondent for Bridge News *and a contributing editor for* EUROPE.

Ferdinando Salleo

EUROPE INTERVIEW

ITALY'S AMBASSADOR TO THE US

Ferdinando Salleo, Italy's ambassador to the US, recently sat down with EUROPE *editor-in-chief Robert J. Guttman to discuss the state of Italian affairs in the wake of the May elections. Ambassador Salleo discusses Prime Minister Silvio Berlusconi's new government, the Italian economy, US-Italian relations, and the introduction of euro notes and coins in January 2002.*

What can you tell us about the new Berlusconi government? Is it pro-European, and how long do you think it will last?

The government has a comfortable majority in both houses of parliament, and this will give it greater freedom to implement the program they presented to the voters and on which they were elected. At the same time, this [majority] is likely to give them a sense of security and continuity. As a whole, the gist of the program is to modernize the country and free the forces of economy and social structure in order to maximize the use of our resources, entrepreneurial talent, and research, which will, hopefully, give a boost to the country.

The Italian government is going to be a fully committed European partner, a builder of Europe, as it has been our tradition since the beginning, since the Messina conference, which was convened by the Italian foreign minister who signed the Rome treaties, as well as a committed NATO ally. These two terms are the main reference for Italy's position on foreign policy—Europe and the [NATO] alliance.

If I had to describe in a nutshell my country's foreign policy since the end of the Second World War, I would say that Italy was fully committed to both Europe and the [NATO] alliance, but first of all, to the link between the two, because one alone of the two parts of the equation would not suffice to ensure our prosperity and our security. We have, in this respect, an extraordinary continuity when considering the link between Europe and NATO as more than the sum of its parts.

Consider the [geopolitical] neighborhood we live in, which is not ideal, and you will immediately understand that it's not because we are smarter, but it is a geopolitical need.

The initial agenda that the Berlusconi government has presented to the outside world is entirely in this direction, which means innovation in domestic policy and continuity in our foreign policy.

Prime Minister Berlusconi has chosen a well-known foreign minister, Renato Ruggiero. Is he going to be a key player in the new government?

Ruggiero is an internationally known personality. He has been an extremely wise choice by Prime Minister Berlusconi. His curriculum is known and his European credentials are very strong. He was both a director-general of the European Commission and the Italian permanent representative to the then-European Community. He's been my predecessor twice, as economic director-general and secretary-general of the foreign ministry. I have a particular reason for feeling close to him. And he was the first director-general of the WTO. He created the organization and put it on its feet. His presence in the government will be invaluable. A career diplomat starts already as an adult, has no learning period, and even if in more recent years he was an international banker. He is also fully abreast of security problems, not to mention international economics, and he has personal contacts with many world leaders. He is a committed European in the sense of continuity.

Prime Minister Berlusconi was quoted saying, "I want to be George Bush's best friend in Europe." Do you think there will be a new special relationship between Italy and the US because of their conservative leaders?

This is not for me to say. These are the subjects that a diplomat is not supposed to address. What I know, and I know it from the prime minister himself, is that he has a special feeling for the United States and for this administration. There's nothing new in having a special relationship between Italy and the United States for the reasons that I have discussed, and this again is part of the continuity. Besides this special political relationship, there is also a special personal relationship. President Bush's visit to Rome was a real success and created great follow-on possibilities.

Although Italy has the world's sixth-largest economy, a recent article in the *Economist* stated, "Italy has been western Europe's worst-performing economy." How do you think the economy is performing today?

Italy's economy is a very special case that has never been studied in depth by specialists. To give you random data, we run a substantial trade surplus with the United States more or less, year after year, the same as Canada does, in the $15 billion range. We closed the year 2000 over the $15 billion trade surplus.

And you would be surprised to learn what the items on this trade surplus are. You would immediately say, "fashion and food." Well, fashion and food rank third and fourth. The first item is mechanics and aircraft parts. The Boeing 717 is largely manufactured near Naples. Everybody thinks of the industrial north, but the aircraft are made in Naples.

The second item is even more surprising. It's jewelry. This brings me to the real gist in understanding the Italian economy. When the Lord made my country, he gave us a number of very good things, but not a whiff of gas, a dram of iron, a speck of gold, no coal, not even land, the topsoil. Less than one-third of Italy is arable. We have a trade balance in the red in the agri-food business with countries that you wouldn't imagine—like Germany—and yet we have an overall trade surplus.

This brings me to the obvious point. When I was a university professor I used to tell my students they should interpret the economic data rather than just read them. It brings me to the conclusion that our prosperity is based on human resources. We have a territory that is very awkwardly built—long coasts, mountains across the whole country—which makes transportation very expensive. And yet, we are year after year, the fifth or the sixth-largest economy. The core structure of the Italian economy is the smaller business, the medium-sized firm, which is flexible, elastic, adapts quickly to innovation, and this has permitted the country to spread its level of economic life. It's also a country of wide differences. The northeast is one of the highest GDP per capita areas in Europe. They cannot fill jobs. And yet in the south, we have large unemployment—unemployment that has actually come down in the last few years. But these unique imbalances, which are due to history and to geography, need to be corrected. That requires effort and money; that requires stimuli. The economy is performing well, according to the OECD [Organization for Economic Cooperation and Development] figures. I wouldn't complain too much, but I would add that a lot has to be done. And one of the main problems, inevitably, is the indebtedness that has accumulated throughout years of profligacy that began in the early seventies. That is difficult to extinguish. Very few were convinced that we would make it into the euro. But Italy is a really surprising country that usually contradicts the conventional wisdom.

> **We run a substantial trade surplus with the United States more or less, year after year, the same as Canada does, in the $15 billion range.**

The *Economist* also wrote, "Perhaps the most worrying feature of Italy's economy is the relative dearth of investment from abroad." Why isn't Italy attracting its share of foreign investment, and what are you doing to attract American investors?

It is true there is less investment from the United States coming into Italy than into other European countries, and this is due to a number of factors that may be structural, may be geographical. The structural factors are language, the lack of natural resources. The geographical configuration of Italy causes transportation problems. If my country were shaped like France, Germany, or Spain, we would have economies of immense scale. Since we cannot reshape it, and we cannot move it, there is an old saying in Eastern Europe that government would swap principled foreign policy for a different geographic location.

Another reason is the tax system—the bureaucracy and the tax system. They are two different factors. The tax system—I wish to avoid the subject of competitive taxation, which is currently one of the hot subjects in the European Union, because other countries are sort of at each other's throats—but certainly, we have a heavy tax burden, and there is overregulation. What I would call overregulation is an elliptical expression for bureaucracy, but overregulation is the real reason. This hopefully can be corrected. It will be corrected. Then on the economic side, there is also the widespread role of the small to-medium-sized enterprise preventing direct foreign investment, which usually goes to areas with larger businesses.

Looking ahead, is Italy ready for the introduction of the euro and the disappearance of the lira?

Yes. There will be no regrets. The lira is 140 years old, like the country itself. There's going to be no regret there anyway. The only problem that I can see is the Italian consumer who buys his or her groceries in euros and cents. They will be driven mad in the beginning. And then you know for 2,000 years we have gone through all possible sorts of different currencies. This will be a respectable one at long last.

There was a study, I believe made by the Commission, whether it's true or not, I don't know. A man left Berlin with 100 deutschemarks came back with only half of that amount without spending a pfennig but by just changing his money at each border. I have great confidence in the euro because it will have the immediate effect of lessening the cost of capital among other things. It will give a basis to this very big trading system—the whole European system. We are large transformers and traders. And it will also have an important political consequence in achieving a higher level of awareness. My great-grandfather used a different currency than lira when he was a child. It was the currency of the kingdom of two Sicilies.

So you think a new currency is not a big deal?

Psychologically, we don't have the same concern with our currency as other nations like Germany. Our country has seen everything and everybody throughout many centuries and metabolized the whole.

Does Italy have any reservations about the enlargement of the European Union?

No. We stand by the Treaty of Nice. We don't have reservations. In fact, the prime minister went public on that.

Some of your neighbors will be joining—Malta and Cyprus.

They will be great company.

How do you think Romano Prodi is doing as head of the European Commission?

I've known him for many years, and he's a wonderful person. He is a very strongly committed European. He is one of those who have a sense of the future, destiny, and he bases this on Europe. My generation was raised on this religion of Europe. Considering that I was born closer to Tunis than to Rome, this is again another result of the awkward shape of the country.

How would you say US-Italian relations are today?

One of my problems is we don't have bilateral problems, because that is what makes an ambassador busy, trying to solve problems and taking the glory.

When I go to see my counterparts in the different governmental departments or in the White House, we mostly discuss general political or economic problems or things we do together.... We have eight areas of cooperation with the NIH [National Institutes of Health] that range from AIDS to aging, and we do global research together. The NIH has more than 200 Italian researchers. I was recently at Los Alamos and met with a team of Italian physicists who are involved in a very important program on advanced lasers, and my personal status was enhanced when I told them that my son was at Livermore. So there is an incredible level of integration that does not surface.

It is again part of our culture of being quiet, "lest the taxman cometh," which comes from invasions, from not having a special liking for governments in general. We don't have this phenomenon of being antigovernment as it exists here [in the US] as a positive movement but caution toward government is part of the DNA of every Italian. You may call it anarchism or libertarianism.

How would you define the European Union to an American audience in one or two sentences?

The difficulty is that everybody here is convinced that we are doing what you did after 1776, but we are doing a totally different thing that goes by trial and error. We are not building a United States of Europe. We are inventing something new, which I hope won't be a camel, which as you know is a horse designed by a committee. We are inventing something new that is going to be integration at the highest possible level without losing our identity. It sounds like an oxymoron, but I still believe it's feasible. When you travel from Italy to France you don't have to show your passport; six months from now you won't have to change your currency. I hope they will have the same [legal] codes and the same judicial system. Little by little, we're going to have the same immigration and asylum laws. If I want to order my shaving cream from Paris, I can do exactly as I do from Milan. This will not entail automatically the same sales tax. You don't have the same sales tax here; you don't have the same income tax either or corporate tax. You go to Wyoming to pay less income tax; you buy a ranch and pay less in taxes. You incorporate in Delaware and cut down on your corporate tax; do your shopping in Maryland and pay less sales tax than in DC. So there are many ways between full homogenization and radical diversity.

ITALY'S Surprising Economy

By Niccolò d'Aquino

Question: What does the Ferrari Formula One team and Italy's economy have in common? Answer: Both are turning heads, for the moment.

These two results may seem unrelated: a sporting event, albeit a sensational one, and a socioeconomic fact. But both these news items help illustrate what a truly emotion-packed year Italy is experiencing.

Michael Schumacher powered his Ferrari team to victory in the French Grand Prix Formula One on July 1.

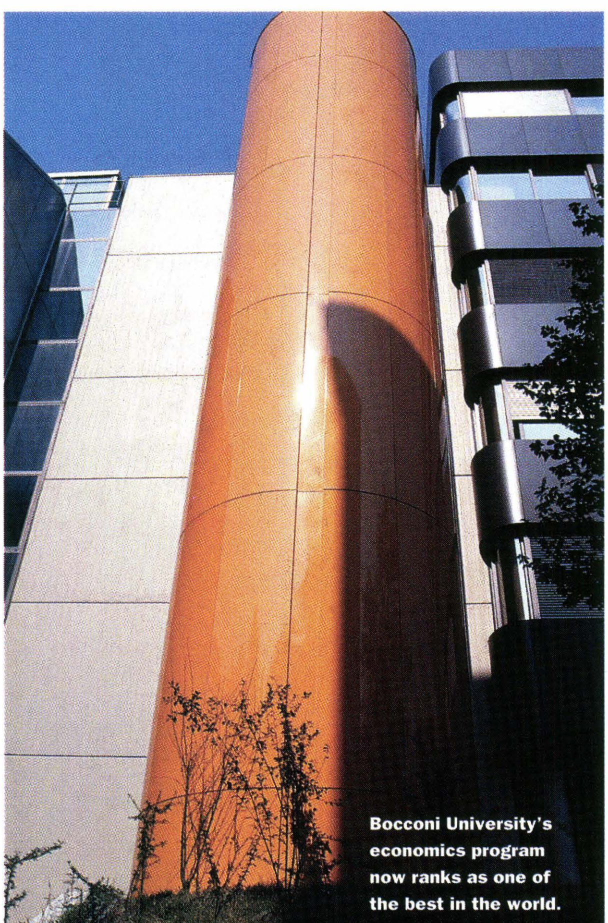
Strong emotions but also paradoxes. Where to begin? The most sensational fact is, of course, the change of the political guard. After many years of center-left governments, the turnaround was marked by the avalanche victory of the center-right coalition headed by Silvio Berlusconi. And yet, the highly positive results that the Italian economy has been enjoying for a while now can all be traced back to the initiatives taken by the progressive coalition that was so heavily punished by the outcome of the May elections.

Could this be an Italian version of the "Churchill effect?" Just like the great British statesman who, after his contribution to the Allied victory during World War II, never expected his fellow citizens to betray him at the polling boxes, the leaders of the Italian left, too, feel betrayed by an ungrateful electorate.

This electorate seems to have forgotten that in just twelve months more than 400,000 new jobs were created—a record over the past ten years. They also ignored the fact that unemployment fell to 9.6 percent and that Italian economic growth (2.3 percent according to the OECD) has been even bigger than in Germany. Furthermore, for the first time in years, the fiscal burden is decreasing. It's still 42.4 percent, but this is an improvement over the previous 43 percent.

To sum it up, high gas prices and the weakness of the euro notwithstanding, Italy is rating surprisingly better than most other rich European countries. Even the public deficit—always the dark side of Italian economics—is improving. And, for the fourth year in a row, real estate sales—an unmistakable sign of an overall economic prosperity—have risen to new highs. All these positive results have surprised even the analysts of the International Monetary Fund, forcing them to admit that their cautious predictions about Italy's economic growth have been proven wrong.

Nevertheless, all eyes are now focused on the government of Silvio Berlusconi, a television and construction magnate who late in life discovered a passion for politics (his adversaries and malicious tongues say this passion was fueled by a need to avoid certain weighty judicial troubles brought about by his entrepreneurial activities).



Bocconi University's economics program now ranks as one of the best in the world.

The first few months of his mandate don't seem to have been troubled much by the polemics resulting from the presence in his coalition of Gianfranco Fini's right-wing party and Umberto Bossi's Northern League, which has separatist and slightly xenophobic leanings. Even the press, which so strongly attacked Berlusconi, now seems to be sending out the message: "All right then, let's put him to the test."

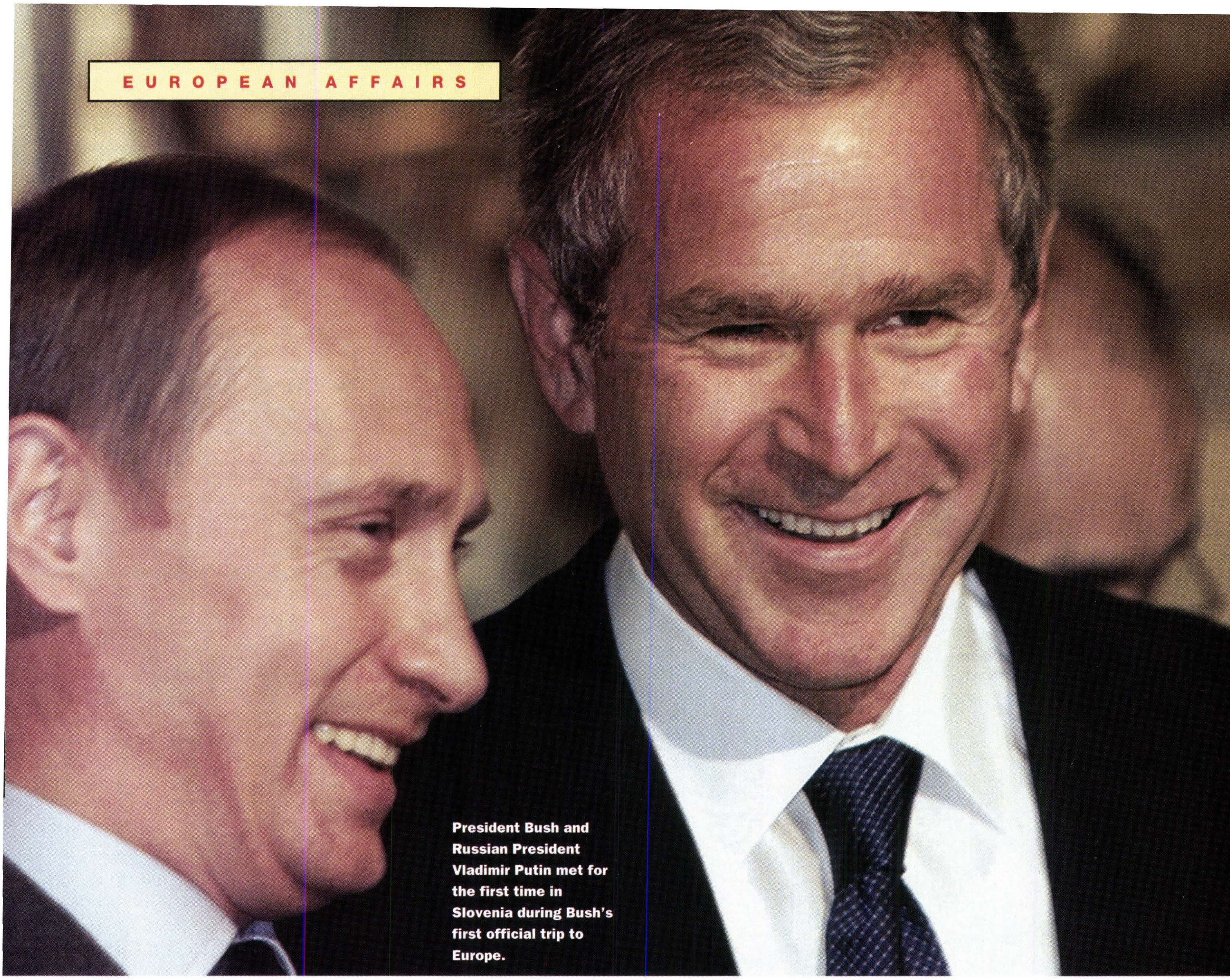
The first hurdle Berlusconi will have to leap is surely economic. Public opinion is awaiting a further drop in fiscal pressure from his right wing and conservative coalition. And the new secretary of the economy, Giulio Tremonti—who filled this same position in 1994, during the first, brief Berlusconi government—is not disappointing expectations. He immediately proposed a package of measures, including lower individual taxes and breaks designed to encourage the reinvestment of profits.

Italian finance minister Giulio Tremonti (right) and US Treasury Secretary Paul O'Neill attended the finance ministers' meeting during the G8 summit in Genoa on July 7.

To be honest, this package also includes the abolition of inheritance taxes, a first ever in this country's history. This measure caused some perplexity because, as the political adversaries of the prime minister (who, it must be remembered, is the richest man in Italy) pointed out, the first to benefit from this new law will be Berlusconi's heirs. Two of them, in particular, now manage the family's financial empire, which centers around the Mediaset television network.

Polemics aside, there is other good news for Italy. In the telecommunications sector, the emergence of a third large television network—which orbits around Telecom Italia—should bring an end to the RAI-Mediaset duopoly, which risked slowing down the market to the detriment of competition. In the education sector, Milan's Universita Bocconi, Italy's most prestigious economics university, has risen in the *Financial Times*' international standings. In fact, according to a research study conducted in Brussels, it now ranks first in the non-Anglo-Saxon world and internationally is second only to Harvard—which confirms that good economic trends are not just the result of temporary circumstances. Ⓔ

Niccolo d'Aquinò, based in Rome, is a journalist for the Rizzoli Corriere della Serra group and a contributing editor for EUROPE.



EUROPEAN AFFAIRS

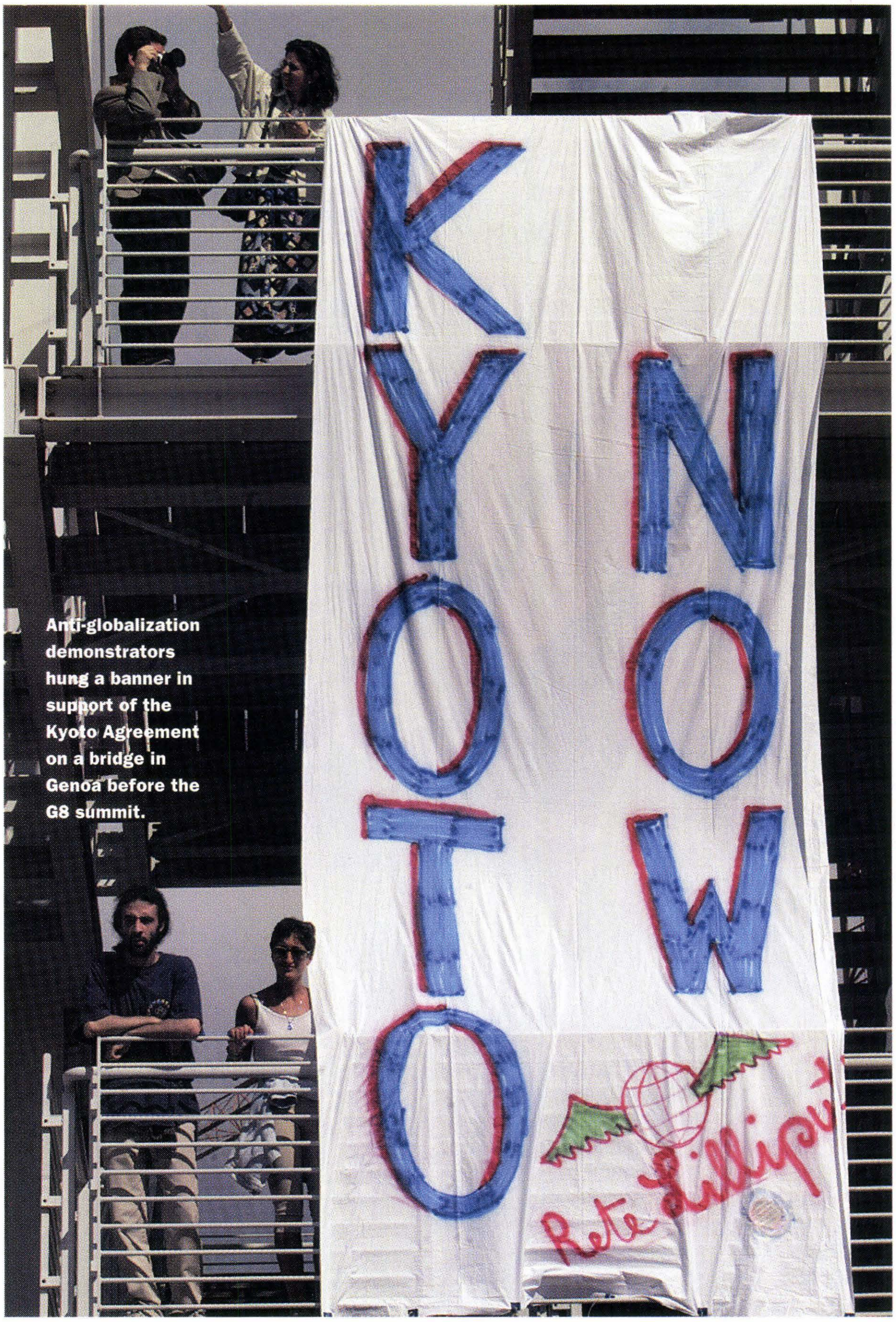
President Bush and Russian President Vladimir Putin met for the first time in Slovenia during Bush's first official trip to Europe.

Bush Faces Five Transatlantic Challenges

By Lionel Barber

Theodore Roosevelt once advised American presidents to speak softly and carry a big stick. More than a century later, George W. Bush is taking his illustrious Republican predecessor at his word.

After two visits to Europe, where he defied low expectations, President Bush has settled down to workmanlike relations. There are sensitive spots, notably on the Kyoto protocol on the environment and missile defense. Overall, however, Bush has showed skill in identifying what unites rather than divides the transatlantic allies.



Anti-globalization demonstrators hung a banner in support of the Kyoto Agreement on a bridge in Genoa before the G8 summit.

He has sought out European leaders with whom he feels comfortable. Tony Blair, fresh from his victory in the June election, has established an instant rapport. President Chirac of France, whose backslapping style is more Texas than Toulouse, got on better than the cooler Chancellor Schröder. Speaking English really does help.

Bush also reached out to center-right leaders such as Jose Maria Aznar of Spain. Aznar has far more in common with the Republican Party than the likes of Lionel Jospin of France, Jean-Claude Juncker of Luxembourg, or Göran Persson of Sweden. Silvio Berlusconi's newly elected government in Rome also went out of its way at the G8 summit in Genoa to court the US at the expense of common positions with the rest of its European partners.

In the background looms Russia, where President Vladimir Putin is struggling to restore a measure of order that would allow his country to regain its dignity and great power status. The first meeting with Bush, which took place in Slovenia, went better than forecast. Bush's declaration that the US no longer regarded Russia as an "enemy" resonated beyond the summit venue.

Nevertheless, several subjects that Bush finessed in his opening exchanges with European leaders have not gone away. They remain unsettled by a tendency toward unilateral action and Bush's unabashed promotion of his own domestic agenda when overseas (notably the sales pitch on behalf of his tax cut delivered to US troops in Kosovo).

Yet, the US is the sole superpower, always inclined to act when it believes it must protect and advance its own interests. The unequal partnership is likely to endure for some time, and it seems the Europeans can do little about it beyond trying to persuade the US to consult more and take multilateral forums seriously. As one senior British diplomat admits, "The most we can do is to temper the effects."

For the rest of Bush's first term, five transatlantic issues are likely to pose challenges for the president and the Europeans.

Missile Defense

The Republicans' loss of their majority in the US Senate severely crimps Bush's ability to force through his plans for a shield against rogue missiles; but he remains committed to spending billions of dollars on the project as part of a wider strategy to redraw the post cold war international security system.

This will inevitably mean neutering, if not scrapping the 1972 Anti-Ballistic Missile Treaty, which the Europeans and Russians see as a cornerstone of security. The allies are deeply opposed to anything that looks like unilateral abrogation. Putin has hinted at a degree of flexibility. How to square these positions—and those of a hostile China opposed to theater missile defense in the Taiwan Strait—is a big unknown.

Most Europeans are hoping that the US Congress will do their work for them.

Europe's Rapid Reaction Force

Europe has pledged to create a 60,000-strong force, separable from NATO, to be deployed for peacekeeping and crisis management. At present, Bush has followed his predecessor Bill Clinton's support for the initiative; but many of his officials, particularly Defense Secretary Donald Rumsfeld are skeptical.

In his talks with Blair, Bush struck

an informal deal. If the British avoided causing trouble over missile defense, he would hold his tongue on the EU rapid reaction force. It worked—but in the future, questions persist about the precise division of labor between NATO and the EU.

NATO Enlargement

Bush said in a speech in Warsaw that he envisaged NATO expanding into the former Soviet empire, including the Baltics. He rejected the notion that any country could veto the membership of other countries that meet the entry criteria.

A solid minority of EU countries is worried about rapid NATO enlargement provoking Russia; others are undecided. The crunch will come next year at a NATO review summit in Prague. For the moment, the Europeans are relieved that Bush has not peremptorily removed US troops from their NATO peacekeeping missions in Bosnia and Kosovo in the Balkans, thus avoiding any crisis over NATO's future mission.

Trade

The Europeans are watching carefully whether Bush will remain committed to his free trade agenda. The economic slowdown in the US, combined with the new Democratic majority in the Senate, has increased protectionist pressures. Bush has already signed off on a complaint to the World Trade Organization over cheap steel imports undercutting the domestic sector.

The next test will come later this year when Bush seeks trade promotion authority from Congress. This used to be called "fast-track" trade authority and was a vital tool for presidents to negotiate trade deals without having his hands tied by meddling congressmen.

Despite initial wavering, the White House has come to the idea of trade promotion authority. US Trade Representative Robert Zoellick has pushed hard for the move as part of a broader strategy of launching a new round of world trade talks. The vote on trade promotion authority is likely to come later this year.

For Europe, especially Pascal Lamy, the EU's trade representative and Zoellick's favored interlocutor, the outcome will determine how far the US can deliver on its professed commitment to trade liberalization, including future efforts to bring Russia alongside China into the WTO.

The Environment

As a former oilman from western Texas, Bush has taken a bit longer to be sensitized to European concerns. In July, 178 nations moved forward in fighting global warming by signing an agreement at the successful conclusion of the climate change negotiations held in Bonn. The US did not sign the agreement. Bush rejected it, saying it would harm the US economy and exempt developing nations. The president has promised to offer alternatives for dealing with the problem.

In the last resort, there is so much at stake in terms of trade, investment, and mutual security that both the US and Europe will hesitate before allowing differences to escalate into serious tensions. But this is a relationship that needs managing.

Lionel Barber, based in London, is the news editor of the European edition of the Financial Times *and a* EUROPE *contributing editor.*

How Important Is Europe to Bush?

It is sometimes said that Europe is so preoccupied with itself that it would not matter too much who was sitting in the White House.

At first sight, the jibe seems to hold good. The European Union faces two existential challenges: to make a success out of economic and monetary union and to enlarge its membership to the former communist countries of Central and Eastern Europe.

In many ways, the task of "widening" and "deepening" simultaneously is as great as the challenge facing European leaders in the aftermath of World War II. At that time, they responded by creating the European Economic Community, later to become the EU. Today, it is by no means clear how a Union of twenty-five diverse members will work.

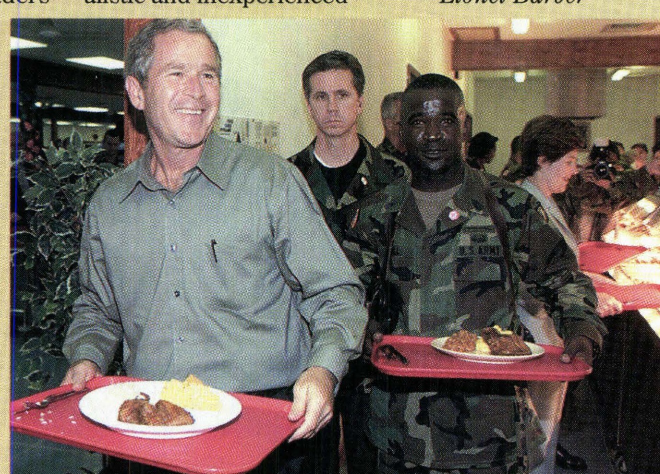
Yet, it is surely wrong to assume that Europeans are indifferent to the personality and policies of the US president. As sole superpower, the US necessarily intrudes into the calculations of Europeans, from NATO peacekeeping in the Balkans to international economic policy coordination and trade.

This is true, even in times when the EU inclines toward introspection. In the aftermath of the Maastricht Treaty in 1992–93, when European leaders were fighting to save the single currency project, they were simultaneously struggling to come to terms with an idealistic and inexperienced Clinton administration.

The Bush team is a far worldlier crowd. But the president's horizons stretch naturally southward toward Mexico and Latin America. Out of necessity, they look westward toward China, Japan, and Korea. Europe does not figure quite so large.

In this sense, the real danger is not that Europeans will be so preoccupied that they ignore the US. The real risk is that—for all the importance of economic and trade ties—that Europe diminishes in the eyes of the US.

—Lionel Barber



During his trip to Europe, President Bush visited US troops stationed at Camp Bondsteel in Kosovo.

EUROPEAN AFFAIRS

After Ireland says No To Nice...

National Forum on Europe to be Established

By Mike Burns and Robert J. Guttman

"I want to make it absolutely clear that, in my view, the 'no' vote should not be interpreted as a vote against enlargement. Indeed, most of the leading 'no' campaigners were at pains to say that they supported enlargement...Ireland remains fully committed to enlargement and to the successful conclusion of the accession negotiations. I have announced the establishment of a national forum on Europe. I hope this will allow for more systematic and extensive debate on the European Union and its direction than has ever before proved possible."

—from a statement by Irish Prime Minister Bertie Ahern, June 15, 2001

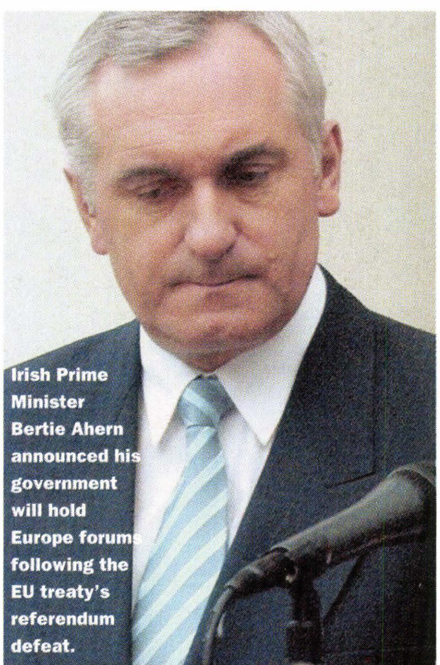
A no supporter watches as volunteers count the votes in the Irish referendum on June 8.

Some analysts claimed they had seen it coming—the first rejection by Irish voters of any referenda to date on a European Union issue. But that was after the event. In the run-up to the June referendum on whether the Irish Republic—previously the EU's most enthusiastic member—would confirm its support for the Nice Treaty, most political parties and pundits had forecast a small but significant victory for the 'yes' side.

Instead, in one of the lowest polling turnouts (less than 35 percent) on an EU issue since 1972, 19 percent of the electorate determined that Ireland would reject the treaty—65 percent didn't even bother to vote. (Under the Irish constitution, the ratification of an EU treaty requires an enabling amendment on which the electorate vote.) A unique coalition of Greens, people worried about Ireland's neutrality, concerns about abortion, the role of the EU, and opponents of the Ahern government defeated the Nice Treaty by 54–46 percent.

It was a sickening rebuff for Prime Minister Bertie Ahern and his coalition government partners just a week before the EU summit in Gothenburg. Instead of winging his triumphal way to the Swedish city, he suddenly found himself in the unhappy position of having to explain to the fourteen other EU leaders how the Irish campaign strategy had come unstuck—despite support from his government, the main opposition parties, and employer and trades union interests.

Surprisingly, given the nightmare scenario the Irish rejection poses for the EU, the anticipated hostile reaction of other heads of government failed to materialize. Almost all seemed to sympathize with Ahern's dilemma and focused on how the Nice Treaty, which is mainly focused on EU enlargement, could be better presented to the Irish voters before the next vote takes place. As the Irish Foreign Minister Brian Cowen remarked after the vote, "Our colleagues in Europe are not prepared to reopen the substance of the Treaty of Nice...The rational thing to do is to consider how the specific concerns which emerged during the campaign can be addressed."


Irish Prime Minister Bertie Ahern announced his government will hold Europe forums following the EU treaty's referendum defeat.

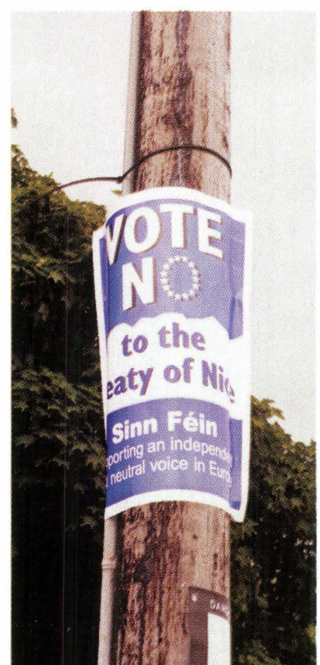
Professor Brigid Laffan, director of the European Institute at University College Dublin, said the treaty rejection had damaged Ireland's standing in the Union. But Roger Cole, chairman of PANA, an umbrella body for groups against the treaty, said Brussels' reaction showed EU contempt for Irish democracy.

In Gothenburg, Ahern outlined a number of factors that combined to generate the no vote—voter confusion and apathy, worries about neutrality, Ireland's role in the rapid reaction force, uncertainty over the potential arrival of the agricultural economies of Eastern Europe, and the prospect of Ireland losing sovereignty and influence.

He could also have added the problems created by the cumbersome and non-friendly language used to explain the complex treaty, which perhaps required the drafting talents of a tabloid newspaper writer rather than the stilted non user-friendly words of eminent lawyers.

Ahern sought to reassure the EU leaders that Ireland would not block ratification of the Nice Treaty. His reassurance must have pleased Chancellor Gerhard Schröder of Germany, who had earlier insisted that EU enlargement was an irreversible process and that Ireland would have to rethink its rejection.

Now, despite the no campaigners' opposition to another referendum, the Irish government must go back to the drawing board before the ratification deadline of December 31, 2002. If all fifteen member states have not ratified the treaty by that date, it will not be able to come into force as envisaged.



Ahern, an enthusiastic sports follower, may believe a defeat can help to sharpen team performance. But when a rematch, if any, will take place is open to debate. One thing seems certain: No rerun now seems possible before the next general election due before June next year.

However, Ahern has already offered proposals for a national forum on Europe, which, he told the Irish parliament, he hoped would attract cross-party support. At the same time, the public forum will allow for more systematic and extensive debate on the EU and its future direction. In addition to addressing the concerns raised by the Nice Treaty rejection, it would also look forward to the planned 2004 intergovernmental conference meeting, which is scheduled to decide on where an enlarged long-term EU is going and what type of institutions and power structures will be involved.

Ahern admits that it may be easier to diagnose the problem than to prescribe widely acceptable remedies. But he acknowledges that there is a real and urgent need to focus on how to make the EU more meaningful to Irish and other European citizens and strengthen its democratic accountability. Consultation meetings, chaired by an eminent academic or judicial figure, are expected to take place at venues throughout the country starting in the fall.

However, the cross-party support Ahern hopes for is in doubt. Fine Gael, the main opposition party that supports the government on Northern Ireland and social partnership issues, says it doesn't want to participate. In the words of party leader Michael Noonan it would be a "talking shop that won't reach a conclusion." The party may wish to distance itself on the EU question in advance of any general election.

Furthermore, the opposition Labor Party says the proposed forum should not focus on a possible second referendum on the Nice Treaty. It says the forum should be broadly based, including not just political parties but also the social partners, special interest groups, and others.

Whether the forum will be able to resolve growing public concern over the powers of a centralized bureaucracy and carry a second referendum is a formidable task.

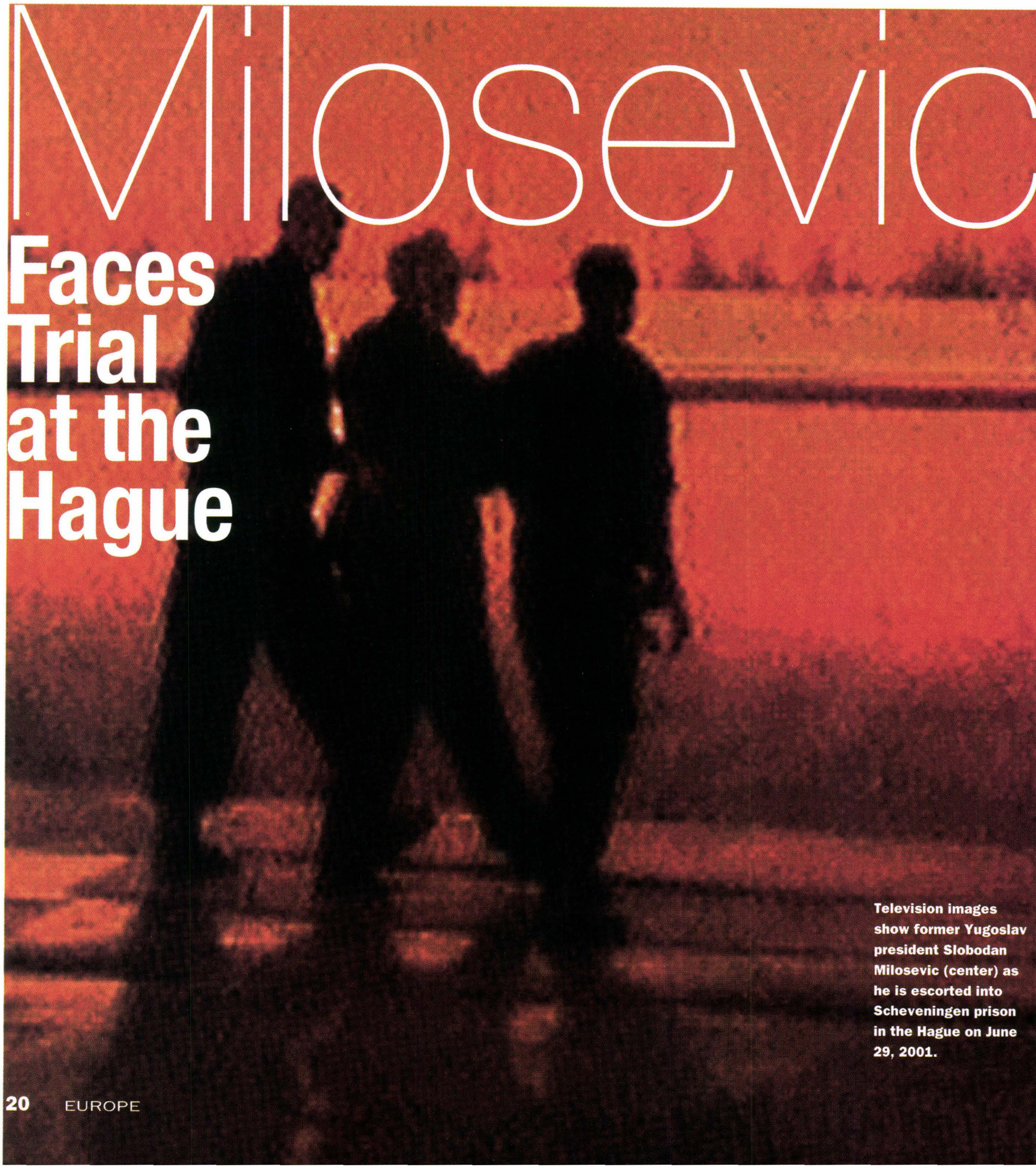
But Ahern, by his own admission, is an avowed optimist. Ireland's EU colleagues and the applicant countries hoping to join the Union in the next few years are anxiously hoping that Prime Minister Ahern's optimism will translate into a favorable vote on the Nice Treaty the second time around. Ⓔ

Mike Burns, based in Dublin, is a contributing editor to EUROPE. *Robert J. Guttman is the magazine's editor-in-chief.*

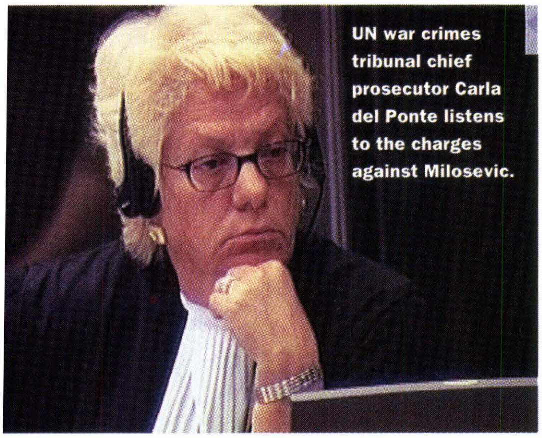
Is Justice Being Served at International Court of Justice?

By Martin Walker

Milosevic Faces Trial at the Hague



Television images show former Yugoslav president Slobodan Milosevic (center) as he is escorted into Scheveningen prison in the Hague on June 29, 2001.



UN war crimes tribunal chief prosecutor Carla del Ponte listens to the charges against Milosevic.

The delivery on June 28 of former Serbian President Slobodan Milosevic to the International Criminal Tribunal (ICT) in the Hague to face trial for his responsibility in the killing of 577 named citizens of Kosovo was immediately hailed as a triumph of international justice and as a belated justification for NATO's controversial 1999 bombing campaign. But controversy swiftly began. Milosevic's extradition did not bring a symbolic conclusion to the decade-long Balkan wars. Even as he began consulting his lawyers from his cell in the Hague, NATO and European Union leaders were trying desperately to maintain a fragile ceasefire between Serb and Albanian ethnic groups in Macedonia.

More controversy swirled in Serbia, where Milosevic still has many supporters. Zorin Djindjic, the newly elected and democratic prime minister of Serbia, explained the extradition as the only way to unlock the international funds for reconstructing his battered country. He then found to his dismay that the bulk of the promised $150 million was withheld to pay for damages and reparations allegedly owed by Serbia after the decade of the Balkan wars.

Milosevic's defenders claim that he, too, was democratically elected and that, in the absence of evidence that he gave explicit orders, he cannot be held personally responsible for all the killings carried out by his security forces. Moreover, they argue that he was brought out of his Belgrade prison by NATO gold in defiance of the prior claims of Serbian justice, which had already charged him with corruption. As former German minister Michael Naumann has suggested, "This might not be the best way to establish Serbian confidence in democratic institutions."

These arguments will have a great deal of time to run because, despite its annual $95 million budget, the ICT in the Hague moves at a snail's pace, taking so far on average two years on each case, from the reading of the charges against the accused to the delivery of the verdict. Unless the ICT breaks its own rules and bumps Milosevic to the head of the queue, his case will have to await the completion of the trials of fifteen others ahead of him who have already been waiting in the Hague for nearly two years. Jenny Martinez, an American lawyer who served on the staff of one of the ICT judges, has commented, "The tribunal is now in the embarrassing situation of breaching one of the rules of human rights: that a judicial procedure should not be too long delayed." Martinez has gone on to list some serious criticisms of the tribunal's staff and procedures, claiming one judge slept through much of one trial; that charges have been changed just as a trial was about to begin; and that evidence against some accused has been deliberately withheld from the public.

A group of Bosnian Muslim women who lost family members in the Srebrenica massacre watch the televised broadcast of Milosevic's appearance before the court.

And yet Milosevic will have a public trial and the chance to make a defense, which is more than many of the tens of thousands of the war's dead ever received. Patrick Baudoin, a Paris lawyer who is president of the International Federation for Human Rights, argues, "The essential thing is to end the concept of immunity (for political leaders) even if the process is very slow." But Baudoin then went on to deepen yet another controversy, defending Belgium's new law that allows charges of crimes against humanity to be brought against anyone, anywhere. In particular, Baudoin said his organization "favors the charges laid in Belgium against Israeli premier Ariel Sharon."

Milosevic has already joined Chile's dictator Augusto Pinochet as a target of the new and enlarged concept of international justice. Now Ariel Sharon joins former Iranian President Hachemi Rafsanjani as potential targets of Belgian inquiries, and there is another campaign to add former secretary of state Henry Kissinger to the list. Since British courts have already ruled that they are obliged to recognize extradition warrants brought by other European courts, such charges could become more than just the kind of inconvenience that now makes it difficult for Israel's premier to visit the headquarters of the European Union in Brussels. They could threaten the fledgling attempts to establish a new and broader system of international justice and to make political leaders legally accountable.

After the years of ethnic cleansing, the siege of Sarajevo, the massacre of Srebrenica, and the new evidence of mass murders in Kosovo, the trial of Slobodan Milosevic was widely expected by human rights lawyers to be an almost perfect test case for the broad new concept of international justice that they seek. Milosevic's lawyers are planning a high-profile and aggressive defense, planning to call to the trial other international figures with whom Milosevic negotiated. Former American envoy Richard Holbrooke, former secretary of state Madeleine Albright, and British and German foreign ministers Robin Cook and Joschka Fischer have all been named as likely witnesses for the defense, to testify that Milosevic told them he sought peace. Furthermore, as a the key figure in agreeing to the 1995 Dayton Accords that ended the wars in Bosnia, Milosevic may be able to mount a plausible defense. However, he is not on trial for Bosnia. So far, the only charges against him relate to the killings of Kosovo Albanians, which could open the tribunal to the charge that theirs is a somewhat partial justice. As the ambiguities and complications grow and as Milosevic languishes in jail with no trial date set, the stakes in his case are growing steadily higher. Ⓔ

Martin Walker, based in Washington, DC, is United Press International's chief international correspondent and a contributing editor for EUROPE.

Competition Questions Linger

Tensions ease in the wake of the EU's veto of the GE–Honeywell merger

By Bruce Barnard

The transatlantic business relationship took a major hit in July when the European Commission blocked General Electric's planned $42 billion acquisition of Honeywell International just two months after US regulators cleared the world's largest industrial merger.

Tensions eased during the summer after Washington and Brussels stepped up efforts to strengthen cooperation on competition policy ahead of the World Trade Organization's forthcoming summit in Doha that is expected to launch a new world trade round.

In the wake of the decision, there was a real risk the high-profile struggle between GE, led by American business icon Jack Welch, and Mario Monti, the Yale-educated European competition commissioner, would create a permanent transatlantic rift in the early days of the Bush administration. The US president had made a plea for European approval for the deal. Treasury Secretary Paul O'Neill said EU rejection would be "off the wall" and claimed it was blocking a merger "outside their jurisdiction."

The conspicuous case prompted ordinary Americans, and not a few business leaders too, to ask what right a foreign regulator had to interfere in a deal between two US firms.

The European Commission has been doing just that since EU member governments agreed on a merger control regulation in 1990 that gave it sole authority to vet large-scale mergers. These are defined as those in which the combined annual global revenues exceed €5 billion ($4.42 billion), of which at least €250 million is generated by two or more companies within the EU member states. And it's not only American firms that come under Brussels' gaze. On the day it blocked the GE-Honeywell deal, the Commission launched an investigation of a planned merger involving two Brazilian mining companies and a Japanese trading house. The US administration accepts this as a natural consequence of deepening economic integration.

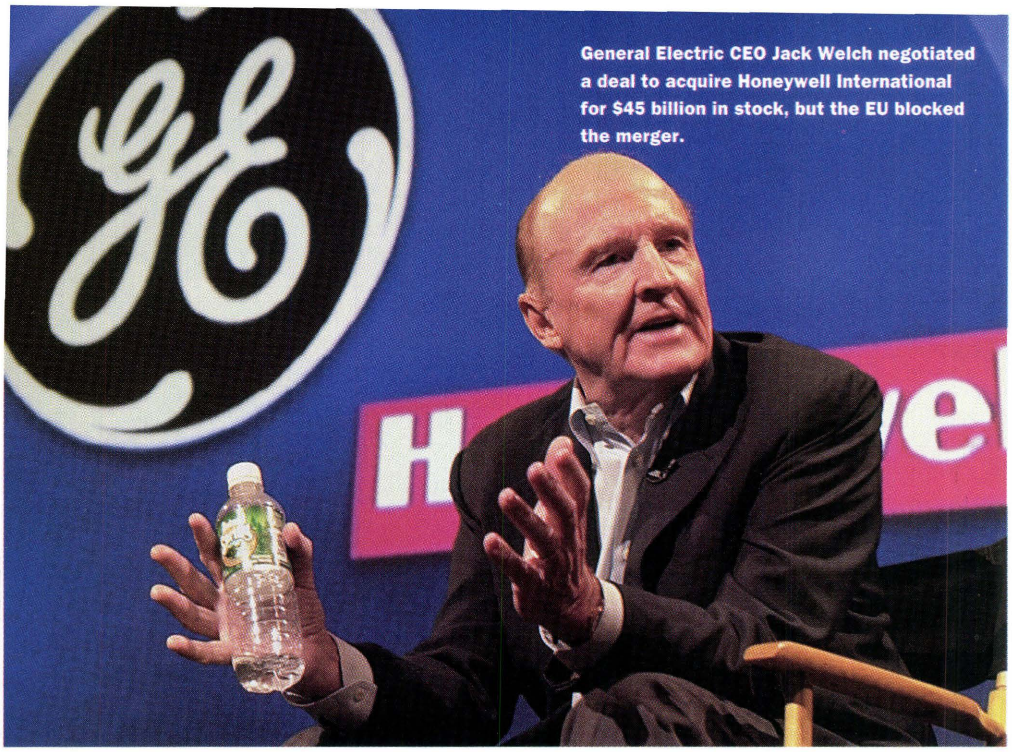
European Competition Commissioner Mario Monti emphasizes that "consumer welfare" is a guiding principle in evaluating mergers.

"GE and Honeywell are now both European and American companies, and competition authorities on both sides of the Atlantic have to assess their merger," according to US Trade Representative Robert Zoellick. GE employs 85,000 people in Europe, and Honeywell's European operations, which also include Africa and the Middle East, employ 25,000.

US regulators regularly vet all-European mergers, but they rarely make the headlines. When the Federal Trade Commission examined the all-Swiss merger in 1997 that created drugs giant Novartis, it set stiff conditions for approval because the combined company had a big share of the US market.

The GE case created a false image of a Commission intent on blocking consolidation. In fact, it is only the fifteenth time in more than a decade that the Commission has blocked a merger. Nor is it particularly tough on American firms: Of the 394 mergers involving at least one US company it has reviewed since September 1990, 338 have been approved without concessions after an initial one-month investigation. Only sixteen deals have been called off or withdrawn, and only one—WorldCom's proposed $115 billion acquisition of Sprint last year—was blocked. That deal was also vetoed by the US Department of Justice.

Mario Monti flatly rejects charges that the Commission is anti-American and says the nationality of the company complaining about a merger is as irrelevant as the firms involved in the deal. The main accusers in the GE–Honeywell deal were, in fact, two US firms; UTC, owner of Pratt & Whitney, GE's main rival in the manufacture of aircraft engines, and Rockwell Collins, which provided Monti with the ammunition to justify blocking the deal. Meanwhile, the Commission has recently fined Deutsche Post, the German mail, express, and logistics giant, $20 million for abusing its dominant market position after a complaint by United Parcel Service, the US package delivery company. The Commission



General Electric CEO Jack Welch negotiated a deal to acquire Honeywell International for $45 billion in stock, but the EU blocked the merger.

has also blocked big European deals like an ambitious three-way merger between Alcan Aluminum, France's Pechiney, and Switzerland's Algroup.

Nor are Brussels and Washington continually at odds over competition policy. The last time they clashed was four years ago when the Commission threatened to block Boeing's $16.3 billion merger with McDonnell Douglas. It eventually backed off after extracting a few cosmetic concessions from the companies following heavy lobbying by the Clinton administration coupled with a threat of a WTO complaint. The case prompted closer cooperation because the two sides saw how dangerous a breakdown could be.

Differences over big mergers are rare, but when they occur, they highlight the differences in approach. The GE–Honeywell case isn't the first time EU and US regulators have reached different decisions.

The US blocked the takeover by France's Air Liquide of Britain's BOC although Brussels had cleared it, subject to undertakings from the firms.

But Brussels' decision to veto the GE deal after it was nodded through almost untouched by US regulators raised concern that the divergence between US and EU trustbusters could erode cooperation, heighten corporate uncertainty, and slow down consolidation. Regulators are increasing scrutiny of mergers and acquisitions because of the accelerating pace of global consolidation—about $9.5 trillion of deals have been announced in the past three-and-a-half years.

The Commission blocked the GE deal because it feared it would create a dominant company that would drive competitors out of the aerospace engine market through predatory pricing and anticompetitive "bundling" of different products. To address his concerns, Monti wanted GE to divest a part of GE Capital Aviation Services (GECAS) to engine competitors Rolls-Royce or Pratt & Whitney so it would not ensure GE products were installed on aircraft, a concession too far for Jack Welch.

GE said the Commission took "a fundamentally different view to competition issues than its counterparts in the US, Canada, and nearly a dozen other jurisdictions." The key difference is over bundling. "It hasn't been antitrust law in the US in seventy-five years, and it hasn't really been antitrust law anywhere," Welch said. US antitrust theory since the 1970s has held that the size of a company isn't relevant, only whether it brings down prices for consumers. The US Court of Appeals ruled recently in the Microsoft case that bundling products together—such as Windows software and the Explorer Internet browser—is not necessarily always abusive because it can benefit consumers who want an integrated package.

US antitrust lawyers also allege the EU is more interested in protecting competitors rather than consumers. US regulators have long dismissed competitors' complaints, often arguing that they signal a pro-competitive deal. "Clear and outstanding US antitrust policy holds that antitrust laws protect competition, not competitors," says Charles James, assistant US attorney general for antitrust.

Monti rebuffs these claims. "We are not against mergers that create more efficient firms. Such mergers tend to benefit consumers, even if competitors might suffer from increased competition. We are, however, against mergers that, without creating efficiencies, could raise barriers for competitors and lead, eventually, to reduced consumer welfare."

Monti claims Europeans traveling across France this summer clearly gained from the Commission's investigation of the 1999 merger between French oil companies TotalFina and Elf Aquitaine. Fearing the merger would have substantially reduced competition between gas stations on French motorways and could lead to higher prices, the Commission ordered the combined company to sell seventy motorway service stations. The Commission prevented them from being sold to another oil major that would have had little incentive to lower prices, and a large number were taken over by a leading supermarket chain, which initiated a policy of lower prices previously unseen in the sector.

However, Monti is facing an uphill task to convince American business. Eight out of ten institutional investors in the US think the EU was wrong to block the GE–Honeywell deal, according to a poll of more than 100 investment managers for Broadgate Consultants, a New York-based investor relations company.

There could be more clashes with the US as the Commission prepares to investigate complaints about Microsoft's behavior in the EU despite the US Court of Appeals' decision to set aside a lower court order that would have split the company into two separate entities.

Monti says the Commission's case is "factually and legally separate" from the US investigation and will focus on different competition issues. The Commission will continue its own Microsoft cases according to "well-established legal standards and procedures."

And that will put Monti on a collision course with yet another American business icon, Bill Gates.

Bruce Barnard, based in London, is a EUROPE *contributing editor.*

EUROPE Update

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WHAT THEY SAID...

"Germany is a good host, and if both sides want that then...our doors will be open twenty-four hours a day, seven days a week...What is important is not where this meeting takes place but that it is well prepared because it must not fail."

—Joschka Fischer, German foreign secretary, stressing his country's willingness to host peace talks to end the violence in the Middle East during his visit to the region last month when he met separately with Palestinian leader Yasser Arafat and Israel's Prime Minister Ariel Sharon

"The signing of this agreement is a vital first step. I applaud the political leaders for taking it...This agreement offers a way out of the present crisis. It offers all the citizens of the country the chance to return to peace and normality, and the prospect of steadily closer ties with the rest of Europe."

—Chris Patten, the EU's external relations commissioner, discussing the agreement signed in Skopje on August 13 to send up to 3,500 NATO troops to the Former Yugoslav Republic of Macedonia to collect weapons from ethnic Albanian rebels

"I suggest setting up a corps of specially trained European riot police that can work at an international level to de-escalate problems and, where needed, effectively quell violence."

—Otto Schily, German interior minister, in an interview with German weekly Welt Am Sonntag *following the troubles at the G8 summit in Genoa*

"The unique acid smell of the Tomatina tomatoes is in the air. Buñol has gone completely red, from the people in the streets to the outsides of the houses and the ground."

—Spanish state radio reporting on the world's biggest tomato fight, also known as the annual Tomatina Festival, held last month in Buñol where revelers pelted each other with 120 tons of ripe tomatoes

"We can launch a new global trade round in Qatar later this year only if we work together. We have today committed ourselves to this goal. We have also agreed a common approach for an ambitious and inclusive WTO Round. We will act together to address the specific interests of developing countries and to respond to the legitimate concerns expressed by civil society in our countries."

—Romano Prodi, European Commission president, at the EU-US summit in Gothenburg discussing the prospect for a new world trade round

EU NEWS

The Genoa Summit: What Did it Achieve?

By the conventional standards of G8 summits—which are intended for informal discussion among the leaders of the main industrialized countries rather than action—this year's summit in Genoa has an impressive record. A total of $1.2 billion was committed to the Global AIDS Fund launched by UN Secretary-General Kofi Annan. Then the summit for the first time opened its elite meetings to the developing world, inviting Annan and the leaders of South Africa, Bangladesh, Nigeria, and El Salvador to join them for a long meeting and dinner. As a result, the G8 also agreed to launch its own Africa initiative, after a year of planning and consultation, to come into force at next year's summit in Canada. The goal is to use a range of trade, aid, and credit measures, along with public health and education support, all with the regular supervision and involvement of G8 finance ministers, to bring Africa fully into the global economy.

But after the street battles of Genoa, with one young demonstrator shot dead by a policeman, hundreds injured, and more than 220 demonstrators in Italian jails a week after the summit, Genoa cannot be judged by the usual standards. Along with the 1999 World Trade Organization summit in Seattle, the Americas summit in Quebec in April, and the European summit in Gothenburg in June, Genoa takes its place as the biggest and most vicious of the new wave of political riots. The usual rhythms of international political life have been jolted into new, protective forms. The next WTO summit will take place in the Persian Gulf peninsula sheikhdom of Qatar, where few demonstrators are expected. The next G8 summit will be held in a remote Canadian resort in the Rocky Mountains, with space so limited that Prime Minister Jean Chretien warned journalists "Bring your sleeping bags." Better that than a gas mask, one replied.

One of the banners carried by the demonstrators at Genoa said, "You are the G8. We are the earth's 6 billion." Not a bad slogan, but one out of perspective according to the official summit figures released by the Italian hosts. Accompanying the G8 leaders to Genoa were 2,100 official delegates from the G8 countries, of whom 51 percent were Americans; another 4,300 accredited media, of whom half were Italian; 20,000 police and troops, and approximately 150,000 demonstrators. Of these, perhaps 5,000 came from the now-notorious "Black Block" of German militants, British Marxists, Spanish, and Italian anarchists, and other assorted radicals, all determined to make their point through violence—although defining that point is a challenge. Most of the demonstrators came to support the causes of debt relief, humanitarian aid, and health care for poor countries, along with international measures against global warming. These were exactly the issues the G8 leaders were discussing, having begun listening to their critics and protesters since the 1998 G8 summit in Birmingham, England, when then-president Bill Clinton and host UK Prime Minister Tony Blair promised to respond to the 70,000 people who gathered to demand debt relief for Africa.

What began as a good idea twenty-seven years ago with French President Valéry Giscard d'Estaing's proposal for an informal and off-the-record château weekend for world leaders has been hijacked over the years by the media, by the various presidential and prime ministerial staffs that now prepare and draft most summit "statements" far in advance, and now by the demonstrators. Relaxed exchanges among leaders remains a useful idea, and some diplomats suggest extending the G8 process to bring in China and perhaps India. That may be missing the point made by some of the more thoughtful protesters, like Roman Catholic Cardinal Dionigi Tettamanzi of Genoa, that "traditional political leaders of nation states, however powerful, may no longer be the masters of a much broader process of globalization." The G8 leaders may no longer, he suggests, be the right targets of protest. But they remain for the moment the most obvious ones.

The G8 leaders were themselves stunned by the violence that swirled around them but divided in their reactions. French President Jacques Chirac said, "We have to pay attention when tens of thousands of our young people rally in this way." Tony Blair countered that for elected political leaders to bow to violent protest "is to turn democracy on its head."

The host, Italian Prime Minister Silvio Berlusconi, faces political problems arising from Genoa. Perhaps the most interesting exchange to listen in on would have been the conversation that followed the summit, when President George W. Bush flew to Rome to see Pope John Paul II. On the eve of the G8, the official Vatican newspaper, *l'Osservatore Romano*, quoted the pope calling for the whole world "to work together so that humanity as a whole can triumph, and not just the elite who control science, technology, communication, and all the resources of the planet to the detriment of the great majority of people—the wind of the Holy Spirit blows through these young people."

—Martin Walker

Operation Essential Harvest Begins In Balkans

A NATO force that will eventually number 3,500 troops began their deployment to the Former Yugoslav Republic of Macedonia (FYROM) in late August in a military operation to collect weapons from ethnic Albanian rebels who agreed to disarm as part of the ceasefire deal.

The United Kingdom will take the lead role in this NATO operation with a force of 1,800 soldiers. Other European nations, including France, Greece, Italy, the Netherlands, Spain, and Norway, will take part in the mission that is scheduled to last only thirty days. There will be no American troops playing a direct role in the mission, although the US will provide logistical support.

FYROM's president, Boris Trajkovski, said of Operation Essential Harvest, "This is the crucial point of the overall plan to end our crisis. Many things must be done to return refugees to their homes, restructure our economy, and end crime. This day is a step forward in that direction."

Operation Essential Harvest is part of a comprehensive peace plan meant to end six months of fighting between government troops and the rebel forces.

REPORTER'S NOTEBOOK: BRIGHTENING UP TIRANA

Tirana boasts all the everyday sights of a Balkan capital—craggy mountains looming above the city, a brown river flowing through its center, and a historic mosque with an elegantly slim minaret overlooking a square that's humming with activity.

But this is Albania, exotic even by the standards of one of Europe's most picturesque regions. Battered Mercedes line up bumper-to-bumper at rush hour, while a horse-and-cart clatters past loaded with a brand-new Italian dishwasher. Outside the central bank, foreign exchange dealers in jeans and t-shirts hand over wads of US dollars to local entrepreneurs keen to unload European currencies ahead of the changeover to the euro.

Edi Rama, Tirana's energetic mayor, says his mission is to make the capital more user friendly. An artist by profession, his campaign to brighten up the drab communist-era apartment blocks around central Skenderbeg Square is typically bold. The color scheme is bright orange, alternating with yellow. "We want to cheer people up," he says. "We've had a hard time the past few years."

Four years ago, the country was plunged into anarchy by the collapse of a series of pyramid savings schemes. Small savers lost more than $1 billion in the swindles, run by fraudsters posing as successful capitalists. Albania is still one of Europe's poorest countries, struggling to overcome high levels of crime and corruption.

However, Tirana is showing signs of recovery, with shiny new office and apartment buildings sprouting up alongside derelict factory sites and a flourishing café and bar scene. Visitors should try a shot of *raki*—traditional Balkan firewater—with an espresso chaser.

Rama has declared war on unauthorized building in Tirana's parks. Recently he bulldozed away more than 100 illegal cafes in the main park opposite the landmark Dajti Hotel, built in the 1930s when Albania was virtually an Italian colony. "We had to send a message that the city's green spaces belong to everyone," he says.

He's set up a design studio to work on special projects, like the new Millennium Cinema, built with a loan from the European Bank for Reconstruction and Development. Earlier this year, Tirana hosted its first biennale, an exuberant show featuring young Albanian artists, some of whom work in Paris and New York.

Rama is also working on a master plan for Tirana. The city's population has swelled from 350,000 to an estimated 750,000 over the past decade, as people flocked in from the mountainous north, putting its pre-World War II infrastructure under severe strain.

Not much has survived from Albania's half-century of self-isolation under Enver Hoxha, the ousted Stalinist dictator, though the marble pyramid-shaped building that housed his memorial museum is still standing. But a huge statue of "Mother Albania" in socialist-realist style can be seen at the Martyrs' Cemetery, a short taxi-ride from the city.

Moreover, the countryside around Tirana is littered with rows of igloo-shaped concrete *bunkere*, intended as the last line of defense against capitalist invaders.

From Tirana, it's an hour's ride to Kruja, the hilltop fortress built by Skenderbeg, a medieval warrior-hero who kept the Ottoman Turks at bay. Take a stroll through the bazaar, a cobbled street lined with craft shops and cafes. The red-tiled houses of Kruja, with their elaborate carved wooden decoration, are strikingly well preserved. And there's a spectacular view from the castle walls across green lowlands to the sandy Adriatic shoreline.

—Kerin Hope

The Albanian Riviera

Beyond Tirana, tourists looking for escape from Europe's crowded beaches will find them along Albania's self-styled "Riviera," a forty-five-mile stretch of mountainous coastline running south from Vlora to Sarande. The road—gradually being improved—twists dizzyingly above deep gorges past villages perched high among terraced vineyards and fruit trees. Take time out at Himara, a developing resort with rooms available for rent in some of the old stone houses overlooking a white sand beach and turquoise sea. Farther south, the beaches are likely to be almost deserted until you reach Sarande, Albania's most popular summer vacation spot opposite the Greek island of Corfu. (There's a daily ferry across the strait.) Head south to visit the ancient city of Butrint, now enclosed by Albania's first national park. A stroll through the ruins—tree-shaded and well maintained—takes you past a Roman-era theater and an early Christian baptistery with its columns still standing. Opposite the site entrance, the waterfront restaurant serves up a seafood feast that's not to be missed, from steamed mussels in garlic, and fried eel—fresh from the Butrint Lake—to succulent grilled octopus and sea bass. *—Kerin Hope*

BUSINESS BRIEFS

Euronext, the pan-European stock market, will launch the world's first wine futures contract on the Paris bourse in mid-September, a move that has horrified some of France's top châteaux and traditional wine traders.

Each contract, named Winefax Bordeaux, will be based on five twelve-bottle cases of one of the Bordeaux region's finest red wines—either Graves or St. Emilion.

The contracts will have a maturity of twenty-nine months, mirroring actual delivery dates in the underlying wine market. These are *primeur* wines, which are delivered in November two years after harvest, providing scope for hedging and speculation based on late summer weather conditions.

Euronext, a joint venture between the Paris, Amsterdam, and Brussels stock exchanges, says the contract is aimed at producers, traders, leading wine buyers, and financial investors. French wine professionals fear it will undermine the traditional wine trade, and several châteaux are outraged their wine is being treated like pork bellies and crude oil.

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Inward investment into the UK reached record levels for the fourth year running despite the country's exclusion from the European single currency, consolidating its position as the most popular investment location in the EU.

The number of new projects increased by 15 percent to 869 in the year to March, and the number of jobs created surged by 35 percent to nearly 72,000, according to **Invest UK**, the national inward investment agency. The stock of foreign investment was up 36 percent at $484 billion.

Opponents of British membership in the euro say the figures prove that retaining the pound will not threaten inward investment as pro-euro campaigners allege. They claim investors opt for the UK because it has lower taxes and less regulation than the twelve-nation euro zone. But William Pedder, chief executive of Invest UK, said investors saw the UK as part of the European single market. "That does imply involvement in the single currency when the economic conditions are right," he said.

The government is committed to holding a referendum on euro membership, but it faces an uphill struggle to win over the large majority in favor of retaining the pound.

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Euronews, the French-based multilingual television channel, has become the first Western media organization to deliver news through Russia's terrestrial television network, following an agreement with **RTR**, the Moscow broadcaster.

A Russian language version of Euronews will run initially on RTR reaching 10 million viewers in Moscow twelve hours a day, before being extended across Russia.

The service will be delivered from Euronews' headquarters in Lyon, France's second-largest city, where a team of Russian journalists will provide a Russian language version of Euronews output, which is broadcast to cable and satellite viewers throughout Europe. Euronews will retain editorial control.

Euronews, which already broadcasts in French, German, English, Italian, Span-

UPCOMING EVENTS

September 29–30—Annual meeting of the World Bank Group and the International Monetary Fund in Washington, DC

November 9–13—Fourth World Trade Organization ministerial in Doha, Qatar

December 14–15—EU summit in Laeken, Belgium ish, and Portuguese, was launched in 1993 by a consortium of European public service broadcasters as a European version of **CNN**. Later **ITN**, the private UK television news group, acquired a 49 percent stake in the loss-making company.

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Sanoma WSOY, the Helsinki-based media group, became Europe's fifth-largest magazine publisher after paying just more than $1 billion for the consumer magazine business of **VNU** of the Netherlands in one of the biggest foreign acquisitions by a Finnish firm.

With more than 250 titles, VNU's magazine division is the consumer market leader in the Netherlands, Belgium, Hungary, and the Czech Republic and made operating profits last year of $116.2 million on sales of $718 million.

The deal will dramatically transform Sanoma from a company that generated 92 percent of its $1.23 billion sales from Finland last year into the biggest publisher in the Nordic region with revenues of around $2.3 billion of which 41 percent will come from foreign markets.

Sanoma publishes one of the world's most successful newspapers, the *Helsingin Sanomat*, which still has an advertisement as its front page and sells 450,000 copies a day in a country with a population of just more than 5 million.

The company, which was formed in the late nineteenth century, has become a multimedia operator with interests in newspapers, including *Ilta-Sanomat*, Finland's leading tabloid, magazines, distribution, book publishing, business information, television, and cinema, all of which combined for an operating profit of $74.8 million last year.

•••

A former Oscar-winning art director on sixteen James Bond movies and on *Titanic* plans to build Europe's largest film studio to challenge Hollywood's dominance of the movie industry.

Peter Lamont says he will build the $93.7 million complex on one of four 200-acre sites in the counties of Devon or Cornwall on the English west coast. His **Full Picture Company** plans to have the studio up and running in four years. "We hope to produce five blockbusters a year. There is not enough capacity in the UK, and we will snap up all the films that (US studios have) wanted to bring over here but could not," he said.

The west coast studio is the latest initiative aimed at bolstering the UK's position as a leading film production location, especially for US studios attracted by lower operating costs and the high quality of British film crews and technicians. A record $767 million was invested in filmmaking in the UK last year, including big budget movies like *Harry Potter and the Sorcerer's Stone* and part of the Oscar-winning *Gladiator*.

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A $4 billion Anglo-German swap of assets will make **BP**, the UK's global oil company, the biggest gas station group in Germany, and accelerate the transformation of German power group **Eon** into an international multi-utility.

BP's acquisition of Eon's **Veba Oil** and its **Aral** chain of gas stations will give it a 25 percent share of the German retail market and make it the leader in all of Europe—except Italy and the Balkans—with an average 16 percent market share. Last year, Eon took over **Powergen**, the UK electricity generator, to spearhead its global expansion. Now it will acquire BP's 25.5 percent stake in **Ruhrgas**, Europe's biggest gas distributor and the largest foreign shareholder in **Gazprom** of Russia, a major gas supplier to Western Europe.

Eon, which reported first quarter sales of $19 billion, is expected to shed its interests in chemicals, silicon chips, transportation, banking, and real estate next year, when a new law allowing firms to sell stakes in other companies tax-free comes into effect, to focus on its core energy business.

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JC Decaux, the family-controlled French outdoor advertising group, and **Infinity**, a unit of US media giant **Viacom**, won a joint contract from the Los Angeles City Council worth around $750 million over twenty years.

The deal involves installing 2,500 bus shelters, 150 public toilets, as well as news kiosks and other street infrastructure in the second-largest American city. The companies also agreed to cooperate throughout California with Decaux landing San Francisco, its first major US contract, while Infinity controls outdoor advertising in San Diego.

Decaux generated only $100 million of its $1.2 billion revenues in the US last year, a figure it aims to double through organic growth within four years. It has been tipped a possible bidder for **Lamar**, a Louisiana-based billboard group that is valued at around $4 billion.

Decaux, which raised around $870 million from an initial public offering in June, is also eyeing potential targets in Italy and Germany.

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Toyota, the world's third-largest car manufacturer, is joining forces with France's **Peugeot Citroen**, Europe's second-largest car firm, to design and build a small car in Europe in the Japanese firm's most ambitious joint venture with a European manufacturer. The joint venture will be operational by 2004 and will produce up to 300,000 compact cars at a yet-to-be-decided plant in Europe.

After establishing itself in the US, Toyota is now focusing its marketing efforts on Europe where it wants to achieve a 5 percent market share by 2005 compared with 3.5 percent at present.

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Belgium's **Interbrew** , the world's second-largest brewer, paid $1.6 billion for **Beck's**, Germany's fourth-largest brewer, to gain a strong presence in Europe's largest beer market.

The acquisition of Beck's, which accounts for 30 percent of German beer exports, increases Interbrew's share of the fast growing US import market from 17 percent to 21 percent and put it within striking distance of the leading foreign shipper to the US, **Heineken** of the Netherlands. Beck's is the fourth-best-selling imported beer in the US with sales well ahead of Interbrew's top brand, **Stella Artois**. Interbrew's North American beers include **Labatt** and **Rolling Rock**.

The deal comes at a time when the major global beer giants are muscling into a German market that has so far resisted the consolidation that has reshaped the brewing business in neighboring countries. Germany, whose beer purity laws have kept foreigners at bay, still has 1,277 mostly-family breweries and the largest, **Holsten**, has barely 11 percent of the market.

In February, Heineken acquired 80 percent of **Schorghuber**, a leading Bavarian brewer that also has a stake in **CCU**, Chile's top brewer, and Interbrew bought 80 percent of **Diebels**, brewer of Diebels Alt dark beer.

—*Bruce Barnard*

EUROPE Update

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Kerin Hope reporting from Tirana

Martin Walker reporting from Washington, DC

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By Axel Krause

Italian AEROSPACE

Steering a middle course between the US and Europe

In June, the Paris Air Show featured a Beluga Airbus A300-600T cargo plane and an Ariane 5 rocket.

"The Italians in aerospace traditionally move on various fronts at the same time, but as far as we are concerned, they are not European," said a senior Airbus executive. That deliberately exaggerated claim was made during last June's biannual air show at Le Bourget near Paris by a German executive of the Airbus Industrie consortium who, declining to be identified, noted that of all the European Union's major aerospace players—the United Kingdom, France, Germany, and Spain—only Italy never joined the consortium to develop civilian Airbus planes. "The Italians usually prefer the Americans."

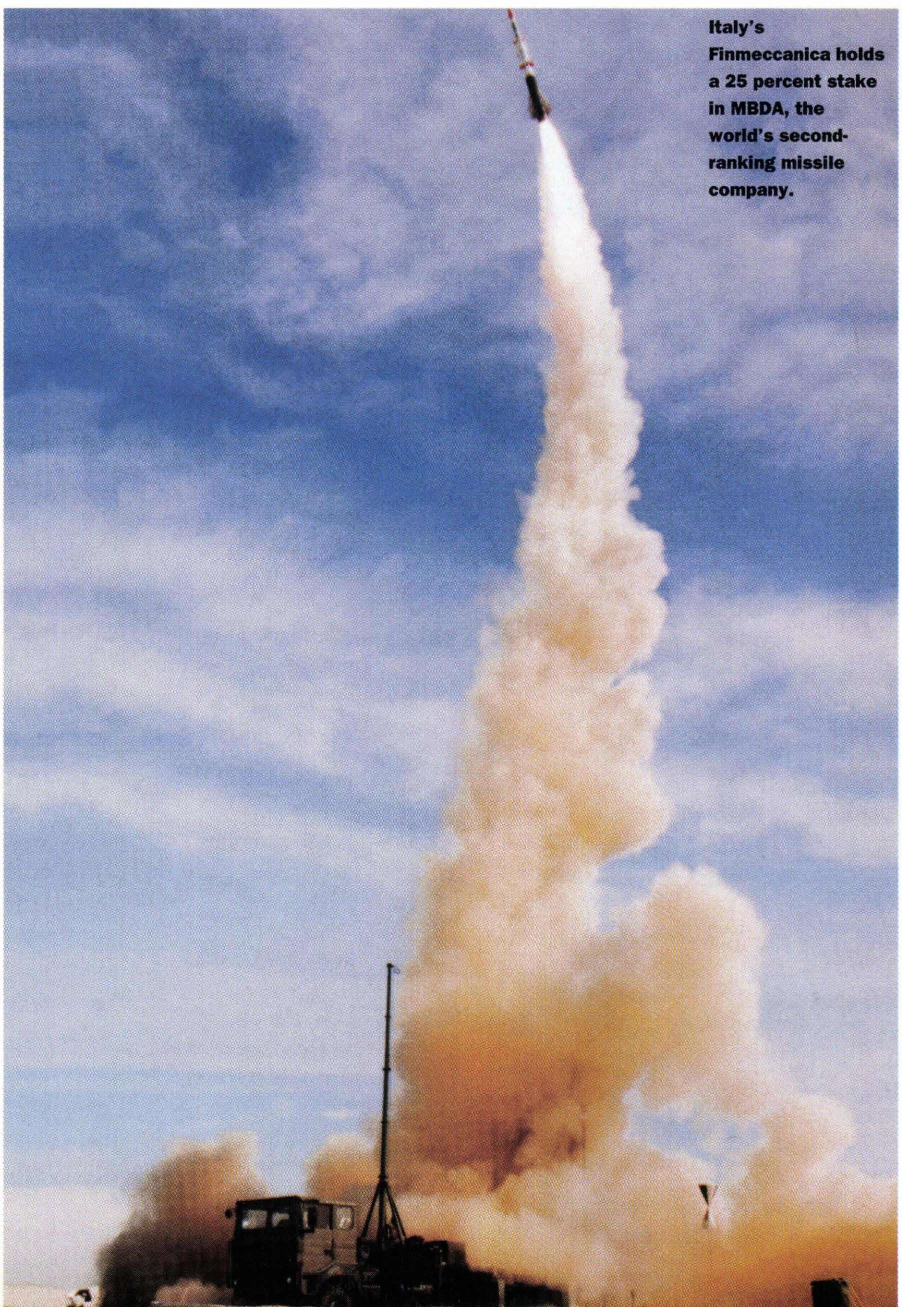
Indeed, going back to the postwar era, for political and industrial reasons, Italy's state-controlled aerospace industry, the fourth-largest in the EU, and its money-losing airline Alitalia, sought large passenger planes from Boeing and McDonnell Douglas. In return, the two US companies, which merged four years ago, subcontracted billions of dollars of parts and services from Italian suppliers.

Starting in the early 1980s, France and Germany exerted considerable pressure on Rome to "go European," with the result that today Alitalia operates and makes components for more than thirty medium-range A320s and A321s. Nevertheless, Boeing and its US allies, including engine manufacturers, overwhelmingly dominate Italy's civilian sector, thus explaining the Airbus executive's annoyance. Alitalia reports it currently operates 124 Boeing and McDonnell Douglas aircraft, and has ordered six of Boeing's new, long-range 777-300 planes.

Airbus and Alitalia executives confirmed in mid-July that Alitalia has so far expressed no interest in the Airbus jumbo jet, the A380, pending a government-led reorganization of the airline and the outcome of negotiations to develop cooperation with Air France on a worldwide basis.

However, when assessing the far larger military aircraft sector of the industry, plus the space, missile, and satellite business, the Italian aerospace picture is strikingly different. For example, in contrast to its refusal to join Airbus's creation several decades ago, Italy is taking a minority share of just less than 10 percent in the new military transport plane, the A400M, launched by Airbus at the air show by the governments of Belgium, the UK, France, Germany, Italy, Luxembourg, Portugal, Spain, and Turkey. The Italian air force intends to order sixteen of the 212 aircraft planned as part of the EU's buildup of its own military capacity.

Another example of Italian government-led involvement in European military programs is state-controlled Finmeccanica, Italy's second-largest industrial group after privately owned Fiat. Based in Rome and for several decades participating in building the European Tornado and Eurofighter combat planes, as an equal partner with German and British aerospace companies, Finmeccanica is currently holding talks to enter the EU's largest, integrated aerospace company—the European Aeronautic Defense & Space Company (EADS). Through French and German companies, EADS controls 80 percent of Airbus, with the remainder in the hands of the UK's BAE Systems.



Italy's Finmeccanica holds a 25 percent stake in MBDA, the world's second-ranking missile company.

As a first step, Finmeccanica recently merged its missile business with Matra BAE Dynamics, a French-British group owned by EADS, to create what is now the world's second-ranking missiles and military electronics company, known as MBDA. EADS and BAE Systems will each hold 37.5 percent of the venture; the Italian company 25 percent. Commenting to Bloomberg News, Philippe Mouthon a financial analyst with SG Securities in Paris, said that the three-nation group has emerged as a strong competitor to the industry's leader, Raytheon of the United States.

The company has also proposed cooperating with EADS in developing a new generation combat jet for the second half of this century that would be entirely European and compete directly with the new US Joint Strike Fighter, a $200 billion-project that will be developed for the Pentagon by either Boeing or Lockheed-Martin, currently competing for the contract.

"Our strategy is to position ourselves in a network of joint ventures in the global market," said Alberto de Benedictis, Finmeccanica's senior vice president for business development, indicating other collaborative projects may be announced by the end of the year. Supporting this strategy is Prime Minister Silvio Berlusconi, who strongly favors closer ties with European partners but is also an openly admiring supporter of fellow-conservative President George W. Bush. Berlusconi is known to be keenly interested in Bush's recent call in Brussels for a single, transatlantic marketplace in defense products.

A long-standing, controversial problem for most European aerospace com-

A mock-up of the A400M military Airbus transport plane. (bottom) Saverio Strati, CEO of Fiat Avio, the Italian company's aerospace engine division.

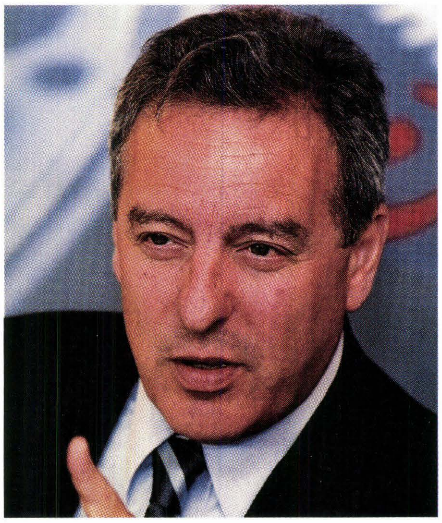
panies is that the US market for the export of sophisticated defense products is less than 5 percent of the total transatlantic flow of $37 billion in all aerospace products, including civilian Airbus and Boeing aircraft. The reasons stem from strict Pentagon and congressional-backed restrictions on importing foreign military technology. "It is a very difficult market, and as a result, we sell virtually none of our products in the United States now," said David Singleton, chief executive officer of Alenia Marconi Systems, a joint British-Italian company, one of the EU's leading missile and military electronic manufacturers and currently being merged into MBDA.

"Now that we are going into this new company and given the position of one of our major shareholders—BAE Systems—we are hopeful of selling into the US market from that established British presence in the United States," Singleton told *EUROPE*, adding that the flow could include a wide variety of Italian-made military products and technology. BAE Systems has grown to become one of the top-ten suppliers to the Pentagon, employing roughly 20,000 people in the United States, generating annual sales in North America of about $3.7 billion. "This could be a base for us," Singleton added, noting that Alenia, controlled by Finmeccanica, and Marconi operate a dozen industrial sites in Italy and the UK.

Understandably, given the complexities of such transatlantic links and strategies, Italian aerospace executives become irritated about allegations that they are not Europe-minded. "This idea that we are not European is simply false," says Saverio Strati, chief executive officer of FiatAvio, the aerospace engine division of the Turin-based Fiat Group. "European cooperation can't be built on ideology. We are not French," Strati told *EUROPE* at the air show. What this means, according to many of the other forty-odd Italian companies at the show, is that the Italian aerospace industry will continue steering a middle course in transatlantic relations.

FiatAvio already has participated in engine-making partnerships and joint programs with General Electric and Pratt & Whitney of the United States and recently announced it was taking an 8 percent shareholding in the European consortium building the turbo-prop engines for the A400M. The UK's Rolls-Royce, France's SNECMA, and Germany's MTU each hold 24.8 percent; Spain's ITP group 13.6 percent; and Belgium's Techspace Aero 4 percent.

And after a decade of discussions, FiatAvio recently was given the green light by the Paris-based European Space Agency to become the prime contractor for building a new, light space launcher, known as Vega. It would complement ESA's far heavier, more powerful Ariane launchers and



will be designed for launching Earth observation and scientific satellites for civilian missions. Many details, including financing and involving additional partners, will be settled in coming weeks, prior to the first flight scheduled for the end of 2005.

"We will continue looking at European ventures, but we also intend to maintain our good relations with GE and Pratt," said Strati, who joined the Fiat group as an engineer twenty-six years ago and has spent the past decade in the aerospace division. "Europe for us is not philosophy. It is about being pragmatic." ⓔ

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

European entrepreneurs complain that they face a daunting maze of regulations and seemingly endless paperwork when starting a business.

EUROPE'S Entrepreneurs

Taking an interesting turn

By Ariane Sains

The water sloshing over Arne Östlin's rubber boots as he hoses down the floor of the fish smokehouse that bears his name flows almost as fast as Östlin's stream of invective about the forms he has to file to meet European Union requirements for keeping his small business in the southern corner of northern Sweden operating. It is, feels Östlin, not easy to be an entrepreneur in Europe.

Östlin's is a family business, now into its third generation. Until dot-com mania started sweeping Europe, family operations were the entrepreneurial mainstay, along with the inventors who were able to patent unique products and develop companies based on them or sell the patents at high prices.

But often in Europe, entrepreneur has been a dirty word. Entrepreneurs are looked at askance, with questions raised about whether they're actually running businesses or creating tax dodges. That attitude has been reinforced by the fact that immigrants are often the ones who start businesses, and they may already be considered outside the mainstream.

In many countries, there has been little incentive or support for Europeans to strike out on their own. For one thing, the strength of unions—both blue and white collar—in countries such as Germany and Sweden has meant powerful job security, good wages, and a variety of other benefits. As a result, Europeans tended to choose corporate or industrial employment over self-employment.

Tax regulations, even more cumbersome than those for self-employed people in the United States, also discourage entrepreneurs. Bankruptcy laws tend to be much less flexible than in the US and, even in countries where the laws have been liberalized, bankruptcy still carries a heavy stigma. In Germany, for instance, "Bankruptcy is generally not accepted. A bankrupt entrepreneur will have enormous difficulties to find a new investor or get official permits," note Arthur Andersen and the entrepreneur organization GrowthPlus in their joint report *Not Just Peanuts* published last year.

Stringent labor laws, including months-long notice before employees can be laid off and stiff compensation requirements, are also hard on small business owners. Many are reluctant to take on new employees because of what it would cost to get rid of workers if business falls off. That, in turn, makes it tough to start a business and, even more, to expand one.

And, once started, the amount of paperwork a small business owner faces can be defeating. In some cases, entrepreneurs such as Östlin are forced to file the same information twice—once in their home country and once in Brussels. Most don't have the time and find it difficult to keep track of what the EU requires.

Entrepreneurship Facts and Figures

The UK allows small and medium-sized companies to deduct 150 percent of certain research and development costs, which helps foster startups. Austria allows a 25 percent deduction; Italy gives a tax credit for R&D costs associated with new products or industrial processes.

- Small and medium-sized businesses play a significantly greater role in funding research and development in smaller countries, led by Ireland where 83.3 percent of R&D money comes from this source.
- The EU has 5.3 researchers per thousand people compared with 9.3 in Japan and 8.1 in the United States. Finland has the greatest number of researchers, and Ireland fewer than average, but both countries are the most active in the EU when it comes to increasing the numbers.
- About 25 percent of the EU's innovative startup companies cooperate with other companies, universities, or public research centers.
- The average tax rate in Western Europe on corporate income of €1 million ($881,000) is 36 percent. Sweden and the UK are below average, with 28 percent and 30 percent respectively, while Italy tops the list at 41 percent.
- The Netherlands offers the best stock option plans and other types of incentives to encourage people to take chances on starting companies or joining startups.
- Except for the UK and the Netherlands, most European countries have harsher bankruptcy laws for businesses and individuals than the US does.
- Minimum share capital requirements for new, private limited liability companies vary widely in Europe, from less than €1 in the UK to €35,000 in Austria. For public companies, the range is between €50,000 in the UK and €230,000 in Italy.
- The length of notice required for laying off workers in Europe is generally much longer than in the US, ranging from one month to six months, under general law. Unions often negotiate even longer periods, based on age, job seniority, and special qualifications.

Sources: *Not Just Peanuts*, study by Arthur Andersen and GrowthPlus, and *Key Figures 2001: Indicators for Benchmarking of National Research Policies*, European Commission.

Despite the EU's open borders, the problem is compounded if a company wants to do business outside its home country. "We would be able to grow much faster if there was one set of rules and regulations across the EU member states," says Jelle Boelen director of the VITAE Group, a Dutch employment company.

Corentin de Tregomain, who founded Glaxidon, a French Internet site for buying and selling rare books, says that the bureaucracy in his country makes it hard for French entrepreneurs to establish themselves and compete. "Being an entrepreneur (in France) is a hassle. There is so much red tape, much more so than anywhere else. You spend more time setting up a company here than in the UK."

For those who want to start and expand a business, both bank loans and venture capital have been notoriously difficult to find. Instead, many small businesses are started with loans from friends and family. Although the proliferation of dot-com and information technology startups throughout Europe to some degree has changed that, the European venture capital industry is still greatly underdeveloped compared with its US counterpart.

Beyond that, entrepreneurs want tax and labor laws harmonized to give them a boost, and they want European countries to lighten up on regulations governing stock options and other incentives that help attract top management to the larger startups that eventually hope to go public or to expand, note the authors of *Not Just Peanuts*.

"We would be able to grow much faster if there was one set of rules and regulations across the EU member states."

European entrepreneurship is apt to take an interesting turn when the thirteen countries now negotiating membership join the Union. Entrepreneurs have been springing up in Eastern and Central Europe, and the former Soviet Union, either starting companies from scratch or taking over formerly state-owned enterprises. Women are also starting to play an entrepreneurial role in those countries. In many cases, because prices have increased dramatically, they have to earn money for the first time and have no job market skills. But they can sew, knit, or do other kinds of handicraft. As a result, networks are forming between East and West to help women develop businesses. The Women Entrepreneurs Association of Bosnia and Herzegovina, for instance, was founded in 1998 with the help of the Italian Association of Women Business Owners and managers, with EU funding.

Entrepreneurship has also been fueled in countries such as Finland, Sweden, and Ireland by the high-tech boom. Both Nokia and Ericsson have venture capital funds to help develop technologies and components that could improve their mobile phones and switching systems.

In Ireland, about 11,000 of the 24,000 people employed in the software business are employed by startups, says IDA Ireland, the state agency that recruits foreign investors. Unlike the Irish farmers who relied on EU subsidies to run their businesses, the software companies are largely funded by private venture capital, making Ireland one example of a country where the venture capital system does work.

But not all traditional entrepreneurs are looking for something from the EU—on the contrary. Arne Östlin says he wants to see fewer envelopes from Brussels in his mailbox. That, he says, would be a welcome sign that the bureaucracy for European entrepreneurs is on the decline.

Ariane Sains is EUROPE*'s Stockholm correspondent.*

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French Enterprise

Finding the will, as well as the way

By John Andrews

Shock, horror, and even humiliation: the latest figures show that California, with its 32 million residents, has overtaken the nation of France, with its 59 million citizens, as the world's fifth-largest economy. How can this be, when the French are so productive (admittedly not as much as Americans, but at least 20 percent better than the British just across the English Channel) and generally so well educated? After all, depending on the fluctuations of the foreign exchanges among the nations of the world, France is normally the fourth-biggest exporter of goods; the third-largest manufacturer; the fourth-largest producer of services; and by a long way, the favorite destination for foreign tourists. What is going wrong?

One explanation is, of course, the strength of the dollar against the euro over the past year and more. But a lot of unblinkered French economists and politicians, and not just Thatcher-style economic liberals, such as Alain Madelin, head of the Démocratie Liberale party, think there are two other, much more fundamental, causes.

The first is a dauntingly complex, incentive-stifling system of taxation, social charges, and employment legislation. Payroll taxes, for example, are about three times higher than in the US; personal income tax is geared to punish high-earners (half of all households pay none, thanks to various allowances; the top tenth pay through the nose); and corporate tax rates, among the highest among the member countries of the Organization for Economic Cooperation and Development (OECD), can go as high as 40 percent. Moreover, legislation to protect workers means is it expensive not only to hire workers but also to fire them.

The result is a lot of pain for would-be and actual entrepreneurs. Marie Simoni, a young stained-glass artist working in the Vaucluse, wants to register as a "micro-business," but she finds the paperwork impossible to fathom. Alexandre Mars, a venture capitalist in Internet startups, prefers to work without any office backup to encumber him, relying instead on his mobile phone, his computer, and the offices of his startups. François Dufour, successful publisher of three newspapers for children, bemoans the rigidity of French labor laws—and adds that in terms of job satisfaction he was at his happiest when the printers went on strike and he and a couple of colleagues had to bring the papers out themselves.

Unhappily, those experiences are hardly atypical. A recent OECD study concluded that France has more administrative regulations than any other OECD country and that only Italy had more barriers to entrepreneurship. Indeed so: It takes on average almost four months to register a company in France, and, once registered, there are a further ten to twenty-one administrative hurdles to be surmounted, compared with a maximum of eight in Germany, four in the UK, and two in the United States. Not surprisingly, therefore, France regularly fares badly in the ranks of the world's entrepreneurs. A report by the Global Entrepreneurship Monitor, gauging entrepreneurial activity by the number of adults working in new firms, gave France a rating of two (interestingly, Ireland fared worse, with a rating of just one), compared with five for the UK, eight for Norway, and thirteen for the United States.

And the second cause for France's lack of entrepreneurial zeal? It must, surely, be a matter of culture. Whereas the "Anglo-Saxons," as the French inaccurately label the English-speaking world of America and the UK, tend to think the state should have as little role as possible in their lives, the French think otherwise: The state is to be respected, even venerated, because the role of the state is to preserve the nation and protect its citizens. The result is that France's public sector is enormous and its civil service, representing a quarter of the workforce, is proportionately the largest in the OECD outside the Nordic countries. In other words, it is not a culture that breeds entrepreneurs. The best and the brightest do not, like Bill Gates, drop out of university to found a software company; in-

It takes on average almost four months to register a company in France, which is only the beginning of the red tape French entrepreneurs have to sort through.

Perhaps the culture is indeed changing. One sign is that students at ENA are increasingly taking as their role model not *énarques* such as Prime Minister Lionel Jospin but rather Jean-Marie Messier, boss of Vivendi and a striking example of how a product of traditional France can become a globe-trotting, America-conquering (witness the purchase of Universal Studios) entrepreneur. A second sign is the government is making belated efforts to simplify business legislation in order to encourage new companies. But the third, and most encouraging, sign is the change in public attitudes toward entrepreneurship. In 1992, some 6 million French people were attracted by the idea of starting their own business; today, the figure has more than doubled. Surely, those millions must include someone who will be able to emulate America's Bill Gates or the UK's Richard Branson.

In the meantime, however, there is just one caveat to bear in mind. From January 1, even the smallest French business will have to limit its employees to the shorter working week of just thirty-five-hours—not exactly conducive to entrepreneurial zeal. In other words, don't bet on France catching up with California (the state motto is an inventive "eureka") any time soon.

stead, they go to the elite Ecole Nationale d'Administration (ENA) and then, as *énarque* graduates, into government service.

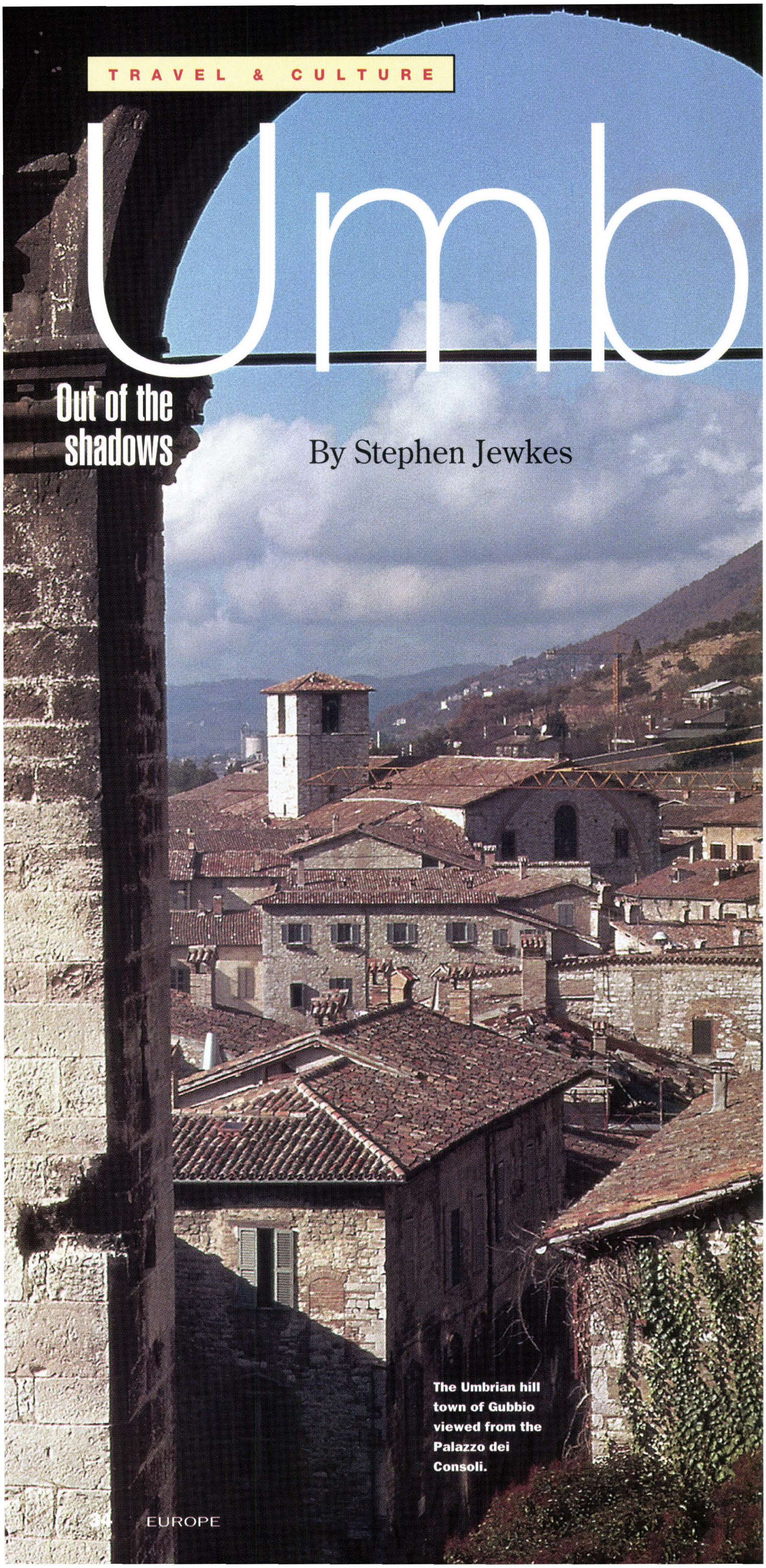
The big question is whether the culture will change. Arguably, it will have to. In a global economy, France's intellectual assets—including its would-be entrepreneurs—are mobile. Already more than 100,000 young French men and women are said to be working in London, and scores of French-owned companies have set up in business friendly southeast England. Moreover, the pressure of the European Union's single market and the restrictions on state-aids mean that French business can no longer hide behind protectionist walls.

John Andrews is the Paris bureau chief for the Economist *and a contributing editor for* EUROPE.

Umbria

Out of the shadows

By Stephen Jewkes



The Umbrian hill town of Gubbio viewed from the Palazzo dei Consoli.

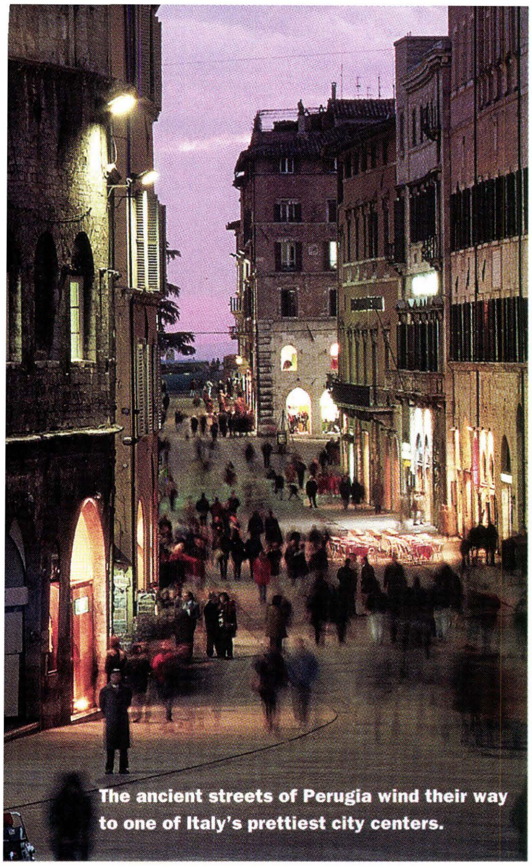
Think of Umbria and you might be forgiven for thinking of *ombra*, shadows. There's a lot in parallel. The relative obscurity of the region, the shadows of the Umbrian hills, the shade cast by its more illustrious neighbor Tuscany, and, above all, the history.

Umbria has seen three millennia pass across its lands. Prehistoric remains reveal a human presence dating back to Paleolithic and Neolithic times. The first settlements grew up around 1000 BC when the Oscan-Umbrian tribes started to arrive. It was they who probably gave their name to the region (though the ancient historian Pliny cites a Greek legend indicating "Imber," or torrential rain, as the origin). Influenced by their powerful Etruscan neighbors the Osco-Umbrians seem to have had an advanced civilization though once again the truth is clouded in the mists of time.

The Roman Empire brought all the towns of Umbria under Rome rule. Today you can still see many remains bearing witness to the Roman period: in Perugia, Assisi, Foligno, Gubbio, Todi, Spoleto, Narni, and Terni as well as other minor centers around Sangemini. There are also numerous Roman villas scattered over the whole region, including that of Pliny the Younger, near Città di Castello.

Umbria is the geographical heart of Italy. East of Tuscany, north of Rome, and west of the Marches, Umbria is the calf muscle inside the Italian boot. This land-locked region, home to Italy's fourth-largest lake, Trasimeno, has a distinctly Middle Ages feel about it—the walled towns, the hilltop castles and fortresses, the watchtowers.

Perugia is the Umbrian capital. Founded by the Etruscans, you can



The ancient streets of Perugia wind their way to one of Italy's prettiest city centers.

still today follow an authentic Etruscan itinerary through the underground tombs of the Volumni, San Manno, and the Cutu. In 295 BC, the city was finally conquered by Rome before being burned by the emperor Octavian in 41–40 BC. A lot has changed since then.

Today, Perugia has one of the prettiest squares in Italy, with Giovanni Pisano's Fontana Maggiore (1275–78) in the middle, and the Palazzo dei Priori (1293–1443) and the Cathedral (1345–1490) at either side. In the Collegio del Cambio, you'll see the frescoes of Perugino, while the paintings in the Galleria Nazionale will give you a glimpse of the landscape painting the fifteenth century Umbrian school was famous for. And if you're around between July 13–22 check out Umbria Jazz, Europe's biggest jazz festival.

If it's churches you're after, take the trail south to Spoleto stopping first at Assisi and Orvieto. Assisi's Basilica di San Francesco is as huge and imposing as St. Francis was poor and humble. Its walls were frescoed by a young Giotto with scenes from the life of Francis, born here in 1181 and buried in the crypt. On top of the hill outside the city, the Rocca Maggiore castle affords a perfect view of the Tiber Valley, the area Francis loved to walk when striding out for the convent of S. Damiano, the Eremo delle Carceri, and the basilica of Santa Maria degli Angeli.

Further down the road lies Orvieto. Its magnificent Santa Maria cathedral, which took centuries to build, is considered one of the best examples of Gothic architecture in Italy. No one quite knows who the architect was—perhaps an obscure monk Fra Bevignate da Perugia, perhaps the great Florentine builder Arnolfo di Cambio. One thing's for sure, see it at noon, and it will take your breath away. And if the light gets too bright, go inside and see the work by Luca Signorelli and Fra Angelico.

Spoleto, venue of the Festival of Two Worlds, has been a cultural center for centuries. From the road you can't miss the Rocca Albornoz, a gloomy medieval castle, which looks anything but Italian. Once inside the town, the cathedral of Santa Maria Assunta is a must, with its terracotta paving, symmetrical bell tower, and golden Byzantine mosaic. Inside are frescoes by Fra Filippo Lippi, possibly the inspiration for Michelangelo's Sistine Chapel.

For many, Umbria's favorite hill town is Gubbio, or Eugubium to give it its Roman name. In the tower of Palazzo dei Consoli, you'll find the Tavole Eugubine, the seven bronze plates written between 300–100 BC, half in Etruscan, half in Latin, and the most important document of Umbrian civilization. Elsewhere, the Roman baths, theater, and mausoleum all bear witness to the importance of Eugubium in Roman times, while if you're in town in May, watch out for the famous Festival of the Ceri, one of the oldest Italian folklore displays.

Just twenty miles from Perugia is Montefalco. This little hill town has existed since Roman times when it was known as Coccorone (today the name of a delightful restaurant). Stepping past its ancient walls is like walking through a time warp. Because of its vantage point affording a panoramic view of the Umbrian landscape, it is known as *La Ringhiera d'Umbria* (the Balcony of Umbria). The star attraction here is the Museo Civico di San Francesco.

But Montefalco is also famous for Sagrantino, the full-bodied red wine at the top of many a connoisseur's list. And if it's good food and wines you're after, then not far away is Torgiano. This plain-looking hilltop town is a veritable treasure trove for the culinary minded. Where the vineyards start you'll find the hotel Le Tre Vesselle, which houses one of Italy's most renowned restaurants. A short walk from the hotel is the Museum of Wine, and just outside the town is one of the country's most famous wineries. Here, you'll be able to taste the big red wine Rubesco and the white Torre di Giano. ⓔ

Umbria's jazz festival, Europe's biggest, attracts a range of musicians from all over the world.

CAPITALS

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

As economists, politicians, and investment gurus busily forecast and debate Europe's fiscal future, we decided to visit the frontlines of the business world. Certainly, there is no better vantage point than through the eyes of the people who build the companies that create jobs and drive economic growth. We, therefore, asked each of our Capitals correspondents to search out entrepreneurs in their respective countries and describe their successes and failures and their outlook on the challenges facing their businesses.

LONDON

DUNSTONE HAS YOUR NUMBER

"If we don't look after the customer... somebody else will" reads rule one on the back of the business card of Charles Dunstone, founder of Carphone Warehouse, Europe's leading retailer of mobile telephones. CPW, which he founded in 1989 at the age of twenty-five with savings of $10,000, has more than 1,000 branches throughout the continent today and is still growing.

"If you want to make it as an entrepreneur, you have to gamble and leap," says the chubby and extremely personable Dunstone. "When someone puts an obstruction in front of you, you think 'no, I'm not going to take it. I'm going to find a way around'."

This approach has worked beyond his wildest dreams. What began as "just a crazy scheme to have a few shops, twelve at most" is now a multinational operating in fifteen countries Europe-wide offering independent, impartial advice, including no-nonsense leaflets on health hazards, managing costs, and explaining WAP. The company was floated on the London Stock Exchange last year with a market cap of some $2.5 billion.

Dunstone is a marketing whiz, a gregarious man who trades on charm and honesty and backs it up with a phenomenal memory and good technical ability. All this emerged early. While at school he made his first entrepreneurial moves selling cigarette lighters and other items bought from trade magazines and sold to other students, with a 100 percent mark up.

Opting for a year out before going to Liverpool University to do business studies, Dunstone got a job with NEC selling mobile phones to corporate clients. By the end of the year, he was having too much fun to go to college. "I was never much of an academic person, and I was impatient to get going," he says.

Boy did he ever get going. Spotting a niche in the demand for mobiles from the self-employed, Dunstone decided to open a shop specializing in mobile phones. The myriad options and tariffs presented by different mobile operators gave him the idea of offering confused customers independent and impartial advice on the right phone and package for them.

"We were all twenty-five years old, none of us had run a business, and none of us had worked in retail," says Dunstone, "you can't get a humbler start." In reality, his background is far from humble. He comes from a business-rich background. His father was a senior executive at British Petroleum (BP), and his grandfather was a major figure in London's financial world.

Dunstone is very good at sensing what customers and employees want. "It's all based around team spirit and a sense of equality," says David Ross, his old school chum and now CPW's chief operating officer and financial guru who Dunstone lured away from Arthur Andersen to join his little startup in 1991. "Everyone at AA thought he was nuts to join me," laughs Dunstone.

Does Dunstone offer any other clues to entrepreneurial success? "You've got to continue to deliver and exceed people's expectations. It requires you to be continually inventive." Others mention that it also helps if, like Dunstone, you are also brilliant, hard working, and committed.

—David Lennon

BERLIN

MULTIMEDIA POPE

Last year a jury of renowned business leaders named Peter Kabel Germany's "Entrepreneur of the Year." His company, Kabel New Media, was growing at a spectacular pace. With 800 employees and annual sales of €40 million ($35 million), it qualified as Germany's biggest Internet media agency. The company was expanding internationally, opening offices in the US, and snapping up smaller firms at a rate of one a month. Peter Kabel was lionized as a "visionary," Germany's "multimedia pope." Captains of industry sought his council; politicians curried his favor.

That was last year. Now, Peter Kabel is busy explaining to employees and shareholders what went wrong. After assuring investors in February that the company would reach profitability by year's end, Kabel filed for bankruptcy in July. The brightest star in Germany's new economy firmament had been swallowed by a black hole. Peter Kabel, not yet forty, had become the country's most prominent business failure. *Manager Magazine* called him a "fallen angel."

The demise of Kabel New Media parallels the experience of many high-tech entrepreneurs in Germany over the last six months. The country's information technology sector, like that of the United States, has been devastated. Companies that expanded fast with little or no cash base have been hit hardest. And there were a lot of them. Venture capitalists were throwing money at anybody with a computer and a plausible business plan.

Peter Kabel led an army of entrepreneurial pioneers in finding out just how generous Germany's capital markets could be. The best place on the continent to raise money was Frankfurt's Neuer Markt, a tech-heavy bourse for "growth" stocks modeled on New York's Nasdaq. The Neuer Markt provided ideal conditions for a speedy IPO. CEOs were tripping over each other in a mad rush to take their companies to market. Investors duly followed.

In June of 1999, Kabel New Media floated shares on Frankfurt's Neuer Markt at a price of just more than $5.26. Eight months later, the company's share price had risen to $72. That gave Kabel New Media a market capitalization of $526 million, a sum that inspired confidence—and an ill-timed spending spree.

A year later, following a series of costly acquisitions, the company's share price had plummeted. Neither its services nor its stock were in demand. The company ended its fiscal year in March 2001 with a loss of $100 million—twice the amount of its market value. By July, Kabel New Media's share price had fallen to less than 44 cents. With no takeover offers in sight, bankruptcy was the next logical step.

The example of Kabel New Media has struck fear into the hearts of other would-be Internet entrepreneurs. The precipitous decline of share prices on the Neuer Markt as a whole has discouraged business startups across the board. Taking the number of IPOs as one measure of entrepreneurial activity, Frankfurt offers a sobering assessment. Whereas 139 companies floated on the Neuer Markt in 1999 and 137 did so last year, only twelve attempted a launch in the first half of 2000. Fewer than ten are expected the rest of the year.

In the IT sector, it's a time of what financial analysts call "consolidation." Investors—institutional and private—are licking their wounds and putting what money they have left into more conservative financial instruments such as bonds. Of course, the unspectacular "old" economy keeps chugging along its well-worn cyclical path. It might not be a bad time for Peter Kabel to pursue another dream he talks about in quieter moments: running a luxury hotel, perhaps in Spain.

—Terry Martin

PARIS

LESSONS OF SEDUCTION

The 2001 Veuve Clicquot award for French businesswoman of the year went to Ann-Charlotte Pasquier, who makes a lucrative living out of teaching French women the art of seduction. A harem of sublime creatures have worked for her, wearing barely more than their own flawless skin, which they flaunt in full view of the public, at bus stops all over France.

Before eyebrows start being raised at the looseness of French morals and snide comments are made on how only France would hand out a prize for being in the "oldest" profession in the world, let me quickly state that Madame Pasquier is CEO of the highly respectable luxury lingerie company, Aubade.

It is a family business, which her father ran on his own for many years, before she and her cousin Anne joined the firm in 1987. Aubade specializes in the kind of colorful, frothy, and costly little bits of nothing that are really too beautiful to cover up with clothes, and it has always played on the theme of seduction to sell its products.

Since the 1970s it has run arty ads using black-and-white photographs, with only the gorgeous figure, not the face, of the model visible, both to give women a chance to identify with those heavenly bodies and to avoid having to pay reproduction rights. By the time Ann-Charlotte and her cousin came onboard, Aubade had acquired a little administrative flab. "It had a lot of potential," says Ann-Charlotte, "but my father had maybe waited for his children a little too long, and he did almost everything single-handedly. When sales reached $12 million, he couldn't cope with everything anymore."

Armed with a degree in economics and finance, followed by graduate studies at the French Fashion Institute, she first gave the company a trimmer, more cost-efficient structure and then started planning a new advertising campaign. The first "Lessons of Seduction" posters and magazine ads appeared in 1991. The format is always the same, deceptively simple and irresistible: a divine female body photographed in black and white, either facing or turned away from the camera, the luscious curves of breasts and/or buttocks accentuated by some delicate lingerie confection. The only text featured is the headline "Aubade—lingerie for women" and a short, flirtatious caption, such as "Intoxicate him a little (lesson no. 1)."

Ann-Charlotte Pasquier deals in the art of seduction as CEO of Aubade, the French luxury lingerie company.

Originally conceived to run for three years, already an eternity for any ad campaign, the "Lessons," now forty in number, have been seducing the French for a decade. Aubade's sales have tripled in that time and are predicted to reach $40 million this year. The hugely successful advertising campaign, restricted as it is to billboards and magazines, only costs $1.3 million a year. With a relatively small, very specific target audience, the company has never bothered to advertise on television, because Ann-Charlotte, who took over as CEO in 1998, agrees with her father. "He often said that advertising on television was like using a bazooka to kill a fly."

Aubade has recently crossed the Atlantic and teamed up with Saks to sell its lingerie in about forty stores in the States. Ten years ago, claims Ann-Charlotte, the American market was not ready for a brand of underwear that concentrates more on sensual pleasure than anything as mundane as basic cover and support.

Now, however, she is delighted to see how sophisticated American women have become. On a recent trip to New York, she says, "The American women I saw on the streets were more French than French women! By that I mean they were elegant, feminine; they wore sexy little shoes, low-waisted skirts with a hint of thong showing—in short, their attitude to fashion is now closer to ours in Europe."

With the "Lessons of Seduction" now being taught in ten countries, Ann-Charlotte has developed a few spinoffs to capitalize on Aubade's tremendous visual appeal. For male admirers of Aubade, who are still rather shy about actually buying lingerie, an easier-to-acquire calendar and a desk diary have been produced, and all forty lessons can be downloaded from the Web site (www.aubade.com) as a tantalizing screensaver.

Level-headed businesswoman that she is, Ann-Charlotte realizes only too well that all seductions, no matter how potent, come to an end someday and that she will have to find new ways of captivating customers. But for the time being, the Aubade fan club still keeps on growing with every new lesson dispensed by its voluptuous teachers. "At some point, a label takes on a different value, becomes a kind of reference or standard, a bit like Dior or Hermes, for example," observes Ann-Charlotte. "That's what I'm trying to do with Aubade, all the while staying young and fresh but keeping the same framework. I just hope and pray it lasts."

The business prize she won this year was named after the young widow of François Clicquot, who took over her husband's champagne firm after his untimely death in 1805 and against all the odds turned it into one of the world's most prestigious Champagne houses. Two centuries separate the two women, but both Madame Clicquot and Madame Pasquier have excelled at injecting some heady fizz into the generally dry and sober world of business.

—Ester Laushway

LUXEMBOURG

FINDING GOLD IN JOBS

Our Luxembourg entrepreneur of the year award this year goes jointly to two men—Pol Wirtz and Yves Meijer—who've shown that no matter how small you are, if you're bold and sharp enough, you can take on the biggest names in the business and beat them at their own game. Sounds a bit like Luxembourg itself.

Wirtz, fifty-five, and Meijer, thirty, have been leading players in the executive search business in Luxembourg for several years. Pol Wirtz and Partners, started by Wirtz in the early 1980s, is one of Luxembourg's leading recruitment companies and the only purely local one in that it does not have its headquarters in another country.

Until recently, the big problem in this business in Luxembourg was that a business was forced to use a monopoly media outlet for its job advertisements—the dominant *Luxembourger Wort* newspaper and in particular its Saturday edition devoted to job advertising. "We were paying considerable sums of money to the *Wort*. About two years ago, we thought that we might just as well do it on our own, and that was the start of it," recalls Meijer.

The two men, both Luxembourgers, formed a new corporation to publish a weekly newspaper devoted exclusively to employment matters and called, simply, *Jobs*.

The first issue, a mix of recruitment advertising and editorial matter on job-related matters, was an instant success when it appeared last November, and the publication has since gone from strength to strength.

"We're very, very satisfied with how it's evolved since last year. The response is clearly positive. We've taken a considerable market share of recruitment communication in a very short time," Meijer told *EUROPE*.

Some estimates say *Jobs* has already captured 30 percent of job advertising, but perhaps the best indicator of the new publication's success is that the *Wort* has started adopting the strategies initiated by its brash new rival.

"We're very small and young and all our staff are dynamic, flexible, and proactive. We go out to satisfy our customers' needs and that was not always the case before," says Meijer. You get the impression that, like so many monopolies, the *Wort* had come to take its customers for granted, just waiting for the advertisers to show up rather than actively courting them.

Jobs editor Claude Karger says that after its encouraging start the magazine now aims to become a specialized information platform that includes every player in the employment market in Luxembourg and the greater region of Saar-Lor-Lux-Wallonie. This area spreads into France, Germany, and Belgium so that a significant proportion of *Jobs'* circulation of 20,000 is through newsstands and other outlets in cities in neighboring countries.

This is important because of Luxembourg's peculiar employment pattern. Out of a population of 420,000, some 200,000 people hold jobs.

This remarkable figure is explained by the fact that a third of the workers are so-called *frontaliers*, who travel in every day across the borders, lured by the relatively high salaries and moderate taxes in Luxembourg.

Jobs' decision to engage with the labor market in the three neighboring countries is at least partly responsible for its success and one of the initiatives that is now being belatedly followed by the *Wort*.

Editorial matter in *Jobs* covers issues like national employment policy, training, education, employment law, health, and security at work, stress management, and issues related to human resources management, including salary packages, says Karger. Each issue of the magazine carries articles in French and German, with some in English. The banking-finance industry, which employs approximately 30,000 people, is the single biggest customer.

The *Wort* may have taken an early hammering from its new young rival, but it is not about to be displaced as Luxembourg's leading newspaper. "Our target is different from the *Wort*'s; we are specialized, and we want to stay specialized in covering news about the Luxembourg labor market. We have no axe to grind. We simply separate what needs to be separated," says Meijer.

—Alan Osborn

THE HAGUE

KPN'S CHAIRMAN FACES TELECOM PLUNGE

It's an understatement to say that Paul Smits is having a hard time. The chief executive of KPN is fighting for the survival of his company, once the Dutch state monopoly of telephone and postal services, now one of the foremost examples of the crisis in the international telecommunications business. This summer, the share price of KPN hit bottom and was even lower than in 1994, when the Dutch government floated the first of its shares with a generous rebate for private shareholders. Subsequently, KPN became a popular stock for small investors and did quite well. Until the middle of last year, that is. Since then, the share price has spiraled downward 80 percent.

Early last year, when Smits, fifty-four, took over from Wim Dik, who was the boss of KPN for twelve years, the Internet and telecommunications were red hot. Dik had presided over the transformation of a slow, bureaucratic state company into a commercial private business. The postal services had been separated and KPN (Royal PTT Netherlands) was poised to grow into an international player. But Dik had largely overstretched the financial possibilities of KPN. His successor has to cope with corporate debts of more than $22 billion.

These debts were largely due to the costly takeover of E Plus, a German mobile phone company and the bidding frenzy that drove prices to startling levels at the auctions for the UMTS frequencies for the next generation of interactive mobile phones. Particularly in Germany, KPN was forced to pay far more than it had envisaged to acquire an UMTS frequency. The effect is all the same: KNP, one-third of which is still government-owned, is burdened by debts and is struggling to find a way out of this quagmire.

An electronic engineer by training, Smits began his career at a small computer firm and subsequently became the city of Rotterdam's head of automation. In 1983, he moved to PTT, where he was responsible for the state-owned company's automation processes. After some years, he became the deputy manager of PTT Telecom, which changed its name to KPN in 1994 when the first round of shares was sold to the public. In 1996, he became a member of the board, and last year, Smits succeed Dik at the helm of KPN.

In his first year on the job, everything that could go wrong has. Worldwide, the Internet and telecom hype has been deflated. At the last minute, KPN's Hong Kong partner withdrew from the auction for the German UMTS frequency—leaving KPN to pony up the full price on its own. A takeover of KPN by the larger Spanish Telefónica foundered. An attempt to buy Endemol, the highly successful Dutch entertainment company, failed. Endemol, ironically, was taken over by Telefónica. However, undoubtedly the worst blow proved to be the collapse of confidence in KPN in the first half this year. The company is looking desperately for ways to sell assets and a partner to merge with.

Despite all these setbacks, Smits is generally acclaimed to be the right person at the right time at the job. He is quiet, calm, and unpretentious. Although he lacks his predecessor's aggressive communication skills, he is also refreshingly free of the former chairman's braggadocio. Within the company, his 'normalness' is hailed. In his spare time, he likes rowing. He keeps animals at the country house he lives in and is passionately dedicated to Feyenoord, the soccer club of his native Rotterdam. These diversions may give him joy but otherwise do little to alleviate the current problems of the telecommunication revolution that have almost stranded KPN.

—Roel Janssen

Carlos Quintas has brought a measure of Silicon Valley's entrepreneurial zeal to his Lisbon-based Altitude Software.

LISBON

ALTITUDE SOFTWARE FIGHTS TO STAY ALOFT

Portugal has a higher than average proportion of small businesses than the EU average, but vast numbers of those are corner cafés, tobacconists, and the like. There is a notorious lack of risk capital for anything more visionary. While bank loans provide the bulk of funding for all but the largest businesses—the stock market is still not an option for most companies—Portuguese bankers tend to play very safe.

One exception to the apparent dearth of entrepreneurial success stories in Portugal is Lisbon-based Altitude Software. Over the past six years, it has established itself as a leader in "software solutions for electronic customer relationship management"—in other words, contact center technology embracing telephone and electronic communications.

Altitude was recently named by Web magazine *Tornado Insider* as one of the top 100 emerging European private technology companies. The panel, which included industry experts such as Aaron Brown of Merrill Lynch, Anne-Marie Roussel of Gartner Group, and Sven Lung of ETF Group, selected companies with "both visionary ideas and down-to-earth business plans" that they thought likely to have "an extraordinary impact on the future of information technology worldwide," according to *Tornado*. These are said to represent "the digital future of Europe."

Altitude chief executive Carlos Quintas, who founded the company after a period as a software whiz kid in Silicon Valley, had already been tapped by *Tornado* last year as top European high-tech entrepreneur. Meanwhile, *Computer Telephony* magazine annointed the company's solution for telecommunication service providers the "best of show" at CT Expo Spring 2000, and a few months earlier three industry magazines—*Call Center CRM Solutions*, *Communications Solutions*, and *Computer Telephony*—named Altitude's software suite "product of the year" 1999.

Altitude now has offices in eighteen countries and 300 customers of all sizes in thirty-five countries. They include companies such as Crédit Agricole in France, John Harland Company, and Mission Federal Credit Union in the US, and Royal Bank of Canada. Altitude has several offices in the US, the most recent opened in Austin, Texas, in March of this year. It is poised to conquer new markets after its tie-up earlier this year with SAP, aimed at enabling customers to bring their SAP corporate systems closer to customers, via telephone, e-mail, Web collaboration, WAP, or chat.

Unfortunately, the company is the exception that proves the rule as far as the funding of business in Portugal. It was a US venture capital company, InSight Capital Partners, that provided Altitude's seed capital. Only later did a Portuguese bank, BPI, stump up funding, in a second round in which Netherlands-based NeSBIC CTE Fund also took part. A third round of funding came in April of last year, again from non-Portuguese investors.

Quintas himself has been critical of the lack of finance for local high-tech startups in Portugal, while noting that another of Altitude's early problems, the shortage of qualified youngsters coming out of higher education, has now evaporated.

The government has put forward plans to boost the availability of risk capital via state-run funds, but this has not yet had any discernible impact. And generous state grants for high-tech investments still go mainly to established foreign companies.

Some observers—including Quintas—have argued that the scope for risk capital funds is limited by the fact that the market is too small for them to specialize. Others counter that such pessimism is misconceived, arguing that financiers and entrepreneurs alike should think big and see Portugal as part of a larger Iberian market with important cultural continuities and a low linguistic barrier.

—Alison Roberts

DUBLIN

CHATEAU QUINN, SIR?

Lochlann Quinn, now sixty, hardly fits the profile of a dashing young Irish entrepreneur setting the dot.com world aflame. But if you're one of Ireland's best-known industrialists-bankers, with a lengthy and enviable track record in the world of international commerce, and still going strong, it's impossible to ignore that ever present flair. Of course, as a multi-multimillionaire, having a younger brother—Ruairí—who is one of the country's leading socialists and head of the Irish Labor Party further clouds the picture.

Lochlann Quinn did the traditional education route through Dublin's Blackrock College, better known for rugby prowess than academic brilliance, then went on to University College Dublin, where he studied commerce. Not surprising then that in 1966 he chose a career as a chartered accountant, joining the international accountancy firm Arthur Andersen in London and three years later became head of the company's audit practice in Dublin.

He resigned his partnership in 1980 and moved from Dublin to the border with Northern Ireland to become deputy chairman and finance director of the fledgling electronic appliance manufacturing company, Glen Dimplex, overseeing the group's development from its small base (sales of $20 million) to a world leader.

Alongside the company founder, Martin Naughton, he played a key role in the group's evolution into a worldwide manufacturing organization with 6,000 employees in Europe and Canada and annual turnover of $1 billion.

He attained the sort of success that normally makes headlines—except this particular company shuns publicity. Low profile, minimal public relations, says Quinn.

"We don't hire PR people. It's a private company. Public companies do need a certain image because of people buying their stocks. We don't have stock for sale," he explains.

There's little need to court the Irish media, with only 2 percent of its sales on the island. Their businesses are located throughout Europe and further afield and are regarded as "local" companies in the markets where they operate.

However, Quinn points out that a housewife might wander in to a store in Britain and buy, say, a Morphy Richards kettle. She thinks she's buying a British product produced by a British company—it is, but the parent company is Irish.

Six years ago, Quinn joined the board of one of Ireland's leading banks, Allied Irish Bank, with significant operations in the United States, Poland, and the United Kingdom. More surprisingly, given his already heavy workload, he became the AIB chairman and is now in his second term. During that time, he has presided over rapid expansion and record profits.

He is also a director of the Michael Smurfit Graduate School of Business, is the major donor for the new undergraduate business school at his alma mater, UCD, and has numerous private business interests and commercial properties in Dublin, London, and Brussels.

With Martin Naughton he joined in the $22 million development of the prestigious 146-bedroom Merrion Hotel in central Dublin, facing the prime minister's office and home to one of Ireland's most expensive restaurants run by Frenchman Patrick Guilbaud.

Quinn and his wife Brenda are keen collectors of twentieth century Irish art. He is also a devoted golfer, a father of six, and a *bon viveur* with a love of fine wines.

Which, perhaps, may help to explain his latest acquisition—the Château de

Fieuzal vineyard in France's Bordeaux region for $40 million. The château, on the outskirts of Léognan, near Saucats, employs thirty-five staff and has been on the market since last December.

It produces 155,000 bottles of red and 48,000 bottles of white wine annually, which retail at between $20 and $30 per bottle.

Reviewers say the château's wines would be ranked behind leading vineyards in the Médoc region such as the better-known Margaux, Latour, Palmer, Cheval Blanc, and Haut Brion.

But the *Irish Times* says the château's fortunes have been reversed in the past two decades, the wines becoming richer and more complex since the mid-1980s "with a series of stunning white Graves restoring its reputation."

Quinn, in owning a French vineyard, will be following an Irish tradition dating back to the fifteenth and sixteenth centuries. These "emigrant Irish" include the Bartons of Châteaux Leoville-Barton and Langoa-Barton, the Lynches of Château Lynch-Bages, the Kirwans, Phelan's, McCarthy's, Dillons, and others. All bear the names of Irish families, most of whom were forced to flee their estates during troubled periods of Irish history and married into French families or created their own vineyards.

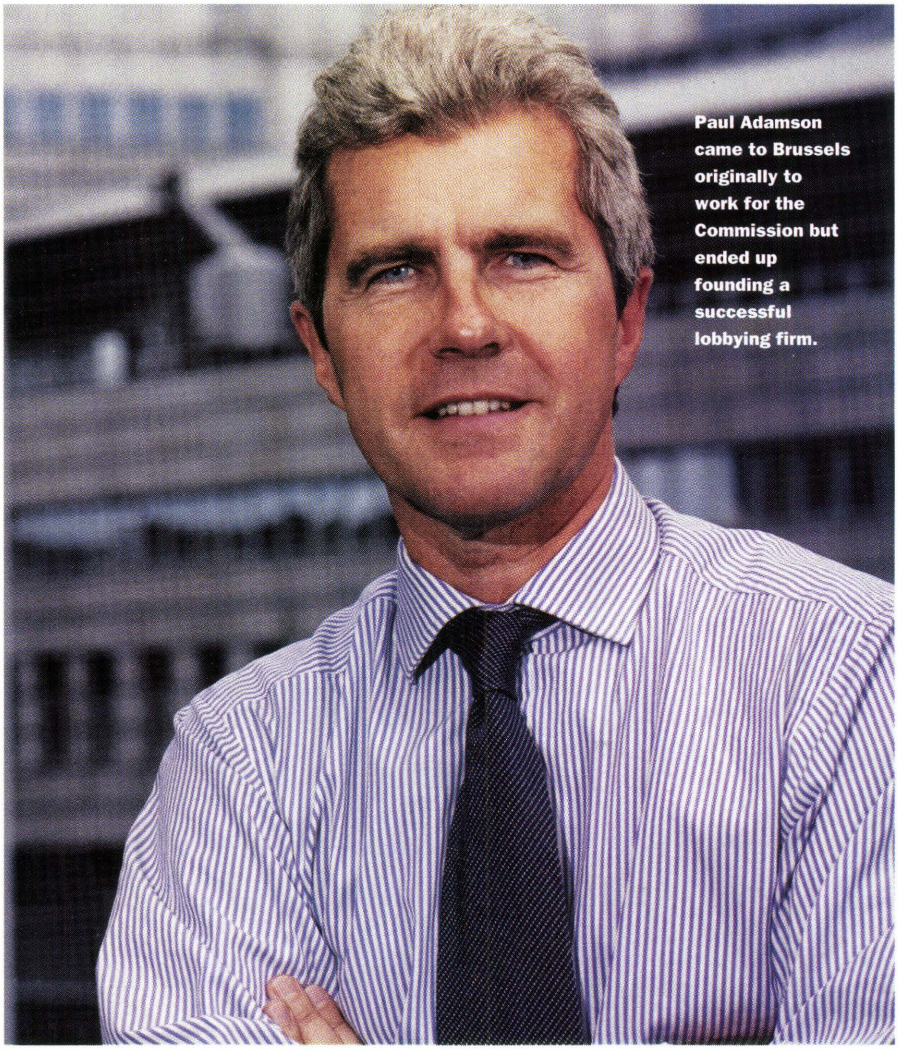
Subsequent generations of these Irish vintners became known as the "Wine Geese." Now Quinn has joined their ranks. Given his track record, it may be no surprise if the fanciest restaurants shortly start offering a new tipple to exercise the world's discerning palates.

Care to sample the Château Quinn, sir?

—Mike Burns

BRUSSELS

NAVIGATING THE EU FOR FUN AND PROFIT



Paul Adamson came to Brussels originally to work for the Commission but ended up founding a successful lobbying firm.

Twenty years ago, Paul Adamson, a young Brit, set himself up in Brussels as a one-man band offering help and advice to foreign companies eager to trade in the European Economic Community. Now he heads the number-one lobbying firm in Brussels, with forty employees and plush offices strategically located next-door to the European Parliament buildings.

Adamson, one of the first postgraduate students at the European University Institute in Florence, left in 1979, aged twenty-five, with the ambition of becoming an EC official. He was unsuccessful but was taken on as a research assistant by a British MEP, leaving after two years to freelance for public affairs consultancies in Brussels.

He shared an office with lawyers, but it was another eight years before he was able to employ a full-time secretary, acquire premises of his own, and start trading as Adamson Associates. Still a youthful-looking forty-seven, he remembers his early days with some nostalgia.

"In those days," he says, "things were very different. Not much seemed to be going on in Brussels, few international firms were operating here, and not many trade organizations. I was lucky because I was almost the only person here offering a service to companies seeking to establish themselves and to unravel the mysteries of the EEC."

Surprisingly enough, few European companies knocked at his door. His early clients tended to be American firms, including Ford and Pfizer, both of whom remain on his client roster.

The young Adamson was a man with a mission. His pleasantly unassuming manner concealed a shrewd brain and a huge appetite for hard work. Within an astonishingly short time, he achieved a mastery of how the European Union (as it subsequently became) worked and built up an impressive array of contacts.

As the EU expanded and became more of a magnet for multinational companies, Adamson's organization also grew in size and in the range of services that he was able to offer to his clients. By 1997, there were no fewer than ninety of these, including such major corporations as Exxon, Shell, MTV, Glaxo-Smith-Kline, Gillette, and Boeing.

In 1998, the Bozell, Sawyer Miller Group, a Washington-based international communications management agency, decided that it wanted to break into the European market and offered to buy out Adamson's firm, with him remaining at the helm of the Brussels operation for a minimum of four years. He now trades under the title of Adamson BSMG Worldwide and, in conjunction with BSMG's forty-odd other offices throughout the world, is able to offer corporate clients a comprehensive range of services on an international scale.

His success and newly acquired affluence have not spoiled Adamson. A devoted family man, he lives with his Italian-born wife, Denyse, daughter Tessa, fifteen, and son William, eleven, in a Brussels suburb. His hobbies include cinema and theatergoing, and he is a keen tennis player.

He has a deep and continuing interest in politics, although he has never sought a political career for himself. A long-term supporter of the British Labor Party, he has given generous support to groups committed to closer European integration, such as the Blairite think-tank, the Foreign Policy Center.

His public profile may be somewhat raised next year, when he will embark on a new venture, as the publisher of a monthly magazine devoted to European affairs.

—Dick Leonard

STOCKHOLM

IMMIGRANT ENTREPRENEUR FINDS SWEDISH SUCCESS

Salvatore Grimaldi began his career with cars, rather than the bicycles he now sells worldwide. Born in Italy, his father moved with his family to Sweden, like many other southern Italians, to work in the factories of Västerås when the Nordic country had a shortage of workers in the 1940s and 1950s. Grimaldi followed in his father's footsteps to the extent that he too went to work in a factory—a Volvo plant.

Although he had a routine job, Grimaldi became fascinated with the process of grinding in the plant. He realized that those doing the exacting work were the highest paid on the factory floor and that precision grinding was a skill much in demand.

Grimaldi decided to learn grinding at Volvo, but his aim wasn't simply to be a well-paid shift worker. He had bigger plans. In the mid-1960s, he bought himself a grinding machine, set it up in his family's garage, and worked evenings after his factory shift to perfect specialized grinding techniques. By 1970, he was running his own company, Grimaldis Mekaniska Verkstad AB.

While grinding was what he did best, Grimaldi realized that for the company to really grow, it would have to buy other firms. In the middle of the 1980s, he sold the grinding company but retained the name. In addition to various industrial companies, he set his sights on Monark, Sweden's venerable bicycle maker. After Monark, he purchased Crescent, Peugeot, Bianchi, and several other bicycle makers. He also bought CD maker Toolex Alpha for one krona, (about ten cents at current US exchange rates), selling it for $50 million six years later.

Grimaldi's company now employs 2,070 people. Last year, the company's annual revenue was $300 million. As a privately owned company, it doesn't release other financial figures.

Not everything he touches turns golden. Pricer, a company started several years ago to develop systems for reading digital price codes, in which Grimaldi is a part owner, has yet to catch on. He has also invested in several small information technology companies that have been hurt by the general IT downturn. But Grimaldi says part of being an entrepreneur is having patience when things don't immediately go well.

Because they very often have difficulty finding traditional employment, immigrants to Sweden frequently start their own businesses. But few are as successful as Grimaldi, who's often portrayed as the classic example of "immigrant boy makes good," especially since he's one of the country's richest people. He says, however, that all immigrants to Sweden "are really entrepreneurs. To pick up your family and move here is a big decision."

Grimaldi says he likes to think of himself as an Italian in Sweden and a Swede in Italy. But he thinks the Swedish labor model, in which industry and unions traditionally work together, needs to be rethought because it hasn't kept up with the times. "If I don't maintain my brand, it's going to disappear," he says. "That's also the way it is with the Swedish model."

No one's born an entrepreneur, says Grimaldi, but all entrepreneurs have certain characteristics. "An entrepreneur is someone who really wants to see results and has the will to do something," he says. "An entrepreneur is stubborn and tireless when it comes to getting a project done."

—Ariane Sains

MADRID

ZARA PIONEERS FASHION ON DEMAND

It's become a familiar name in upscale shopping districts from Tokyo to Toronto and from Beijing to Buenos Aires, and new stores are opening almost every week. But the Zara chain of fashionable apparel shops traces its humble beginnings to Spain's remote region of Galicia where the worldwide headquarters of the innovative company remains.

Success was a long time in coming. Zara founder Domingo Ortega quit his job as a salesman in a clothing store back in 1963 and started a lingerie business. Twelve years later, the first Zara shop was opened in the city of A Coruña and an empire was born.

These days, Zara shops can be found in thirty-two countries and sector analysts attribute the company's philosophy of "fashion on demand," its attractive stores, and tight control of product from concept to customer display for its overwhelming popularity.

So how does Zara's "fashion on demand" work? At the end of every day in each of the chain's 1,020 shops around the world, the manager goes on-line to company headquarters in the northwestern town of Arteixo and describes which items in which colors and sizes sold the most and which ones never moved out the door.

With this simple method, Zara's designers and salespeople know exactly what's selling and what isn't among the chain's 11,000 items. If enough customers begin asking for an item that Zara doesn't have, a quick word to the design and production departments can put the newly created item on the racks within little more than a week. In the fickle and fast-changing world of fashion, agility means success.

"The center of it all is the store," explains Jose Maria Castellano, the managing director of Inditex, the holding company that controls Zara and its sister apparel chains Massimo Dutti, Pull & Bear, Bershka, and Stradivarius.

Unlike its Italian rival Benetton, Zara spends almost nothing on advertising and in contrast to its other competitors such as the Gap, H&M of Sweden, and others, the Spanish company manufacturers almost its entire line and owns its distribution system.

Shoppers are not the only ones impressed with Zara, parent company Inditex, and Oretega's and Castellano's entrepreneurial skills. In May, Inditex began trading on the Madrid Stock Exchange in the most eagerly awaited IPO of the year and shares jumped 28 percent within three weeks.

—Benjamin Jones

COPENHAGEN

THE INVENTION OF THE BALL BLANKET

It was an ordinary day. At a psychiatric hospital in Central Denmark, occupational therapists Else-Marie Dalsgaard, Pia Christiansen, and their colleagues were gathered around the lunch table. They were discussing how to help restless patients alleviate their physical and psychiatric unrest. Suddenly, someone got a simple but nonetheless brilliant idea: "Why don't we fill a duvet cover with plastic balls and let it rest on the patients—thereby letting the weight of the balls stimulate their senses?"

This lunch break marked the beginning of a success story—not just for Else-Marie and Pia but also to many children and adults with sleep disturbances, neurological patients, people with psychiatric disorders, senile elderly people and their family members, many of whom were soon to experience a night's undisturbed sleep for the first time in years.

Else-Marie and Pia spent the following six months developing and testing the ball blanket then rushing to apply for a patent.

"At first we considered selling our invention to a company specializing in relief for disabled people," says Pia. But entrepreneurship got the better of them.

"We thought maybe we could earn more by quitting our jobs and venturing out on our own," she says now. "Thinking about it, our enthusiasm was the best quality assurance possible."

"Today, seven years on," says Else-Marie, "I tend to think that without our own company our idea would have been a non-starter." Pia nods in agreement.

But they did take the step. In 1994, Protac was established as a partnership, and soon the balls started rolling—at first in Denmark, then in Norway and Sweden, and soon in England, Switzerland, Belgium, the Netherlands, and Germany. Most recently, the company has launched its products in Hong Kong and the US.

Two Danish occupational therapists developed the 'ball blanket' to help soothe restless patients.

Else-Marie and Pia produced the first ball blankets themselves. Their homes became both company headquarters and the manufacturing facilities, but by the twentieth blanket, they referred production to an outside workshop. Protac (which still has only two employees—the founders) has maintained that slim corporate structure, outsourcing bookkeeping, marketing, and translation services.

Sales are still handled largely by Else-Marie and Pia themselves. They enjoy the opportunity to guide and teach patients and their families and care workers how to use the ball blanket. "We are not just sales people," Else-Marie emphasizes. "As occupational therapists we are trained to help patients find the means to improve their daily lives. And obviously, the counseling is essential to the company. It provides us with a lot of valuable feedback that can help us to improve our products."

Next to being business managers, Else-Marie and Pia are both mothers and wives. Therefore, they balance their personal and work schedules and adhere to the Danish standard of thirty-seven hours per week. However, this doesn't stop them from running a healthy business.

"Ten years ago, we would both have refused to believe that we would one day be running our own company. But it is funny. Once you make your mind up to become self-employed, you set off a positive chain reaction. Everything happens gradually, so you learn along the way and so you don't lose yourself," Pia laughs. "So who knows? Maybe we'll even have employees one day."

—Maria Bernbom

ATHENS

HATZIOANNOU BROTHERS REBUILD FAMILY BUSINESS

Savvas Hatzioannou and his brother Sakis got their start in business on the factory floor. "As kids we used to help pack pantyhose at our father's factory. In the early eighties, you filled the cartons by hand, and everybody joined in," Savvas Hatzioannou says.

The Hatzioannou brothers were just out of their teens when they took over the collapsing family business. A wave of strikes as a Socialist government came to power in Greece and intensifying competition from Turkish and Asian manufacturers combined to drive hundreds of small Greek garment makers to the wall.

"If we'd gone abroad to college, there would have been nothing to come back to," Hatzioannou says. "My father pulled out, and we had to start the company over again."

Greece's once-flourishing garment industry is only a fraction of its former size. Most of the manufacturers that have survived did so by moving production to neighboring Balkan countries where wages are less than one-tenth those in Greece and carrying out orders for northern European companies that supply fabrics, patterns, and quality control.

However, the Hatzioannou brothers have successfully bucked this trend. They are among only a handful of Greeks in the garment industry to have developed a top-of-the-line brand name—"Venus Victoria—as well as a full range of "second skin" products, from socks and underwear to nightclothes and swimwear.

Savvas Hatzioannou, dressed in T-shirt and chinos, runs the sales and marketing division of Hatzioannou Holdings from a brand-new office in an unfinished building in Maroussi, a fast-growing Athens business district. His brother heads the group's operating division, based in the northern Greek city of Xanthi. Other plants are located across the border in Bulgaria, where wages in the garment sector are only about $150 a month.

The Hatzioannous set up in northern Greece in order to exploit generous government incentives for investment in Greece's least developed regions but also employ more than 2,000 people at seven units in Bulgaria. "The collapse of communism opened up the possibility of setting up a cross-border operation only a couple of hours' drive away," Hatzioannou says. "Bulgaria is a good place to operate in."

The group has invested heavily in state-of-the-art technology for "seamless" garment production—increasingly popular because it makes clothes more comfortable and a better fit—and has developed additional techniques in cooperation with Italian engineers. "If you know the business through and through, you know how to get the very best out of your equipment," Hatzioannou says. "I think what we're doing now is unique in Europe."

But Hatzioannou has also expanded through acquisitions, taking over local manufacturers of casual clothing, lingerie, and beachwear as well as a leading Greek retail chain with a dozen stores. Hatzioannou says the group's investment budget over the past three years exceeded $103 million—a record for the Greek clothing industry.

The next challenge is to compete in a bigger market, and Hatzioannou has set its sights high. The group has licensed the Virgin brand name from Sir Richard Branson, in partnership with Unique Commerce, a UK-based merchandiser. The deal gives Unique rights to design, manufacture, and market casual clothing, socks, and underwear under the Virgin label for an unlimited period.

"Greece is too restricted to fulfill our vision, although we export more than one-third of our output, and country-by-country expansion is difficult," Hatzioannou says. "So we took a big leap and linked up with a global brand."

Following test-marketing in the UK, Hatzioannou plans to launch the first group of products under the Virgin label this month. But that will only be the first stage of the group's expansion. "If everything goes according to plan, we'll increase our seamless production capacity and attack the US market," Hatzioannou says.

—*Kerin Hope*

ROME

THE RISE OF TRONCHETTI PROVERA

Marco Tronchetti Provera is fast becoming Italy's most famous businessman. The fifty-three-year-old chairman of Italian tires and cables group Pirelli was catapulted into the major league this July when he took charge at Olivetti, the holding company that controls Telecom Italia. With help from the Benetton family and a couple of Italian banks, Pirelli bought a controlling stake in Olivetti for just $6.2 billion. That deal, still to be approved, earned the Pirelli chief kudos and put him at the very pinnacle of Italian industry—on a level with the powerful Agnelli family. It also meant the soft-spoken industry mogul now controls almost 30 percent of Italy's blue-chip stock index (the MIB30). Not bad for someone who started out in tires.

A graduate of Milan's famous Bocconi business school, Tronchetti Provera comes from a sound north Italian entrepreneurial background. His family, one of the wealthiest in Milan, had longstanding ties with the Pirellis, and in 1978, Marco married chairman Leopoldo Pirelli's daughter Cecilia. In 1991, he became chief executive at the tire company and immediately rescued the group from the brink of financial collapse, following a costly and failed attempt to take over German rival Continental a few months earlier. Since then, the silver-haired yachtsman—a paladin of Italian industrial renovation—has turned around Pirelli and has won celebrity status in the bargain through regular newspaper coverage, television appearances, and big business conventions. His snappy dressing, conservative good looks, and Anglo-Saxon cool reflect his no-nonsense, up-front management style, while his current companion, the Tunisian model Afef, has ensured him gossip column visibility. Aside from his power base at Pirelli, Tronchetti Provera is chairman of Italy's leading financial daily *Il Sole 24 Ore*; a leading shareholder in Inter Milan soccer club; a member of JP Morgan's International Council; and a member of the New York Stock Exchange European Advisory Committee. As for his dreams, one, it seems, was always to head up Telecom Italia. That presumably leaves yachting and winning the America's Cup.

—*Stephen Jewkes*

VIENNA

NIKI LAUDA BRANDED BY RISK

Twenty-five years ago, the famous Austrian racecar driver Niki Lauda spun out of control on the Nürburgring course in Germany. His vehicle caught fire, and fellow drivers pulled him out of the burning wreck. His helmet had come partially off, and he had sustained terrible burns on his face and body and fell into a coma. Six weeks later, he was racing again. This was the nature of Niki Lauda. Rather than ending his life or career, the accident changed his perspective, and he went on to embark on a new venture: founding his own airline.

"You either get over it now or never," Lauda told *Die Presse* this summer. Lauda, who had found fame and fortune in racing, decided to concentrate on a different kind of cockpit. In 1979, he founded Lauda Air with charter concessions and temporarily retired from Formula One racing. He began with two

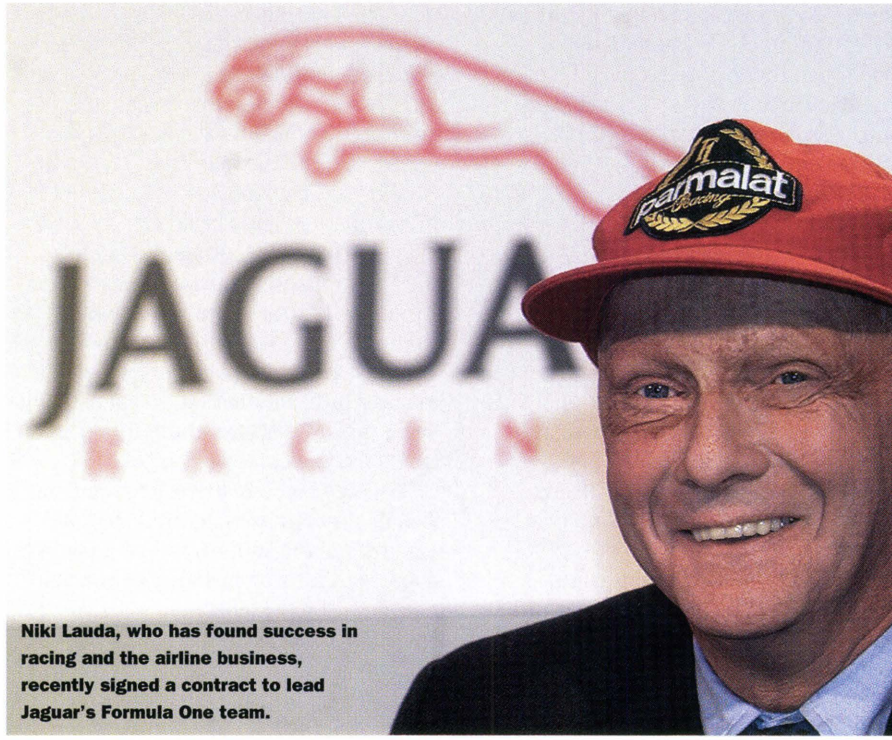
Fokker 27 planes and slowly expanded. However, the man used to racing to victory found himself slowed by obstacles, especially the monopoly held by Austrian Airlines. In 1984, he returned to Formula One racing, winning the world championship for the third time, and pursuing both of his passions simultaneously.

In 1985, Lauda upgraded his aircraft fleet and broadened his influence in the travel sector by forming a cooperation with Basile Varvaressas and his travel agency, ITAS. Lauda also bought two Boeing 737-300s and incorporated three more travel agencies into his empire—Paco Leone, Belmondo, and Topic, all serving different destinations in Europe and the Middle East. Over the course of the 1980s, his airline expanded considerably. By 1988, Lauda won the right to fly Austrian passengers to international destinations, previously the proprietary turf of the national Austrian Airways. He added two Boeing 767s to his fleet and began flying passengers to Bangkok, Hong Kong, and Sydney. He dubbed his business cabin, Amadeus Class, reflecting his Austrian national pride and his Vienna roots.

Last year, however, after his business practices came under fire and the airline sunk into financial problems, Lauda resigned from his position as the manager of Lauda Air. The airline has been slowly absorbed by Austrian Airways since then. Early this year, Lauda returned to his first love, signing a contract to lead Jaguar's Formula One team.

However, his entrepreneurial spirit places him in the pantheon of business luminaries alongside the likes of Richard Branson, the founder of the Virgin empire. Although numerous difficulties have tempered his brilliant successes, Lauda still stands as a symbol of endurance and risk overcome.

—*Alexandra Hergesell*



Niki Lauda, who has found success in racing and the airline business, recently signed a contract to lead Jaguar's Formula One team.

HELSINKI

YOUNG FINN HELPS PIONEER INTERNET FILMS

"We are building a new media company without equal," Mika Salmi, founder of Atom Films and now the CEO of Atom Shockwave, declared on the occasion of his two-year-old company's merger with Shockwave.com at the end of last year. Salmi appears to be yet another in a growing line of high-tech Finns who are shaping the digital future. His company, Atom Films, has emerged as a tough player in short film distribution on the Internet, and with its recent merger with the bigger Shockwave, Salmi's statement doesn't seem quite so outlandish.

Considering the fact that he's only thirty-four, Mika Salmi has led quite the interesting life. A native of Finland, he graduated Phi Beta Kappa with honors from the University of Wisconsin and then went on to receive his MBA from INSEAD in Fontainebleau, France. The Internet and entertainment industries were not exactly uncharted territory for him when he started Atom Films in 1998. By then, he had held executive positions at the Internet multimedia firm Real Networks as well as record industry goliaths Sony and EMI.

Now based in San Francisco—with offices in Los Angeles, New York, London, and Tokyo—Atom Films has taken the Internet entertainment industry by storm, showing short films on its Web site, which receives around 1 million hits per month. It has emerged as a leader in its field.

The going has not always proved easy. Atom Films' success has whetted the appetites of film industry giants for the potential revenue streams on-line entertainment might offer. Last year, DreamWorks Films and Imagine Entertainment teamed up to create a company similar to Salmi's, but due to high operating costs and the lack of a high-speed Internet delivery system, the venture has been shuttered, for now.

Recognizing the limited access of broadband, Salmi's business model has focused on licensing its library of short films to other outlets, such as airlines and television stations, which accounts for some 60 percent of the company's revenue. To make the company even more flexible and marketable, Salmi merged his company with Shockwave.com last year. Atom Films' inventory of 1,500 short films in addition to Shockwave's music, interactive games, and other applications promises to be a force in the world of on-line entertainment distribution.

"The combined strength of the two brands are the foundation of Atom Shockwave's success," says Robert Egan, the managing director of JP Morgan Entertainment Partners. "The Atom Films syndication model and its prestigious catalog of quality short films and animations, coupled with Shockwave.com's mass audience and cutting-edge interactive content, create an unparalleled entertainment powerhouse."

In the coming year, Egan emphasizes that the new company will continue to market its two famous brands separately.

—*Matthew Horner*

ARTS & LEISURE

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

BOOKS

DOES AMERICA NEED A FOREIGN POLICY?

By Henry Kissinger; Simon and Schuster; 352 pages; $30

"The desire of Europe for a greater identity is valid and, in the long run, also in the interest of the United States. The difficulty is to find a definition of identity that is something other than almost congenital opposition to the United States," remarks former secretary of state Henry Kissinger in the first chapter of his enlightening book *Does America Need a Foreign Policy?*

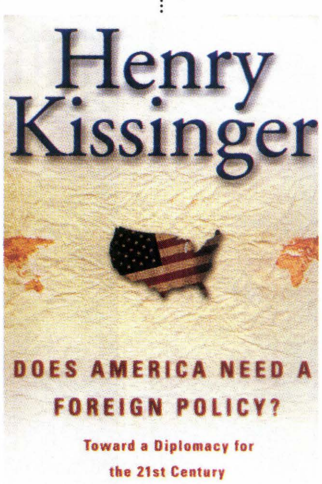
Kissinger answers the question of the title of his book immediately in the affirmative and goes on to state how the world's only superpowers should act and respond to its neighbors, allies and enemies in the first decade of the twenty-first century.

Surprisingly, the veteran observer of world affairs seems to be the most concerned about America's relations with the new Europe. As the author himself admits at the end of his chapter on US–European relations, "many of these pages have deplored trends within Europe."

Kissinger seems genuinely troubled by events going on in Europe today and how they relate to overall US–European relations. He says that "the emergence of a unified Europe is one of the most revolutionary events of our time" but then goes on to remark how a unified and more integrated Europe could pull away from the United States in the future.

The author feels that the United States "has watched the various options being proposed for integrating Europe with a benevolence toward the objective and a delicate neutrality that does not declare itself on the kind of Europe being built."

While saying that the US "cold war orthodoxy" felt a strong Europe would lead to "a more vital Atlantic partnership" this core assumption may not still be true.



A new Europe could be "a Europe shrinking from global responsibilities, assuming the status of a mini-United Nations and delivering moral homilies while concentrating on economic competition with the United States or, alternatively there could emerge a Europe challenging the United States and constructing a foreign policy of mediating between the rest of the world, rather like what India attempted during the cold war."

Kissinger discusses ideas for a new structure in Atlantic relations by arguing for a Transatlantic Free-Trade Area and a new Atlantic Steering Group backed by a secretariat "to develop parallel aproaches to world affairs but also to manage differences as they arise."

The author is also quite concerned about the new European military force. He worries that it might impact negatively on NATO. He says the "emphasis of the European Force so far has been on autonomy rather than on increasing military capabilities." He asks, "What if the European Union undertakes a military action with which the United States disagrees?"

The former Nobel Peace prize recipient feels that many Europeans see the United States as "defined by the death penalty, the alleged inadequate system of medical insurance, the vast American prison population, and other comparable stereotypes" including the missile defense system being proposed by President George W. Bush.

Kissinger, like many other American observers of Europe, seems to hold the view that a united more integrated Europe is good for America but a too successful integrated Europe might pose economic and foreign policy problems for the United States. As he states, "The ultimate question is not technical but philosophical: Will Europe's emerging identity leave room for an Atlantic partnership?"

—Robert J. Guttman

INVESTING IN THE NEW EUROPE

By Eric Uhlfelder; Bloomberg Press; 331 pages; $30

For investors still shell-shocked over the dot-com decline, frustrated with the sluggish performance of US markets, and wary of the Asian tigers, which haven't quite regained their roar, Eric Uhlfelder, in his recently published *Investing in the New Europe*, presents the case for looking across the Atlantic.

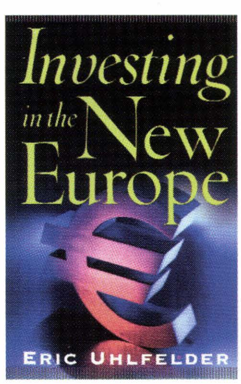
Uhlfelder, who has written about investing for such venerable publications as *Business Week* and *the Financial Times*, begins by pointing to two basic reasons "why investors should be buying European stocks." The first is that Europe has some great companies, including some who have emerged as global leaders in their sectors. Second, he argues that European companies essentially are increasingly looking more like their American counterparts, even if their governments aren't (see the Socialist government's new law reducing the workweek to thirty-five hours in France).

"Even more radical than the US corporate restructurings of the 1980s, these changes are revitalizing European business, just as they did in the States," he writes in the introduction. "Profit-driven Anglo-Saxon management techniques are replacing less bottom-line oriented agendas and strategies motivated by social agendas, politics, and inefficient old boy networks, justifying these (higher valuations)."

Uhlfelder divides the book into three parts. In the first section, he discusses the changes at the government and corporate levels and their effect on the investment landscape. In part two, he evaluates the investment landscapes of nineteen individual countries, grouped by designations, ranging from "Core Countries" (France, Germany, UK, Italy, and Switzerland) to "Emerging Markets" (Czech Republic, Greece, Hungary, and Poland), with "Tigers," "Independents," and "Latent Reformers" in between.

Finally, he concludes with an overview of five sectors, ten "model stocks," a look at European mutual funds, and a chapter entitled "Nuts and Bolts," which deals with, among other issues, accounting, foreign exchange, and stock indices.

The writing is lucid and the material well organized, although some of it will be well-traveled territory for advanced investors and regular readers of the *Wall Street Journal*. At the same time, novice investors could have benefited from greater discussion of some of the basics of overseas investing, a more detailed description of the function of American depositary receipts, for example.



The book's biggest weakness, however, is the unfortunate timing of its publication. Eighteen months ago, as equity markets boomed, *Investing in the New Europe* might have garnered more attention. Now that the markets have turned bearish and investors have seen their portfolios shrink considerably, much of Uhlfelder's potential audience is probably less willing to listen. The timing is most notable in his "model stocks" section. For each of these, he includes a five-year share price graph. These generally reveal steadily advancing values, with graphs ending in the spring of 2000, presumably when the book went to press but before many of them endured significant corrections in late 2000 and earlier this year. For example, the German software maker SAP has seen its share price decline approximately 40 percent since last August, and Finnish mobile phone maker Nokia has lost more than half its value.

Are these signs that Uhlfelder—along with many of his fellow investment world watchers—has overreached in his analysis? Contacted at his home in New York, the author points out that his model stocks "are essential for conveying the remarkable restructuring and success of the new Europe on a corporate level; they are not a brokerage house list of the top ten 'must own' stocks."

Indeed, Uhlfelder's stocks have suffered from the same downturn their US competitors have endured. He defends his book's thesis that as Europe continues to integrate economically (most notably with the euro) and embrace more market friendly policies, it holds great potential for shrewd investors.

"The key thing is to understand that these model stocks are lessons," he says. "Overall, the book is a current history, with the emphasis on history. Given the volatility of today's markets the best any financial author can hope to convey is an appreciation of evolving fundamental trends so that his readers can apply this knowledge in making future investment decisions—not to be taken verbatim but as a way to think."

Indeed, *Investing in the New Europe* does prove greater than the sum of its parts, providing an efficient overview of Europe's corporate development at the dynamic beginning of the new century.

Of course, the most telling question remains to be answered: Does the author put his money where his thesis is? Uhlfelder said that European equities account for 8 to 10 percent of his total investment portfolio, although he says he puts roughly a quarter of all new investments into European stocks.

—Peter Gwin

FILM

THE SON'S ROOM

Directed by Nanni Moretti; distributed by Miramax; 87 minutes

It had been twenty-three years since an Italian film won the prestigious Golden Palm at the Festival of Cannes. This year *The Son's Room* by Nanni Moretti has put an end to the long dry spell. Now the forty-seven-year-old Roman director, who has long been acclaimed in Italy (although he is not well-known abroad), is a serious contender for an Oscar.

Could the American public discover a new Roberto Benigni, whose *Life is Beautiful* so charmed the Academy? It is too soon to make comparisons and predictions. However, a few clues can already be found. Moretti has been enthusiastically received in Los Angeles, where the Italian Institute of Culture organized a retrospective of his most important films. Moreover, Steven Spielberg reportedly has asked for a private showing of Moretti's latest work at his home.

Moretti (right) on the set of *The Son's Room*.

The Son's Room, an inspired and well-crafted film, portrays the moving story of how a couple (Moretti plays the father) must face life after their son dies in a tragic accident.

This is an intimate and unusual subject for Moretti, an intellectual director whose films are generally highly political—very different from Benigni, who is also an intellectual but focuses his energies on comedy and irony. It is said that when Moretti makes a political statement Italians take him more seriously than they do professional politicians. A few more clues as to the movie's Oscar possibilities will come at the end of September when *The Son's Room* will open the Cinema Festival in New York.

—Niccolò d'Aquino

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