

EUROPE

October 2001

September 11, 2001



The European Union member states will work together with the United States to bring to justice the perpetrators, the instigators, and the accomplices involved in committing these barbaric acts.

Romano Prodi
President of the European Commission


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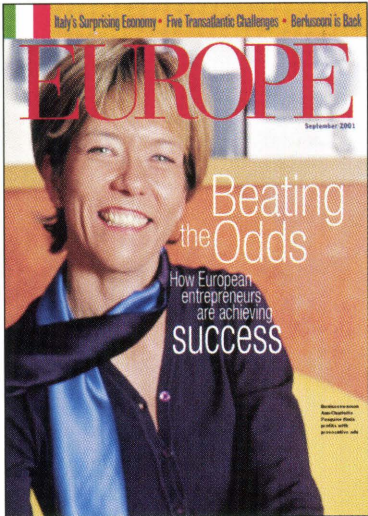


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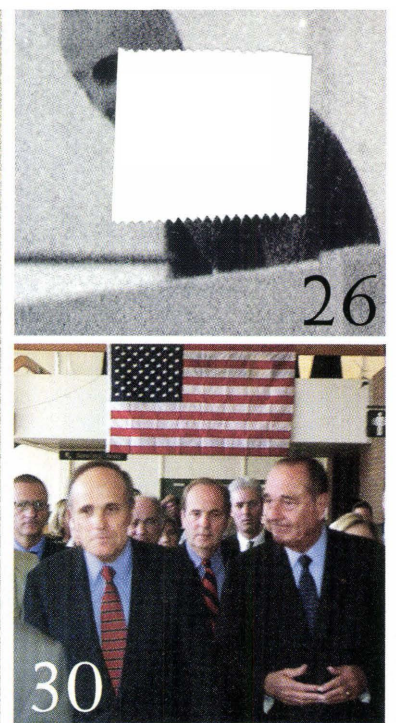


- About EUROPE MAGAZINE
- ADVERTISING
- CURRENT ISSUE
- EDITORIAL CALENDAR
- SUBSCRIPTIONS
- SPECIAL EVENTS
- BACK ISSUES

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CONTENTS

EUROPE

Magazine of the European Union

NUMBER 410

OCTOBER 2001

TRADE

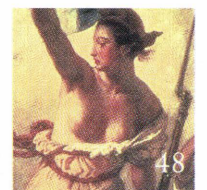
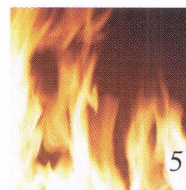
- 6 **The World Trade Organization Round Two**
After the disaster in Seattle, the world's trade leaders focus on starting a new round of talks at Doha, Qatar.
Gary Yerkey
- 11 **Key Players in a New World Trade Round**
The relationship between EU Trade Commissioner Pascal Lamy and US Trade Representative Robert Zoellick may be the key to the Doha outcome.
Lionel Barber
- 12 **Interview: Pascal Lamy**
The EU's trade commissioner assesses the upcoming trade talks in the wake of last month's terrorist attacks on the United States.

GERMANY

- 14 **Tough Times**
Germany's powerful economy is struggling to keep growth alive.
Terry Martin
- 16 **Schröder Is Changing Germany's Politics**
Pulling a page from British Prime Minister Tony Blair's political playbook, the chancellor has monopolized the domestic political center.
Elizabeth Pond
- 20 **Eastern Enlargement: the View from Berlin**
Eastern Germans view EU enlargement and the prospect of a wave of cheap labor with trepidation.
Terry Martin
- 22 **Unlocking Germany's Storehouse of Corporate Capital**
German companies are preparing for the most fundamental tax reform in fifty years, which is expected to strengthen competitiveness and boost investment.
Bruce Barnard

SPECIAL REPORT: TERRORISM

- 26 **A Brief History of Terrorism**
During the twentieth century, Europe has seen the rise of a savage new kind of warfare.
Martin Walker
- 29 **NATO Invokes Treaty**
For the first time in its five-decade history, NATO has invoked Article 5 of the treaty.
Martin Walker
- 30 **Europe Responds to US Tragedy**
From London to Berlin, Helsinki to Athens, Europeans turned out in overwhelming numbers holding vigils and rallies to show solidarity with the US in the wake of the September 11 tragedy.



DEPARTMENTS

- 2 LETTER FROM THE EDITOR
- 3 EYE ON THE EU. Economic crisis plagues Turkey's EU membership application process.
- 4 EURO NOTES. The ECB's succession question.
- 5 E-EUROPE. Is the Internet the next front in the terror war?
- 36 CAPITALS. A country-by-country look at how the EU countries have dealt with terror on their own soil.
- 48 ARTS & LEISURE. *France in an Age of Globalization* and other new and notable fall reading.

LETTER FROM THE EDITOR

“We were all victims of this attack,” remarked the Belgian Foreign Minister Louis Michel after hearing of the horrific terrorist attacks in New York on the World Trade Center and in Virginia on the Pentagon.

America's European allies, NATO, and the European Union all responded immediately with a genuine outpouring of grief and sympathy for the families of the victims of the worst terrorist attack on American soil in which more than 6,000 innocent civilians are presumed dead in New York.



EU member states' flags fly at half-mast in front of the European Parliament in Strasbourg following the terrorist attacks in the US on September 11.

The fifteen European Union nations approved tough new anti-terrorist measures in the aftermath of the attacks. They pledged to strengthen police and justice cooperation with the United States.

Chris Patten, the external affairs commissioner and Javier Solana, the high representative for foreign policy, met with Secretary of State Colin Powell in September in Washington. French President Jacques Chirac and British Prime Minister Tony Blair both met with President George W. Bush, expressing their sympathy and their support for a global coalition against terrorism.

EUROPE presents a special report on the history of terrorism from the days of “terror” in the French Revolution to the suicide attacks on the United States last month. European countries have known their share of terrorism inflicted on their own cities and citizens over the past thirty years. Our Capitals correspondents report on how terrorism has been dealt with in the fifteen EU countries.

For the first time in its existence, NATO invoked Article 5 of the North Atlantic Treaty in response to the September 11 attacks, pledging that an armed attack against one NATO member is considered an attack against all NATO countries.

The European Council, meeting in extraordinary session on September 21 in Brussels, stated they were “totally supportive of the American people in the face of the deadly terrorist attacks.”

EUROPE also looks at the upcoming trade talks scheduled to take place in Doha, Qatar, in early November. European Trade Commissioner Pascal Lamy discusses the talks in the wake of the terrorist attacks and explains why it is even more important now to successfully launch a new world trade round. We analyze the key issues involved in the trade talks and profile the relationship between two of the integral players, Lamy and US Trade Representative Robert Zoellick.

EUROPE reports on the German economy, which is often called the locomotive of the European Union, and the current state of German politics.

We present a portfolio of pictures showing an outpouring of sympathy and support for the United States from across Europe from average citizens to heads of state.

The staff of *EUROPE* would like to express their sympathy for the families of the victims of these dastardly terrorist attacks. We hope and pray we will never see anything like this ever again.

Robert J. Guttman
Editor-in-Chief

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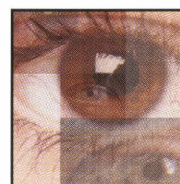
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EYE ON THE EU

Profiling personalities
and developments
within the European
Union



ECONOMIC CRISIS COULD SLOW TURKEY'S MEMBERSHIP

Turkey's long-standing application to join the European Union could be subject to further serious delays following its current economic crisis. This was triggered by the collapse of the Turkish currency in the spring, following repeated speculative attacks and the floating of the lira on February 22.

Behind this collapse, however, was a consistent delay in adhering to the terms of the rescue packages agreed upon by the IMF in December 1999 and again one year later. A third package, bringing the total aid promised to \$15.7 billion, was reluctantly agreed to in May, with a scarcely concealed warning that this was Turkey's last chance to put its house in order.

Under this agreement, loans of \$1.5 billion by the IMF, and a further \$1.7 billion by the World Bank, were due to be released in early July, but the payments were temporarily suspended because of further foot-dragging by the Turkish authorities. They had failed to take action against five insolvent banks and had not honored promises to appoint private sector professionals to the board of Turk Telekom, a public monopoly.

The suspension had a good effect. Action was immediately taken on the disputed points, and this triggered the resignation of Enis Oksuz, the communications

minister and one of the main obstructers of the reform program put in place by Kemal Dervis, the economics minister. A highly respected former World Bank official, Dervis was expected to ensure that the terms imposed by the IMF would be carried out to the letter.

He receives strong moral backing from President Ahmet Necdet Sezer; however, his problems lie with the politicians in Bulent Ecevit's government, whose unwieldy coalition is comprised of his Democratic Left Party (DSP), the extreme right National Action Party (MHL), and the center-right Motherland Party. The internecine divisions within the coalition are exacerbated by the increasing frailty of the seventy-six-year-old Ecevit, who is clearly no longer the political force he once was.

The awkward squad within the government is largely concentrated in the MHL, to which Oksuz belongs. Despite its divisions, the coalition has now lasted for two years and may well endure until the next elections, which are not due until April 2004. There is no plausible alternative combination within the present parliament, and Ecevit is unlikely to risk calling an earlier election due to the relative unpopularity of his own party.

It is not only the economic reform program that is being jeopardized by the MHL. Together with the military, it is acting as a brake on the actions that Turkey needs to take in order to satisfy the EU that a date should be set

for opening membership negotiations.

A recent example was the government's repudiation of the compromise Foreign Minister Ismail Cem reached at Budapest in May on the question of the use of NATO assets by the EU's proposed Rapid Reaction Force. This was deeply embarrassing to Cem and hardly increased EU confidence in Turkey's

affairs is struck by their high quality and the strength of their conviction that Turkey can and must make the necessary changes to ensure EU membership.

The big question is whether Turkey's political class can match the determination of the official elite. In fact, the recent record of the parliament in passing the necessary modernizing and liber-

Nearly everyone who meets the top Turkish officials dealing with European affairs is struck by their high quality and the strength of their conviction that Turkey can and must make the necessary changes to ensure EU membership.

trustworthiness as a negotiating partner.

In June, Turkey's Constitutional Court, seemingly influenced by the military, banned the Islamist Virtue Party, in a rerun of the 1997 banning of its predecessor, the Welfare Party. Virtue was the largest opposition party, with 102 members in the 550-strong parliament. Although only two of the members have been unseated, the ban may well have a destabilizing effect in the parliament, with at least some of the ex-Virtue MPs seeking to join the MHL, enabling it to overtake Ecevit's DSP and become the dominant party in the government.

Nearly everyone who meets the top Turkish officials dealing with European

alizing legislation is by no means bad. What is needed now is decisive action by the government to ensure that this legislation is actually implemented. It must also deal severely with human rights abuses, subordinate the military to the civil authority, exert its influence to achieve an acceptable settlement to the Cyprus problem, and give whole-hearted backing to Dervis's economic reforms.

It is a tall order, but unless it is met, Turkey will face a bleak future, and the European Union, which would have much to gain from the adhesion of this youthful, energetic, and strategically important nation, will also suffer from an unnecessarily lost opportunity.

—Dick Leonard

EURO NOTES

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



THE ECB'S SUCCESSION QUESTION

An intriguing question making the rounds in European capitals is how to manage the succession at the European Central Bank. Under a compromise struck in the spring of 1998, ECB President Wim Duisenberg agreed that he would not serve his full eight-year term and would instead make way for a successor sometime in 2002.

Duisenberg reluctantly agreed to the deal because of pressure from French President Jacques Chirac, who was determined to put a Frenchman in the Dutchman's place. Helmut Kohl, then chancellor of Germany, put up resistance but eventually folded in the early hours of the morning at a tempestuous summit in Brussels.

The time is fast approaching when European leaders will have to reopen the Brussels compromise. But the problem is that Jean-Claude Trichet, the governor of the Banque de France and natural favorite to succeed Duisenberg, is the subject of a judicial inquiry.

The investigation by French magistrates relates to the period Trichet spent as head of the French treasury. At the time, his responsibilities covered state-owned banks, in this case Credit Lyonnais, the "rogue" bank that lost hundreds of millions of dollars as a result of speculative lending in the late 1980s and early 1990s.

Trichet has denied any wrongdoing and has brushed aside allegations that he was aware of what was going on

at Credit Lyonnais, which was the subject of a huge state rescue package grudgingly supported by the competition authorities in Brussels. But the magistrates are still working on the case that is set to stretch into early next year. Whichever way it goes, Trichet's chances of succeeding Duisenberg are no longer as certain as they once were.

Trichet, a quintessential French civil servant whose intellectual brilliance is matched by a fair degree of political cunning, has many supporters. He speaks excellent English. He is adept at communicating to the financial markets—a skill which the bluntly spoken Duisenberg has still to master.

Moreover, Trichet's record as an anti-inflation fighter in France is impeccable. He was one of the architects of the "franc fort" policy that helped France to withstand speculative attacks in the mid-1990s. Though the policy came at the price of high unemployment, it helped to prepare the ground for entry into the single currency in 1999.

At times, Trichet's hard-line stance against devaluation of the franc upset French politicians on the left and right. But his track record was enough for Chirac to put him forward as a rival candidate to Duisenberg in 1998. The Dutchman was none too pleased, having assumed that an earlier letter from Trichet congratulating him on his nomination was enough to assure his support.

Trichet explained at the time that he was in no position as a French civil servant to resist the wishes of the French president. This brought a tart

response from Duisenberg: "So is that how you would behave when you were president of the European Central Bank?"

So far the French government—in the shape of President Chirac and Prime Minister Lionel Jospin—have refused to say how they intend to handle the delicate succession issue. In their view, it is too early to show their hand. The German government's position is that this

tainty, exacerbated by the terrorist attacks in the US and the subsequent turmoil in the financial markets, the question of succession is one more burden that the ECB could do without. This may explain why some ECB officials are keener to end the speculation, in particular why the name of Christian Noyer, the ECB vice president, has surfaced.

Noyer's role was widely viewed as keeping an ECB seat warm for Trichet. His

In this climate of uncertainty, the question of succession is one more burden that the ECB could do without.

is a French problem that requires a French solution. As for the rest of the euro-zone members, they are steering well clear.

There is, however, some unease at the ECB. Much energy is currently being expended on preparations for the introduction of hundreds of millions of euro notes and coins on January 1, 2002. This amounts to the biggest logistical exercise in peacetime and is viewed as a critical test for the authorities and the credibility of the euro.

At the same time, the ECB remains watchful about the European slowdown. The quarter point cut in late August was only the second time that the ECB has reduced rates this year—in marked contrast to the aggressive cutting by the Federal Reserve. Duisenberg has declined to rule out further cuts.

In this climate of uncer-

term as vice president is confined to four years, and therefore, he is conveniently due to step down in 2002, roughly around the same time as Duisenberg is assumed to be willing to go.

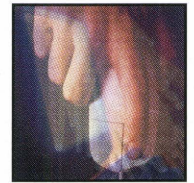
But with uncertainty surrounding Trichet, Noyer seems to have raised his profile gently in recent months. The sole difficulty is that there appears to be no provision in the Maastricht Treaty for the ECB vice president stepping up to the top job, given his four-year, non-renewable mandate.

Nevertheless, the fact remains that France wants a Frenchman to run the ECB after Duisenberg. That is true for Chirac as much as for Jospin. If Trichet continues to suffer at the hands of the magistrates, expect the lawyers to be called in on behalf of Noyer.

—Lionel Barber

e-EUROPE

Tracking the news
and trends shaping
Europe's technology
sector



IS THE INTERNET THE NEXT FRONT IN THE TERROR WAR?

Modern life continues to endure the effects of September 11, and the Internet sector is likely to feel the tremors of the worst terrorist attacks in US history for some time to come.

The first major aftershock to strike the sector came two weeks after the attacks, when security experts began warning about a computer virus transmitted via e-mail. Entitled "Peace between America and Islam," the e-mail encouraged users to click on an attachment entitled "WTC.exe," which would then activate the virus and allow it to delete files and send copies of itself to other computers. It also defaced Web pages with the message: "America...few days will show you what we can do. It's our turn))) Zaker is so sorry for you."

Authorities do not believe the author is connected to the September 11 terrorist attacks. Furthermore, investigators say Osama bin Laden and his Al-Qaida terrorist network have not yet been implicated in any known cyber attacks, although they are suspected of using some sophisticated computer techniques for communications and logistics purposes, including advanced encryption methods and steganography, which involves hiding encrypted messages in the computer code of images and audio files.

Although Al-Qaida doesn't appear to have focused on the Internet as a battleground in and of itself, cyber terrorism

has long been a concern to governments and companies, and many continue to sound the alarm that it poses as real a threat as hijacked planes. Last spring, the United Kingdom's then-foreign secretary Robin Cook warned British parliamentarians that, since computers managed most of country's transportation and utilities networks, cyber attacks posed a greater threat to the national infrastructure than military strikes.

He referred to a survey conducted by the Communications Management Association (CMA), which represents communications managers from the UK's top 1,000 public and private institutions. Thirty-two percent of its members acknowledged their institution had suffered a cyber attack, which ranged from theft of information to infiltration of corporate bank accounts. Half the senior workers said they believed the attacks represented a major threat to their institutions' survival and that they weren't equipped to cope with attacks.

The survey also revealed that few cyber attackers are brought to justice in the United Kingdom. The CMA attributes this to the legal profession's lack of knowledge and expertise in this new arena.

Military leaders are also concerned. Three years ago, US authorities traced attacks on Pentagon computer networks to teenage computer crackers (in the Internet community the term "hackers" refers to law-abiding computer programmers, their rogue counterparts are known as "crackers") from Israel and California, who had met over the Internet, and coordinated

their strikes. Although Pentagon officials said there was little threat to the networks, the attacks illustrated the ease with which a cyber invasion could be launched from abroad.

That point was further reinforced this spring when, with tensions running high between the US and China after the collision of an American surveillance aircraft and a Chinese fighter jet, a brief cyber



war broke out among crackers from both nations. On May 1, Chinese crackers defaced several US Web sites, including some maintained by the Air Force. They are also believed to be the source of July's "Code Red" computer virus that forced the White House and Pentagon to temporarily block access to their public Web sites while protective software was installed. American crackers responded with their own attacks on Chinese Web sites and are believed to have authored the "Code Blue" virus, which has

so far shown up mainly on Chinese networks.

Most experts, however, generally consider these types of attacks the work of vandals rather than terrorists.

"In the near term, terrorists are likely to stay focused on traditional attack methods," Lawrence K. Gershwin, the US's national intelligence officer for science and technology, testified to Congress on June 21. "Bombs still work better than bytes," he stated, "but we anticipate more substantial cyber threats are possible in the future as a more technically competent generation enters the ranks."

Instead, Gershwin identifies cyber warfare campaigns from hostile nations as the more immediate risk. "Among the array of cyber threats as we see them today, only government-sponsored pro-

grams are developing capabilities with the future prospect of causing widespread, long-duration damage to US critical infrastructures," he testified.

Admiral Chris Barrie, chief of Australia's Defense Force, concurs. "It's estimated right now over thirty countries have developed aggressive computer warfare programs," he told a conference on international security this summer in Sydney. "It's a very cheap and effective way to attack successfully valuable defense and non-defense assets."

—Peter Gwin





The World Trade Organization Round 2

Seattle To Doha

By Gary Yerkey

The popular travel guide *Lonely Planet* calls the Qatari capital of Doha on the Persian Gulf possibly the “dullest place on earth”—the perfect spot, in fact, for gray-suited diplomats who survived the World Trade Organization’s “Battle of Seattle” two years ago to try again to hammer out a few trade deals.

Organizers of the street-clogging, sometimes violent protests that erupted in Seattle at the last ministerial meeting of the WTO in November–December 1999 were quick to claim responsibility for the failure of negotiators to launch a new round of global trade talks, as planned. But most independent observers would argue that the Seattle breakdown had more to do with differences aired by ill-prepared trade negotiators in closed-door meeting rooms than with well-prepared demonstrators in the streets.

Next month—in a follow-up to Seattle—trade ministers from the 142 member countries of the WTO will be converging on Qatar—an Islamic desert nation with camel races and lots of oil—in another attempt to set in motion

a new round of world trade talks. Anti-globalization protestors, predictably, have vowed to disrupt the proceedings, set for November 9–13. But the Qatari authorities, while promising to permit nonviolent demonstrations despite longstanding restrictions on free speech and public assembly, have also said that they will offer the WTO trade ministers an “island of peace” to “reflect on the future of world trade.”

“Once again the cynical and arrogant bureaucrats of the WTO think they can run and hide from the deep and abiding problems the WTO has created [by holding the WTO meeting in Qatar],” said George Becker, former president of the United Steelworkers of America, whose members were among the estimated 30,000 demonstrators who took to Seattle’s streets to blame the international trade body for everything from world poverty to environmental degradation. “But once again, like in Seattle, the world will be watching and accountability cannot be escaped.”

Kenneth Roth, executive director of New York-based Human Rights Watch,



(top) Protesters disrupted the World Trade Organization meetings held in Seattle in November 1999, and the city suffered millions of dollars of damage.

(bottom) A more benign era: trade negotiators at the 1967 Kennedy Round held a press conference at the negotiating table.

says that staging the WTO meeting in Qatar (a monarchy with no constitution or political parties, whose human rights record, according to the State Department, could use some work) will send precisely the wrong message—"that it's OK to build the global economy on a foundation of repression."

"Instead of addressing protesters' concerns," Roth said, "the only thing the WTO seems to have learned is to hold meetings in countries that ban public protests altogether."

So why Qatar? No other country, in fact, offered to host the meeting in the wake of the Seattle wreckage (reported to be \$3 million in property damage and up to \$22 million in lost



business for Seattle merchants). Qatar emerged victorious, although Chile reportedly promised to step in to save the WTO if the facilities in Doha were found to be inadequate to accommodate the thousands of delegates, journalists, lobbyists, and protesters expected to attend the November event.

Officials say that the new round of WTO trade talks, if successfully launched in Qatar, would be aimed at advancing a number of lofty, long-term objectives—from further easing barriers to world trade in agricultural products, industrial goods, and services (like banking and insurance) to improving the WTO's own dispute settlement mechanism.

Trade ministers attending the Doha meeting will also likely be asked to decide whether the WTO should be charged with tackling new issues, such as setting rules to govern foreign investment and competition policy. Officials say that the negotiations would take at least three years to complete.

The United States and the European Union, meanwhile, have been seeking over the past few months to coordinate their negotiating strategies in the run-up to the November meeting—with considerable success, particularly given the continuing friction over long-running bilateral disputes concerning everything from farm subsidies to tax breaks for US exporters to beef hormones to genetically modified organisms (GMOs).

The EU's trade commissioner, Pascal Lamy, who will lead the European delegation to Doha, has argued that the world needs the new trade talks to help provide a much-needed boost to trade liberalization and spur economic growth. Lamy has said that the talks could also help prevent any backsliding in liberalization that might occur in light of the world economic slowdown this year.

The US trade representative, Robert B. Zoellick, who will head the US delegation to Doha, has said he agrees. "At a time of economic slowdown," he said, "it's all the more important to push for [trade] liberalization. Otherwise, we could see the forces of protectionism gain more traction."

WTO Director-General Mike Moore, moreover, says that the very credibility of the world trading system may be on the line. "The outcome [in Qatar] will

determine whether or not the WTO and the multilateral trading system remain relevant to the organization's 142 members governments," Moore wrote recently. "Should we fail in Doha to launch a broad round [of trade talks], the focus of global trade activity will shift from the multilateral trade arena to regionalism, bilateralism, and most worryingly, to unilateralism." Moore has quoted a University of Michigan study that concludes that, if all the remaining barriers to trade in agriculture, manufacturing, and services were cut by one-third, the world economy would grow by \$613 billion.

Nevertheless, the principal challenge facing the United States, the EU, and other developed economies this time around will probably be to persuade the world's developing countries, which make up more than three-quarters of the WTO's membership, to come on board. Developing nations like India, Indonesia, Egypt, Pakistan, and Brazil have been skeptical, arguing that they were shortchanged in the last round of multilateral trade negotiations (the so-called Uruguay Round, which

ended in 1993), primarily in terms of obtaining greater access to rich-country markets for textiles and agricultural products. So why should they agree to new trade talks this year?

The developing countries have also expressed some concern over proposals being advanced principally by the EU to link trade liberalization to the maintenance of strict labor and environmental standards—wondering whether it won't someday be used as an excuse to restrict imports.

President George W. Bush, meanwhile, has sought to win the support of the developing world to the open-trade cause, arguing that lowering trade barriers represents the "best hope" for poor countries to "escape poverty" and insisting that those who demonstrate against globalization are "no friends of the poor."

Zoellick has said that WTO member countries will need to be "sensitive" to the interests of the developing world given the "expanded membership" of the organization—a reference to the growing importance of poorer nations in the WTO and China's imminent

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The nation of Qatar is about the size of Connecticut with a population of less than 800,000. Its capital, Doha, is located on the Persian Gulf.

membership in the seven-year-old organization. “The developing world has the most to gain from a new round,” Zoellick says, “and the most to lose without one.”

The United States and the EU, in the meantime, have jointly offered to provide “capacity-building” and other technical assistance to developing countries as they seek to implement commitments made in past trade talks and to negotiate new trade agreements in the future. Furthermore, the WTO has recently given some developing nations more leeway in complying with their existing WTO obligations.

Lamy also persuaded the fifteen EU member countries to drop their restrictions on all imports from the world’s least-developed countries, except arms, in what the Europeans call their “Everything But Arms” initiative.

Next month, however, the world’s attention will turn to Doha. Diplomats attending the WTO meeting, while focusing on the mission at hand, will also likely have their hands full with things other than trade—like mastering the intricacies of camel racing or finding other ways to divert their attention from the heady business of lowering tariffs and drafting new antidumping rules.

“You’ll be hard-pressed to find anyone who’ll claim the place is exciting,” *Lonely Planet* says. “But there’s nothing *wrong* with Doha: The bay is charming, and there are enough interesting sights around town to keep most travelers occupied for a few days.”

The perfect spot, in fact, to hammer out a few trade deals. ☺

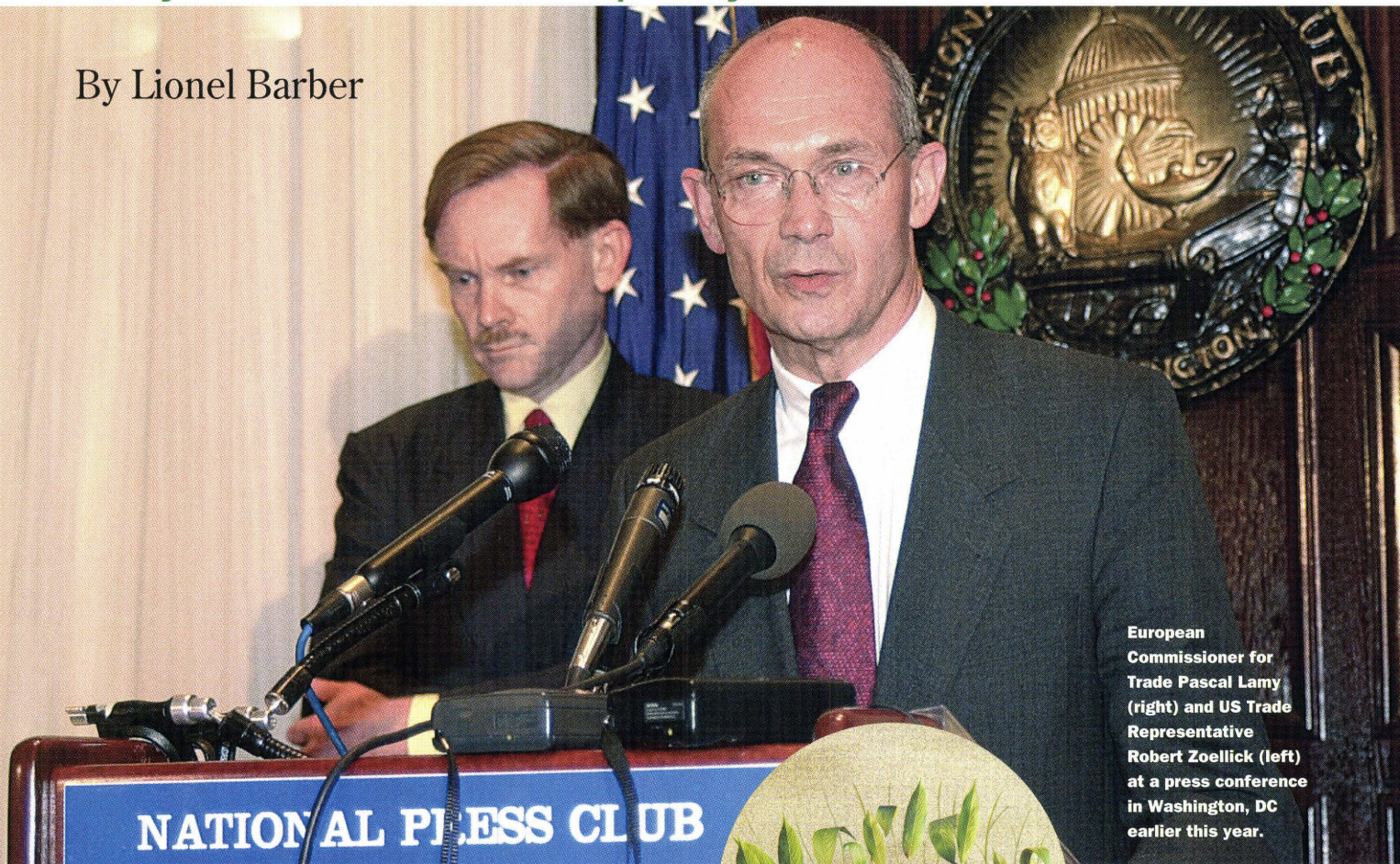
Gary G. Yerkey covers international trade for BNA’s International Trade Reporter, International Trade Daily, WTO Reporter, and Daily Report for Executives.

KEY PLAYERS

in a New World Trade Round

Lamy-Zoellick relationship may determine Doha outcome

By Lionel Barber



European Commissioner for Trade Pascal Lamy (right) and US Trade Representative Robert Zoellick (left) at a press conference in Washington, DC earlier this year.

The prospects for launching a new world trade round in Doha, Qatar, in mid-November may well come down to the relationship between two men: Pascal Lamy, the European Union's trade commissioner, and Robert Zoellick, the United States' trade representative.

Lamy and Zoellick speak for the two most powerful economic blocs in the world, and from the Kennedy Round in the early 1960s to the Uruguay Round in the early 1990s, history shows that the precondition for a global trade bar-

gain depends on agreement between Europe and the United States.

But in this case, there is a personal connection. Lamy and Zoellick have known each other for more than ten years and regard each other as friends.

"The Lamy-Zoellick relationship is pivotal," says a veteran observer at the World Trade Organization in Geneva, "they hope that their joint leadership and determination will persuade others that the train is leaving the station and

they should jump on board."

At first glance, the two men would seem to come from opposite ends of the political-ideological spectrum: Lamy is a French Socialist; Zoellick is a free-market American Republican. But they have more in common than first appears. Both are marathon runners with fierce intellects and a burning desire to win.

Their friendship goes back to the tense allied diplomacy that led to the unification of Germany inside the Euro-



pean Union and the NATO alliance. Lamy was chief of staff to Jacques Delors, president of the European Commission. Zoellick was counselor to James Baker, US secretary of state.

At the time, Lamy was eager to carve out a bigger role for the Commission (and his boss, Delors) in managing the postwar reunification of the European continent. Zoellick, never starry-eyed about European integration, nevertheless helped to shape a more enlightened view in Washington toward the European Union.

Today, Zoellick and Lamy are careful to distinguish between their personal friendship and their public roles. Both labor under considerable domestic constraints as they search for common ground ahead of Doha in their joint effort to rebuild confidence in the liberal trade system.

Zoellick must balance any concessions he makes against the risk of antagonizing powerful domestic business lobbies. He has also been spending dozens of hours cultivating members of Congress, from which he is seeking the trade negotiating authority (known as "trade promotion authority") needed to participate in a round.

This means he has little room to maneuver on some of the central demands of the poorer countries such as curbs on US antidumping policy and cuts in its high textiles and clothing tariffs. However, without some ground being given, it seems hard to see how the developing world will come aboard.

Lamy, meanwhile, is bound by an ambitious negotiating mandate agreed upon by the EU before the disastrous late 1999 meeting in Seattle, where WTO members failed to launch a new round. If he backtracks too much, he risks dividing the member states from whom he derives his authority.

Lamy is under strong pressure to liberalize agriculture. But he would also like to include negotiations on new issues on the Doha agenda. These include rules on competition policy, investment, and the environment, as well as a formula for dealing with trade and labor rights.

The EU says its demands are essential to make further liberalization palatable to European electorates. But some, including Zoellick, wonder sometimes whether environmental rules are a pretext to legitimize trade protection. Brussels' recent propos-

Lamy and Zoellick have known each other for more than ten years and regard each other as friends.

als for labeling rules for genetically modified foods have sharpened those concerns, particularly in the United States.

Lamy is less a sharp-edged liberal on trade than Zoellick, one of the architects of the North American Free Trade Agreement and the Asia Pacific Economic Council. (APEC). But Lamy's past record suggests that he is more committed to defending the postwar liberal trade order than some may first imagine.

His most notable contribution came in 1992-93 when he persuaded Jacques Delors to back an agreement in the Uruguay Round. He warned pointedly about the risk of France retreating behind a new "economic Maginot Line"—a reference to the formidable but flawed line of fortresses built to repel the German army in the interwar period.

Yet, as Zoellick himself admits, it is probably asking too much of Lamy to deliver the French government for a second time—especially in the months leading up to the 2002 presidential election. On the left, he has Lionel Jospin, a socialist prime minister who is deliberately courting the anti-globalization contingent. On the right, he has President Chirac, the friend of the farmers, who will not hesitate to outflank Jospin on trade issues.

"Lamy's nightmare is getting close to a deal in Doha and then receiving a late-night call from the Elysée Palace ordering him to call it off," says an EU government official.

In the last resort, much will depend on whether Zoellick and President George W. Bush can win trade promotion authority—and the price they may have to pay to the Democratic majority in the Senate.

The result could be legislation piled high with demands for labor and environment provisions in trade agreements that would incense poor countries. An even worse outcome would be for President Bush to try to secure the authority before Doha and fail, as Bill Clinton, his predecessor, did four years ago.

The next several months will show whether the Lamy-Zoellick double act can triumph over adversity. This is a show worth watching. ☺

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

Pascal Lamy

EU Trade Commissioner

Pascal Lamy, the EU's trade commissioner, recently took time from his preparations in advance of next month's World Trade Organization summit to answer EUROPE's questions about the events and issues shaping the agenda at Doha.



What impact have the September 11 terrorist attacks had on the EU's approach on trade?

Without a doubt, it is still too early to size up fully the likely extent of change in the world and in Europe after the terrible events of September 11. Our economic and trade relations with the rest of the world are only part of a complex picture with geopolitical, diplomatic, and military dimensions. But these relations reflect the same values that support our external policy as a whole and our common interests.

The terrible tragedy that struck the US on September 11 has flung us into a riskier world. We must respond by reducing these risks using the tools available to us. The risks today are stronger and more visible, and as is even clearer today, insecurity is global; it spares no people, no country, no region. Our world is, in fact, just as global in adversity. Faced with an obvious determination to destabilize, we have to reply with stability and with an injection of security, whether political and economic, whether social and cultural.

The process of rules-based trade liberalization, the integration of developing countries, and the concern to en-

EUROPE INTERVIEW

sure environmental and social sustainability are no less necessary today than

yesterday. These are issues of stability and security, both between countries and between generations. Faced with the menace of destabilization, the multilateral network must be consolidated further, which is all the more reason to press ahead with trying to launch a WTO round in Doha.

What does the EU hope to achieve in the third WTO ministerial meeting in Doha?

We hope to fulfill our number-one priority in EU trade policy, namely the launch of a new round of multilateral trade talks. Since the 1999 world trade summit in Seattle, the EU has been working tirelessly to keep the WTO flame alive. We have been doing so for three principal and very good reasons. We need to bring developing countries into the heart of the multilateral trading system. We need to go further in opening markets and removing barriers to trade to

ensure greater economic growth. We need to address the "regulatory deficit" that exists in the WTO at present. While the WTO rulebook hasn't been updated since 1995, trade liberalization has moved on apace. It is through proper and adequate rules that we will address many of the justified concerns expressed by civil society. These objectives can only be achieved in the context of a new round. The longer we leave it, the worse things will get. The quicker we address these issues the better it will be for all concerned.

Are the US and EU working together?

Absolutely. Since Bob Zoellick took up his position as the US trade representative, I must say, I have felt "the loneliness of the long distance runner" a little less. It is fair to say that since Seattle we have been pretty much alone in pushing for a round. It's tiring being a pacesetter. Having the US come up along side us, as they have done, is very welcome news. As marathon runners, we enjoy this sort of challenge. Our job is now to bring the field home. To this end, we have been working hard to bridge positions between ourselves and with other WTO partners. Without agreement between the EU and the US, there won't be a round, so our work is essential. It has already borne fruit and while we are not quite there yet, our differences are far less than they were at Seattle.

Are you encouraged that Qatar will be more successful than Seattle?

Time will tell. There are certainly grounds for us to hope this will be the case. The risk of a global economic recession has focused minds on the need to guard against protectionism and to increase trade liberalization in order to cushion a downturn. Equally, I think many WTO members realize that a failure to re-inject momentum into the WTO means many will be tempted to pursue the bilateral route to trade liberalization. If so, developing countries will lose out. Their voice and bargaining power is far greater in a multilateral context than if they have to face up to the US or the EU individually.

"Faced with the menace of destabilization, the multilateral network must be consolidated further, which is all the more reason to press ahead with trying to launch a WTO round in Doha."

What are the main concerns of developing countries?

We must recognize that developing countries have genuine concerns about the trading system as it stands. It is as unsatisfactory for them as for us, although the reasons for this may not always be the same. Developing countries have real problems digesting the commitments they entered into in the Uruguay Round. They feel they bit off a great deal and are still chewing. We are willing to be understanding on this, what we call "implementation" in trade jargon. Developing countries also want better access to our market

for their exports. Again, we recognize this as a legitimate objective and our unilateral decision to liberalize "everything but arms" from the forty-nine poorest countries in the world is a tangible example of our willingness to address these concerns. A number of poorer countries also wish to address the issue of trade defense measures, namely antidumping. Again, we're willing to put this on the agenda.

What will the round be called?

I'm not a great one for packaging. The substance is my primary concern. I'm easy on the label as long as the contents are there.

Will any new issues be raised in Doha?

I have a very clear mandate from the fifteen EU member states to include such issues as investment and competition in the agenda for a new round. The days when trade was limited to the bread and butter of agriculture and industrial products is over. We need to overhaul the WTO to bring it into the twenty-first century. We believe that establishing basic principles that encourage competition and foreign direct investment are a good thing for *all* WTO members. Attracting foreign direct investment to developing countries is part of the equation if we are to bring them into the system and ensure they reap the benefits of globalization. Equally, how better to respond to allegations that the WTO is the lapdog of the multinationals than through establishing some principles on competition? ☺

TOUGH

By Terry Martin



An unemployed German worker carries a poster with the slogan "share work fairly" outside the Berlin stock exchange.

It's not easy being the biggest economy in the euro zone. While everyone relies on you to keep the common currency strong, few seem to appreciate the fact that your nation's power over monetary policy has been relinquished to the European Central Bank. Germany's sluggish economy undoubtedly contributes to the euro's weakness. But Germany itself is not in a position to do very much about it. Two of the most powerful tools for stimulating economic growth—an interest rate cut and currency devaluation—are in the hands of the ECB. Not surprisingly, some German investors are nostalgic for the Bundesbank of old, which could be relied on to ease the monetary pressure when the going got tough.

At the moment, the going is very tough indeed. Whatever yardstick is used, the German economy comes up short. Take gross domestic product, for example. Since 1995 annual economic growth in Germany has averaged about one percentage point lower than that of the euro zone's other eleven countries put together. After turning in a respectable 3 percent growth performance last year, the German economy this year will be lucky if it does half that well. Growth forecasts in 2000 have been revised steadily downward. While the government is sticking to its prediction of between 1.5 and 2 percent, Berlin's Institute for Economic Research now expects GDP growth of just 1 percent. JP Morgan Chase is among the institutions anticipating growth of no more than 0.8 percent. The economy actually shrank during the first half of the year. If third quarter figures show a continuation of that trend, the country will officially be in recession.

Germany's mighty manufacturing sector is already in recession. Business confidence and consumer confidence are both low. And while exports are still holding relatively steady, domestic demand is flagging. Several major compa-

TIMES

German economy struggles to keep growth alive

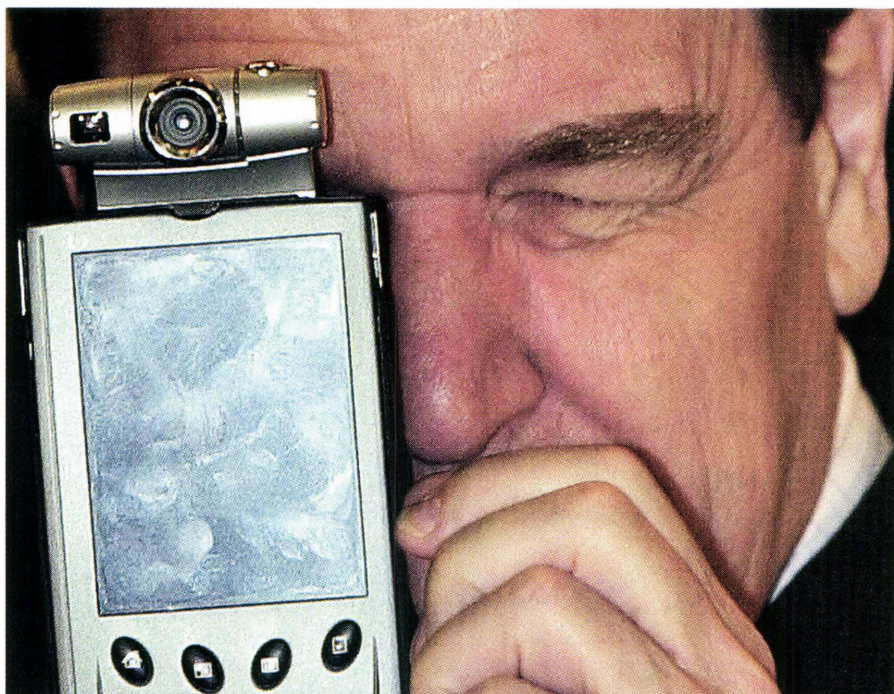
In March, Gerhard Schröder attended the CeBIT high-tech fair held in Hanover. The chancellor would like to see a rebound in the sagging tech sector to help bolster Germany's economy.

nies have announced large-scale layoffs, including the electronics giant Siemens, truck manufacturer MAN, and chipmaker Infineon. The postal service and federal railways plan to cut 14,000 jobs this year.

Germany's capital markets, meanwhile, have declined precipitously since their peak in March of last year. Their curve has basically mirrored the drop in share prices on Wall Street. In the eighteen months through August, Frankfurt's blue-chip DAX index dropped from a high of just more than 8,000 to less than 5,500. Looking at the market for so-called "growth stocks," Frankfurt's tech-heavy Neuer Markt has fared even worse than the Nasdaq. The Nemax-all-share index plummeted from nearly 9,000 to just 1,180. That doesn't exactly inspire confidence among entrepreneurs and investors. While companies last year were tripping over each other in their rush for a Neuer Markt IPO, this year new listings have slowed to a trickle.

All this, of course, is having a direct impact on employment figures. After two years of dropping steadily, the jobless rate rose for seven consecutive months through mid summer. By June it stood at 9.3 percent. The number of jobless was still below the critical 4 million level. But even Chancellor Schröder has been forced to concede that his election promise of cutting unemployment to 3.5 million in 2002 now seems overly optimistic. Munich's IFO research institute predicts the jobless rate will continue to increase in the months ahead.

Rising unemployment has led to calls for the Schröder government to bring forward a series of tax cuts scheduled to take effect over the next five years. By the year 2005, the top rate of personal taxation is due to drop from 50 to 42 percent. Some believe that if tax relief were to be implemented sooner, it could boost consumer spending. Others, however, point out that pushing through tax reform during an economic slowdown is



likely to put even greater pressure on the federal budget. Declining tax revenues could make it difficult for Germany to adhere to the euro zone's debt and deficit limits, let alone achieve the government's declared goal of balancing the federal budget by 2006.

The one bright spot in Germany's economic picture is inflation. While rising oil prices have pushed up the consumer price index somewhat, the increase has been significantly lower than in most other euro zone countries. Before European monetary union took effect, a slow growth/low inflation scenario is one the Bundesbank typically responded to by cutting interest rates. The policymakers at the European Central Bank, however, are obliged to consider a broader picture. Their brief is to maintain price stability in the euro dozen. Rate cuts can be expected only when inflation is low across the board.

If the euro is having a tough time holding its own against the dollar, Germany is partly to blame. The German

economy, after all, accounts for 31 percent of the euro zone's output, and currency markets look to it for guidance. When they see Europe's biggest economy slipping, the euro inevitably suffers.

Still, it's worth remembering that currency valuation is not a one-way street. Measuring the euro's value against the dollar requires a consideration of factors in both relevant monetary zones. Just as the euro's slide reflected a tilt in investor confidence toward the US economy, the euro's incremental recovery indicates that confidence is shifting in the other direction. Certainly, the September 11 terrorist attacks and the stock markets' subsequent swoon have further clouded the picture. Germany's economic woes certainly don't help the euro. But they can't stop the common currency from gaining against the greenback if the US economy goes south. ☹

Terry Martin is EUROPE's Berlin correspondent.

Gerhard Schröder

By Elizabeth Pond

Changing German

If German Chancellor Gerhard Schröder still looks set to win re-election next year, despite the staggering German economy, there's a reason: He has 'out-Blaired' British Prime Minister Tony Blair in monopolizing the domestic political center. To be sure, Schröder's unassailable ratings of a few months ago have slid as forecasts for Germany's economic growth have shrunk to about 1 percent for 2001. However, the latest opinion polls still give the chancellor a strong plurality of 44 percent, or 10 percent better than his strongest likely conservative rival. The opposition Christian Democrats are still burdened by the revelation that their once-upon-a-time titan, ex-chancellor Helmut Kohl, had operated an illegal party slush fund while in office. Furthermore, Schröder has made the most of his opponents' disarray.

First, the pragmatic chancellor let his more doctrinaire Social Democratic rival Oskar Lafontaine self-destruct. He appointed Lafontaine to the key position of finance minister but undermined his more extravagant leftist initiatives, and after half a year, the volatile Lafontaine quit both the cabinet and politics in a huff. Schröder then promoted the little-known Hans Eichel to the finance ministry, and Eichel surprised everyone by introducing the kind of liberal Anglo-Saxon market reforms the

conservatives had been too timid to attempt in their sixteen years in power.

The centerpiece of this belated accommodation to a globalized world was removal of the punitive taxes on divestment of the cozy corporate cross-holdings that typically characterize "Rhenish capitalism." By intense local politicking and cross-party rewards of federally funded regional projects, Schröder skillfully won a majority for the reform in the Bundesrat, the upper legislative chamber representing the *länder*, Germany's states. The opposition Christian Democrats could only fume as their regional officials took the bait and voted for the new legislation.

Schröder went on to do the same for an initial pension reform that should eventually reduce generous state funding in favor of voluntary private-sector retirement funds. Along the way, the Social Democrats also expanded somewhat the hours that stores are legally allowed to stay open and the discounts firms can give and moved away from a narrow trade-union mentality to more of a consumer orientation. In addition, Eichel is pushing for regulatory modernization.

To be sure, Schröder has nodded to party orthodoxy in blocking moves toward greater labor flexibility, most notably in bailing out the bankrupt Philipp Holzmann construction firm and opposing Vodafone Air Touch's hostile bid

for the German telecom company Mannesmann. However, the overall thrust of his policy is to open up Germany in order to make German business more competitive.

Generally, it has been a notable performance for a man who began his career as a left-wing firebrand ridiculing moderate Social Democratic rivals to win leadership of the Young Socialists back in the anti-Vietnam War days.

Schröder's second tactic has been to depoliticize some hot issues by luring centrist Christian Democrats onto non-partisan policy commissions to such an extent that some commentators complain that Schröder is short-circuiting the political process.

The most conspicuous example of this tactic was the creation of a commission to recommend immigration policy. Based on their own majority with their coalition partner Green Party, the Social Democrats did update Germany's pre-World War I citizenship law, which was based on bloodlines, to allow easier naturalization for ethnic Turks and other long-time residents of Germany. Also, by arranging for "green cards" to bring in urgently needed computer programmers from India and elsewhere, the government finally launched a public debate on devising a real immigration policy. Previously, immigration had been addressed through backdoor methods, as temporary "guest workers"



Politics



Chancellor
Schröder (right)
flanked by
Foreign Minister
Joschka Fischer

long slogans to the contrary, the CDU and CSU have had to acknowledge that Germany is indeed an immigrant land. And as of early September, Schröder was on his way to getting consensus support for a more modern immigration law based on the findings of his select commission.

With the two issues of economic modernization and immigration thus more-or-less neutralized before the 2002 election, Schröder has proceeded to steal the conservatives' clothes on the final issue he might have been vulnerable on—the European Union. In post-World War II Germany, it was always the Christian Democrats who championed the EU and the Social Democrats who were suspicious of it. Last spring, however, Schröder moved to coopt this issue too.

Previously, he had largely left any grand statements about the EU's future to his eloquent foreign minister, Joschka Fischer. In May, however, he suddenly promoted as his own a resolution for the forthcoming Social Democratic party convention. In it, he advocated a European "federation;" the metamorphosis of the intergovernmental European Council into an upper house of parliament; specifying which governmental competences are to be reserved for EU member states and their regions or states; and reducing the EU's huge outlays for farm and regional subsidies by co-financing these programs with the EU and recipient states. This coup left the Christian Democrats without a major campaign issue.

Previously, Schröder had largely left any grand statements about the EU's future to his eloquent foreign minister, Joschka Fischer. Last May, however, he outlined his own views of how Europe should progress.

stayed on permanently and the poor of Asia and Africa gravitated to Germany under the blanket right of political asylum guaranteed in the constitution of the Federal Republic.

Before the "green card" debate, everyone knew that Germany's aging demographics would soon require a substantial import of young workers in order to maintain the country's generous social safety net. The subject was

taboo, however, until Schröder initiated discussion on the narrow field of computer programmers. This maneuver left the Christian Democratic Union and its Bavarian sister, the Christian Social Union, looking not only discriminatory but also out-of-date in calling for *kinder statt inder*—that is, urging German procreation of native computer whizzes to preempt an influx of immigrants.

Subsequently, despite their decades-

Opinion polls attest that Schröder's tactics are paying off handsomely, as does the clear reluctance of prominent conservative challengers to become their parties' likely sacrificial chancellor candidate next year. ☺

Elizabeth Pond, based in Berlin, is the editor of the quarterly Transatlantic Internationale Politik and a contributing editor to EUROPE.

Schröder and the EU's Future



The German chancellor shows off his soccer skills for his fellow EU leaders following a photo session during the Stockholm summit held in March.

The German Social Democratic resolution on the European Union, to be voted on at the party convention in November, calls for a European “federation,” transformation of the European

Council of peripatetic intergovernmental summits into an upper parliamentary chamber; clarification of which level of governance (EU, nation-state, or sub-national) has what competence reserved to it; and devolution of a share of the funding for the EU’s exorbitant agricultural and regional subsidies to the budgets of recipient states.

Since the draft resolution was made public last May, Chancellor Gerhard Schröder has modified it in part, and no one doubts that the final version will reflect his preferences. After France’s president and prime minister, Jacques Chirac and Lionel Jospin, challenged his proposal to turn the European Council into a legislative chamber, Schröder quickly dropped that idea,

saying it was just one suggestion among many. And after Chirac and Jospin further rejected the notion of a European “federation” and advanced their pet phrase of a “federation of nation-states,” Schröder allowed in various interviews that this was fine by him, too. Such rhetorical agreement was easy enough, since no one has yet specifically defined his terms anyway—and since the German concept of “federation” is, in fact, very similar to what the English think of as its diametric opposite “subsidiarity.” For the Germans, both concepts actually mean assigning government competence at the lowest level possible, whether that is community, province, region, nation-state, or if necessary, the European Union.

In his most coherent explanation of his thinking, given in an interview with the *Financial Times* in mid-June, Schröder boiled his proposal down to three elements: a minimal constitutional framework, with the (so far) non-binding Charter of Fundamental Rights made an integral and binding part of it;

a prescription of which competences will be reserved for levels of government below the EU; and financial reform of the Union.

Although their specific proposals diverge, Schröder could be compared in some ways with France’s Prime Minister Jospin. For a year after his foreign minister, Joschka Fischer, in 2000 suddenly revived the whole debate about the *finalité* or end-goal of the EU, Schröder remained silent—as did Jospin after President Chirac pronounced his own view of the EU’s future. Both leaders waited until this year to declare their positions, and when they finally did speak, both stressed concrete steps rather than grand designs.

Indeed, in Schröder’s party resolution, the very pragmatic last element of funding reform is in many ways the most innovative. Germany currently bankrolls roughly 60 percent of the EU’s net outlays, with more than four-fifths of these outlays going to pay for the expensive agricultural subsidies that especially benefit France and for the development funds that especially benefit the poor Mediterranean countries. Apart from a few timid probes by Schröder himself in 1999, the whole topic of fair contributions to the EU has essentially been taboo in Germany until now—apparently out of fear of arousing anti-European reactions among German taxpayers, who do not seem to realize how much they actually pay for the Union.

Here the Social Democratic resolution calls for moving in the direction of cofinancing, or requiring recipient governments to share the heavy costs with the European Union. And this time it sounds as if Schröder might be prepared to fight for the shift. The last time he tentatively raised the issue, in mid-1999, he was hit by the Chirac bulldozer and retreated.

Now, by contrast, France’s harvest of huge farm subsidies—while being only a small net payer into EU coffers—could be put at risk. That would be revolutionary indeed.

—Elizabeth Pond

Eastern Enlargement: The

By Terry Martin

Ever since Gerhard Schröder ousted Helmut Kohl from office in the 1998 election, a tour of Germany's eastern *länder* (states) has become an annual ritual for the head of government. Part road show, part photo opportunity, the trip reinforces the image of the chancellor taking a hands-on approach to rebuilding a region ravaged by decades of communist neglect. It's a public relations blitz designed to give eastern Germans the feeling that the government is doing all it can to help them achieve western levels of economic prosperity. Generous cash transfers assured the chancellor a relatively warm reception in the past. But this year, Gerhard Schröder faced a hard sell. The reason was European Union enlargement.

That Germany's eastern border states are concerned about eastward enlargement is understandable. The country's geography places it on the front line of EU expansion. Germany shares long land borders with Poland and the Czech Republic, two of six "first-wave" applicants (including Hungary, Slovenia, Estonia, and Cyprus) on track to join the EU in 2004. While German industry is looking forward to exploiting new markets and low production costs east of the border, workers in eastern Germany fear an influx of cheap labor could cost them their jobs.

The results of the EU's Gothenburg summit last June made the prospect of these countries actually acceding appear far more likely. In Sweden, delegates upgraded their former "hope" to an "objective" that first-wave candidate countries participate in the 2004 elections for the European Parliament. The summiteers also reiterated their intention of concluding accession negotiations with these countries by the end of 2002. If Germans ever doubted the

chances of Poland and the Czech Republic joining the EU, they stopped doing so after Gothenburg. Enlargement was declared to be "irreversible."

With an eye on next year's general election, the German government is working to convince eastern voters that EU enlargement will not come at their expense. And those voters need a lot of persuading. Opinion polls show that in Mecklenburg-Vorpommern, Brandenburg, and Saxony—the *länder* bordering Poland—support for enlargement is extremely low. Only one out of three residents in the region is in favor of the move. That helps explain why the German government has announced with great fanfare that it will continue aid programs to eastern Germany for several years to come.

Eastern Germans are very familiar with the difficulties facing their neighbors in the transition to a market economy. Even after ten years of unification and cash transfers exceeding a trillion deutsche marks (more than \$400 billion), Germany's eastern *länder* still have an unemployment rate of 18 percent—twice as high as in western Germany. With few prospects for advancement, young people are leaving the region in droves. In Greifswald, the first of thirty-four locations visited by the chancellor on his eastern tour, the population has declined by 1 percent a year for the past decade. And other cities near the border, lacking Greifswald's advantages of a port and a university, are faring far worse.

What Germans fear most from EU enlargement is the pressure of competing with cheap labor. Wages in Poland are as much as six times lower than in Germany. The fact that eastern Germany boasts higher productivity rates (though still below western German levels) cannot offset Central Europe's competitive advantage of radically lower labor costs. If a manufacturer is

looking to set up a new factory, the argument goes, he'll skip over eastern Germany and go straight for Poland, Hungary, the Czech Republic, or Slovenia. Alternatively, someone requiring labor-intensive services in Germany would be foolish not to hire a low-cost Polish firm. Various studies suggest free competition in the service sector could have grave implications for eastern Germany's already battered construction industry.

The East-West wage differential is what motivated Germany and Austria to press for an elective seven-year ban on the movement of labor from new EU member states. Hungary was the first to agree to the condition, followed by Slovenia. Poland and the Czech Republic have been slower to accept. Not surprisingly, the most vocal opponent of the ban has been Spain, which was subjected temporarily to the same constraint when it joined the EU in 1986. Madrid tried to make its approval for the current German-sponsored ban dependent on Spain's continued access to EU structural aid. That aid, which flows to the EU's neediest regions, would be redirected from southern Europe (particularly Spain and Portugal) to Eastern Europe in the context of enlargement.

However costly and complex eastward expansion may seem, it also offers Germany several key advantages. In the most general terms, it offers Germany the chance to extend its sphere of influence in Eastern and Central Europe. Having more stable and politically amenable partners on your eastern flank never hurts. The security benefits of a stronger political and economic alliance are not to be overlooked. As Chancellor Schröder never tires of saying, EU enlargement constitutes a "tremendous opportunity."

Finally, for those who worry about the economic impact of enlargement, it's worth pointing out that the German

View from Berlin



Chamber of Industry and Commerce (DIHT) is among the project's most vociferous proponents. The group's members see enormous potential for development of trade with the EU aspirants. Already Germany's trade with Eastern and Central Europe accounts for about 10 percent of its total foreign trade, falling just \$1 billion short of trade with NAFTA counties. As a DIHT report saliently noted last year: "One in ten deutsche marks is earned in Eastern

Europe." The amount has doubled over the past decade.

Anticipating an era of closer cooperation, Schröder's eastern charm offensive in 2001 included hops over the border to Poland and the Czech Republic. Slipping back to the German side he delivered the welcome news that federal tax revenues would continue flowing toward the border region. Meanwhile, back in Brussels, the European Union's enlargement commissioner,

Günter Verheugen, announced a €214.5 million (\$190 million) aid program for the EU's eastern border regions. "We hope it will enable us to win political support for the process of enlargement," the commissioner told journalists. Those trying to penetrate the opaque complexities of the enlargement dialogue couldn't hope for a clearer explanation of the link between financial subsidies and political consent. ☹

Germany's

By Bruce Barnard

Tax Reform

Unlocking the Storehouse of Corporate Capital

Germany's corporate landscape will undergo a seismic change next January when the most fundamental tax reform in more than fifty years takes effect. Chancellor Gerhard Schröder's bold decision to eliminate capital gains taxes on companies' sales of holdings in other firms will unravel a labyrinthine web of cross-shareholdings that has been a feature of corporate Germany since the Second World War and in some cases as far back as the late nineteenth century.

Investment bankers say the landmark tax reform will free up at least \$225 billion of dormant capital, reducing the influence of Germany's giant banks and insurance companies in industry's strategic decision making, encouraging firms to invest more in their core operations and boosting the liquidity of the stock market.

Many of the assets being sold will likely be snapped up by foreign firms seeking to grow their business in Europe's biggest economy. At present only 18 percent of German stocks are held by foreigners, less than half the

level in France and the Netherlands.

Until now, the banks and insurers have held their shareholdings rather than pay a whopping 50 percent capital gains tax. Deutsche Bank's sprawling portfolio valued at more than \$15 billion, includes a 12.1 percent stake in Daimler Chrysler, 7.8 percent of tire manufacturer Continental, and 10 percent of Linde, an industrial concern. Its rival Dresdner Bank has 30 percent of Linde; 20.8 percent of Heidelberger Zement, a cement manufacturer; and 5 percent of luxury car maker BMW. Allianz, Europe's largest insurer, has stakes in excess of 10 percent in chemical firms BASF and Schering, and more than 8 percent of Karstadt, the nation's leading department store.

The forthcoming reform has already prompted a landmark deal in Allianz's takeover of Dresdner, Germany's third-largest bank, creating a group that owns approximately \$40 billion in other German companies. Non-financial companies also have valuable holdings that they can sell tax-free beginning next year. Lufthansa, the national airline, for example, has stakes in software and consulting companies, travel agencies,

and aircraft maintenance firms. E.on, the country's biggest utility, has interests in chemicals, transportation, real estate, silicon chips, commodity trading, and aluminum.

Some analysts predict the sale of assets and the withdrawal of the financial institutions to their core activities will spell the end of so-called "Rhenish capitalism," making the German economic model much more like its freewheeling US and UK counterparts.

One of the key impacts of the tax reform is that scores of inefficient companies will no longer be protected by large passive shareholders and will have to respond to the interests of smaller shareholders.

Chancellor Schröder's surprise announcement of the corporate tax break in December 1999 signaled a new era in German corporate life was underway, highlighted a year later by the \$180 billion takeover of Mannesman, the Düsseldorf-based engineering and telecommunication company, by British mobile phone giant Vodafone. Mannesman was a quintessentially German company in every way except one—foreigners held 60 percent of its shares.

These far-reaching changes in the German way of doing business have triggered a backlash with prominent businesspeople and labor leaders joining forces to prevent Germany's famed social market economy from being commandeered by US-style capitalism. But the government is standing firm. The finance ministry rejected pleas from the powerful regional states to dilute the tax legislation to allow them to levy taxes of between 10 percent and 13 percent on the dividend income of incorporated companies.

Meanwhile, German members of the European Parliament blocked a proposed EU directive to harmonize takeover rules and boost shareholders' powers after coming under pressure from unions and companies like Volkswagen that are worried about falling prey to a hostile bid. The other fourteen member states and the European Commission backed the plan, which had been on the drawing board for twelve years.

Supporters of the directive said it would have made Europe's corporate sector more dynamic and equitable by requiring shareholders' backing before firms launch takeover bids. Frits



In January, German companies will be able to sell long held investments without paying exorbitant capital gains taxes. A new law is expected to help firms like the Allianz insurance group (above), Lufthansa, and Volkswagen become more competitive globally.



Bolkestein, the commissioner in charge of the EU's internal market, said the defeat of the directive was a "serious setback" for the EU ambitions to become the world's most competitive economy by 2010. "The big German companies have returned to the kind of reflexive corporatist attitude they had in the past," said Bolkestein. "It is shareholders who should decide and not board members, who may have different interests."

The German government also plans to introduce legislation giving companies wide-ranging defenses to fight off hostile bids before the introduction of the tax reform in January. The new rules, drawn up after Vodafone's bid for Mannesman, will allow management to seek blanket approval from shareholders to use defensive "poison pill" tactics, such as selling off key assets, for a period of five years, to ward off a potential takeover even if no bid has been made. Germany currently has no law governing mergers and acquisitions, only a takeover code that is frequently ignored.



Meanwhile, labor unions, fearing foreign firms acquiring German companies will ignore or abolish workers' rights, are pressing the government to toughen the codetermination legislation under which half of the supervisory board seats are appointed by employees.

Despite these challenges, there's no doubt corporate Germany is set for a massive restructuring next year when the tax reform is expected to unleash a wave of mergers and acquisitions.

But it has a long way to go before it

resembles the US model. Take Volkswagen: Europe's biggest car manufacturer has doubled annual sales to more than 5 million cars in just seven years, but as of July, it was worth only \$15.6 billion, a third less than BMW, which sells seven times fewer cars. The reason: The 1960 VW law giving its home state of Lower Saxony, which owns 18.6 percent of its stock, an effective veto over most strategic decisions. **E**

Bruce Barnard, based in London, is a EUROPE contributor.

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EUROPE

update

OCTOBER 2001

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WHAT THEY SAID... ABOUT THE TERRORIST ATTACKS ON THE US

"The deliberate and deadly attacks which were carried out yesterday against our country were more than acts of terror. They were acts of war. This will require our country to unite in steadfast determination and resolve. Freedom and democracy are under attack...The enemy attacked not just our people, but all freedom-loving people everywhere in the world. The United States of America will use all our resources to conquer this enemy. We will rally the world. We will be patient. We'll be focused, and we will be steadfast in our determination. This battle will take time and resolve. But make no mistake about it: We will win."

—George W. Bush,
president of the United States
of America

"In the darkest hours of European history, the Americans stood by us. We stand by them now.

—Romano Prodi, president
of the European Commission

"This is an act of war by madmen."

—Christopher Patten,
European commissioner for
external relations

"I wish to express my solidarity and my deep

sadness to the American people and to assure President George W. Bush that the people of Europe stand shoulder to shoulder with them in this time of tragedy for that great democracy."

—Nicole Fontaine,
president of the European
Parliament

"No words can adequately express my feelings in response to these barbaric acts of terrorism. I wish to express my solidarity with the American people and in particular with the families of the many innocent people struck by this tragedy."

—Javier Solana, EU high
representative for the CFSP

"An attack on one is an attack on all...We have to make clear to the world that (the EU and NATO) stand together... We are two organizations that speak with one voice, one strong voice."

—Lord George Robertson,
NATO secretary-general

"The United States' NATO allies stand ready to provide the assistance that may be required as a consequence of these acts of barbarism."

—excerpt from the resolution
passed unanimously by
NATO

"We were all victims of this attack."

—Louis Michel, Belgian
foreign minister

"This mass terrorism is the new evil in our world today. It is perpetrated by fanatics who are utterly indifferent to the sanctity of life."

—Tony Blair, prime minister
of the United Kingdom

"We want joint action to cut off the supply of funds to terrorists. They are being financed somewhere and get their money through bank accounts which we can stop."

—Gordon Brown, UK
chancellor of the exchequer

"We have begun the heart-breaking work of listing so many British people who will now never go home."

—Sir Christopher Meyer,
the UK's ambassador to the US

"In these terrible circumstances, all French people stand by the American people. We express our friendship and solidarity in this tragedy."

—Jacques Chirac, president
of France

"We will remember this day forever. In the name of all Germans, I express our heartfelt sympathy to the American government and

the American people. At this difficult time we stand in firm solidarity at the side of our American friends."

—Gerhard Schröder,
chancellor of Germany

"I'm shocked at the terrifying, insane terrorist attack, which has hit the people of a friendly nation, as well as the conscience of the entire world."

—Silvio Berlusconi, prime
minister of Italy

"I hurry to express to fellow citizens my profound sorrow and my closeness in prayer for the nation at this moment."

—Pope John Paul II

"What happened today underlines the relevance of the offer of Russia to unite the powers of the international community in the fight against terrorism, the plague of the twenty-first century."

—Vladimir Putin,
president of Russia

"Europe, together with the United States of America, wants to fight terrorism, not Islam."

—Romano Prodi, president
of the European Commission

WHAT THEY SAID (CONTINUED)

“Let there be no misunderstanding: the United States will continue to advance the values that define this nation—openness, opportunity, democracy, and compassion. Trade reinforces

these values, serving as an engine of growth and a source of hope for workers and families in the United States and the world.”

—Robert Zoellick, *US trade representative*

“We’re building a strong coalition to go after these perpetrators, but more broadly, to go after terrorism wherever we find it in the world...(The coalition) should include Muslim

nations...Muslim nations have just as much to fear from terrorism that strikes at innocent civilians.”

—Colin L. Powell, *secretary of state*

EU NEWS

EU Targets Terrorism

The European Union has given a strong signal that it intends to step up cooperation with the United States by marshalling its police and intelligence forces against international terrorism within its borders. In a message of solidarity with the US after the terrorist attacks on the World Trade Center and the Pentagon, senior EU officials are working with Washington on joint assessments of the short-term terrorist threat and pooling of police knowledge.

The EU’s package of anti-terrorist measures amounts to a revolution in cooperation in justice and home affairs, an area where national prerogatives have traditionally been guarded jealously.

The package includes a European Commission proposal for a European arrest warrant for serious crimes, a common European definition of terrorist acts, and a provision for speedy extradition of suspected terrorists.

In addition, Belgium, which holds the rotating EU presidency, is pushing for an agreement by the end of the year on several measures, including:

- pledging for rapid action to enable the freezing of assets in terrorist-linked crimes and step up security controls at EU frontiers
- creating joint investigating teams from member states and cooperation among investigating magistrates dealing with terrorism
- calling on the EU’s chief of police task force to strengthen cooperation with non-EU countries and

coordinate increased security measures inside the EU, especially on airline security

- ordering EU intelligence chiefs to improve cooperation
- agreeing on procedures for rapid exchanges of information on terrorist incidents

Diplomats in Brussels believe most measures could soon be in force. The timetable for proposals for a European arrest warrant and common definition of terrorist acts is less clear, with several member states doubting whether the council of ministers would adopt the plans by year end.

The thrust of the proposals is nevertheless testimony to the growing importance of

EU-wide cooperation on matters of asylum, crime, immigration, and counter-terrorism. In the past, efforts to reach agreements on these subjects in the EU ran into near insuperable obstacles from the interior ministries of the member states.

There were signs of change before the terrorist attacks on the US, notably when EU governments expanded the scope of cooperation in the 1997 Amsterdam Treaty. But the carnage in New York and Washington has prompted action in Europe, with some countries such as Spain and the UK taking the lead in pressing for fast-track extradition of suspected terrorists.

At the same time, Germany has revived legislation from the 1970s that it used to clamp down on the Baader-Meinhof terrorist gang, overriding the objections of civil liberties groups. This follows revelations that a number of the suspected perpetrators of the assault on New York and Washington may have been students in Hamburg.

The European Commission would like an EU arrest warrant for serious crimes to replace the cumbersome extradition procedures and a common definition of terrorist acts. Member states will consider this measure carefully, but the pressure for early agreement is mounting.

—Lionel Barber

Victims From Around the World

Among the 6,000 plus people reported missing or dead—of which most are Americans—in the terrorist attacks on the World Trade Center and the Pentagon, and the hijacked American Airlines and United Airlines flights were several hundred foreign nationals from at least seventy-five countries around the world, including:

Antigua	Ecuador	Kenya	South Korea
Argentina	El Salvador	Lebanon	Spain
Australia	Egypt	Luxembourg	Sri Lanka
Austria	Finland	Malaysia	St. Kitts & Nevis
Bahamas	France	Mexico	St. Lucia
Bangladesh	Germany	Netherlands	Sweden
Barbados	Ghana	New Zealand	Switzerland
Belgium	Greece	Nigeria	Taiwan
Belize	Guatemala	Norway	Thailand
Brazil	Haiti	Pakistan	Trinidad and Tobago
Burundi	Honduras	Panama	Turkey
Cambodia	Hong Kong	Paraguay	Ukraine
Canada	Indonesia	Peru	United Kingdom
Chile	Iran	Philippines	Uruguay
China	Ireland	Poland	Uzbekistan
Colombia	Israel	Portugal	Venezuela
Costa Rica	Italy	Romania	Yemen
Czech Republic	Jamaica	Russia	Zimbabwe
Denmark	Japan	Slovakia	
Dominican Republic	Jordan	South Africa	

A Shared Mourning in Ireland

The words came from both sides of Ireland's politically and religiously divided society:

"These horrible scenes represent an attack on the very foundation of our human dignity. We are sad, shocked, sickened, grieving, disbelieving, outraged, frightened all at once," declared President Mary McAleese, a Roman Catholic and herself no stranger to the violence and terror that have wracked her native city of Belfast.

"Tuesday, September 11, 2001, will remain embedded in our minds until the day we die," promised Walton Empey, Church of Ireland archbishop of Dublin and leader of the city's Protestant community, who has never failed to condemn the excesses of paramilitaries from both sides of the divide.

Their words said it all as Ireland came to a standstill, reaching out in prayer in hundreds of churches and other places of worship to remember the thousands of victims

of the American atrocities, a nationwide affirmation of unity in grief.

Industrial life came to a halt and government offices, schools, bars, shops, and entertainment centers, closed their doors throughout the country as leaders of church and state came together in a national day of mourning, vividly expressing a shared mourning for the victims.

From shortly after dawn until well after sunset, flowers, teddy bears, candles, and heartfelt messages of sympathy festooned the railings surrounding the US embassy in Dublin as several thousand people gathered to queue for more than two hours along surrounding streets to file past and sign books of condolences.

They were joined by contingents of ambulance and rescue services personnel from all parts of the island—including more than 300 firefighters, many of whom counted as personal friends their US colleagues who died in the New York attacks.

As the firefighters

marched to the embassy behind the Dublin Fire Brigade Band, piper Barney Mulhall played the classic hymn *Amazing Grace*, and the crowds lining the streets joined in a spontaneous chorus.

In the words of one American diplomat, the embassy had been turned into a shrine to those who died in New York, Washington, and in Pennsylvania. Over a period of four days, the embassy received more than 30,000 messages of sympathy. Prime Minister Bertie Ahern and his entire cabinet marched into the embassy to sign the book of condolences and express their collective grief.

The terrible carnage found a resonance throughout Ireland, illustrating—if such was needed—the profound realization of how distinctively close the Irish are to the American people in terms of human, cultural, and commercial contacts.

There is hardly a single family in any part of Ireland that cannot proudly boast at least one American cousin.

The Land of the Free has, over the centuries, provided a haven for many thousands of families who have looked on New York and other American cities as beacons to the Land of Hope. New York, in particular, is known along Ireland's west coast as "the next parish" where the welcome mat was always out for the poor and frequently destitute Irish seeking hope and succor.

Not surprising, then, that on the national day of mourning four days after Tragic Tuesday the mood of sorrow was reflected throughout the island as millions joined the rest of Europe in three minutes of silence for the victims.

Perhaps the most telling contribution came from the eloquent Maurice Manning, academic, author, and opposition leader in the Senate, who referred to national grief "on a scale never seen before." "Some events," he said, "are so intrinsically evil that no defense is possible. This is one such." His words summed up the mood of the nation.

—Mike Burns

REPORTER'S NOTEBOOK: THE SUSPECTS

British, German, French, and Italian intelligence services all swiftly and independently agreed with the American verdict that the loose-knit Al-Qaida movement inspired by the Saudi multimillionaire extremist Osama Bin Laden comprised the prime suspects behind the attacks on the centers of American financial and military strength. The roots of the new terrorist movement lay in the wave of Islamic militancy that took thousands of young Arab volunteers to fight the Soviet invasion of Afghanistan in 1979. Many of them were recruited, financed, and flown to the war zone by the rich young engineer Bin Laden, one of the heirs to his father's vast construction and real estate fortune. Bin Laden provided the skills and construc-

tion equipment that built supply routes and tunnels for the *mujahideen*, the anti-Soviet guerillas, and allegedly worked with the CIA and British intelligence, which were covertly helping the anti-Soviet effort.

At the end of the war, however, conservative Arab governments were uncomfortable with the return of the veteran 'Arab Afghans', even more so when the devout Bin Laden began furiously criticizing the Saudi government for allowing troops from the US and other Western nations into the country during the Gulf War. For Bin Laden, they were "the new crusaders, occupying our holy places and pillaging Arab oil wealth." Expelled from Saudi Arabia, he took refuge in fundamentalist Sudan, helped organize Is-

lamic volunteers to fight in Bosnia, and is believed to have been the mastermind behind the 1993 terrorist bombing attack on New York's World Trade Center. Expelled from Sudan in 1995, he took refuge with the Taliban movement, which was formed by young Islamic clerics (the word *taliban* means students) who sought to end the long civil war that followed the Soviet defeat and restore Afghanistan to strict Islamic law. With his wealth and Arab-Afghan fighters, Bin Laden was a crucial recruit for the Taliban and swiftly recognized the Taliban spiritual leader, Mullah Muhammed Omar, as "commander of the faithful."

Since then, US intelligence officials believe that Bin Laden used his network of Arab-Afghan volunteers to

launch the terrorist attack on US embassies in Nairobi and Tanzania in 1998, the attack on the *USS Cole* in the Yemeni harbor of Aden in 2000, and, most of all, the September 11 attacks on New York and Washington. He formally declared war on the US, Britain, and Israel in October 1996. In 1998, he issued a *fatwa*, or religious order, that stated, "The ruling to kill the Americans and their allies—civilians and military—is an individual duty for every Muslim who can do it in any country in which it is possible to do it, in order to liberate the al-Aqsa Mosque (in Jerusalem) and the holy mosque (in Mecca) from their grip and in order for their armies to move out of all the lands of Islam."

—Martin Walker

BUSINESS BRIEFS

The Terror Fallout

The terrorist attacks on the World Trade Center and the Pentagon cast a long economic shadow over Europe, the US's biggest trading and investment partner. London was caught up in the tragedy from the very beginning with bankers, insurers, bond dealers, and currency

EU officials moved quickly to play down talk of a massive economic dislocation. "We are not yet in recession, and we do not expect to be in recession," said Pedro Solbes, the EU's monetary affairs commissioner.

traders taking early morning calls from their colleagues in the World Trade Center when the first hijacked jet slammed into one of its twin towers.

The fallout spread quickly across corporate Europe with airlines and insurers taking an immediate financial hit. Faced with an overnight collapse in their all important transatlantic market, Europe's top carriers warned of full year losses and began to lay off workers—7,000 at British Airways, 1,200 at Virgin Atlantic, 2,500 at Alitalia. The crisis pushed some vulnerable carriers, including Belgium's Sabena and Swissair, to the brink of bankruptcy.

Europe's top insurers are facing multibillion-dollar claims. Germany's Allianz estimates the cost at around \$930 million, and AXA, France's largest insurance company, is bracing for a \$550 million bill, while Europe's largest reinsurers Munich Re and Swiss Re expect to pay out \$1.95 billion and \$2 billion respectively. Lloyd's of London, the world's biggest insurance market, took a \$2 billion hit, prompting fears that some of its 108 underwriting syndicates, which had insured the World Trade Center as well as American Air-

lines and United Airlines, whose hijacked planes slammed into it, will be driven out of business. Europe's airlines warned they would have to ground their fleets because insurers had slashed coverage for war and terrorist liabilities, forcing the European Union to provide emergency insurance for a month.

European stock prices plunged, and the Swiss franc, traditionally regarded as a safe haven currency, soared to record highs against the euro and the dollar in the immediate aftermath of the terrorist attacks as economists, bankers, and corporate executives warned of the risks of a global recession.

Europe was already facing an economic slowdown. The economies of the dozen euro-zone countries grew at the slowest pace in more than five years in the second quarter, and share prices have been retreating since the high-tech meltdown began in New York in March 2000. The European Central Bank (ECB) in Frankfurt said the terrorist attacks are "likely to weigh on confidence in the euro areas and on the short-term outlook for economic growth." But EU officials moved quickly to play down talk of a massive economic dislocation. "We are not yet in recession, and we do not expect to be in recession," said Pedro Solbes, the EU's monetary affairs commissioner. The ECB issued a statement saying it was confident that weaker growth will be "short lived" because of the "strong fundamentals" of the euro-zone economies.

The closeness of the transatlantic economic relationship was underscored by the ECB's swift response to the Federal Reserve's reduction in US short-term interest rates. The ECB cut its rates within hours after Wim Duisenberg, its president, called an emergency teleconference among the eighteen members of its governing council. Alan Greenspan, the Federal Reserve chairman, telephoned Duisenberg as

the ECB president was going into a press conference on the issue of euro bills and coins in Helsinki. The ECB previously met on September 13, two days after the terrorist attacks in the US, and had decided to leave interest rates unchanged.

In another display of unity, the US and the EU buried their differences over access to China's insurance market paving the way for Beijing's membership in the World Trade Organization, a momentous event whose long-term significance was overshadowed by the terrible events unfolding in New York and Washington.

The terrorist attacks affected the finances of European firms in sectors as diverse as aerospace and hotels to luxury goods and automobiles. Airbus, the four-nation European aircraft manufacturer, halted a planned expansion in output and imposed a hiring freeze as airlines around the world canceled and deferred orders but stressed it will proceed with the \$10.7 billion development and production of the A380 superjumbo. Accor, the French hotels group, issued a profits warning to reflect the "psychological impact" of the events of September 11 in the US, which provides one-third of its earnings. Volkswagen, the German car manufacturer, idled two of its German plants for a week and introduced temporary layoffs at a factory in Brazil in anticipation of a downturn in sales. P&O Cruises, the US-based British cruise ship operator, braced for cancellations and a slump in demand from American tourists, who make up the bulk of its customers.

Unilever, the Anglo-Dutch consumer products giant, warned of tougher times for its perfumes division, which includes the Calvin Klein and Valentino brands, and for its US food services business, which supplies food to restaurants and canteens. Prada, a leading Italian fashion company, pulled its planned initial public offering.

For many companies, however, it was business as usual. German utility giant RWE paid \$4.6 billion in cash and assumed \$3 billion in debt to acquire American Water Works, the largest US water

The terrorist attacks affected the finances of European firms in sectors as diverse as aerospace and hotels to luxury goods and automobiles.

company. Vodafone of the UK, the world's biggest mobile telecommunications firm, paid more than \$2 billion to lift its stake in Japan Telecom, by 21.7 percent to a controlling 66.7 percent. Deutsche Bank acquired Scudder, the US fund unit of Zurich Financial Services, for \$2.5 billion, and Credit Suisse, Switzerland's second-largest bank, went ahead with its planned listing on the New York Stock Exchange on September 24.

It is still too early to judge the impact of the attacks on New York and Washington on European business in the coming months. But there is little doubt that the world's biggest trading and investment relationship will be stronger this time next year.

—Bruce Barnard



Contributors

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Mike Burns reporting from Dublin

Martin Walker reporting from Washington, DC

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A Brief History Of

Terrorism

By Martin Walker

The word *terrorism* was first used in 1795, a grim spawn of the heady period that brought the American War of Independence and the French Revolution. The word was born with the **Reign of Terror**, the use of the guillotine by the French revolutionaries to consolidate their regime by killing their enemies and intimidating the potential opposition.

Until well into the twentieth century, terror usually meant state terror. The tactics of the French revolutionaries were copied by the Cheka secret police founded by Vladimir Lenin in 1918 to ensure the Bolshevik grip on power and later by Nazi Germany's Gestapo in the 1930s and 40s. Incidentally, it was the Nazi occupiers of Europe during the Second World War who characterized the work of the French, Czech, Polish, and other resistance movements, supplied and fomented by Britain's Special Operations Executive, as "terrorism."

For the resistance movements, and for their British backers in SOE who had been ordered by prime minister Winston Churchill to "set Europe ablaze," they were not terrorists but freedom fighters. Their clandestine work of sabotage and ambush—destroying bridges and railroads and assassinating German officials and their local collaborators—was a wholly justifiable tactic of a war of national liberation.

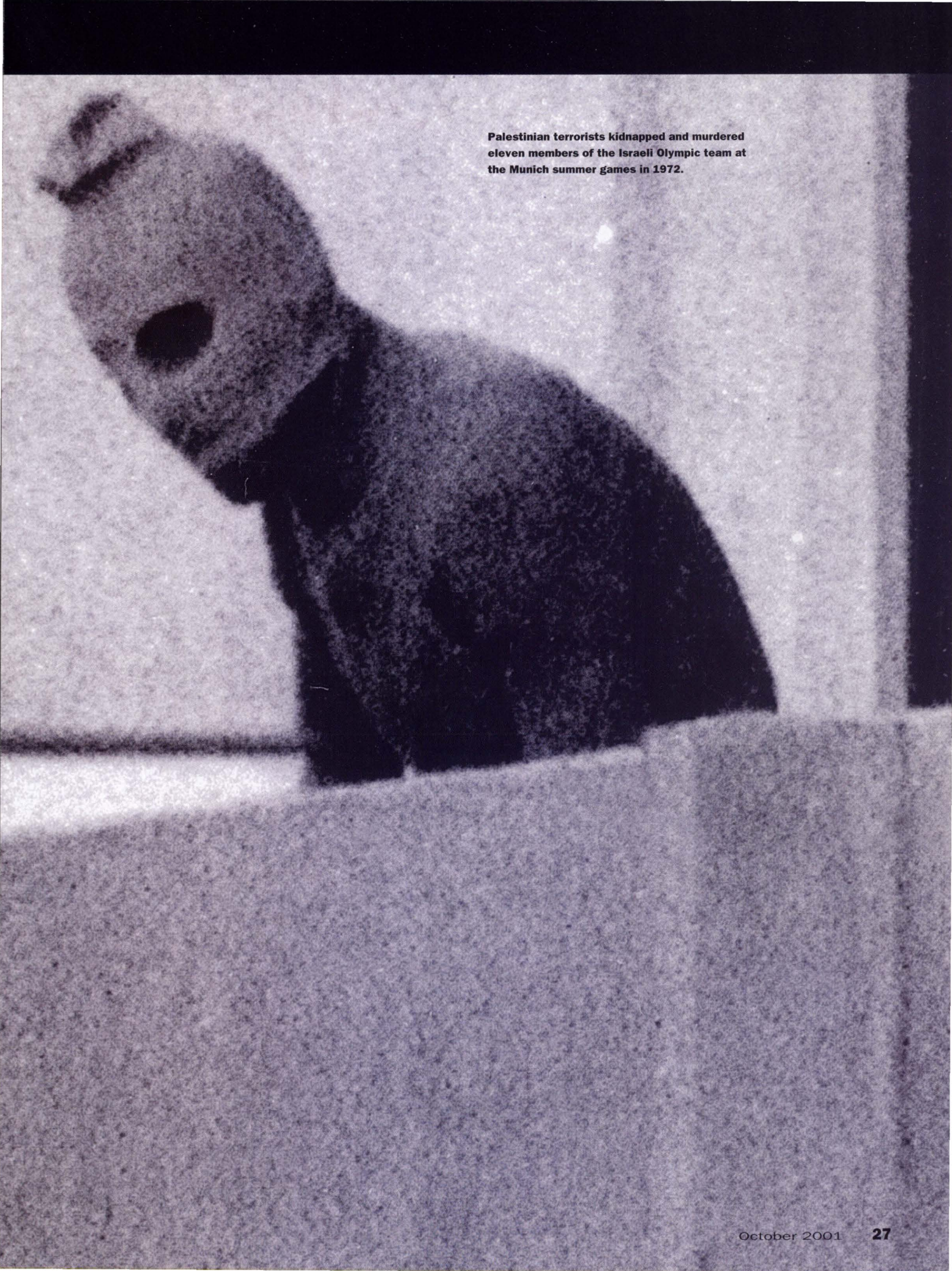
That was precisely the justification used after the war by a series of anticolonial movements. Some, like the Viet Minh against French rule in Vietnam, had been supplied by British and American forces to fight the Japanese. After

1945, they used the wartime tactics of resistance to attack the returning French with the classic weapons of terrorism, raiding remote plantations to kill French overseers, random shootings and bombs in crowded cafes, all designed to destroy the morale of the French civilians.

Similar tactics were used against the British in Palestine by Israeli freedom fighters (or 'terrorists') like the future prime ministers Menachem Begin and Yitzhak Shamir. The Irgun and Stern Gang blew up civilians in hotels, assassinated British troops, and ambushed British patrols, all in the name of the national liberation of Israel.

Learning from these examples, the National Liberation Front of Algeria fought French rule with a ruthless terror campaign, using Arab women dressed as fashionable young Frenchwomen, to place bombs in cafes, dancehalls, and cinemas. The French fought back ferociously, and in the battle of Algiers, General Jacques Massu's battalion of paratroopers broke the FLN terrorist networks in the casbah, or Arab quarter, with ruthless interrogations and the widespread use of torture.

The Battle of Algiers was a military victory, but a political defeat, horrifying



Palestinian terrorists kidnapped and murdered eleven members of the Israeli Olympic team at the Munich summer games in 1972.

public opinion in France and elsewhere, toppling French governments, and eroding the French national will to maintain the struggle against the FLN. France suffered a political collapse that returned to power wartime hero Charles de Gaulle, who eventually launched negotiations that led to Algerian independence in 1962.

These were the lessons that inspired modern terrorism, a phenomenon that emerged from the twin roots of the Arab-Israeli Six Day War of 1967 and the worldwide student movements of 1968. The devastating Arab defeat and the Israeli occupation of the West Bank and Gaza Strip inspired the Palestine Liberation Organization—too weak to fight an orthodox struggle—to adopt terrorist tactics. Other pro-Palestine groups imposed their demands on a global audience by hijacking airliners and kidnapping Israeli athletes at the 1972 Olympic games in Munich.

Young militants in Europe, Japan, and the United States turned to similar tactics for different reasons. In Northern Ireland, a Protestant backlash against the campaigns of the Roman Catholic civil rights movement revived the moribund Irish Republican Army. Ham-fisted attempts by the British Army to detain militants without trial triggered a thirty-year terrorist campaign.

West Germany's Red Army Faction, Japan's Red Army, and Italy's Red Brigades made common cause with the PLO. They used their training camps and cooperated on operations like the seizure of an OPEC summit meeting in Vienna in 1975, while also conducting their own kidnapping and killing operations against "the fascist capitalism" of their homelands.

This was largely a European phenomenon, despite the pinprick attacks of the Weathermen, a small group that broke away from the less extreme US antiwar movement to plant bombs in the Pentagon and elsewhere. One reason why Europe suffered far more terrorist attacks than the US was its proximity to cold war sponsors of terror, like the Czechoslovaks supplying Semtex plastic explosives to the IRA or the East German secret police, the Stasi, giving logistical support, including false passports and sanctuary, to German and Italian terror groups.

Through police and intelligence work and the ending of Soviet Bloc sup-

port with the end of the cold war, most of these post-1968 terrorist groups have been defeated or marginalized. The two that survived, the PLO and the IRA, were sustained by a degree of popular legitimacy that stemmed from their origins as national liberation movements. The two campaigns waged against them illustrate the two extremes of counter-terrorist strategy.

The British, despite ruthless bombings of civilians in London and elsewhere and repeated assassination attempts on British prime ministers, strove to maintain their civil liberties and the rule of law. Police and troops who had gone too far, or killed without cause, were put on trial. Miscarriages of justice were sometimes corrected, and outrages like the Bloody Sunday shootings by British soldiers in Londonderry in 1972 became belatedly the subject of public inquiries. By these means, and by working closely with the US and Irish government in Dublin, the British have been able to develop a peace process that brought much of the IRA back into the democratic and political arena.

The Israelis, by contrast, have assassinated PLO leaders, using bombs, missiles, and helicopter gunships despite the likelihood of civilian casualties. The Israelis, it must be stressed, believe they are fighting for their very existence, which the British are not.

However, the British and Israeli strategies represent the parameters of the counter-terror policies that the US along with its European allies and most of the civilized world, must now consider. One lesson that the Europeans all absorbed in the antiterrorism campaigns of the 1970s and 1980s is that it is both possible and important to retain civil liberties and the rule of law while fighting terrorism. One key goal of terrorism is to polarize society by provoking it into the kind of repression that undermines public support for government.

"You don't protect civilization by dismantling its civilizing achievements," comments Tom Arnold, a veteran British member of Parliament who was an adviser to former prime minister



Margaret Thatcher. Arnold recalls that even after the IRA almost killed Thatcher and several cabinet colleagues by bombing her Brighton hotel during a Conservative Party conference, she rejected any new repressive measures and continued seeking a political solution with Dublin through the Anglo-Irish agreement.

Americans may question the wisdom of following the British technique when there seems to be little prospect of political negotiation with the suicidal nihilists who destroyed the World Trade Center and attacked the Pentagon. However, the ruthless Israeli tactics would not fit easily into the US political tradition and its rule of law. Possibly, the United States might adapt both strategies, echoing the British to protect civil liberties at home while being as ruthless as the Israelis abroad.

The Bush administration, however, may have few options because it will not be dealing with a 'rational' terrorist, with a clearly defined and negotiable aim like a united Ireland or a Palestinian state or an independent Algeria. There is a new cleavage between the terrorists who sought to bomb their way to the peace table, or at least to a negotiated political solution, like Arafat or Begin before him, and the implacable new fanatics like the suicide bombers of New York and Washington who simply want to blow up the peace table along with everything else. Furthermore, it is not possible to negotiate with a suicide bomber who never said what his goal was before crashing a civilian airliner into a civilian target. ☹

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

Europe Backs America

NATO invokes Article 5 in wake of attacks

The flags of NATO member nations flew at half-mast at its headquarters in Brussels.



The day after the hijacked airliners slammed into the Pentagon and the World Trade Center, America's allies in NATO declared for the first time their readiness to invoke Article 5 of the North Atlantic Treaty, which deems an attack on one member to be an attack on them all. It was a swift refutation to pundits who had judged the transatlantic relationship to be foundering on the rocks of trade disputes, rows over Kyoto, and the "unilateralism" of the Bush administration. In fact, the instant reaction of the Bush team was to stress the need for allies and friends to join forces against what German Chancellor Gerhard Schröder called "a declaration of war upon the whole civilized world."

Meeting in emergency session the day after the attacks, the European Union's foreign ministers promised to forge a common counter-terrorist strategy, coordinated with the US and other countries. The European Parliament's Foreign Affairs Committee unanimously backed a proposal "to develop a joint policy of all democracies against any

state hiding or supporting terrorism." Committee chairman Elmar Brok said the EU and US should take the initiative in launching an action plan to use foreign aid, trade sanctions, and military means against states that harbor terrorists. "From the start, it must be a joint position of the US, the EU, Japan, and hopefully Russia," Brok said.

EU leaders held a special anti-terrorism summit, and French President Jacques Chirac and British Prime Minister Tony Blair flew to Washington to coordinate a joint democratic response with the American ally. One possible measure was to extend to the US a new draft bill before the European Parliament that proposes the introduction of a Europe-wide search-and-arrest warrant for combating terrorism and minimum EU rules on the definition of criminal acts and the penalties applicable in the field of terrorism. It also says the EU should abolish the formal extradition procedure between its member states and apply the principle of mutual recognition of decisions on criminal matters.

—Martin Walker

Article 5 of the North Atlantic Treaty

"The Parties agree that an armed attack against one or more of them in Europe or North America shall be considered an attack against them all and consequently they agree that, if such an armed attack occurs, each of them, in exercise of the right of individual or collective self-defense recognized by Article 51 of the Charter of the United Nations, will assist the Party or Parties so attacked by taking forthwith, individually and in concert with the other Parties, such action as it deems necessary, including the use of armed force, to restore and maintain the security of the North Atlantic area.

Any such armed attack and all measures taken as a result thereof shall immediately be reported to the Security Council. Such measures shall be terminated when the Security Council has taken the measures necessary to restore and maintain international peace and security."

*Signed in Washington
DC, April 4, 1949*

A Joint Declaration of



Following the September 11 terrorist attacks, European leaders expressed their solidarity with the American people by issuing a joint declaration and observing a three-minute silence to express their sympathy for the victims and their families.

“**I**n Europe, and around the world, the horrific terrorist attacks on the United States have shocked our citizens. As an expression of solidarity with the American people, Europe has declared September 14 a day of mourning. We invite all European citizens to observe, at noon, a three-minute silence to express our sincere and deepest sympathy for the victims and their families.

On September 12, the European Union condemned the perpetrators, organizers, and sponsors of these terrorist attacks in the strongest possible terms. The European Union announced that it would make every possible effort to ensure that those responsible for these acts of savagery are brought to justice and punished. The US administration and the American people can count on our complete solidarity and full cooperation to ensure that justice is done. We will not, under any circumstances, allow those responsible to find refuge, wherever they may be. Those responsible for hiding, supporting, or harboring the perpetrators, organizers, and sponsors of these acts will be held accountable.

This assault on humanity struck at the heart of a close friend, a country with which the European Union is striving to

build a better world. But these terrible terrorist attacks were also directed against us all, against open, democratic, multicultural, and tolerant societies. We call on all countries that share these universal ideals and values to join together in the battle against terrorist acts perpetrated by faceless killers who claim the lives of innocent victims. Nothing can justify the utter disregard for ethical values and human rights. Global solidarity is at stake. Together, irrespective of our origins, race or religion, we must work tirelessly to find solutions to the conflicts that all too often serve as a pretext for savagery.

We call on all countries to redouble their efforts in the fight against terrorism. This is essential for the security of our citizens and the stability of our societies. International organizations, and the United Nations in particular, must make this an absolute priority. We shall act with determination and ambition to overcome any obstacles in our path. To eliminate this evil, the police and judicial authorities of all our countries must, in the coming days, intensify their efforts. International law makes it possible to hunt the perpetrators, organizers, and instigators of terrorism wherever they are. It is not tolerable for any country to harbor terrorists.

the European Union



Guy Verhofstadt, prime minister of Belgium
Wolfgang Schäussel, chancellor of Austria
Gerhard Schröder, chancellor of Germany
Poul Nyrup Rasmussen, prime minister of Denmark
Costas Simitis, prime minister of Greece
Tarja Halonen, president of Finland
Paavo Lipponen, prime minister of Finland
Jacques Chirac, president of France
Lionel Jospin, prime minister of France
Bertie Ahern, prime minister of Ireland
Silvio Berlusconi, prime minister of Italy
Jean-Claude Juncker, prime minister of Luxembourg
Wim Kok, prime minister of the Netherlands
António Guterres, prime minister of Portugal
José Maria Aznar, prime minister of Spain
Göran Persson, prime minister of Sweden
Tony Blair, prime minister of the United Kingdom
Romano Prodi, president, European Commission
Nicole Fontaine, president, European Parliament
Javier Solana, EU high representative for CFSP

These tragic events oblige us to take urgent decisions on how the European Union should respond to these challenges:

The European Union must commit itself tirelessly to defend justice and democracy at a global level, to promote an international framework of security and prosperity for all countries, and to contribute towards the emergence of a strong, sustained, and global action against terrorism.

We shall continue to develop the Common Foreign and Security Policy (CFSP) with a view to ensuring that the Union is genuinely capable of speaking out clearly and doing so with one voice.

We shall make the European Security and Defense Policy operational as soon as possible. We will make every effort to strengthen our intelligence efforts against terrorism.

The European Union will accelerate the implementation of a genuine European judicial area, which will entail, among other things, the creation of a European warrant for arrest and extradition, in accordance with the Tampere conclusions, and the mutual recognition of legal decisions and verdicts.

Our citizens will not be intimidated. Our societies will continue to function undeterred. But today our thoughts are with the victims, their families, and the American people.”

—signed on September 14, 2001



The EU's foreign policy team, represented by (l-r) Commissioner Christopher Patten, High Representative Javier Solana, and Belgian Foreign Minister Louis Michel, met in Washington with Secretary of State Colin Powell on September 20.



(clockwise from top left) Prime Minister Silvio Berlusconi, flanked by Deputy Premier Gianfranco Fini (left), delivered an emotional address to Italy's parliament condemning the terrorist attacks and affirming his country's support of the US; in Copenhagen, residents placed flowers and candles outside the US embassy; a Muslim woman bows before the American flag outside the US embassy in Lisbon; President Jacques Chirac of France visited New York the week after the attacks and toured the Emergency Command Center in Lower Manhattan with Mayor Rudolph Giuliani; Parisians observed a three-minute silence outside Notre Dame on September 14.









(clockwise from top left) More than 200,000 people gathered on September 14 at the Brandenburg Gate in Berlin to commemorate the victims who died in the US; Londoners observed a three-minute silence in front of Big Ben; British Prime Minister Tony Blair joined First Lady Laura Bush and New York City Mayor Rudolph Giuliani for President Bush's address to a joint session of Congress; Dutch firefighters observe three minutes of silence in front of the queen's palace in Amsterdam; Dutch Prime Minister Wim Kok laid a wreath in front of the US embassy in the Hague.



CAPITALS

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



TERRORISM in Europe

This month, we asked our Capitals correspondents to write about their countries' own experiences with terrorism in the light of the September 11 attacks in the United States. Some of them live in places that have a long history of dealing with terror and were reminded of some of their nations' own darkest days. Others live in countries that have not yet borne the scars of a direct attack and are now confronting new security questions. Whatever their vantage point, their stories share a common theme: Terrorism remains a threat to civilized societies everywhere.

LONDON

THE UK'S LONG TERROR EXPERIENCE

Britain has a long history of fighting terrorism, both at home and abroad, and its vast experience has taught it both the limits of democracy and the limits of containment. In most cases, it fought first to eradicate terrorism and then to contain and limit the damage while the politicians struggled to find a peace formula to end the attacks. The Irish Republican Army's (IRA) bombing of buildings in the heart of the cities here during the 1970s, 80s, and 90s have made the UK only too familiar with the recent suffering of the US, even though the losses of life and destruction of buildings were not on the same horrendous scale.

The bombings at the Old Bailey law courts in the 1970s, the Baltic Exchange

in the City, and Canary Wharf in Docklands in the 1980s and 1990s are all still fresh in the memories of Londoners and the city and country's police and intelligence services.

Though there has been a ceasefire with the IRA for many years now, the financial heart of London, the City, still has police checkpoints on all roads and all on-street parking is prohibited. In addition, surveillance cameras are positioned to cover the streets and buildings of the entire area, as well as other key areas of the capital.

The UK's Prevention of Terrorism law is among the most stringent in the world, and in the recent past, the government has not hesitated to suspend the normal rules of democracy to imprison without trial those who it suspected were involved in terrorist acts or in providing support for terrorists.

For more than 100 years, Britain fought against terrorists and guerrillas in its colonies, South Africa, Ireland, India,

Palestine, and Aden (now Yemen), Cyprus, Kenya, and most recently, Northern Ireland.

Detention without trial, torture, and even assassinations, not to mention phone-tapping and mail interdiction, are among the weapons that have been used to varying effect in the often clandestine operations aimed at eliminating those responsible for terrorist acts.

In the end, it was usually political agreement, rather than an outright defeat of the terrorists, in particular in the former colonies, which has ended the terrorist war. However, this option is not available in the current situation where an extremist, transnational organization, rather than a national liberation movement, is suspected of perpetrating the attacks in New York and Washington.

Because of its long history of combining the maintenance of democracy and human rights with the necessity to act with an iron hand against the enemies of the state, London will provide total sup-



In 1996, a suspected IRA bomb exploded at the South Quay of London's Docklands injuring thirty people.

port to Washington in whatever action it decides to undertake.

This will take the form of both overt and covert support. As in the case of the Gulf War, Britain will provide facilities for American forces and will contribute its own forces where requested. The long-standing cooperation between the American and British intelligence services will be intensified as London joins Washington in the battle to destroy an organization dedicated to destroying the Western liberal way of life.

—David Lennon

THE HAGUE

MILITANT MOLUCCANS BROUGHT TERROR TO NETHERLANDS

The Netherlands faced its own brand of terrorism about a quarter of a century ago. While in Germany, Italy, and other places revolutionary radicalism formed the background of political terrorism, the Netherlands' colonial legacy led to panic in the 1970s. Three times young militants from the Moluccas, an island group in Indonesia, resorted to violence. The roots of their desperation stretch back two decades to the period of decolonization in the former Dutch East Indies.

In 1949, after a two-year war, the Netherlands granted sovereignty to Indonesia, until then the Dutch colony of the East Indies. For a large part, the Dutch East Indies army consisted of men from Ambon, an island of the South Moluccas, once known as the Spice Islands. The Ambonese, Christians in an overwhelmingly Islamic society, remained loyal to the Netherlands and the Dutch queen. When Indonesia gained its independence and the colonial army was dissolved, the Ambonese military and their families, partly out of fear of violent retaliation and partly because they did not want to belong to the new Indonesian Republic, were encouraged by the Dutch government to come to the Netherlands.

In 1950, the Ambonese community in the Netherlands proclaimed the independent republic of the South Moluccas (known by the acronym RMS). But nobody took their government in exile seriously, though the government recognized that it owed sympathy to the Moluccans and right-wing parties paid lip service to their political aim of independence. However, no Dutch government wanted to disturb the already precarious

relationship with the government in Jakarta. The Moluccan community, living in special compounds, felt increasingly frustrated.

In 1970, on the eve of Indonesian President Suharto's visit to the Netherlands, radical young Moluccans briefly occupied the residence of the Indonesian ambassador in the Netherlands. The country was shocked, and new promises were made to support the cause of the RMS, but again, nothing happened.

Then, on December 2, 1975, a group of militant Moluccans hijacked a train, taking the passengers as hostages and killing three of them. The same day, others occupied the Indonesian consulate in Amsterdam. The hijacked train at Wyster, a village in the northern part of the country, became world news. After two weeks, the hijacking was resolved peacefully with the involvement of the leaders of the RMS. The hijackers left the train with their fists raised in the air. Finally, it seemed, attention was drawn to the plight of the Moluccans.

Again, the Dutch government was unwilling to promote the cause of the RMS in the United Nations or elsewhere. Every year, the Moluccans celebrated the 'independence day' of the South Moluccas, but the Moluccan community was now deeply divided. On one side, the older generation, who still brought out their colonial military uniforms for special occasions and remained loyal to the queen, remained powerless. On the other side, the radicalized youth adopted the liberation struggle of the Third World.

On May 23, 1977, a group of Moluccan youths hijacked another train, this time at De Punt. On the same day, they occupied a nearby elementary school at Boven-Smilde. The train passengers and schoolchildren were held as hostages. One passenger was killed in cold blood and thrown out from the train. The Dutch watched it on television in horror.

The kidnappings turned out to be fatal mistakes for the terrorists. Political patience with radicalism had worn thin, and the government was unwilling to negotiate. Furthermore, the traditional leaders of the RMS had no influence on the young radicals. After three weeks, the government decided to call in the army's special forces to end the hijacking. Six hijackers and two passengers were killed when the train was stormed.

From that tragic moment onward, the Moluccans have come to their senses. Although their ideal of an independent re-

public remains as far away as in 1950, the recent bloodshed in the South Moluccans has drawn new attention to the precarious situation on the islands.

However, a militant Moluccan fringe remains, often considered the source of regular bomb scares and the threats against government ministers. One outspoken Moluccan militant, Leo Reovar, told a BBC reporter this spring that his family's village in Indonesia had been burned and his Christian relatives killed by Muslims who have moved to the island from other parts of Indonesia. He said threatening violence was the only way to pressure the Dutch government into defending its former colony from attack. "If the massacre on our islands goes on, then we will change strategy. There will be violence, that's for sure," he says.

—Roel Janssen

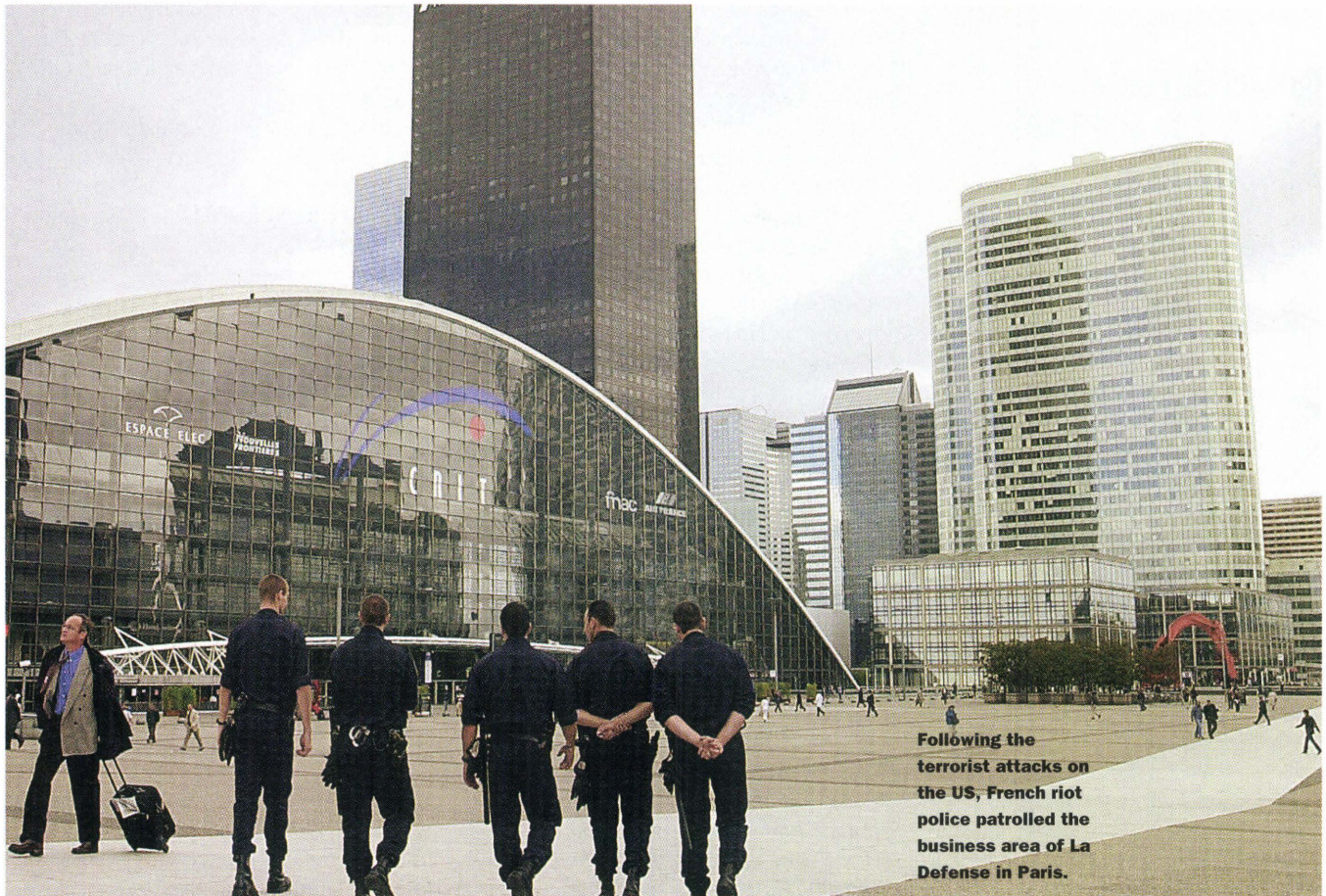
PARIS

BLOODY HISTORY FUELS FRENCH FIGHT ON TERROR

"We know what terrorism is, believe me," said the Corsican manager of a café on the Place Saint-Michel, site of one of Paris' busiest subway stations, which was hit by an Islamic terrorist bomb attack on July 25, 1995. It was part of a wave that hit French targets that year and the next, leaving more than a dozen dead and several hundred injured. "We helped pull the bloodied victims out of the station, as our terrace quickly became a field hospital," he said. "It was horrible."

But terrorist bomb attacks in Paris, virtually all linked to Islamic causes and backers in Iran, Iraq, Libya, and, more recently, in neighboring Algeria, go back to 1974 and particularly the early 1980s, with targets ranging from posh restaurants, airports, trains, and subways to movie theaters, markets, and the Eiffel Tower. In 1986, a brutal car-bomb explosion in front of the Tati department store on the crowded rue de Rennes in downtown Paris killed seven people and wounded fifty-four and pushed the government to launch a major anti-terrorist action.

Although few US officials at the time really accepted the explanation, the 1985-1986 wave of terrorist attacks in Paris, linked primarily to suspects operating in Iran and Libya, was said to be the main reason Socialist President François Mitterrand refused President Ronald Reagan the



Following the terrorist attacks on the US, French riot police patrolled the business area of La Defense in Paris.

right to fly over France in the 1986 raid mounted against Libyan leader Muammar Qaddafi. French officials explained that Mitterrand and his advisors feared the US-led raid would touch off more attacks against French interests at home and abroad. Nevertheless, three years later, a bomb exploded on a French DC-10 airliner over the Sahara, killing 170 people amid virtual certainty among French officials that the instigator was Qaddafi. "Our magistrates and judges have proven in court he and his regime were responsible, but this was but one, particularly-tragic case," said Françoise Rudetzki, who founded SOS Attentats, a Paris-based association for victims of terrorism.

In 1986, Mitterrand approved establishing a vast, anti-terrorist prevention program, which has been reactivated three times since then—during the Gulf War, during the attacks in 1995, and now in the wake of the September 11 terrorist attack in the United States. Mainly, the program involves stationing hundreds of heavily armed police and soldiers in public buildings, railroad stations, and airports, with orders to check all suspicious-looking men or women.

The government has also ordered a first, coordinated effort to find those

guilty of planning and executing the attacks, involving specialized, anti-terrorist investigating magistrates and counterintelligence officers, who are accelerating their efforts in cooperation with their European Union partners. President Jacques Chirac of France, who was mayor of Paris during the waves of bombings and in 1986 and served as Mitterrand's prime minister, pledged, "If we can obtain the proof regarding the origin of these bomb attacks, our response will be thundering, with no sign of weakness."

Chirac became the first foreign head of state to visit Washington and New York City in the wake of the September 11 attacks. Clearly moved by what he saw through the window of the helicopter that flew him over the smoldering remains of the World Trade Center towers on September 19, and perhaps fearful of what may yet happen in Paris, Chirac was widely quoted in the French media as declaring: "When you see it, you want to cry." Later in the day, he wholeheartedly pledged that France stood alongside the United States in "a global combat against terrorism."

Shortly after Chirac's return to Paris, the French police arrested seven Muslim men and women suspected of plotting an

attack on the US embassy. The police acted on information supplied by a French citizen of Algerian origin who told investigators that attacks were—and may still be—planned against US targets in France.

The North African connection is highly important for French and US investigators who are gathering detailed information on the Algerian operations of the Al Qaida terrorist organization of Osama bin Laden. Out of France's population of some 60 million, 5 million are Muslims, with 80 percent tracing their origins to Tunisia, Morocco, and Algeria, with the latter representing the majority of the North Africans. Most live modestly or poorly and regularly cope with discrimination and barriers to advancement in French society. Some, particularly those living in the poorest suburbs of Paris and Marseilles, have links to the Armed Islamic Group and other terrorist organizations based in Algeria, but with ties to Al Qaida. Many suspected North African operatives of that network have been trained in Afghanistan and Pakistan, French officials say, indicating they are bracing for a resumption of attacks in France.

—Axel Krause

LISBON

PORTUGUESE PUBLIC PREPARES FOR AFTERMATH

The Portuguese were as shocked as all Europeans about the events of September 11. Following the attacks, the government ordered three days of national mourning for the victims. At an emergency meeting, the cabinet expressed “the most heartfelt grief of the Portuguese people,” echoing statements by Prime Minister António Guterres and President Jorge Sampaio.

“We cannot but feel directly affected by the brutality we have witnessed and the scope of the tragedy,” Sampaio said.

For many of his fellow citizens, that was no figure of speech. There are tens of thousands of Portuguese or their descendants living in the United States. In the days that followed, many Portuguese found themselves trying frantically to trace relatives missing in New York. There were several dozen Portuguese among those unaccounted for, prompting the government to set up special information help lines and to send its secretary of state for emigrant communities to the US personally to oversee efforts to trace them.

Meanwhile, security was stepped up at key installations in Portugal itself. Lajes Airport in the Azores Islands—shared by the local civilian authorities and the US Air Force—was put on maximum alert and closed to air traffic. International flights—including those rerouted from US destinations—were directed to the island of Santa Maria instead. Lajes had been reopened just a few days previously, after an emergency landing by a passenger airliner due to technical problems.

Separately, the interior minister ordered all airports onto maximum alert and increased security measures for embassies and NATO installations throughout the country. The tighter airport procedures had an immediate and unpleasant effect on travelers, with delays of up to twelve hours for some flights at Faro, the country’s tourist hub, in the following days. Despite only allowing passengers into airport buildings, there was serious overcrowding.

Any economic fallout will depend largely on events in Europe and the US. The Portuguese stock market—already in the doldrums—on the day after the attack had its worst session since October 1997, with all but one of the securities in the

benchmark PSI-20 index closing down.

“If things were bad, now they’re much worse,” one trader told the Portuguese news agency Lusa. “The psychological effects of these attacks are unforeseeable and may be felt for a long time.”

The impact is even more uncertain because Portugal has had minimal firsthand experience with terrorism. In the aftermath of the 1974 revolution that brought down the dictatorship that ruled for decades, some radicals, whose dreams of economic and social upheaval were dashed, did form extremist groups. One of those, the Forces of Popular Unity (FUP) was led by one of the heroes of the 1974 coup, then army captain Otelo de Saraiva Carvalho. Soon afterward, a series of bombings, bank robberies, and political killings were carried out by the FP-25 terrorist group, which a court later found was linked with the FUP.

As a result, FUP leaders were sentenced to lengthy prison terms. Carvalho was given fifteen years, later extended to eighteen. But if the truth were told, even many Portuguese who abhorred FP-25’s methods were reluctant to see this revolutionary hero waste away behind bars. In May 1989, Portugal’s supreme court freed Carvalho on technical grounds, namely that he had been held for too long.

Nevertheless, the case was exhumed last year, prompting calls for an amnesty for Carvalho, who had always denied knowledge of the bombings. Some also argued that Portugal’s statute of limitations should rule out any retrial, although those demanding justice countered that such a measure should not be applied to so-called “blood crimes” where people are killed or injured. But the case was eventually dropped, and many people—by no means all on the left of the political spectrum—breathed a sigh of relief.

This forgiving—almost cozy—attitude to a handful of small-scale terrorist acts can have no parallel in the current situation. The shattering enormity of what happened in Manhattan and Washington makes that impossible.

“At the moment there has been no kind of consultation with Portugal concerning a military operation, nor is there any preparation for this at the level of NATO,” said Prime Minister António Guterres, as EU leaders met for an emergency summit on September 21 to discuss the Union’s response to the crisis. But public opinion holds that military action is increasingly likely. In the same speech, Guterres announced plans to call

an emergency session of parliament to discuss the crisis, and to determine Portugal’s place in any international coalition to fight terrorism.

Commentators had little doubt about what this could lead to. Speaking on a heated phone-in on TSF news radio a week after the original attacks, strategic affairs specialist Miguel Monjardino deemed it “very probable” that Europe would be involved in retaliatory action led by the United States. Sooner or later, he said, “Europe can be dragged into this kind of conflict.”

Another expert on international affairs, José Golão, agreed but expressed the fears of many Portuguese when he noted that anyone who perpetrates an attack such as this on the US would feel free to “do the same thing in any country in the world.”

—Alison Roberts

DUBLIN

IRISH REASSESS TERROR

Until September 11, 2001, it appeared that most Irish people had become immune to the horrors of terrorism. Centuries of conflict, nationalists versus loyalists, Roman Catholics versus Protestants, Bloody Sundays, Bloody Fridays, the IRA war memorial bombing in Enniskillen, the attacks on Downing Street and Canary Wharf in London, the “Real IRA” murders on market day in Omagh, the loyalist bombings of 1974 in Dublin and Monaghan that claimed the lives of thirty-three people, 3,000 killed in Northern Ireland over the past thirty years, thousands maimed, injured, bereaved, sectarian hatred on a horrendous scale—the tragic list seemed endless.

Then came New York, the Pentagon, and Pennsylvania, the deadliest attacks on American soil in history, horror on a scale no one could have envisaged.

The day of terror, however, did allow thousands of Irish families to understand and share the grief being felt in countless thousands of American homes. Perhaps, it also helped Irish people to reassess their own, frequently ambivalent, attitudes to violence and hate, to question yet again the thin dividing line between “freedom fighters” and mindless terrorists.

Many historians regard the Irish Republican Army (IRA) as the prototype of most guerrilla forces throughout the world, the trendsetters for scores of

other groups who prefer the path of violence to achieve their aims rather than the peaceful political route.

Unlike the majority of these groups, the IRA has always had a political wing. Its public face is the political party Sinn Féin, but no one doubts the ties that bind the two together.

Since the signing of the Good Friday Agreement in 1998, the IRA has been “on ceasefire,” allowing its political leaders to pursue winning its political and social aims. There have been hiccups in that process along the way, but so far, the peace dividend has managed to survive.

There are, of course, the inevitable “splinter groups” that violently disagree with this new non-violent approach—the “Real IRA” and the “Continuity IRA” made up of former members of the IRA itself. No one underestimates their capacity to perpetuate “the war,” albeit in a scaled-down version. Of course, there are mainline loyalist terror groups and their “fringe” associates still in existence, bearing a variety of appellations. However, the murderous atrocities in the United States have fueled the desire throughout the island for continued and lasting peace—with inevitable consequences for the terrorist groupings.

Ireland is closer to the United States than to any country other than the United Kingdom. Emigration to the US has been a constant in the last two centuries, and the Irish have played a major part at all levels in the development of American life.

Ironically, that large diaspora has also provided the major part of funds to support groups like the IRA in their purchase of their weapons of war from countries like Libya and, more recently, the Balkan states.

Now, in the wake of the American outrages, the well of support provided to the IRA by that same diaspora—and a sometimes benign US executive—may easily dry up. The accommodation shown by President Bill Clinton’s administration to Sinn Féin is unlikely to be repeated. The Republican movement is suddenly under new and intense pressure to give up its weapons. Furthermore, Irish government policy is inevitably being reassessed, posing fundamental questions over the IRA’s insistence on holding on to its massive armory.

The rise of Sinn Féin’s standing with the electorate, north and south, seemed in recent times to be on an ever-upward spiral, giving them the possibility of not just sharing in government in Northern



Twenty people died and many more were injured during a bomb explosion in County Omagh, Northern Ireland on August 15, 1998.

Ireland but also holding the balance of power and taking places in the Irish Republic’s government after the general election due next year.

Now that seems unlikely. Under the terms of the Good Friday Agreement, the IRA agreed to get rid of their weapons. So far, that hasn’t happened.

At the UN Security Council, the Irish government made a commitment “to combat all forms of terrorism.” That statement has its clear implications for the IRA—and Sinn Féin. The bombing of America has placed everything in a dazzling new light.

—Mike Burns

LUXEMBOURG

TINY NATION NOT IMMUNE TO TERROR

Arguably, Luxembourg has done more to welcome foreigners and has suffered less from racial tensions than any other European country. Of course, that's not quite the same thing as saying there's never been a terrorist threat visited on the tiny nation by outside forces. But there's little evidence this has ever happened on any frightening scale or on behalf of organized groups.

It's true that there have been concerns. In the early 1980s, a number of bombs went off over an eighteen-month period, but no demands were made, no organization claimed responsibility, and it was finally put down to the work of one unhinged individual. About three years ago, the Luxembourg police arrested an Algerian national and found a quantity of weapons and explosives in his apartment. The authorities concluded that he was probably a one-man supply group for an Islamic armed group in Algeria at the time, but the trail led nowhere.

Finally, last year a Tunisian gunman held twenty-five children hostage for twenty-eight hours before being shot by police in the Luxembourg town of Wasserbillig. The Luxembourgers searched their consciences diligently after this outrage but concluded they had nothing with which to reproach themselves. The man was an embittered violent loner with a history of mental illness and engaged in a personal reprisal against local authorities. No blame was attached to Luxembourg's social system.

To be sure, these were all terrifying events but perhaps not all that surprising in a country where some 35 percent of the population hold foreign passports, half of the workforce is foreign, and where the borders with neighboring countries are about as wide open as Main Street, USA. Indeed, about a third of all workers in Luxembourg travel in and out every day from France, Germany, and Belgium.

In theory, these factors should make Luxembourg more of a destination, or at least a stopover, for extremist groups. A foreign face does not attract attention in the city. The roads, railways, and air routes fan out conveniently from Luxembourg to the whole of Europe. Then there are the banks with their jealously guarded secrecy—possible repositories for terror-

ist cash and even potential bomb targets in themselves.

It hasn't happened. Of course, no one outside of a select few people really knows whether terrorist money is stashed away here or not. However, anyone who's lived here for any time knows that fear of terrorist attack comes very low indeed on the list of worries.

This is partly because Luxembourg does not have a flamboyant or provocative foreign policy. It sticks closely to the EU line, or that taken by France and Germany, on subjects like the Middle East. This is not timidity, just realism.

It's also partly because foreigners have been so smoothly assimilated into society. It may be true that most of them are from Catholic countries, so there are no religious frictions. The Muslim community is tiny, by any measure. But this has in turn helped prevent the creation of a subculture within which conspiracy and subversion might breed.

It's argued by some here that although Luxembourg is the richest European country on a per capita basis, the gap between the haves and the have-nots in society is much narrower than elsewhere. There aren't many malcontents, either relatively or in absolute numbers. This is not, in short, fertile ground for those contemplating revolution.

—Alan Osborn

STOCKHOLM

SWEDES SHAKEN BY ATTACKS IN US

When Swedish Prime Minister Olof Palme was assassinated on the streets of Stockholm in 1986, it was one of the few times in modern Swedish history that residents of the neutral Nordic country were confronted with violence or terrorism on their own turf.

"I couldn't believe it," recalls one man whose radio alarm awakened him to the news. "I woke up and thought, 'they can't be talking about this happening in Stockholm.'"

In general, it seems Swedes have a harder time understanding terrorism than people in some other countries. In part, of course, it's because there hasn't been much violence here. But it's also because most Swedes believe that virtually any conflict can be solved through rational negotiation. In spite of clear evidence to the contrary—most recently on the streets of

Gothenburg during the European Council's meeting in the city in June—Swedes have a deep faith in the power of discussion, debate, and consensus. Confronted with anger and violence they are almost always at a loss to respond.

A Swedish friend in Stockholm, describing his feelings a week after the attack, said he hadn't "been able to recapture any enthusiasm for work. Everything seems so petty by comparison." That sentiment is certainly not much different from what so many Americans are feeling. But, with typical Swedish optimism that the world is basically a good place, he noted the large show of support for the States and hoped that "there's the possibility that what's happened isn't only the beginning of something worse, but also of something better." The belief in negotiation, coupled with Sweden's neutral military status—it is, for instance, not part of NATO—has often put Swedes at the center of peace talks, in the Middle East and other places. The late UN secretary general Dag Hammarskjöld, who brought a new kind of credibility to the office and the organization, and who won the Nobel Peace Prize posthumously in 1961, typifies the way Swedes have worked for peace and against terrorism. So does Raoul Wallenberg, the Swedish diplomat who fought against a very different kind of terrorism in Nazi-controlled Hungary. Ironically, for a country with so little violence, Sweden is responsible for giving the world the expression 'Stockholm Syndrome', which describes the dependency relationship hostages sometimes come to have with their captors. In some cases, the relationship is so strong that the hostages feel that it's the captors who support them and that they need protection from the police. The phrase was born during the 1973 armed robbery of Sveriges Kreditbank in central Stockholm. Two robbers, one with a machine gun, held four hostages in the bank's vault for five and a half days as the police tried to solve the conflict without violence. At the same time, they also refused to give in to the robbers' demands, which included leaving the bank with the hostages. As the siege wore on, it became increasingly clear from comments made by the hostages that they felt the police were the ones out to harm them, not the robbers. Afterwards, the hostages couldn't explain their reactions, but the syndrome has since been documented many times over. Violence and terrorism also surfaced the year before, in 1972, when a domestic airliner was hijacked by a group of Yugo-

slavians with political demands.

But that's the only time a Swedish plane has ever been hijacked. In general, violence and terrorism are exceptions to the rule. Last year, 175 cases of murder, manslaughter, and violence with deadly intent were reported nationwide, a 7 percent decline from 1999.

Despite Palme's assassination, it's common to pass members of the Swedish government, including Prime Minister Göran Persson, on the streets near parliament accompanied by little or no visible security. Terrorism against politicians has lately come in the relatively innocuous form of pie throwing. Trade Minister Leif Pagrotsky, Finance Minister Bosse Ringholm, and even Sweden's king have all been victims. Unpleasant, certainly, but hardly life threatening. Swedes travel often, domestically and internationally, with little thought of hijacking or sense of personal risk. Swedes and Sweden are not particularly prime targets for terrorists in the world scheme of things. There have been some kidnappings of Swedish employees working abroad for multinational Swedish companies, but those generally have less to do with nationality and more to do with economics and/or global politics. But Swedish charter companies are now predicting that trips to the States—always popular—will fall off dramatically. Companies such as Ericsson are casting a wary eye on their US headquarters.

One flight attendant for Scandinavian carrier SAS, who was near the World Trade Center during the attack, managed to quickly make her way to Miami and fly back to Sweden. She is so traumatized that she wants only to leave Stockholm and move back north with her mother, and she may be among many in this relatively peaceful country confronting for the first time the idea that terrorism can happen here too.

—Ariane Sains

BERLIN

MUNICH MASSACRE REMEMBERED

Of the numerous terrorist attacks in Germany over the past thirty years, one stands out: the so-called Munich massacre at the 1972 Summer Olympic Games. This incident, in which eleven Israeli athletes were murdered, is remembered not just for its brutality but also its symbolism and unprecedented media

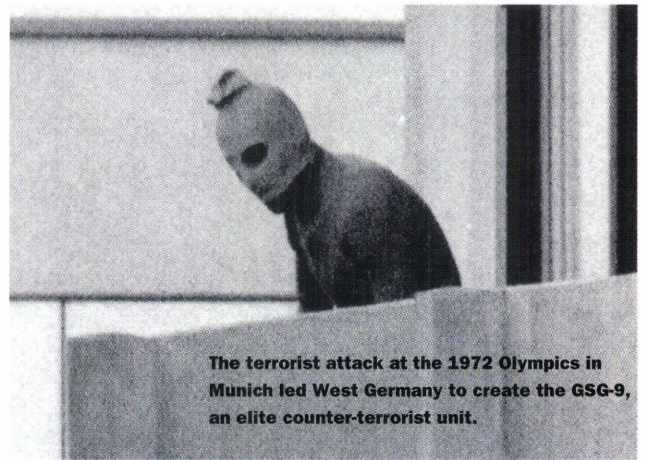
resonance. The images of masked Palestinian gunmen at the Olympic village in Munich became part of our collective memory of international terrorism.

The terror began in the early hours of September 5, when eight Arab militants entered the Olympic compound wearing track-suits and carrying gym bags packed with weapons. Five climbed over the fence. Three are believed to have gained access using some sort of credentials. They went directly to the building where Israeli athletes were staying and knocked on the door of Mosche Weinberg, coach of the wrestling team. Weinberg, sensing the threat, shouted a warning to his teammates and tried to block the door. The terrorists shot Weinberg and one more Israeli athlete before taking nine others hostage.

Awakened by the sound of gunfire, the remaining residents ran for cover or hid while police moved in and surrounded the apartment where the siege was underway. At 9:35 am, the terrorists issued their demands: the release of more than two hundred mainly Palestinian prisoners from Israeli jails and safe passage out of Germany. It later emerged that the terrorists were members of a militant Palestinian group calling itself Black September.

Germany was ill prepared to deal with this explosive situation. The country at that point had not yet recognized the need for a special antiterrorist squad. Consequently, the officers dispatched to the scene lacked adequate training, tactics, and equipment. Poor coordination and communication contributed to the disaster that ensued.

After several deadlines had passed for meeting the terrorists' demands, German authorities finally permitted them to proceed with their hostages to a nearby airport. There, out on the tarmac, police launched a rescue operation that was both badly planned and executed. The consequences were fatal. When the shooting was finally over, all nine hostages were dead along with one police officer and five terrorists. The three remaining militants were arrested but later released by German authorities following the hijacking of a Lufthansa airliner a month later.



The terrorist attack at the 1972 Olympics in Munich led West Germany to create the GSG-9, an elite counter-terrorist unit.

An Oscar-winning film about the Munich Massacre came out just last year. Entitled *One Day in September*, the documentary meticulously examines not only what happened on that fateful day in 1972 but also its background and impact. That this terrorist incident would serve as subject material for an award-winning documentary twenty-nine years after the fact gives some indication of its contemporary relevance.

One part of the Munich Massacre's legacy is the existence of GSG-9, Germany's elite counter-terrorist unit. The force was created in 1973 as a direct response to the bungled rescue attempt during the Olympics. Before 1972, Germany had been loath to form such a force because of painful memories associated with its own militant past. In the decades after Munich, an increase in terrorist activity made the GSG-9 indispensable.

The killing of those eleven Israeli athletes challenged the Olympic ideal of "realizing peaceful coexistence among peoples." It demonstrated how effectively terrorists could hijack media attention and refocus it on a desperate cause. And finally, though the death toll was just a tiny fraction of the total in New York and Washington on September 11, in a similar way the Munich massacre permanently altered our definition of conceivable evil.

—Terry Martin

ROME

THE YEARS OF LEAD

"The years of lead" was a term derived from a film by the German director Margarethe von Trotta, but in Italy, it denoted a two-decade period that was marked by a bloody series of murders and terrorist attacks that claimed

many innocent victims. Two thousand people were injured and more than four hundred were killed in terrorist action between December 12, 1969—when a bomb devastated a bank in Milan and another exploded at the Tomb of the Unknown Soldier in Rome—and 1988 when Italian senator Paolo Ruffilli, a member of the majority Christian Democratic Party, was murdered. This last assassination seemed to be the final desperate action against a political target by a crumbling terrorist organization. But two years ago, Massimo D'Antona, an adviser to Italy's labor minister, was gunned down in Rome by individuals who claimed to be from the Red Brigades, despite the leftist group's dormancy since 1988.

Most of the victims of the Red Brigades, the main group that carried out armed attacks on the Italian state (although there were hundreds of parallel organizations, including roughly fifty that were particularly active), were police officers and members of the military police, politicians, lawyers, journalists, corporate managers, and even retired people.

There were also "high-profile" corpses. Aldo Moro, the leader of the Christian Democrats, favored reaching an understanding with the moderate left wing in the name of improved governance of the country. He was kidnapped in the spring of 1978 by an armed terrorist Red Brigades team, and all the members of his escort were killed in the attack. Months later, a tip led to the discovery of Moro's body in the trunk of a car which was emblematically parked halfway between the headquarters of his political party and that of the Communists.

In another heinous attack, Carlo Alberto Dalla Chiesa, a ranking general of the military police who had been leading investigations into organized crime, and his wife were murdered. This time, a link, albeit ambiguous, was proven to exist between "political" terrorism and that of the Mafia. Toward the end of 1981, an American general, James Dozier, was kidnapped, but an Italian counter-terrorist commando team eventually freed him.

Italy, at great effort, was able to pull itself out of the cycle of terror because of the overall stability of its political and administrative structures and the tireless work of the investigators. One winning strategy was the use of the so-called *pentiti*—terrorists and their supporters who, once arrested, decided to collaborate with the authorities.

Today, those terrible years of lead are mostly a memory. However, every now and then the ghosts return, often directed by the Mafia. In 1992, Giovanni Falcone and Paolo Borsellino, two magistrates who had been ceaselessly hunting down Mafia bosses, were killed in separate attacks. The response was decisive: today almost all of those responsible for the attacks are in prison. Approximately two hundred ex-Red Brigades members remain behind bars, including about fifty who are serving life sentences. The nightmare seems to be over. However, the ruins of the World Trade Center present a stark reminder for Italians—and the rest of the world—that we must never lower our guard against terrorism.

—Niccolò d'Aquino

VIENNA

ECHOES OF WORLD WAR I

On June 28, 1914, a member of the Serbian terrorist group known as the Black Hand assassinated Archduke Franz Ferdinand and his wife. The death of the Austrian heir set in motion a sequence of events that led to World War I.

This had not been the intention of the terrorist group behind the plot. Instead, they were pursuing their goal of a Greater Serbia. The Black Hand Secret Society was formed in May of 1911, and included figures such as the chief of the intelligence department of the Serbian general staff. By 1914, it was said to count more than twenty-five hundred members.

In June of that year, Narodna Odbrana, a secret Belgrade group associated with the Black Hand, received a newspaper clipping sent from terrorists in Zagreb. The clipping alerted them to the upcoming visit of the Archduke to Sarajevo. According to Borijove Jevtic, a member of Narodna Odbrana, this bit of paper was handed around at a café that served as a secret meeting point, and the plotting began.

In his written account, which can be found at the Brigham Young University library, Jevtic relates how conspirators were set up at five-hundred-yard intervals all along the route the archduke was to travel from the railroad station to the town hall. One threw a grenade, to no avail. The archduke made it to the Sarajevo town hall; however, with the situation in the city deteriorating, he was persuaded to leave immediately. His driver took the shortest route to the station but

had to slow for a sharp turn at the bridge where Gavrilo Princip lay in wait. He shot the archduke and his pregnant wife Sofia. She was killed instantly. His last words were his wife's name. When word reached Vienna, the Austrian public was horrified and outraged.

Princip was immediately caught and imprisoned, and according to Jevtic, who was also arrested, the assassin allegedly told a prison governor, "I suggest that you nail me to a cross and burn me alive. My flaming body will be a torch to light my people on their path to freedom."

Although this terrorist event occurred at the beginning of the last century, it is distressing to see the same fanatic zeal echoed in the terrorist attacks on the World Trade Center and the Pentagon on September 11. The men who hijacked the American Airlines and United airplanes were well aware that they were embarking on suicide missions. Like Princip, they believed in a cause that had no respect for human life.

Although few Austrians alive today can remember the First World War, many remember World War II. Today, the memory of war remains part of the national psyche. According to a recent survey taken by the Austrian daily *Der Standard*, 81 percent of Austrians are recalling the terror of war in the aftermath of the latest terrorist acts. Perhaps for this reason, emotions seem mixed in Austria. While the majority is unwilling to give up their neutrality, 57 percent wish to take part in a retaliatory action against terrorism. The future seems uncertain in a country that has seen how a localized act of terror can spin into a world war.

—Alexandra Hergesell

MADRID

SPAIN ENDURES SCOURGE OF THE ETA

Four days after the terrorist outrage in the United States, tens of thousands of Spaniards around the country gathered outside their homes, workplaces, and town halls at the stroke of noon for three minutes of silence to protest the attacks in New York City and Washington, DC. At the same moment, similar observances were taking place across the European Union in an unprecedented display of solidarity with the American people.

For Spaniards, the protest was very familiar; after each killing by the armed

Basque separatist organization ETA, the victims are remembered in a similar moment of silence. And there have been far, far too many of these in recent years, as the outlawed terror group has stepped up its bloody, thirty-three-year campaign to carve an independent state out of the traditional Basque region straddling northeastern Spain and southwestern France.

On the same day the hijackers struck in the United States, Spanish security officials warned that ETA members were reconstructing their network of cells and safe houses after police in several regions of the country rounded up two dozen suspected active terrorists and their supporters.

Among the chilling finds in the series of raids were lists of more than 5,000 prominent Spaniards apparently marked for assassination by ETA gunmen or bombers. Interior Minister Mariano Rajoy also reported that the group's Barcelona cell was planning attacks in that city in the lead up to the European Union summit there next March while Spain holds the rotating presidency.

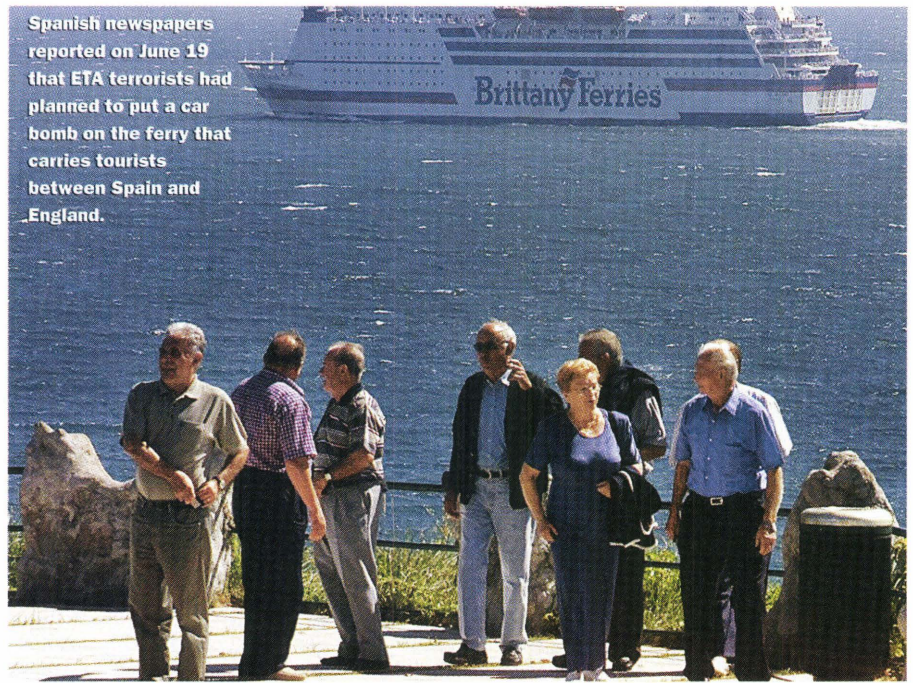
ETA first emerged in 1968, and during the years when it was fighting the dreaded security apparatus of dictator Francisco Franco, the organization garnered much sympathy from fellow Basques in Spain and France, along with leftists and nationalists around Europe. But with the return of democracy in Spain on Franco's death in 1975 and with the granting of wide autonomy to the three-province Basque region by the central government, ETA's cause and violent methods lost favor among most Basques.

That did not stop the killing though, and the group has now claimed or been blamed for the deaths of approximately 800 people. Its bloodiest attack was a bombing of a Barcelona department store in 1987, which killed twenty-one people. In recent years, ETA has greatly expanded its targets beyond the members of the security forces of years past and now regularly targets local politicians, judges, and even journalists.

This past summer the group planned to blow up a car ferry that links Santander in Spain and the English port city of Plymouth. The idea, police said, was to warn of the bomb just after it left Santander so the ferry could be evacuated near shore, then set off as news cameras captured the dramatic images, which would publicize ETA's fight around the world.

—Benjamin Jones

Spanish newspapers reported on June 19 that ETA terrorists had planned to put a car bomb on the ferry that carries tourists between Spain and England.



BRUSSELS

LITTLE EXPERIENCE WITH TERRORISM, SO FAR

Belgium has seen relatively little overt terrorist activity in the recent past, but sporadic incidents over the years have kept the intelligence services on the alert. The main synagogue in Brussels was firebombed some years ago, and there have been numerous racist attacks on immigrants, mainly from Morocco and Turkey, some undoubtedly carried out by supporters of the far-right Vlaams Blok (Flemish Block) party.

Though there were occasional homicides, these incidents have not been the work of organized terrorist cells. The only such attacks were carried out in the early 1980s by a tiny, but fanatical Marxist group called the Fighting Communist Cells (CCC). The CCC appeared to have only four members, though it was linked to Action Direct, the French terrorist group, and with the Red Army Faction in West Germany.

The CCC's attacks were against property rather than people, and their targets included NATO oil pipelines and the offices of mainly American-owned companies. Although extensive damage was done, no injuries occurred until, in 1985, a car bomb left outside the headquarters of the Belgian Employers Federation in Brussels killed two firefighters who answered an alert call and failed to see warning messages left in the street.

Shortly afterwards the four culprits were rounded up, tried, and sentenced to life imprisonment. Three of the four expressed remorse for their actions and were released last year after serving fifteen years. Their leader, Pierre Carette, a printer, who has never repented, is still in jail in Louvain. He is said to be popular with his fellow prisoners, whom he advises about their legal rights and encourages them to express their grievances. His own application for release is currently before a parole board.

Although they have committed no terrorist acts in Belgium, the Algerian Armed Islamic Group (GIA) is believed to have used the country as a base for its bombing campaigns in France. On several occasions, Belgian courts have been asked to extradite suspects either to Algeria or France, though the applications have not always been successful.

One such suspect, Farid Melouk, is awaiting trial in Brussels on arms charges, and a link has been discovered between him and a man currently in a US jail for immigration offenses, who is now known to have taken flying lessons in preparation for flying a 747.

Another terrorist group believed to be active in Belgium is the Egyptian-based Taffkir Wal Hirja. Two of its alleged members were arrested immediately after the attacks on New York and Washington, and an Uzi sub-machine gun, ammunition, and documents were seized. They were suspected of planning bomb attacks on the US embassy in Paris and the consulate in Marseille, and French magis-

trates were expected to interview them in Brussels.

A Belgian link has also been established with last month's assassination by suicide bombers of the Afghan resistance leader Ahmed Shah Massoud, which immediately preceded the attacks in the US. The two men, of Moroccan origin, traveled to Afghanistan on Belgian passports, one of which was stolen in 1999 from the Belgian consulate in Strasbourg and the other from the embassy in the Hague.

Belgian ministers, currently chairing all the meetings of the EU's Council of Ministers, took a leading role in the meeting on September 21 that reached unprecedented agreements on increasing coordination of anti-terrorist measures and on much closer intelligence links with the US.

—Dick Leonard

ATHENS

GREECE FOCUSES ON OLYMPIC SECURITY

Terrorism was already a high-profile issue in Greece, even before the devastating attacks in New York and Washington. The country is home to an anti-American extremist group called November 17 (N17), which has carried out more than twenty assassinations in Athens since 1975 without any of its members being arrested.

Prime Minister Costas Simitis has pledged strong support for President George W. Bush's campaign to eradicate global terrorism, stressing that Greece will fulfill all its obligations as a member of NATO—although Greek public opinion is divided over whether the country's troops should participate in a military action against Osama bin Laden.

Simitis has become increasingly sensitive to Greece's own terrorism problem. In June, the government passed an anti-terrorism law that brings Greece in line with the rest of the European Union. It provides for witness protection schemes, permits DNA testing of suspects, and allows court hearings to be held in secret and without a jury.

British and US pressure on Simitis mounted after the killing in June 2000 of Brig. Stephen Saunders, military attaché at the British embassy in Athens. It was the first time N17 had attacked a British diplomat; over the years, the group had claimed responsibility for killing five

American embassy staff, as well as targeting Greek business executives and politicians and Turkish diplomats.

Yet the anti-terrorism law was sharply criticized by deputies from the governing Panhellenic Socialist Movement (PASOK) on the grounds it would curtail individual freedoms. Only a handful of PASOK deputies turned up to vote the legislation through parliament, although the opposition New Democracy party was unanimously in favor.

Simitis and his pro-Western supporters in the governing party have to contend with a hard-left faction that is still resentful about American support for the military junta that ruled Greece in the 1970s—in spite of an apology from former president Bill Clinton made during a visit to Athens two years ago. Previous PASOK governments that were dominated by the hardliners were criticized by American officials for not trying hard enough to catch up with N17—named for the day the junta crushed a student rebellion in 1973.

Suspicions have even been voiced that senior members of PASOK might in the past have had connections with the group. In fact, the Socialist party, founded by the late Andreas Papandreou, who was jailed and then exiled by the military regime, had its origins in a militant anti-junta resistance movement.

Yet even Simitis's government appears to have made little progress with cracking down on N17, in spite of signing a new police cooperation agreement with the US and, over the past year, encouraging close cooperation between Greek and British investigators.

There are fears the group, which carried out rocket attacks against Western-owned banks and businesses in Athens during the Gulf War, and targeted European embassies during NATO's bombardment of Yugoslavia in the Kosovo conflict, could launch another high-profile campaign if US forces strike against Afghanistan.

Against this background, the issue of security for the 2004 Olympic Summer Games in Athens has become an overwhelming priority for the government. Simitis, who has taken personal responsibility for making the Athens games a success, has pledged that Greece will take additional security measures. At \$650 million, outlays for security are already among the biggest items on the games' budget.

Greece's public order ministry has agreed to cooperate with police and secu-

rity services from the US, Israel, Germany, and the UK. Officials who handled security for the Sydney and Barcelona Olympics are already working with ATHOC 2004, the organizing body for the games. Greek police will train with their US counterparts and assist with security at the Salt Lake City Winter Olympic Games. As Simitis put it: "We will do our utmost to make the games safe."

—Kerin Hope

COPENHAGEN

A NEW DANISH REALITY

Not so long ago, Denmark was a country accustomed to peace and stability—actually to such an extent that tragedies in foreign countries often went by relatively unnoticed, even when involving the losses of a large number of lives. But then something happened. When terrorists used passenger planes as missiles aimed at busy workplaces in the US, it changed the Danes' picture of the world.

"In spite of the geographical distance between Denmark and the United States, the attacks affected us strongly. They were made against powerful symbols of our Western culture," says Dr. Henrik Steen Andersen, head of the Center for Crisis and Disaster Psychiatry at the University Hospital of Copenhagen.

"Identifying with the American people, we realize that we ourselves could have been the victims of such an attack," Dr. Andersen reasons. "The attacks on the World Trade Center and the Pentagon reminded the Danes of the absurd thought that some people willingly sacrifice thousands of innocent lives—as well as their own—for the sake of their individual political and religious causes."

According to Dr. Andersen, the tragedy has brought about a new reality. "Some will get over the tragedy quickly. But as the substance of terrorism is the unpredictable and sudden, most of us will keep in mind for a long time that danger may be everywhere we go," he says.

However, the September 11 attack ought not to have shattered Danish reality entirely, Bishop of the Aarhus diocese, Holm, argues.

"Terrorist organizations do exist, but so far we have closed our eyes to the threat they represent," he explains. "Although we know that we live in a world of great tension, Third World incidents costing hundreds of thousands of lives usu-

ally receive only little attention from our media.”

Describing the attacks on the US as symptoms of global disorder, of differences between rich and poor, between progressive and reactionary cultures, Holm explains why the Danish outlook had to change. “The world is interconnected. Therefore, we Danes can no longer ignore everything beyond our national borders. We must learn to accept that what happens in the US or Afghanistan affects Denmark too,” he stresses.

This may still be difficult to accept for the average Dane; nevertheless, it is evident that the attacks on Black Tuesday have made an impact. Following the devastating events, fear of terror acts on Danish soil has increased. Especially after a British terror expert added to the concern by claiming that Denmark and other Scandinavian countries, by allowing their citizens a high degree of autonomy, provide a breeding ground for terrorist organizations.

This claim increased general suspicion among Danes toward Muslim immigrants living in Denmark. Despite the government’s continual effort to stress that it is terrorism and not Islam that must be defeated, the latest opinion polls reveal that the popularity of Danish right-wing parties is increasing rapidly since September 11.

The government itself has worked quickly to show the Danish people that steps are being taken to combat terrorism within the country’s borders as well as on an international level. A critical examination of Danish law has been initiated in order to strengthen the legislative foundation for the battle against terrorism. So, in November, a new bill will be presented, including a number of tightening regulations, such as the monitoring of telephone calls and the handing over of suspects to foreign governments.

Denmark has indeed awoken to a new reality.

—*Maria Bernbom*

HELSINKI

FINNS REMAIN WATCHFUL

Although in geographic terms Finland is the sixth-largest EU member country, it has so far proved relatively easy to police against subversive or terrorist threats—and for several reasons.

First, the eastern common frontier with Russia is shrink-wrapped with secu-

rity measures, so access to the country is extremely unlikely from that direction. Second, it’s a nation of little more than 6 million inhabitants of whom only 1.8 percent were born abroad. It is, therefore, very difficult for any immigrant to become ‘lost’ in the lower reaches of society.

Not only are the minutiae of all citizens’ lives closely recorded by what is euphemistically called “digital government,” many Finns have an unembarrassed surliness toward non-European immigrants. And in these close, curtain-twitching times, such a person has great difficulty blowing his nose without that fact being duly noted.

Furthermore, as Helsinki was a spies’ capital throughout the cold war, the Finnish security services are used to turning on a dime in tradecraft terms. In this respect, their skills are highly developed. It is extremely difficult to hide in Finland—notwithstanding the fact that the country has joined the Schengen Agreement, which allows more access than before.

Before Schengen, all foreign travelers were invariably challenged on arrival by the question: “What’s the purpose of your visit?” If the response were unsatisfactory, a private interview with the authorities would almost surely follow.

Moreover, the language, one of the most complex in the world, immediately identifies who is foreign and who is not. Unlike the British, French, or Germans, the Finns are not used to hearing, and are not tolerant of, mangled versions of their own language. Although the Finns are polyglot themselves, they’re very sensitive when an outsider tries to speak their language.

Put another way, Finland is an extremely difficult environment for any would-be subversive to operate in. The anti-terrorist brigade was deluged by calls and tip-offs from members of the public as soon as the dimensions of the New York and Washington atrocities became known.

Immediately, a whole range of emergency measures was swung into place. All control measures were intensified. Every potential civil and industrial target was subjected to extra security in cooperation with the police, the military, and the border guards.

Special twenty-four hour “protective fields” were activated around the US and Israeli embassies. All “suspect” files were immediately reviewed to see if anything earlier had been overlooked, an effort

that was much aided by telephone calls from the public.

The secret police even received calls from some of the few Islamic inhabitants, legally in the country, to give information and seek help because of threats to them from Finnish citizens. To embarrass such hotheads the police publicized a case of intimidation as a warning to others to back off and, at press time, this seemed to have had the desired effect.

A report giving an overall security assessment was swiftly delivered to Prime Minister Paavo Lipponen and a few of his closest colleagues.

Finland has not been visited by any terrorist outrage since the Second World War, but Finns don’t like to talk about it lest it makes them sound complacent. They are not, and since joining the EU in 1995, they have participated fully in the cooperative intelligence infrastructure that became open to them as EU members. The Finnish head of security was one of the participants in the London meeting of such officials, which was hosted by the MI6 within a week of the attacks in America.

The lack of any domestic incident in Finland rather endorses its claim to be one of the safest EU member states to live in or visit. By nature and history, the Finns are a most watchful people. Like everyone else, they remain profoundly shocked by the outrages in the United States. However, they are not living in fear. So far, their defenses, both natural and official, have held them in good stead.

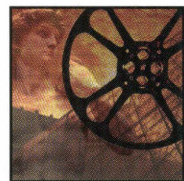
—*David Haworth*

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 p. 34: Ralf Hirschberger/AFP Photo (top); Marcel Antonisse/AFP Photo (bottom)
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 p. 36: AP/Wide World Photos
 p. 37: AP/Wide World Photos
 p. 39: AP/Wide World Photos
 p. 41: AP/Wide World Photos
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ARTS & LEISURE

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

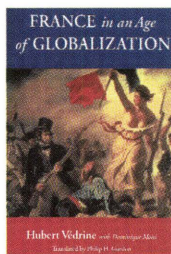


BOOKS

FRANCE IN AN AGE OF GLOBALIZATION

By Hubert Vedrine with Dominique Moisi; translated by Philip H. Gordon; Brookings Institution Press; 134 pages; \$17

“France is no longer an empire, and it should not mistake itself for a hyperpower. Still, France is a great country, and there is no reason for the French to underestimate themselves either. France is almost always a major player, as you can see, when you consider just about any of the big global issues,” states Hubert Vedrine, the foreign minister of France, in a series of provocative and often enlightening discussions with French journalist Dominique Moisi.



While the foreign minister discusses France’s role in the European Union and French foreign policy toward the Middle East and Africa, the topics of globalization and the United States seem to dominate this thoughtful book.

As Vedrine relates in the beginning, “Globalization does not automatically benefit France. Globalization develops according to principles that correspond neither to French tradition nor to French culture....” He explains how France plans on meeting the challenge of glob-

alization without losing its unique identity in the world by “civilizing” and “humanizing” globalization.

Calling the United States a “hyperpower,” he remarks that, “the question of relations with the United States is at the heart of international relations today.” The foreign minister goes on to state, “The United States is predominant in all areas: economic, technological, military, monetary, linguistic, cultural. This situation is unprecedented: what previous empire subjugated the entire world, including its adversaries?”

Next to globalization and the US, the foreign minister spends quite a bit of time discussing France’s role in the European Union. He comments, “The richness that results from our diversity reinforces Europe rather than shackles it.”

Vedrine makes a very good point when he makes the distinction between the *single* currency and a *common* European foreign policy. As he writes, “We decided in favor of a single currency because national sovereignty in currency matters was becoming a fiction.” But “the situation is not at all the same when it comes to the area of foreign policy. First, currency is one thing, and foreign policy is something else.... What we decided to implement was a common foreign policy, at least to begin with.”

Vedrine, who remarks, “In our era, foreign policy must continually be explained,” has certainly met his own criteria by defining France’s foreign policy in an open, candid, and very readable series of inter-

views that are of particular interest to a US audience.

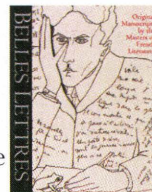
—Robert J. Guttman

NEW & NOTABLE

BELLES LETTRES: ORIGINAL MANUSCRIPTS BY THE MASTERS OF FRENCH LITERATURE

Edited by Roselyne De Ayala and Jean-Pierre Gueno; translated by John Goodman; Harry N. Abrams; 240 pages; \$60

Book lovers and Francophiles will devour this collection of French literary manuscripts, but what about the rest of us? Those who still can’t seem to get the *grave* and *aigu* right, much less have the patience for the pinched handwriting of a tortured French intellectual? I am pleased to report that many among the latter group will find *Belles Lettres* an engrossing look at French history, thanks especially to the book’s beautiful design (which includes color reproductions of letters, diary pages, and excerpts from original works) and the efforts of its editors. Roselyne De Ayala and Jean-Pierre Gueno previously collaborated on *Brilliant Beginnings* and *Illustrated Letters* and in this effort have further refined their successful formula. *Belles Lettres* includes works from the thirteenth to the twentieth centuries by the likes of Descartes, Baudelaire, Proust, and Sartre, all in the authors’ own



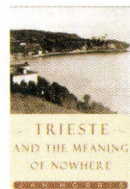
hands. Even if you can’t read French, just looking at the reproductions of handwritten ink on parchment (along with the English translations and profiles of the writers) gives new insight into the ideas expressed and the people who wrote them down.

TRIESTE AND THE MEANING OF NOWHERE

By Jan Morris; Villard Books; 366 pages; \$23

In 1945, James Morris, came to Trieste as a nineteen-year-old British soldier, and now after more than half a century and a sex change, Jan Morris revisits that city at the apex of the Adriatic in what she says is her last book. A mixture of history and personal reminiscence, *Trieste and the Meaning of Nowhere* recounts the struggle among Italy, Austria, and Yugoslavia for the windy port, its stature as the Austro-Hungarian Empire’s only ocean outlet, and its position as a cold war fault line. Barely fifty miles from its glamorous sister Venice, Trieste entered the post-cold war era as little more than a lonely outpost, and Morris endeavors to evoke the city’s myriad charms. At the same time, the city, which she has visited numerous times over the last five decades, reminds her of the complexities and simple truths, triumphs and hardships, and the loves and values contained in her own life.

—Peter Guin



"This remarkable compilation of essays and interviews provides wide-ranging insight and perspectives on the issues that will shape the new Europe—and influence the entire world—in the decades to come."

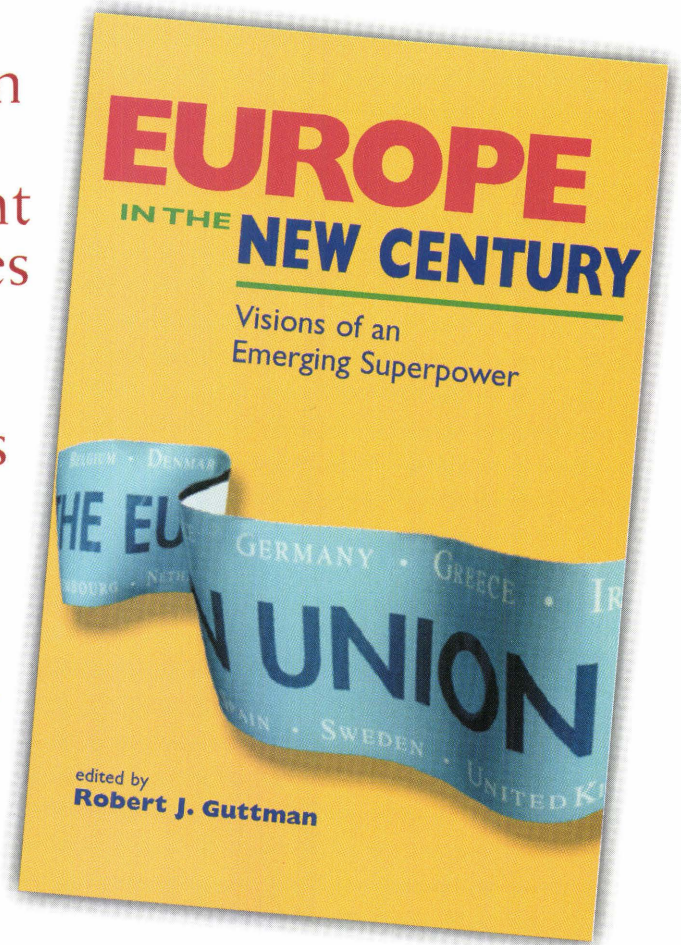
—Lee Hamilton

Director of Woodrow Wilson International Center for Scholars and former chairman of the US House of Representatives Foreign Affairs Committee

"Europe in the New Century is an important, in-depth, and intriguing look at Europe's dynamic future."

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Europe in the New Century: Visions of an Emerging Superpower

edited by
Robert J. Guttman

Europe in the New Century is an intriguing look at the future, drawing on the experience and foresight of the leading journalists working in Europe today, as well as the visions of heads of state, government ministers, corporate CEOs, entrepreneurs, and young people from each of the fifteen European Union member countries.

The contributors forecast what Europe might look like down the not-too-distant road. Their subjects range from domestic politics to foreign policy, from technology to international trade, with absorbing stops along the way. Entertaining and informative, Europe in the New Century is a must for anyone seeking insight into the trajectory of this new global superpower.

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

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