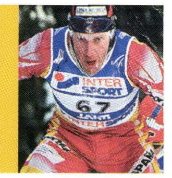
Spain's Goals • Internet Grows • Winter Olympics 2002



EUROPE

December 2001/January 2002

Celebrating the Birth of the Euro

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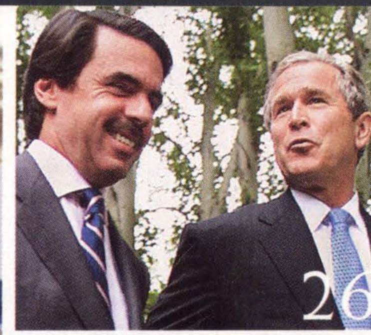

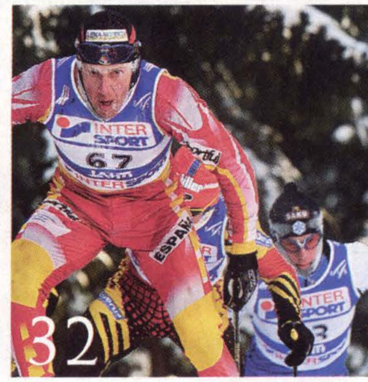

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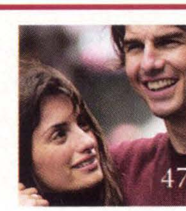
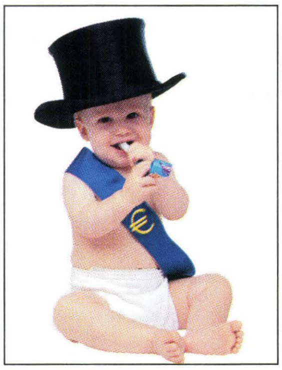


LETTER FROM THE EDITOR

E-Day has arrived!

"On January 1, 2002, more than 300 million European citizens saw the euro turn from a virtual currency into reality. The psychological and economic consequences of the launch of Europe's single currency will be far-reaching. It will mark the final break from national currencies, promising a cultural revolution built on stable prices, enduring fiscal discipline, and lower rates," writes Lionel Barber in his article entitled, "The Birth of the Euro."

Twelve nations of the European Union will now be using Europe's new single currency in their everyday life. It is an historic moment in the economic history of the world. Twelve nations have voluntarily given up their national currencies in favor of the euro.



Celebrating the birth of the Euro

"It won't take long for the euro to gain legitimacy as it becomes the sole currency from the frozen north of Finland to Greece's Aegean islands. It will boost cross-border trade and recruit the euro zone's 300 million consumers in the creation of a single European economy," predicts Bruce Barnard in his piece, "What the New Currency Means to the European Economy."

Barnard, writing from London, looks at the massive logistics involved with introducing a new currency in twelve nations at the same time. "Some 3.5 million vending machines and 200,000 automated teller machines have been reprogrammed to distribute the new money. E-Day, January 1, 2002, "completes a process that began in 1969 when the farsighted leaders of the six founding member countries of the EU agreed to study the feasibility of a common currency," comments Barnard.

John Andrews, writing from Paris, answers the question: How do you design a common currency—its banknotes and its coins for a dozen different nations?

Benjamin Jones, based in Madrid, presents an overview of Spain's upcoming six-month presidency of the European Union. Jones says the theme for the Spanish presidency, which begins in January, is "More Europe." Making certain that the euro enters smoothly across the twelve countries in the euro zone is one of their prime goals. They will also be focusing on combating terrorism and improving cooperation among the fifteen EU members regarding security and justice issues.

Internet usage is growing rapidly across Europe. In our special Capitals section this month, each of our correspondents looks at some aspect of how the Internet is impacting life in their respective countries.

The Winter Olympics begin next February in Salt Lake City. *EUROPE* presents a preview of what to look for from the many European athletes participating in the games. We also discuss the increased security for the games and look ahead to the enhanced security precautions being put in place for the 2004 Summer Olympics to be held in Athens, Greece.

The staff of *EUROPE* wishes all our readers a safe, happy, and peaceful holiday season.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

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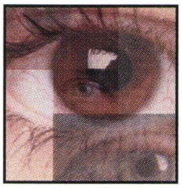
EYE ON THE EU

Profiling personalities and developments within the European Union



EU ENLARGEMENT—DANGERS FROM SCHENGEN

At the Ghent summit on October 19, the EU heads of government reaffirmed their determination to press ahead with the enlargement negotiations now proceeding with twelve countries in Eastern and southern Europe. The hope is to conclude the talks with as many countries as possible by the end of 2002. Allowing for the necessarily long process of ratification, this timetable would enable the candidate countries to take their place within the Union in time to participate in the next elections to the European Parliament in June 2004.

On paper at least, two-thirds of the enlargement negotiations have now been completed, with most of the applicant states. Romania and Bulgaria remain far behind, but all of the other ten candidates have provisionally closed plus or minus twenty of the thirty chapters on the negotiating agenda. Hungary and Cyprus lead the field, at twenty-two, with Poland pulling up the rear with seventeen.

In practice, the process is less advanced than these numbers would suggest, as most of the more difficult chapters have been left to the end. The first of these to be tackled, justice and home affairs, including the Schengen Agreement (on abolishing internal border controls), may well prove the most complex.

To start with, the *acquis communautaire* (existing EU law, which the applicant states will be required to accept in its entirety) in this area is both fairly new and changing rapidly. Not all the issues involved come under Pillar One (Community competence). Some remain under Pillar Three (intergovernmental), while others are still in the process of being transferred under the provisions of the Amsterdam Treaty, which also provided for the incorporation of Schengen into the Community framework. The consequence is that the member states are likely to be more jealous than usual in allowing the Commission to conduct the nitty-gritty of the negotiations with the applicant states.

Moreover, the subject matter of the negotiations touches on issues of great political sensitivity, such as terrorism, illegal immigration, and drug-smuggling, while several member governments—notably France, Germany, and the Netherlands—are known to harbor severe doubts about the capacity of candidate countries to apply strict controls to their external borders.

The talks over Schengen will be of a different character from those over most other chapters, where requests for exemptions or transition periods (from either side of the table) account for the bulk of the bargaining. All of the candidate countries will be required to sign up to Schengen, but none of them will be expected (or allowed) to join it on the first day of their accession to the Union.

Even if an applicant state were to make exceptionally fast progress in preparing for Schengen, it could not, for technical reasons, be admitted before the end of 2005. This is because the Schengen Information System, with its large computer network and databases containing details of "undesirable" persons, could not be adapted before that date to accommodate new members.

The Schengen Agreement allows EU citizens to move between most Union countries without going through customs.

At present, much of the eastern external border of Schengen is controlled by Germany: in the future this responsibility will fall mainly on Poland. Only when the Schengen states are satisfied that the Poles can police that border as well as Germany is able to do at present will Poland be admitted into Schengen and its western border be accepted as an internal frontier with no need for border controls.

Several of the applicant states are unhappy about the likely consequences but are inhibited about raising their fears during the negotiations should it cause further delay. There are two major concerns. One is that if some of the states are admitted before the others, they may have to raise new barriers against them. This fear has abated somewhat, as it now seems quite probable that all the ten leading candidates will be admitted simultaneously.

Hungary, however, is almost certain to join well ahead of neighboring Romania, with its large Hungarian minority who are freely admitted into Hungary. It has no desire to tighten its border controls.

The other concern is about the consequences for border areas where there is a flourishing informal cross-border trade and constant interaction between friends and relatives on either side of the border. If these contacts were to be curbed, as a consequence of Schengen, it would impoverish both the new member states and their neighbors (notably Ukraine and the Russian enclave of Kaliningrad) on the other side of the border.

Talk of a new Iron Curtain being erected is no doubt exaggerated, but the EU needs to consider more carefully how to reconcile its requirement for a secure eastern border with the need not to impair the hard-won good relations that the applicant states have established with their Eastern European neighbors. Failure to do so would quite likely have the effect of pushing Ukraine, for example, back into the Russian sphere of influence and blunt its urge for closer communion with Europe.

—Dick Leonard

EURO NOTES

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

DUISENBERG CONTINUES TO DRIVE THE EURO

Wim Duisenberg, president of the European Central Bank, should be contemplating his finest hour. The introduction of euro notes and coins on January 1, 2002 marks the pinnacle of his career. But not everyone is cracking open the champagne bottles in European capitals. For the hard truth is that Duisenberg has not always made it easy for himself during his three years as ECB president, one of the most powerful unelected posts in Europe.

Dogged and dour, the sixty-six-year-old Dutchman has made little effort to make friends and influence people, either in the financial markets or in politics. He has worn the independence of the ECB as a badge of honor, never ceasing to remind critics that this independence is guaranteed under the Maastricht Treaty.

At the same time, Duisenberg has also taken a mischievous delight in defying market expectations. He set the tone in December 1998 when he organized a coordinated cut in interest rates among the eleven countries that were about to launch economic and monetary union on January 1, 1999. On several subsequent occasions, he has not been afraid of saying one thing and doing another.

In this respect, Duisenberg differs fundamentally from Alan Greenspan, chairman of the Federal Reserve. Whereas Duisenberg is blunt to a fault, Greenspan delights in Delphic utterances. The Dutchman is at pains to stress the limits of monetary policy. The American is an activist par excellence who spends a great deal of time managing expectations in the markets.

Duisenberg arrived in the ECB job in spring 1998 under circumstances that continue to haunt him. At the time, he was the clear front-runner for the top job, having run the European Monetary Institute, the ECB forerunner. But French President Jacques Chirac nominated Jean-Claude Trichet, governor of the Bank of France.

A standoff ensued between the French and Germans (who favored the orthodox Duisenberg as a better candidate to field before an EMU skeptical German public). Finally, under a hard-fought compromise, Duisenberg was obliged to give a political commitment to step down halfway through his eight-year term in favor of a French candidate, presumably Trichet.

The deal aroused suspicions that the politicians were playing fast and loose with the Maastricht Treaty. This may explain why Duisenberg, who is a bit of a bruiser, has never been shy about asserting his independence in the face of political pressure.

This year, he chastened Didier Reynders, the Belgian finance minister, who chairs the twelve-strong euro group of EU finance ministers whose countries belong to the euro zone. Reynders had sought aggressively to persuade the ECB that it was time to cut interest rates and had pushed for a more intimate dialogue. Duisenberg made clear he would only do so on his terms.

The record of the ECB under Duisenberg is techni-

Wim Duisenberg, president of the European Central Bank

cally impressive. With limited resources, the ECB has built up a gifted team of professionals. The switchover to the euro on January 1, 1999 was smooth; now Duisenberg is hoping for the same on January 2002 with the even more complicated changeover to euro notes and coins.

On monetary policy, the ECB under Duisenberg has erred on the side of caution. Arguably, he got off on the wrong foot by raising rates too soon in 1999 and then failed to cut rates in spring 2001 when it was obvious that the US slowdown would spread to Europe. In line with other European politicians, Duisenberg argued that Europe was to a degree insulated from developments on the other side of the Atlantic.

A more charitable explanation is that Duisenberg had to take account of relatively high inflation rates in the euro zone periphery, in countries such as Ireland, Spain, and Portugal, rather than low growth rates in Germany. He is more a victim of the difficulties in operating a one-size-fits-all monetary policy—and he has to work on inadequate euro-zone data compared to the more efficient Fed.

Whatever the imperfections of policy, the presentation has been poor. Duisenberg has suffered because fellow board members and national central bank governors have often taken liberties to speak out on monetary policy, the value of the euro, and other issues. This has undercut his own authority that anyway is curtailed by the policy of operating by consensus inside the ECB's governing council.

In August this year, he read the riot act and gained assurances from his ECB colleagues that they would hew more to a common line. But the Dutchman promptly undid all the good by appearing to rule out an early rate cut after the September 11 terrorist attacks, despite clear signals from the Fed that it intended to act.

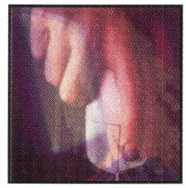
Some ECB watchers say that a central banker with a more sensitive political antenna would have avoided such mistakes. But it is in Duisenberg's nature to plow on in the face of opposition. He delights in defying convention, right down to his addiction to cigarettes.

And let there be no doubt on one other matter: He will step down from his post at the time of his choosing.

—*Lionel Barber*

e-EUROPE

Tracking the news and trends shaping Europe's technology sector



E-GAMBLING GOES GLOBAL

It started with a horse named Commanche Court. He just sounded like a winner. He was running in the Hennessy Cognac Gold Cup in Newbury, England. Of course, I hadn't actually seen him run—I hadn't seen him, period. I just came across his name on a British bookmaker's Web site. Nevertheless, I imagined a fierce black stallion, snorting and pawing the turf as his jockey whispered in his ear, psyching him up for a whirl around the track.

The name flickered on my screen, beckoning me toward a quick and easy payday. No need to fly to England, no expensive hotel room or rental car needed. For that matter, no need to get dressed. From the comfort of my apartment, I could plug in my credit card number, click on the bet, and after the race, the bookmaker would credit the winnings to my account before the horse was back in his barn. "Come on Commanche Court," I said to the computer screen.

Gone are the days when one has to fly to Las Vegas or find the closest Indian reservation to place a wager on the ponies—or any other sporting event. The Internet has thrown open the doors to the gaming industry, flummoxed lawmakers, and made on-line gambling one of the Web's most profitable businesses.

Since the first on-line casino went live in 1995, the ranks of e-gaming Web sites have swollen steadily. By 2000, investment banker Bear Stearns estimated there were between 600–700 betting sites, a figure they say doubled to 1,200–1,400 in 2001. However, with numerous legal issues evolving and many e-gambling companies based in offshore locations, the true size and breadth of the industry remains hard to quantify. A Pew survey approximates that 5 percent of Internet users gambled on-line in 2000, which translates to roughly 6 million Americans and 3.8 million Europeans. Bear Stearns estimates that on-line gaming revenues worldwide will grow from about $1.5 billion in 2000 to more than $5 billion by 2003.

In addition to betting on sporting events, players can find a broad range of other e-games of chance, including casino games such as roulette, poker, blackjack, craps, and slot machines.

Ladbrokes says its e-gambling sites are already profitable.

In the US, the states have generally decided whether or not to allow gambling in their jurisdictions. However, with the Internet making state boundaries moot, the issue has become muddled. The Justice Department has said that, based on the 1961 federal Wire Act, which prevents using the telephone to place bets across state lines, it considers on-line gambling illegal. But a US federal district court ruled the law does not apply to Internet-based gambling. Several bills in Congress have attempted to address the issue, only to become mired in a swamp of technical details and exceptions.

Advocates for on-line gaming say the only way to protect consumers is through regulation and allowing reputable casino companies into the business rather than leaving the market to offshore companies, which face little or no regulation and are largely beyond recourse.

Furthermore, technical analysts say enforcing a ban on Internet gambling will be extremely difficult, and attempts to put the legal onus on credit card companies and Internet service providers to block gambling sites have encountered stiff resistance.

Elsewhere, Canada is struggling with a similar murky legal situation, and Australia has banned e-gambling outright. In Europe and Asia, however, e-gambling is exploding, with the United Kingdom leading the way.

Ladbrokes, one of the UK's biggest and oldest players in the betting business, got into the game relatively late, launching its on-line sports book just two years ago and a cyber casino, featuring roulette, blackjack, and craps, in November 2000. Nevertheless, the company made up ground quickly and turned a profit in July, a year ahead of schedule. Even without tapping the vast US market, Ladbrokes has registered more than 250,000 customers in roughly 170 countries, including all the EU members.

"We're only scratching the surface of what's possible," says Ladbrokes spokesperson Andy Clifton. "You look at the Far East and at countries like Italy, Spain, and the Scandinavian countries where there is a high propensity to bet, whether it's on lotteries or soccer bets or whatever, and the potential is huge."

The potential is even greater when one considers the prospect of mobile phone betting. Swedish handset maker Ericsson conducted a poll that found 9 percent of Swedes would like to gamble over their wireless phone. Ladbrokes and several other bookmakers already accept wagers via mobile phones using the WAP technology. However, as the so-called third-generation mobile phone networks begin coming on-line, bettors will soon be able to place wagers as they watch races and games on their handsets.

Meanwhile, others are watching Internet gambling's social impact. A spokesperson for Gamblers Anonymous in the UK who would only give his name as Patrick acknowledged that, because it is always just a click away, Internet gambling presents a threat to compulsive gamblers. "It's in your face twenty-four-seven," he said.

Clifton notes that Ladbrokes works with help groups, including the UK's GamCare, to address e-gambling problems, consulting them on policies and methods, such as allowing customers to register only one credit card.

As for my own bet, a message from the bookmaker said my credit card company didn't accept charges from their site, a practice many US credit card companies have adopted while the legal issues are sorted out. It turned out to be my saving grace. Commanche Court finished ninth.

—Peter Gwin

THE BIRTH OF THE Euro

By Lionel Barber

On January 1, 2002, more than 300 million European citizens will see the euro turn from a virtual currency into reality. The entry into circulation of euro notes and coins means that European Monetary Union (EMU), a project devised by Europe's political elite over more than a generation, has finally come down to the street.

The psychological and economic consequences of the launch of Europe's single currency will be far-reaching. It will mark the final break from national currencies, promising a cultural revolution built on stable prices, enduring fiscal discipline, and lower interest rates.

The origins of the euro go back to the late 1960s, when the Europeans were searching for a response to the upheaval in the Bretton Woods system, in which the US dollar was the dominant currency.

The first step came at the Hague summit in 1969 when the founders of the European Union—France, Germany, Italy, Belgium, Luxembourg, and the Netherlands—ordered a feasibility study on monetary union.

The goal of a single currency had been mentioned obliquely in the 1957 Treaty of Rome, the Union's founding treaty. But it took an inspirational intervention in 1970 from Pierre Werner, Luxembourg's prime minister, to produce a three-stage plan for achieving monetary union within a decade.

The first oil crisis and the collapse of the Bretton Woods system in 1972–73 sabotaged the Werner plan, but Europe's search for currency stability received a fresh wind in 1979 with the creation of the European Monetary System (EMS).

This time the plan was the result of intense cooperation between Valéry Giscard d'Estaing, president of France, and Helmut Schmidt, chancellor of Germany, supported by Roy Jenkins, a former British treasury secretary who had come to Brussels to serve as president of the European Commission.

The EMS was built on the concept of stable but adjustable exchange rates, which led to the creation of the so-called "snake," which allowed currencies to move up and down within certain limits. Once again, an oil crisis intervened to put pressure on the system. Then came a further blow with the election of a Socialist French government in 1981 led by François Mitterrand.

There is a view, shared widely among European political analysts, that the decisive moment for EMU arrived in 1983—a full eight years before the Maastricht Treaty negotiations, which set down a precise timetable for launching the single European currency.

In 1983, France faced another devaluation of the franc. President Mitterrand had flirted with "Socialism in one country," refusing to accept that this was an out-of-date notion in an increasingly integrated European economy.

Jacques Delors, his centrist finance minister, told him the hard truths of economic interdependence. The Socialist government resolved to pursue a *franc fort* policy based on a sound currency that would commit to preserve its value against the deutsche mark without engaging in competitive devaluations.

Delors went on to be chosen as president of the European Commission in 1984 and took up the office in Brussels the next year. After a hesitant start, he launched the program for creating a single European market that would lead to the free circulation of capital, goods, and services by 1992.

Alongside the 1992 program came the influential "Cecchini" report written by experts in the European Commission, which argued that a single currency would enhance the benefits of the single market because it would save transaction costs.

In 1989, with the fall of the Berlin Wall, the single market project took on a new political dimension. Delors, supported by Mitterrand and Chancellor Helmut Kohl of Germany, pressed for economic and monetary union (EMU) as the essential counterpart to the single market.

In essence, Delors proposed a grand bargain: In return for Europe (especially France) giving its blessing to German unification, Germany would be expected to exchange national monetary sovereignty—that is the deutsche mark—for a single European currency.

The surrender of the deutsche mark was a huge political sacrifice for Germany. The deutsche mark was the symbol of postwar Germany's economic renaissance as well as its self-respect after the chaos of the Weimar Republic and the trauma of Nazism.

Chancellor Kohl saw EMU as a means of anchoring a united Germany into a united Europe, one in which Germany would no longer be a front-line state but would fit alongside a newly democratic Poland and a more stable,

Former president of France Valéry Giscard d'Estaing (left) and former West German chancellor Helmut Schmidt (right) were two of the driving forces behind the creation of the European Monetary System in 1979.

democratic Eastern Europe liberated from the Soviet bear-hug.

President Mitterrand saw EMU as a strategic opening to break the monetary hegemony of the German Bundesbank through the creation of a supranational bank—the European System of Central Banks—in which France would have parity of influence with Germany.

Jacques DeLarosière, former governor of the Bank of France and later head of the International Monetary Fund, is said to have remarked that EMU once and for all would release France from Frankfurt's dominance. This meant that he would never again have to receive a call from the Bundesbank effectively dictating to him the level of French interest rates.

Despite Mitterrand's strategic calculations, the Maastricht Treaty barely passed in a September 1992 referendum in France. The *petit oui* from the French population came amid a period of tremendous currency turmoil as speculators attacked currencies that they believed could not sustain parity with the deutsche mark.

The currency turmoil was exacerbated by the after-effects of German unification. The German government took the fateful decision to pay for the spiraling costs of unification not through higher taxes but through borrowing. The Bundesbank raised interest rates in response, regardless of the knock-on effect on other countries' economies.

As a result, several of the weaker European economies were forced to raise interest rates to protect the value of their currencies against the deutsche mark, the anchor currency in the EMS. Yet the Portuguese escudo, the Spanish peseta, the Italian lira, and the British pound still fell in value against the deutsche mark. The nadir came on "Black Wednesday," September 15, 1992, when the pound and lira left the EMS's exchange rate mechanism (ERM). Other currencies such as the escudo and the peseta were forced to devalue but stayed in the ERM.

In August 1993, after the French franc came under intense pressure, EU finance ministers agreed to a radical reform of the ERM. The bands of fluctuation were expanded, allowing a currency to exceed or lag the value of the deutsche mark by 15 percent, thus thwarting speculative attacks on attempts to maintain near-parity.

In retrospect, the 1992–93 ERM crisis delivered two important lessons that paved the way for the successful launch of the euro on January 1, 1999 when exchange rates between the successful members of the single currency were fixed irrevocably.

First, in an era of free capital movement, there could be no halfway house between free-floating currencies and a fixed regime. The ERM system of fixed but adjustable rates was simply not credible in the face of targeted speculation, especially as the weaker economies had clearly not achieved the correct level of "convergence" with their more powerful counterparts.

Second, the ERM crisis forced the French and the Germans to reaffirm their political commitment to monetary union. Despite the radical overhaul of the exchange rate mechanism, the strategic goal of EMU remained intact. As such, the 1993 crisis underlined how the EU took a pragmatic approach to achieving a political end.

Between 1993–98, all countries in the EU made a formidable effort to restore their public finances in order to

Former French president François Mitterrand (right) and former German chancellor Helmut Kohl (left) viewed economic and monetary union as the essential counterpart of the single market.

meet the Maastricht Treaty's entry criteria for economic and monetary union. These criteria included reducing their budget deficits to 3 percent or lower of gross domestic product; reducing the stock of public debt toward the goal of 60 percent of GDP; reducing inflation to a level determined by the best performers in the ERM; and securing exchange rate stability.

In addition, the center-right coalition government in Germany—partly to assuage domestic public opinion and the Bundesbank—unveiled proposals for a so-called "Stability Pact" to enforce budgetary discipline in the future euro zone.

Arguments over the precise terms of the pact led to several titanic clashes between the French and the Germans. The French wanted more political discretion over fiscal policy; but the Germans wanted to export their stability culture, primarily through the creation of an independent central bank and a set of automatic penalties against fiscal miscreants.

In mid-1997, the terms of a deal were reached but only after a scare created by the election of a Socialist-led government in Paris, which had previously voiced doubt about the Stability Pact. At the Amsterdam summit, Lionel Jospin, the Socialist French prime minister, struck an agreement that renewed the agreement, now called the Stability and Growth Pact.

In May 1998, the heads of government decided that eleven countries—France, Germany, Austria, Belgium, the Netherlands, Luxembourg, Finland, Ireland, Italy, Spain, and Portugal—had met the Maastricht criteria. Some countries only squeezed into the EMU club thanks to a liberal interpretation of the entry criteria. For Italy, however, with its huge public debt and its rocky record in the management of public finances, it was an historic achievement.

One last conflict arose over the selection of the president of the new European Central Bank. Wim Duisenberg, the long-serving head of the Dutch central bank, was the firm favorite, strongly supported by the Germans. But at the last moment, President Jacques Chirac of France put forward Jean-Claude Trichet, governor of the Bank of France.

Once again, the dispute highlighted that national differences could not be subsumed in the new supranational monetary union. In the end, Chirac forced a compromise whereby Duisenberg gave a less than cast-iron commitment to step down around halfway through his eight-year term, say in mid-2002, after the entry into circulation of euro notes and coins.

It was a less than perfect deal that took some of the gloss off the launch of the euro on January 1, 1999. In the intervening years, the euro has been a technical success but something less than a star on the currency markets. The dollar's strength overshadowed the euro, which also suffered from heavy investment outflows into the US, especially during the dot-com boom.

Now that the US economy has come to a juddering standstill, the euro has recovered some of its value. Some are predicting a long-term turnaround. But this would not necessarily benefit Europe's economies, which have used a weaker exchange rate against the dollar and yen to boost exports.

In the final resort, it may be time to reexamine some of the deals that underpinned the Maastricht Treaty's provisions on economic and monetary union. The Stability Pact has already been tweaked to take more account of the economic cycle. The organization of the ECB—in particular the sharing of executive seats and the composition of the governing council—may also be revised as the EU proceeds with enlargement to Central and Eastern Europe.

In sum, after a tumultuous decade, the euro is entering the post-Maastricht era, when it will become the currency of choice not just for the twelve-member euro zone but also for many of the EU's neighbors. The next chapter in a process of truly historic proportions is about to begin.

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

CHARTING THE BIRTH OF A NEW CURRENCY

1958
The Treaty of Rome declares that a common European market is an objective; aims to benefit the economy and bring the European countries in closer union.

1969
Pierre Werner, prime minister of Luxembourg, is asked to chair a high-level group to discuss how to form European Monetary Union (EMU) by 1980.

1986
The Single European Act is signed, containing the basic provisions for what would be the EU's objectives, organization, and some of its economic law.

June 1988
The European Commission mandates a committee to study and propose concrete stages leading to an economic union of Europe. Then-president Jacques Delors heads this committee, and the Delors Report proposes three distinct steps to EMU.

February 1992
The Treaty of the European Union, known as the Maastricht Treaty, is signed, and the European Community officially changes its name to the European Union.

January 1994
The European Monetary Institute (EMI) is established, which is given the task of carrying out preparatory work on the future monetary and exchange rate relationships between the euro area and other EU countries.

December 1995
The name "euro" is adopted for the new currency.

Feburary 1996
The EMI launches a competition to design the euro banknotes, and the winner is picked from Austria in December.

May 1998
The Council of the European Union unanimously decides that eleven member states (Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal, and Finland) have fulfilled the necessary conditions for the adoption of the single currency on January 1, 1999, and the euro zone is created.

June 1998
The European Central Bank (ECB) is established, though it was first discussed in 1988. Its purpose is to maintain price stability and to conduct a single monetary policy across the euro area. The establishment of the ECB means that the EMI has completed its task, and it is liquidated.

January 1999
The exchange rates of the participating currencies are irrevocably set. All of the ECB transactions with commercial banks and foreign exchange activities begin to be in euros.

July 1999
Production of the euro banknotes begins.

January 2001
Greece becomes the twelfth member of the euro zone.

August 2001
The ECB unveils the euro banknotes and their security features.

October 2001
More than 200 million informational leaflets describing the euro currency and its security features are distributed to homes in the euro zone.

December 2001
Limited quantities of euro coins are made available to the public in some parts of the euro zone in the form of starter kits, sold at banks, post offices, and in some countries, at retail outlets. No euro banknotes are to be released into public circulation until January 1, 2002.

January 2002
The euro banknotes and coins are introduced in twelve member states of the European Union.

March 2002
The euro becomes the sole legal tender in the euro zone (though France, Ireland, and the Netherlands have picked earlier dates)

Compiled by Sarah Naimark

What the New Currency Means to

By Bruce Barnard

Euro displays opened in cities throughout the euro zone to educate the public about the new money.

the European Economy

Specimen euros are displayed at a Paris street market to familiarize the French public with the currency prior to its entering into circulation on January 1, 2002.

The arrival of euro bills and coins in January will give Europe a second chance to create a single pan-continental economy to rival the United States. The euro has failed to live up to the hype that surrounded its launch in January 1999 when Europe's politicians and business leaders predicted it would soon challenge the dollar as a global currency, attract a flood of capital into the continent, hasten deregulation, and put the finishing touches to the fifteen-nation single market.

The euro's performance has been mixed and its impact muted over the past three years. It has lost a quarter of its value against the greenback, which still remains the world's superpower currency. Economic growth in the euro zone has lagged behind the US, and there has been a net capital outflow of around $240 billion across the Atlantic. Furthermore, the fledgling European Central Bank has yet to establish its credentials in the financial markets, and labor market rigidities persist.

The euro has also not yet equalized consumer prices across the European Union. Gasoline remains 15 percent cheaper in Luxembourg than in Germany, and new cars cost 10 percent more in Austria than in neighboring Italy.

On the plus side, the euro has definitely knitted European economies closer together, triggered a boom in cross-border mergers and acquisitions, cut the cost of capital, eliminated foreign exchange risks, and abolished the competitive devaluations—like the UK's and Italy's in the early 1990s—that distort the European economy. Meanwhile, the strict limits on government deficits and borrowing in the Maastricht Treaty, which created the euro, have had a major impact on public finances with many euro-zone countries boasting budget surpluses.

The euro's impact was limited because it was a "virtual" currency, its use restricted to European Union budgets, corporate accounts, bond and stock markets, and other non-cash transactions. That will all change on January 1 when it goes "live" with the conversion of the currencies of the twelve euro-zone countries, worth roughly $320 billion, into "real" euros.

Despite military style preparations, the changeover will encounter teething problems that could undermine consumer confidence. That's to be expected in an operation involving the simultaneous introduction of 14.5 billion new notes and 50 billion coins and the withdrawal of twelve national currencies, which cease to be legal tender on February 28. Simply put, it is "the most important operation of changing a currency in world history," according to Pedro Solbes, the European commissioner for economic and monetary affairs.

But it won't take long for the euro to gain legitimacy as it becomes the sole currency from the frozen north of Finland to Greece's Aegean islands. It will boost cross-border trade and recruit the euro zone's 300 million consumers in the creation of a genuine single European economy. "On January 1, 2002, 300 million people will for the first time be able to cross twelve national borders and discover that the currency which their neighbors are using is the same as the one they are using at home," said Wim Duisenberg, president of the European Central Bank. "Europeans will realize they are at home throughout Europe."

Big business will take the currency conversion in its stride because it has been preparing for years. IBM, for example, began offering euro-related services as long ago as 1996. Ahold, the Dutch supermarket giant, started to switch its suppliers over to the euro in 1999. Most large European retailers have been pricing goods in national currencies and the euro for well more than a year, and their cash registers and staff are ready for the changeover.

Small and medium-sized companies, however, are trailing in their preparation for the introduction of euro cash, according to the European Commission. One in five of 2,800 companies polled by the EU's executive say they will not be able to operate entirely in euros on January 1 though nearly half of the medium-sized businesses employing between 50 and 249 workers believe they will be ready.

The switchover to euro cash will initially increase costs for business. The Association of German Banks reckons the conversion cost will exceed $60,000 per branch in additional insurance, transportation, staff training, and customer information campaigns. Euro Commerce, a Brussels-based retailers' association, estimates conversion will present euro-zone retailers with a bill of more than $28 billion, or 2 percent of sales.

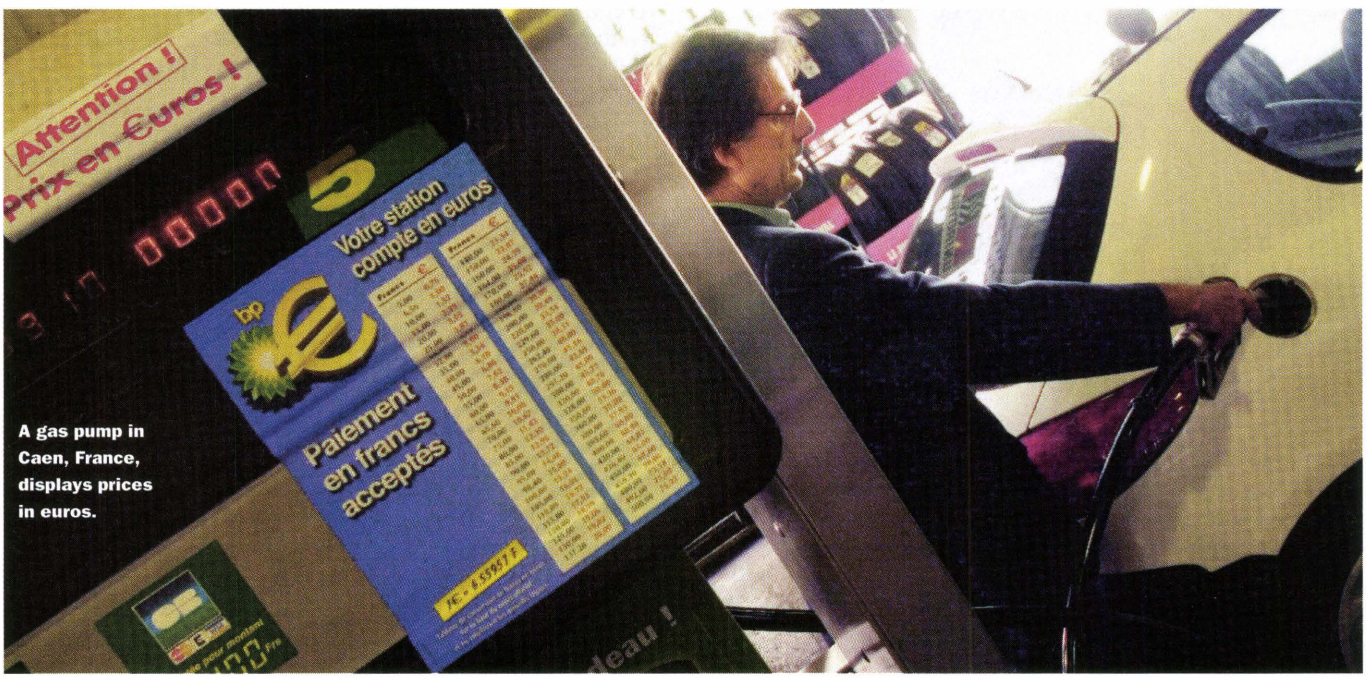
Economists warn that the costs of the changeover, delays in circulating the new cash, and consumers' initial reluctance to spend the new money until they are comfortable with it, could clip growth in the euro zone by at least 0.25 percent in 2002, a big hit when the economy already is slowing sharply.

Furthermore, some worry the switch to euro cash will stoke inflation as manufacturers and retailers take advantage of the confusion among consumers to increase prices by stealth or by simply rounding up prices in the new currency. UK prices rose 3 percent after decimalization in 1971, but this increase resulted more from excessive wage awards and a lax fiscal policy than gouging by retailers. Economists play down the inflationary threat. "Given that rounding up [of euro prices] would go equally likely upwards or downwards, the impact on the aggregate prices should be negligible," according to Goldman Sachs analysts.

The "real" euro is being launched at a time when the euro zone is still reeling from the economic fallout from the September 11 terrorist attacks on the US and is not expected to recover until well into 2002. However, euro bills and coins are entering circulation amid signs that the twelve euro economies finally are starting to converge, making it easier for the European Central Bank to run its one-size-fits-all monetary policy in a region where conditions vary widely. When the euro was launched in 1999, annual growth ranged from a high of 10.8 percent in Ireland to a low of 1.6 percent in Italy, a 9.2 percent gap that is expected to more than halve in 2002. Similarly, the 3.5 percent difference between the highest inflation rate (5.3 percent in Ireland) and the lowest (1.8 percent in France) in 2000 is set to narrow to just 1.8 percent next year.

Euro bills and coins are hitting the streets at a difficult time for the European economy, but a year from now consumers could be wondering what all the fuss was about. That, indeed, will be a mighty achievement for the architects of the pan-European economy. ⓔ

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



A gas pump in Caen, France, displays prices in euros.

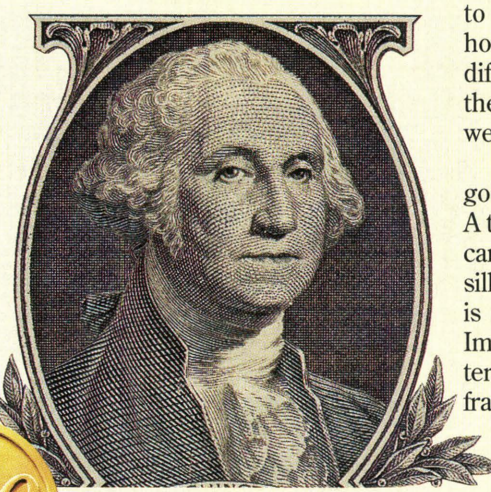
E Pluribus Euro

By Peter Gwin

What Americans think about Europe's new currency

In response to the historic introduction of euro banknotes and coins on January 1, most Americans offer little more than a yawn.

Truth be told, Americans take the idea of a single currency for granted. Since the federal government introduced US paper money as we know it today in the early 1860s (when it issued greenbacks as a way to finance the war with the Confederacy), generations of US citizens have bought groceries, received their paychecks, paid their taxes, and traveled among the fifty states—all using dollars. No one thinks twice about the fact that we don't have to exchange money when traveling between New York and New Jersey or New York and California, for that matter.



Still, although Americans are somewhat jaded about the single currency concept, don't they realize that twelve countries giving up their national currencies in favor of the euro is a singular monetary event that surpasses any currency changeover in history?

"The only monetary events Americans get excited about are the ones that have tangible effects on their wallets," offered an official at Riggs Bank in Washington, who asked that his name not be used.

But won't the euro have an effect on US wallets? The short answer is: it already has. Since the currency was introduced as a banking and accounting instrument in January 1999, US companies operating in the euro zone have gained cost-saving efficiencies, notably in much streamlined budgeting and accounting procedures. However, the biggest gain companies have reaped from the euro is the reduced exposure to fluctuations in the currency markets. Before the values of the twelve euro-nation currencies were irrevocably pegged to each other, large American multinationals had to engage in costly currency-hedging programs to ensure they wouldn't lose money as the currencies' values moved up and down against each other.

In this regard, the euro is old news. Tom O'Brien, an international economist with Northern Trust Company, believes most of the euro's implications for US businesses have already been realized over the past two years. There will still be companies, such as Coca-Cola, that have to convert their vending machines to accept euro coins and address other similar logistical issues, he acknowledges, "but on the corporate level, most of the switchover occurred back in 1999." On the other hand, he says, "Tourism is the area in which the introduction of euro notes and coins will have the most obvious impact on the American consumer."

Indeed, American travelers stand to reap significant euro dividends. Tourists traveling to two or more euro-zone countries will save money on currency transaction costs. Before the introduction of euro notes and coins, a tourist would have had to spend all of his pesetas in Spain before leaving for Portugal, for example; otherwise, he'd have to pay a fee to convert his leftover pesetas into escudos. The costs mounted exponentially the more countries he visited and the more currencies he had to buy.

American travelers will also be able to better compare prices from country to country. Before they even leave home, notes O'Brien, "they can go to different travel Web sites and compare the price for a week in Greece versus a week in France in euros."

And once in Europe, the prices of goods become much more transparent. A tourist window-shopping, for example, can easily recognize the same designer silk blouse she spotted for €100 in Paris is an obvious bargain at €60 in Milan. Imagine trying to figure which is the better deal using the old currencies: 655.96 francs versus 116,176 lire.

While tourists gain new advantages, some companies in the travel industry are set to experience major changes. The currency exchange firm Thomas Cook/Travelex, for example, is keen to find new sources of revenue after the retirement of twelve major currencies. Michael Fahey, a marketing director with the company, notes the exchange business has been receding for some time. "We've seen over the past several years a decline in transaction value, as people have looked toward debit cards, ATM cards, and credit cards as alternate payment methods," he says.

Fahey says this led Thomas Cook/Travelex to introduce euro-denominated travelers' checks in 1999. Not only can tourists use them while traveling throughout the euro zone but they can also buy them with their leftover national currencies for use on future trips abroad, thus saving multiple transaction costs. "We've done a very strong business in the euro-traveler's checks," Fahey says, "particularly so in the last six months."

Thomas Cook/Travelex estimates 15 million Americans will visit Europe in the next twelve months, which means nearly 5 percent of the US population will have the chance to slip euros into their wallets. And that will be a monetary event that will mean something to them.

Peter Gwin is EUROPE's *senior writer.*

THE EURO

Euro Logistics

How to introduce a new currency

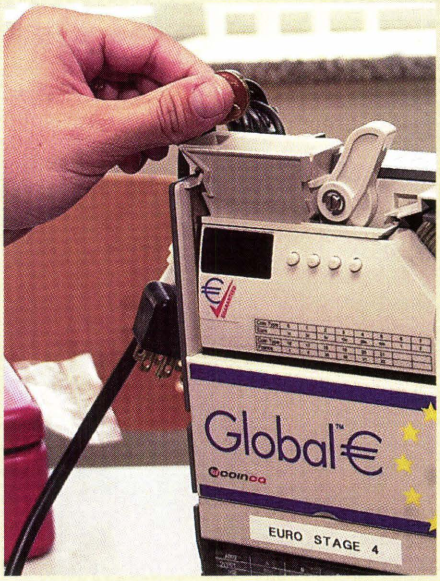
By Bruce Barnard

Department stores, banks, gas stations, movie theaters, and mom-and-pop shops have begun the final countdown to the most frenetic Christmas and New Year ever as billions of euro bills and coins enter circulation across the twelve-nation euro zone on January 1.

Retailers will be making final preparations for the changeover from national currencies to the euro in the week before Christmas when shopping reaches an annual peak and will begin using the strange new bills and coins at the beginning of the New Year's sales when customers fight over bargains.

Everything is in place. Convoys of armored trucks have been delivering euros to the vaults of banks and stores from printing plants across Europe almost every day since the beginning of September. Millions of products have been repriced in euros. Some 3.5 million vending machines and 200,000 automated teller machines [ATMs] have been reprogrammed to distribute the new money.

A Coca-Cola Company technician tests a euro in the coin entry mechanism for a vending machine. The company predicts its 28,000 vending machines in Belgium and Luxembourg will be euro compatible by December 1, 2001.



The big stores are already pricing goods in both euros and national currencies, having converted their cash registers in 1999 at the same time as they prepared for Y2K, the so-called millennium bug, and have been training their employees for months. But with less than four weeks to go, few consumers have any idea of the going rate for their national currencies in euros, despite television, newspaper, and poster campaigns across the euro zone in the past four months.

Stores will have to handle up five to ten times more cash than usual in the first two months of the year, although they may do less business, retail analysts say. That's because they will receive payment in the old currency and must give change in the new.

Smaller stores have adopted a "wait and see" attitude hoping it will all go right on the day and taking solace in the fact that national currencies will remain legal tender until February 28. Others, however, are getting worried. The owners of Greece's more than 15,000 street kiosks have called for help from the government. "We'll be in the frontline for the changeover, and we need advice on how to handle very small transactions in euros," said Grigoris Tsigaridas, head of the kiosk owners' association. The average kiosk stocks more than 400 items, from newspapers and cigarettes to stationary and soft drinks.

The changeover should be completed within a week, half the time envisaged by EU finance ministers two years ago, according to Pedro Solbes, the European commissioner responsible for economic and monetary affairs. However, he warned the banks' failure to give small shops financial incentives

to hold notes and coins in readiness for January 1 could delay completion of the changeover by a week.

People should not have any problem getting the new notes with almost 85 percent of the 200,000 ATMs in the euro zone expected to dispense the new notes from the first day, according to the European Commission. The ATMs will handle about 90 percent of the 14.5 billion euro bills to be issued from January 1 and will be the first contact with the new currency for the bulk of the euro zone's 300 million inhabitants.

There are lingering fears, however, that the changeover will be a mess. Travelex, the British firm that operates the world's biggest chain of bureaus de change, warns travelers could be stranded at airports in the first week of

A special euro publicity truck toured towns all over Greece distributing information about the new currency.

January because ATMs could be emptied of euros.

Politicians fret that a bumpy introduction of the euro could undermine the confidence of the public in the new currency, especially in countries like Germany where opinion polls show more than half of all voters want to keep the deutsche mark. Nicole Fontaine, president of the European Parliament, has warned that tumbling public confidence in the euro risks unleashing a "popular uprising."

The euro changeover will be a bonanza for several sectors, including transport and security firms, which have been booked solid until next March when the national currencies will disappear, and temporary employment agencies, which are scrambling to provide emergency staff to shops and offices.

The arrival of the euro is also good news for charities across Europe that are urging people to donate unwanted coins in national currencies instead of exchanging them for the new money at banks. One of the biggest campaigns, Coins for Care, will take place in the Netherlands where 250,000 volunteers will begin door-to-door collections at the country's 6 million households in January to raise money for 142 charities in what the organizers claim will be the biggest charity cooperation anywhere in the world.

The biggest money swap in history will also provide a once in-a-life time opportunity for criminals, according to Europe's law enforcement agencies. There are fears they will try to exploit the initial confusion in banks and financial institutions to launder huge amounts of dirty money and take advantage of the public's lack of familiarity with the new currency to circulate fake bills. The Bundesbank, Germany's central bank, says criminals might attempt to exchange forged marks for euros in the large number of East European countries and Turkey where the German currency is widely used.

But these concerns will be far from the minds of New Year's revelers in Finland and Greece who will become the first spenders of the new currency just after the clock strikes twelve on December 31, an hour ahead of the rest of the euro zone, thereby completing a process that began in 1969 when the farsighted leaders of the six founding member countries of the EU agreed to study the feasibility of a common currency. ⓔ

Pedro Solbes

European Commissioner for Economic and Monetary Affairs

EUROPE INTERVIEW

European Commissioner Pedro Solbes previously served as Spain's economics and finance minister and as a member of its parliament before coming to Brussels in 1999. As economic and monetary affairs commissioner, he is the Commission's point man for the euro's introduction. He recently agreed to answer EUROPE*'s questions about the introduction of euro banknotes and coins.*

The euro is entering the world during turbulent times. Are you confident this is the right time to introduce Europe's new single currency?

First, let me say that the euro entered the world almost three years ago. The euro has been our currency since the first of January 1999. Now we are about to complete the last phase of this project with the physical introduction of euro banknotes and coins on the first of January 2002. In a way, the deutsche marks or the Italian lire that Europeans have in their pockets today are already nothing more than non-decimal fractions of the euro. But the introduction of the euro has been a long-term project that has already contributed to the stabilization of our economies. The completion of the euro changeover at this moment of uncertainty and economic slowdown is going to be one more contribution of Europe to world growth and stability.

The introduction of the euro is unique. Twelve nations are giving up their own currencies for a single currency. Has anything happened like this before in the history of the world?

No, not in recent history at least. But this unique project is made by the people of Europe who have lived together for many years and have learned from history that it is better to live peacefully together than fight against each other. The euro is the natural development from the creation of the European Union and, at the same time, the largest structural reform introduced in the European economy. The euro is by now a part of our European identity.

Does it really matter that the euro continues to fall against the dollar?

Theory and practice show that over the long term currency exchange rates reflect the underlying fundamentals of their economies. Any disequilibrium from this rule over a long period of time is not healthy and can be harmful. The fundamentals of the euro zone, we believe, are at this conjuncture the best in the developed world. And this is clearly not reflected in the euro exchange rate.

But, on the other hand, it is clear that exchange rates are set by the financial markets, and in the short term, other factors, such as direct investment flows, financial assets allocation flows, etc, influence the exchange rate level. At the moment, we are still in a situation where Europe has the largest pool of savings and the US the largest pool of financial assets. The creation of the euro and the acceleration of globalization have permitted European companies and investors to increase their presence abroad. In the longer term, the euro should strengthen in line with fundamentals.

What are the main problems you foresee in the first few months of 2002 after the introduction of the euro notes and coins?

We are already seeing the benefit of three years of meticulous preparation for the euro changeover. According to the latest polls, by the end of October 2001 only 6 percent of euro-zone citizens did not know the January 1 deadline. Similarly 91 percent of small and medium-sized companies declared themselves ready to invoice in euros as of January 1, 2002. These were very encouraging results as the public opinion lost focus of the euro changeover information after the events of September 11. The information campaigns will accelerate in November and December and should be possible to cover the remaining gap. In any case, we have a four to eight weeks (depending on each member state) transition period to complete the changeover. But all our simulations at the moment show that by the end of the second week of January the vast majority of national currency would have gone out of circulation and been replaced by the euro. So the main "problem" I can foresee at the moment is the psychological battle of the first day. We try to make sure that on day one, January 1, 2002, everything will work out smoothly even if in theory we have four to eight weeks to complete the changeover. This is important for the media and for the psychology of people. This does not mean that we might not have small technical problems here and there. We should never exclude anything in such occasions. That is why we will continue our efforts until we are satisfied that everything is working smoothly.

> We are already seeing the benefit of three years of meticulous preparation for the euro changeover.

What will the introduction of the euro mean to most Americans? Will it affect Americans in any way other than when they travel to Europe?

Probably not. The euro already exists in the financial markets, and it is in fact used extensively by American investors and companies. It is, for example, at par with the US dollar as the currency of choice for international bond issues and is the currency of denomination for all European equities in which many US investors have already invested. The physical introduction of euro notes and coins will probably remove the uncertainty that might exist in some peoples' minds, in the US or elsewhere, about the existence of the euro. Often when commenting on the euro, people in the US continue to use the conditional tense as if the euro did not exist already! In that sense the January 1, 2002 date will be an important day as all Americans will finally see the euro. In practice, the most certain effect is that Americans will not have to change currencies every time they cross from one euro-zone country to another.

Does the ECB play the same role as the Federal Reserve does in the United States? Are there any major differences in their operations?

The European Central Bank has a different mandate from that of the Federal Reserve. This is simply because the working of economic and monetary union (EMU) is different and because we have opted for a different model. In EMU, we have a single monetary policy and twelve different national economic and budgetary polices that are coordinated. This is different from the situation in any single country; be it the US or a European one.

The ECB is fully independent and has a single and clear objective—the maintenance of price stability. The medium term objective is to keep inflation below 2.0 percent. The Federal Reserve has a wider mandate. Economic and budgetary policy on the other hand is under the responsibility of the twelve national ministers and the European Commission.

Designing THE EURO FOR EUROPE

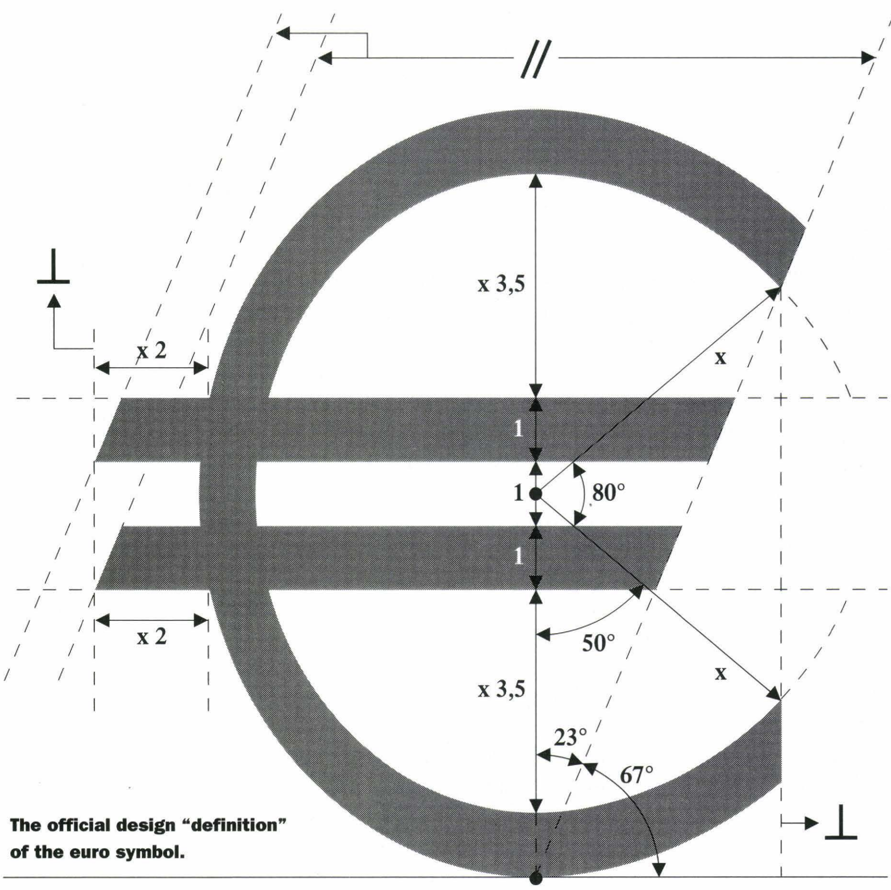
By John Andrews

How do you design a common currency—its banknotes and its coins—for a dozen different nations? And how do you make sure that your design will last long enough to suit an extra dozen or so more countries? The official answer goes back to 1996, when the European Monetary Institute, forerunner of today's European Central Bank, held a European Union-wide competition to be judged by a fourteen-person jury of design and communications experts. The euro's doubters should note, by the way, that this jury included representatives from the United Kingdom and Sweden, neither of which had expressed any intent to adopt Europe's putative single currency.

But the real answer is that you mix graphic flair with a good dash of political correctness. After all, it is one thing for a country to celebrate a historical victory, quite another to be reminded of a historical defeat. Similarly, to celebrate one country's cultural achievements might be to slight another country's lack of achievement. The Greeks, for example, might be very happy to have the Parthenon on every bank note, or the Italians the Colosseum, but would their fellow euro-users in, say, Finland or Austria or France? Quite possibly not, but how else were the competitors to produce designs representing seven ages in Europe's architectural history: classical, Romanesque, Gothic, renaissance, baroque, and rococo, the era of iron and glass, and the modernity of the twentieth century?

The solution devised by the competition's winner, Robert Kalina of Vienna, works by making not faithful copies of Europe's architectural icons, but near-copies. Is that bridge on the €500 note the Pont de Normandie? No, but the similarity is enough to please a Frenchman without alienating a German. So too with the designs for waterways, windows, and gateways, all of them, like the bridges, stipulated by the European Monetary Institute to reflect the EU's "spirit of openness and cooperation." The bridges, for example, are meant to suggest a link not just between the EU's present membership but also between them and the Union's future members. Kalina, an engraver at the Austrian National Bank, cleverly scanned into his Apple computer images of Europe's various bridges and monuments—and then melded them into designs that, with luck, will promote European unity and still be acceptable to every nationality. That goes even for the written definition of the euro: The notes contain the word in both Roman and Greek lettering.

On the other hand, let no one accuse the EU institutions of pushing supra-nationalism too far. While one side of the euro coins is "European" in its theme—it comes complete with a map of Europe and the twelve-star symbol of the Union—the obverse side carries a national symbol: for example, the harp in



The official design "definition" of the euro symbol.

Austrian artist Robert Kalina won the competition to design the new euro bills.

the case of Ireland, or King Juan Carlos on Spain's one and two-euro coins. Presumably, should the UK decide to join the euro zone, its Euroskeptics could be somewhat mollified by having the queen's head on the euro coins minted in the United Kingdom.

Ultimately, of course, the real test of the design will be how readily the Union's ordinary citizens accept their new currency. It is one thing to make the currency "user friendly" for the blind (a feature notably lacking with some other currencies, such as dollar bills), quite another to convince users that the notes and coins are genuine. Police authorities admit that counterfeiters have already been at work, ahead of the January 1, 2002 introduction of the currency into physical use. Indeed, as long ago as 1998, one test of a high-security hologram had to be aborted after a printing plate disappeared on a flight from Paris to Munich.

The question is whether the counterfeiters could ever succeed on a large enough scale to weaken confidence in the euro. Certainly the temptation is there. At €500, the highest denomination note will top all existing European notes other than Germany's 1,000 deutsche mark note—and it will be almost five times the value of the biggest dollar note, the $100 bill. Moreover, the fact that the European Union is the world's biggest trading bloc will add an extra incentive.

But the designers are quietly confident. There are holograms, special threads through the paper, foil strips across the face of the notes, watermarks, and other features. In other words, banks (if not always the ordinary citizen) should be able to stay ahead of the sophisticated technology of today's counterfeiters. All that will then be missing to celebrate the euro as cash in one's pocket—as opposed to the previous virtual currency of the banking sector—will be a booming economy. Never mind that the single market began its life in January 1993 in the economic doldrums yet has proved a huge success. Why not the single currency too?

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

The Odd Man Out

The United Kingdom is keeping the pound. . . for now

By Bruce Barnard

The United Kingdom is clinging stubbornly to the pound, but the arrival of euro banknotes and coins across the English Channel on January 1 will intensify pressure on Europe's third-largest economy to finally make up its mind whether to embrace or reject a currency that will soon become legal tender in a dozen nations on the continental mainland.

The euro has been a deeply divisive issue in British politics for the past decade. The Labor government says it favors membership and has promised a national referendum when it judges the economic conditions are right, while the opposition Conservatives want to keep the pound.

The government has ducked the issue since 1997 when it formulated five economic tests, including the impact on inward investment and London's financial services sector, to decide whether it would benefit the UK to adopt the common currency. Prime Minister Tony Blair is constrained by his powerful chancellor of the exchequer, Gordon Brown, who is lukewarm about the euro, and opinion polls that consistently show more than two-thirds of Britons want to stick with sterling.

The euro's steep slide against the pound (and the dollar) since its launch in January 1999 and the UK's superior economic performance compared with the twelve euro-zone nations have also undermined the appeal of the fledgling pan-European currency.

Blair ended the five-year euro stalemate in early October, issuing the strongest ever signal of his determination to hold a referendum, making clear he would not be put off by adverse opinion polls if the economic conditions are right. The prime minister has promised an economic assessment by June 2003, prompting speculation a referendum will be held in the fall.

The main battleground in the forthcoming campaign will be the UK's business community, which is also bitterly divided over the euro, unlike its European counterparts, which broadly support monetary union.

The majority of the UK's leading companies as well as US and other foreign-owned firms support euro membership. But scores of corporate chiefs and the bulk of small and medium-sized companies are against the UK's membership in the single currency.

British businesses disapprove of joining the euro by a margin of about two to one, according to a recent survey of more than 1,000 chief executives. But the poll by ICM Research also showed a slight movement in favor of membership and suggested that opinion was much more evenly split among bigger companies.

Britain in Europe, a leading pro-euro campaign group, boasts well known corporate captains like Niall FitzGerald, chairman of Unilever, the Anglo-Dutch consumer goods giant; Lord Marshall, chairman of British Airways; and Nick Scheele, vice-chairman of Ford Europe. It claims the strength of the pound against the euro has been partly to blame for the loss of up to 115,000 jobs mostly in the manufacturing industry. "Unlike the countries of the euro zone, Britain still has to carry the cost of a fluctuating currency in our trade with Europe," a Britain in Europe report said. "Our country is currently at a serious competitive disadvantage...small firms have been hit as well as large ones."

The anti-euro campaigners have adopted harder-hitting tactics. JD Wetherspoon, one of the UK's largest pub chains, is displaying advertisements on beer mats and posters urging the 1 million customers that visit its 530 pubs every week to vote against joining the single currency in any future referendum. It offers its mostly young drinkers bumper stickers and postcards, pre-addressed to Tony Blair, that read "Keep your job—keep the pound." In another anti-euro blast, 700 business leaders put their names on a two-page advertisement in the *Times* of London depicting Chancellor Gordon Brown wearing handcuffs to symbolize the loss of control of the UK economy, which they say would follow British euro membership.

A leading business figure, Lord Haskins, chairman of Northern Foods, claims British industry is falling back on "non-business, political arguments" against joining the single currency. Haskins refers to the United Kingdom as "an outsider" and calls the pound a "so-called independent currency."

In general, financial institutions and service companies tend to be more relaxed about being outside the euro zone, while manufacturers, especially those that export to Continental Europe, favor early membership. Several US and Japanese firms have warned they will steer future investment to the euro zone if the government does not make a move toward joining the single currency.

However, not all manufacturers selling into Europe are sold on the euro. JCB, a successful privately owned construction machinery producer, which exports 40 percent of its $1.4 billion annual sales to mainland Europe, has suffered from the pound's strength against the euro, but its chief executive, Sir Anthony Bamford, rejects membership in the euro zone because it requires a "centralized socialized government" to run it.

Meanwhile, the warring camps are putting conflicting spins on the impact of the UK's exclusion from the euro

zone. London's financial district, the City, will "do fine" if the UK stays out of the euro, according to a recent report from the anti-euro campaign, which claims the city has extended its lead over Frankfurt and Paris since the currency's launch in 1999. New euro business has concentrated in the City, and the number of EU financial firms has risen by almost 50 percent.

In June, the Bank of England reported, "The City of London's dominance as the major financial center in the European time zone has remained unchallenged." This opinion was supported by the Basel-based Bank for International Settlements, which in October published a report showing that more than 30 percent of spot foreign exchange turnover is handled in London, a figure virtually unchanged since 1998, the year before the euro's launch. Frankfurt, London's main rival in Europe, ranked fifth with a 5.4 percent share.

But the Foreign Policy Center, which has Tony Blair as its patron, claims Paris and Frankfurt are eroding the City's lead. Over the past ten years, the number of companies quoted on the London stock exchange has fallen by 20 percent, while the numbers quoted on the bourses in Paris and Frankfurt have risen by almost 50 percent. The report's author, Mike Rake, a senior partner of the consultancy KPMG, argues that the continuing uncertainty over UK membership, the volatility of the pound, and the UK's loss of influence over European policymaking all threaten to undermine further the City's preeminence.

So far there is no indication Blair's wait-and-see stance has deterred foreign firms from investing in the United Kingdom. Indeed, during 2000 inward investment soared to record levels for the fourth successive year. The number of new projects rose by 15 percent to 869 in the year to March; the number of jobs created rose by 35 percent to 71,488; and the stock of investment rose by 36 percent to $488 billion. The UK also held its spot as the most popular European location for foreign investment. The US was the leading foreign investor in the UK, with 421 of the new projects (48 percent), followed by Germany with 71 projects (8 percent).

Opponents of UK membership in the euro say the figures prove that keeping sterling would not threaten inward investment as pro-euro campaigners claim. "Investors come here because we have lower taxes and less regulation than the euro zone. The biggest threat to investment is giving away control of our economy," said Dominic Cummings, co-director for the anti-euro campaign.

However, William Pedder, chief executive of Invest UK, the main inward investment agency, says investors see the United Kingdom as a part of the European single market. "That does imply involvement in the single currency when the economic conditions are right," he says. Patricia Hewitt, the UK trade and industry secretary, says investors regard the euro as one of many issues affecting their decision on whether to invest in the United Kingdom. Other equally important reasons include a stable economic environment, low and stable interest rates, low taxes, advanced worker skills, and for investors from English-speaking countries, a common language. ⓔ

Arrivederci Lira

By Stephen Jewkes

The experts agree. Italy's biggest selling Christmas present this year will be the wallet, the euro-wallet. The introduction of the European single currency already has many of the country's top designers hard at work streamlining production—wider sides to fit bigger bills; extra purse depth to take new coins. So good are prospects, sales are seen rising 20 percent on the year.

Gucci says its wallets, while looking the same on the outside, will be reworked inside to make them fully euro-compatible. Prada is proposing the squeeze purse, a throwback to bygone times and already selling like hot cakes as coins come back into vogue. Giuliana Cella, the Milan-based ethno-chic designer who dresses Sharon Stone among other celebrities, is working on a medieval-style money pouch that will house coins in one half and a mobile phone, lipstick, and house keys in the other.

Italy, like most of its EU partners, has opted to phase in the euro gradually over two months. The lira, which traces its origins back to 794 and Charlemagne's *libra*, will run alongside the new currency from January until the end of February before it is officially decommissioned on March 1 (though it will still be possible to exchange lira for euros at the Bank of Italy for another ten years).

The existence of a dual currency for two months should make it easier to shoehorn the economy into the euro, but it will also probably heighten confusion, especially among the elderly. According to the retailers' association Confcommercio, only 37 percent of Italians are aware that checks must be written in euros as of January 1, while about 80 percent of the country believes the lira will continue to circulate after February 28.

Furthermore, a survey conducted in July by CNEL, a public think tank, showed that 30 percent of Italians are still not sure what the euro is, about 43 percent are unaware of the timetable for the changeover, while only 21 percent know how much a euro is actually worth (1,936.27 lira). More worryingly perhaps, a study by Rome's chamber of commerce indicated that 40 percent of Italians think they will be poorer off with the euro.

Yet if the public is still groping in the dark, retailers are faring much better. The government has acknowledged that shopkeepers and supermarkets will have a key role to play in euro distribution as they take in lira and hand out change in the new currency. However, according to Confcommercio, four out of ten retailers are unsure of the euro's value, only one in three know the rules for rounding prices up and down, while about 40 percent still need to update their cash registers.

Italian retailers predict euro friendly wallets will be a hot item on this year's Christmas list.

It is estimated that the changeover will cost a total of around 5 trillion lira ($2.3 billion)—the Bank of Italy will spend about $234 million, the Italian treasury more than $467 million, and the banking system $654 million. Much of the rest falls on the business sector with the overall costs of training and upgrading equipment estimated at $934 million.

Confcommercio reckons big retailers will spend some 0.3 percent of yearly sales on gearing up for Euroland, while small shopkeepers could end up investing as much as 2 percent of their revenues. There are also worries on the earnings front. The sector forecasts a slump in consumption in the first few months of the changeover, and the creation of about 25,000 new temporary euro-related jobs will not be enough to offset consumer caution.

For training purposes, retailers will be able to ask for a "reasonable amount" of the currency as of November 1. Judging by the state of preparation many will need it. Recent simulations have shown that checkout times will run longer and that errors accounted for about 3 percent of sales. To avoid long lines forming at cash registers, some supermarkets are considering staging special offers at off-peak periods to stagger the flow of customers.

If almost three-quarters of EU citizens are worried the introduction of the euro will inflate prices, only 30 percent of Italians share this concern. Nevertheless, the government is taking that potential problem seriously. Shops and supermarkets will have to offer euro-lira calculators at checkout points, while special toll-free numbers will allow customers to report irregularities. What's more, an agreement has been hammered out with the big chain stores to freeze prices on basic goods for up to six months.

Of greater concern to most Italians is the threat of forgeries. The main worry here is not so much with the euro with its sophisticated, color-sensitive, high-tech design (although police did uncover the first illegal europress more than a year ago in Sicily) but rather with the lira itself. The police have already issued repeated warnings that gangs could try to swamp the market with counterfeit lira ahead of its official demise on February 28.

Currency changes inevitably cause some hardship, and there's no reason to suppose it will be any different this time around. The good thing is it shouldn't last that long. As the French newspaper *Le Figaro* quipped—even the Italians will adapt to the new currency...perhaps on the last day. Ⓔ

Stephen Jewkes, based in Milan, is a correspondent for Bridge News *and a contributing editor for* EUROPE.

Mourning the Mark

By Terry Martin

If Germans are mildly apprehensive about the introduction of the euro, they're existentially disturbed about the loss of their deutsche mark. The demise of the German national currency is being accepted as a pragmatic necessity in the context of greater European integration. But in terms of cultural pride, it's not a welcome development. For many Germans, killing off the deutsche mark is an act of monetary altruism, a sacrifice of the country's chief emblem of stability, prosperity, and international relevance.

Understanding the deutsche mark's cultural significance requires an acquaintance with three key developments in German economic history: the hyperinflation of the 1920s, the currency reform in 1948, and the "economic miracle" of the 1950s and 60s.

Following World War I, Germany's economy was in tatters. Having exhausted its resources during the conflagration, the country was then burdened with paying enormous reparations to the victors. Galloping inflation soon followed, and the government began printing reichsmarks in denominations of 50 trillion and 100 trillion. People carried their worthless cash around in wheelbarrows. Then came the global depression and mass unemployment. The Nazis exploited this misery, seized power, and started the Second World War.

By May 1945, Germany had been reduced to ashes. The reichsmark was virtually worthless and consumer goods were scarce. People bartered whatever they had. Cigarettes provided a common substitute currency. The United States, the United Kingdom, and France, which occupied what became West Germany, were intent on forging a peaceful and economically viable future and, to that end, introduced a new currency in their administrative zones in 1948. The deutsche mark was born. The money was first printed in the US, then in the UK, and finally, in 1955, in West Germany itself.

Under the enlightened leadership of Ludwig Erhardt, the German economy underwent a spectacular recovery popularly known as the "economic miracle." Between 1950 and 1960, GDP grew an average of 8.2 percent. Manufacturing boomed, particularly in the automotive and machinery sectors. The country became a major trading nation (eventually the second biggest in the world). Unemployment dropped to less than 2 percent. Labor had to be imported. The deutsche mark grew in stature to become an international reserve currency. The country's independent central bank, the Bundesbank, became Europe's leading monetary authority. It's policy decisions affected markets well beyond Germany's borders.

In June 1998, the deutsche mark celebrated its fiftieth birthday. On that occasion, Bundesbank President Hans Tietmeyer praised the currency for having made "an important contribution to political and social stability." He also acknowledged the deutsche mark's role as a beacon of Western ideals during the cold war. "For the people in the east—perhaps more than for West Germans—the deutsche mark became a symbol for prosperity and freedom," he said.

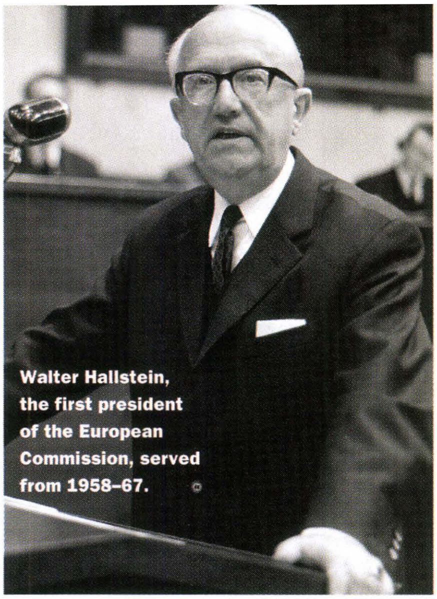
When East and West Germany were reunited in 1990, it was agreed that the deutsche mark would become the nation's currency. At great cost to the West German economy, then-chancellor Helmut Kohl insisted that the East's ost marks be exchanged one-to-one for the more valuable deutsche marks. After reunification, the currency's enduring value (monetary and symbolic) extended beyond eastern Germany, and it was adopted as an alternative currency in former Soviet satellite states during periods of instability. In Kosovo, for example, United Nations authorities introduced the deutsche mark as the official legal tender replacing the Yugoslav dinar in 1998. At the time a spokesman for the UN administrator in Kosovo said, "We are merely legalizing a situation that already exists." It was a situation that persisted in crisis regions throughout Eastern Europe well into the twenty-first century.

Like other euro-zone citizens, Germans have had several years to contemplate the scheduled departure of their national currency. As early as 1998, the country's chief central banker was already warning his compatriots that bidding "farewell" to the deutsche mark would "not be easy." "All national currencies represent their respective states," said Hans Tietmeyer with characteristic understatement. "But the bond between the deutsche mark and the Federal Republic of Germany is a bit tighter than usual." Ⓔ

Terry Martin, based in Berlin, is a contributing editor for EUROPE.

PERSPECTIVE

Walter Hallstein: One Hundred Years



Walter Hallstein, the first president of the European Commission, served from 1958–67.

Walter Hallstein, who served as the first president of the European Commission from 1958 to 1967, would have been 100 years old on November 17, 2001. Hallstein, who died in March 1982, is widely credited for having built up the European Commission during his nine-year tenure, endowing it with the authority and independence of a truly European civil service. During his term of office, the Commission made significant advances in the integration of Europe's national economies with the creation of the Common Agricultural Policy and the beginnings of a European Common Market. Hallstein, however, believed the European project was essentially political and believed that without progress on the political dimension, the momentum toward a unified Europe would erode.

Just twelve years after the end of World War II, the selection of Hallstein, a German, to head the new executive was by no means a given. He had served as state secretary in the West German Foreign Affairs Ministry from 1951 to 1958. At the time, he was regarded by many of his peers as de facto foreign minister and a dedicated Europeanist who helped integrate Germany into the new Europe.

In 1982, upon Hallstein's death, John W. Tuthill (1910–1996), who served as the US ambassador to the European Community from 1962–66, reflected on the president's contribution to the European project for EUROPE's *May–June 1982 issue. On the anniversary of what would be Hallstein's one-hundredth birthday, we reprint Ambassador Tuthill's appreciation.*

Walter Hallstein, 1901–1982, and one of the earliest Europeanists, died March 29 at the age of eighty. Gaston Thorn, the current president, called Hallstein's life and work an example and an encouragement at a time when the Community is faced with one of the worst identity crises of its history.

Walter Hallstein was one of the quiet, unexpanding, principled people who played a key role in expanding unity between the democratic countries in the twenty-five years or so after World War II. Public comments about him frequently concentrated on his rigid support of the so-called "Hallstein Doctrine" of non-recognition of East Germany. Much more important was his courageous and persistent battle for a unified Europe and for one which would deal with the United States on the basis of greater equality and within which there would be limited "special relationships."

Many people criticized or even ridiculed Hallstein's insistence upon protocol within the EC Commission when he was president. He insisted that foreign representatives accredited to the Commission present credentials in the same way as ambassadors accredited to national governments. He did this in an effort to support the integrity and even the sovereignty of the European Community.

In diplomacy it is all too seldom that one deals with senior officials fully briefed and conversant with the subject matter. When one finds such individuals who also support high principles, it is a pleasure to deal with them. It was always so with Walter Hallstein. He had always studied his brief. He reflected a sense of direction that was to strengthen European unity and that dealt with the United States and other countries outside of the Community on a basis of equality. He negotiated for agreements that would have long-time beneficial effects for both sides and thus would be likely to endure.

Hallstein supported the 1862 British effort to obtain membership in the European Community, although he was unenthusiastic with the emphasis of [Britain's] MacMillan government, which attempted to define it primarily in trade and commercial terms rather than political objectives. He, of course, was skeptical of Charles de Gaulle's position regarding the British application and was not surprised at De Gaulle's formal veto in January 1963. Shortly after that veto, Chancellor Konrad Adenauer of Germany proceeded to Paris with considerable publicity to sign the Franco-German agreement. Hallstein supported Franco-German friendship and collaboration, but he felt that a special relationship, one honored by a formal agreement immediately after De Gaulle's veto of British membership, would be a mistake.

Hallstein was not alone in his view, but as far as I know, he was perhaps the only prominent statesman to make this view known in advance to Chancellor Adenauer. I understood at the time that Adenauer was angry with Hallstein because of his pointed and vigorous objection to the formal signing of this agreement almost immediately after De Gaulle had vetoed an expansion of the Common Market to include Britain. At the same time, De Gaulle was preventing progress toward majority voting within the European Community, insisting instead upon maintaining the veto right of the individual members.

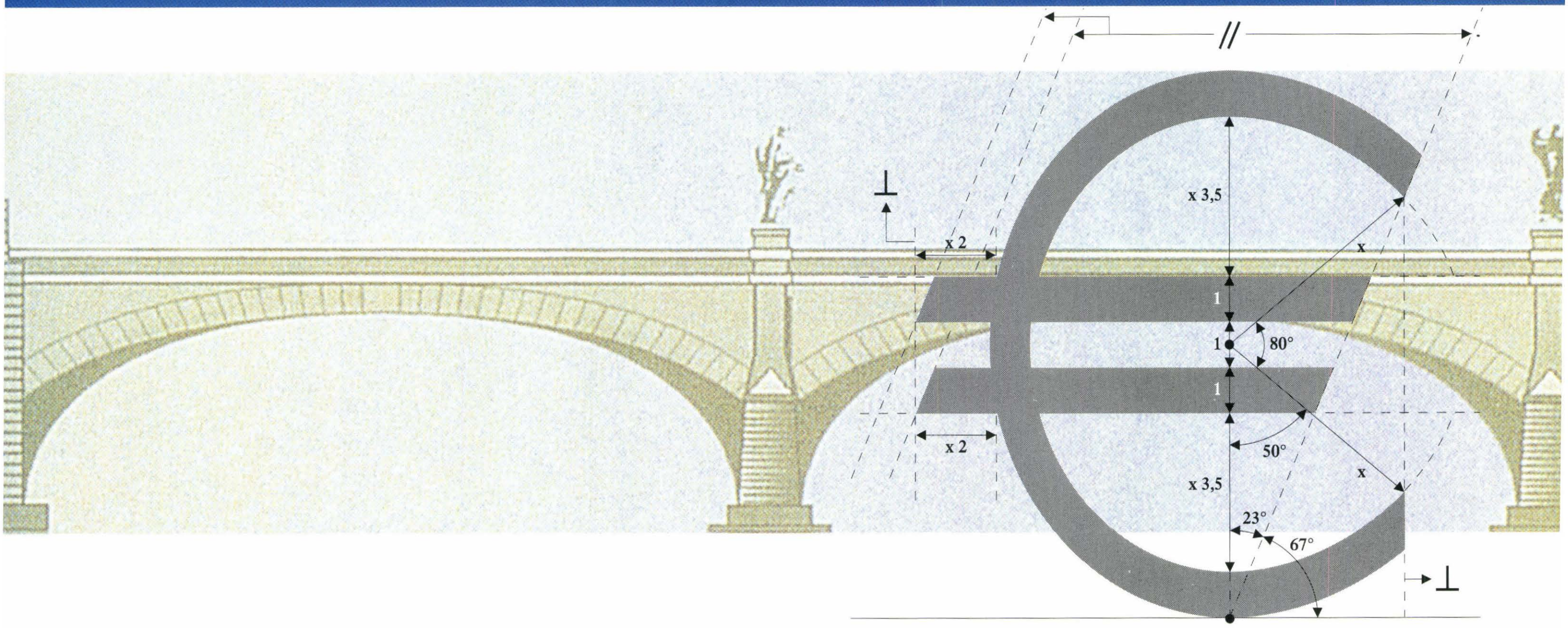
Walter Hallstein, like so many men of principle, did not win all, perhaps even most, of his battles. However, like men of principle, it is entirely possible that his stubborn advocacy of the expansion of a group of democratic countries giving up a little sovereignty in order to share in a greater sovereignty will have longer term beneficial effects than if he had won some of the battles on the way. Ⓔ

For more information about Walter Hallstein, please visit www.eurunion.org.

Special Pullout Section

THE EURO

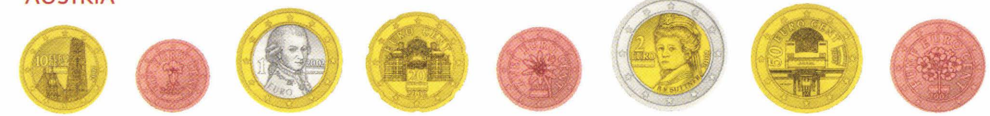
Europe's Single Currency



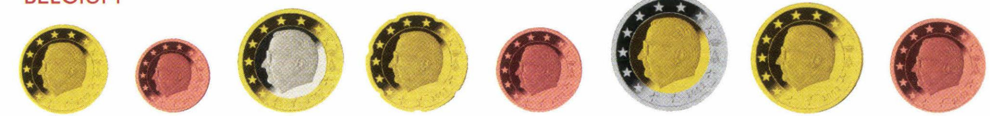
EURO NOTES

EURO COINS*

AUSTRIA



BELGIUM



FINLAND

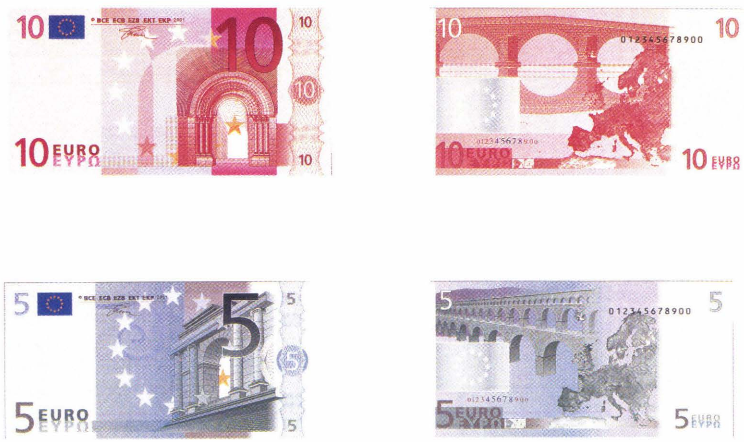
FRANCE

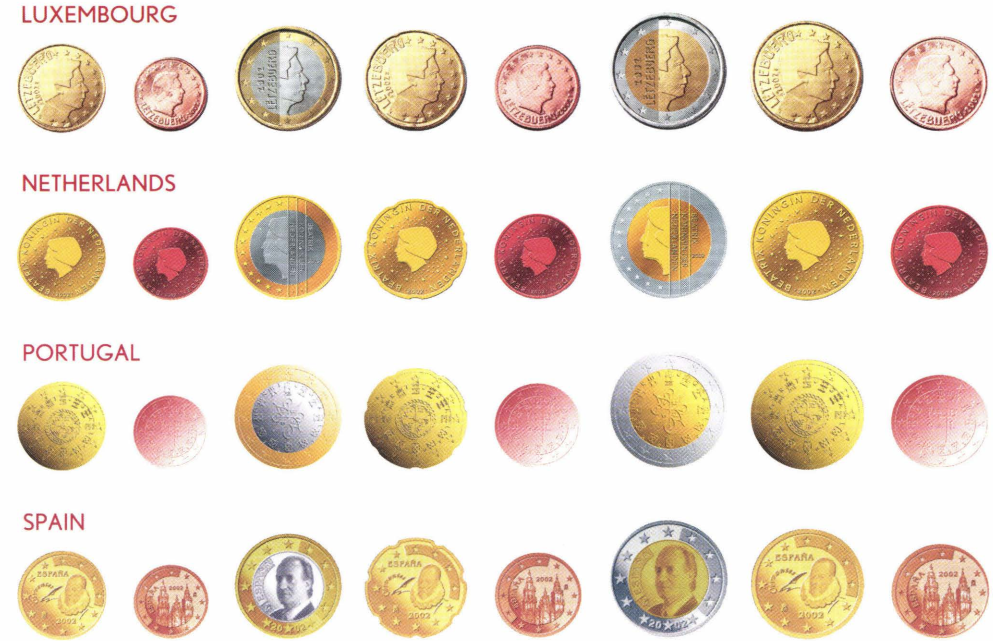
GERMANY

GREECE

IRELAND

ITALY





*The top row shows the designs that all euro coins will bear, depending on their denomination. The other rows illustrate the designs chosen by each euro nation to appear on the obverse side of coins minted in their country.

Euro Facts and Figures

- The euro will become the only legal tender in the twelve European Union countries at midnight on February 28, 2002.

- This switch will be the largest monetary changeover in world history.

- An informational leaflet on the euro's security features will be distributed to the 200 million households in the euro area.

- The official euro Web site receives an average of 4,500 visits per day.

- More than 7 million informational posters will be distributed to euro area school children.

- The name "euro" was adopted in Madrid in 1995.

- The parallel lines in the euro symbol are supposed to represent stability in Europe.

- As a security feature, the euro notes shine and portions shift in color from olive to purple.

- 14.25 billion euro banknotes will have been produced by January 1, 2002, equaling about €642 billion. (Germany produced about 30 percent of total.)

- 50 billion euro coins will have been produced by January 1, 2002. (Germany was the largest producer at 34 percent.)

- If the banknotes were placed end to end, they would reach to the moon and back five times.

- 10 billion banknotes will immediately go into circulation, while the rest will stay in reserve.

- More than thirty drafts were reviewed before the final euro symbol was chosen.

- The backs of the euro notes feature bridges, depicting seven important European architectural ages as well as a "close connection" between Europe and the rest of the world.

- None of the bridges, gateways, or windows pictured on the notes exists.

- The total weight of all the euro coins produced is equivalent to a herd of approximately 37,000 elephants (516 million pounds or 258 thousand tons).

- European soccer matches were canceled in November and December so police could help in the movement of the euro.

- The publicity campaign for the euro cost $73 million.

- Euro notes have more security features than any existing currency.

- In Germany alone, 19.4 billion coins are considered irrevocably lost in fountains, sofa cushions, decorations, etc.

- 3.5 million vending machines will have to be replaced or altered to accept the euro.

- In France, the 7.6 billion euro coins and 2.2 billion banknotes that will be transferred into use have a cumulative weight equaling 72,000 tons, the same as three Eiffel Towers.

- The Italian fashion house Prada is already selling new "euro friendly" wallets that have more coin space and billfolds specifically shaped to hold the new banknotes.

- Before the switch, it was said that a person could leave France with 1,000 francs, travel through each of the fifteen EU countries, exchanging all that money into the local currency at each stop, and return to France with 500 francs without actually having bought anything.

- January 1, 2002, the day of the official changeover, is known as "E-Day."

- Minting of the total number of euro notes and coins needed for the twelve countries has taken two years.

- All the euro coins produced stacked up would be almost 49 miles high, which is almost twenty-two times the depth of the Atlantic Ocean.

- The "euro zone," or the twelve countries where the euro will be the official single currency, has a population of 300 million.

- The Dutch government estimates that 250 one-ton trucks will have to make 8,000 trips to distribute all the coins allocated to its country.

- The first official euro coin was minted in 1998 in Bordeaux but had to be melted down with thousands of other coins when the design was later changed.

- Germany had to stop production of its coins when it was discovered that the stars on the face were pointing the wrong direction.

- After consultation with the European Blind Union, the council changed the denominations of the coins to have a greater difference in weight.

—Compiled by Sarah Naimark

Twelve Currencies Take a Final Bow

With the inauguration of euro notes and coins comes the withdrawal of twelve currencies of varying age. The oldest to depart from use is the grand old French franc, which was inaugurated by the Convention Nationale in 1795, and the youngest is Germany's hallowed deutsche mark, which was implemented in 1948 in West Germany by the Allied occupation.

Below we've listed the ages of the other ten. Bear in mind these dates represent the years when the currencies officially went into national circulation or were announced as the country's official currency in its contemporary form. They do not reflect previous incarnations of the currencies, original mentions of them, or their predecessors.

AUSTRIA
SCHILLING

GERMANY
DEUTSCHE MARK

LUXEMBOURG
FRANC

BELGIUM
FRANC

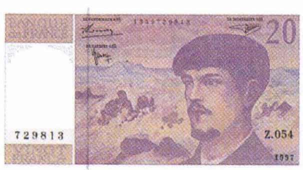
GREECE
DRACHMA

NETHERLANDS
GUILDER

FINLAND
MARKKA

IRELAND
POUND

PORTUGAL
ESCUDO



FRANCE
FRANC

ITALY
LIRA

SPAIN
PESETA

COUNTRY	CURRENCY	DATE OFFICIALLY INSTATED	YEARS IN USE
Austria	schilling	1924*	78
Belgium	franc	1832	170
Finland	markka	1860	142
France	franc	1795	207
Germany	deutsche mark	1948	54
Greece	drachma	1944	58
Ireland	pound	1922**	80
Italy	lira	1860	142
Luxembourg	franc	1921***	81
Netherlands	guilder	1901	101
Portugal	escudo	1910	92
Spain	peseta	1868	134

* Use of the Austrian schilling was suspended during World War II.

** Ireland gained independence in 1922, but the Irish pound was still linked with the English pound until 1979.

*** This date reflects Luxembourg's formation of a monetary union with Belgium.

Historic Elections in Denmark

AFTER THE RECENT DANISH GENERAL ELECTION, THE PRIME MINISTER IS STILL CALLED RASMUSSEN, BUT HE IS AN ENTIRELY DIFFERENT RASMUSSEN THAN HIS PREDECESSOR. By Maria Bernbom

Poul Nyrup Rasmussen's gamble to call a snap election has cost him his job as Denmark's prime minister. After nine years in power, Rasmussen has resigned in the wake of an appallingly poor showing by his Social Democratic Party (SDP) in Denmark's general elections held November 20, handing over his office to Liberal leader Anders Fogh Rasmussen (no relation).

The SDP, which could have waited as late as March to call the elections, hoped to ride the post-September 11 wave of Danish solidarity to victory at the polls. The electorate, however, had other ideas, sending the forty-eight-year-old Fogh Rasmussen and his Liberal Party, which campaigned on themes like stricter refugee policies and freezing taxes, to a landslide victory. After the election results were made official, the Liberals quickly formed a coalition government with the Conservative Party and a week later Fogh Rasmussen formally presented his new cabinet to Queen Margrethe II at Amalienborg Palace in Copenhagen.

When Fogh Rasmussen's party chose the campaign slogan "A Time For Change," few foresaw just how appropriate this heading would become for the Danish general election as a whole. The election results have sparked a number of changes that will affect Danish politics for years to come. Most notably, Denmark took the biggest step toward the political right since 1929. The nationalist Danish People's Party (DPP) received 12 percent of the votes and thus became the country's third-largest party, holding 22 seats in Denmark's parliament, the 179-seat Folketing, compared with the Liberal Party's 56, the Social Democrats 52, and the Conservatives 16.

The success of the DPP has led to concern that it will have significant influence on future decision-making, as Denmark's new Liberal-Conservative coalition will need the party's votes to establish a majority on several legislative issues. However, Prime Minister Fogh Rasmussen has stressed that he has no interest in conducting a right-wing bloc policy. Similarly, political commentators assert that it is decisive for the future of Fogh Rasmussens government that it stays rooted in the middle of Danish politics. Although they suffered a severe setback, the Social Democrats have promised constructive, yet unrelenting, opposition.

Anders Fogh Rasmussen replaces Poul Nyrup Rasmussen as Denmark's prime minister.

According to a leading Danish daily, six out of ten habitual Social Democratic voters abandoned their allegiance, thereby dethroning the party, which had held the most seats in the Folketing since 1920.

Yet, the Center Party (CD), which has traditionally supported right-wing governments, experienced an even more drastic decline. CD, which has held seats in parliament since the party was formed in 1973, did not receive enough votes to keep any of its seats, and has thus been shunted into the political cold until the next general election, which must be held by 2005 at the latest.

Maria Bernbom, based in Copenhagen, is a EUROPE *contributing editor.*

Concern About the Danish Shift

International critique and concern face Denmark's new Liberal-Conservative government before it has even begun its work. The harsh tone that dominated the immigration debate during the Danish election campaign has caused foreign media and politicians to frown. Similarly, the prospect of a government dependent on support from the nationalist Danish People's Party to pass legislation is a cause of international anxiety.

Following the election, the new government has indeed made proposals for tightening Danish immigration policy, which some have interpreted as discriminatory. The government bill includes the suggestion that the number of years an immigrant must live in Denmark to become entitled to citizenship and financial benefits should be raised from three to seven years. Also, it proposes forbidding refugees to visit their homelands less they forfeit their benefits.

The European Union's Center for Racism has studied the bill and stated that the suggestions are in accordance with the international conventions for human rights. Therefore, the Danish government will not be sanctioned by the European Union, which would have been particularly embarrassing as Denmark assumes the EU presidency on July 1, 2002.

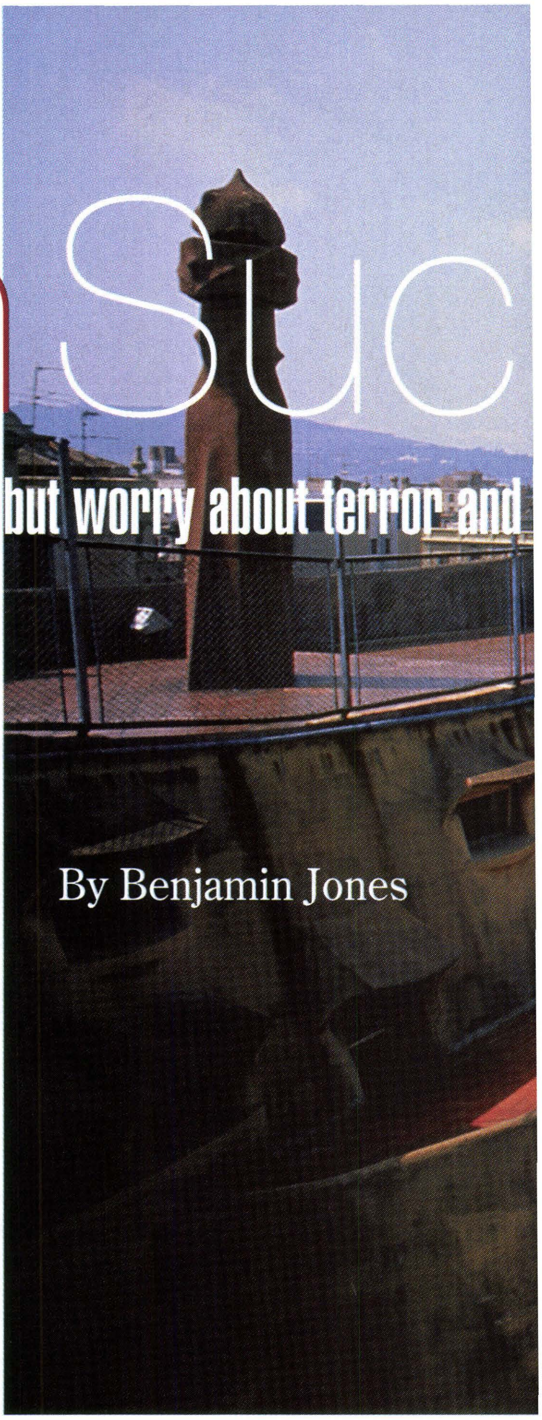
Prime Minister Fogh Rasmussen is very aware that he must choose a careful line in order to avoid international controversy. Some see his choice of Bertel Haarder, a Liberal Party member and former education minister, to hold a dual role in the new government as a critical move. Haarder will oversee European relations as well as head a new ministry for refugees, immigration, and integration, which is seen as a conciliatory signal to Europe. It indicates that the Danish refugee policy has not been taken over by the extreme right wing, since the fifty-seven-year-old Haarder, who functioned as the European Parliament's rapporteur on human rights in 1998 and 1999, has a reputation as a humanist and an ardent European.

Undoubtedly, the international community will pay closer attention to Danish politics in the future. And it is equally certain that Fogh Rasmussen and his government will work hard to avoid crossing the line of what is accepted by international, democratic, and humanitarian standards. There is a lot at stake. Not only for Fogh Rasmussen's new government, but for Denmark's reputation as well.

—*Maria Bernbom*

Spanish Suc

Spaniards are enjoying burgeoning prosperity, but worry about terror and



By Benjamin Jones

SPAIN is celebrating fifteen years as a member of the European Union with its citizens fully appreciative that the act of joining was a giant step forward. It ended the country's decades-long isolation from the rest of the continent and ushered in an unprecedented era of prosperity that transformed the nation and Spaniards' lives almost beyond recognition.

Since that summer day in 1986 when central government officials and EU leaders signed the membership docu-

In June, President George W. Bush spent the first day of his first trip to Europe in Madrid meeting with Prime Minister José María Aznar (left).

ment in a glittering ceremony in Madrid, Spain has become a major voice in European and international affairs, the second-most important investor in Latin America after the United States, a magnet for immigration from developing countries, and a key NATO ally.

When the signing took place, Spain was still emerging from four decades of dictatorship, there had been a coup attempt by die-hard Franco loyalists just a few years before, and the heavy state role in the stuttering economy was hardly helping pull most people up out of their lower-class existence.

These days, many Spaniards closely follow the fortunes of Wall Street to see

Barcelona, home to Gaudí's Casa Mila, continues to attract increasing numbers of tourists and business travelers. Over the last decade, it has emerged as the hub of one of Europe's dynamic super regions.

how they will impact on their investments at home; two-income families are the rule rather than the exception; and higher earnings are being spent on things like vacation homes, exotic holidays, and private schools for their children.

This economic boom is also having deep sociological effects. Years ago, families with six or more children were common, while today Spain has one of the lowest birthrates in the world as women delay having children for the sake of their careers.

Much of Spain's recent economic success—average annual growth of more than 4 percent between 1997 and 2000—can be attributed to the policies of Prime Minister José Maria Aznar, who is now well into his second term.

Aznar and his economic team balanced the budget, imposed conditions to create more than 2 million jobs to bring the European Union's highest jobless rate from almost 22 percent to less than 13 percent and managed to restrain wage demands despite a worrying 3.5 percent inflation rate last year.

But as in the rest of its EU partners, the Spanish economy is now being buffeted by the global downturn, and predictions call for a growth rate this year of less than 3 percent and, depending on the fallout from the terrorist attacks in the United States, it could be even lower.

One major concern for Spanish economic planners is the attacks' impact on tourism, one of the economy's pillars. It is the country's main foreign exchange earner and a major employer, especially in the poor, southern region of Andalusia.

A month after the assaults on New York and Washington, US tourism to Spain, which accounts for more than 11 percent of the total, was down 10 percent from normal levels, and hoteliers and tour operators are bracing for bad times.

Following the attacks, Spain was, after the United Kingdom, the most vocal NATO member in pledging full support for Washington's war on terrorism. After talks with Secretary of State Colin Powell in Washington, Foreign Minister Josep Piqué told a press conference that Madrid was offering its joint-use bases and airspace to the Americans and, if necessary, might also send troops to take part in any American-led military action.

Political observers were hardly surprised. Madrid and Washington have grown especially close since George W. Bush took office, with the center-right Aznar government clearly more comfortable dealing with the Republicans than it was with Clinton's Democrats.

In his initial trip to Europe as president early last summer, Bush chose Spain as the first stop, partly, said diplomats, because of his and Aznar's political affinity. But it was also chosen due to Spain's increasing importance as an ally and its growing weight in the world, both in Europe and farther afield.

At their summit talks at a state-owned hacienda not far from the medieval city of Toledo, both leaders vowed to boost relations in many fields, and they discussed Latin America, the United States' backyard where Spanish trade, aid, and investment is on the upswing.

Aznar pledged support for his guest's controversial missile defense scheme, and Bush said deeper US support was forthcoming for Spain's three decades-long battle to root out Basque separatist terrorism.

That fight has had mixed results. The bombers and gunmen of the ETA terrorist group have continued to carry out fatal attacks and over the summer set off a powerful car bomb in a parking structure at the Madrid airport and another at a popular beach resort south of Barcelona.

The ETA has recently been weakened by police sweeps both in Spain and in France that have broken up cells in the Basque region and Barcelona and netted the group's logistics chief.

Moreover, some members of the ETA may be reconsidering its armed campaign for an independent Basque state in northern Spain and southwestern France. In regional elections last spring, the armed organization's political wing lost half its seats in the Basque parliament, indicating that former supporters were sickened by the ETA violence. Furthermore, in a note to its members in October, the group's leaders admitted that their political strategy on independence was a huge failure. Nevertheless, on November 6, the ETA was blamed for a car bomb that exploded during morning rush hour in Madrid, injuring ninety-five people.

Picking up support in the elections was the ruling Basque Nationalist Party, whose more radical members also seek independence for the three-province region but want to do it in a politically legitimate manner.

Dealing with the Basque situation satisfactorily is just one of Aznar's tasks as he approaches the second half of his current term. Another nagging worry is the so-called Gescartera scandal in which $100 million invested in a leading brokerage house of the same name by thousands of people has gone missing.

The brokerage's chairwoman and its chief shareholder have both been jailed, and the chairwoman of Spain's equities regulatory body, the National Stock Market Commission, resigned after the organization was lambasted for not keeping a close enough eye on the alleged shenanigans at Gescartera.

Every day, new revelations emerge in the Spanish press about which officials knew what and when. There have even been calls for Economy Minister Rodrigo Rato, one of Aznar's close friends and aides, to step down because his ministry was ultimately responsible for monitoring the market.

Other issues demanding Aznar's attention and some kind of resolution include stemming the rising tide of illegal immigration to Spain's southern shores by boatloads of north and sub-Saharan Africans desperate for a new life in Europe. In opinion polls, immigration, along with Basque terrorism and rising crime, consistently rates high among the principal concerns of those questioned.

Perhaps the Aznar administration's most pressing job will be to maintain the country's relative economic health and keep on generating much-needed jobs in these times of slowing growth, global uncertainty, and the long-term international war on terrorism. Ⓔ

Benjamin Jones, based in Madrid, is an editor for EFE *and a contributing editor for* EUROPE.

Spain's EU

Prime Minister José

SPAIN takes over the revolving presidency of the European Union exactly on the day when the citizens of a dozen member nations begin buying and selling with the euro in one of the biggest economic experiments ever undertaken. With the whole world looking on to see if it's a wild success or ends in tears, Spanish officials say they'll be working to make sure it all goes smoothly.

"Successfully ushering in the euro is one of our prime tasks during the presidency," says Luis Belzuz, the chief of staff for the secretary general for European affairs in the Spanish foreign ministry. "But this is just one priority for us. In all we have a dozen challenges or targets which we will be trying to meet over the six months."

Madrid's motto for its EU presidential term is *Más Europa* or "More Europe," and the diplomat explains that means expanding Europe's presence in the world and enhancing the EU's role in international affairs. It also means bringing EU institutions closer to the Union's citizens.

"Enlargement is another key challenge for us, and we'll be advancing that process as well as working on the future of Europe regarding the intergovernmental conference slated for 2004," he says.

Even before the tragic events in the US on September 11, Prime Minister José Maria Aznar's "must do" list for the presidency included improving cooperation among the fifteen members regarding security and justice issues.

And a week after the terrorist attacks in the United States, Javier Arenas, the secretary general of Aznar's ruling Popular Party, said that strengthening Europe-wide measures against terrorism would now be one of Spain's main goals during the presidency.

Included in those measures will be deciding a common definition for terrorism, closer cross-border police

Presidency

Maria Aznar pushing a five-part plan

work and the virtual elimination of extradition procedures for serious crimes like terrorism. This is especially important for Spain, which has been fighting to halt terrorist attacks by the armed Basque separatist group for more than three decades.

"We also want Europe to keep developing its common defense policies," Belzuz says. "But among all this talk of security and crime fighting, we can't forget that the European Union is dedicated to concepts like freedom, and so we'll be dealing with issues such as immigration, immigrant rights."

Reforms in other fields are also high on Aznar's list. At a conference in Italy this fall, the prime minister urged his EU partners to speed up the economic and social changes first proposed at the Lisbon summit last year as a way to combat what he called the "sclerosis" affecting the European economies.

Aznar argued that while Europe's economy has enjoyed appreciable growth in the last few years, there are no signs it was particularly behaving in a better manner. Over the past decade, he noted, the economy was only able to register growth of 3 percent for two or three years, making for an average annual growth rate of between 2 and 2.5 percent.

In a decade's time, that kind of growth will hardly be able to deal with approaching problems, such as a rapidly aging population, increasing pressure on the health care and pension systems, out of control budgets, and galloping tax rates.

At the EU summit in Barcelona next spring, the prime minister says he will be pushing a plan that will help transform Europe into one of the most competitive economic regions in the world, as outlined in Lisbon. Aznar's agenda consists of five "pillars," which are included in the dozen challenges:

First, he focuses on improving Europe's transport infrastructure, with a special emphasis on railways and air travel, a "single European sky" to better coordinate civilian air traffic control. Second, he sees a truly open energy market, with cross-border electrical power and gas networks, to allow more competition and better use of resources, all for the benefit of the consumer. Third and fourth, he favors fully integrated financial markets and a freer labor market, which would allow greater mobility and better cooperation among each member nation's employment offices. Lastly, he wants greater mobility among national educational systems with a simpler and more widespread process for recognizing degrees and qualifications and improved foreign language learning.

Several of these proposals have already upset two of the European Union's most important members. The French are dead set against any attempt to open up the energy markets, and German Chancellor Gerhard Schröder frowns on the free movement of labor, fearing an influx of job seekers from Eastern European countries slated to join the Union.

During the fall, Aznar traveled extensively around Europe to outline his plans for the presidency and drum up support. In two days of talks with Schröder, he asked for his support in what the Spanish press termed "more security and more market" for the European Union.

Spanish government sources say that despite their reported misgivings about an open energy market and free labor movement, the French and Germans have been listening to Spain's arguments in favor of the proposals. "There is good communication from all sides on these issues," one senior diplomat close to the discussions told this reporter.

—Benjamin Jones

Prime Minister Aznar (left), French President Jacques Chirac, and French Prime Minister Lionel Jospin talk to journalists during the Franco-Spanish summit held in October 2001.

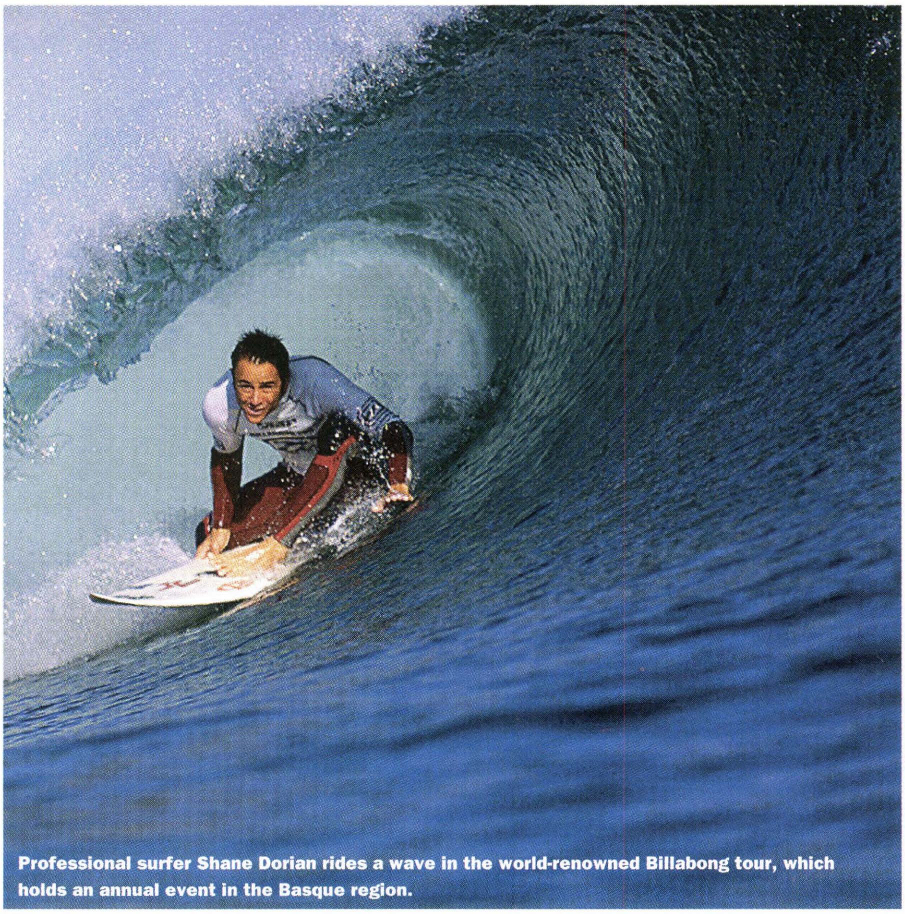
The Surprising Basque Country

By Benjamin Jones

Sunshine broke through just after lunch as we took a pre-siesta walk along a gravel road lined with blackberry bushes heavy with fruit and meandering downhill through the bright green meadows of small farms toward the now sparkling green-blue Atlantic Ocean. Only the tinkling of cowbells or the call of a seabird disturbed the early afternoon quiet.

It was our third day of a one-week stay in northern Spain's green and lovely Basque region. It had begun with low clouds scudding in from the gunmetal sea over the modern, yet homey, hotel perched on a hill just behind the hamlet of Natxitua, a forty-five-minute drive northeast from Bilbao.

During a breakfast of coffee, sweet rolls, and juice, we eyed the sky and discussed whether to cross our fingers and try for the beach or seek out some indoor activity. Weather is unpredictable in these parts all year round, and it can be brilliantly sunny in the depths of winter or rainy at the height of summer. Therefore, the first rule for planning activities in the Basque country is always have a backup plan.



Professional surfer Shane Dorian rides a wave in the world-renowned Billabong tour, which holds an annual event in the Basque region.

Fortunately, there are many indoor diversions. We could visit the museums and historical sites in Guernica, the pretty market town thirty minutes away that has been a symbol of Basque autonomy for centuries. That's why right-wing rebel general Francisco Franco ordered his allies in the German Luftwaffe to bomb the town on a market day during the Spanish Civil War. Another Spaniard, Pablo Picasso, depicted the horror in one of the most famous paintings of the twentieth century.

There is also the fishermen's museum in Bermeo on the other side of the estuary with fascinating displays of a way of life and labor that took the hardy and brave men of this stretch of coast around the world in search of their sustenance from the sea. There are good restaurants there too, but our luncheon plans were about to be determined by our host.

Just as we decided to visit a complex of caves decorated with prehistoric art, the owner and head chef of the Hotel Ermintxo brought out a large plastic tray with two rock cod and a pair of giant lobsters still wet from the sea.

"This is what some fishermen friends of mine dropped off this morning," he said. "I can prepare one of these for your lunch." Caroline, our ten-year-old, turned up her nose and requested her usual spaghetti. We picked out a cod to be baked in garlic and virgin olive oil. It was the larger of the two.

And a good thing, because we built up an appetite touring the Santimamiñe caves just off the main road to Guernica and which were inhabited for 30,000 years. Sometime in that distant and primitive past, the cave dwellers drew bison, horses, bears, and deer on the walls, yet the menagerie looks like it was doodled only yesterday.

But this corner of Vizcaya province also boasts any number of outdoor activities and sports for when the sun shines. Ten minutes away is the Urdaibai Biosphere Reserve, recognized by UNESCO and covering eighty-five square miles of rivers, an extensive estuary, valleys, woodlands, marshes, and beaches.

It's a paradise for hikers, hill walkers, and birdwatchers, and the coastal town of Mundaka, which is inside the reserve, attracts surfers from around the world for what they say is perhaps the best left-breaking wave in Europe. On the opposite side of the estuary that meets the Atlantic lies one of the biggest beaches in the region, Laida, with kayak and canoe rentals for those who want to explore the tranquil waterways of the reserve. Both Laida and Laga, the beach just around the point, are ideal for children of all ages. There is boogie boarding or body surfing for the older kids in the summer, and year-round Laga has tide pools where youngsters can spend hours trying to catch tiny crabs, which scuttle away at the first footfall.

The many charming towns sprinkled all around the province are also worth a visit. Elantxobe, tumbling down a steep mountainside to the tiny port below, is said to be one of the prettiest in Spain. And in July and August, many towns hold their annual fiestas with the usual festive mix of music, food, and merry making.

Fiestas in the Basque region also include rural contests such as rock lifting, oxen pulls, and wood chopping, competitions, which evolved from the daily tasks of country life. In a week, we attended three such fiestas, ate like royalty, learned about the unique culture and ways of the Basque people, and thoroughly enjoyed ourselves.

Since the Basque country is a vacation spot with plenty to do all year around, we'll be going back. Ⓔ

The rugged Basque coastline offers both summer and wintertime diversions.

German-born Spaniard Johann Mühlegg expects to contend for the gold medal in the 2002 Winter Olympics' long-distance, cross-country races.

Cross Country Rising

Nordic skiers hope for a boost in 2002

By Jonathan E. Kaplan

As she prepares for her fourth and final Winter Olympic Games in Salt Lake City, cross-country skier Nina Kemppel is constantly eating. She eats before she runs or skis for two hours in the morning and again before she lifts weights and skis again in the afternoon—these in addition to her other three square meals.

"I burn about 6,000 calories per day," Kemppel said in a phone interview from her home in Anchorage, Alaska. "I spend a lot of time washing dishes."

The work has paid off, though, as Kemppel, thirty, is a rarity, a successful American in a sport dominated by European athletes. To Scandinavians, Russians, and Eastern Europeans, cross-country skiing (also known as Nordic skiing) is what stickball is to kids in Brooklyn and soccer is to Brazil's children: It's what you do.

Although no one can definitively point to its exact origin, cross-country skiing was most likely born in Scandinavia, where hunters used planks of wood strapped to their feet to help them track reindeer in the snow. Tracing its history as an Olympic sport is a bit easier. The men's events debuted at the 1924 Winter Olympics in Chamonix, France, and the women's competition began in 1956 at the games in Cortina d'Ampezzo, Italy.

Many consider cross-country skiing the toughest endurance sport in the world, more taxing on the body than either cycling or long distance running. Björn Daehlie, the great Norwegian skier who won eight gold and four silver medals in three Winter Olympic Games, is considered by some physiologists to be the fittest athlete of all time. His VO2 max, which is a measure of how much oxygen the body produces when exercising as hard as it can, registered ninety-five. By comparison, Tour de France winner Lance Armstrong's is eighty-five, and an average healthy young man's might range from forty to fifty.

"Cross-country skiing is the only sport that does not depend on gravity to pull you through," said Bill McKibben, who penned *Long Distance: A Year of Living Strenuously*, his account of a year training like an Olympic-caliber skier. Moreover, McKibben said that most cross-country racecourses are either flat or uphill.

In the Olympics, cross-country skiing is divided into two kinds of events, classic and freestyle, with skiers competing at a different distances in each. In the classic events, skiers move their legs in a diagonal stride, keeping their skis parallel, whereas in the freestyle races, they use a "skating" technique, pushing backward and outward off the inside edges of their skis, just like ice skaters. The skating technique, which became popular in the 1970s, allows the skier to go faster but demands more energy.

Americans are no strangers to endurance sports; however, the US has produced only one medal winner, Bill Koch, who won the silver medal in the thirty-kilometer freestyle race at the 1976 games in Innsbruck, Austria. As Scandinavians and Europeans continue to dominate cross-country skiing, no answer fully explains the United States' lackluster results over the years.

"It's not that there is a lack of people doing it," said Bob Husaby, a former Olympian and collegiate champion, by phone from Bend, Oregon, where he runs a foundation dedicated to developing young skiers. "There are diamonds-in-the-rough everywhere. The US just needs to find them, and we need better coaching in developing them."

Another possibility is that cross-country skiing may have escaped American attention because it is not spectator friendly. Some races, like the men's fifty-kilometer, take two hours to finish, making live television coverage difficult.

However, several changes at Salt Lake City might make the sport more exciting for viewers in person and watching on television. These include mass starts, shorter races, and a spectator friendly course.

In most cross-country events, skiers start alone or are staggered a few minutes apart. To increase excitement in Salt Lake, Olympic officials have added a new race. Think *Survivor* on snow: Thirty-two skiers will be timed in a 1.5-kilometer sprint with the top sixteen advancing to the next round. Four groups of four will then race head-to-head. The top two finishers from each group will move on to race in two groups of four. Finally, four finalists will compete for three medals.

"I'm one of the few who like the mass starts," said Kemppel. "There's a lot more pushing and shoving. It makes it more exciting for the spectators."

Soldier Hollow, the cross-country venue forty-three miles from Salt Lake City, has few trees and seats 20,000 spectators. "The course is very intimate for spectators and racers alike," Husaby said. "Our skiers train there and have had success racing there. My gut feeling is that American skiers may have the best results since 1976."

If the US does pull some Nordic upsets, there will be plenty of chances for fans to see them on television. "Cross-country skiing has nine days of competition," Mike McCarley, a spokesman for NBC Sports, said. "MSNBC will broadcast some races in or near their entirety."

While cross-country officials and participants look forward to the increased coverage, they realize it will also bring more attention to a simmering doping scandal. Like cycling, cross-

The Favorites at Salt Lake City

With Björn Daehlie's retirement and the Finnish team decimated, the men's field really opens up. Norway's **Thomas Alsgaard**, twenty-nine, is a four-time medallist in the Winter Olympics. Still doubts remain over how dedicated Alsgaard is to dominating the sport like Daehlie did. "You're never quite sure which Alsgaard is going to show up," Paul Robbins, NBC Sports' analyst for cross-country and biathlon, said. "You wonder how a guy at this level is not prepared. He's a great talent, but does he have the heart to win?"

Johann Mühlegg, thirty, offers a prime example of the new European. He holds both a German and Spanish passport. He trains in Germany in the winter, Spain in the summer. In the past he's raced for Germany, but this year he will race as a Spaniard—although Robbins said he trains apart from the Spanish team. Mühlegg is a long-distance specialist and a journeyman in the sport. His first Olympic Games, in 1992, started with great promise by finishing a strong seventh in the men's fifty-kilometer race. Since then, he has had more downs than ups. But, a combination of strong training, weight loss, and winning two test events at Soldier Hollow last January may make him a serious contender for a gold medal in the long-distance races.

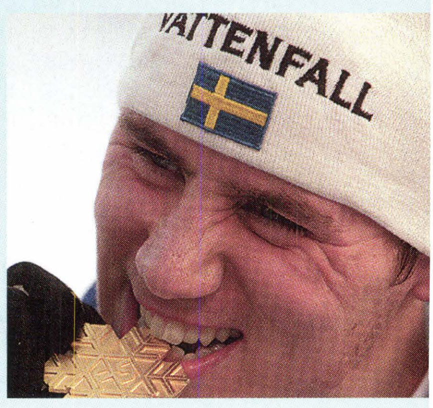
Bob Husaby said Sweden's **Per Elofsson** is the first skier he has ever seen to combine both power and grace. In March, Elofsson edged Mühlegg for the overall World Cup title, which is based on a system of points awarded to a skier according to his finish at different races throughout the season.

In the women's events, **Larissa Lazutina** looks to cap off her career with more gold medals. In 1998, she was awarded the Hero of Russia medal—the country's highest honor—after she won five medals, including three golds, at the Nagano Olympics. "She is still a threat to win in the longer events," Robbins said.

There are underdogs, of course. Husaby and Robbins said that Canadian **Becky Scott** could surprise all with a strong finish in the sprint races. As for **Nina Kemppel**, they said anything inside top fifteen would be considered a gold medal for the American.

—Jonathan E. Kaplan

Sweden's Per Elofsson is another medal favorite in Salt Lake City.



country skiing has been tainted by cases involving top competitors using the banned synthetic hormone EPO (erythropoietin). The drug produces more red blood cells and allows an athlete to train longer and recover quicker.

Last March, Finnish authorities found a medical kit at a gas station near the Helsinki airport during the Cross-Country World Championships. The kit contained needles and drugs used to alter the hemoglobin count in athletes' blood. Such "masking drugs" are often taken to hide the use of EPO. The Finnish police traced the kit to the Finnish ski team.

The aftermath proved harsh. Police and investigators interrogated witnesses and made arrests. Coaches quit, and officials from the governing body resigned or were fired. Disgraced athletes went on television to offer mea culpas. As a result, the Finns will field a much weakened cross-country team in Salt Lake City.

"The Finnish ski team has sort of had to restart. It is really a collapse of the whole system," said Christina Helenius, a media attaché at the Finnish embassy in Washington. No other Finnish official would comment on the episode.

Most skiers and fans want to see the sport cleaned up. They do not want it to go the way of professional cycling, which continues to endure suspicion from the public and athletic organizations. "I feel really strongly that we need to start testing for EPO and other drugs to clean the sport up," Kemppel said. "Cross-country skiing is one of the cleanest sports there is. But, we have to test to maintain its purity."

The drug questions aside, Salt Lake City promises excitement if for no other reason than there could be some surprise winners without the usually strong Finnish team in the field. This scenario might lead to a strong finish by American hopeful Justin Wadsworth, who trains in Oregon, and Becky Scott, his Canadian girlfriend. "If Justin Wadsworth can win a medal," Husaby said, "that might do for cross-country skiing what Lance Armstrong has done for cycling in America." Ⓔ

Jonathan E. Kaplan previewed the Tour de France in EUROPE's *July–August issue.*

Olympic

Salt Lake ratchets up preparations

The Olympic Charter states that the goal of Olympism is to put sport "at the service of the harmonious development of man, with a view to encouraging the establishment of a peaceful society." Achieving that goal got harder when the threat of terrorism became terrifyingly real on September 11, and the continuing biological dangers keep everyone on edge. In reaction to the attacks on America, the many organizations responsible for security at the Winter Olympics in Salt Lake City (February 8–24) have accelerated their work, reevaluating and reassessing, double-checking and reinforcing what has been an absolute priority since 1972.

It was the 1972 Olympics in Munich that thrust the security issue to the top of everyone's mind, when eleven Israeli athletes were murdered by Palestinian terrorists who infiltrated the Olympic Village. Jacques Rogge, the newly elected president of the International Olympic Committee (IOC), perhaps understands better than most the impact of this tragedy on Olympic security—he was there when it happened. Rogge was competing for the Belgian yachting team and was in mid-race when police boats rushed onto the course to protect the Israeli boat. Now Rogge is playing a different role in the Olympic scheme, during different times.

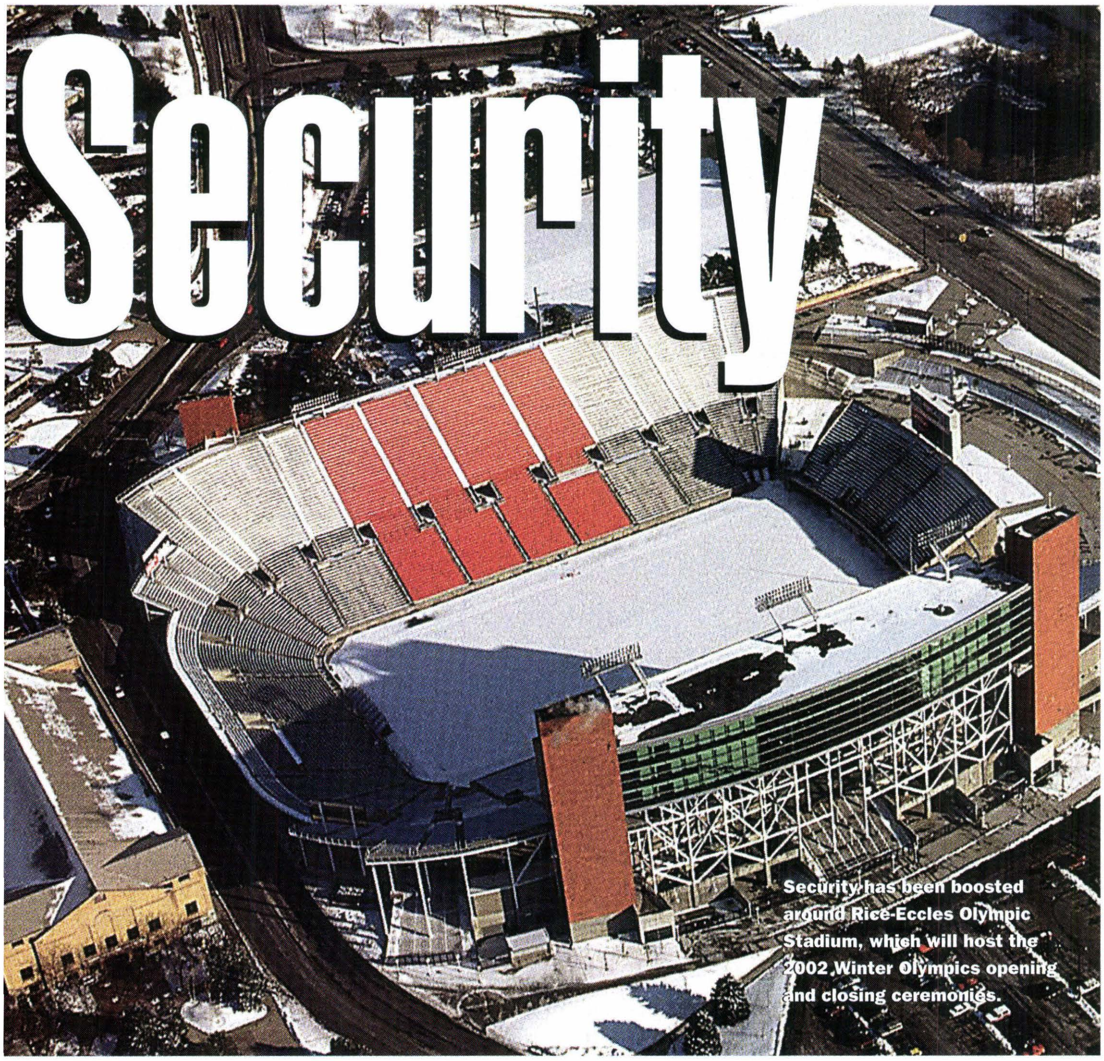
"All in all, the sports movement will be revisiting its security rules because, of course, when it comes to security, everything has changed since Tuesday, (September 11)," Rogge told the *New York Times*.

The specific changes to Olympic security come in the form of numbers. The Senate added by $24.5 million to the $200 million budget for Salt Lake security, and another $35 million has been proposed on top of that. There was a significant boost in security forces to 8,000 police, military personnel, and other government officials. In addition, Utah state officials are hoping to be able to provide adequate amounts of Cipro, the drug that fights anthrax, to all 83,000 expected athletes and visitors. The changes to the original plan will also come in the form of added fences, more security checkpoints, and increasing the visibility of police. The airspace surrounding the events will be closed, with the US military "intercepting" any suspicious flight activity. The Salt Lake City International airport might be closed altogether during opening and closing ceremonies as a precaution. All the security in Salt Lake City will be supervised by the recently created state agency, the Utah Olympic Public Safety Command.

Despite the altered face of the Olympics, officials and athletes are, for the most part, emphasizing the unaltered spirit of the games. Many believe that the Olympics represent the best qualities in nations and human beings and that the celebration of these qualities is needed now more than ever.

But for the international athletes, leaving home is a frightening prospect right now, when flight travel is hindered and haunting and the Olympic world stage seems a likely prime target. Several teams, including the Austrian ski team, have expressed nervousness. Rogge said he has been trying to communicate directly with all the Olympians personally to ease their fears. There was even discussion of chartering planes to take the athletes directly from their countries to Utah. "Many [international] teams are taking extra security precautions, but no one has pulled out," said a member of the European Olympic Council. Some teams may follow Australia's lead and

Security



Security has been boosted around Rice-Eccles Olympic Stadium, which will host the 2002 Winter Olympics opening and closing ceremonies.

hire personal "security officers" for themselves.

Though officials underline that the experience for athletes is unlikely to change much in the wave of new security, a truly new sense of vulnerability pervades. To calm these jitters, Utah Senator Orrin Hatch said in a press release that participants and spectators can expect "the strongest Olympic security plan in the history of the games." The Salt Lake City Organizing Committee is also paying for background checks of all workers and volunteers for the Winter Olympics.

Perhaps the most telling testament to the faith in the security of the 2002 games is a seemingly small gesture on behalf of the IOC president. While the other members of the IOC will stay at a hotel downtown, Rogge will stay in the Olympic Village with the athletes throughout the games' duration.

—Sarah Naimark

Greeks Rethink Athens Security Plan

Greece is preparing to strengthen security for the 2004 Olympic games in Athens following the September 11 terrorist attacks. Michael Chrysohoides, the public order minister, has told members of the International Olympic Committee in Athens that Greece will "do everything that's needed" to make the Athens games safe.

The $650 million security budget for the 2004 Summer Olympics is likely to be increased at least 20–25 percent. More Greek security experts and police teams will attend the Salt Lake City Winter Olympics next February. Chrysohoides says the experience will help with designing security programs for Athens and training a 12,000-person special police force for the games.

But the winter games involve fewer athletes than a summer Olympiad, and many fewer spectators. The Athens games may attract as many as 600,000 extra visitors to the capital. As the smallest country to stage a summer games in the past fifty years, Greece's resources will be stretched to the limit. Chrysohoides says the Greek military may be called in to assist, guarding Olympic installations and patrolling the city. But there are some advantages to being a small country, he says. "For example, we only have one international airport serving Athens, and a comparatively small number of other international gateways to Greece."

However, Greece will also seek assistance from other countries. The police are already planning to cooperate closely with British anti-terrorism experts and draw on the UK police's experience of handling international sporting events. The Greek authorities are also cooperating with US, France, and Germany, while Athoc 2004, the organizing body for the games, has hired security chiefs from the Barcelona and Sydney Olympics as consultants.

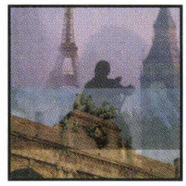
One focus of concern is the Olympic Village that will house 16,000 athletes and their trainers. The village is under construction on a site in a fast-growing district west of Athens with a sizeable immigrant population. Security measures are being tightened at the site and workers hired by the Greek contractors building the village will face security checks.

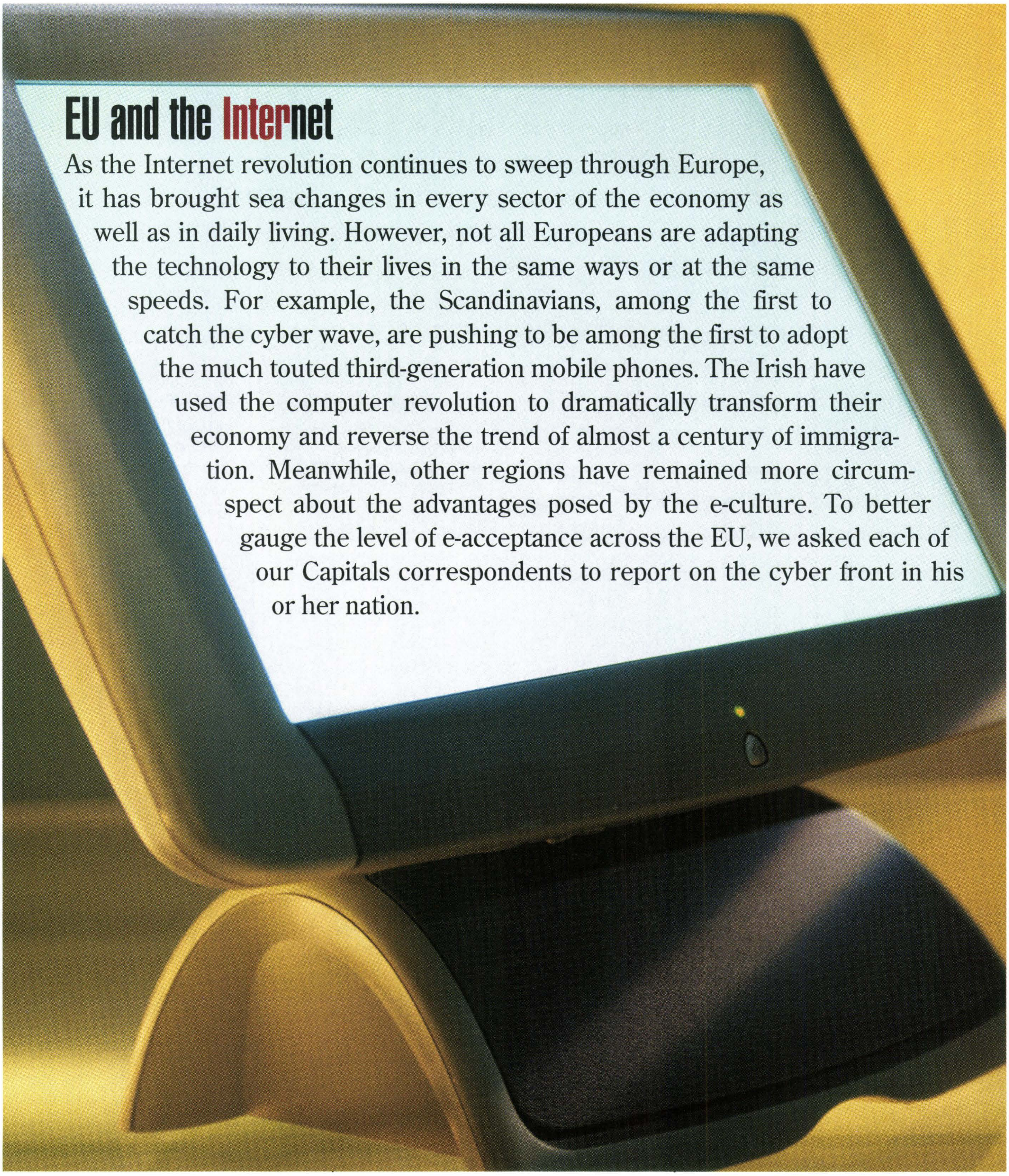
Greece is also expected to ask the IOC to revise visa arrangements for Olympic athletes competing in 2004. Athoc's contract with the IOC calls for Greece to issue visas automatically for all athletes, trainers, and officials involved with the Olympiad. But given the fears that terrorists could infiltrate an Olympic team, Greece and its international partners on security issues will seek authority to check the credentials of every participant in the 2004 games.

—Kerin Hope

CAPITALS

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





EU and the Internet

As the Internet revolution continues to sweep through Europe, it has brought sea changes in every sector of the economy as well as in daily living. However, not all Europeans are adapting the technology to their lives in the same ways or at the same speeds. For example, the Scandinavians, among the first to catch the cyber wave, are pushing to be among the first to adopt the much touted third-generation mobile phones. The Irish have used the computer revolution to dramatically transform their economy and reverse the trend of almost a century of immigration. Meanwhile, other regions have remained more circumspect about the advantages posed by the e-culture. To better gauge the level of e-acceptance across the EU, we asked each of our Capitals correspondents to report on the cyber front in his or her nation.

BERLIN

INTERNET USAGE: SURF'S UP

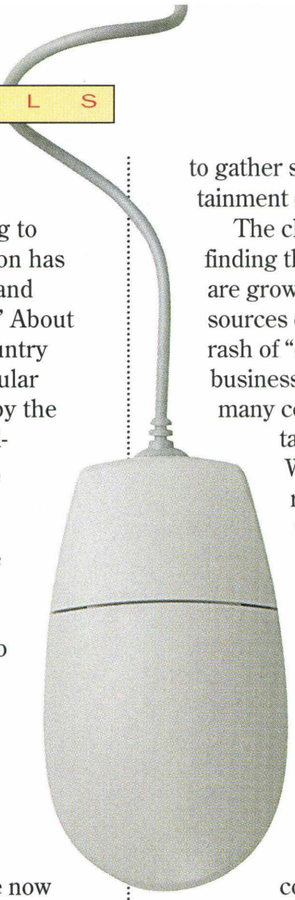
"Highspeed zu lowcost." This slogan screams from billboards throughout Germany, promoting the virtues of T-Online's broadband Internet access. It is an advertising style (and language) Americans immediately recognize. While the text promises more service for less money, the illustration features a digitized salesman with Day-Glo yellow hair and electric eyes, giving "Robert T-Online" a striking resemblance to Max Headroom.

The broadband promotional campaign reveals much about Germany's on-line landscape. To begin with, it tells us something about the strength of the T-Online brand. Like the company itself, the ads are ubiquitous. You can't open a magazine or pass an urban bus stop without seeing Robert T-Online, the virtual pitchman, singing the praises of broadband access. T-Online's pink logo is everywhere you look. It's an advertising blitz on an enormous scale, reflecting the company's total market dominance.

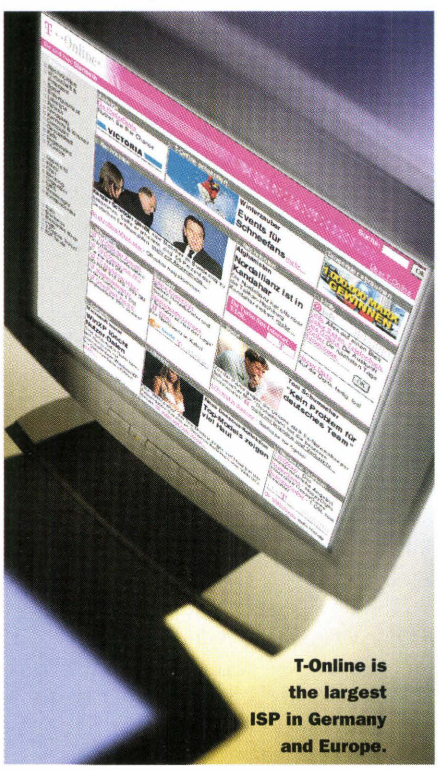
T-Online is by far the largest Internet service provider in Germany and Europe. At shareholder meetings, board members regularly compare the company to America's leading service provider AOL. In the list of the top-ten most frequented sites in Germany, T-Online consistently takes first place. Its home page has nearly twice as many hits as Yahoo, its nearest competitor.

This is not surprising given that so many German consumers end up subscribing to T-Online largely by default. It's the natural choice for the majority, who've been phone customers of T-Online's parent company, Deutsche Telekom, as long as they can remember. The former telecom monopoly has exploited all the marketing synergies at its disposal. If you buy a computer in Germany, chances are T-Online will offer you Internet service at the point of purchase. And with its proprietary shops and dense network of retail alliances, T-Online misses no opportunity to bundle its services with a range of hardware and software products.

Another revealing aspect of the T-Online ad is its focus on service enhancement as opposed to the service itself. This reflects the fact that the market is maturing. Ten years after the introduction of commercial Internet services in Germany, the novelty is beginning to wear off. Most of the population has already experienced the joys and frustrations of being "on-line." About 40 percent of adults in the country now use the Internet on a regular basis. A survey this summer by the country's leading public television networks, ARD and ZDF, counted 24.8 million Internet users in Germany. That's a whopping 36 percent increase from last year but a slower growth rate than the year before, a trend that's expected to continue as the market approaches saturation. Inevitably, the question is no longer "Are you on-line?" but rather "What's your connection speed?" Thus, T-Online's emphasis on broadband.



T-Online and other ISPs are now looking less at the number of users and concentrating more on their behavior. The ARD/ZDF study found that, although people are staying on-line for longer periods, they're spending less time surfing around aimlessly. In other words, Internet usage in Germany is becoming far more goal oriented. Eighty percent of "wired" Germans now use the medium primarily for e-mail communication, while 59 percent use their browsers to gather specific information. Entertainment comes in third.



T-Online is the largest ISP in Germany and Europe.

The chances of German surfers finding the information they want are growing as more and more sources come on-line. Despite the rash of "dot bombs" (failed net businesses), Web offerings in Germany continue to grow at a spectacular pace. The German Web address suffix ".de" is registering new domains at the rate of one every fifteen seconds. Between April and August of last year, the number of .de domain names rose from 2 million to 3 million. The figure surpassed 4 million in February of this year, and by the end of September, it was just shy of 5 million.

For businesses and consumers alike, broadband access will continue to gain importance as they find themselves moving larger amounts of data. The ARD/ZDF study found that among German Internet users a slow connection speed ranks second only to advertising as a source of annoyance.

Finally, the T-Online advertising campaign's Anglo-German text indicates the degree to which Europe's largest linguistic group (including Germans, Austrians, and the Swiss) is accepting English as the language of the Internet. Unlike their French counterparts, German speakers have eagerly adapted English Internet terminology to their own purposes. T-Online's Web site (www.t-online.de) features buttons for "Organizer," "Chat," "Shopping," "Lifestyle," "Fun & Action," and "Banking." There's no shortage of German-language content on the Web. But much of it is peppered with English. One gets the impression that Max Headroom and Robert T-Online would get along fabulously.

—Terry Martin

COPENHAGEN

DANISH WOMEN ON-LINE

Education level and occupation will likely influence the amount of time a Dane spends on the Internet, but gender won't, especially for younger Danes. However, once on-line, women do behave differently from men.

"Gender differences are evident when we look at what the Internet is used for," says Anne Scott Sørensen, who researches female Internet usage as a senior lecturer at University of Southern Denmark's Institute for Media. "Until recently, Danish women used the Internet primarily to get information on practical matters such as travel planning and tax issues," she explains. "But now they are gradually discovering the Internet's potential as a source of entertainment."

Denmark has witnessed the launches of several native-language women's Web sites. However, only a few sites have proved viable.

"Danish women's Web sites were launched too soon," Sørensen reflects. "Although women are now beginning to turn to the Internet, they have traditionally relied on print media for entertainment." Partly because Danish women's Web site providers have not been utilizing the potential for interactivity on the Internet, in effect offering nothing but on-screen versions of what may very well have appeared in print magazines.

"Nothing new has been offered so far, and I guess that is why Danish women's Web sites have failed," she says. "Danish women just have not seen any point in going on-line for women's issues when paper magazines were available.

"In addition, Danish women constitute too small a target audience to make a large-scale, all-inclusive commercial women's Web site profitable," Sørensen says. "Successful Web sites for women will need to go beyond national borders and language barriers, instead defining their target audiences along the lines of lifestyle, education, and occupation. A young, female professional living in inner Copenhagen presumably has more in common with other young female professionals living in Madrid or Paris than with housewives living in rural Denmark," she concludes.

Annemette Klæbel did not think along these lines before she launched her women's Web site in April 2000. Nevertheless, www.vi-kvinder.dk (which translates as *we-women)* has enjoyed moderate success, with 10,000 unique visitors every month—a substantial figure given Denmark's modest population of 5.3 million people.

Vi-kvinder.dk offers links to on-line-shopping, health, and travel sites, financial, and career advice as well as to sites advising on "the darker sides of life." Also, the Web site publishes the personal diaries of seven women between the ages of eighteen and sixty-one.

In Finland, one is regarded as an oddity if one doesn't know how to use the Internet.

"This Web site is my baby," Klæbel declares. "I created it myself, and I am in charge of the finance myself. Being independent of outside investors gives me an autonomy, which I enjoy very much. Although my site is profitable, I am not in it for the money, but for the fulfillment I get from interacting with my visitors," she explains.

Being profitable, vi-kvinder.dk differs from other women's sites, says Klæbel, ascribing her success to business acumen and imaginative marketing efforts like partnerships.

Her approach to business is characterized by common sense—as are the women using her Web site. "The loyal users are ordinary yet energetic women between the ages of twenty-five and sixty-five years-old who use my site to find the information necessary for them to live their lives to the full. They like my site for being pleasant and not too professional. We are not exactly dot-com," she laughs.

Despite a seemingly casual attitude to her success, Klæbel's ambition is clear. "I want to make vi-kvinder.dk the most visited women's Web site in Denmark," she proclaims.

—Maria Bernbom

HELSINKI

FINNS QUIETLY BOAST MOST COMPETITIVE ECONOMY

"Little Finland has knocked the US off its perch as the world's most competitive economy," announced the World Economic Forum in its annual ranking this year. The Nordic nation's climb to the top can be attributed primarily to its large-scale integration of technology into commerce and daily living combined with an enviable mobile telecommunication market.

The Finns are modest to a fault, as has been observed here before, and this achievement seems almost to have arrived by stealth. That is not true, of course, but it sometimes comes as a surprise how much the Finns take technological advance for granted—indeed, they embrace it to an amazing degree—that other countries look quite outdated by comparison.

The other day a Finnish friend apologized for not being able to send a document by fax. Why not? The answer was that fax use in that country is going out of style. "These days that's a rather dated way of communicating," he said, which was certainly news to me.

So it's no exaggeration to say that Internet use is taken for granted. Two years ago 2.15 million people out of a population of a little more than 5 million had an Internet connection either through work or at home, often both.

Until the end of 1999, Finland was reckoned to have the highest per capita use of the Internet in Europe. However, it may now have been nudged into second place by the United Kingdom (statistics are as slippery here as anywhere because there are different ways of counting use), but for the moment, this is roughly the picture—with either Sweden or the UK ahead of Finland.

The Finnish preeminence in this field is partly because telephone coverage in this geographically large country is so extensive, and all the lines were upgraded from analog to digital fifteen years ago so that the efficient switching system that came with it was already comfortably in place by the time the Internet revolution came along. Also, it helped that personal computers were much cheaper in Finland than anywhere else in Europe.

With the advent of the new GPSR telephone system, which allows Internet access through mobile phones, Finland is expected to resume its number one place as the country with the highest density of Internet use in the world.

"These things feed on themselves," one expert said. "Internet use is still growing because children see their parents using it and, therefore, have to use it themselves. There is a lot of peer pressure both at school and in work places for people to use the Internet. In fact, this is so strong in Finland that one would be regarded as an oddity if one didn't know how to use the Internet facility."

The amount of information available on the Internet is astronomic and much routine business is conducted this way: finding train schedules, booking airline flights, registering a child for a place at preschool, reading the newspapers, keeping an eye on the government, and so on. There are thousands of uses for it. There is also a proliferation of on-line magazines that can only be read on the Internet and of which the Finns are diligent readers.

The Internet is regarded as an integral part of Finland's long-term strategy, known as the Finland 2015 Plan, whose ambition is "to improve the knowledge, skills, resources, and networks of top-level Finnish decision-makers in matters concerning the future of Finland."

—David Haworth

LONDON

GENDER GAP IS SHRINKING

Internet usage in the United Kingdom is soaring, especially among women. Retail, entertainment, and finance sites are the most popular and the total monthly time on-line has virtually doubled over the past year as the Internet becomes more central to daily life. The UK provides the most prolific on-line shoppers among Europe's key Internet markets.

People here are increasingly getting used to handling their finances on-line. Since the end of last year, one million more women in the UK have begun banking over the Internet, and while usage is still greater among men, the gender gap is swiftly shrinking, although it still has to catch up with the US where women marginally outnumber men in Internet usage.

The number of men banking on-line rose 23 percent to 3 million in the first half of this year, while the number of women doubled to 2 million. If the trend continues, it is anticipated that the number of women organizing their finances over the Internet will equal that of men early next year, when it is forecast that there will be more than 8 million people banking on-line.

However, UK men are still the heaviest users of the Internet. One in three homes is now on-line, compared with only one in five fifteen months ago. The profile of on-line bankers varies with age: 22 percent of all twenty-five to thirty-four-year-olds bank through the Internet; among fifty-five to sixty-four-year-olds the figure is only 8 percent.

To put the explosive growth in on-line banking in perspective, only 13 percent say the Internet is their sole method of dealing with their bank. Some 85 percent still use their branch at least occasionally, while a further 75 percent say they also make use of the telephone for banking transactions, according to Nationwide Bank.

The proportion of British users visiting business and finance sites grew nearly 30 percent over the twelve months to May. However, the UK's first official survey of e-commerce suggested that the medium accounted for only 2 percent of last year's total sales across a wide range of sectors.

The survey of 9,000 businesses in private sector services and management indicates that e-commerce in these sectors amounted to $85 billion. More than four-fifths of e-commerce was transacted between businesses, and the survey reports that e-commerce has taken off far more slowly in the UK than analysts predicted. E-commerce will account for 15 percent of household sales by the year 2010, which is a cut from the 20 percent predicted earlier.

Nonetheless, e-commerce accounted for about 30 to 40 percent of total business in insurance, air travel, computing, and office machinery.

—David Lennon

PARIS

ROOMS WITH A WORLDWIDE VIEW

To start with, the French tend to view new technology with a suspicious eye, but once their initial distrust is overcome, they often end up becoming infatuated with it to the point of obsession. So it was with mobile phones, which first appeared in France in 1989. By 1997, only 5 million of France's total population of 60 million owned a cell phone, but within the last three years, that number has quadrupled. Now, more than 21 million French walk (and drive) around with the latest model *portable* practically grafted to their head.

France's use of computers and the Internet is ruled by the same attitude of being slow to warm to a new concept and then embracing it passionately. President Jacques Chirac made the world howl with laughter only five years ago, when he innocently wondered how he was supposed to use a mouse—of the cheese-eating variety—to navigate around a computer screen. Quite a few French people still do not know the answer to that question, but the number of computer-equipped households *is* growing rapidly, and so is the number connected to the Internet.

Currently, France has about 5 million Internet surfers, proudly called *internautes.* Within the next three years, the ranks of these bold explorers of cyberspace are expected to swell to 26 million, or 43 percent of the population.

French companies, just like French families, hung back at first and are now rushing to do business on the Internet. A typical example is the hotel industry. Although still trailing competitors such as the United Kingdom and the United States, it has finally realized the tremendous sales potential of the Web. Within the last two years, thanks in part to the

More than 300 of Relais & Chateaux's hotels accept online reservations.

computer adjustments imposed by the year 2000, most of France's hotels have connected themselves to the Internet, and 25 to 30 percent of those in the two to four-star-and-above category offer their clients on-line reservations.

Relais & Châteaux, which *Gourmet* magazine voted the world's best hotel chain in 1999, was the Starship Enterprise of the French luxury hotel business—the first four-star plus French chain to venture onto the Internet. It launched its Web site in 1995 and right from the start offered the possibility of making reservations by e-mail. In 1999, it went interactive, allowing visitors to the site to book their stays on-line, with immediate confirmation of their reservations. This year it redesigned its Web site (www.relaischateaux.com) to make it more versatile and user friendly. Internautes can now plan whole itineraries, with several hotels en route, and are offered alternatives if their chosen hotel is fully booked. They can also consult the *Relais & Châteaux Guide* on-line, in five languages (French, English, German, Spanish, and Japanese), order a print copy of it, or download it, according to several geographical criteria.

Of the independent chain's 380 member hotels, spread around the globe in forty-seven countries, 320 can now be booked on-line. The rest, which generally have fewer than a dozen rooms, are being wired more slowly, but international marketing and sales director Jacques Olivier Chauvin says all members are aware "that the Internet is an amazing showcase of their property and gives them unequalled worldwide visibility." He has seen Internet bookings of Relais & Châteaux hotels more than quadruple within the last year, to reach 18 percent of total reservations, with two-thirds of those being made by Americans, the chain's most fervent clientele.

Understandably, the September 11 terrorism attacks have hit Relais & Châteaux hard. In the immediate aftermath to the tragedy, Chauvin estimates that reservations of all types—via the Web, telephone, mail, and fax—dropped by nearly 30 percent. The percentage of on-line bookings, however, is continuing to climb, and Chauvin says that Relais & Châteaux plans to upgrade the travel planning facilities of its Web site. Clients will be able to build their own completely customized itineraries to explore a particular region—like the Napa Valley, for example—by car, taking their time to go along secondary roads, stop as often as they like to take in the sights (and the wine) and stay in the handful of Relais & Château properties in the area.

It is an intelligent marketing move. Right now, people are likely to keep closer to home, and any hotel chain that allows them to plan a local holiday in the virtual safety of the Internet will help to keep its clients satisfied for the day when "faraway places, with strange-sounding names" will once again be a dream, not a nightmare. May it come soon.

—Ester Laushway

MADRID

SPANIARDS NEED A HIGH-TECH JUMPSTART

Two years ago, the Spanish government published a report lamenting the poor level of Internet use among its citizens and the low numbers of personal computers in Spanish homes. "It is impossible," the report said, "[for the country] to remain on the margins of this amazing process of change," referring to the revolution in consumer use of high technology.

However, little has changed since. Statistics show that only around 16 percent of Spaniards have access to the Internet, putting Spain second from the bottom in European Union rankings of such things. This is ahead of Greece but slightly behind neighboring Portugal, which some Spaniards generally consider less sophisticated than themselves.

Amazingly, according to government figures, 30 percent of Spanish businesses do not use personal computers in day-to-day operations. Spain is not a great Internet shopping country, either. A year ago, this reporter attended a weekly gathering of new technology entrepreneurs, idea people, and investors, and they all agreed getting those Spaniards who have Internet access to purchase goods and services over the Web was a nightmare.

"They just don't trust sending out their credit card numbers to strangers," complained one budding dot-com retailer. "And, of course, Spain is so far behind most other countries regarding Internet penetration."

This last problem is being addressed by the center-right government of Prime Minister José Maria Aznar, whose science and technology minister, Ana Birules, has proposed partially subsidizing computer purchases. The techno-savvy regional government of the three-province Basque region already does that, doling out $250 toward the purchase price of a new PC.

Outdated infrastructure is also a problem in some areas of the country. Analysts say that hundreds of thousands of people living in rural regions do not have access to telephone lines capable of handling Internet signals. Spain is also behind all its other European Union partners, except Greece, in installing broadband infrastructure.

However, experts point out that spending plenty of pesetas on upgrading telephone lines makes little sense in a country in which knowledge on how to use the high-tech tools to open up the world of the Web is so scant. Again, Spain is near the bottom of the list of European nations when it comes to the ratio of PCs to students in public schools (7.1 per 100 pupils, compared to an EU average of nine).

Analysts say it is no wonder that Aznar wants to promote technology and the "knowledge-based economy" when Spain takes over the EU presidency in January. The prime minister argues that Europe cannot afford to be left behind by the United States and Asia in this regard, and his own country certainly needs a good boost in that direction as well.

—Benjamin Jones

BRUSSELS

MAY I HAVE THIS PITCH?

Mr. X has a bright idea, but no money with which to launch it. Ms. Y has plenty of cash, but is uncertain where to invest it. If both are interested in the Internet, the place to go is First Tuesday. A monthly rendezvous held at the Brussels Stock Exchange, First Tuesday offers potential entrepreneurs and investors a meeting ground. It was launched in September 1999 and is based on a similar project launched in London the previous year. It has now been copied by more than eighty cities worldwide and has helped entrepreneurs raise more than $100 million of seed capital. Its sponsors include international companies such as Price Waterhouse Coopers, Compaq, and Oracle, as well as leading Belgian firms.

Organized like a school dance with everyone looking for new partners, the organizers issue colored stickers to each person as they arrive. Investors get red ones, entrepreneurs are given green, and observers have yellow. The proceedings normally commence with a couple of formal speeches. One is aimed at providing advice on a very specific subject, such as advertising, stock options, or legal issues. The second speaker is usually a successful entrepreneur who recounts his or her own experiences and offers tips to those eager to follow a similar path.

Everybody then starts prowling around the main hall of the exchange and striking up conversations during which—in most cases—the entrepreneur makes the pitch.

These encounters generally end in one of three outcomes: The majority go nowhere; some lead to the investors losing money, sometimes a lot of money; and every now and then, one of the conversations leads to a major success.

Maarten Willems counts himself a member of the lucky third category. The thirty-year-old engineer managed to raise $1.15 million in startup capital from two investment firms he met a year ago. With this backing, he was able to launch Hypertrust, a ten-person company based in an industrial estate outside Louvain. By dint of working seventy-hour weeks and infecting his colleagues with his own enthusiasm, Willems was able to achieve a significant breakthrough in offering a new kind of technology to his clients.

Hypertrust set itself up as an Application Service Provider (APS) for trust services. Willems believed that many business organizations would not want the trouble and expense of building their own secure communication infrastructure but would rely instead on the expertise of external service providers to deliver a means for them to exchange confidential information with their external stakeholders as well with their own company employees.

Hypertrust became the first ASP in Europe to offer digital signatures on electronic documents, a technology that is now rapidly spreading and has proved highly profitable. A recent survey found that trust services are the fastest growing segment in the security industry and predicted that outsourced trust services would move from a 20 percent market share in 2000 to 60 percent in 2006.

Willems speaks warmly of the opportunity that he gained through First Tuesday. Yet, the well-publicized demise of many Internet companies during the past year has been reflected in a marked downturn in the number of successful "marriages" that it has been able to arrange.

"This is a tough time for startup companies; fewer and fewer people are willing to make the jump," Christine de Bray, manager of First Tuesday, recently told a Brussels magazine. "Yet if you have a good business idea and need capital," she added, "this remains the best meeting place in town."

—Dick Leonard

LUXEMBOURG

LUXEMBOURGERS TAKE E-ACTION

The Internet is serious business in Luxembourg—none of your singing and dancing here, thank you very much. I asked an official to identify the most popular Web site in the country. It was www.gouvernement.lu. Without a doubt, people have very good reasons to find out what their government is saying, but the choice hardly suggests a public taste for frivolity or amusement.

Luxembourgers have a long and proud record in communications, notably in radio and television broadcasting and the operation of communications satellites, and it would be surprising if they had not taken naturally to the Internet. But the government has not left it to chance.

The eLuxembourg Action Plan, announced by Prime Minister Jean-Claude Juncker in May 2000, is the means by which Luxembourg hopes to ensure a leading place in the EU's e-Europe project designed to make the EU the most competitive and dynamic economic unit in the world.

"The aim is to offer Internet access to all citizens. The government is organizing public and private-sector awareness road-shows and conferences and has invited the public, non-profit and private sectors to elaborate projects contributing to diminish the digital divide," says Jean-Paul Zens, director of the government's

There are concerns that the Internet is creating a Swedish underclass that is being shut out from necessary public and private services.

media and communications department. "Preference is being granted to collective projects representing synergies between all three categories, and this year a dedicated department was created to implement the eLuxembourg action plan," he told *EUROPE.*

This seems to be working. Half the Luxembourg population accesses the Internet, according to a survey in May this year, and 44.5 percent use it at least once a week. Two-thirds of all households have a computer. These figures, like those in neighboring countries, are up sharply in the past two years.

In general, the pattern is similar to that for most of the EU—Luxembourg ranks sixth in the EU in Internet usage. The tiny nation leads the Union in Internet visits per month (16.3), but its Web sites are among the least visited by foreigners. Just more than half of all Luxembourg men access the Internet and a third of women, although usage is identical for Luxembourgers between the ages of twelve and twenty-four. Internet usage is highest among Luxembourg's foreign population with the exception of the large Portuguese community, of which only 28 percent are on-line.

As one would expect, most families below the median income level in Luxembourg are not Internet-users, but curiously, the reason given is not the cost. Poorer people seem to think that the Internet is "complicated and not meant for people like them," says a government official—"there is a kind of culture gap to be bridged."

This worries the government. Ministers have expressed concern that it could lead to a permanent division in society, and the problem is foremost among those to be tackled by the eLuxembourg plan. Among the solutions are government-financed "telecenters" located in local communities and free training sessions available to all citizens.

But what do the Luxembourgers use the Internet for? According to Zens' department, the Internet offers first an "information research solution" for 94 percent of users. Nearly 89 percent communicate via e-mail and just less than a third use it for shopping.

Perhaps more characteristic of this tiny country of addicted overseas travelers is that 46 percent of Internet users are looking for travel information and services. And, as you would expect of such financially sophisticated people, a third of them use the Internet for banking.

—Alan Osborn

STOCKHOLM

SURFIN' SWEDISH-STYLE

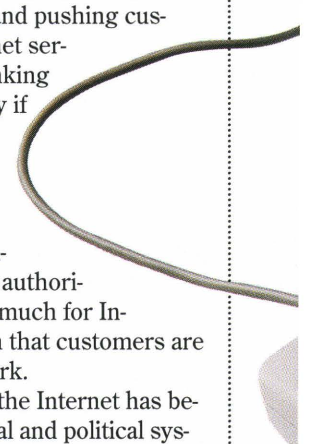
Swedes love to surf but not on water. Instead of beach culture, it's the Internet that predominates. Approximately 75 percent of Swedes have access to the Internet. Unlike many other European capitals, however, there is a noticeable lack of Internet cafes in Stockholm. That's probably because so many people own computers, as well as using their mobile phones to send small text messages, check e-mail, and even surf via WAP technology.

In Sweden, mobile technology increasingly goes hand-in-hand with the Internet. "In five years, we're going to have all of these mobile services, and we're going to be so used to them that it will seem as if we've always had them," says Bo Dahlbom, director of the Swedish Research Institute for Information Technology.

Cited in a supplement recently published on the Internet by the Swedish business daily *Dagens Industri*, Dahlbom notes that the introduction of GPRS service this fall will have tremendous impact on the way Swedes use the Internet. GPRS is a middle step between the so-called third generation, or 3G, mobile phone system now being developed, and GSM, the current standard in Europe. "GPRS is the first step toward continuous connection," Dahlbom says. Theoretically, GPRS will make mobile Internet easier to use than it is currently.

If Swedes love to surf, however, they lag behind Americans when it comes to buying on the Web. Although credit cards are now widely used in Sweden, that phenomenon began only about twenty years ago, and people are reluctant to give out their card numbers even on supposedly secure servers.

By contrast, Internet banking has made big strides in Sweden, but it has also created various problems. Servers for several of the major banks' systems have repeatedly crashed, leaving customers without access to their accounts, unless they were able to get to local branch offices. Since the banks have been shutting branches, especially in more remote areas, and pushing customers toward Internet services, doing your banking the old-fashioned way if the technology doesn't work isn't always so easy any more. Banks have also come under criticism from consumer authorities for charging too much for Internet services, given that customers are doing most of the work.



In another sense, the Internet has become part of the social and political system of the country. The Swedish government and the Riksdag (Swedish parliament) have extensive Web sites detailing their activities.

They also provide access to laws and pending legislation. More often than not, press conferences are broadcast on the

Internet and are archived there as well. That gives voters better access to the politicians and allows journalists who are not in Stockholm to follow the meetings and, in some cases, ask questions.

The law specifying how authorities should handle letters and telephone calls from the public is being extended to cover e-mail messages. They will have to be treated in exactly the same way as ordinary, written communication, with the same requirement for timely response.

But the government's ambitious plan for "broadband for everyone," has not taken off. Promises of extensive government subsidies for networks haven't been fulfilled and construction isn't going as quickly as planned. Instead, about 83 percent of Swedish surfers hook up to the Internet with regular modems. This may start to change, however, as electric utilities get into the broadband market. They have begun testing broadband connection through ordinary home electrical systems, which eliminates the need for expensive lines to be drawn to homes and apartment buildings.

There are concerns that the Internet, with its inherent need for computers or mobile phones, is creating a Swedish underclass that is being shut out from necessary public and private services. But those fears aren't likely to reverse the trend. In Sweden, the Web surfin' safari continues to ride the Internet wave.

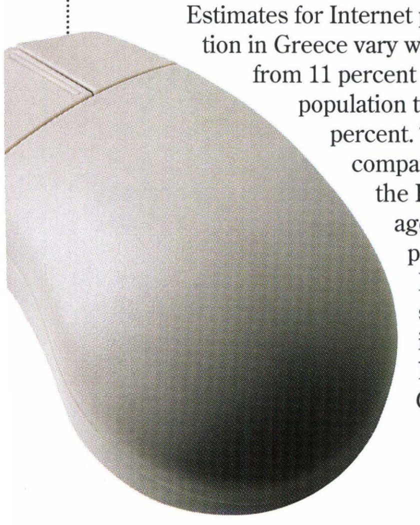
—Ariane Sains

ATHENS

GREECE LAGS IN E-USAGE

The Greeks have been slower than most Europeans to adopt the Internet, triggering concern about the country's ability to stay competitive in an increasingly networked EU economy.

Estimates for Internet penetration in Greece vary wildly—from 11 percent of the population to just 6 percent. This compares with the EU average of 27 percent. More surprisingly perhaps, Greece is also less wired than most Central European countries.



But George Papaconstantinou, a former economist at the Paris-based Organization for Economic Cooperation and Development who set up a new department at Greece's finance ministry to promote the information society, says the picture is changing fast.

Internet connections more than doubled since last year, while personal computers became more accessible to home-based users as prices declined to north European levels. Surfing the Web from Greece actually costs less than elsewhere in the EU, he says.

"Take Athens, for example. The Internet penetration rate is already at 15 percent," he says. "But even in northern Greece, you find increasing numbers of young people taking evening classes to qualify for the EU's computer driving license."

Internet cafes, patronized by 40 percent of regular Web surfers in Greece, are the most popular place to go on-line. They have proliferated not just in suburban neighborhoods of Athens but in provincial towns and throughout the Aegean islands.

The government is aiming for every high school student in Greece to have access by the end of next year to a school computer lab equipped for networking with universities and other educational institutions. At present, about 40 percent of Greek schools have an Internet connection.

"Computerizing of schools used to go very slowly because it involved big procurement projects run by the education ministry," Papaconstantinou says. "Now it's much faster because individual schools are in charge of buying their computers, under our supervision."

The drive to promote Greece's information society is underpinned by sizeable amounts of funding from a new EU aid package for less-developed member states. Greece plans to spend $2.5 billion over the next six years on wiring the country, equivalent to about 8 percent of its share of the EU package.

Apart from education, the focus will be on putting government on-line and providing improved services for ordinary Greeks who struggle to overcome time-consuming bureaucratic obstacles.

Aegean islanders, for example, currently may spend a day traveling by ship to a bigger island that serves as a regional provincial administrative center in order to register a new car or apply for a building permit. "The aim is to improve people's quality of life by making administrative services available on-line," Papaconstantinou says.

To encourage Greek business—still dominated by small, family-owned companies—to take e-commerce seriously, the EU package provides grants to cover about 40 percent of the cost of going digital. At present only about 20 percent of Greek companies use the Internet, compared to the EU average of more than 40 percent. Fewer than 3 percent of Greeks use on-line banking services, and because they still prefer cash to credit cards, on-line shopping is still in its infancy.

Only a handful of Greek businesses have set up company intranets, while even banks and government ministries manage to operate without using an internal e-mail network. Just one in five Greek civil servants has access to a computer at present; the aim, says Papaconstantinou, is to double that number in the next three years.

Papaconstantinou's hardest task, however, may be to pull together and upgrade the disparate information technology systems that have been haphazardly installed over the years in government ministries. "The only area in which we're up to speed with the rest of the EU is the new computerized tax system," he says.

—Kerin Hope

ROME

BROAD NEW THINKING

Intel owes part of its fortune to an Italian, Federico Faggin, who was part of the three-man team that invented the microprocessor. Teenagers around the world owe a debt of gratitude to another Italian, Leonardo Chiariglione, who invented the innovative MP3 format for sending music on the Internet. And Internet users all over Europe can thank yet another Italian, Renato Soru, who has built Tiscali into one of the most successful Internet firms in Europe. Nevertheless, with all this success, Italy still makes it only halfway up the list of Europe's most wired countries.

The good news, however, is that Italians are gaining ground. In fact, according to the Organization for Economic Cooperation and Development, Italy was the country that grew the most in the Web world in 2000. Internet access outlets increased 180 percent; the number of Italian Web sites—personal and commercial—increased more than 30 percent; and the number of Italian families on-line increased to 29 percent.

What are Italians doing on-line? Electronic mail and chat lines top the list, which is the case in most Web savvy countries. News outlets are among the most popular Italian Web sites, with the daily newspaper *La Repubblica* number one, followed by RAI, the public radio and television network, and *Il Sole 24 Ore*, the finance-oriented daily. On-line shopping is growing, although it remains very small compared with the United States, and few Italians use on-line banking, although Internet banking clients have increased by almost a million in the past twelve months.

Somewhat surprisingly, the government and education Web sites are gaining substantial audiences, garnering a similar percentage of visitors as their counterparts in northern European countries.

Perhaps, the turning point for Italian Internet use can be traced to the recent elections, which, for the first time, were closely followed on-line. The idea is taking hold that the Internet isn't just a game or a means for easily sending and receiving mail from friends but that it is also an instrument to be used for communicating across the entire spectrum of the culture—businesses, universities, and the government. This new thinking has especially profound implications for Italians. Traditionally, they have never had an easy relationship with bureaucratic institutions. The Internet could change all that.

—*Niccolò d'Aquino*

DUBLIN

IRISH INTERNET IS FLYING HIGH

Michael O'Leary, the brash but innovative boss of Ryanair, Europe's largest low-cost airline, found himself in a pickle. It was early 1999 and, as chief executive of a carrier with a proven record in technological development, he was eager to embark on yet another undertaking: a ticketless airline using only direct sales and Internet bookings. No travel agents. No costly downtown booking offices.

Two years later, O'Leary's gamble has paid off. At a time when most European national airlines are facing financial ruin post-September 11, O'Leary says Ryanair bookings have never been better, and the company's share price underscores this point.

More than 34 million prospective customers hit the round-the-clock www.ryanair.com Web site every month—accounting for 80 percent of all the independent airline's customers, the largest number of "hits" on any Web site in Ireland, and the biggest travel site in Europe.

O'Leary says Ryanair's cash up-front bookings, with no four-to-six week delays on travel agency returns, cushions the airline when things like this year's devastating European foot-and-mouth crisis occur.

Mind you, when the on-line bookings idea was first mooted, the design costs looked prohibitive. One international Web design company quoted a price of \$2.5 million.

So? O'Leary immediately placed newspaper advertisements seeking "bright young Web designers" to come up with ideas. They did. For an \$8,000 fee, two young college students—during their Easter holidays—came up with what is widely regarded as one of the best and most easily accessible Web sites in Europe. Today, the site, much refined, is operated by four in-house computer technicians.

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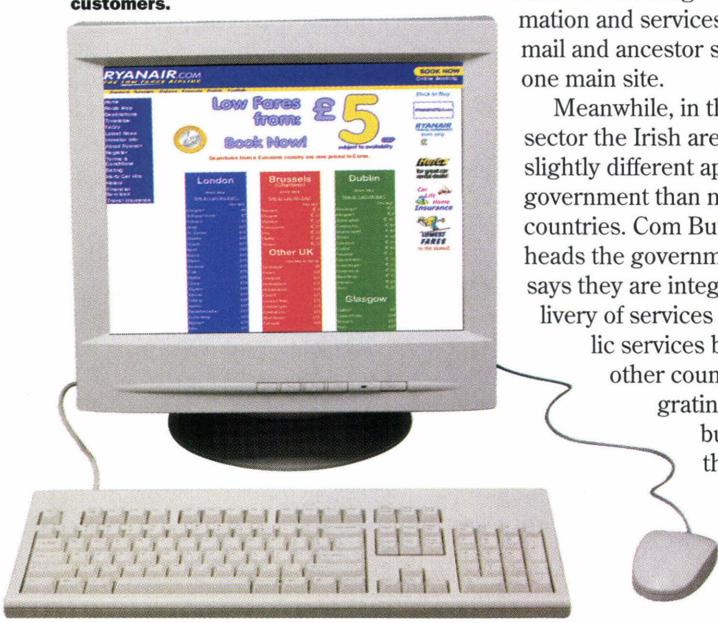

Michael McLoughlin, director of e-services with Amárach, Ireland's leading market research firm, says almost one-third of Irish adults (895,000) currently use the Internet—with travel the number one on-line purchase and Ryanair the main beneficiary.

In a recent survey, Amárach found that 47 percent of Irish adults (ages fifteen to seventy-four), almost half the population, said they would never use the Internet. However, in the last two years, Internet use has doubled and, although there has been a slowdown in first-time users, it is now forecast that 43 percent will be accessing it by 2003, with an e-commerce value reaching \$296 million.

The second-most popular Irish Web site is www.irish-times.com, the seven-year-old on-line version of the nation's biggest morning newspaper. The day's newspaper is posted on the Web beginning at 4:00 am (even on Sundays, when the print version doesn't publish), with constant updates between 6:00 am and 10:00 pm. It now employs seventy people and claims more than 24 million "page impressions" per month, 7 million of which come from the United States.

Although it contains most of the same content as the paper edition, the on-line *Irish Times* targets the country's Internet users, the Irish Diaspora, and the rapidly expanding "Irish interest" market around the world.

The *Times* has exploited this growing international market by grouping the on-line newspaper with several other Irish Web sites under a single umbrella site called Ireland.com. Now, readers can access a broad range of Irish information and services, including e-mail and ancestor searches, from one main site.

Meanwhile, in the public sector the Irish are taking a slightly different approach to e-government than most other countries. Com Butler, who heads the government's e-team, says they are integrating the delivery of services through a public services broker (most other countries are integrating information but then passing the client on to individual agencies).

The public services broker acts

more on behalf of the citizen and corporate citizen in giving a single point of interaction with the "government" at central or local level.

Butler says, "What we want to do is make it possible for people to get on to one location [the broker] for information about all services and for the services themselves—the broker acts as the 'front office' for all government departments or agencies. We want to remove the need for people to go from place to place to get all the bits of a more comprehensive service to meet a particular situation or predicament they might be in.

"Take the issue of passport. We feel it is silly to have people go to the register's office to pay for a birth certificate and then give it back to the state at the passport office. It would be far easier if the passport office could check it out themselves."

Other on-line services are already in place. FÁS, the state training and employment authority, has a site for job seekers and prospective employers to register and find matches. The treasury has a revenue on-line service for businesses to transact with the revenue's tax officials; there's a land registry service for those involved in land transactions; a driver test service where people can book their test on-line, and there's even a sheep-tagging service run by the department of agriculture to keep track of sheep numbers and movements.

For people who don't have Internet access, the government is setting-up a call center, then a more functional contact center to make it possible for people to get at all services over the counter in public offices by dealing with officials who have on-line access and who can act on their behalf.

Butler says the basic principle is consent. He says no one is being forced to go on-line and that everyone will have control over the use of his or her data.

"We are in the business of convenient government, making technology work for people rather than enslaving them. The business world has responded to this challenge by becoming more agile and flexible in its ability to deliver goods and services to meet constantly changing expectations of customers. The public sector—indeed all public sectors—is facing the same scenario. E-government is our answer to that."

—*Mike Burns*

VIENNA

EXPANDING THE INSTANT MESSAGING CRAZE

While the US may have a considerable head start in providing new and innovative Internet services, Austria is quickly expanding its own Web capabilities.

Citype.com is a new Austrian site that seeks to go beyond the yellow pages to provide up-to-date information on a variety of services. Searching for information about organizations, medical facilities, and department stores in Vienna usually becomes a complicated process on the Internet, so Citype's developers have sought to streamline the process. Their site aims to provide real-time information about any desired location. This means the site will not only give you the listed opening hours of a pharmacy, for example, it will also tell you definitively whether it is actually open at that moment. Besides providing convenience, Citype.com can also help in an emergency as it includes a compilation of approximately 1,700 emergency numbers. It also provides an extensive directory of services, including ATM and taxi stand locations as well as an array of businesses and restaurants that will deliver. Robert Savant, chief technician for Citype, told the Austrian newspaper *Die Presse*, "We are making a *find* engine. After all, there are already enough search engines on the Web."

Austria is also expanding its popular instant messaging services. While text messaging over the phone (called SMS in Austria) never truly caught on in the United States, it remains very popular in Austria, particularly with the Viennese youth. According to *Der Standard*, the Austrian telecommunications software developer Universal Communications Platform (UCP) has begun cooperating with One, the third-largest mobile phone provider in Austria. UCP is known for providing the popular Web-based instant messaging platforms that most Austrians use. UCP's partnership with One allows them to gain a wider customer base. Now, One's customers will be able to use their mobile phones to send instant messages to computers. UCP has worked out a similar deal with the mobile provider Sunrise in Switzerland and plans to expand to Germany as well.

—*Alexandra Hergesell*

LISBON

E-GROWTH INCREASING SLOWLY

Internet growth in Portugal has inevitably been hampered by limited computer ownership. This trend is changing but rather slower than policymakers would like. Just 42 percent of households have a computer at home, up six percentage points from last year, according to a survey by market research organization Marktest.

Portugal got off to a late start with the Internet and is striving to catch up. The proportion of people older than fifteen with access to the Internet has surged from 7 percent at the end of 1996 to 36.5 percent in March of 2001, implying 2.7 million Portuguese have joined the high-tech revolution. Furthermore, much national excitement ensued when news emerged that Portugal had overtaken its neighbor Spain in Internet usage.

The fact remains, however, that many people in Portugal have access to the Internet but do not use it. This was true of 15 percent of those in the Marktest survey, which translates to roughly a million Portuguese. Of this group, women, people aged fifty-five and older, and residents of less economically developed regions comprise the majority.

On the plus side, significant numbers of people are not yet on-line but expect to be soon. The survey found that 7.5 percent of those questioned did not have Internet access but expected to get it by March 2002, implying an extra 500,000 Portuguese residents will join the wired ranks in a year.

Of those who already have an Internet connection, 48 percent said they had been on-line the previous day. Just 4.5 percent had not been on-line in more than a month.

The most common reason cited for using the Internet was fun, at almost 65 percent. Next came personal research (58 percent) followed by news (54 percent) and professional and academic purposes (49 percent each). Access for social reasons was cited by 41 percent of Internet users questioned, while software downloads were cited by 27 percent. E-mail remains by far the most popular application, with 78 percent using it.

The home remains the place where people most commonly get on-line. Of the 36.5 percent with access, more than half said they logged on from home, a healthy increase over the past year. Meanwhile, Internet access at work has been slowing, and access at school or university is stagnating at 9 percent.

The gender split among Internet users is consistent with the market's lack of maturity: 62 percent male, 38 percent female. As for age, young people predominate, with 17 percent of users aged between fifteen and seventeen (compared with 6 percent of the population at large) and 29 percent aged between eighteen and twenty-four.

As in other European countries, the Portuguese have high expectations for the merging of the Internet with the mobile phone, although the early attempts to accomplish this have been disappointing. New hope rests with the so-called third-generation (3G) mobile phones, which will offer high-speed video, voice, and text via the Internet. All over Europe, the companies building 3G networks have seen the price for the government-auctioned 3G licenses bid up to astronomical levels. The increased costs have weakened the companies and slowed their progress considerably. On the plus side, however, Portugal, per capita, has an above-average percentage of mobile users, and customers have shown a willingness to trade in their handsets regularly for newer models.

—Alison Roberts

THE HAGUE

DUTCH STILL GETTING TO KNOW THE INTERNET

A couple years ago, Dutch Prime Minister Wim Kok unintentionally showed his Internet ignorance when, in a television program, he was asked to chat on-line with school kids. The prime minister picked up the mouse but did not know what to do with it, clicking on it as if it were the remote control for a television-set. Since then, he quietly has taken computer classes, while the nation's obsession with things 'e' has grown insatiably.

Along the way, the Dutch government discovered the Internet's ability to bridge the gap between the government, both local and national, and the people at large. Politicians at all levels have feverishly worked to shape the Netherlands' electronic future and rallied its citizens to get on-line. Already, the economics ministry is trying to boost Internet use among small and medium-size businesses, and other ministries and agencies are researching ideas about how to implement e-government. One minister has even proposed building "electronic playgrounds," essentially free Internet cafés, in largely immigrant communities to improve the integration of the urban lower class into the high-tech world. Other ideas include introducing electronic versions of official documents and electronic voting.

However, the government is not the only driving force behind increasing Internet usage in the Netherlands. The Dutch are flocking to the cyber world, unsurprisingly, for personal fulfillment, particularly through e-mail. According to a survey earlier this year, the country's "home penetration" of Internet use reached 50 percent. That is lower than in the US, but well above the percentages in the United Kingdom, Germany, and France. On average, the Dutch spend seven hours and eight minutes a month on-line, and the number of Web sites they access increases by the month.

One of the most popular Dutch sites is the royal family's official homepage, www.koninklijkhuis.nl. There, royal watchers can monitor the activities of Queen Beatrix and her family as well as the preparations for the coming wedding of Crown Prince Willem Alexander and his Argentinean fiancé, Máxima Zorreguieta.

However, as much as the Dutch have taken to Web surfing, they haven't yet embraced Web spending—as in e-commerce. Like many southern European countries, the Netherlands accounts for a relatively small number of on-line purchases. Analysts attribute this trend to the Dutch aversion to sending their credit card numbers into cyberspace regardless of the e-retailers' security assurances. Conversely, sites that offer used goods or other bargains are extremely popular.

Although growth in the overall sector continues apace, many businesses have trimmed their Internet investments. After the initial hype of early 2000, when businesses without an e-strategy were ridiculed, many companies with Internet components saw their losses piling up and revenues falling far below projections. The major Dutch publishing groups have all substantially reduced their Internet activities after having run up huge losses. Even the newspapers' Web sites have scaled back.

Nevertheless, the Internet continues to quietly insinuate itself into the fabric of Dutch commerce. Banks, for example, increasingly offer more transactions online. Industry analysts expect banks to eventually reap substantial cost savings as more customers bank on-line and fewer branches and employees are needed.

—Roel Janssen

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ARTS & LEISURE

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

FILM

CRUZ CRUISES INTO AMERICA

She has proved herself in Hollywood as a serious actress on screen and made headlines worldwide for her romances, including her most recent one with Tom Cruise. Her beautiful face has graced the covers of the world's most glamorous magazines. But back home in Spain, Penelope Cruz is still the girl-next-door who made it big.

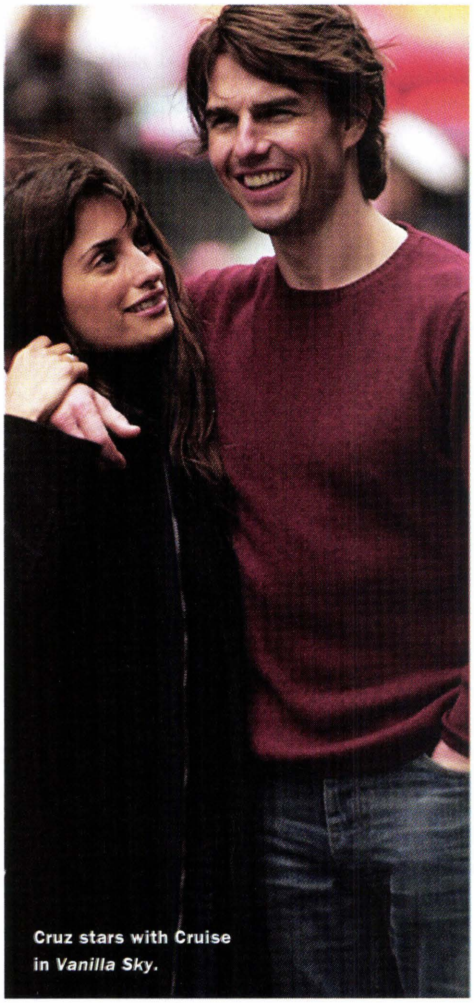
Cruz is teetering on the brink of achieving what few European actresses have: becoming a superstar in Hollywood. She has been described as a cross between Sophia Loren and Audrey Hepburn.

But her reputation as a down-to-earth, sensitive friend has endeared her to everyone who works with her. And in a small world like the Spanish film industry, where jealousies run rampant, it is next to impossible to find a colleague who doesn't love her.

"She's an absolute joy," said Oscar-winning Spanish director Fernando Trueba. "She's serious, hard-working, and has infinite charm."

When her film *Captain Corelli's Mandolin* opened to her home audience this fall, Cruz stayed back in Los Angeles due to a cold. Perhaps some of her reluctance to come for the premiere in Spain, however, could be attributed to what Spain's other famous face—Antonio Banderas—calls "performing for Spanish audiences." Years ago as Banderas presented *The Mask of Zorro* at the San Sebastian International Film Festival, he said he always gets nervous revealing a new piece of work to his home crowd.

Nonetheless, Cruz braved potential pettiness of a home crowd to shoot her latest film, *No News from God* directed by Agustin Diaz Yanes, a Spanish film about the forces of good and evil. Cruz stars opposite Victoria Abril, another Spanish sex-symbol, as they duel for the soul of a boxer.



Cruz stars with Cruise in *Vanilla Sky*.

The decision to star in the Spanish film reaped only praise from Diaz Yanes.

"We hardly knew each other when she agreed to do the film," the director said, "but she gave me her word she would make the film and she amazingly kept her word. She did what no one I know would ever do, which is to leave a successful career in Hollywood to come here for a film. It shows what a serious person she is."

Born in Madrid on April 28, 1974, Cruz grew up the eldest of three children in a working class family. She started classical ballet classes at four in Spain's National Conservatory. Her desire to start acting led her to skip high school.

Her first big break on screen was Bigas Luna's 1992 sexy hit *Jamon, Jamon*, in which she starred opposite Javier Bardem. She was only seventeen, and the raw sexuality of the film catapulted her to sex-symbol status in Spain. Cruz rebelled, cutting her hair and refusing to do any love scenes in future movies.

American audiences first got a glimpse of the sultry Spaniard in Trueba's *Belle Epoque*, which won the 1994 Academy Award for Best Foreign Film. In 1997, she was once again in the spotlight as the love interest of the protagonist in Alejandro Amenabar's second feature *Open Your Eyes*, which was screened at the Sundance festival. Tom Cruise bought the film's English-language remake rights, which served as the basis for *Vanilla Sky*, opening this month where Cruise stars opposite Cruz.

Since then, she has worked with Spain's most internationally recognized director Pedro Almodovar, starring in his Oscar-winning *All About My Mother*, and launched successfully into English-language, Hollywood movies. A string of titles, including Billy Bob Thornton's *All the Pretty Horses*, Ted Demme's *Blow*, and *Vanilla Sky* have kept her a constant at the US box-office.

"Even though her great American film is yet to come, she's made good choices," explains Trueba, who most recently directed her in *The Girl of Your Dreams*, for which she won the Spanish Film Academy's Goya Award for Best Actress in 1998. "She just hasn't found her ideal vehicle in English. But it will come sooner or later."

Many industry insiders say Cruz has what it takes to stay for the long haul in Hollywood.

"There are no other actresses in Hollywood that have the characteristics she brings to the screen," explains Diaz Yanes. "She's not only beautiful with tremendous talent but has an innocence mixed with sensuality that works incredibly well on screen."

—*Pamela Rolfe*

ART

HENRY MOORE: SCULPTING THE 20TH CENTURY

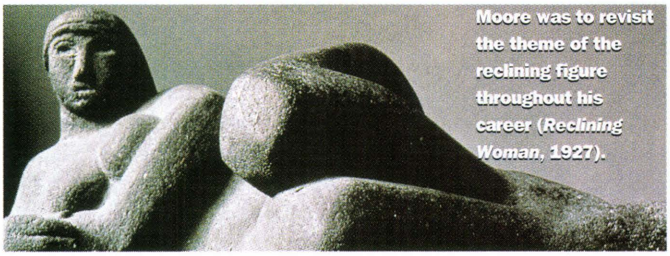
National Gallery of Art, Washington DC; through January 27

If you'd met him before his death in 1986, you might not have guessed Henry Moore was an international art celebrity. By most accounts, the unassuming son of a Yorkshire coal miner was soft spoken and free of bombast, even turning down a knighthood. However, over the course of his long career, he carved an enduring legacy as Britain's most famous—and controversial—sculptor and one of the most influential artists of the modern era. His work was sought to crown public spaces and decorate landmark buildings worldwide, and when architect I.M. Pei was asked to design the National Gallery of Art's modernist East Building, he turned to Moore to create the centerpiece sculpture of its entryway.

It is fitting then that the first US retrospective of his work in more two decades, *Henry Moore: Sculpting the 20th Century,* is now on view in the very same East Building. Curator Dorothy Kosinski of the Dallas Museum of Art has gathered 165 works, which together present an extensive study of the artist's more than sixty-year career.

If one were judging by his humble origins, it would be hard to foretell that Moore would become an artist of such popularity that he would be the first sculptor featured on the cover of *Time*. In 1919, he returned from the trenches of World War I, having survived mustard gas poisoning, and applied for a veteran's scholarship to study art in Leeds. He eventually found his way to the Royal College of Art in London, first as a student and later as a teacher.

Living in London he haunted the city's numerous galleries and museums and found special inspiration among the British Museum's collection of African and pre-Columbian tribal art. In particular, a thousand-year-old Aztec figure deeply affected him. Carved from stone, the thick, rounded figure reclines on its elbows, with its knees drawn up and its head turned as if interrupted from its repose. Moore was to later call it "undoubtedly the one sculpture which most influenced my early work." Indeed, the reclining figure became his trademark, reappearing in various forms throughout every phase of his career.



Moore was to revisit the theme of the reclining figure throughout his career (*Reclining Woman*, 1927).

During the 1920s, Moore increasingly turned to native British materials, such as Hornton stone and English elm, and followed sculptor Jacob Epstein in adhering to "direct carving." This method eschewed techniques such as bronze casting in favor of striving to "free" the work contained in the material. Furthermore, Moore believed that the wood or stone under his chisel need not be shaped to fool the eye into believing it was human skin. Clearly, he wasn't trying to create sculpture like Michelangelo's *David,* whose veins look as if they might twitch with a heartbeat at any moment. Rather, his art derives its power from the materials' inherent qualities, the rich grain of the wood or the color of the stone, and by carving figures that, though not necessarily lifelike, conveyed latent humanity and naturalness

Girl, a primitive figure carved from Ancaster stone, offers a prime example of this. Certain careful details, such as the delicate mouth, the hair gently brushed behind the ear, evoke a soft femininity, while the position of the hands, absentmindedly clasped in front, and the slight tilt of the head give her a pondering look. The viewer is left sensing the girl's innocence, rather than looking for vital signs.

Moore progressively gained stature in the British art community. In 1928, he received his first public commission, a relief for the London Transport headquarters building. The invitations to exhibit his work continued to grow. Nevertheless, at least some of the critics remained ambivalent. In 1931, the *London Morning Post* critic wrote, "The cult of ugliness triumphs at the hands of Mr. Moore."

During the late 1930s, Moore softened his stance on the direct carving doctrine and experimented with bronze and other techniques that allowed him more creative freedom. Meanwhile, his subjects began venturing into surrealism and abstraction.

By the onset of World War II, Moore was well established as a significant British artist, and the government's War Artists Committee recruited him to create works depicting the war effort. With materials for large sculpture in short supply, he turned to sketching reclining Londoners sleeping in the tunnels of the Underground. These drawings proved popular with the public and greatly enhanced his standing.

The years immediately following the war saw Moore's reputation grow well beyond Britain. In 1946, New York's Museum of Modern Art held a retrospective of his work, and two years later, his one-man show at the Venice Biennale won the International Prize for Sculpture.

As Europe rebuilt, Moore's nurturing portrayals of innocence, especially those found in his *Family Group* series, won him mass appeal. Although he did explore darker postwar themes, such as the maimed figure of *Warrior With Shield*, his reputation among the public was firmly ensconced as an artist who produced hopeful images. Collectors from all over the world sought his works, and architects commissioned grand pieces that would grace the facades and plazas of signature structures, such as the Houses of Parliament, the Time-Life building in Manhattan, and UNESCO's Paris headquarters.

While his celebrity increased and his commissions mounted, Moore's success became something of a liability. A new generation of artists and critics emerged who accused him of appealing to public taste rather than challenging the intellect of his viewers. It was a charge that would follow him until his death in 1986.

In Moore's obituary in the *New York Times*, John Russell attributed the criticism largely to "the annoyance of those who felt he had altogether too large a share of the market." Indeed, he could boast major pieces in more public places throughout the world than any other sculptor in history. The *London Telegraph* called him the most internationally acclaimed Englishman after Winston Churchill. There was a good reason for his popularity, wrote Russell. "In a world at odds with itself, his sculpture got through to an enormous constituency as something that stood for breadth and generosity of feeling."

—*Peter Gwin*

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