



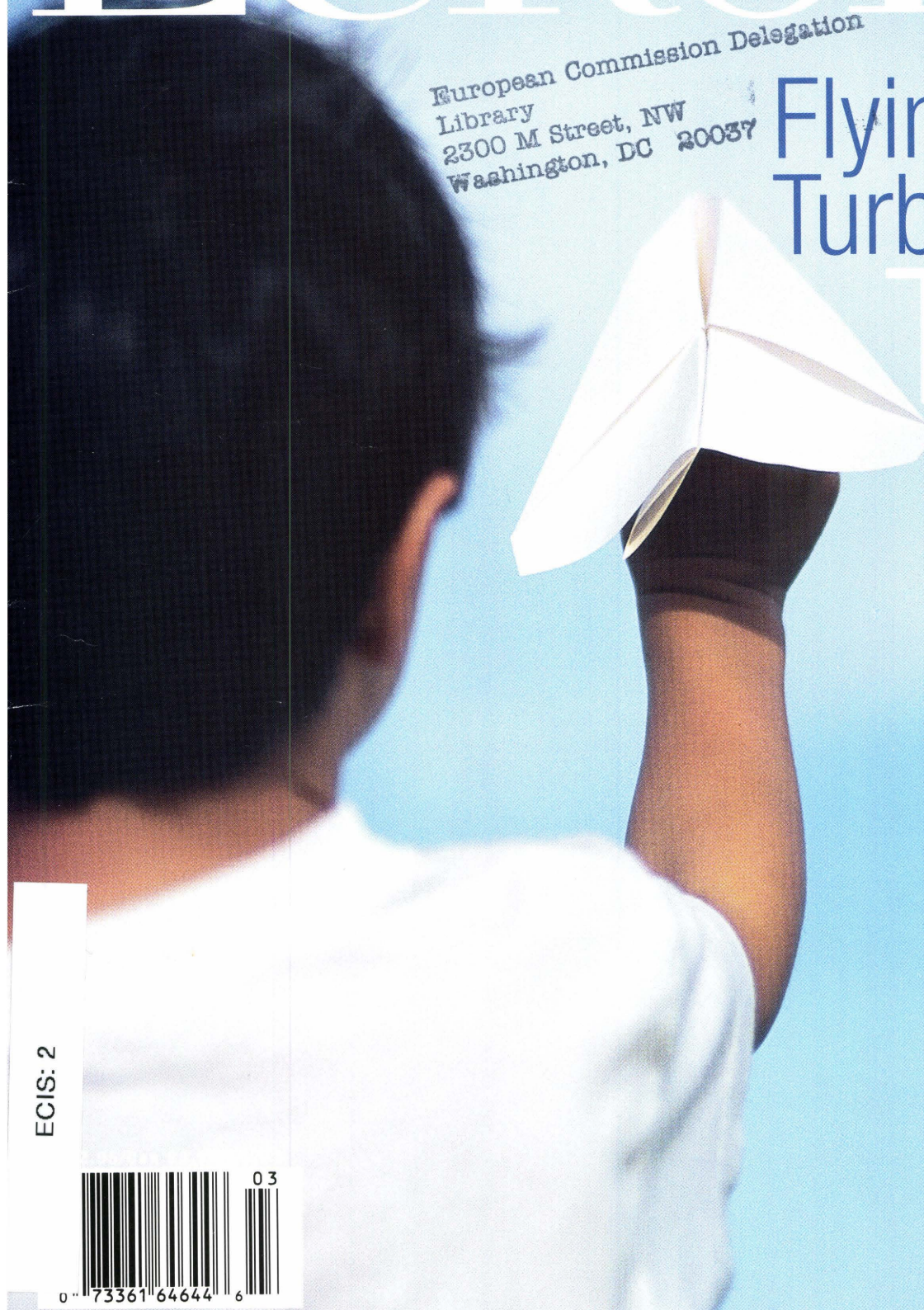
Portugal Votes • Airport Security • Rail Travel • Provence

# EUROPE

March 2002

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## EU AGENDA

- Transportation
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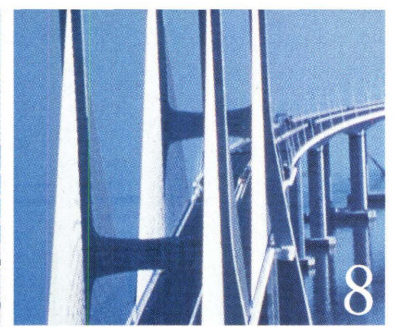
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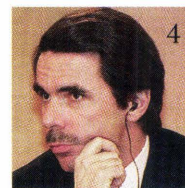
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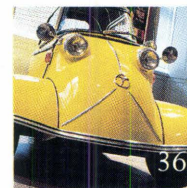
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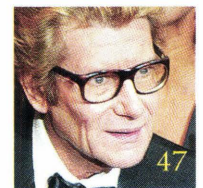
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# LETTER FROM THE EDITOR

**H**ow has travel within Europe and to Europe been affected by the new emphasis on security after September 11? *EUROPE* looks at all forms of travel across Europe from air to rail to bicycling. Although heightened security measures have been implemented at all airports and most train stations, people are still on the move taking vacations and traveling for business.

European Commissioner for Transportation Loyola de Palacio, in a *EUROPE* exclusive interview, states, "new risks have surfaced" since September 11, and "they have forced Europe, like the United States, to reinforce in very important ways all systems involving air transport security." The commissioner goes on to say, "we need to target all transport systems, as well as certain installations that present potential risks."

Security is not the only issue facing Europe's airlines. With the economic slowdown, it appears as if there will be fewer airlines in Europe in the future. Barnard reports "the countdown has begun toward a radical consolidation of Europe's airline industry that will cull it to three or four mainstream carriers." He looks at which airlines are likely to survive and which are ripe for mergers.

Meanwhile, railway travel is increasing in Europe. In some EU markets, high-speed trains are competing head-on with airlines, and in the US, Alstom, the French engineering conglomerate, is building trains for Amtrak, including the high-speed ACELA train that speeds between Boston, New York, and Washington, DC.

Even in these turbulent times in the transportation industry, tourists and business travelers are journeying to Europe and among the countries of the European Union. In an essay entitled "Flying in the Face of Trouble," Ester Laushway comments that "a more innocent era of travel may be lost, but the true traveler's appetite for discovery won't be dampened." She also contributes an article about her love affair with Provence, her home region in France.

Beyond the airways and the rails, contributor Barry Wood finds reassurance riding his bicycle through the Baltics. He proclaims that not only is this simple form of travel great exercise but it also offered unequalled access to an "unspoiled" region of Europe.

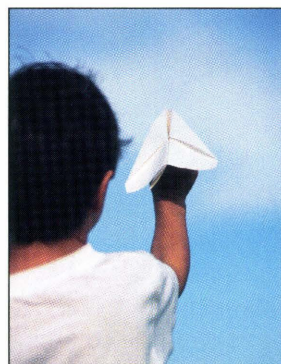
Alison Roberts, who is based in Lisbon, traveled to the wide-open spaces of Portugal's Alentejo region and expounds on its wide-open spaces, its Roman ruins and medieval castles, and hearty cuisine.

This month we also look toward Portugal's upcoming elections to be held on March 17. Roberts reports that in the wake of disappointing local elections, the Socialist Party faces a tough challenge from the energized Social Democrats." Roberts also reports on how EU funds and modernization are transforming Portuguese infrastructure.

*EUROPE* began the new year hosting two press events in Washington, a luncheon featuring European Trade Commissioner Pascal Lamy and a breakfast with European Commissioner for Economic and Monetary Affairs Pedro Solbes. Their remarks are excerpted in *EUROPE Update*, where we also profile the new president of the European Parliament, Pat Cox.



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



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## EUROPE

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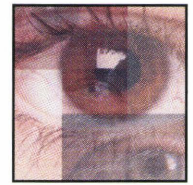
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# EYE ON THE EU

Profiling personalities  
and developments  
within the European  
Union



## POLAND MEMBERSHIP NEGOTIATIONS MOVE TO KEY PHASE

A few months ago, it looked as though Poland was slipping dangerously behind the other leading candidates for EU membership. These fears have noticeably eased over the past couple of months. There is now little reason to doubt that if, as the EU intends, the first batch of countries is admitted by 2004 it will include Poland, the largest, and the first to make a decisive break with Soviet communism, of the East European states.

Indeed, after the Commission's broadly favorable reports, published just before the Laeken summit in December, it looks increasingly probable that the 2004 enlargement will be a 'big bang' affair, with no fewer than ten new member states admitted.

The newly felt optimism is partly due to the election last September of a new Polish government, led by Leszek Miller, of the Democratic Left Alliance (SLD), the reformed Communist party. Despite having to depend on its coalition partner, the Peasant Party, traditionally lukewarm about the EU, it appears more united and determined than its Solidarity-led predecessor, which despite its earlier achievements had appeared increasingly ramshackle as it neared the end of its term.

A key figure in the new administration is Foreign Minister Włodzimierz Cimoszewicz, a long-term en-

thusiast for EU membership, who was briefly prime minister in 1996. He has acted swiftly to concentrate the Polish negotiating team, previously spread out among several different ministries and organizations, into the foreign ministry, and has put the highly experienced Jan Trzuszczynski, previously Polish ambassador to the EU, in overall charge.

The first major breakthrough came in October, when agreement was unexpectedly reached on the very tricky environment chapter of the negotiations. Poland had asked for no fewer than seventeen transitional periods before implementing various EU laws but in the end settled for nine, far more than had been granted to any other applicant country.

The Poles then hastened to ease their negotiating stance on a symbolically important issue. At a meeting in Brussels, Cimoszewicz reduced from eighteen years to twelve the Polish insistence on a transition period before land purchases would be open to EU citizens. This is a notoriously touchy question in Poland because of fears that large numbers of former German residents of the territories annexed to Poland in 1945 would attempt to buy up their former holdings.

In fact, there is little evidence to suggest that they will. By far the largest number of would-be purchasers are Dutch farmers seeking to farm in eastern Europe because of the acute shortage of

agricultural land in their own country. Cimoszewicz's concession left him facing a no-confidence motion in the Polish parliament, tabled by the two anti-EU parties, the (strongly Catholic) League of Polish Families and the mainly rural Self-Defense Party. He had little difficulty in seeing it off.

The government is, however, acutely aware of the necessity of keeping public opinion onside, with the promised referendum, which Miller has tentatively announced for 2003, very much in mind. Opinion polls have gradually declined. The most recent poll shows around 55 percent in favor, 30 percent against.

In a shrewd move, the government hastened to placate Catholic voters by attempting to enlist the backing of Pope John Paul II. On December 3, according to Polish radio, he assured Hanna Suchocha, the new Polish envoy to the Vatican, of his support in principle for his country's EU entry. It is right to aim at placing Poland within the political and economic structures of a united Europe, he said, but this should not happen at the cost of Polish tradition and national identity.

This was less than a whole-hearted endorsement perhaps but probably enough to forestall any Catholic crusade against membership.

The Spanish presidency, which opened in January, will see the bargaining move on to the two crucial chapters of agriculture and regional aid. The process will not be helped by the French presi-

dential and parliamentary elections nor by the Spanish determination to hold on to as much as possible of the cornucopia of EU aid that has done so much to rejuvenate its economy.

The probability must be that Poland will secure far fewer financial gains under either the Common Agriculture Policy or the regional aid program than it expected when it first tabled its application for membership. It would be well advised, however, to settle for what it can get, without attempting to string out the bargaining.

In the late 1970s, the Greek government of Constantine Karamanlis first drew the conclusion that its negotiating strength would be much greater once it was inside the European Community than when still seeking membership. It accordingly completed its own membership negotiations in record time, in the expectation that it could secure a better financial deal later—which it certainly did.

The same logic applies to the Poles, who, under the Nice Treaty, will enjoy very considerable clout, with the same voting rights as the Spaniards, once they have secured membership. They would then be able to participate, from the inside, in drawing up the financial perspectives for the years 2007–2012 and would have an excellent chance of recouping over the medium term the financial advantages that might elude them in the first couple of years of membership.

—Dick Leonard



# EURO NOTES

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



## LEADERS GATHER IN BARCELONA, LOOK TO BOOST GROWTH

**B**arcelona, best known for its stunning architecture and Catalan cuisine, plays host this month to a summit vital to the future success of the euro zone. European Union leaders will assess progress on their pledge to make Europe the most dynamic, knowledge-based economy in the world by 2010. The goal was set precisely two years ago at a EU summit in Lisbon.

The Lisbon gathering was dubbed the “dot com” summit because it took place at the height of Internet euphoria, just as the stock market correction took place on Wall Street that slashed equity prices around the world. Two years later, the question is whether governments are capable of making good on the Lisbon agenda—or whether the summit was another fair-weather scheme that failed to live up to its initial ballyhoo.

The issue is pressing because of the slowdown in economic growth in the euro zone economy, notably in Germany, that has cut its growth forecast for this year to 0.75 percent. Germany is also struggling to avoid censure over its budget deficit that is close to the Maastricht limit of 3 percent of gross domestic product.

The Lisbon agenda was aimed at driving economic reform in Europe in order to match US-style growth. It contained ambitious plans to liberalize the financial services market by 2005; to fully deregulate energy markets; to de-

velop a common air traffic control system; to lift restrictions in the labor market; and to encourage new industries such as biotechnology.

In the past, the use of deadlines and timetables for action has proved highly effective in the EU's development. Jacques Delors' 1992 program led to a raft of laws that removed barriers and allowed the creation of a single European market. The Maastricht Treaty set a launch date for the euro by January 1, 1999 at the latest and helped to create incentives for laggards to join the rest of the pack. Maastricht also entrenched the principle of “peer review.” Under this system, EU finance ministers are asked to submit their economic programs to colleagues for scrutiny. It was argued, with some justification, that ministers would prefer to tread the path of virtue rather than risk peer criticism. The exception to this rule came later when Germany insisted on a stability pact to enforce fiscal discipline in the euro zone. The pact provided for public censure and, in the last resort, heavy fines for those countries transgressing the 3 percent deficit limit.

In the two years since Lisbon, the weaknesses in the system of peer review have become apparent. In the case of energy deregulation, France has flouted the will of the majority and refused to commit to a firm date for fully liberalizing its electricity and gas markets. Worse still, it has kept its market relatively shut while allowing state-owned Electricité de France, its prime energy producer, to go on an acquisition spree in

the rest of the European Union.

EDF's activities have provoked a furor in neighboring Spain, which would like to expand its share of the EU energy market. The United Kingdom is also unhappy, having seen EDF substantially increase its share of the UK market, having snapped up

while high-growth Ireland was singled out last year by the European Commission for its lax budgetary policies.

Both the Barcelona summit and the debate over the terms of the stability pact suggest that the system of peer review has its limitations. Yet it is far from clear whether countries are ready to jettison



**Spanish Prime Minister José Maria Aznar (right) will host fellow EU leaders in Barcelona March 15–16. Meanwhile, Chancellor Gerhard Schröder faces upcoming elections and EU pressure to reduce Germany's budget deficit.**

London Electricity. But the French government has refused to put pressure on EDF, citing the need to protect “*la service publique*.”

In the case of the stability pact, Germany is now arguing that it should avoid censure for its near 3 percent budget deficit. The Gerhard Schröder's coalition government says that it has been following a policy of budgetary discipline in line with the recommendations agreed upon by its peers and the European Commission.

Cynics suspect that the government wants to avoid embarrassment in an election year. There is also some resentment among smaller countries that Germany is seeking to avoid censure

a rules-based system in favor of stronger centralized institutions to stand alongside the European Central Bank.

This is where the UK, which remains outside the euro zone along with Denmark and Sweden, could play a useful role. Gordon Brown, the chancellor of the exchequer, is already thinking hard about how to promote reform in the euro zone, including some adaptations to the ECB and its Bundesbank model.

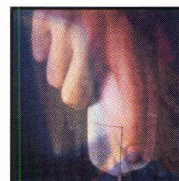
But the Labor government in the UK will not hold a referendum on the euro before Europe stages a recovery. Unless it is clear that the euro zone is doing better than the UK, the answer to a referendum will be a firm no.

—Lionel Barber



# e-EUROPE

Tracking the news  
and trends shaping  
Europe's technology  
sector



## AWAITING BROAD-BASED BROADBAND

The mere mention of the word broadband still puts a gleam in the eyes of my techie friends. It reminds me of the look my father got when we first had cable television installed. (The look soon faded when he caught my brothers and me attempting to tune in the Playboy Channel, but I digress.) Evidently the gleam is also in the eyes of an array of tech and media companies worldwide that can't wait for its widespread implementation. Recent surveys, however, show that Europe's biggest technology markets aren't jumping on the broadband bandwagon in huge numbers.

First, it bears reviewing what exactly broadband is since the word is tossed around in techie discussions with more enthusiasm than a hacky sack at a Dead show. Essentially, broadband, my patient computer geek friends remind me, is the catchall term for high-speed digital Internet access. This, they breathlessly intone, is the key to unlocking the gates to the Internet Promised Land. For years, we've been hearing from the technical prophets about this place. AOL's Steve Case, Microsoft's Bill Gates, Vivendi's Jean-Marie Messier, Deutsche Telekom's Ron Sommer, and the rest love to riff on how, with broadband, all manner of media and communication—television, movies, music, long distance, video conferencing, et al—will zing in and out of our homes in a blink and, say it with me, change our lives.

The biggest obstacle to this vision has been finding an efficient and reliable way to move the gargantuan amounts of data that digital video and audio require. The analog technology used by dial-up modems, which is the way most of us have been connecting to the Internet, moves only 56,000 bits of information per second. Consumer Broadband service currently ranges from about 1.5 million to 3 million bits per second, and some see that figure moving to 100 million bits per second in a decade.

Companies from several industries on both sides of the Atlantic have been scrambling to develop ways to deliver high-speed Internet. The first to bring these services to consumer markets were telephone and cable TV companies, which started with a distinct advantage since they already had wires running into vast numbers of homes. The phone companies employed the digital subscriber line (DSL) technology, which combines a standard phone line with a special computer hookup, while the cable conglomerates developed a modem that uses existing cable lines to deliver high-speed access.

Meanwhile, power companies are working feverishly to perfect a technology called power line connectivity (PLC), which allows for the transmission of high-speed Internet through power lines without disrupting the flow of electricity. Still, other companies are working to provide wireless access via satellites, which would beam the data directly to users' computers—whether they're at home or in an air-

port lounge in Paris.

All the methods have been plagued with drawbacks—both technical and practical—and recent surveys reveal that, while broadband is growing, it remains a small proportion of the on-line populations of the world's two biggest high-tech markets, the US and Europe.

Gartner, a technology consulting group, released a new study in February that shows the EU's three biggest Internet markets lagging the US in broadband penetration. In its survey of 6,000 households in France, Germany, and the United Kingdom, Gartner found that only 7 percent of the three nations' combined 24 million Internet-connected households had access to broadband service. By comparison, of the 63 million US Internet households, 22 percent had broadband access.

Gartner says the main reason for broadband's slow growth in Europe is that consumers don't yet see value for money. "Speed alone is not enough," says Adam Daum, vice president and chief analyst, "there must also be attractive content." The content sector is somewhat hampered by regulatory issues, which must be addressed before broadband providers can get into areas such as pay-television and long-distance services, and the economic slowdown, which makes scarce the investments needed to implement these services. Until then, Daum says European consumers will remain very

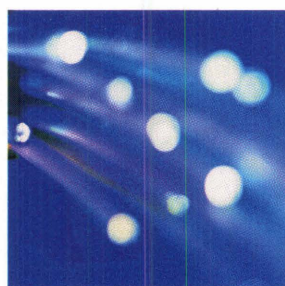
price sensitive. Broadband service, he says, needs to fall from its current level of \$40-\$53 per month to less than \$26.

Gartner's study, however, doesn't account for Europe's most wired markets—the Scandinavian countries. Although their populations are smaller, they boast Europe's highest percentages of Internet households. According to Net-Value, the Paris-based Internet research consultancy, more than 13 percent of Internet users in Sweden and Denmark subscribe to broadband services.

As on-line advertising income has swooned, three of Europe's biggest Internet service providers (ISPs)—Wanadoo of France, T-Online of Germany, and Spain's Terra Lycos—have sought to generate revenue by offering broadband service. Notably absent from this group is Tiscali, Italy's biggest ISP. In an interview with Reuters, CEO Renato Soru said he planned to wait for the market to develop further before joining the broadband race. "The focus in the near term future for me is dial-up," he said. "There is still more room for dial-up."

British Telecom's new CEO Ben Verwaayen has said that broadband will be one of his company's top priorities. According to reports, he intends to halve the cost of broadband service perhaps as soon as this summer, hoping to put the broadband gleam in the eyes of a wave of new customers.

—Peter Gwin





Portugal's Socialist Prime Minister António Guterres addresses the press following his resignation on December 16.



# Election Show

## Socialists face a tough challenge from the energized Social Democrats

Portugal is gearing up for a general election on March 17, just more than two years after the last vote left parliament evenly split between governing Socialists and opposition. Whatever their politics, most Portuguese are hoping the election will bring a new dynamism after a period of administrative drift.

While Portugal's economy—like those of its European Union partners—is still expanding, it is feeling the global slowdown. It is also having trouble maintaining growth above the EU average, as it had until 2001 and as it must if it is to catch up with wealthier states like Germany and fast-growing Ireland in the foreseeable future.

With tax revenues slipping and reform overdue in key sectors such as health, tough decisions must be made if Portugal is to meet its targets as a

member of European monetary union and get growth back on track. At a hefty 2.2 percent of gross domestic product, the public sector deficit for 2001 was twice what had been projected, and the goal of balancing the budget by 2004 now looks like a Herculean task.

The main opposition, the center-right Social Democratic Party, is committed to achieving the benchmarks already approved by Portugal's partners in the twelve-member monetary union, which saw euro notes and coins introduced in January. The Social Democrats have also been working with the outgoing administration to ensure that Portugal's presidency of the Organisation of Security and Cooperation in Europe (OSCE), which began in January with a clear focus on terrorism, runs smoothly even if power changes hands. But the ques-

tion remains: Will any Portuguese party have enough seats in parliament to govern effectively, alone or in coalition?

This month's national parliamentary election was called for at the end of 2001, after catastrophic results for the Socialist Party in local council elections on December 16 prompted Prime Minister António Guterres to resign. After consulting party leaders, President Jorge Sampaio dissolved parliament nineteen months early, saying he believed no party was capable of forming a new government and that the move was aimed at maintaining "national stability."

Although the December polls were limited to local councils, not directly affecting the national parliament, the unexpectedly bad showing by Socialist candidates—including strategic losses in Lisbon and Oporto—provided a clear verdict on the administration's record.



António Barreto, a leading sociologist, described the results as “a big defeat for the government and the Socialist Party.” Others labeled them the biggest electoral upset since democracy was established in 1974.

Guterres took responsibility, stepping down as prime minister and party leader in order to, in his words, “re-establish trust between government and voters.”

The electoral earthquake had been the latest in a series of blows to the credibility of a government seen as lacking direction and decisiveness since it failed to win a majority in the 1999 general election.

Last summer, Guterres’s poll ratings fell behind the opposition for the first time since he came to power in 1995. As criticism mounted from within the party, he fired six ministers in a bid to regain the initiative, but this was seen as a sign of weakness. The government amended its budget twice, and it dropped tax reforms and a high-profile but unpopular law tightening drunk

driving laws. All this took place against the backdrop of a cooling economy and signs of resurging inflation and unemployment.

The event, however, that resonated most was the collapse last March of an ageing bridge over the Douro River in northern Portugal. To many people, the disaster, which killed seventy, was emblematic of government’s failure to attend to basic needs.


The Social Democrats are best placed to profit from this disenchantment, having secured their highest share of the vote for ten years in December. Within minutes of the president scheduling the general election, Social Democrat leader José Manuel Durão Barroso expressed the hope that 2002 would be the year the Portuguese vote for change and promised to provide the “rigor” he said is needed.

His party has been plagued by internal dissent for years. Now it is uniting behind him. Still the election’s outcome could depend on whether his team can build a credible alliance with the

smaller right-wing Popular Party.

The Socialists were in disarray after the once poll-topping Guterres resigned. They pressed European Commissioner António Vitorino, a former deputy prime minister, to return from Brussels and lead them, but he declined.

Soon after, Foreign Minister Jaime Gama and Infrastructure Minister Eduardo Ferro Rodrigues emerged as candidates. Rodrigues, one of the most popular ministers, has strong left-wing credentials, having steered the minimum income welfare measure implemented soon after the Socialists took power in 1995.

As for Guterres, he could take a backseat with a view to a comeback in the 2006 presidential election, when President Sampaio, also a Socialist, must step down after two terms. Guterres could then face the man he defeated in 1995, Social Democrat Anibal Cavaco Silva. 

*Alison Roberts, based in Lisbon, is a contributing editor for EUROPE.*



down

By Alison Roberts

**PSD** PARTIDO SOCIAL DEMOCRÁTICO

**Social Democratic leader José Manuel Durão Barroso has become a candidate for prime minister after his party's success in local elections forced the collapse of the Socialist-led government.**

**PSD** **Agora Portugal**

**PSD** March 2002





P O R T U G A L

# How to Build

Lisbon's \$800 million Vasco da Gama Bridge spans the Tagus River.



# Up

# Portugal?

By Alison Roberts



Marques do Pombal Square stands at the heart of Lisbon's busy commercial center.

## Major infrastructure projects are underway to help Portugal's economy blossom

**O**f all the changes wrought in Portugal in the past fifteen years, the thousands of miles of new roads, the grand bridges, and the shiny new rail terminals are without a doubt the most, well, concrete evidence of economic progress.

Getting its economy in shape in order to qualify for joining the euro was a milestone, but Portugal must make the leap from so-called nominal convergence—low inflation and slim budget deficits—to real convergence. The National Development Plan outlines the vision: to achieve “within a generation” average EU levels of wealth generation and distribution.

While this requires progress in areas from elementary education to

business innovation, upgrading physical infrastructure is crucial. And the fact that a century-old bridge collapsed in northern Portugal last March, leading nine months later to the collapse of the Socialist government, only serves to underscore that need.

Many observers saw the disaster—which left seventy dead—as symbolic of a yawning gap between showy EU-funded projects and creaking basic infrastructure. Once more, they said, the Portuguese faced the true nature of their country: not a developed nation fast closing on richer EU states but a poor one with an administrative culture to match.

Infrastructure Minister Jorge Coelho resigned over the affair, but road safety campaigners were not satisfied.

“It’s not enough for politicians to accept political responsibility for



tragedies on roads caused by poor construction and maintenance,” said Manuel João Ramos of the Association of Auto-Mobilized Citizens. “The state’s representatives must be made legally accountable.”

However, such arguments in no way detract from the need for large-scale projects. Before Portugal joined the EU in 1986, it had no motorways at all. The journey between Lisbon and Oporto—now less than four hours—then took seven.

The road network had expanded by 30 percent by 1995; the long-awaited motorway link to Madrid was opened in 1999, linking Lisbon with the European system for the first time; and a \$2.6 billion project is planned to double the length of the motorway network by 2006. Plans for privately run toll roads screeched to a halt in the face of opposition to tolls, but the government is looking at a model, now common in Europe, under which companies that build and operate motorways recoup their investment from the state according to traffic volumes.

Arno van Dijken, commercial director of Dutch financial group ING, which has financed several such projects in partnership with local banks, has described Portugal as “the European country with the most active market for project finance.”

The most prominent example of non-recourse financing is Lusoponte, the Anglo-French consortium that built and for thirty years will manage the \$800-million Vasco da Gama Bridge over the Tagus River in Lisbon. It raised foreign loans and took over the running of the existing 25th of April Bridge to supplement EU and state funding.

Meanwhile, the government claims to have found an innovative way

of paying for the repair of 6,000 miles of pot-holed regional roads. It would take twenty-three years at the current rate to do the job, but by adding income from service-station concessions to national and EU funds, officials claim that it can be completed in four years and paid for in eight. After last year’s bridge collapse, basic infrastructure has become a priority.

Rail projects, somewhat ignored as the motorways’ star rose, will get \$3.5 billion in investment through 2006. Suburban services in Oporto and Lisbon are to be revamped and provincial lines modernized with a rolling program of electrification in time for the Euro 2004 soccer championships.

Work on high-speed rail links between Portugal and Spain—modeled on France’s famed TGV—is to start in 2003.

At the local level, the expansion of the Lisbon metro continues, despite technical troubles caused by soft riverine soils, as does work on Oporto’s new subway system. Private capital features here, too, and the consortium building the metro will also operate it.

Amid the rush to modernize its transportation networks on terra firma, Portugal’s sea-faring tradition has not been forgotten. A \$440 million plan comprising a mix of public-private partnerships and privatizations aims to modernize five Portuguese ports, cutting handling costs and turnaround times. Already, the port of Sines has snared \$44 million in investment from its joint-venture partner in Singapore. Such moves are aimed at making Portugal a gateway to Europe and freeing it from its reliance on the land bridge to Central Europe via Spain. If it does not exploit potential strengths such as its position on the western edge of Europe, it could be marginalized as the EU expands eastwards.

This strategy extends to air transportation, too. Faro Airport in the Algarve is being expanded, while Oporto is to be a hub for northwestern Iberia. In Lisbon, financing for a new airport has been secured; passenger numbers at the existing facility have been rising at 10 percent a year, twice the projected rate, though this has since slowed.

Of course, for all the stress on private finance, the biggest contribution to Portugal’s infrastructure boom comes from the European Union. For the period 2001–2006, Portugal is earmarked to receive \$18 billion in EU structural funds—regional subsidies



(top) The metro system in Lisbon, which began operating in 1959, is being expanded. (bottom) A new light rail system is under construction in Oporto.







**The \$1.7 billion Alqueva Dam is expected to improve economic growth in southern Portugal, but some locals and wildlife groups are protesting the project.**

for infrastructure, productive investment, and small businesses—and \$2.5 billion from the Union's cohesion fund, which promotes the integration of less-developed member states by part-financing projects linked to environment and transportation.

Together, this represents 2.75 percent of Portugal's projected gross domestic product, to be matched by national funds in a ratio of sixty-forty. With other sources, such as soft business loans from the European Investment Bank, which lends more in Portugal than in any other EU state relative to size, approximately \$44 billion will pour into key Portuguese sectors through 2006. The projects funded should directly create 80,000 jobs, but the indirect benefits in terms of internal and external trade are incalculable.

"We're trying to increase this leverage over time," Elisa Ferreira, minister for planning, told a gathering of members of the British-Portuguese Chamber of Commerce. "We still have a long way to go."

A major stress is on developing the depopulated interior and the islands—the Azores and Madeira—Europe's poorest regions. These areas now get significantly more funding per head, paying for projects such as the giant dam at Alqueva in the Alentejo, with an irrigation system that planners say will

regenerate the region. The north, including Oporto, will get \$4.4 billion in EU funds, which with money from other sources means a 43 percent rise on the previous six-year period—against 13 percent overall.

The Lisbon region is a victim of its own success. In 2000, it lost its status as an "objective one" region with a right to the largest cut of EU money, yet income per head remains just 75 percent of the EU average. The region also has "the biggest problems of congestion, conflicts between incompatible forms of land use, overexploitation of resources, and poor quality of life," according to the authors of its strategic plan. Surface and underground water resources are so threatened by pollution from urban, industrial, and farming areas that future economic development could be undermined, the plan warns.

In fact, major investment is planned nationwide to overhaul water and sewage distribution and treatment as well as the system for treating solid waste.

"In developed countries, most of these problems are resolved," said Environment Minister José Socrates in a recent speech. "Here in Portugal we still have much to do."

While \$4.4 billion is needed to do the job properly, only \$3.5 billion in public funding is available. Once more,

a public-private solution has emerged, with companies managing as well as building treatment plants.

There has been resistance to this and other government plans, particularly those affecting the environment. Some of the most vocal protests came from within the governing Socialist Party, against proposals to incinerate dangerous waste. The issue contributed to the Socialists' poor showing in December's local elections.

Meanwhile, northerners view projects such as the Lisbon airport as evidence of the capital getting more than its fair share of infrastructure funds. The president of the Oporto Chamber of Commerce has described the project as an "abuse" of public investment "to the detriment of the rest of the country."

The Lisbon region has also attracted the bulk of foreign direct investment. The government is trying to change that by targeting fiscal incentives, while rapidly improving communication links—those big infrastructure projects again—mean the disadvantages of investing in rural Portugal are fading.

It is a race against time. With EU subsidies to Portugal set to wind down after the entry of poorer states in Central and Eastern Europe, the authorities are hurrying to complete the major projects seen as critical to future competitiveness. ☺



## Railway

## Renaissance

New high-speed trains are attracting crowds, but labor issues and competition from trucking threaten the industry's business model in Europe.

By Bruce Barnard

Europe's railway system is looking decidedly schizophrenic, simultaneously enjoying a renaissance that recalls its glory days of the late nineteenth century while also facing extinction as a mode of transport. Passenger services are booming as rail companies roll out high-speed trains that are competing head on with airlines and automobiles, but rail freight is steadily losing market share to trucks and river barges.

Europe's railways grabbed the headlines last June when a French TGV high-speed train traveling on the new track linking northern France to the Cote d'Azur broke the world speed record over long distance held by Japan's *Shinkansen*. It covered the 663 miles from Calais, the northern English Channel port, to Marseille, its Mediterranean counterpart, in three and a half hours at an average speed of 190 mph. The new track, which cost \$3.4 billion, was an instant hit with the public, which bought 10 million tickets in the first six months.

Gare Saint-Lazare by  
Claude Monet, 1877



# ce or Reversal?

High-speed rail travel is becoming commonplace as national railways form cross-border joint ventures to create an integrated 180-mph network across the continent. Currently, there are four main alliances: the Thalys network linking Amsterdam, Brussels, Cologne, and Paris; the Artesia venture between France and Italy; the Elipsos link between Spain and France, which offers overnight connections between Paris, Barcelona, and Madrid; and the Ligne de Coeur venture between Switzerland and France. But high-speed train travel isn't restricted to a few international routes. TGVs now account for more than 80 percent of the main line passenger traffic of SNCF, France's state-owned national railway.

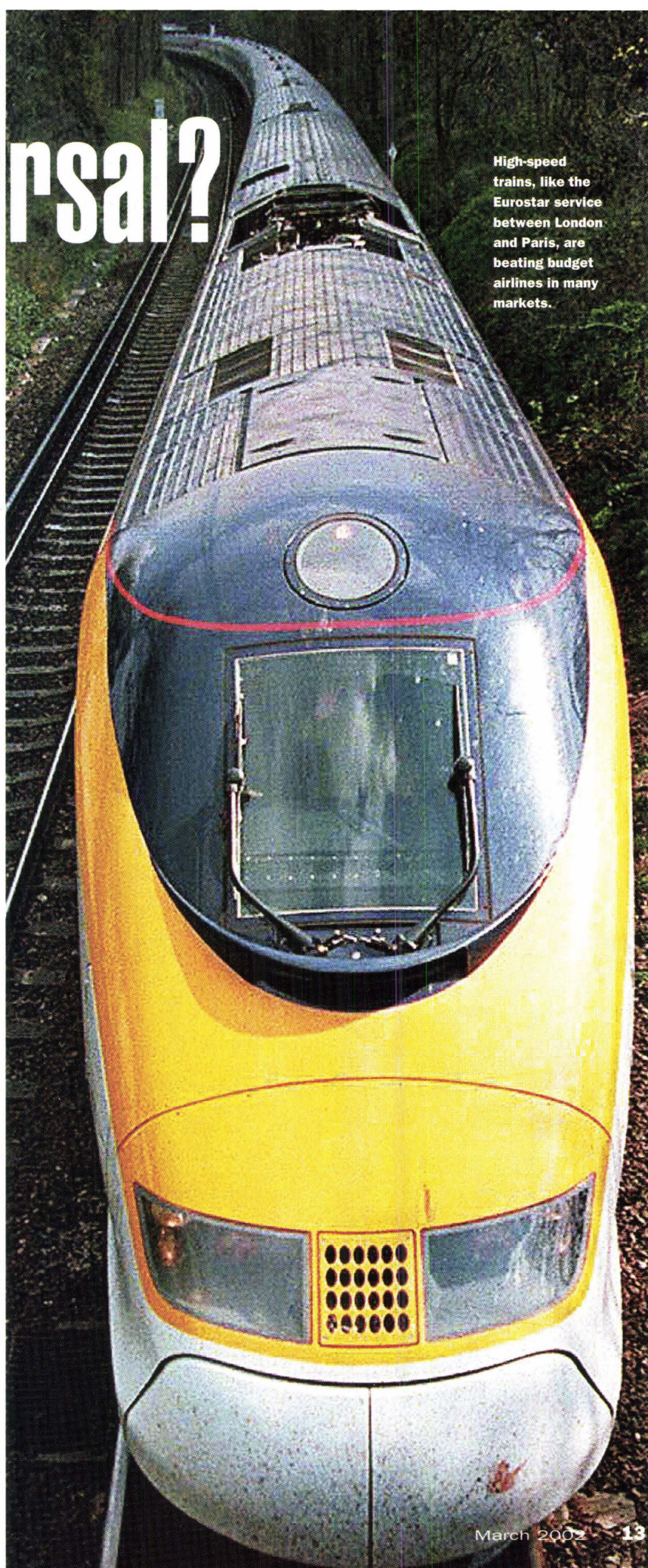
These sleek, luxuriously equipped, high-speed trains connecting downtown stations in the key European capitals have enabled the railways to lure back passengers from more costly, much less convenient, and decidedly less comfortable airplanes. More than 60 percent of travelers between London and Paris use the Eurostar train service through the Channel Tunnel, and a similar proportion ride the TGV between the French capital and Marseille.

The success of the high-speed trains has forced airlines to cut back or even abandon services. Air France now "flies" passengers from Charles de Gaulle Airport in Paris to Brussels on a TGV that glides into a rail station under the airport terminals. Lufthansa has dropped its Frankfurt-Stuttgart route because the train service is so popular, and it will likely abandon its Frankfurt-Cologne services when the high-speed rail link opens.

High-speed trains also are competing successfully with low-cost budget airlines, which offer great bargains by operating from out-of-the-way second-tier airports, but passengers often end up spending their savings on ground transportation to get to their final destinations.

Europe's railways also are marketing themselves to overseas travelers by signing code-sharing deals with the airlines. Delta Air Lines recently ex-

High-speed trains, like the Eurostar service between London and Paris, are beating budget airlines in many markets.





panded its code-sharing agreements with SNCF to include eight French rail destinations from Charles de Gaulle Airport with their frequent fliers receiving mileage and bonus credits for the rail trips.

The introduction of faster and more comfortable trains, coupled with worsening road congestion, has resulted in a sharp increase in train travel across Europe. Ticket sales have surged by a third since the United Kingdom privatized its rail system in 1996 to a level not seen since the 1960s when large parts of the network were mothballed. And it continues to grow: a record 81 million journeys were made last November, the highest monthly total since 1945. Nederlandse Spoorwegen, the Dutch state railway, has seen the number of passengers soar by 50 percent in ten years.

Despite their increasing popularity, Europe's railways are mired in financial and political crises. The UK's rail industry was rocked by several fatal crashes that forced an emergency nationwide repair and maintenance program coupled with speed limits that resulted in widespread delays and cancellations for a large part of 2001. The crisis deepened after the government forced Railtrack, the privatized operator of the network, into bankruptcy in October,

triggering an exodus of demoralized staff and a near 50 percent increase in delays. Yet, the government is still sticking to its target of a 50 percent increase in rail passengers and an 80 percent rise in freight within ten years. The Dutch government's rail privatization plans have also run into trouble after the acrimonious resignation of the chief executive of Nederlandse Spoorwegen.

Nevertheless, several European governments are pressing ahead with privatization, including Germany, which plans to sell off Deutsche Bahn, Europe's largest railway operator, within a couple of years. Private firms already are making inroads into continental railways. Connex, a subsidiary of Vivendi Universal, the French media giant, that runs a big commuter network in southern England, operates six regional passenger railways in Germany, and Arriva, a UK-based transport firm, recently became the first private firm to operate rail services in Denmark when it won a seven-year contract worth \$220 million to run two regional franchises. However, France, which has Europe's second-largest rail network, is stubbornly resisting privatization of the SNCF and trying to slow the pace of deregulation in the European Union.

The performance of rail freight is in sharp contrast to that of the resurgent passenger business despite a slew of EU initiatives aimed at forcing cargo off the continent's increasingly congested motorways and onto its underutilized rail routes. Rail's share of the EU's freight traffic has slid from just more than 30 percent in 1970 to roughly 12 percent today and is still falling.

EU governments have agreed to partial deregulation of rail freight traffic on the key cross-border routes in 2003 despite strong opposition from France. However, liberalization of the entire network, providing guaranteed access to the track for any EU company, won't apply until 2008. By then rail's market share will have receded to less than 10 percent, and it will be too weak to challenge trucking.

Time is fast running out for the EU to prevent the horror scenario of a gridlocked highway system becoming reality. ☹

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

# Alstom

By Shaazka Beyerle

America is the land of big roads and wide-open spaces, where cars and planes reign supreme. Or do they? As fears of terrorist attacks linger, train travel has become more desirable in the US, particularly in heavily populated regions. "For routes under 400 miles, it is faster and simpler to take the train. That was the case before September 11 and after," said Karina Van Veen, an Amtrak spokesperson.

According to Van Veen, ridership on the Northeast corridor (Boston-New York-Washington) jumped 40 percent in October and November last year. The overall increase throughout the system was 15 percent. On September 10, slightly more than 4,500 people traveled on the Acela Express line. Two weeks later, bookings rose to 7,100.

In fact, passenger rail has been ascending in the US for several years, the events this fall notwithstanding. From October 2000–September 2001, 23.5 million people rode Amtrak, a 4.3 percent increase from the previous twelve months. This figure does not include commuter rail systems run by regional, county, or metropolitan transportation authorities. In 2000, just more than 293 million trips were taken on commuter rail, a 5.17 percent increase from 1999, reports Amy Coggin of the American Public Transportation Association.

While passenger rail systems in the US cannot compare to those in Europe in terms of network size and passenger volume, they are playing an increasingly important role in American mass transportation, as roads and airports approach maximum capacity. "There is a change in ridership to corridor service—from city center to city center," added Van Veen.

One European company that is betting on an even brighter future for American passengers is Alstom, the global French power and transport

The popular high-speed TGV travels over the Ventabren Viaduct near Aix-en-Provence in southern France en route from Paris to Marseille.





# Amps Up Amtrak

French engineering firm is building high-speed trains for US market

Amtrak's new high-speed Acela trains operate between Washington, DC, New York, and Boston.



conglomerate. Their American subsidiary employs more than 7,000 people and has annual sales exceeding \$4 billion. Its train activities include the production and remanufacturing of rail passenger cars, propulsion equipment, traction motors, railroad signaling, and data acquisition and information systems.

During the latter half of the 1990s, the company made a deliberate move to tap the US passenger train market. "In 1995-96, we recognized the growth potential in the US and started to move forward.... Our view is that more and more people are discovering passenger rail, and more and more elected officials are discovering its value in terms of economic stimuli and environmental considerations," said Charles Wochele, vice president for business development, mass transit, and passenger rail at Alstom Transportation. The company followed up with two US acquisitions: in 1997, a rail car manufacturing facility in Hornell, NY and in 1998, the General Railway Signal Corporation in Rochester, NY.

Alstom's most recent claim to fame is its participation (along with the Canadian company Bombardier) in the consortium that built ACELA, the high-speed trains that operate between Boston, New York, and Washington. Alstom supplied the trains' electric equipment and electromechanical parts.

ACELA marks a milestone in American passenger rail, reaching speeds of 150 mph. During its first year of operation, ridership was 857,000, and ticket sales totaled \$100 million. The trains offer superior comforts to regular rail and even air travel—aided by tilt technology for smooth rides, noise reduction, comfortable seats with extra leg room, large windows, conference space, and improved dining services. The price, however, is also higher.

Beyond ACELA, Alstom is involved in other commuter and intercity rail projects, as well as subways throughout the country. In 2000, it supplied Amtrak with double-deck trainsets for the Pacific Surfliner (San Luis Obispo to San Diego). Its customers include the metropolitan transportation author-

ities of San Francisco, New York, Chicago, and Washington, DC.

Meanwhile, Amtrak's fate hangs in the balance. Critics point to the railway's huge debt and high costs and question the management of some of its lines. Supporters, including Senator Joseph Biden (D-DE), argue that the corporation—which is almost wholly owned by the Department of Transportation—has been required to operate a national system and to use capital improvement funds for operating expenses. The Amtrak Reform Council, created by Congress in 1997, presented a blueprint for the railway's reorganization last month. Alstom believes this will not change the overall future of passenger rail in the United States. "The need is still there regardless of how Amtrak is reorganized," concluded Wochele. "We see much potential for intercity passenger rail in this country." ☐

*Shaazka Beyerle, based in Washington, wrote about European broadcasters importing Mexican soap operas in the July-August issue.*



# Air Carriers Count

**T**he countdown has begun toward a radical consolidation of Europe's airline industry that will cull it to three or four mainstream carriers competing globally with a handful of American and Asian rivals. The collapse in air travel in the wake of the September 11 terrorist attacks in the US delivered a vicious blow to Europe's small and medium-sized airlines, which were already facing mounting losses as a result of the global economic slowdown and stiffer competition from aggressive no-frills budget carriers.

The post-September 11 meltdown also thumped the bigger players, including British Airways, Europe's largest airline, which is expected to lose more than \$1 billion in the current financial year, and Air France and Lufthansa, which have suffered steep falls in their earnings.

The European Union hastened the consolidation of its airlines by rejecting pleas for state aid to compensate for the slide in traffic after September 11 in marked contrast to the US administration, which offered \$15 billion

in aid and loan guarantees to American carriers.

The unexpectedly tough line on aid adopted by the European Commission, the EU's executive, sealed the fate of Belgium's Sabena, which became the first European flag carrier to file for bankruptcy after making an annual profit only twice since it was established in 1929. The Commission had signaled that the days of state aid were truly over and there was no reason why national airlines were different from companies in any other sector.

The collapse of Sabena, followed rapidly by the demise of Swissair, one of the world's most respected airlines, which had pursued a flawed strategy of buying stakes in loss-making European carriers including Sabena, raised fears for the survival of other vulnerable state-controlled flag carriers, including Ireland's Aer Lingus, Olympic Airways of Greece, and TAP Air Portugal.


The gathering crisis didn't faze Loyola de Palacio, the European transport commissioner. "We have fourteen national flag carriers in Europe. It is clear that this number is not sustainable in

the future. Soon we are going to see a reorganization of the aviation sector in Europe. We must stop thinking in terms of national carriers and think instead of European carriers."

Right now, European carriers, facing a collective loss of more than \$3 billion for 2001, are desperately slashing costs by laying off tens of thousands of employees, shrinking their networks, cutting the capacity of their fleets, dropping unprofitable routes, mothballing surplus planes, delaying deliveries of new aircraft, and putting non-core operations on the block.

At the same time, airline executives are mapping out strategies to survive the coming shakeout that will drastically reshape the European and global aviation business. No one doubts that Europe soon will mirror the situation in the US, where a few giants dominate the industry. Lufthansa chairman Jürgen Weber predicts, "There will be at least three major airlines surviving." Jean Cyrill Spinetta, his counterpart at Air France, names them as BA, Lufthansa, and his own company.

Some analysts say there will be space



Frankfurt airport, normally the second-busiest airport in Europe, has experienced a major drop in business since the September 11 terrorist attacks in the US.



# Down

## Consolidation and competition loom on the near horizon

By Bruce Barnard



**Lufthansa chairman Jürgen Weber predicts at least three major European airlines will survive the coming industry shakeout, including his.**

for a fourth global player but can't agree whether it will be KLM, (which has overcome the disadvantage of a domestic Dutch market of only 15 million to keep in touch with the frontrunners), Italy's Alitalia, or Iberia of Spain.

Most attention is focusing on possible merger permutations between first and second-tier European carriers, leading eventually to transatlantic consolidation.

For the moment, cross-border mergers, even inside the EU, are almost impossible because of political and regulatory barriers, notably protectionist national curbs on ownership and services. KLM, which has been at the forefront of consolidation for more than a decade, finally achieved a joint venture with Alitalia a couple of years ago, but this was a one-off deal that collapsed after six months.

The US and the EU, the world's biggest aviation markets, harness their airlines in regulations dating back to the birth of international air travel in the 1940s. The US forbids a foreign company from owning more than 25 percent of the voting stock of an American carrier while the EU limits non-EU shareholders to 49.9 percent of EU air-

lines. The much vaunted "open skies" agreements the US has signed with more than thirty countries around the world simply allow foreign airlines to fly to any American airport but do not allow them to set up domestic operations in the United States. While EU airlines can fly anywhere in the EU, they can only fly to the US from their home hubs. BA, for example, cannot operate a service between, say Frankfurt and Los Angeles. Flight rights are still rigidly linked to the nationality of an airline. For example, following Sabena's collapse, only another Belgian or a US carrier was allowed to take over its lucrative Brussels-New York route.

Aeropolitics also forced BA and KLM to call off merger talks eighteen months ago after Washington threatened to strip KLM of its landing rights in the US as a Dutch carrier if it was taken over by the British airline unless London signed an "open skies" accord with the US.

The result, according to Commissioner De Palacio, is "a fragmented market consisting of a string of flag carriers with national strongholds. While other service industries have

seen a whirlwind of consolidation and international investment, the air transport industry has remained a spectator." Even sensitive sectors such as defense and aerospace are free to merge across borders and exploit the benefits of globalization.

The European industry must consolidate further to keep pace with their larger US rivals, which appear likely to grow even bigger this year. Leo Mullin, chairman and chief executive of Delta Air Lines, predicts the top-tier carriers—American Airlines, United Airlines, and Delta—will merge with the second-tier players—US Airways, Continental Airlines, and Northwest Airlines—rather than buy weaker regional airlines.

Barred from merging internationally, airlines have opted for global alliances such as Star, which is led by United and Lufthansa, and SkyTeam, headed by Air France and Delta. European and US carriers also have won antitrust immunity for revenue and capacity-sharing transatlantic partnerships, including KLM-Northwest, UAL-Lufthansa, and Air France-Delta. BA and American Airlines, too, are seeking regulatory approval for their alliance, but this will require the UK to sign an "open skies" accord with Washington to allow more US carriers to fly to London Heathrow. (The current twenty-five-year-old bilateral agreement allows only two US carriers—UAL and American Airlines—to operate transatlantic services to the world's busiest international airport.) These alliances have improved carriers' bottom lines by boosting traffic, but they remain a second-best option to full-scale mergers.

The EU has seized on the upheaval following September 11 to dust off its plan for a common transatlantic aviation market with the US that would replace the fifteen separate treaties now in place. The idea is for a single regulatory framework, including antitrust policy, that would allow unlimited equity ownership between the two regions.

EU member states until now have refused to give the Commission authority to negotiate a single aviation treaty with the US. The US government, for its part, has been reluctant to replace the bilateral open skies deals that are generally viewed as



more favorable to US carriers than to European airlines. But the upheaval following September 11 has changed attitudes among airlines on both sides of the Atlantic, putting pressure on Brussels and Washington policymakers to change the rules. "We've got an economic crisis that transcends national barriers going on, and it's going to require all governments to rethink how they've allowed this industry to develop," according to Delta CEO Mullin.

The Commission also is suing eight EU governments in the European Court of Justice in Luxembourg, arguing their open-skies accords with the US violate the EU's single market rules. (See sidebar at right.)

Mario Monti, the EU's powerful competition commissioner, has entered the fray, hinting European airlines could get the go-ahead to merge if EU states give up their bilateral aviation agreements. "I think there is the need for greater consolidation, more alliances, more mergers," he said. But if EU states continue to resist calls for a single EU-US agreement, he cautions that "it will be more difficult for us" to approve more mergers and acquisitions. ☉

# Alitalia

Ailing Italian airline restructures

By Stephen Jewkes

On September 10 Alitalia's chief executive Francesco Menzozzi was putting the final touches to a five-year contingency plan to breath new life into Europe's fifth-biggest airline. A day later he was patching together an emergency strategy just to keep Italy's fifty-year-old flagship carrier afloat. The terrorist attacks in New York and Washington, which sent the world's airline industry reeling, dealt Alitalia a blow that could yet halt its ambitions to remain a global carrier.

With much of its long-haul capacity centered on the North Atlantic, the terrorist attacks in the US hit Alitalia hard. In September, its passenger traffic to and from the US fell a whopping

29 percent and then slumped 44 percent in November as the carrier slashed capacity. The group, which says it expects the situation to remain critical for another eighteen to twenty-four months, has estimated market demand will fall 17 percent in 2002 and 4 percent in 2003. By then, the airline hopes to have reversed losses to turn in a profit of \$22 million, but all that depends on a series of key financial measures kicking in to fuel recovery.

Alitalia, with debt of approximately \$880 million, expects a net loss for 2001 of approximately \$530 million. That's more than double the 2000 figure and leaves the group with a serious cash shortfall. To plug the gap, the company is eliminating

## Court Rules Against Bilateral Sky

The European Commission is in sight of a landmark legal victory that will spell the end of outdated rules governing global aviation services and begin the long-delayed consolidation of Europe's fragmented airline industry. In a preliminary non-binding ruling, the European Court of Justice, the EU's highest legal authority, said eight member states had acted illegally in signing bilateral "open skies" agreements with the United States.

The ruling in January will almost certainly be upheld

by the Court before the end of the year, stripping member states of their rights to cut bilateral air deals with third countries and transfer powers to the Commission, which will negotiate on behalf of the EU as a whole. This will lead to the breakup of rules drawn up in Chicago in 1944 that link a carrier's traffic rights to its nationality. For years, these rules have effectively blocked cross-border mergers and takeovers of airlines in the US and Europe. British Airways abandoned a merger with KLM Royal Dutch Air-

3,400 jobs, selling non-core assets (including charter company Eurofly), and hopefully, government fiscal changes to buoy Italy's ailing airline industry, including a possible reduction in value added tax on airline tickets and a cut in the tax on jet fuel.

More importantly, Alitalia is seeking capital. First, it hopes to get its hands on \$336 million of state aid allocated under a four-year plan ending last year. The European Commission, despite its recent firm stance against further state aid to airlines like Belgium's bankrupt Sabena, has indicated it may give the green light. But a second plan to raise more than \$1 billion could prompt further EU scrutiny. The financing might be via a convertible bond and that, while diluting the state's stake, would probably involve the Italian treasury as guarantor.

If truth be told, the future looked bleak for Alitalia even before the tragic events in September. The group, 53 percent state-owned, has been losing money for years. Competi-

tion, at home and abroad, has squeezed already meager margins; high operational costs have compounded weak strategy; and worldwide economic slowdown has dampened demand. On top of all that, the airline has for years been dogged by endemic political interference and bitter union strife. A Milan-based broker recently coined a new rating "Brave Investment" for the group to reflect its high risk.

Failure to implement the new plan speedily could prompt harsher measures, possibly involving a scaling back of its global ambitions and a more modest focus closer to home. That would no doubt win the blessing of transport officials in Brussels who want struggling airlines to scale down operations and reposition themselves as regional carriers. But it's unlikely to satisfy the Italian government, which has indicated it wants the flag to continue flying globally.

As part of restructuring plans, Alitalia intends to cut unprofitable routes and invest some \$1.3 billion to modernize its rapidly aging



# Deals

lines in September 2000 after failing to agree on an ownership structure that would protect the Dutch carrier's international traffic rights from the Netherlands, especially to the US. Washington threatened to strip KLM of its rights to fly to the US if it was taken over by BA unless the UK government signed an open skies agreement.

The Commission took the eight countries—Austria, Belgium, Denmark, Germany, Finland, Luxembourg, Sweden, and the UK—to court after they ignored its pleas not to negotiate bilateral open

skies accords with the US because they breached EU single market regulations by discriminating against carriers from other EU countries. An Italian airline, for example, would not be able to benefit from an open market between say, Germany and the US, because the open skies deal only covered German and US carriers. The current open skies deals involve “a case of discrimination based on nationality,” which is illegal under the EU treaty, the Court's advocate-general said.

The Court didn't back the Commission's claim that it should have sole negotiating

rights, but this is likely to be the outcome of the ruling. It won't be a radical step: the Commission negotiates trade agreements on behalf of the member states and represents their interests in the World Trade Organization.

The Commission has always maintained that open skies deals have blocked the consolidation of the EU airline industry by restricting market opening to airlines from one EU country rather than the entire fifteen-nation bloc and that they are much more favorable to US airlines.

The Commission is mulling a peace offering to the EU states in the wake of

the ruling by offering to negotiate air treaties jointly with them.

To be sure, the US, which now has open skies agreements with eleven EU countries, is reluctant to reopen negotiations that could erode the gains it has achieved for its carriers.

But attitudes in Brussels and Washington are sure to change as the two sides ponder the upside from a ruling that promises to break the link between an airline's nationality and its traffic rights and allow carriers to consolidate across borders just like any other industry.

—Bruce Barnard

high-cost fleet that has changed little in fifteen years. More especially, Alitalia is banking on rewards from membership in the SkyTeam alliance with Delta Air Lines and Air France.

In an industry where consolidation is increasingly vital to big-league status, Alitalia needs partners with the clout of Delta and AF to channel more passengers to its flights and boost its global reach. The proposed joint venture between Italy and France is expected to improve profitability in the point-to-point markets while access to AF's intercontinental market from Paris Charles de Gaulle Airport will boost the network offering of Alitalia (which to date has singularly failed in its bid to establish Milan's Malpensa Airport as a major European hub).

While the Italian flagship carrier will benefit from the demise of players like Sabena that had targeted northern Italy as a key market to attract traffic through the Brussels hub, the challenges faced by some of Italy's domestic airlines

should also help. British Airways' franchise carrier National Jets Italia filed for bankruptcy in November, regional business airline Gandalf is in financial straits, while Volare Airlines, which controls Air Europe, is looking for a partner (possibly the investment firm Texas Pacific Group) to buy the 49.8 percent stake held by the teetering Swissair.

Not that all Italian regional airlines are suffering. Italy has a strong domestic market that has held up relatively well after the September attacks in the United States. Italians are increasingly taking to the air for business and travel, and smaller nimbler carriers are waking up to opportunities.

Air Dolomiti, a partner of Lufthansa, has been successfully poaching short and medium-distance routes and in November reported passenger volumes increased 7.4 percent. Business is so buoyant the company, listed on the Milan bourse, is aggressively targeting 1.6 million passengers in 2004 (from 714,000 in 2000). Volare, which saw a 30 per-

cent fall in its intercontinental charter traffic after September 11, has only lost 2–3 percent in domestic business and is repositioning with new flights connecting Milan, Venice, and Catania with Madrid.

Observers agree that in a market like Italy's, smaller local niche airways will be able to compete alongside bigger conglomerates, especially as majors like Alitalia shed capacity. Air Vallée, a small carrier from the Valle d'Aosta serving Turin, Reggio Calabria, Nice, and Geneva from its Bologna hub, prides itself on a fleet that has an average age of just four years. Azzurra Air of Bergamo, which flies regularly to Rome, Hamburg, Brussels, and other points north, has upped its fleet from just two in 1995 to twelve today. And Alpi-Eagles, an ambitious carrier serving the rich Veneto region, aims to expand its connections to the south, the islands, and Europe.

Yet for many airlines the effects of September 11 will be felt for some time. Alitalia recently said advance book-




**CEO Francesco Mengozzi hopes Alitalia will get state aid to remain aloft.**

ing suggested November (volumes down 31 percent) could be its worst month. Meridiana, Italy's second-biggest carrier, saw traffic slump 25 percent in December, and the Sardinia-based group warned it did not see recovery earlier than next fall. ☹

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





Armed British police stand guard as a handler and an explosives sniffer dog inspect a car at London's Heathrow airport.

# Airports Remain on

## Further increases in already stringent security

By Bruce Barnard

Europe's airports have been on red alert since December after a man with explosives in his shoes tried to blow up a passenger jet over the Atlantic after eluding security checks at Paris's Charles de Gaulle Airport.

The ease with which the would-be bomber boarded the American Airlines plane with a one-way ticket and no baggage after being prevented from boarding a flight the day before rattled offi-

cial at Europe's airports, who had assured travelers after the September 11 terror attacks in the US that they were the safest in the world.

And despite the lapse over the shoe bomber, European airports can rightly claim to be among the most secure in the world, having lived under the shadow of terrorism for decades. Nevertheless, they began to upgrade systems and procedures immediately after the September 11 atrocities and made security even tighter after the fiasco in Paris.

Travelers flying into London Heathrow, the world's busiest international airport, didn't notice much of a difference checking in for flights after September 11 because the UK has lived with the threat of IRA terrorism for more than thirty years and has some of the tightest security measures in the world, exceeded only by Israel.

About a third of the 13,500 employees of BAA, the owner of Heathrow and six other UK airports, are directly employed in security, and the company began recruiting an additional 300 em-



ployees after September 11. The number of armed and unarmed police and dog patrols was increased at Heathrow and BAA's other London airports, Gatwick and Stansted, after the September 11 and Paris incidents.

The main difference regular travelers will notice at BAA's London airports are the earlier check-in times and the longer list of items banned from hand luggage, such as razorblades and nail scissors. BAA staff confiscated more than 100,000 prohibited items in the first ten weeks after September 11.

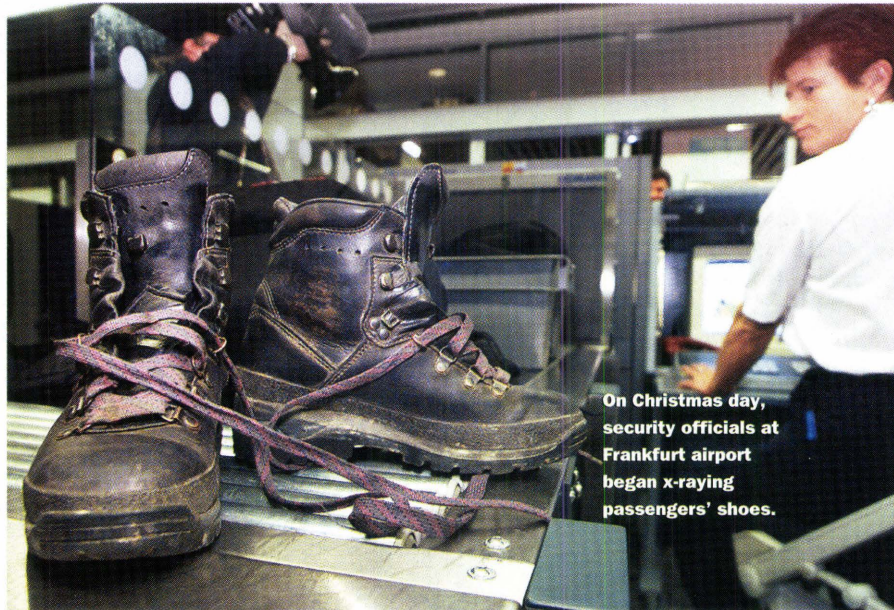
Continental European airports have been on safety alert for years following bloody incidents at several airports, including Frankfurt and Vienna. Europe also was involved in the worst act of air terrorism before September 11 when Pan Am flight 103, a Boeing 747 en route from Frankfurt to New York, crashed into the Scottish village of Lockerbie in December 1988 with the loss of 270 lives after being blown out of the skies by a small bomb hidden in a radio.

Security became even tighter and intrusive after September 11 especially at the big hubs with a large number of intercontinental flights. The German border police boosted its normal contingent of 1,800 officers at Frankfurt, and officers became much more visible in

duced sky marshals on some flights.

Europe's long experience with terrorism has made its airlines and airports more ready to embrace costly security technology than their US counterparts. The US government and airlines decided more than a decade ago to delay installing bomb-detection equipment until a "perfect" machine was developed that was so automated it would cause neither long delays for passengers nor require highly trained and expensive operators. The Europeans,

While some US screeners earn only \$6 an hour, their European counterparts average \$15 plus benefits, including full medical coverage and pensions. They are much better trained too. Screeners in the Netherlands receive forty hours of classroom training, followed by two months of on-the-job training and twenty-four hours of lessons each year to remain qualified. This compares with eight to twelve hours classroom training in the US and only forty hours of on-the-job training. What's more, the aver-



On Christmas day, security officials at Frankfurt airport began x-raying passengers' shoes.

# Red Alert

public and transit zones. Amsterdam Schiphol, Europe's fourth-largest airport, says it will spend \$43 million on security in 2002 and invest an additional \$55 million in new facilities and equipment. It is introducing an airport security charge of \$5.15 per passenger boarding locally and \$1.90 for those in transit, but it is also freezing the standard passenger tax and reducing landing and takeoff charges by an average 4.5 percent beginning in April to ease the financial burden on airlines.

European airlines also stepped up security after September 11. Germany's Lufthansa, for example, installed secure cockpit doors, tightened passenger controls and luggage checks, and intro-

by contrast, decided to use whatever machines were available and improve them over time.

The US opted for a one-step system in which baggage is examined by a highly accurate machine using computer scan technology that can only process 200 bags an hour. European airports use x-ray machines that are less accurate but are nearly ten times faster and only put those bags that fail the screening through the slower computer scan machines.

At present European airports scan just more than half of all bags, but by the end of 2002, EU rules require them to screen all baggage.

Congress's decision to nationalize airport security will, in time, narrow the gap between US and European security standards. But the US has a lot of catching up to do, especially to match the pay and training of European security staff.

age turnover rate of screeners in the US is 125 percent compared with less than 4 percent in Belgium.

Ironically, the owner of Argenbright, the heavily criticized company that ran security at forty-two US airports, including Boston Logan from where two of the hijacked planes took off on September 11, is Securicor, a leading British security firm. Securicor, which acquired Argenbright and its European offshoot ADI for around \$184 million eighteen months ago, said the nationalization of its US business will mean a loss of \$130 million in annual revenues and between \$1.5 million and \$2.9 million in profits.

In fact, there is a heavy European security presence across the United States. ICTS International of the Netherlands owns Huntleigh USA, which has 8,000 screeners at thirty-five American airports, and Sweden's Securitas controls Globe Aviation Services, which employs more than 3,300 screeners at thirty-nine airports. **E**



# Loyola de Palacio

## European Commissioner for Transportation



*Loyola de Palacio, the European Commission's vice-president responsible for energy, transport, and relations with the European Parliament, previously served as agriculture minister in the government of Spanish Prime Minister José María Aznar before joining the Romano Prodi-led Commission in 1999. She recently sat down for an interview in her Brussels office with EUROPE contributing editor Axel Krause. Speaking in French, she covered terrorism, transport policy, and the future of rail and road transport, and offered a revealing comparison with the United States.*

### **In what ways have the September 11 terrorist attacks in the United States affected your view of transportation in Europe?**

Our overall vision has changed with regard to realities. The fallout from the events marking the beginning of the century are only now beginning to appear—new risks and new challenges and the sense of our fragility, specifically in the Western world.

### **Are you referring to transport infrastructure?**

I am speaking in general terms, as the events [of September 11] involve a social phenomenon that reaches farther and deeper. But in response to your question, there are new risks that have surfaced. They have forced Europe, like the United States, to reinforce in very important ways all systems involving air transport security. But we need to target all transport systems, as well as certain installations that present potential risks.

### **Is the European transport system today less vulnerable to terrorist attacks?**

Clearly, the measures we have already taken, and others being prepared for the next few months, are reinforcing [EU] safety and now security in air transport safety and in other transport sectors. Until September 11, the European Union had never adopted measures regarding security. Safety yes, but not security, because the appreciation of the risks was not the same in all countries. Now, we are moving to having the same security norms in the fifteen member states for airports and aircraft, for example.

### **Why is it that, like energy, the EU Council of Ministers has never developed a common transportation policy, considering that governments play such a key role?**

In the case of energy there are such [hindering] factors as differing approaches to [governmental] sovereignty and to nuclear energy, but in the case of transport, there have been enunciations of a common transport policy beginning in the 1990s. As a result of this approach, there was the beginning of a process of liberalization and integration of EU transport systems. This is related directly to the integration of [EU] markets in general.

### **What steps, specifically, are you referring to?**

The first step, taken in the 1990s, was liberalization starting with roads. In the context of competition, we also began talking about the need for intermodulation of various transport systems. Then, there was liberalization

[deregulation] of air transport, which was a revolution that included the introduction by governments of competition between the airlines they controlled. Similarly, we now have a maritime [inland waterways] system that was opened enormously, compared to the very protectionist system in the United States.

### **What is next?**

We need to go further. This means integrating those markets that remain more or less isolated, especially railroads, and a better integration of those sectors that have already been liberalized, such as the creation of a common European air space and of inland waterways. But above all, putting in place a system of intermodulation, which means being able to transport by a succession of related means—maritime, rail, and then the road, rather than by just one means of transport.

### **How do you propose integrating European railroads, given their relative inefficiency compared to trucks and the fact that today they account for less than 10 percent of all EU traffic?**

We want to open railroads to competition, and we are expecting a package of EU measures to be approved soon. This may come as a shock to Americans, but going from Lisbon to Berlin involves confronting different rail operating systems, involving [rail] gauges, electrical tensions, signals—in other words, barriers between railroads.

EUROPE  
INTERVIEW



**What about the high-speed passenger trains, like France's TGV, that operate easily across borders?**

This was a first step, but these [systems operating as joint ventures] represent an exception. They represent the beginning of the modernization of railroads in Europe, and that's what needs to be done, not only for improving passenger service on these kinds of routes but rail routes generally and those that handle freight.

**Over the past few years, there have been plans for launching a "rail renaissance" in Europe, but none have come off because of the huge costs.**

It is true that these plans will cost money. But every day we are confronted with the problem of highway congestion. Only about 20 percent of the rail sector in the EU is affected by congestion, in some cases caused by accidents. Our projections show that the demand for freight transport will rise by 40 percent in 2010, compared to 1998. Why? Because of [EU] enlargement, and sales induced by the Internet because of the introduction of the euro, as well as generally improved economic growth in the years ahead.

**What proposals are you pursuing that might be approved by the Council of Ministers during Spain's EU presidency?**

First, we want to ensure that there is a system of safety for railroads that would extend throughout EU member states, guaranteed by each member government, so that trains can circulate safely throughout the entire rail system. Second, we are pursuing interoperability, so that in the medium term, we can develop systems that are harmonized, or at best compatible, leading to a real trans-European railroad system.

**Discuss the EU rail agency you have mentioned?**

It would be an independent entity linked to the European Commission, like the European Food Authority. One of its responsibilities would be to guarantee agreed-upon levels of safety and security and, with a staff of about 100, work on the technical questions we have discussed. It would also play a liaison role between the different, competent authorities, and could be operational by 2004-05. We hope it and the other proposals will be ap-

proved by the EU Barcelona summit in mid-March.

**Do you foresee the EU evolving toward the British approach of privatizing railroads?**

Liberalization and privatization are two quite different approaches. The first does not necessarily lead to the second. There are rail services that should remain a matter of governmental responsibility. That is our [the Commission's] position. In Britain, what was a public monopoly has become a private monopoly. It was their choice.

**So why should railroads increase their current share [of less than 10 percent] of all EU traffic?**

I believe in the market. I am a liberal and do not believe we should be forcing people to leave the road for rail. The problem today, notably in freight, is a lack of good service and competitiveness. Where it exists, railroads have taken market share from the airplane and the road, the TGV being the example. The average speed of freight trains in Europe is around (11 miles per hour). And you are never sure your shipment will arrive at its destination. This is why integration of rail networks is crucial as well as changed, improved attitudes among the managers of railroads, accepting competition.

**Railroad executives say that only governmental funding will launch such huge projects as the planned multibillion-dollar Lyon-Turin rail tunnel. How might this happen?**

Who finances and pays for the road systems in Europe? It's public not private funding. So why are there outraged protests when we talk of public funding for rail projects? I cannot accept this contradictory logic. That is why, at the recent Gothenburg EU summit, the Council of Ministers was asked to consider a system of imposing tariffication on infrastructure that would apply uniformly in the EU. It might involve changing the present system that, for example, allows a container coming from Bordeaux headed for Warsaw to cross Paris via the road free of charge. Via rail the same container crossing Paris is charged a fee. We need to think about changing this, with a view to finding ways of financing new rail infrastructure, just as in Switzerland today,

tolls from the highways help finance the alternative [rail tunnel projects].

**Turning to air travel, in January you made a controversial proposal that would require airlines to pay \$650 for every passenger bumped from a European flight, compared to \$130 currently, which has been attacked by EU airlines as excessively harsh and menacing. What has happened since?**

The proposal has been put to the Council of Ministers and the European Parliament. It now must be discussed. And it is not true that fewer people are flying. Air traffic [in Europe] is picking up even though, yes, the number of flights has been reduced.

**You were recently quoted as saying that Europe cannot continue supporting fourteen national airlines and that one or more will have to go.**

Yes, and I maintain that position even though it scandalizes some people. But the manner in which it is done will vary—merger, association, integration. But it is obvious that there will be concentration [of airlines] that will accelerate, with the disappearance of some companies.

**Might this extend to your country's flag carrier, Iberia, under Prime Minister Aznar?**

It is a symbol, but if it fails to perform, it will lead to bankruptcy. This is what happened to Sabena [Belgium's national airline]. Sabena doesn't exist anymore.


**Is there a country inside or outside Europe you regard as a successful model for transportation policy?**

The problem is that what was valid for any country thirty years ago isn't valid anymore. National solutions are inadequate. The solutions must be found at the European level. And that is what we are trying to do. That is our challenge.

**How about the United States?**

The United States has a transport system that makes it more competitive than ours, equivalent to between 0.5 and 1 percent of gross domestic product...that is what we lose in terms of competitiveness, mainly in rail, due to the fragmented transport system in Europe. ☹





Trucks line up to travel through the Fréjus Tunnel, the only operational Alpine tunnel connecting France and Italy.

# New

By Axel Krause

## Alpine Tunnel Could Ease Congestion

As the first step toward building what could become Europe's biggest rail tunnel project since the Channel Tunnel connected France and Britain nearly a decade ago, engineers working for France's national railroad, the SNCF, recently began digging a small tunnel to test the hard, unstable rock in the heart of the southeastern Alps. The ultimate goal: connecting Lyon and Turin in Italy via a far larger tunnel to be built later, while revitalizing rail freight transport in Europe.

Nearby, in the French border town of Modane, the major reason for the project is strikingly visible—lines of trucks, several miles long, waiting to enter the nearby, narrow Fréjus Tunnel. Traffic and delays there have worsened dramatically with the closing of France's only other Alpine tunnel, cutting through the Mont Blanc, also connecting France and Italy, frequently congested and, at the end of January, still closed pending repairs in the wake of a 1999 fire accident in the tunnel that killed thirty-nine people.

"We need the new capacity for rail transport via the Alps to reduce the growing truck and car congestion, even when the Mont Blanc is back in opera-

tion," explains Ghislain du Jeu, responsible for development of European rail networks for the SNCF. Even if the new trans-Alpine project (which would link France and Italy via a high-speed rail system for passengers and freight) running through thirty-three miles of untested Alpine mountain terrain proves technically feasible, a crucial question remains unanswered: Who will pay the \$15 billion bill?

European Transport Commissioner Loyola de Palacio indicated in an interview with *EUROPE* that toll revenues from EU highways might be tapped. She also suggested that the European Investment Bank in Luxembourg could contribute, but only up to 10 percent of the total cost, perhaps up to 20 percent if the Council of Ministers agrees. The tunnel, in any case, will require at least fifteen years of work before it could begin regular operation and, thus, offers no promise of immediate relief or better service to shippers and travelers.

Among the most skeptical is the Socialist mayor of Modane, Claude Vallet, who recently told the French daily *Le Monde* that the proposed rail piggy-back system planned for transporting trucks through the tunnel is "a gadget." He claims it won't reduce the congestion that will continue backing up on both

the French and Italian sides of the border, given the improved outlook for EU industrial output and trade next year.

Amid opposition by environmental groups in France and Italy, EU planners and the French and Italian governments have, nevertheless, pressed hard for years for the project to proceed, reinforcing the European Commission's commitment to accelerate integration of Europe's rail transport systems, while trying to move freight traffic from roads to rail. That policy was fully endorsed by the December EU summit in Laeken, Belgium.

The dilemma for the planners—and in sharp contrast to the Channel Tunnel project, which was privately-financed—EU finance ministers have hesitated in light of the huge costs, even if the high-speed passenger trains on the line zip between Lyon and Turin in one hour and thirty-five minutes compared to four hours today.

In other words, the realities of European transport look quite different the farther one moves from the often rarefied, office atmosphere and language of EU planners in Brussels and national capitals. ☎

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



# EUROPE

## update

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## WHAT THEY SAID: COMMISSIONERS SPEAK TO WASHINGTON

EUROPE recently sponsored with the West European Studies Program and the Project on America and the Global Economy of the Woodrow Wilson International Center for Scholars two events: a luncheon featuring Pascal Lamy, European commissioner for trade, and a breakfast with Pedro Solbes, European commissioner for economic and monetary affairs.

Commissioner Lamy addressed EU-US trade relations, the Doha summit, and the challenges of launching a new trade round. Commissioner Solbes, who is the EU's point man for the euro, discussed the successful introduction of euro notes and coins as well as broader issues associated with Europe's economic and monetary union, and what the euro means for the US.

The following are excerpts from their remarks delivered at the EUROPE-sponsored luncheon and breakfast at the Woodrow Wilson Center in Washington, DC in January and February 2002.

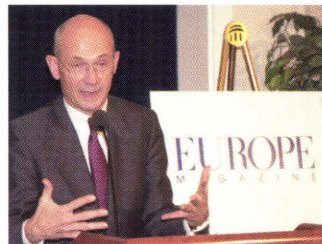
### Pascal Lamy Trade Commissioner

We undoubtedly face major challenges in terms of EU-US trade relations in the next few years, and indeed in the next few months.

The first of these challenges is of our own making, I am glad to say, and here I am talking about the Doha Development Agenda (DDA). I have been coming to Washington since 1999 to discuss how to launch a new round, and this is my first visit since the Doha meeting last November. I think we can say, "objective achieved." In four ways, the Doha agreement provides the right basis to negotiate.

First, the DDA enables the pursuit of the "traditional" aims of the GATT, now WTO, of trade and investment liberalization. It is sometimes easy to lose sight of that fundamental market access role of the WTO, but we should not.

Second, the mandate con-



tinues the work started in previous rounds, that is, to secure and complete market access commitments by members with rules that help markets to function fairly, openly, and transparently. Here, I am thinking about upcoming negotiations on trade facilitation, government procurement, investment, and competition, for example.

Thirdly, the DDA takes us further towards addressing the challenges of global economic integration. This means integration of developing countries into the system, which puts the focus on trade related technical assistance and capacity building. For this unromantic but important subject, the hour has come.

The Uruguay Round was perhaps the last time when we could write a new set of trade rules the way we, the Northern countries, wanted them, and then granting developing countries "special and differential treatment" to relieve them of the burden of the rules. This time, developing countries must be at the table, north and south, negotiating on the future of rules together.

But we must also pursue economic integration differently, by way of sustainable development. Doha is the first stop on a through train, heading next to Monterrey for the conference on financing for development, and on to Johannesburg to address sustainability. For once, we can stop merely wringing our hands about the difficulties of globalization, because we now actually have the chance to do something about it in terms of policy.

Fourthly, the Doha Round gives us the chance to restore the internal legitimacy of the WTO, again particularly vis-à-vis developing country members. We already revisited the rulebook in Doha itself by tackling the important question of TRIPs and health. The DDA will now address other developing country concerns in such areas as implementation, and trade defense, as well as systemic improvements such as how the dispute settlement system works, transparency, of course, and our internal

decision-making.

So we are pleased at the outcome of Doha. The multilateral system, in truth, hovered on the brink for a few months last year. But after the tragic devastation of September 11, we simply could not afford another failure, in either political or systemic terms. And the EU and US—the two big elephants in the system—worked closely together before, at, and since Doha. In this context, Bob Zoellick, the US Trade Representative, was fundamental to the successful outcome. There has been some criticism, some of it justified, about how the US has recently lost its multilateral reflex, with damaging results, for example, on global warming. But this was simply not the case at Doha, where the US was a committed, active, and effective player both in terms of pursuing her own agenda, and helping to bring about overall agreement. And that is vital, because without the US playing an active and positive role, the multilateral system will lose its way.

And we cannot rest on the laurels of Doha, for the new Round has a substantial agenda, and a substantial challenge. We face a roller coaster of a ride for the next three short years, but we have to make a top priority of the DDA, and we will.

In the meantime, the EU and US have some bilateral challenges to address, and now that Doha is out of the



## WHAT THEY SAID

way, these challenges have been at the forefront of my short visit over the last day or so on both Capitol Hill and of course with the administration. I am talking, of course, about our current and potential trade disputes. No surprise, say some: having launched the new Round, they believe that the EU and US have sighed with relief, pulled off the gloves, and are back to a favorite pastime suppressed for too long: that is to say, whacking huge lumps out of each other. But that's not my approach, and I hope the two and a half years I have been doing this job demonstrate this. Nor does it seem to be the approach of Bob Zoellick and the US Administration, so we have one immediate advantage in tackling these disputes: that we are relying on telephone, not megaphone, diplomacy. And we have each other's phone number.

Now let me turn to potential disputes. First on the list has to be steel. Let me repeat: on this one, we do not believe that imports lie at the root of the problems currently facing the US steel industry. The central issue remains over capacity, the need to restructure that, and the difficulties inside the US with the problem of legacy costs. The right way to tackle the international overcapacity problem is to address it through the OECD. We have always strongly supported this approach. But we will strongly reject any unilateral restriction of imports. And here, I regret to say that the ITC findings and recommendations have confirmed our worst fears, including on the important question of WTO consistency. We now await President Bush's decision on this in early March with considerable interest, as does the European steel industry, and the workers in that industry.

I am sometimes told that it is inevitable that the US will impose some kind of border protection, that we have to be realistic about this ("given US domestic difficulties"),

and indeed I am often asked by the press: what kind of import restriction would I prefer? No thanks—I reject both the deep blue sea and the devil. We want an internationally agreed solution to reduce worldwide capacity, and are ready to see the US government step in to address the real problem of legacy costs. But both steps require the US to pull back from the brink of unilateral border protection. There is no acceptable solution involving restricting imports, and any such decision will have very serious consequences.

Let me now turn to the vexed question of genetically modified organisms. I accept that the blockage of new approvals is increasingly difficult for the US and other trade partners, and of course, it is also becoming a major issue within the EU, in terms of the impact on industry, agriculture, and research. We have just, in fact, launched a comprehensive biotech policy document in Europe. But the current moratorium is not plucked out of thin air by the member states for protectionist reasons. It reflects the fact that food safety is a highly sensitive and political issue for European citizens. As I have said before, European perceptions of risk are very simply different from yours, and are driven also by the sad stories of contaminated blood and mad cow disease.

So that's the position: what are we doing about it? As I have told my US interlocutors on this visit, our considered view is that our best chance to restart the process of approvals, the best moment in the political climate, will come later this year, when our new law on approvals comes into force. I know that means more time to wait, and I fully recognize that some in the US are saying that they are tired of waiting. But in my opinion, litigation in this field would be immensely counterproductive, in that it would be seen as a challenge to consumer fears and perceptions.

And finally, just to show

that new problems pop up regularly, we have a new issue concerning the blockage by US authorities of imports of Spanish clementine oranges. However, I hope that we can address this quickly: as the song goes, no reason why the problem cannot be quickly 'lost and gone forever'."

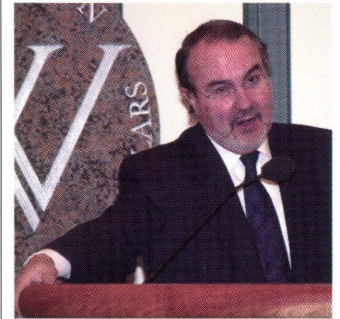
### **Pedro Solbes** Economic and Monetary Affairs Commissioner

The euro area is one of the biggest global economic entities. It accounts for more than one fifth of global exports in products and services and represents, after the US, the second-largest import market. It was thus widely expected, at the launch of the third stage of the Economic and Monetary Union (EMU) on January 1, 1999, that the euro would gradually become the world's second most important currency after the US dollar, carrying more economic and commercial weight than the sum of its predecessor currencies. However, the dollar clearly remains the dominating currency with respect to most functions of an international currency—both private and official use.

The international use of the euro appears most clearly in international bonds, notes, and money markets. In these markets, the euro has established itself swiftly as the second most important currency. The observed surge in euro-denominated securities was to a significant extent due to an increase of direct corporate financing within the euro area. The broadening and widening of the euro financial markets have made it more attractive for corporations to raise capital directly on the financial markets rather than through bank loans.

The euro has evolved to be the world's second most important reserve currency with some 13 percent of total foreign exchange reserves, but the dollar clearly continues to be the leading reserve currency, with 68 percent of

total reserves. These aggregate figures are likely to underestimate the actual weight of the euro vis-à-vis the combined share of its predecessor currencies for two reasons. First, the share of the combined European currencies



fell by a significant magnitude when the single currency was introduced, and the foreign exchange reserves held in the European currencies by the members of the euro zone became domestic assets. Secondly, as the international official holdings of foreign exchange are measured in Special Drawing Rights (SDR), the weight of the euro has declined proportionally to the development of its exchange rate since January 1999. Moreover, the currency composition of official foreign reserve holdings adjusts rather slowly over time.

An important characteristic of an international currency is its use by third countries as an anchor in their foreign exchange arrangements or as a substitute for domestic currency purposes. One third of all the countries having some kind of fixed or managed exchange rate arrangements with a single currency, tie their domestic currency to the euro while almost all the others make use of the dollar as an anchor. In addition, the euro, together with the dollar and other currencies is used as a basket currency in about a dozen countries where the domestic currency is pegged to a composite of two or more foreign currencies, including SDR.

The single currency has replaced the French franc as the exchange rate anchor in the fourteen countries be-



## WHAT THEY SAID

longing to the former French franc zone in Africa as well as the [Portuguese] escudo in Cape Verde. The euro is also the anchor currency of the European Exchange Rate Mechanism (ERM II) through which the Danish krona is pegged to the euro since January 1999. In light of continuing economic integration, several eastern and southeastern European countries have unilaterally pegged their currencies to the euro either in the form of currency board arrangements or in the form of a peg within limited bands. Inspired by the desire to expand trade and enhance other economic links with the European Union, the euro may gain further importance in the design of exchange rate arrangements by third countries, mainly in east and southeast Europe

and possibly in the Mediterranean basin.

What does the euro mean for the United States? There are no doubts that the euro benefits American tourists and business. American tourists will no longer have to pay transaction fees if they visit more than one euro-area country when they travel to Europe. Furthermore, it will become much easier for them to understand what the real price of European products and services is, since the values of the euro and the dollar are quite close. For example, US tourists in Rome will not have to divide the price of an Italian cappuccino by 2,240-something lira to realize how good and inexpensive it is.

US business is also benefiting from the introduction of the euro. The changeover this year has strengthened these benefits and made

them more conspicuous.

The increased price transparency due to the existence of the single currency will boost competition and enhance opportunities for US companies wanting to export and/or invest into the euro area.

For US companies with facilities in Europe, it is now possible to rationalize and re-group their production, marketing, and accounting activities, allowing an increase in efficiency and a reduction in costs, which will translate in the end in higher profitability.

Last but not least, thanks to the euro and the EMU there are now larger and more efficient markets where US investors can borrow.

But there are also wider and less known benefits for the US due to the euro and the Economic and Monetary Union. Thanks to the new cul-

ture of economic stability in the euro area, in the medium-long term we will achieve higher and more sustainable growth than we had in the eighties and the nineties. In a period in which our interdependence is becoming stronger this will mean our trade links will widen and deepen and more new jobs will be created in the United States because of the European healthy growth.

The greater depth and liquidity of financial markets in the euro area have facilitated the development of financial instruments, making portfolio diversification more attractive. This, as pointed out by Federal Reserve Chairman Alan Greenspan, is going to play a major role in the future relative positions of the dollar and the euro, and I fully agree with him that "the world can only benefit from this competition."

## EU NEWS

### COX WINS EP PRESIDENCY

An Irishman with a good line in political anecdote and a robust reforming zeal has been elected president of the European Parliament (EP), and the world, particularly perhaps America, will be hearing his name a lot over the next couple of years.

The forty-nine-year-old Pat Cox won the Parliament's top job in January creating a number of precedents. He is the first EP leader not to come from a large EU country; he is the first not to come from one of the main political parties; and he won, narrowly, in what was the Parliament's first genuine contest for the leadership.

Cox, who comes from Limerick but represents the Irish constituency of Munster in the EP, is the leader of the fifty-three-strong Liberal group in the Parliament. This is not a particularly heavy-weight force, but Cox struck a shrewd deal with the larger

European People's Party some years ago in which he pledged the Liberals' backing for their candidate at the time in return for their support this year.

It's not often that a single speech is remembered in the EP, but Cox's powerful address in early 1999 attacking the European Commission over alleged corruption and sharp dealing is credited with turning the debate and leading to a vote that resulted in the unprecedented sacking of the Commission that year.

He's an accomplished deal maker and orator, but Cox has other talents that the Parliament may find more valuable in the long run. He's an excellent communicator, as you might expect from someone who was one of Ireland's best-known journalists during the 1980s when he presented a leading television current affairs program. He can speak at great length on all manner of subjects, often quoting his idol, the Irish statesman Edmund Burke. He can be

wordy and pedantic, but he understands the media almost certainly better than any of his predecessors.

Cox's politics are described as "free-market progressive" but perhaps more important is his recognition of the faults of the Parliament and his determination to remedy them. The EP is a cumbersome and extravagant organization, perennially under attack for waste and irrelevance. But it has become an important one with serious powers to change or halt some 85 percent of all EU legislation.

In his acceptance speech, Cox promised livelier debates, more "practical" politics, and a reform of expenses. Above all he wants to reconnect the Parliament with the EU's citizens after years in which it has been regarded at best with indifference. "We have arrived at a moment of mature self-awareness. This must mark a passage to an era of transformation for the European

Parliament, its politics, and our connection with citizens," he said.

In an interview with *EUROPE* last year, Cox spoke of his desire for a "wider dialogue" between EP members and civil society, of the challenges of EU enlargement and of the need to change the EU's dialogue with the US from one that was set by events into one that was "process-based." Now he has the chance to do something about it.

—Alan Osborn

**Correction:** In the November 2001 issue, an interview with European Commissioner Anna Diamantopoulou should have stated that she hopes to make prevention of human trafficking a precondition for development aid, not, as printed, humanitarian aid, which is not conditional.



## BUSINESS BRIEFS

### INCREASING AIRPORT COMPETITION

Europe's leading airports are becoming global businesses as they respond to deregulation, privatization, and the spectacular rise of budget airlines. Unlike their US and Asian counterparts, which remain largely under public ownership and beholden to politicians, an increasing number of European airports have become private firms, driven by shareholder value and free to invest around the world.

Amsterdam Schiphol, Europe's fourth-largest airport, is being primed for a multi-billion dollar privatization this year that will confer membership of a small but growing club of quoted airport companies, including the UK's **BAA**, the world's largest airport operator, Frankfurt, continental Europe's top hub, which was floated on the stock market last June, **Aeroporti di Roma**, the operator of Rome's Fiumicino and Ciampino airports; Copenhagen; Vienna; and Zurich.

There is also a thriving mergers and acquisitions market in second-tier regional airports favored by low-cost, no-frills carriers with most deals in the United Kingdom, which pioneered privatization two decades ago. The industry is now attracting outside investors. **Macquarie**, an Australian investment bank, and **Grupo Ferrovial**, a Spanish construction company, jointly acquired the UK's Bristol International Airport for \$340 million. Meanwhile, **Benetton**, Italy's leading clothing group, and tire giant **Pirelli** were among the bidders for Aeroporti di Roma, and **Vinci**, a French building firm, made an abortive \$755 million bid for **TBI**, a medium-sized UK airports operator.

Investors are attracted by airports' near recession-proof status as passenger traffic increases by 5–6 percent annually, while fixed costs are relatively stable after runways and terminals have been

built. They aren't exposed to the risk and volatility affecting airlines either as they are paid landing fees regardless of the number of passengers on a plane or how much they paid for their tickets.

To be sure, European airports took a big hit from the September 11 terror attacks, which depressed traffic on important routes, especially transatlantic traffic where passenger numbers were down by nearly 30 percent in the fourth-quarter of 2001.

Europe's airports are adding value to their core activity of handling the takeoff and landing of aircraft by maximizing what passengers spend before they board flights and attracting industries that rely heavily on air-freight. Amsterdam Schiphol is the pacesetter, building shopping malls and distribution hubs to become a full-fledged commercial center. Non-aviation activities now account for approximately 50 percent of its revenues compared with 40 percent at Copenhagen and BAA, whose seven UK airports include London Heathrow, the world's busiest international hub.

The leading airports are exporting their expertise around the world, partly driven by the loss of revenue following the ending of duty-free sales within the fifteen-nation European Union a couple of years ago. Amsterdam won the contract to renovate and operate Terminal 4 at New York's JFK. Frankfurt handles baggage at Stockholm Arlanda and Newark, just two of its forty overseas contracts. BAA runs the retail and catering facilities at Newark and Pittsburgh, and **Aeroports de Paris**, the state-owned operator of Charles de Gaulle Airport in Paris, recently won a \$500 million contract to build a new terminal at Dubai airport for **Emirates**, the fast-growing Middle East carrier.

Privatization is paving the way for cross-border mergers and alliances that would be virtually impossible under state ownership. Frankfurt

and Amsterdam set up a joint venture, **Pentares**, which is running a cargo terminal at Hong Kong's Chek Lap Kok Airport, and is eyeing scores of privatization projects in the pipeline.

Airports say they must join forces to prevent the powerful airline alliances such as Star, SkyTeam, and OneWorld from playing one hub against another to drive down charges. For now, the leading players are focusing on building strategic stakes in overseas airports. BAA has bought into Naples and several regional airports in Australia; Aeroports de Paris owns 10 percent of Beijing Capital Airport; Amsterdam has a stake in Vienna; and Frankfurt owns several regional airports in Germany, including neighboring Hahn, a former NATO air base that has just become a hub for Ireland's **Ryanair**, Europe's fastest-growing low-cost carrier.

Smaller airport groups also are building global networks: Britain's **TBI**, which runs London Luton, Cardiff, and Belfast International, also operates Orlando Sanford in Florida and Skavsta Airport near Stockholm, and **Wiggins**, another UK group, has a network of eight airports in Germany, the US, and Ajman, an emirate between Dubai and Sharjah.

However, most attention now is focused on the fierce battle between Charles de Gaulle and Frankfurt to dislodge London Heathrow from its perch as Europe's top hub.

**Wim Duisenberg**, the colorful and outspoken first president of the European Central Bank (ECB), will retire as president on July 9, 2003, which will be his sixty-eighth birthday. Duisenberg, a former central banker in his native Netherlands, had previously stated that he would not serve his full eight-year term, which would have expired in 2006.

A statement issued by the ECB said, "Mr. Duisenberg's

decision has to be seen against the background of his declaration on the occasion of the meeting of the European Council on May 2 and 3, 1998 that, in view of his age, he did not want to serve his full eight-year term as president of the ECB, which commenced on June 1, 1998."

The debut of the new single currency, the euro, in virtual form in 1999 and in actual notes and coins this January was considered a success by the overwhelming majority of financial analysts and European citizens.

Duisenberg was adamant in his determination to keep the ECB an independent institution free from political influence. He also has attempted to make the ECB more transparent to the public.

Although there has been no formal announcement on Duisenberg's successor, the leading candidate appears to be **Jean-Claude Trichet**, the governor of the Bank of France.

•••

Germany, Europe's largest economy, saw its unemployment rate increase to 10.4 percent or 4.29 million people in January. This is up from 9.6 percent (3.96 million) in December. Economic analysts are predicting unemployment to rise even more during the continuing economic downturn. **Chancellor Gerhard Schröder**, who faces national elections later this year, has said that preserving and creating jobs would be his "most urgent priority" for 2002.

Inflation has also risen in Germany reaching 2.4 percent in 2001, which is up from 2.1 the previous year.

—Bruce Barnard



#### Contributors

Bruce Barnard reporting from London  
Alan Osborn reporting from Brussels

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# Flying in the Face of Trouble

A more innocent era of travel may be lost, but the true traveler's appetite for discovery won't be dampened.

By Ester Laushway

In the last half of the twentieth century, when I was growing up, travel started to take on the dreamlike ease of a magic-carpet ride. Airplanes, which used to take twelve hours to cross the

Atlantic, began doing it in half the time, offering free drinks and entertainment along the way, and if money was not an issue, the

Concorde

could even

get you

there

before

you

had really

left. On the

ground, high-

speed trains offered

a scenic alternative

to air travel

over shorter

distances, and even the

English Channel

turned from a watery

divide into an under-

water link between

England and the

Continent.

Package deals,

charters, special

deals of all kinds

brought the world

within easy reach of

people who previously

could not afford

an international holiday.

The grand tour of

Europe, once reserved

for the rich, became the

coming-of-age trip of

entire armies of teenagers.

All it took was a Eurail

pass, an oversized rucksack,

and a cheap ticket on

a transatlantic flight. Sure,

parents worried a little, but

it was about pickpockets and dysentery, not terrorism.

On September 11, the carefree pleasures of fast and easy travel came crashing down to earth with brutal abruptness. No one, not even international intelligence services, it seemed, had expected to see a method of transport turned into a weapon of mass destruction.

In the aftermath of the World Trade Center tragedy, the first reaction, for Americans and Europeans alike, was to stay close to home and avoid air travel. In October, IATA (the International Air Transport Association) reported an average 33 percent drop in passenger traffic on North American carriers and a decline of 20 to 25 percent on European, Far Eastern, and Central and South American airlines. By November, those bleak statistics improved slightly, with the passenger decrease averaging about 26 percent on North American routes and 16.5 percent within Europe.

Those airlines that survived the dramatic plunge in business implemented stringent security measures designed to reassure passengers and deter further terrorist attacks. In November, on a trip from France to Canada, I experienced the changes first-hand.

They start at the airport, with a strong military presence. Sniffer dogs are led around among the suitcases, and no one complains when they stop and take a deep whiff of a bag. At the check-in counter, passengers are now minutely quizzed about how they packed their luggage, and their passports are checked carefully, several times in the boarding process. Gone are the days when you could stagger onto the airplane laden with as much "hand" baggage as you could carry. (I remember one flight where passengers lugged enormous quilts onto a flight to Morocco). These days, carry-on luggage is strictly limited to one bag, and that is X-rayed thoroughly and frequently hand-



searched as well. Mobile phones and laptops have to be switched on, to show that they are the genuine articles. No sharp objects, such as nail files and scissors, can be carried on board.

Some of these precautions may appear a bit excessive. I heard some men, for example, wonder why they had their nail clippers and safety razor blades confiscated. They did not consider either item much of a security threat. The clippers, they argued, could at worst be used to give an enforced manicure, and it was hard to imagine how anyone might attack the cabin crew with a blade designed specifically *not* to cut skin. But these grumblings were good-natured and rare.

The vast majority of passengers seemed only too happy to have their bags and themselves screened. Anyone who elicited the slightest beep when they passed through the metal detector was given a further thorough going-over with a handheld detector.

All this takes time and makes travel-

ing a much lengthier, less convenient process than it used to be. Not only does check-in take twice as long but connections are more complicated, too. When transferring between Gatwick and Heathrow airports in London, for example, passengers have to pick up all of their luggage, carry it with them, and go through check-in all over again, instead of having their bags checked through to their final destination.

Once aboard, you will notice that flight attendants are more attentive than in the past, and everyone sneaks intense looks at their fellow passengers, like police profilers on a field trip. Meals are now served with plastic cutlery only, which is laudable, but does make you wonder why the wine bottles are still glass.

More significant, if less obvious to travelers, are the security improvements made to the aircraft itself. Aviation organizations like the European Civil Aviation Conference (ECAC), which counts thirty-eight European

states as members, have reinforced in-flight security by locking the cockpit door, and are working on the best ways to maintain ground-to-air communications in a crisis. ECAC is not alone in this. As never before, international cooperation is at the top of the agenda of all countries concerned with airline security. As the president of ECAC, Alfredo Roma, told a December 7 meeting of the Parliamentary Assembly of the Council of Europe: "The events of September 11 in the United States have left their mark on all of us involved in civil aviation security, and we must redouble our collective efforts with our colleagues in the United States to ensure the security of this vital form of transport." A spring meeting between ECAC and the US's Federal Aviation Authority is being planned to do just that.

A striking example of just how effective the new alertness and spirit of cooperation can be was played out over the Atlantic on December 22. An American Airlines flight from Paris to Miami

## The High Life: Flying in the Fifties and Sixties

After World War II had ended, Americans hit an all-time high. Rationing was over, the economy was booming, and it felt great to be alive, so why keep your feet on the ground? The demand for air travel skyrocketed, particularly since fares had been reduced by 10 percent since 1941, making it often cheaper to travel by plane than by train.

Flying in those euphoric postwar days had a glamour and mystique that have now vanished from the skies. The airline that epitomized the excitement of air travel in the fifties and sixties, and ushered in many of the "firsts" in the airline industry, was Pan Am.

Launched in 1927, with a single route from Key West to Havana, Pan Am developed into the international high flyer of the airline industry. In 1947, it became

the first airline to operate a round-the-world service, which became its fabled daily flight encircling the globe. In 1958, its Clipper America Boeing 707, flying from New York's Idlewild Airport (now JFK) to Paris in eight and a half hours, inaugurated commercial jet service. By the late 1960s, it had laid down specifications and ordered the first Boeing 747, which it premiered, ahead of other airlines, in regular scheduled service in 1970.

Passengers who boarded planes during those two heady postwar decades were treated to a standard of service that has disappeared along with Pan Am's glory. Stewardesses—who were not called flight attendants until the equal opportunity 1970s—teetered down the aisle in high-heeled shoes, wearing gloves, tailored suits, stockings with a seam

up the back to show off their legs, and a regulation girdle to nip in their waist. Having first taken to the skies in 1930, as petite registered nurses younger than twenty-five, the girls in the fifties were required to have a college degree, were forbidden to marry, have babies or gain weight some other way, and had to retire by age thirty-two.

On all-male "executive flights," which were introduced in 1953, and flew with a load factor of 80 to 90 percent until they were discontinued in 1970, the men onboard were given gifts such as cigars, often lit for them by the stewardesses. Complimentary alcohol, measured in cruets, became a feature of first-class flights in 1956, and stewardesses had the difficult task of restricting passengers to a two-drink limit.

By the late sixties, gir-

dles, spike heels, and gloves were phased out, to be replaced by more comfortable outfits and a frankly sexier image. Suggestive ad campaigns flourished, with slogans such as "Fly me, I'm Cheryl" and "We really move our tails for you." One airline even hired Playboy bunnies as a publicity stunt.

Since those days, flight attendants, of both sexes, can marry, have children, gain weight, and work well into middle age. They don't even have to smile anymore, it seems, as they lob you your pre-packaged, aluminum-sealed meal on a plastic tray. We are not what the passengers of old used to be, either. We slouch onto the plane dressed in tracksuits, demanding as much in-flight entertainment and free booze as we can stomach.

It is all far more equitable and down-to-earth than flying used to be—and along with the elitism—some of the thrill is gone as well.

—Ester Laushway





Employees of Cologne-Bonn airport display various items confiscated from passengers due to increased security measures after September 11.



A KLM Dutch Airlines poster advertises a more innocent age of travel.

narrowly escaped being blown up by a passenger wearing explosive-packed shoes. Thanks to a flight attendant, who noticed him trying to set fire to his shoes, and to several courageous passengers, the man was overpowered before he could do any harm.

So we are still not back to the happy little world we once lived in, where our fears of flying were confined to mechanical failures and pilot errors. 'Risk zero' from terrorism attacks does not exist, Ground Zero does. But statistically, air travel is still a safer method of transport than driving a car, and even in these troubled times, notwithstanding delays and complications, it offers several advantages.

For one thing, airplanes have more space on them for the time being than they have had for decades. True, traffic is gradually picking up again, and is estimated to get back to the same volume reached a couple of years ago by mid-2002, but in November I had a whole row of seats to myself on a Boeing 747 that took off with more

than half the seats empty. More important than the increased space is the new solidarity, friendliness, tolerance, and patience that passengers and crew alike are showing toward each other. Security has also never been better and is likely to improve even more.

Perhaps most important to me is the sense of standing up in my own small way to terrorism, of sending a signal, each time I take a plane, that I refuse to give way to isolationism, that I still want to travel to other countries, because only by learning about each others' cultures can we ever understand and tolerate each others' differences. By no means do I mean to minimize the enormity of the tragedy that struck September 11 nor imply any disrespect to anyone who does not want to travel abroad, but I *am* confident that the human spirit is too strong to be held down by terror and that we all, in our own way, will not stop flying for long. ☺

*Ester Laushway, based in France, is a contributing editor for EUROPE.*



The Algarve region—with its sun, sandy beaches, and golf courses—is one of Europe's most popular tourist destinations, and Lisbon is an increasingly popular option for a weekend break. But if you really want to get away from it all, you would do better to pick the vast, predominately rural region that lies between them: the Alentejo.

This region, which derives its name from the words *alem Tejo*—beyond the Tejo or Tagus River—east and south of Lisbon, comprises one quarter of Portugal but contains just 5 percent of its population. The biggest concentration of monuments is in the town of Évora, a UNESCO World Heritage Site, with its Roman temple to Diana, myriad churches, and winding stone streets. To the east are the so-called “marble towns,” Estremoz, Borba, and Vila Viçosa, with their quarries—and palatial buildings to match. Near the Spanish border are the fortified hill villages of Marvão and Monsaraz. And across the region are dotted standing stones and other evidence of millennia of human habitation.

A major lure of the Alentejo for city-dwellers is its open spaces. Setting out from Lisbon, one is struck by its emptiness—clear roads, big skies, and miles of rolling countryside. Much of it is planted with cork oaks or olive trees, twisting up amid boulders piled up when the fields were cleared centuries ago.

Now and then you come across a village of whitewashed houses, their doors and windows edged with blue or yellow paint in the Moorish style brought by the Islamic civilization that once flourished in southern Iberia. Arriving from North Africa in the eighth century, the Moors brought citrus fruits and other crops as well as new farming techniques. But by 1279 they had been driven out by Christians from

## Wide-open spaces,

the north. Traces of their presence remain, though, for example in the town of Mértola.

Then there are the hilltop towns with medieval castles that seem to be right out of a fairytale but in fact were built for the practical purpose of defending Portugal against the Spanish.

# The Alentejo

By Alison Roberts

The spare, rounded hills of the Alentejo attract city dwellers seeking empty spaces.



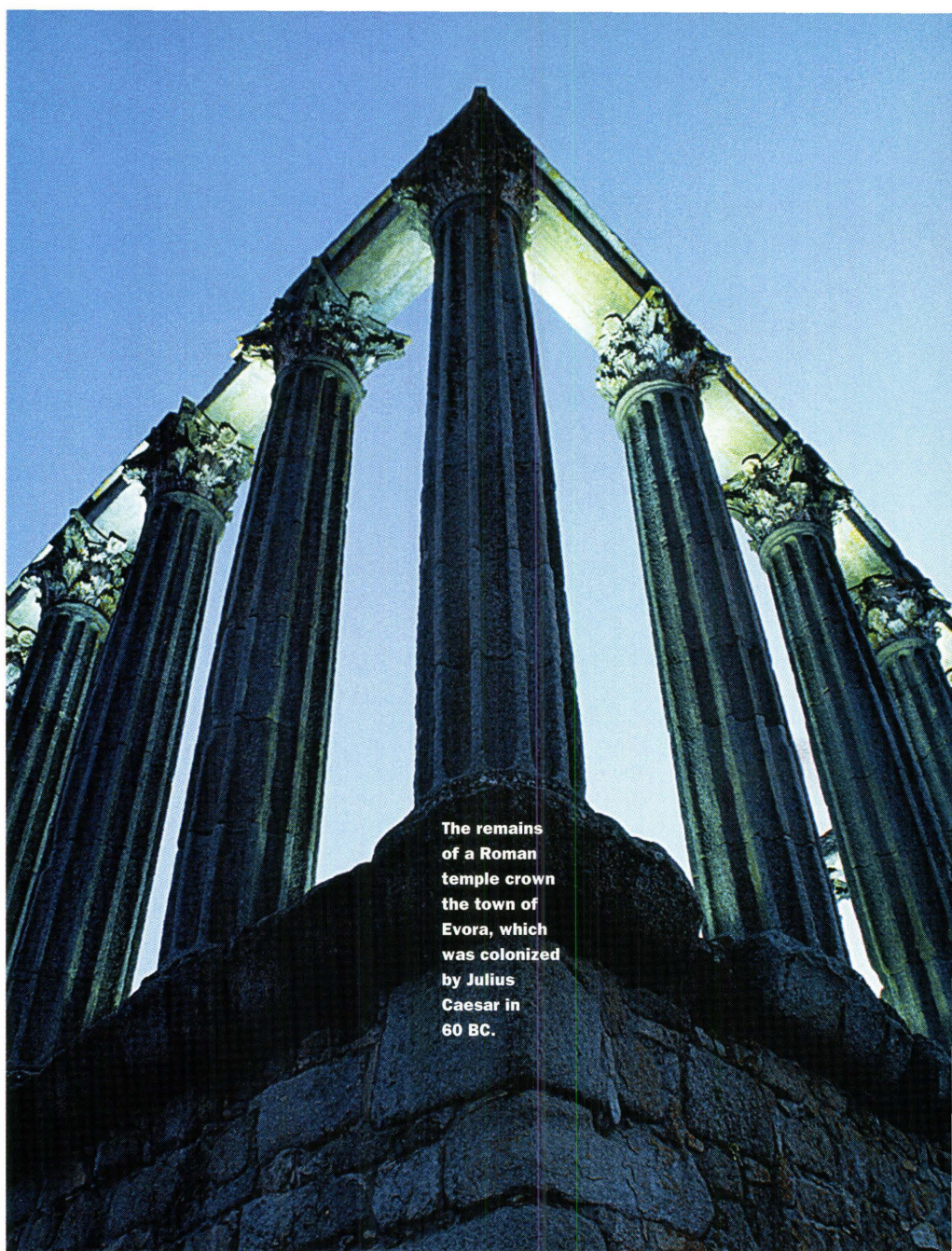
Beach-lovers will not be disappointed. The Alentejo has many miles of Atlantic coastline, often backed by spectacular cliffs such as those at Zambujeira do Mar. The region's split personality explains some unusual but delicious gastronomic combinations, such as *porco à Alentejano*—marinated pork with clams.

Be warned, though. The beaches may be stunning, but the sea is chilly—good for a refreshing dip on a baking hot summer day but not for a lengthy swim. The sun is the same as the one that shines on the Algarve's more sheltered waters, though in the Alentejo you may have the beach to yourself.

Four and five-star hotels are scarce. Outside larger towns, accommodation will take the form of a cozy *pensão* or a farmhouse participating in the government-sponsored *Turismo de Habitação* program. The top of the range are the region's dozen or so state-run *pousadas*. Like Spain's *paradores*, these are housed mostly in castles, palaces, or former monasteries.

The Alentejo may be *terra incognita* to most tourists, but Lisbon's wealthier citizens are busy buying weekend homes here. And every summer, thousands of youngsters descend on Zambujeira for the Festival Sudoeste, Portugal's premier rock festival, which attracts big foreign and local bands.

As elsewhere in Portugal, you are unlikely to go hungry. Regional dishes tend to be hearty and meat-based, although seafood is also popular. Soups are common, including *gaspacho alentejano*, chunkier than its puréed Spanish cousin. Bread features more prominently in *açorda*—a stew comprised variously of lobster, shrimp, and other seafood, olive oil, garlic, coriander, thickened with crumbs, and served with a fried egg on top. Local versions of roast lamb and wild boar are unusually delicious, as are the huge range of



The remains of a Roman temple crown the town of Évora, which was colonized by Julius Caesar in 60 BC.

bodied reds. You can visit or even stay at some vineyards, such as Esporão.

The Romans brought other things, too. Julius Caesar, who colonized Évora in 60 BC, set up huge estates to make the most of poor soil and scant water, and many still exist.

Many of these *latifúndios* were seized by peasants during the 1974 revolution

that liberated Portugal from decades of dictatorship. Few succeeded as cooperatives, however, and most are back with the original owners. Drought, farm mechanization, and better opportunities elsewhere have since spurred emigration, almost halving the region's population in thirty years. It remains a backwater, but that is part of its appeal. ☹

## Roman ruins, and quiet uncrowded beaches

sausages and cheeses. At meal's end, try one of the desserts originally devised in Portugal's convents, made from almonds, sugar, and egg yolks.

This being Portugal, fine wines have been prized since the Romans planted vines here. Today, the Alentejo is winning international acclaim for its full-

### TRAVELER'S NOTES

**ICEP** (national tourist board [www.icep.pt](http://www.icep.pt)): (351) 213 466 307/213 525 810

**Évora tourist office** (351) 266 702 671

**Pousadas de Portugal** ([www.pousadas.pt](http://www.pousadas.pt)): (351) 218 442 001

**Turismo de habitação** ([www.manorhouses.com](http://www.manorhouses.com)): (351) 258 743 923



# Love Affair Provencal

By Ester Laushway

Famous French region continues  
to provoke passions and tantalize palates

For the past six years, I have been living an intense love affair in full view of my husband. He approves. That is because the object of my infatuation is not a person, but a place.

Bordered by the Mediterranean Sea to the south, the Rhone River to the west, the Alps to the north, and Italy to the east, it is a relatively small region that, to my mind, is the closest you can get to paradise right here on earth. It is Provence, of course, that little patch of Eden that brought out the best-selling author in Peter Mayle a decade ago. The French have always treasured it as a sun-drenched Shangri-La, but since Mayle revealed its charms to the world, it has become a favorite holiday destination for foreign tourists as well. Last year, Americans represented 15 percent of all foreign visitors to the region, coming a close third behind the Italians and the British.

Just what makes Provence so unique? Other places have equally spectacular scenery, a long, rich history and vibrant culture, nearly perfect climate, wonderful food, and easy-drinking wines. But Provence offers more than that: an exuberant passion for life is in the air here—a joy of living that is contagious and totally irresistible.

Right from the start, the story of Provence has been a love story. Mother Nature began it all, by doting on Provence as her favorite child. She lavished gifts on an area just 160 miles across and only 140 miles from top to bottom. From chiseled white limestone cliffs that plunge into the sea to the majestic snowcapped Alps, from the ochre cliffs of Roussillon, which glow with the

colors of a captive sunset, to the forested heights of the Luberon, the earth and rock of Provence provide a spectacular variety of forms and colors. Water tumbles through it in countless streams, through canyons and gorges; it mirrors the deep blue sky in mountain lakes, flows down the mighty Rhone River, pauses and pools in the vast marshlands of the Camargue and then empties itself into the azure blue Mediterranean. The pristine white of almond blossoms, the bright yellow of mimosas in bloom, the waves of deep purple lavender mix their heady perfumes with the earthier scents of wild herbs, pine, cedar, and boxwood. And the sun bestows its warm caress on Mother Nature's work of love 300 days a year.

It is no wonder that down through the ages, the people of Provence have cared passionately about their region. The ancient Greeks were the first to discover it twenty-six centuries ago, when one of their sailing ships found a magnificent natural harbor on the Mediterranean coast. Legend has it that the young captain and his crew came ashore and stumbled right into the midst of a wedding feast. The local chieftain's daughter was getting married. She took one look at the handsome Greek captain and decided to change bridegrooms, right then and there. From that moment of love at first sight, from the symbolic union of sea and land, Marseille was born, Europe's first city and the current capital of Provence.

There was nothing cold-blooded about the Romans who followed the Greeks, either. They threw themselves heart and soul into conquering this strategically placed land, which they farmed and re-sculpted, leaving vine-

yards and olive groves, splendid roads, aqueducts, and amphitheatres to mark their passage.

In the Middle Ages, strong passions drove the mighty lords of Provence to make war—and love—with equal gusto. Their hilltop strongholds, such as Les Baux-de-Provence, standing proudly on a naked rock spur, are among the most spectacularly photogenic villages in France. Les Baux also housed a Court of Love, where troubadours came from far and wide to sing the praises of courtly love to an all-female jury and compete for the prize of a crown of peacock feathers, presented with a kiss from the fairest damsel.

In the nineteenth century, great painters like Van Gogh and Cezanne, in their turn, fell under the spell of the brilliant sunshine, bold colors, and shapes of Provence. The luminous landscapes of the south roused Van Gogh to a frenzy of creativity and gave him a rare reprieve from the dark demons that were to drive him to suicide once he left Provence. In the little more than two years he spent in Arles and Saint-Rémy-de-Provence, Van Gogh produced approximately 350 paintings and nearly 300 sketches and drawings.

Paul Cezanne, born in Aix-en-Provence, was so ill at ease around women that his housekeeper had orders not to even let her dress brush against him, but he was totally infatuated with the local landmark, Mount Sainte-Victoire. It became his favorite obsession, which he tried to capture on canvas more than sixty times.

Such wholehearted passion is typical of Provence. Its master chefs, vintners, artists, and craftsmen all draw inspiration from the magnificent region in which they live and work. They devote





The Aix-en-Provence street markets teem with stands selling flowers and gastronomic delights as well as cafés offering refreshment and respite from the bustle.

themselves, with time and love, to creating fine food and wine, handmade decorative objects, fabrics, and furniture—everything that turns living from an act into an art.

Even the humblest stall keeper at a local market takes great pride in what he does. Just try buying something as simple as a melon. If you act the least bit interested, chances are you will be told and shown how to choose a perfectly ripe one, hear how this year's harvest compares to previous ones, and be sent away with several suggestions on how to serve it. If you are in a hurry, you may find this leisurely approach to business irritating, but if you are ready to savor life's little moments, you will be enchanted.

I for one am completely besotted. To me, Provence represents French *savoir-vivre* at its best, without the elitist smugness and self-conscious sophistication that sometimes accompany

it elsewhere. The people here truly love their region, and the vast majority love sharing its riches with visitors. Sure, you can meet the odd arrogant shopkeeper, grumpy farmer, or rude taxi driver, but they are rare exceptions to the rule.

Nowhere is the southern talent for savoring life to the full, without unnecessary complications, more obvious than around the dinner table. Food in Provence, whether in a private home or in a restaurant, is not served with a lot of fancy sauces or elaborate garnishes. Cooks here respect the wonderful fresh ingredients of the region and prepare them lovingly, but quite simply, to bring out their natural flavors.

At La Cabro d'Or, for example, an idyllic country auberge set among peaceful gardens at the foot of Les Baux-de-Provence, great care is taken with every detail, no matter how small, to make you feel welcome and special.

The cuisine is Michelin-starred, yet you can get a meal there for less than \$30 because the twenty-nine-year-old chef, Michel Hulin, is more interested in client satisfaction than a big profit margin. "We do quite a simple style of cuisine, with simple ingredients, which are not too expensive," he explained. "We prepare them in the most natural way possible, without any unnecessary frills. It's not necessary to add extra flourishes here in Provence because the basics are so good. And it's a seasonal style of cooking that works with nature's cycles. It's simple, but right."

Indeed, it is. Provence is simply beautiful and beautifully simple. Even better, it has a warm, passionate heart, and therein, I think, lies the secret of its charm.

Last summer, I saw a large tour bus, with a couple dozen Americans on board, pulled over on the side of a nar-



(top) An ancient castle surmounts the mountain village of Les Baux-de-Provence. (bottom) Mont Sainte-Victoire captivated the imagination of Paul Cézanne, who depicted it on more than sixty canvases.

row little road, crossed by a picturesque twelfth-century bridge that was a good foot lower than the roof of the bus. A mile past that bridge was a splendid garden, which was the group's destination. Only they could not get there from here. A police car came

way ahead, giving the "all clear" by cell phone, and the jalopy rattling along in front, the bus was escorted safely around the bridge.

Those on board will file that outing away in their mental scrapbook of special souvenirs, and I am sure that

many of them will be planning another trip to Provence sometime. Peter Mayle may have brought a lot of people to the region for the first time, but it is the way Provence opens its arms wide in welcome that keeps them coming back. ☺

#### TRAVELER'S NOTES

**The Regional Tourist Board of Provence-Alpes-Côte d'Azur in Marseille.**

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along, stopped, and the bus driver explained his dilemma. A lot of map reading and discussion followed, and some head scratching since a religious procession scheduled for that morning would block a couple of alternative routes. Finally, with a jovial wave, the two policemen drove off, on a self-appointed trailblazing mission. Another car, an ancient, much dented vehicle, pulled up shortly after. It was the garden's owner, sent out by his wife to check on what was delaying their visitors. With the police car scouting the



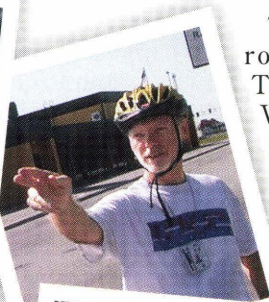
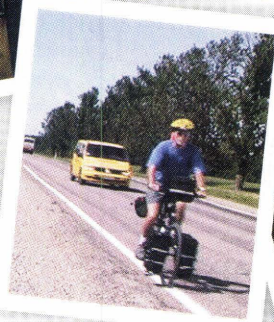


# Riding to Riga and Beyond

By Barry D. Wood **The unspoiled pleasures of bicycling in the Baltics**



The author en route from Tallinn to Riga.



The Baltic states occupy a still largely hidden corner of northeastern Europe. But the growing number of travelers venturing past Helsinki to Tallinn, Estonia's bustling medieval capital, are richly rewarded with good value and the thrill of something different.

Tallinn is a wonderful starting point for a bicycle tour. There are well-equipped outfitting shops offering first world selection with third world prices. The Estonian hinterland and indeed the entire Baltics are flat, traffic only moderate, the tourist infrastructure rapidly advancing, and the people welcoming of visitors.

As Europeans have already discovered, bicycle touring is a perfect way to engage in physical activity, move at one's own pace, and directly experience the way people live. My bicycle journey took place over two weeks last July, generally a good time to visit the Baltics, where summers are short and spring times often rainy. I traveled at a leisurely pace of usually less than fifty miles per day. While I had a general goal of crossing Estonia, Latvia, and Lithuania, I let my course be set by what I found interesting, by the people I met, and of course by the weather. I carried two full days in the Estonian capital, enjoying the considerable pleasures of this most successful of the Baltic states and reconnecting with old friends, part of Estonia's growing band of young entrepreneurs.

A superb bike shop only two blocks from Tallinn's new SAS Radisson hotel had the Cannondale hybrid I had brought from the states as accompanied baggage assembled within an hour. Another hour to pack the two front panniers, and I was on my way.



have the bike paths that are so common in Western Europe, this two-lane, truck-laden "Via Baltica" was to be my companion for the better part of two weeks. Despite traveling alone on a busy highway, I never felt in danger. I was, however, comforted by the red warning flag mounted from the rear rack that alerted drivers to my bicycle. Leaving Tallinn's apartment blocks and new strip malls behind, Estonia's countryside is a luxuriant green.

At a service station not far from Marjamma, halfway to the coast, the locals smiled and offered their regrets when asked if there was a hotel or guesthouse nearby. Having been on the road five hours, I knew that one way or another Marjamma was where I would spend the night.

Need can summon up a useful boldness. Riding past Marjamma's solitary church and its two or three shops, I sought out any group of people. Someone—usually a young person—would speak English. At a small cafe with a table out front and a cramped dining room inside, I blurted out my rehearsed query, "Is there anyone here who knows someone who would take in a boarder for the night?" A tall, youngish man put down his fork and answered that he

knew no such person, but that I could stay in his flat. Moments later he parked his late model Opel and I my bike outside a two story building on the edge of town.

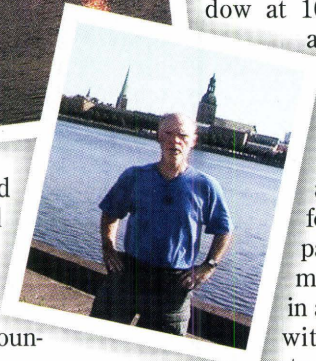
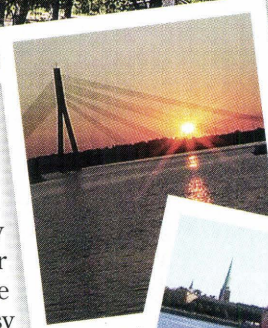
His name was Rein, a successful forty-one-year-old entrepreneur who owned the duplex where he, his wife, and their two boys resided. They were away on holiday. His business was making solar panels for export to Finland. Within minutes of bringing me upstairs and showing me his Internet-equipped PC, Rein was on his way to a party in Parnu, the seaside resort that was my next day's destination. I was welcome, he said, to his food and drink and to use the Internet. He would return in the morning.

Despite the northern sun still streaming through a window at 10 pm, I was fast asleep in seconds.

In the morning, I visited Rein's factory, toured the village, and examined blueprints for his proposed expansion. Rein, like many Estonians, is in a hurry to catch up with the West. He strongly favors EU

membership but regrets that it means little Estonia has to give up its hard-won new currency and implement hundreds of bureaucratic rules.

Parnu—a popular resort since the time of the czar—has regained its pre-communist sparkle with astonishing speed. Instead of gritty, quota-fulfilling workers from the USSR, Parnu's wide beaches today attract Finns, Swedes, and the growing number of Estonians with money. Its summer music festival is winning European acclaim, and its old hotels and guesthouses—like Cinderella—have been transformed into elegance. I stayed in one such guesthouse, where Dave Brubeck-style jazz played in the town square wafted through the open window until late in the night.





# The Basics of Bicycle Touring

There is such a bewildering choice of bicycles available today that deciding what you need can be a problem. Let's be basic—there are racing bikes (often called road bikes) and mountain bikes. In the middle are hybrids—bikes without those uncomfortable drop-down handle bars. Hybrids have tires thicker than the narrow, prone to punctures, racing tires. If you're biking in places with uneven surfaces or potholes, a hybrid is for you.

Pannier (say, "pan-ner") is a fancy name for the backpack like cargo case that snaps in place from a front or rear wheel rack. Since balance and control are critical, the two panniers need to be packed to a similar weight. Americans, I've noticed, usually have their panniers on the back while the European custom is on the front. I've come to prefer front panniers because the weight is distant from and not stressing the drive train. And it's not a problem to steer with the weight on the front wheel. Most panniers come with rain covers attached. I keep a lightweight poncho and rain pants either near the top of the panniers or in the critically important handlebar pack, most of which come with a

plastic window on top for maps. I suggest you buy locally the best and biggest scale (1:50,000 or 100,000) maps available. Keep important things like snacks, mobile phone, and passport in the handlebar pack. Behind the rider is the rear rack, on which another pack can be attached with bungee cords. Of course, there are front and rear lights for the unexpected times you have to travel in darkness. The bike computer, a small wrist-watch-like device, goes on the handlebar next to the bell. It measures distance, time, elapsed time, and speed. Directly beneath the rider attached to the frame is a water bottle and a tire pump. Keep a miniature tool kit somewhere handy. And never leave your bike unattended without using a theft-proof locking device. Snap off the attached packs and carry them with you to avoid tempting thieves.

From the above it may seem all this equipment would cost an arm and a leg. Not true, certainly in the Baltics or consumer-friendly America. My Cannondale H400 Hybrid and all the equipment mentioned above—plus helmet and special riding attire came to less than \$1,500, and \$850 of that was the bike itself.

If you're biking in

the Baltics and starting from Tallinn, the Team Rattapood bike shop (rattapood@solo.delfi.ee) would be a useful starting point. Jannus Prukkel, the owner, has visited the States and is a registered Cannondale dealer. The shop, along the suburban Tallinn waterfront (where the yachting events were held in the 1980 Olympics), has a good selection of equipment and skilled bicycle mechanics. Likewise, if you're cycling south to Parnu on the sea, the Rattapood shop there (velo@hot.ee) can provide what you need and give you helpful advice on getting to less-traveled and very inviting spots in Estonia. In Riga, the biggest bike shop is Veloserviss (veloserviss@apollo.lv), a Trek dealership in the downtown area. And the chief mechanic there, Yuri—a Russian, holds the world record on distance traveled in a twenty-four-hour period.

Of course, the Internet offers a plethora of bicycle-touring sites for almost anywhere you wish to travel. Bon voyage!

—Barry D. Wood

Approaching the Latvian border, farms give way to sweet smelling pine and birch forests. To the west, the sea is often visible from the road. At Kabli, just five miles from the border, I had the choice of a renting a sleeping bag in a cabin filled with young people or cycling the short distance on to Tiit and Anna's bed and breakfast. I chose the latter and pedaled up the driveway just as a wood fire was being readied for a feast of Sashlik, the grilled skewers of sautéed meat that is one of the few good things locals will say about Russia's presence here.

My hosts warned me that people would be much poorer as I rode through Latvia. Tiit, a former computer technician and policeman, who says that being in his mid-fifties means it's too late for him to succeed in the new market economy, blames Russian domination and neglect for the region's low living standards.

It was more than eighty miles from Kabli to Riga, and I never intended to do it in a single day. But I kept moving as the riding was easy, and there were no inviting places along the route. It must have been an incongruous sight—a loaded bicycle flying a red pennant with a rider in a yellow helmet—moving along Riga's only freeway at 11 pm. I felt triumphant crossing the wide Daugava River and approaching the comforts of Riga's finest hotel.

Some cyclists prefer to camp. But I'm turned off by the extra weight of the equipment and too attracted to material comforts like an occasional shower and clean bed.

Riga is still essentially a Russian-speaking city and the only big city in the Baltics. It pulses with energy and drive, is a commercial center, and its disparate people get along well making business.

South of Riga, and particularly south of Jelgava, which is becoming a distant Riga suburb, it's a hard-scrabble life. Women in babushkas still hoe rows of potatoes, cattle are led along the roadside, and young people yearn for the faster life and opportunities of the capital. I stayed with one such group of kids at Eleja not far from the Lithuanian border. For these young people in their late teens, all with language skills and education, there was no future in rural Latvia. I sensed this as my hosts in the next room downloaded MP3 files from their computer and bounced e-mails back and forth to Western Europe, Australia, and America. The keyboard tapping made me almost forget the pet rat, Misha, who roamed about freely and could slide easily beneath my closed door.

Siaulai, a tidy, medium-sized city in central Lithuania was my end point. From there, I boarded a bus back to Riga and then Tallinn. Two days later, bike, helmet, and rider all intact, I was back in Washington reflecting on a successful start to what I hope will be a series of rides from the top of Eastern Europe to the bottom. ☺

*Barry D. Wood, based in Washington, frequently writes about economics and Central and Eastern Europe for EUROPE.*





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# CAPITALS

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



The Danish Museum of Decorative Art's exhibition on plagiarism has attracted widespread media and public interest.

## COPENHAGEN

### DANISH DESIGNERS ANGERED BY ILLEGAL IMITATORS

**D**esign companies such as Georg Jensen, Bang & Olufsen, and Royal Copenhagen have helped to establish Denmark's reputation as a major design center. They also contribute significantly to its national export earnings. But the industry is under threat because along with beautifully designed and crafted

products come the inevitable and often inferior imitations.

Consequently, Danish designers and manufacturers are making tremendous efforts to rid their markets of knockoff artists who steal the legitimate companies' designs. This effort inspired two lawyers specializing in copyright law to approach the Danish Museum of Decorative Art in Copenhagen to suggest an exhibition on plagiarism, which would help arouse public interest in the subject.

"Modern mass production technology has enabled us to reproduce objects in hundreds of thousands of copies, and this

makes plagiarism a serious problem," states Rikke Rosenberg, the museum's press officer and curator. However, plagiarism is also a difficult problem to approach. "There are no clear boundaries between imitation and inspiration," Rosenberg argues.

"The exhibition illustrates this dilemma by displaying some of our most famous design objects along with imitations," she explains. "In most cases we can use the term 'imitation' with certainty because the relationship between two designs is apparent. But when the similarity between original and copy is less obvi-



ous, matters become complicated, and we must resort to more vague terms like 'inspiration.'"

Imitators may insist that their product designs are inspired by established design classics rather than downright imitations. It is, therefore, both complicated and expensive to defend one's ideas against theft.

The Fritz Hansen firm has had first-hand experience in this area. The famous

that they have invested in a classic but end up frustrated by the imitation's poor quality and lack of authenticity," he says.

Product manager Finn Petersen at Louis Poulsen Lighting adds that imitators have an edge over designers. "They do not have to bother with paying royalties or funding product development. Consequently, long-term plagiarism may result in less innovation, as designers and



Danish designer Arne Jacobsen (1902–1971) first designed the Series Seven chairs in 1956, but imitations frequently appear on the market.

Danish maker of classic furniture by designers like Arne Jacobsen, Poul Kjaerholm, and Verner Panton, spends a fortune every year on protecting the rights to the company's designs. "We employ legal means whenever possible, but where international copyright law does not apply, we have to rely on information campaigns," explains Torben Holme Nielsen, international marketing executive.

In his opinion, plagiarism has several adverse effects. "Imitators learn that crime does pay, and consumers, who cannot always tell copy from original, become disappointed. They may believe

manufacturers realize that design thieves are eroding their profits."

The exhibition has proven successful in terms of media attention as well as public interest. Numerous designers and representatives of the manufacturers have visited the exhibition along with crowds of ordinary people attracted by the beautiful design classics on display. But Rikke Rosenberg was surprised to learn that one specific group of people had found the exhibition worthwhile. "Quite a few of the design imitators have been spotted at the museum," she remarks.

—*Maria Bernbom*

## CUBANS COME KNOCKING

**A**s civil guards manning fast cutters along Spain's southern coast try to stem the rising tide of Africans attempting to sneak into the country aboard small boats, their colleagues at Madrid's Barajas International Airport are dealing with an unprecedented wave of Cuban immigrants.

Last year, the number of Cubans requesting humanitarian asylum in Spain more than tripled from 144 in the month of January to almost 500 in December. According to a Spanish refugee aid committee, Cubans accounted for 90 percent of the 3,273 asylum requests filed by immigrant hopefuls at the airport.

Compared with citizens of other third world nations trying to enter Spain, the Cubans have it fairly easy. With a purchased invitation letter from a resident of Russia in hand, they buy a round-trip airline ticket from Havana to Moscow with a flight change in Madrid, and once they arrive at the airport in the Spanish capital they file for asylum.

This is in contrast to the North Africans, sub-Saharan Africans, and the occasional Iraqi, Kurd, or Afghan who, after being nabbed while risking their lives crossing from Morocco to Spain, are detained in often-squalid conditions and then returned posthaste to their countries of origin.

Under Spanish law, humanitarian asylum can be granted to citizens of those countries suffering "an emergency economic situation" and they have sixty days to find a job and begin legalization procedures. If they have not done so within the two months, says the legislation, they can be arrested and shipped home.

However, according to Cuban refugee assistance groups, the center-right Spanish government has never yet kicked out a Cuban and forced them to return. This angers other immigrant aid organizations, especially those helping Colombians.

They argue that the Cubans are getting preferential treatment for political reasons, as the administration of Prime Minister José María Aznar is no friend of the Castro regime. And that Colombians, many of whom are literally fleeing for their lives from their drug-war, kidnapping, and civil conflict-wracked country, should be treated the same.



But in January, Spain made it even harder for Colombians to visit by requiring them to obtain entry visas for the first time in forty years. Spanish officials blame Colombian immigrants for a recent binge of drug-related revenge killings in the streets of Madrid.

—*Benjamin Jones*

## BERLIN

### ARE GERMAN STUDENTS REALLY BELOW AVERAGE?

**O**h, the shame of it! A new study by the Organization for Economic Cooperation and Development (OECD) has concluded that German fifteen-year-olds are, well, academically challenged. They're mediocre at math. They're slow at science. And when it comes to reading comprehension, they're at the back of the class. Indeed, they're among the worst in Europe. The study's findings amount to a slap in the face for the country's politicians, parents, and educators. They're all blaming each other for the sorry state of German education.

For a country that's long prided itself on the achievements of its educational system, the results of the OECD study are sobering. In a thirty-one-country comparison, German students not only failed to make it into the top ten percent, they didn't even make it into the top half. In math and science they ranked way down at number twenty. In reading literacy (the principal focus of the test), Germany came in a miserable twenty-first.

The substandard performance of Germany (the world's third-largest economy) is particularly glaring when compared to other European countries. Finnish students, for example, took first place honors in reading, scored third in science, and fourth in math. Austria consistently made it into the top third. The UK ranked eighth or better in all three categories. No major European country performed as badly across the board as Germany.

Of course, the announcement of the test results in December sparked a major debate about the quality of German education. Almost everyone acknowledges that the country's students aren't performing as well as they might. But there's little agreement on why they're doing so badly or what should be done about it. Some feel that class sizes (comparatively large in Germany) should be reduced. Others believe the country's pedagogical

approach places too much emphasis on rote learning, to the detriment of problem solving skills. Many educators argue that Germany's teachers are overburdened, underpaid, and burned out.

Alongside standard pleas for more teachers and higher spending on education, the education debate is also focusing on the role of foreigners in German society. Conservative politicians point to the poor scores of students from non-German-speaking households as justification for curbing immigration. They claim the high proportion of foreigners (particularly Turks) in some schools compromises the ability of teachers to address the needs of native German speakers. Educational policy makers in some German states are calling for mandatory language tests of four-year-olds and an obligatory year of kindergarten with an emphasis on learning German.

Nevertheless, even those fifteen-year-olds who are perfectly able to read German often aren't willing. The OECD study found that forty-two percent of the students in Germany never read for pleasure. No other country showed a greater aversion to browsing through a magazine or cracking open a book. In a country with such a diverse and colorful range of print-based media, this statistic is particularly baffling. It certainly doesn't bode well for the future of Germany's publishing industry.

—*Terry Martin*

## BRUSSELS

### CONTROVERSIAL LEADERS AVOID 'ARREST' IN BELGIUM

**H**as little Belgium taken on more than it can chew? The laws passed in 1993 and 1999 making its courts competent to try people accused of war crimes, crimes against humanity and genocide, wherever they were committed and by whom, threaten to impose an impossible burden on the country's judicial system and create diplomatic nightmares for its government.

Only one trial has so far been held. That was last year when two Catholic nuns, a businessman, and a university professor were found guilty of war crimes committed during the genocide of 1994 and sentenced to prison sentences ranging from twelve to twenty years.

Another twenty-three cases are still pending, including complaints against

four serving presidents: Fidel Castro of Cuba, Saddam Hussein of Iraq, Laurent Gbagbo of Ivory Coast, and Sassou Nguesso of Congo Brazzaville; and three former heads of state: Ali Akbar Rafsanjani of Iran, Hissen Habré of Chad, and Augusto Pinochet of Chile.

All of these men are taking care not to fall within the jurisdiction of the Belgian authorities, but two other high-profile cases are currently causing acute embarrassment to the Belgian government. One concerns Israeli Prime Minister Ariel Sharon, who is being investigated for his alleged responsibility in the Sabra and Chatila massacres of 1983. Sharon was due to visit Brussels in November for important international talks, but called off his visit for fear of facing a "citizen's arrest."

Another highly sensitive case involves Congolese Foreign Minister Abdulaye Yerodia, for whom Belgium obtained an international arrest warrant accusing him of inciting racial hatred against the Tutsi. The government of the Democratic Republic of the Congo has now arraigned Belgium before the International Court of Justice at the Hague, challenging the validity of its laws.

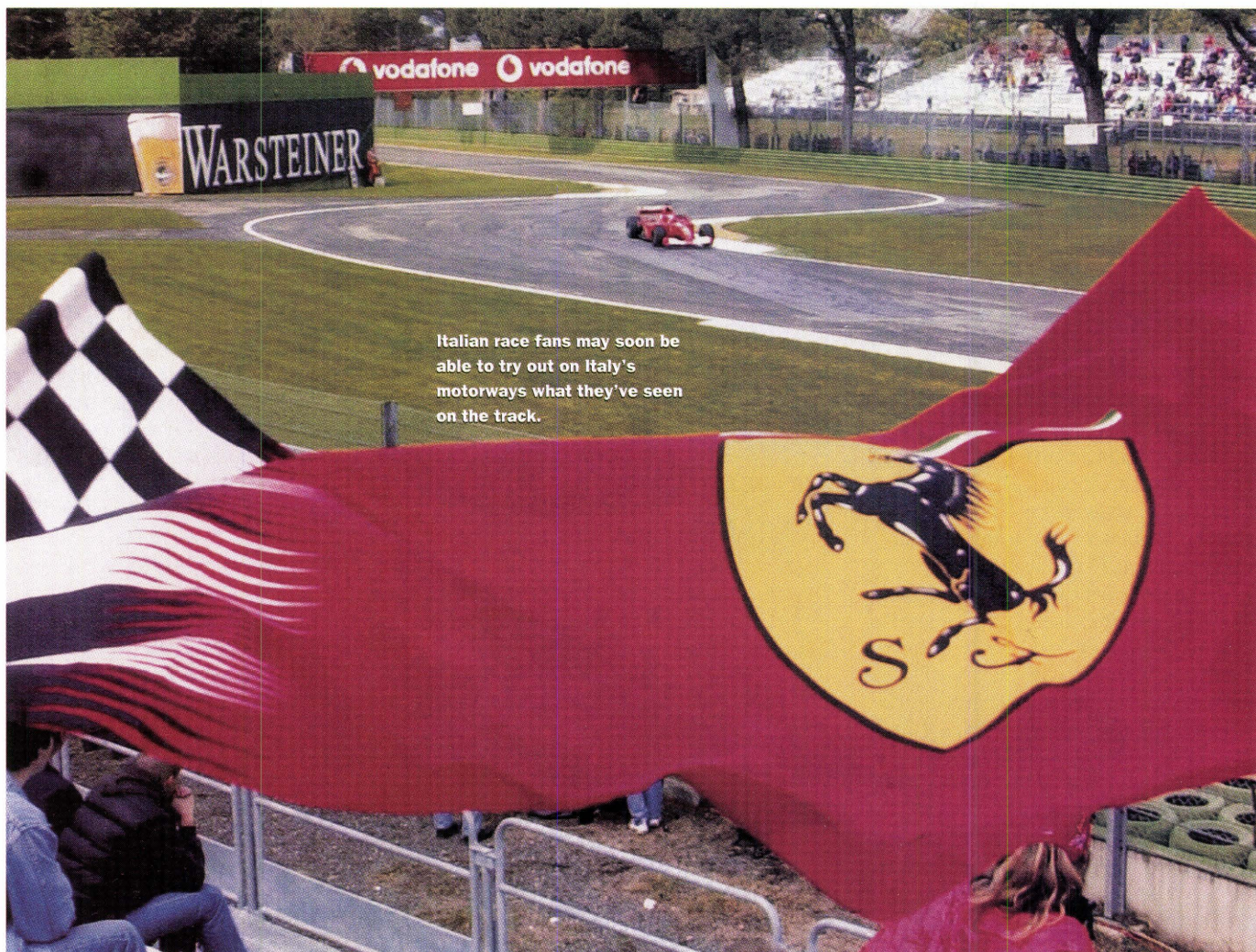
Voices are being raised in Belgium saying that the country cannot act as the world's police officer, and that its magistrates should back off from pursuing cases that do not directly involve Belgian citizens or offences committed on Belgian soil. Others say that this would send entirely the wrong message to potential human rights abusers worldwide.

Belgian Prime Minister Guy Verhofstadt believes that other democratic governments should follow the Belgian example, and enshrine their obligations under the Geneva convention on human rights in similar laws, so that the burden would be spread more widely. Luc Walley, one of the lawyers representing Ariel Sharon's accusers agrees. "People come here to file complaints from France and the Netherlands, countries that could do this for themselves. Perhaps it's time Europe acted on this," he said recently.

Relief for the Belgian dilemma could come with the launch of the International Criminal Court, under the treaty agreed in Rome in 1998, and subsequently signed by 139 countries. The treaty will not, however, come into force until sixty countries have ratified it, and so far, only forty-seven have taken this step.

Others have undoubtedly hesitated because of the lukewarm attitude of the





Italian race fans may soon be able to try out on Italy's motorways what they've seen on the track.

United States, which has so far cold-shouldered the projected court, despite President Clinton having signed the treaty during his last days in office.

The case for an international court has been immensely strengthened by the events of September 11. The Belgians now earnestly hope that this will speed up the ratification process and help induce a more cooperative attitude by the Bush administration and the US Senate.

—Dick Leonard

## ROME

### ITALIANS, REV YOUR ENGINES

Italians have long nurtured a boundless love of cars. This isn't just a passion for Ferraris. The successes of *La Rossa* (the Red One) in Formula One racing are celebrated by crowds of exulting, flag-waving fans—celebrations that almost match in exuberance those for the national soccer team (which, in Italy, is saying a lot). Actually, this love isn't just for cars but for any type of fast, motorized vehicle.

Take motorcycles, for example, the victories and international records set by the daredevil champions of motorcycle racing like Valentino Rossi, Max Biaggi, and Loris Capirossi warm the souls of fans and make front-page news. In short, among Europeans, Italians are without a doubt those who most love to drive at top speed. Foreign tourists, especially Americans, who rent cars in order to travel around Italy become quickly indoctrinated into this part of Italian culture as they see cars zooming up behind them and signaling for them to move to the slow lane.

But very soon, tourists will be in for an even more pulse-pounding experience as speed limits on Italy's highways likely will be raised to ninety-three miles per hour. Of course, cars will only be able to whiz along at that speed on certain 'safe' stretches of highway. But the message is clear: enough of this snail pace.

Confirmation comes from the second modification to the driving code: the right-hand lane usually reserved for slower traffic will be abolished. In four

months, when the changes become effective, cars will be able to go fast even in this lane, which speed-loving Italians call the "lane of shame."

These changes to the highway code, which were brought about by Berlusconi's government, couldn't help but raise controversy. Many people have protested, but barring unforeseen events, it seems as though drivers will have to resign themselves to seeing long stretches of Italian highways transformed into public raceways.

In exchange, the new code also introduces a few measures that will harmonize national laws with those in effect in more advanced countries. First is the establishment of a point system for drivers' license holders. All drivers start with twenty points that will be valid for two years. If they commit traffic violations, these credits will be reduced. If the points are reduced to zero, the driver's license will be revoked. The message appears to be: it's alright to drive fast but drive prudently. Let's hope it works.

—Niccolò d'Aquino



## PARIS

## THE MAN BEHIND THE MONUMENT

The century was two years old.” With this opening line, Victor Hugo immortalized 1802, the year of his birth, in *Autumn Leaves*, a cycle of poems that he published in 1831. No modern image consultant or spin-doctor could have marketed him better than he did himself. A literary idol by the age of twenty-eight, Hugo triumphed not only as poet, playwright, and novelist, but also became one of France’s most revered statesmen. His passionate, if not permanent, beliefs represented the main political causes of his time. He began life as an ardent monarchist and ended it as the living embodiment of liberal, Republican ideals.

Behind the bearded, patrician figure, who bestrode the nineteenth century like a colossus right up to his death in 1885, lived a private man, who was equally fascinating, but with enough character flaws to make him reassuringly human. Both Hugo the monument and Hugo the man are being remembered and celebrated in France on the 200th anniversary of his birth.

Born near Switzerland, in the eastern French town of Besançon, the young, brilliant Victor lost no time in making his mark. He earned his first literary prizes in his teens, and by the time he was twenty had married his childhood sweetheart, and published his first collection of poems. He staged his first major publicity coup in 1830, with *Hernani*, a revolutionary play that broke the sacred unities of time, action, and place. It caused a riot on opening night, with Hugo’s supporters, the wild-haired Romantics, trading insults and punches with the wig-wearing members of the classical “establishment.”

Publicly, Hugo never stopped holding center stage from that time on, but behind the scenes, he often played a less glorious role. His wife began an affair with one of his best friends. He, in turn, fell in love with Juliette Drouet, a young actress who stayed devoted to him all her life, in spite of his frequent frolics with young serving girls.

The triumph of *Hernani* was followed a year later by that of *The Hunchback of Notre Dame*, by more poetry and plays, and in 1841, before the age of forty, Hugo was admitted into the inner sanctum of France’s greatest writers, the *Académie Française*.



Victor Marie Hugo (1802–1885)

Fate dealt him another private blow two years later—his eldest daughter, Leopoldine, drowned. (Only the youngest of his five children was to survive him, and she, Adèle, spent her last forty-three years in a mental institution). Unable to express his grief in writing, Hugo turned his back on his literary career for a while and devoted his energy and eloquence to politics.

At first an active supporter of Prince Louis Napoleon-Bonaparte, whose electoral promises included universal suffrage and freedom of the press, Hugo was outraged to see the Second Republic turn into an authoritarian regime, and the Prince-President become Emperor Napoleon III. Forced to flee France in 1851 because of his virulent criticism of the man he had once supported, Hugo spent the next nineteen years in exile in the Channel Islands, first on Jersey, then on Guernsey. A lesser man might have been forgotten during those two decades, but Hugo’s innate genius for self-promotion made use of the distance to magnify everything he wrote in those years into the visionary words of a farsighted prophet.

His consecration as a fearless defender of human liberties came in 1862,

with the publication of his epic social novel, *Les Misérables*. Meticulously prepared, the release of its ten volumes stretched over nine months, and was accompanied by the kind of publicity that, for its time, can be compared to the current hype surrounding the Harry Potter books. Hugo reached a bigger public than any writer had ever done before. Anyone who could read got hold of some illustrated or bargain basement edition of *Les Misérables*, and characters like Gavroche and Cosette became household names in even the poorest neighborhoods.

In 1870, when Napoleon III was defeated during the Franco-Prussian war and the Third French Republic was pro-

claimed, Hugo returned to France as the hero of the common man. Even then he continued his role as conscientious objector, voting against the Frankfurt peace treaty, resigning from the National Assembly to which he had been elected, running again, unsuccessfully, on a liberal platform of abolition of the death penalty and dissolution of the (monarchist) National Assembly. Finally, in 1876, he was elected to the Senate, and from then on, venerated by the French people and politicians alike as a national idol, the human incarnation of liberal ideals.

At home the great man continued to chase the housemaids, and having outlived his wife, mistress, and all but one of his children, held regular séances to communicate with the spirit world. He doted on his two grandchildren, to which he dedicated a tender group of poems entitled *The Art of Being a Grandfather*.

When he died in 1885, several hundred thousand people followed his coffin from the Arc de Triomphe to its resting place in the Pantheon, where only France’s greatest sons lie buried. Paris had never seen a funeral on its scale before.

This year France is paying tribute to the genius of Hugo, with all its contradictions: eloquent, extravagant, self-aggran-



dizing, prolific, fickle, lustful, courageous, and extraordinarily gifted, he marked his century like few other men have ever done. Now that the twenty-first century is two years old, it remains to be seen if it will give birth to anyone of his stature.

—Ester Laushway

## STOCKHOLM

### HOMELESS PROBLEM GROWS

**O**blivious to the disapproving stares of the people sitting nearby, the woman rummages through the wastebasket near the benches in Stockholm's Central Station. Almost immediately, she manages to pull out an empty soda can, one with a 5 cents deposit some traveler couldn't be bothered to claim. Brushing it off, she puts it carefully in her pull-cart that seems to hold most of her clothes and other possessions. Then she moves on to the next wastebasket.

Several men, surrounded by blankets, bags, and boxes, hunker down on the stairs leading up from the Östermalm subway station, in one of the most up-scale parts of the city. Rush hour crowds on their way home from work in the cold winter darkness step around them, avoiding the empty beer bottles the men have scattered and avoiding looking at the men as well.

While such scenes may be commonplace in New York or London, they represent a new dimension in Stockholm. Just a few years ago, it was rare to see the homeless on the streets, sleeping in the subways or in doorways. But cutbacks in various social welfare programs, housing shortages, with the accompanying skyrocketing living costs, and the increasing difficulty for the less educated to find jobs that offer more than bare subsistence have all contributed to a growing homeless population in Stockholm.

The numbers vary widely. The National Board of Health and Welfare claims that there are 10,000 homeless people in all of Sweden; just 0.1 percent of the roughly 9 million people living in the country, with 3,000 of them in Stockholm. But Situation Stockholm, an organization that works with the homeless, says there are as many as 5,000 homeless people in Stockholm alone.

Staffan Hellgren, director of the charitable organization Stockholm City Mission, is inclined to agree with Situation Stockholm's figure. And he notes that 60,000 people sought help from the mis-

sion in 2000—20 percent more than in 1999—and that the numbers continue to increase, especially among women. The mission provided beds for a night to 3,443 women in 2000, twice as many as the year before.

Hellgren blames much of the problem on budget cuts at the various city and national agencies charged with handling social welfare. There is increasing pressure on them to "to stick to their budgets," he says. "They do that, but pass the problem on."

Budget cutbacks at such agencies are particularly noticeable in Sweden, because social welfare has traditionally been taken care of by the state, rather than by charitable organizations. While there are groups such as the Stockholm City Mission they are far fewer than in the United States, for instance. They also find it more difficult to solicit contributions, since many Swedes take the attitude that it is the state's responsibility to deal with welfare problems, rather than private citizens'.

Situation Stockholm was founded in 1994, to publish a newspaper written and

distributed by the homeless, based on London's *The Big Issue*. The group has since expanded to help the homeless get into the job market. The group says its aim is to present the homeless' point of view and to look at what's happening in the capital city from that viewpoint.

In December, after three years of work, a committee appointed by the government recommended that overnight beds provided by social service agencies be eliminated and that the homeless be given a legal right to directly rent permanent homes. Currently, apartments are contracted for by social service agencies that in turn rent them to the homeless.

But the committee was split on that recommendation, with more conservative members claiming such a guarantee will lead to an even tighter rental apartment market in cities such as Stockholm where there is already a shortage of affordable housing. Conservative city commissioner for welfare Kristina Axén Olin thinks that, in turn, will set other people who are trying to get permanent apartments against the homeless.

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homeless, the committee suggested tax breaks on rental apartment real estate. But not everyone thinks that will help. In a letter to the editor, published in the daily paper *Dagens Nyheter*, one woman asked the committee members: "Would any of you rent an apartment to a homeless (drug or alcohol) abuser? I don't think so."

—Ariane Sains

DUBLIN

FORM E112: A PASSPORT TO LIFE?

In early January, my former broadcasting colleague Tommie Gorman went on the air with a remarkable television documentary—not on the usual detail of latest developments within the EU where he served RTÉ, Ireland's national broadcasting service, for more than twelve years as its Brussels-based European editor, nor on his new role as RTÉ's Belfast-based northern editor.

His documentary revealed Gorman's own story of an eight-year battle with a rare form of abdominal cancer and the EU form E112 that, he claims, probably saved his life. He puts it bluntly: "I am alive because I am a citizen of the European Union."

The first warning came in 1994 after spending Christmas with his wife Ceara and his then nine-month-old daughter Moya at their home in County Sligo. Back in Brussels, he suffered "very rough stomach cramps." His Belgian doctor suspected a ruptured appendix—in the hospital, a surgeon found "small lesions compatible with metastasis of the liver," a secondary cancer site. Further tests revealed a primary site, a nodule in the small bowel about a centimeter in size. The surgeon decided to leave it in place, with six-monthly monitoring over a four-year period.

Then, in a bar in Budapest, he met a fellow Sligoman, Frank Gannon, who also happens to be one of Ireland's best-known scientists and runs the European Molecular Biology Lab-

oratory in the German city of Heidelberg.

Gannon was shocked when he researched Gorman's condition. "Instead of finding things like 'minor' and 'benign', I was reading things with statistics like 'on average, a five-year lifespan... immediate surgery recommended.' And I was looking at statistics that didn't stretch very far...because the disease was one which didn't have a long lifespan after discovery."

Gannon's research led Gorman, via the Internet, to Dr. Kjell Öberg of the endocrine-oncology unit at Uppsala University Hospital in Sweden. Although only twenty years-old, the unit has pioneered unique therapeutic options for hormone-produced tumors and has become a worldwide referral center.

Gorman describes Uppsala as "like finding an Aladdin's cave." He was prescribed a course of treatment with the drug interferon to arrest the disease. In May 2000, after injecting himself three times a week, he went in to the unit for delicate surgery.

In the almost-voyeuristic documentary, Gorman is seen emerging from the anesthetic to see the surgeon standing beside him. He implores: "Look at me. Honestly. Tell me, what's the prognosis?" The surgeon responds: "It's good. We have taken away the risky parts of the tumor, and you can have treatment for decades to keep [it] as it is."

The next problem is: how to fund this state-of-the-art service?

Most Europeans are familiar with the E111 form, which entitles EU citizens to medical treatment anywhere in the European Union. During his time in Brussels, Gorman paid Belgian income tax as well as pay-related social insurance and pension contributions in Ireland, plus contributions to the Irish voluntary health insurance system.

His care in Belgium was covered by tax payments there. But that, it became obvious, didn't cover his care in Sweden.

Then Gorman uncovered the E111's much more important brother—the E112 form. He explains: "The

E112 says that, if there is treatment available in another EU member state which is cost-effective and significant, you may then be entitled to treatment. It was a huge eye-opener, a passport to life...I suppose an internationally recognized checkbook."

With the support of an Irish consultant, authorization was given, and Gorman's treatment went ahead.

Now, as Gorman continues, "fighting to stay healthy, fighting to stay alive," he is full of praise for the state-supported health services in other European countries and highly critical of the mixed private and public health system in Ireland.

Traditionally, because of the English-language culture, the best and brightest of Irish doctors have headed for the United States rather than Europe for further training.

"So when they return to Ireland to practice, they bring back the United States' model of patients' money upfront rather than the European social-democratic model of service on the basis of need," he says.

The irony, he points out, is that these same Irish doctors and surgeons have been supported through medical schools by Irish taxpayers, not the private sector. "The notion of patient as consumer might help to purify the Irish system," he notes.

Meanwhile, Gorman remains on interferon and the tumors are still there. But, optimistically, he points out: "There is this new radiotherapy treatment that could help remove them. We may try that."

—Mike Burns

LONDON

'RICH MAN' OF EUROPE IS EXPENSIVE DIPLOMATIC POSTING

Britain is the rich man of Europe," proclaimed a recent headline. So it was hardly surprising to see another one stating "Diplomats complain that London is expensive."

"What's going on," you may ask. Well, it seems that the British are now better off than their European partners, and Britons spend a greater proportion of their income enjoying themselves than the citizens of any other EU nation, according to a report by Eurostat, the EU statistical office.

This is a remarkable turnaround in the fortunes of a country whose gross do-

Form E112, a lifesaver?



## THE HAGUE

## A DUTCH MIRACLE ON ICE?

mestic product per head was nine percent below that of the euro currency countries only ten years ago. GDP per head is now higher than in Germany or France and 16 percent above the average of the Euroland countries.

But, while the British are spending more than ever, those diplomats lucky enough to win a prime posting to London are finding it an expensive place to live. A massive 90 percent of the 8,000 foreign envoys questioned by *Diplomat* magazine complained about the cost of living, particularly extortionate rents, high car insurance, and costly baby-sitting. They also moaned about bad traffic and expensive parking.

Some diplomats also found it hard to understand the English as spoken by some Londoners, many of whom they found woefully ignorant about small countries. They described opening a bank account as “a nightmare” and, no surprise here; some 60 percent said they found it difficult to make British friends.

Nevertheless, you would think meeting the locals should become easier now that drinking, socializing, eating out, and holidays abroad have emerged as the top priorities of the British. Households here spend an average of almost \$5,000 a year on leisure, pleasure, and holidays, according to Eurostat. Italy, with a similar income per capita, spends only half that amount per household on leisure.

People here are working longer hours and the decline of the traditional family means they are not going to rush home after work. Furthermore, they are having children late, around thirty or older. “This means they have an extra ten years of being young, free, and single, and they spend accordingly,” says Martin Hayward, of marketing consultancy Henley Center. The massive rise in divorce means you can add to this middle-aged people suddenly single who want to go out and play again.

So, why are the British binge spenders? Well, according to psychologist Cary Cooper of Manchester University, “Longer working hours and intrinsic job insecurity means we are spending more to make ourselves happy. It’s psychological compensation for the burnout.”

So, my diplomat friends, it’s not that the British are unfriendly or standoffish, it’s simply that they are too busy working or spending their way out of misery to have time to make new friends. As for costs, try using your diplomatic skills to persuade the ministry to increase your allowances.

—David Lennon

**B**reakthroughs of unknown natural talents are rare, certainly in the highest ranks of sports. Yet Gretha Smit beat the odds to emerge from obscurity to qualify for the Dutch speed skating team sent to compete in Salt Lake City.

Late in 2001, Gretha Smit participated in the Netherlands skating qualification tournament for the Olympic Winter Games. To the astonishment of the Dutch skating establishment, the unknown outsider won both the 3,000 meters and the 5,000 meters in *record times*. That is no small feat in a country addicted to skating and one that boasts some of the best female skaters in the world. The twenty-five-year-old redhead from the countryside had never specifically trained for these distances in high-level competitions. She simply beat her competitors, making a mockery of the high-tech training methods of the official team.

Not that Gretha Smit is a novice on skates. As a child, she used to skate with her father and sister on canals near the village of Rouveen where she still lives on her parents’ farm. (Her sister, who is also a marathon skater, accompanied her to Salt Lake City.) Later, she specialized in skating marathons, which generally take place around a 400-meter oval skating track, with the women’s event completing sixty laps, totaling about 15 miles. The longest Olympic distance for women is 5,000 meters or barely more than 3 miles.

In the Netherlands, marathons largely are considered inferior to speed skating. The little-publicized marathon circuit has the reputation as being the realm of unrefined, rowdy types, while speed skaters—both men and women—specialize in exacting techniques and become national celebrities due to the huge media attention for their races.

Not anymore. With her brother-in-law—also a marathon skater—as her trainer, Gretha Smit has entered into the national spotlight. After her victories in qualifying races, she confessed her own surprise: “If I had known that I could do this, I’d have done it earlier.” In preparing for Salt Lake City, she tried to remain calm and continued to work part-time in a nearby flower shop.

She recognizes she did everything wrong for a career in long-distance skating. Her training was done the tough

way: rollerblading on country roads in the summer and in the winter skating on frozen lakes and rivers rife with bumps and crags (contrary to speed skaters who train at manicured ice rinks). Furthermore, she did it with only limited financial sponsorship and no sophisticated training program other than to go as fast and as far as she could go.

Before arriving in Salt Lake City, Gretha endured a bout of illness that set back her preparations. In her first event, the 3,000 meters, she finished eleventh, crossing the finish line almost ten seconds behind gold medallist Claudia Peschstein of Germany. She also finished behind her Dutch teammates Renate Groenewold, who took the silver medal, and Tonny de Jong, who finished fifth. At press time, she was awaiting her final event, the 5,000 meters, and one more chance at writing a fairytale ending to an extraordinary story.

—Roel Janssen

## LISBON

## PORTUGAL'S ISLAMIC PAST

**C**oming into Mértola from the East you cross a deep gorge. Ahead, a sharp bluff is dominated by a castle, from which the town wall slopes sharply down to embrace whitewashed houses trimmed with yellow and blue in traditional style.

There is little sign today that this small settlement on the Guadian River fifty miles from the Spanish border was a major inland port in Roman and—most importantly—in Moorish times. Now, for the first time, it is gaining wider attention, with the opening of an Islamic museum displaying rare artifacts from a long-neglected period of the town’s history.

The museum’s creation—with enthusiastic support from local and national authorities—is part of a broader shift in attitudes toward Portugal’s Islamic past. For decades, the fascist regime that ended in 1974 sought to unify the nation by defining it in contrast to an enemy—the civilization that existed before the Christian conquest.

Mértola’s new museum upsets that vision. The first thing you hear on entering is traditional instruments from this part of southern Portugal and from North Africa: the soundtrack to a film showing striking parallels between traditional life in the two places—the making of bread or pots, plowing, the construction and



decoration of houses. It is a neat illustration of their common heritage, and the continuity that archaeologist Cláudio Torres, whose twenty years of work made the museum possible, wanted to highlight.

"The factual history of events, of great battles, is secondary," he says. "We're looking at the everyday life of a population that has always lived here, which was first Christian, then Muslim, then Christian again. In ideas, ways of life, ways of eating, making music, in gestures, this whole world has stayed almost intact until today."

On show are beautifully restored pots, tiles, and jewelry in the sophisticated styles that evolved in al-Andalus, as the southern part of the Iberian peninsula was once called. Having been influenced by techniques from distant Persia, India, and China, these styles then spread around the Mediterranean.

There are traces of Mértola's Islamic past elsewhere. The parish church was built as a mosque in the twelfth century and was converted after the Christian conquest a few decades later. Four Moorish doorways with curving, pointed arches, and a *mihrab*—the decorated niche found in all mosques—survive.

Locals see the museum as a way of attracting more visitors to a town suffering from the decline of agriculture. But other observers say the recognition of Mértola's Islamic roots, after years of neglect, gives the museum national significance.

"Portugal was behind in unearthing this Islamic past," says Abdool Karim Vakil, president of Lisbon's Islamic Community. "Fortunately we had enthusiasts such as Torres, and this is one of the milestones in their work."

Vakil's son, also Abdool Karim, lectures at King's College London, specializing in Portuguese cultural policy. He says Professor Torres and a handful of others have changed the way Portugal sees itself.

"They have put this local discovery at the heart of a reconceptualization of Portuguese history," he says. "Islamic Portugal, once thought of as the inverse of Catholic Portugal, has now been integrated as part of Portuguese cultural heritage."

That, he argues, is of interest to Muslims living in Portugal, who now have something to relate to in the country's past. It is also of importance to democratic Portugal as a whole, as is increasingly being recognized.

"That's what politicians have jumped on," says Vakil. "One of the values of democracy is pluralism, and they can find it here. It offers a multicultural Portugal."

At a time when news bulletins are full of events that gloomier observers have sought to portray as a clash of civilizations, everyone involved in this initiative is well aware of the importance of that particular message.

—Alison Roberts

## VIENNA

### STREET SIGN LANGUAGE DEBATE THREATENS TO GROW

A new debate in Austria has brought to the surface sensitive issues, from the treatment of ethnic minorities to party rivalries and constitutional law. This debate centers on a seemingly superficial issue—street signs. The question is whether they should be made bilingual in ethnic Slovenian areas in the region of Kaernten.

Infrastructure Minister Monika Forstinger believes the question of the signs has been satisfactorily solved. She told *Die Presse* the problem was resolved through a suggestion made by the road construction company Asfinag. Their suggestion was that road signs in border areas should only bear the international signs of the neighboring country. Kaernten's regional head, Jörg Haider, who in the past has stirred controversy with statements deemed anti-immigrant by several Austrian and international politicians, originally pressed for a "Germanization" of Slovenian signs in order to include both German and Slovenian names. Forstinger acknowledged that in Kaernten the ethnic minority situation remains "particularly sensitive." Haider, however, has allowed the situation to escalate because he will not support Forstinger's decision.

Haider has sharply criticized the constitutional justice system in Austria. In the process of reaching their decision, he said the courts had "made one mistake after the other" and had overlooked crucial information. In his opinion, they neglected to consider Austria's 1977 Topographical Law, which he said was the foundation allowing for additional bilingual signs. However, constitutional law expert Theo Oehlinger told *Die Presse* that a change incorporating new regional

laws and signs is not in the jurisdiction of the courts but rather a parliamentary concern.

Haider's attacks on the Austrian justice system have brought about calls for reprimands from other politicians. SPO party chief Alfred Gusenbauer has pushed for Haider to pay the consequences for his behavior. According to *Der Kurier*, Gusenbauer said that if Chancellor Schüssel did not reprimand Haider, he would surely follow through on his threats to ignore the court's decision, thereby initiating a constitutional crisis. As this debate evolves, it demonstrates how a relatively small issue can have immense implications for Austrian justice and politics.

—Alexandra Hergesell

## LUXEMBOURG

### BANK SECRECY NO MORE

It's a fair guess that if you whisper the words "banking secrecy" the names of Luxembourg and Switzerland, among others, will pop into the mind. They may not do so a lot longer. The American "electronic war" against terrorism after September 11 is one reason that the practice is being increasingly seen as 'unhelpful'. But in Luxembourg's case there's pressure from another quarter. The European Union believes that in a full economic and monetary union there should be no place for banking practices that stand conspicuously outside the mainstream.

It might be overstating it to say that Luxembourg has grown rich purely on the strength of its banking secrecy but there's no doubt that the country's banks have profited handsomely from it. For years now they've drawn deposits from savers in neighboring countries like Belgium, France, and Germany by offering tax-free interest and a promise that not a word will be said to the authorities. Germany alone is said to be losing the equivalent of \$16 billion a year in taxes because people have been able to salt their money away in foreign bank accounts.

There are other factors but the net result is that Luxembourg has become the world's sixth largest financial center and is thought to be home to 90 percent of all offshore fund assets in continental Europe.

Now a EU directive is in the works that will put an end to tax-free savings.



## ATHENS

## GREEK SHIPPING STILL GOLDEN

**G**reece's shipping tycoons continue to control the world's largest fleet amounting to more than 3,500 vessels—equivalent to almost 20 percent of total world tonnage. But the industry is changing, as fleets are renewed to meet tighter international safety requirements and fewer banks show interest in financing small ship owners.

The flamboyant image of Greek shipping is also disappearing as more owners adopt corporate management practices. Though the era of Aristotle Onassis and Stavros Niarchos, the legendary golden Greeks of the 1950s and 1960s, is fondly remembered, an increasing number of Greek fleets are run by groups of professional managers.

Most Greek shipping companies are based in Athens' port of Piraeus and city suburbs rather than in London or New York. The move to Greece gathered pace over the past decade as the country's

telecoms and other services reached international standards.

In shipping as well as low-cost airline operations, Stelios Haji-Ioannou is a pacesetter. Stelmar, the Athens-based tanker operation he set up before moving into the aviation industry, has been successfully listed on the New York stock exchange and is providing investors with encouraging returns. Stelmar used the funds raised by its public offering to add a dozen vessels to its tanker fleet last year.

As market conditions deteriorated last year, Greek owners cut back on ship purchases. According to *TradeWinds*, the Norwegian shipping weekly, the Greeks bought just 200 ships compared to more than 300 in 2000 when the market was still riding high. But by contrast with past practice, more than half the ships acquired by Greek owners were less than twenty years old, and about one-quarter were built in the 1990s.

One reason for the increasingly rapid pace of fleet modernization is that banks have become less flexible about financing smaller, older vessels. Fewer banks are lending to the international shipping in-

Ideally every member state would simply end its secrecy and force its banks to report earned interest to the tax authorities. Not surprisingly, Luxembourg took a dim view of this idea when it was mooted a couple of years ago and in deference to the Grand Duchy the directive has been revised to give it a little leeway.

Under the latest text, agreed by EU finance ministers just before Christmas last year, "for a transitional period of seven years, Belgium, Luxembourg, and Austria would be allowed to apply a withholding tax instead of providing information, at a rate of 15 percent for the first three years and 20 percent for the remainder of the period."

These are quite steep tax rates, and they could well bring the flow of savings into Luxembourg to a sudden and complete halt. But it's not quite as simple as that. There are anxieties in many EU capitals that a move to enforce the taxation of savings throughout the Union could have the effect of driving deposits to outside countries. Step forward Switzerland.

So the final text of the directive will not be agreed until the end of this year by when the Commission hopes to have concluded negotiations with the Swiss—and the Americans, come to that—"to ensure the adoption of equivalent measures in those countries in order to allow effective taxation of savings income paid to EU residents."

The idea of the Swiss ending their banking secrecy or imposing taxes on savings just to please the EU strikes many people as more than a little fanciful and there's a lot of skepticism that it will ever happen.

The Luxembourgers are not so sure. Swiss banks have already agreed to a "qualified intermediaries" arrangement to provide savings information to the US tax authorities so there is a precedent for it.

Assuming the worst, from Luxembourg's point of view, and a directive ending tax-free savings is agreed and implemented this year, will it be quite so devastating as banks here have feared for some years now?

Opinion is divided. Many bankers and government officials believe that the Luxembourg financial services sector has now achieved a momentum that will carry it forward even if it's forced to play by the same rules as everybody else. But they certainly hope they aren't put to the test.

—Alan Osborn

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dustry, while the number of banks providing loans to Greek owners has halved in the past four years, according to Petrofin, the Athens-based shipping analysts.

Ted Petropoulos, Petrofin's managing director, says the rags-to-riches stories of Greek ship captains who transformed a small investment in an elderly freighter into a fleet of modern product carriers worth hundreds of millions of dollars are becoming history. The number of Greek shipping companies has fallen over the past four years from almost 1,000 to just under 800. "The opportunities for rapid wealth creation in the shipping industry are far fewer than in the past," Petropoulos says.

Analysts say the Greek shipping industry may start to consolidate during the current downturn. But in the short-term few companies are expected to follow the example of Ceres Hellenic, controlled by the Livanos family, which has teamed up with Coeclerici of Italy to create one of the world's largest dry cargo fleets amounting to more than 2 million deadweight tons.

At some of Greece's family-controlled shipping companies, a generational shift has brought splits in ownership, with fleets being divided up among younger family members. The advantages of adopting a formal corporate structure are still being debated. Some owners argue the savings made by running a more efficient operation would still fail to offset the gains to be made by instant decision-making, especially from buying and selling secondhand vessels.

But financial constraints are likely to drive the rest of the industry to follow Stelmar and Ceres Hellenic. Greek shipping companies are starting to adopt more transparent accounting with a view to seeking a stock exchange listing. Greece's parliament has approved legislation allowing ocean-going shipping companies to list on the Athens bourse, where coastal shipping operators in the 1990s raised funds to help finance a fleet of fast ferries worth more than \$2 billion.

—Kerin Hope

## HELSINKI

### NORTHERN LIGHTS STILL FINLAND'S BEST SHOW

**N**orth of the Arctic Circle the sun set last November and won't rise again until about now. This strange season of

polar night is called Kaamos, during which the moon shines round the clock—not with an illumination for poets but one more suggestive of ghosts.

This is also the place and the time to experience the rare northern lights. Most Finns have never seen them, but late last fall, freak conditions brought their luminosity within range of the capital and spotting them became a kind of social badge of honor like whether or not one had managed to catch the Hale-Bopp shooting star. It was quite an event.

A friend, Matti Kohva, wrote of seeing the lights in the high north that left him breathless with this magnificent, almost frightening phenomenon.

"I left our modest log cabin at midnight to look for the aurora borealis," he continued, "only to be stopped, and stunned, by the rare riot of colors in the sky. I imagined I even heard a crackling noise as well—like the waving of a large flag in a gale. The light was so strong that I could read the message above the cabin door: 'You can find the key under the mat.'"

By these standards, such a privilege has probably escaped me. In Lapland, ice crystals tickling my sky-tilted nose, I've certainly willed the lights into sight, the peevish thought forming that after such a long journey some reward was due.

Was it the lights or some moonlit cloud formation? The answer is about as reliable as a fishing story. What is common among true witnesses of the phenomenon is it leaves them almost wordless in their efforts to convey their wonderment at its beauty.

Of course, scientists have no such difficulty expressing their own explanations, although there is much they don't yet know. For them solar winds, energy exchanges, ionization, and some conflict between protons and neutrons in the upper atmosphere are responsible for what mythology has rendered as a bridge called "Bivrost," which, the Nordics claim, connects heaven with earth.

The Laplanders, essentially reindeer farmers, have a different version. For them the lights represent dead souls who bear a message of patience for the living to the effect of hang in there, chums, any month now the sun will come back. The first to see the sun after Kaamos, superstition has it, will have luck and happiness for the rest of the year.

However, it still seems odd that the Lapps, or Sami people as they prefer to be called, describe themselves as creatures of the sun. Perhaps the explanation

rests in the unvarying tyrannies of winter and summer that cause the affinity still felt toward their ancestors who worshipped the sun as well as fire.

When the aurora sits calmly, herders know it means the weather will continue clear and fine—ideal for moving the reindeer about. If the lights are agitated, however, poor conditions will certainly follow. That is fact, not superstition.

Best is when the curtains of light of blue, turquoise, and green, and sometimes with streaks of yellow and occasional smudges of red waft or wriggle like lace hanging in an open window. At other times, the sky seems filled with slow-motion sheet lightning.

The phenomenon brings to mind a frequent observation about distance in this country. I've never heard anyone down south even mention the northern lights. In much the same way, they're snooty about reindeer meat. In the capital it's almost impossible to buy except in some tourist shops near the main harbor. This is a pity because it makes the best stew in the world.

If someone in the south, the most populous part of the country, claims to have seen the northern lights, the probability is he or she is a German on vacation. To hell with Kaamos, Finnish city-dwellers say. We're off to the Mediterranean, thank you.

—David Haworth

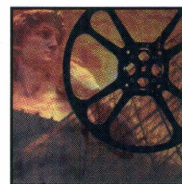
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# ARTS & LEISURE

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



## FASHION

### YVES SAINT LAURENT BIDS ADIEU

**W**hen my sister left college and got her first job as a teacher, she went out and celebrated by spending her first paycheck on a bottle of Yves Saint Laurent's Rive Gauche perfume. For her, owning that bottle with its distinctive floral fragrance and blue and black packaging, was tantamount to owning a little bit of French *haute couture* and the nearest she was going to get to it for many years to come. That was twenty years ago, and she is still wearing Rive Gauche.

I experienced a wave of nostalgia when I learned that the French couturier and icon was retiring from the fashion business at the age of sixty-five. During a press conference held on January 7 at his Avenue Marceau headquarters in Paris, Saint Laurent read an emotional statement, bidding farewell to the world of fashion and the eponymous couture house he founded forty years ago.

Saint Laurent's career got on the fashion runway in 1955 when, at the age of eighteen, he showed Christian Dior some of his fashion sketches, and the master couturier hired him as a design assistant. When Dior died a couple of years later, Saint Laurent suddenly found himself wearing his master's mantle, running the business. By 1962 Saint Laurent was given the opportunity to create his own fashion house and his already



Yves Saint Laurent poses in the doorway of his first London boutique in 1969.

successful career ascended to new heights. In the sixties and seventies, Saint Laurent revolutionized women's fashion with his jaw-dropping creations—the women's tuxedo (1966), the women's trouser suit, the Mondrian dress (1965), the safari look (1968) see-through blouses, trench coats, and the Russian folkloric look. He even made the simple kaftan as popular on Main Street as it was in Morocco.

Saint Laurent is known for pioneering the first ready-to-wear fashion line from a top Paris fashion house. "By opening the world's first *prêt-à-porter* boutique from a grand couturier in 1966 and by creating clothes that fell outside the realms of haute couture, I realize that I helped to advance the fashion of my time by allowing women access to a universe that had been previously inaccessible to them," said Saint Laurent during his

January 7 announcement. His ready-to-wear division was sold to Gucci in 1999 for approximately \$1 billion.

Saint Laurent's life was not always a runway of roses. He spoke about his life-long battle against depression and addictions, and the deep anguish he endured at certain times during his life. "I have known fear and the terrors of solitude. I have known those fair-weather friends we call tranquilizers and drugs. I have known the prison of depression and the confinement of hospital. But one day, I was able to come through all of that, dazzled yet sober."

When Saint Laurent held his final show at the Georges Pompidou Center in Paris on January 22, a fifteen-minute standing ovation greeted him. A 300-piece retrospective of his work displayed his extraordinary range, from colorful Mondrian shifts, to broad-shouldered black tuxedos,

short shaggy minis, brilliantly embroidered jackets recreating the paintings of Picasso and Van Gogh, floor-length white gowns with matching feather-edged capes, and simple black backless evening dresses. His final summer 2002 collection also featured in the show, and included an updated version of his signature tuxedo for women that had the audience applauding loudly.

Many of his friends, supporters, clients, models, and other designers he had come



Long-time clients and fans, including Catherine Deneuve, wished YSL a fond farewell in January.



into contact with over the past four decades were present—Catherine Deneuve, Laetitia Casta, Lauren Bacall, Jeanne Moreau, Jerry Hall, Paloma Picasso, Hubert de Givenchy, Vivienne Westwood, Bernadette Chirac, and Danielle Mitterand were among the more than 2,000 crowd. His loyal partner Pierre Bergé, who has been with him throughout the successes and tumult of the past several decades, was at his side.

Saint Laurent, who once said, “The most beautiful clothes that a woman can wear are the arms of the man she loves. But for those who do not have the luck to find such happiness, I am there,” will close the doors of his couture house for good at the end of 2002. Happily though, the YSL prêt-à-porter and accessories business will continue. Although my sister—and scores of other women—are relieved that the YSL legacy will endure, they hope some of the magic of its founder will remain.

—Susan J. Burdin

## BOOKS

### LINDGREN LEAVES LONGSTOCKING LEGACY

There were few dry eyes in Sweden January 28, the day ninety-four-year-old Astrid Lindgren died. Lindgren, author of the Pippi Longstocking books, was a national folk hero, very possibly Sweden’s last. When news came of her death, thousands of people around the country spontaneously took to the streets to show their respect for her. In Stockholm, outside the apartment building where Lindgren lived for more than sixty years, hundreds brought flowers and lit candles in remembrance.

Although she was best known in the United States for



her books about Pippi, the feisty red-headed tomboy who’s strong enough to lift her pet horse and tough enough to stand up to adult social workers, Lindgren wrote several other children’s series.

*Karlsson on the Roof*, three books about a fat little boy, became a special favorite in the then Soviet Union, eclipsing even Pippi. Swedes thought he was a nasty child, but the Russians in particular loved him. When Russian President Boris Yeltsin visited Stockholm in 1997, he specifically asked to meet Lindgren.

In writing for children, Lindgren strove to be honest. “Children have to understand that in life there is also sadness, wickedness, and adversity; that life isn’t just happiness,” she said.

In all, Lindgren’s books were translated into about eighty languages. But it was in her native Sweden that she was most cherished. At least two generations of Swedish feminists credit Lindgren and Pippi Longstocking with giving them the courage to fight for what they believe in. Swedish superstars such as ABBA’s Björn Ulvaeus were

among the public mourners in Stockholm, remembering her books as the first he’d read. “There’s no other Swedish person who has meant so much,” he said.

Lindgren was rejected by the first publisher she approached in 1944, when she began trying to sell her Pippi stories. But she persevered. And more than fifty years later, children worldwide are still enthralled by her books.

In Sweden, however, Lindgren was much more than just an author. In 1976, she wrote an editorial blasting the government’s plan to revamp the tax system. The changes, Lindgren said, would mean that small business owners such as she would be liable for as much as 102 percent of their income in marginal tax, and with scathing satire she said exactly what she thought of that. The article

was published the same day parliament debated the plan. And it was voted down.

Lindgren was also a strong animal rights advocate, fighting for better treatment of livestock and raising consumer awareness in Sweden about how food is produced.

Despite her fame, Lindgren always lived quietly. As to why she didn’t write for adults, Lindgren put it this way: “I want to write for an audience that can make a miracle happen. Only children make a miracle when they read.”

—Ariane Sains



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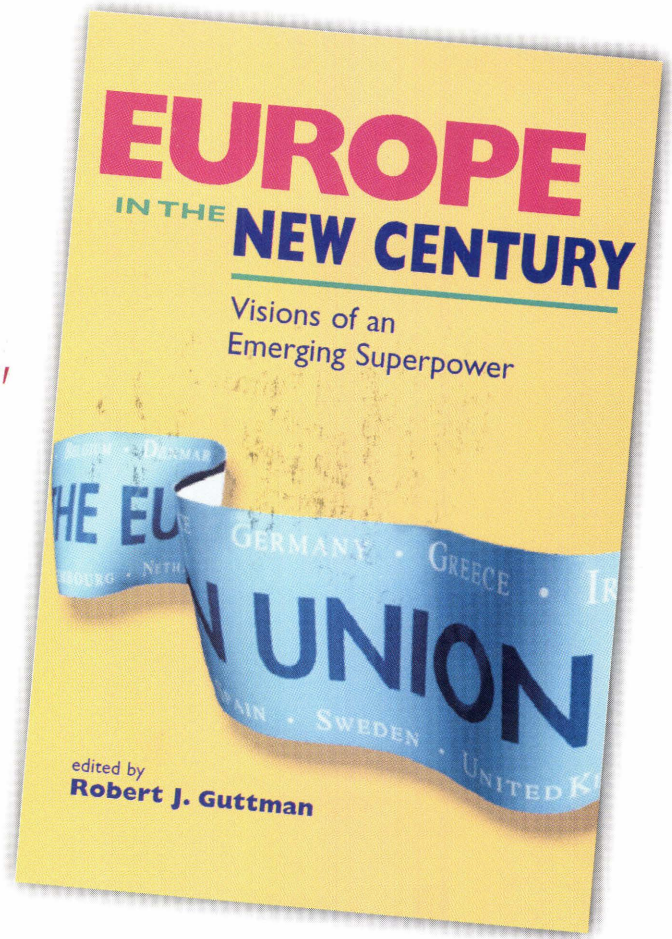


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