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EUROPE

September 2002

Can Chirac and His New Team Fix France?

Special Report: EU and the World

President Jacques Chirac, Prime Minister Jean-Pierre Raffarin, and Defense Minister Michele Alliot-Marie

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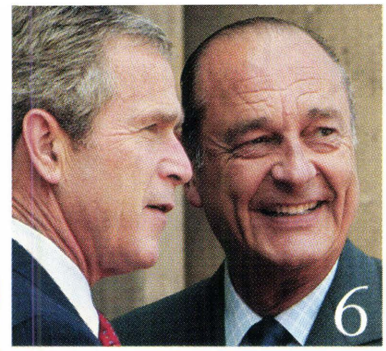

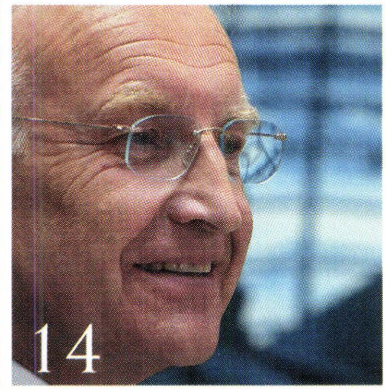

CONTENTS

EUROPE
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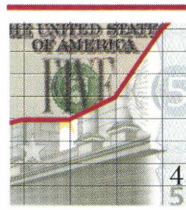
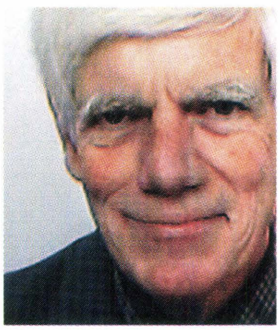


LETTER FROM THE EDITOR

This month's issue features a special report, "the European Union and the World," in which we focus on the EU's evolving foreign policy. Already the world's largest humanitarian aid donor, the EU is rapidly increasing its activities across the globe.

Lionel Barber, the US managing editor of the *Financial Times*, looks at the "troubled" transatlantic alliance today and analyzes some of the issues from trade disputes to what to do about Iraq that are dividing the EU and US.

John Andrews, a former correspondent in Lebanon and currently the Paris bureau chief of the *Economist*, delves into the complexities of the Middle East and talks about what the EU is doing to achieve peace in that battle scarred area of the world.



EUROPE contributing editor Axel Krause has been sending us his dispatches from Paris for more than two decades. Krause offers a unique perspective of Europe's changing landscape as an American born in Berlin who has spent most of his professional life abroad.

Thirty years ago, after short stints in Philadelphia and Chicago with United Press International and the _Wall Street Journal_, respectively, he arrived in the French capital as a correspondent for _Business Week_. He went on to serve as the magazine's bureau chief and correspondent in Paris, Moscow, and Washington. In 1979, he joined the _International Herald Tribune_ as the paper's first economics correspondent and was their corporate editor from 1987 until 1996. Since then, he has been a contributor to _Time_ and UPI and a commentator for the French international television network, TV5.

Krause, who is married with two grown children, enjoys cycling and hiking in his spare time.

Bruce Barnard, a long time observer of the EU formerly with the *Journal of Commerce* in Brussels and London, discusses the new trade status between the EU and Russia and how this will affect European firms doing business in Moscow and beyond.

Benjamin Jones, a correspondent for ETA in Madrid, writes, "The EU is finally getting serious about Latin America and delves into the many new programs being established between the EU and Latin America."

Amy Kaslow, an international affairs reporter and a frequent commentator for National Public Radio, reports that "European and Asian interests are converging unlike any other time in contemporary history."

Shaazka Beyerle, who writes for *World View*, reports that the EU is "the leading source of both development and humanitarian assistance to Africa."

Writing from Paris, Axel Krause, formerly with the *International Herald Tribune* and *Business Week*, discusses how French President Jacques Chirac and his new team are attempting to "fix France."

Is Europe Moving to the right? The electoral pendulum has moved sharply in the last few years. *EUROPE* looks at who's who in the fifteen EU governments and presents a profile of German conservative Edmund Stoiber, who is challenging Chancellor Gerhard Schröder this month in what polls show to be a close contest in national elections in Germany.

Amid all the gloomy business news from across the globe, *EUROPE* spotlights European businesspeople who are finding success in industries ranging from automobiles to sandwich shops. We also profile former high-flying European CEOs who have recently been ousted from their top jobs: Jean-Marie Messier of Vivendi, Ron Sommer of Deutsche Telekom, and Thomas Middelhoff of Bertelsmann.

Ester Laushway takes us on a trip to the French Alps region of Mont Blanc to show us that the area has a lot to offer visitors in the summer and fall before the snow and skiers arrive.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

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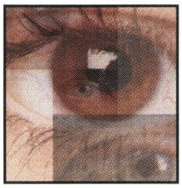


ICELANDERS PONDER EU MEMBERSHIP

Will Iceland be the next candidate for EU membership? Until recently, very few people had expected this fiercely independent North Atlantic republic to take the plunge. The overwhelming dependence of its economy on the fishing industry had seemed to exclude the possibility of membership, as Iceland was unwilling to submit its prime resource to the authority of the EU's Common Fisheries Policy (CFP).

Thus, when Norway applied for membership, both in 1970 and in 1993, Iceland remained aloof. That position at least had the advantage that—unlike Norwegians—Icelanders were never polarized on the issue of whether or not to seek membership.

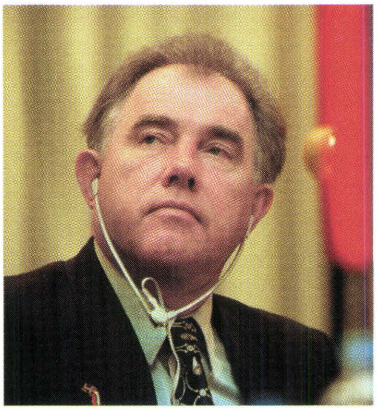
Now Iceland's most pragmatic politician—Halldór Ásgrímsson, the foreign minister and leader of the (liberal) Progressive Party—has suddenly placed the issue of Icelandic membership firmly on the agenda. Speaking in Berlin on the occasion of fifty years of diplomatic relations between Iceland and Germany, he has for the first time suggested that the CFP may not, after all, be an insuperable barrier.

Referring to the current review of the CFP, which is due to be completed by the end of this year, Ásgrímsson suggested ways in which Iceland could participate without losing control of its own resources. "It seems to me," he said, "quite clear from the rules of implementation of the policy that the Icelandic economic zone could be a separate management zone, and catch quotas would be issued on the basis of previous fishing experience and, therefore, remain in Icelandic hands."

Ásgrímsson noted that there was a great difference between Icelandic fishing stocks and the fishing stocks in the North Sea, where the United Kingdom, Belgium, Germany, and the Netherlands all fished from the same stocks, "and it makes sense to have common rules on how to manage and share them." It is, he said, "generally recognized by fisheries experts around the world, including the EU, that most fish stocks around Iceland remain within Icelandic waters. It is not a shared resource any more than Finnish trees are a shared resource or British oil."

There is, he continued, "another very important concept developed by the EU...The principle of subsidiarity is to allow decisions to be taken as close as possible to the level where they will have their effect. The aim of subsidiarity is to ensure that common rules are not established where they are unnecessary or undesirable. Thus, subsidiarity applied to the Common Fisheries Policy would recognize the essentially local nature of fisheries around Iceland."

Ásgrímsson's remarks came in the wake of a massive swing of opinion in Iceland, where in a recent opinion poll 91 percent of Icelanders declared themselves in favor of opening membership negotiations. The main reason appears to be the ultra-smooth introduction of the euro,



Iceland's pro-EU Halldór Ásgrímsson.

which Icelanders see as the key to stabilizing their own economic situation.

The Icelandic krona has plunged in international currency markets, leading to a hike in interest rates, which has had a serious effect on investment and employment. Joining the euro, Icelanders believe, would get rid of currency fluctuations and provide the conditions for long-term stabilization.

If the EU were able to agree to interpret the CFP along the lines suggested by Ásgrímsson, the remaining elements in any membership negotiation would be little more than a formality. As a member of the European Economic Area (EEA), Iceland has already implemented more than 80 percent of the EU's laws and policies, and fully participates in the Schengen Agreement as well as virtually all the other EU programs that are open to non-member states.

It would not be possible, however, for Iceland to enter overnight, even if the negotiations were completed in double-quick time. It would be necessary to amend the Icelandic constitution and then to have the amendments confirmed by a new parliament following a general election. A referendum would not be mandatory but in all probability would also be held. Even so, there is a distinct possibility that Iceland could become the twenty-sixth member of the EU, behind the ten states whose negotiations are currently nearing completion but ahead of both Bulgaria and Romania.

In Berlin, Ásgrímsson was careful to say that he was not suggesting that an Icelandic application was imminent. It is, in fact, unlikely to materialize in advance of the general election due in the first half of 2003. Before then, the views of the different political parties are expected to crystallize.

The opposition Social Democratic party plans a consultation of its members later this year, which is expected to show a majority in favor. By contrast, the Red-Green Party, also in opposition, seems firmly against.

Ásgrímsson's party will probably follow his lead, but its coalition partner—the (conservative) Independence Party of Prime Minister David Oddsson—is divided. Oddsson himself, Europe's longest serving premier, is deeply skeptical about the virtues of membership and unhappy that Iceland would be a substantial net contributor.

—Dick Leonard

EURO NOTES

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

THE EURO GAINS ON THE DOLLAR

At long last, the euro is rallying against the once mighty dollar. This summer, the euro moved to the psychologically important hurdle of parity, and there are increasing signs that the dollar has embarked on a correction that could be prolonged and sustained.

Market sentiment has focused on underlying weaknesses in the US economy that have been ignored during the bull market. Foremost is the US current account deficit that will likely be an unprecedented $450 billion to $500 billion—nearly 5 percent of gross domestic product—over the next twelve months.

Powerful manufacturing constituencies in the US are pushing for a lower dollar. Carmakers, trade unions, and farmers claim that the strong dollar has cost the US 500,000 jobs and $140 billion in lost exports. They argue that the dollar is at least 25 percent overvalued and are pleading for a "sound dollar" rather than a "strong dollar."

Global investors are also focusing on their exposure to US financial assets. They already own about 40 percent of the US treasury market, 24 percent of the corporate bond market, and 13 percent of the equity market, says David Hale, chief economist of Zurich Financial Services.

"If investors simply decide to reallocate a small share of these assets to other currencies, the US may find it difficult to finance the current account deficit without a large dollar decline," says Hale. He also forecasts that the Federal Reserve will likely keep interest rates on hold because of the weakness in domestic demand and worries about external shocks, such as an oil price spike triggered by a possible war against Iraq.

The question is how much this trend relates to dollar weakness rather than euro strength, that is to say a shift toward a more favorable view of European assets and the potential for European growth.

On paper, the performance of the euro zone has been steadily improving in the first half of this year. Annual inflation in the twelve-nation area is declining. Some economists believe it might fall below 2 percent, the benchmark regarded by the European Central Bank as the highest acceptable level for price stability.

Inflation has not been below 2 percent since May 2000, having peaked at just more than 3 percent in May 2001. But the drop in headline inflation in April indicates that "core inflation," excluding volatile food and energy prices, may be easing. This should mean that there is little incentive for the European Central Bank to raise rates in the near term.

Indeed, the prevailing view in European capitals is that the ECB should continue to keep rates on hold in order to avoid choking off the nascent recovery. Another factor may be a reluctance to raise rates for fear of triggering an "overshoot" in the revaluation of the euro against the dollar.

The jobs picture is also improving. Seasonally adjusted unemployment in the euro zone stood at 8.4 percent of the workforce in March, a level unchanged since last November. The jobless rate seems likely to go up later this year as official statistics capture the effect of last year's sluggish economic growth on employment. But crucially, euro-zone labor markets appear to have benefited from wage moderation and modest structural reforms in recent years. The rise in unemployment, therefore, should be smaller than in previous cyclical economic downturns.

At the same time, euro weakness against the dollar has served as a safety valve over the past two years when demand has slackened and budget deficits were tight. In this sense, euro weakness is more a problem about political pride. Now the politicians will have to live with a stronger euro without the same competitive advantages in export markets.

A stronger euro could nevertheless act as a catalyst for change, particularly in Germany. Its current weakness lies in the extraordinarily high cost of reconstructing former communist eastern Germany, as well as higher than average taxes and social security charges both for the east's modernization and for maintaining the German welfare state. This makes it difficult to reduce unemployment, stifles consumer spending, and acts as a brake on economic growth.

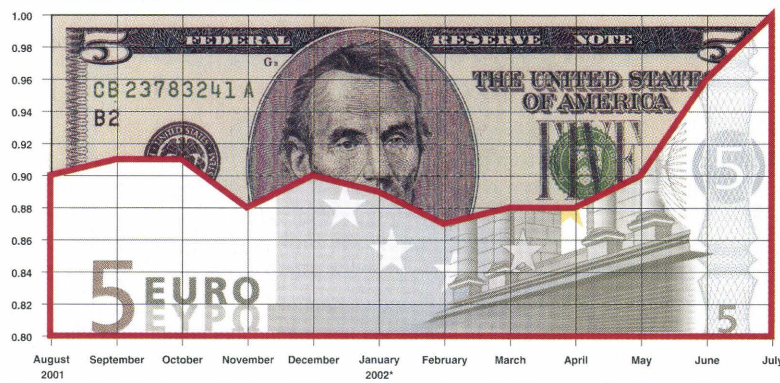
In France, the incoming center-right government—basking in President Chirac's crushing reelection victory—is committed to tax cuts and repealing the thirty-five-hour work week. A whiff of reform is in the air, even if it is likely to be tempered by fears of a repeat of the popular unrest that sank the last center-right government led by Alain Juppé in 1995.

The French government—supported by Italy—is largely ignoring warnings by the European Commission that France's bigger than expected budget deficit risks breaching the Stability Pact, which euro-zone members agreed upon to maintain fiscal discipline. This points to a more pragmatic application of the pact as the world adapts to a new reality.

The US economy, supported by a soaring dollar, is no longer the locomotive of the world. That era is now over.

—Lionel Barber

The Rise of the Euro



e-EUROPE

Tracking the news and trends shaping Europe's technology sector

SIGNS OF WIRELESS

While moviegoers have been trooping to theaters in the US and Europe to see *Signs*, in which Mel Gibson tries to decipher the meaning of mysterious crop circles, computer geeks around the world have been searching for signs of their own. However, these symbols are scrawled in chalk on sidewalks and buildings rather than trampled into cornfields, and instead of offering proof of UFOs, they offer proof of Wi-Fi's.

Welcome to "war-chalking," the latest craze in the computer world. Essentially the term refers to a practice computer hackers use to find and gain access to local area wireless computer networks (or Wi-Fi's in geek-speak), which are all the rage right now among the e-inclined.

Here I should offer a little background for those who are not part of the pocket-protector tribe. Wi-Fi technology allows computers to link to each other as well as to an Internet connection over short distances using low-power radio frequencies (similar to what cordless phones use) instead of through telephone lines. Very little hardware is needed—a hub or base station, which is plugged into a broadband Internet connection, such as DSL, and a transmitter/receiver card, which is installed in each computer on the network. In fact, most new laptops can come Wi-Fi ready right out of the box. Once it's set up, the computers connect to the Internet and each other by sending and receiving signals through the hub, which depending on its antennae can have a range of a few hundred feet.

The beauty of this technology is the freedom it offers—no longer are users tied to a tangle of wires and a phone jack for access to the information superhighway. A person with a home Wi-Fi network can take his laptop from the kitchen to the bedroom to the patio—all without losing the Internet connection or having to find a phone jack.

Families can have several computers connected at once without having to string miles of cable throughout the house. Mom can surf E-Bay in the kitchen; dad can consult autorepair.com from the garage; the kids can get into all kinds of e-trouble from the privacy of their rooms (ok, maybe there are a few drawbacks). Offices love them for their economy and practicality. Airports and train stations are increasingly adding them for business travelers, and schools, libraries, apartment buildings, shopping malls, and even coffee shops are getting into the act.

Thousands of these networks have sprouted throughout Europe, Asia, and the United States, which leads me back to the chalk symbols. While all the eager beavers have been busy setting up their Wi-Fi's, hackers have noticed that most of the networks are unprotected—meaning the users haven't bothered to properly set the password system—allowing essentially anyone with a Wi-Fi enabled laptop to gain access. For example, an unprotected office network could be accessed by someone with a laptop sitting across the street at a bus stop. Or a family's Wi-Fi might be hacked from the bedroom of the twelve-year-old next-door.

Now, it must be said that the vast majority of these people are just looking for a place to check their e-mail or surf the Web, granted on someone else's dime but not necessarily to their detriment. And many of them do it for the sport as much as for the access itself—which is where war-chalking comes in.

A war-chalk symbol on Oxford Street in London signals an open Wi-Fi is nearby.

The term derives from a hacker practice called war-dialing, which dates back to the early days of the Internet and involved programming a computer to continuously dial random phone numbers until it found one that allowed access to a computer network.

In the past few years, as the number of wireless networks increased, hackers, using laptops equipped with software programs that scan the airwaves for the presence of networks, began "war-walking" or "war-driving" around cities in search of Wi-Fi's.

This summer, Matt Jones, a thirty-year-old London-based Web designer for the BBC, and some friends agreed that it would be helpful if there were visible signs alerting users to the presence of Wi-Fi's. Inspired by the system of chalk symbols American hobos use to tell each other where to find free meals, they came up with the idea of leaving a chalk mark to signal a nearby network and coined the term "war-chalking." On his personal Web site, Jones posted a list of universal symbols to help war-chalkers communicate. For example,)(signifies an open network within 150 feet, whereby O indicates a closed or protected network nearby.

By July, the symbols were turning up in cities around the world. Jones says he intended his system to be used to help guide legitimate users to Wi-Fi's intended for public use, but of course, others with nefarious ideas could use the symbols to exploit unprotected private networks.

Either way, the idea has proven wildly popular. His new Web site **(www.warchalking.com)** has attracted a flood of posts from Wi-Fi enthusiasts from Copenhagen to Seattle suggesting everything from new symbols to war-chalking etiquette.

Mel Gibson can only hope his "signs" prove as popular.

—Peter Gwin

Campaign workers for the Rally for the Republic party post pro-Chirac signs in Marseille prior to the final round of voting on May 5.

Can Jacques Chirac Fix France?

By Axel Krause

Beset by a weak economy, rising crime, immigration woes, and an underperforming soccer team, the French are looking to the newly re-elected president to energize their nation.

It was humiliating enough that France was eliminated by Senegal in June's World Cup soccer tournament amid accusations that its star-studded team, goal-less, proved slow and complacent. The defeat only fueled an already grim, frustrated national mood, which conservative political leaders had been arguing stemmed from the failure of the five-year-old Socialist government to resolve the nation's problems, leaving France insecure, economically weak, threatened by growing criminality, illegal immigration, falling foreign investments, and with diminished leadership in world affairs.

Directed by the hard-driving, fiercely ambitious Jacques Chirac, who was overwhelmingly re-elected president for a five-year term on May 5, the conservatives were battling for control of the National Assembly, led by Jean-Pierre Raffarin, the stocky, congenial, little-known senator and former member of the European Parliament. Promising to resolve the nation's pressing problems through reforms as interim prime minister, the fifty-three-year-old Raffarin and his team in two rounds trounced the Socialists, their left-wing allies, and the extreme right National Front party, winning an absolute majority of 399 seats in the 577-member parliament.

Thus, Chirac, who turns seventy in November, named his protégé prime minister to a five-year term June 17, making France the latest EU member to shift to the political right. Furthermore, the appointment provided the president with what the respected daily *Le Monde* described as unprecedented, "absolute power" by virtue of conservative control of the senate, the Constitutional Council (France's highest court), and of the majority of the nation's influential regional legislative bodies. "No institutional obstacle can limit the president's capacity to act," the paper noted.

"Jacques Chirac has his majority...we have heard the message of the French people," Raffarin told cheering supporters on the eve of his victory, and "we will do what's necessary so that our program is put into action." In separate speeches to the National Assembly and Senate July 3–4, the prime minister outlined a cautious, pragmatic, pro-business program to be implemented over eighteen months, ranging from tax cuts to reinforcing the nation's police forces.

Meantime, many observers noted that the 40 percent abstention rate in the legislative elections reached the highest rate since 1978, notably among young people, the jobless, and many leftists. The rate reflected annoyance and dismay over the inept, confusing campaigning by Prime Minister Lionel Jospin and his Socialist team that included Lille Mayor Martine Aubry, who was defeated in a bid for a legislative seat. But the abstentions also showed that the country remains split—between those who voted (committed to democratic, middle-of-the-road values and ideas) and those who stayed away from the polls (shunning all mainstream politicians and their platforms).

In April, French police, some brandishing flares, demonstrated in front of the Ministry of Finance in Paris, denouncing worsening security conditions and demanding better pay and equipment.

Over the next five years, the main challenge of Chirac and Raffarin will be to "reconcile" these two groups, concluded political analyst Alain Duhamel. But how? And to do what?

The following is a summary of how, and with whom, the Raffarin government, directed by Chirac, plans to tackle what it considers the nation's most-pressing domestic and international problems:

Security: Rising, violent crime in cities and particularly in suburban, low-cost housing areas and a widespread conviction that long-established police methods are ineffective prompted an immediate crackdown by the government. A new, expanded ministry of Interior and Domestic Security and Local Freedoms was created, headed by Nicolas Sarkozy, a forty-seven-year-old lawyer, mayor, National Assembly deputy, and long-time member of Chirac's neo-Gaullist Union for a Presidential Majority (UMP) party. He quickly announced a series of reform measures: reinforcing police in poor neighborhoods (some armed with pistols loaded with supposedly, non-lethal, plastic "flash" balls) and proposing the National Assembly approve increased spending on the nation's police forces and judiciary by approximately $500 million, some of which will also be used to expand the nation's crowded prison system.


Feathers flew when French farmers protested in Rennes against increased poultry imports.

In a precedent-breaking move to ease tensions in areas where many of France's roughly 5 million Muslims, mainly North Africans, reside and where waves of anti-Jewish incidents have been occurring, Chirac named forty-two-year-old Tokia Saïfi to the newly created post of state secretary for global sustainable development; her family immigrated from Algeria, and she has served as a member of the European Parliament, a unique combination.

Economic Growth: With the French economy currently rising from a national level of 1.4 percent to a projected growth rate of around 3 percent next year combined with just more than 9 percent unemployment (2.6 million people), Chirac pledged during the presidential campaign to boost growth by substantially cutting taxes. They have remained at record levels and higher than most of France's EU trade partners. Taxes and fiscal charges, he argued, were continuing to "shackle" French business, slowing inward investments and the nation's worldwide competitiveness.

Consequently, the incoming legislature in early July took up specific proposals confirmed by Raffarin in his policy speeches, notably cutting personal income taxes by 5 percent this year, amounting to $15 billion, while reducing corporate taxes and many other levies on business by a proposed $13 billion and trimming turnover taxes on recorded music and restaurant and café fare. The latter proposal immediately ran into opposition from the European Commission, arguing it would violate EU budgetary rules.

Privatization: Although the new finance minister, Francis Mer, formerly head of Arcelor, the world's largest steel group, remained guarded in his public comments, few government insiders and bankers doubted that the government would move to sell off its shares in key French companies that could generate as much as $70 billion in badly needed revenues. Chirac already pledged during the campaign he would approve "opening" the state's total control of Electricité de France, the nation's highly profitable, monopolistic electricity company, a plan confirmed in Raffarin's July 3–4 speeches.

But other companies, some already partly returned to private ownership by the Socialists, were also being targeted, despite generally low share prices, notably France's monopolistic gas company, Gaz de France; France Télécom, in which the state holds a 55.5 percent share; Crédit Lyonnais, a leading French bank (9.5 percent); Air France, the nation's flag carrier (54.5 percent); electronic defense-aerospace group Thales (32.6 percent); and engine maker Snecma, which supplies French fighter aircraft and, jointly with General Electric of the United States, Airbus passenger jets (97.2 percent).

Foreign Investments: Although direct foreign investments in virtually all EU member states have been declining sharply, France was hit particularly hard last year, dropping from its traditional number-two spot behind the United Kingdom, to fifth place, behind Germany and the Benelux group of countries and barely ahead of Sweden. Yet, in a survey published at the end of June by Ernst & Young, France ranked ahead when judged for quality of life

New French Think Tank Working

The French are notoriously fond of urging that the country desperately needs open, public debate on vital, sensitive issues that lead to fundamental reforms, such as reducing the centralizing role of the state. This rarely happens, however.

"We love to debate—when we are among ourselves, and then we decide," comments a senior French finance ministry official, pinpointing the traditional, elitist, secretive nature of French organizations, extending to areas of French life, ranging from the nation's sports programs to big business.

Over several decades, handfuls of university and private groups, governmental and legislative bodies have diligently analyzed many of the thorniest problems—France's heavily subsidized and centralized university system, the weakness of regulatory controls, financing costly health and retirement programs, defense policy, and the future of EU institutions. But their recommendations are rarely debated openly and then frequently are buried and forgotten.

Until early July, when the curtain finally dropped on the high-stakes drama that ended with the forced resignation of Vivendi Universal's flamboyant French chairman, Jean-Marie Messier, there had been no open debate over whether, and how, rules of corporate governance might apply to the globalized media conglomerate.

"There are still too many deeply rooted barriers and taboos about open, independent discussion on issues of public interest," says Claude Bébéar, founder and chairman of France's largest insurance company, AXA. To help change this culture, Bébéar has created a privately funded, nonprofit think tank, the Institute Montaigne, which he describes as a "laboratory of ideas." Its nearly one hundred, mostly volunteer, members bring experience in fields ranging from government, academia, and diplomacy to business, sports, and journalism.

Named after the sixteenth century essayist famous for challenging all forms of knowledge, Institute Montaigne was created two years ago but has recently begun to publish research papers based on the work of about a dozen task forces. These have targeted for analysis and debate some of the nation's most sacred institutions and sensitive issues, including the civil service, the education and judicial systems, the EU's Common Agriculture Policy, and France's largely opaque national sports programs, which include a multibillion-dollar subsidization of major-league soccer, rugby, and tennis clubs.


Claude Bébéar, AXA founder and chairman

In his spacious office at AXA's Paris headquarters, Bébéar, a sixty-seven-year-old, political centrist, told *EUROPE*, "Our goal is not just to study issues and to avoid ideology and well-known political figures but to promote free discussion that actually produces concrete recommendations." These he indicates are aimed at the new Chirac-Raffarin government with whom Bébéar and his institute associates maintain close ties.

Another player within the institute is board member

Chirac has charged Finance Minister Francis Mer with helping to "unshackle" the French economy.

and communications infrastructure but well behind many of its neighbors as well as Hungary, Poland, and the Czech Republic when labor costs and corporate taxation were taken into account. France "let itself be caught napping," commented Patrick Gounelle, president of the firm's French operation.

"Reforms being proposed by the (Chirac-Raffarin) government could help," said Claude Bébéar, chairman of the supervisory board of France's largest insurance company AXA, and founder of the Institut Montaigne, a French-style think tank that is actively studying such issues, but improving France's image as an attractive investment site abroad is also a necessity, according to some. Late last year, the Socialist government merged various

for Public Debate and Reforms

Professor Guy Carcassone, one of France's leading experts on constitutional law. Although known for his leftist views, he has many contacts in the judicial system committed to streamlining.

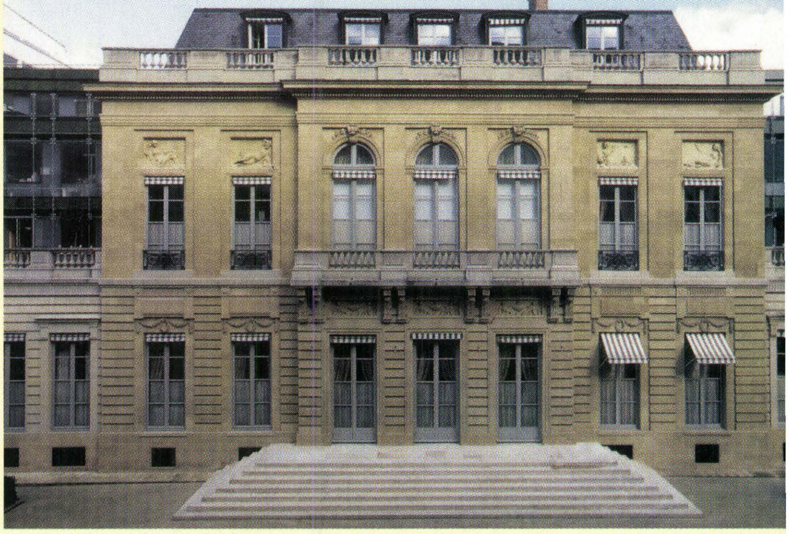
"Those working with us here, from various shades of political persuasion, all share the same commitment to open, independent public debate and reforms," commented Bruno Erhard-Steiner, the institute's executive director and one of a handful of permanent staff funded from a budget of some $200,000, provided by AXA and other private donors.

Princeton University's Professor Ezra Suleiman, the only prominent American directly involved with the institute, when asked how it compares to US think tanks had trouble coming up with an answer. "You cannot really compare Montaigne to American think tanks because it has no permanent, resident scholars, and Bébéar wants it to avoid utopian or theoretical approaches," says Suleiman, a political scientist who has published extensively on French government and is a member of the institute's board. "For France, they are unique," he said, "working for ideas that can be put into practice and challenging such sacred cows as the widely shared notion that a university education should be free, paid for from national taxes."

Consider EU issues. Several leading think tanks, such as the Brussels-based European Policy Center and London's Center for European Reform, are continuing to actively assess reform issues, but their publications and recommendations circulate mainly among French academics and government specialists and are rarely, if ever, discussed in wider French circles.

"Our goal is to raise many of these issues here in France, from our perspectives, and not hesitating to tackle the most sensitive questions, often taboo, such as the need to reform the

AXA's headquarters in Paris

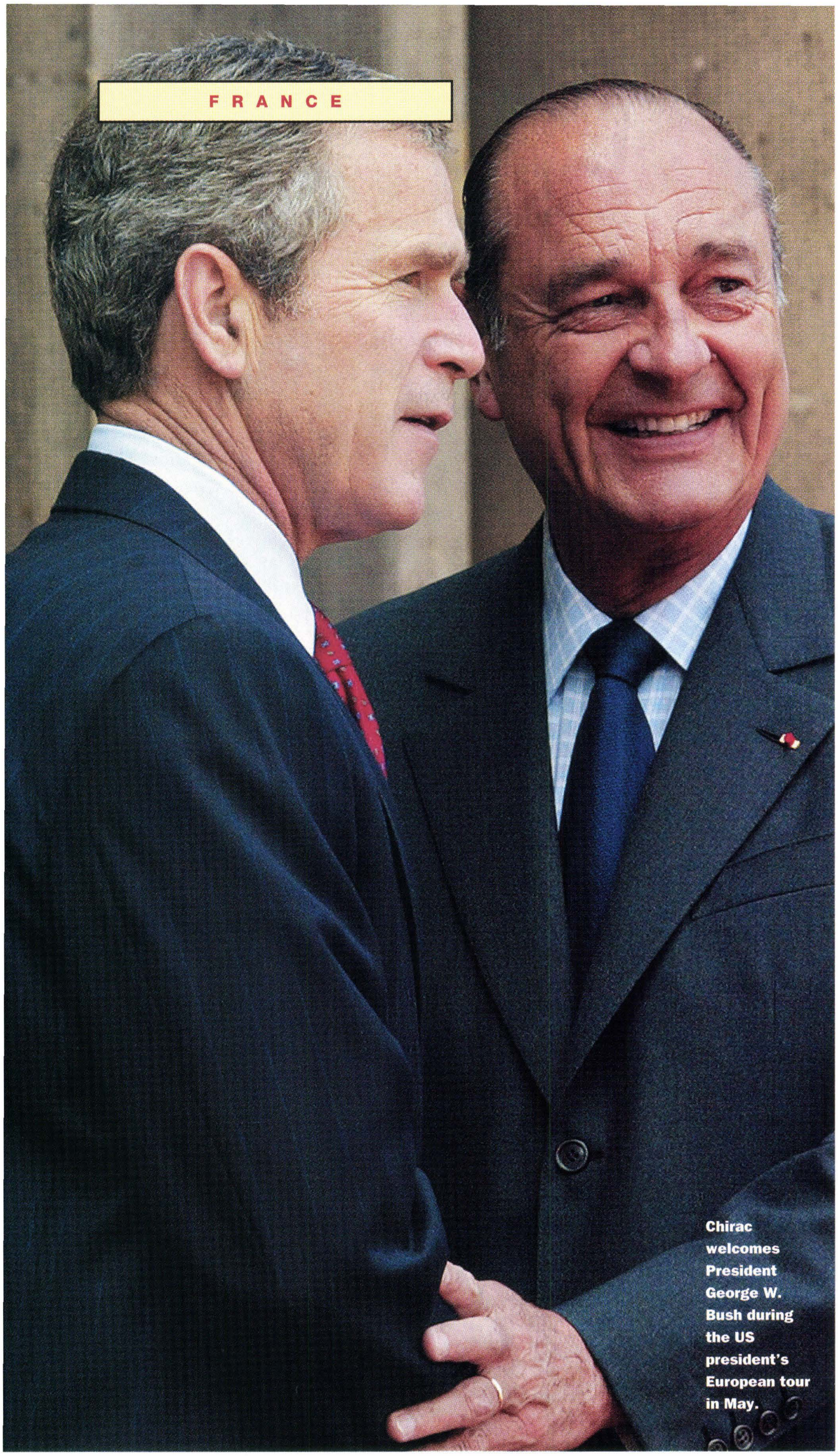


Common Agricultural Policy from which France benefits greatly," says Jean-Paul Tran-Thiet, who directs the institute's twenty-five-member task force on EU issues.

Tran-Thiet, who works on a part-time, volunteer basis, is typical of those tapped by the institute to direct its work. A partner in one of France's largest international law firms, CMS Bureau Francis Lefèbvre, he previously served in Brussels as an advisor to former European Commission president François-Xavier Ortoli and former EU commissioner Edith Cresson.

"Our goal, like others in institute task forces, is not to please people but to promote public debate," says Tran-Thiet, noting that in coming weeks, his team will be working closely with the EU's constitutional convention being directed by France's former president, Valéry Giscard d'Estaing.

—Axel Krause



Chirac welcomes President George W. Bush during the US president's European tour in May.

foreign investment, government-run promotion bodies into the Invest in France Agency. "But the French still have a long way to go to catch the more professional, efficient British promotion efforts," commented an Ernst & Young executive.

EU Leadership: Largely because of the power-sharing arrangement between Jospin and Chirac that stemmed from the Socialists' control of the National Assembly and because of strained French-German relations, France's position as a traditional leader of European construction appears weakened. But at the June EU summit in Seville, flanked by his new foreign minister, Dominique de Villepin, Chirac impressed his colleagues with his determination to vigorously defend France's traditional commitment to the Common Agricultural Policy in its present form and for the foreseeable future, while arguing for reinforcing the powers of the Council of Ministers by electing an EU president from its ranks.

According to those close to him, the president also hopes the possible election of Bavaria's center-right leader Edmund Stoiber as Germany's next chancellor in the country's September 22 elections could spark new cooperation in launching new EU initiatives by the end of the year, thus breathing new life into what several decades ago was dubbed "the alliance within the alliance."

US Relations: Chirac is fond of telling Americans that like his predecessor and idol, Charles de Gaulle, when it's important France is "always there" alongside its oldest ally but emphasizing France is not necessarily "aligned." That sounds very similar to what most of his predecessors have said about their relations with Washington, yet no French president in the postwar era has been as personally close to an American president as Chirac is to President George W. Bush. Standing side-by-side at a news conference at the Elysée Palace May 26, jet-lagged, but relaxed, Bush told his host that "I appreciate your compassion and I appreciate your heart...it's important that we continue to work together."

Indeed, Chirac, who is not bashful about speaking American-accented English in public, has developed an image, as *Le Monde* noted, "of *l'Américain*, who remains French." That has meant calling attention to his having worked as a soda jerk while attending Harvard University's summer school in 1953 and dating an American girl; appearing relaxed on CNN interviews; and being the first foreign head of state to pay his highly publicized respects to Bush and New York City only days after September 11. Trade disputes over agriculture and US steel subsidies and sharp differences over relations with Iraq and Iran, however, were expected to continue fueling tensions between Paris and Washington.

During the Bastille Day celebrations in Paris July 14, despite a foiled assassination attempt earlier in the day by a neo-Nazi gunman, Chirac made sure that the festivities had a friendly, American touch. Cadets from the US Military Academy at West Point marched in the traditional parade down the Champs Elysée; New York firemen were guests of honor and, in an unusual step, Chirac personally authorized the participation of a New York Fire Department truck in a parade strictly limited to military vehicles. And Foreign Minister Dominique de Villepin, just back from talks in Washington with top White House officials, expressed confidence that French-US relations were improving, with positions on both sides of the Atlantic "moving."

Not surprisingly since early July, trade union leaders and Socialist leaders have attacked the Chirac-Raffarin policies for ignoring what they argue are badly needed increases in purchasing power for low-income workers, job stability in companies heading for privatization, and the nation's traditional support for public services, such as transport and energy supplies. Union leaders have already warned of protest demonstrations and possible strikes in coming weeks. Thus, *la rue*, a reference to the popular upheavals that toppled previous conservative French governments, and uncertain economic prospects are the two main clouds on an otherwise relatively sunny horizon. ⓔ

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

French Investigate Anti-Semitic Attacks

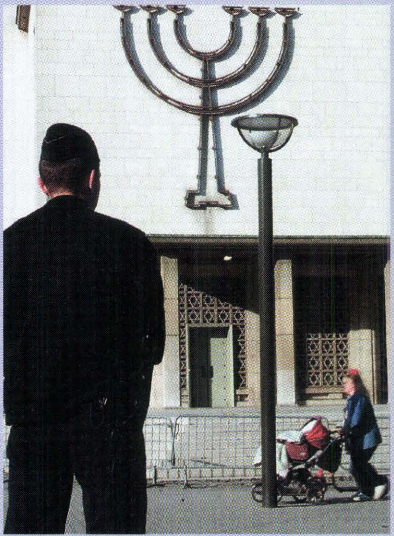
Does France, a country that claims a special attachment to the rights of mankind, have a guilty secret? According to some in the Israeli government and many of America's leading commentators, France is also a land of anti-Semitism, a country whose Jewish citizens are facing daily, and increasing, hostility. They note that in the past two years there have been hundreds of anti-Jewish incidents, ranging from verbal insults through graffiti to arson attacks on synagogues and other Jewish institutions. In other words, they say, France is beginning to relive a dubious past (remember the case of Alfred Dreyfus, the Jewish officer wrongly convicted of treason, or the readiness of the Vichy regime to cooperate with the Nazis).

It is a charge that enrages the French government and mystifies most French people. Indeed, the French ambassador to Washington, François Bujon de l'Estang was moved to pen an article of protest in the *Washington Post* in June after one Post columnist had written that only "Holocaust shame" had kept "the demon corked...But now the atonement is passed. The genie is out again."

But is it really? One reason for the American reaction has been that in the first round of France's presidential election on April 21 Jean-Marie Le Pen, the leader of the extreme right National Front, surpassed the Socialist prime minister, Lionel Jospin, to win the right to contest the second round against Jacques Chirac. Given that Le Pen once called the Nazi gas chambers "a detail of history," the transatlantic alarm is understandable.

Yet the alarm is arguably misplaced. Of the fifth of the electorate who voted for Le Pen in a crowded first round, most did so not because of Le Pen's past anti-Semitic rhetoric (carefully muted for the election) but because of his campaign against crime and immigration. Once he was through to the second-round runoff, most French voters were both amazed and appalled—and so both left and right united to reelect Chirac with a record 82 percent of the vote.

The more important point, however, is that France's present rash of anti-Semitic acts has precious little to do with the extreme right. Instead, it comes from France's large Muslim Arab population, and in particular from bored, unemployed young men of North African origin. The explanation for their acts is simple enough: the continuing tragedy of the Arab-Israeli conflict coupled with the fact that France has singularly failed either to assimilate or to integrate its Arab minority. Indeed, the rise of the anti-Jewish graffiti and anti-Jewish attacks runs in parallel with the violence of the "second intifada," launched by the Palestinians against the Sharon government.



Officials have increased police patrols around synagogues after arson and vandal attacks on Jewish institutions.

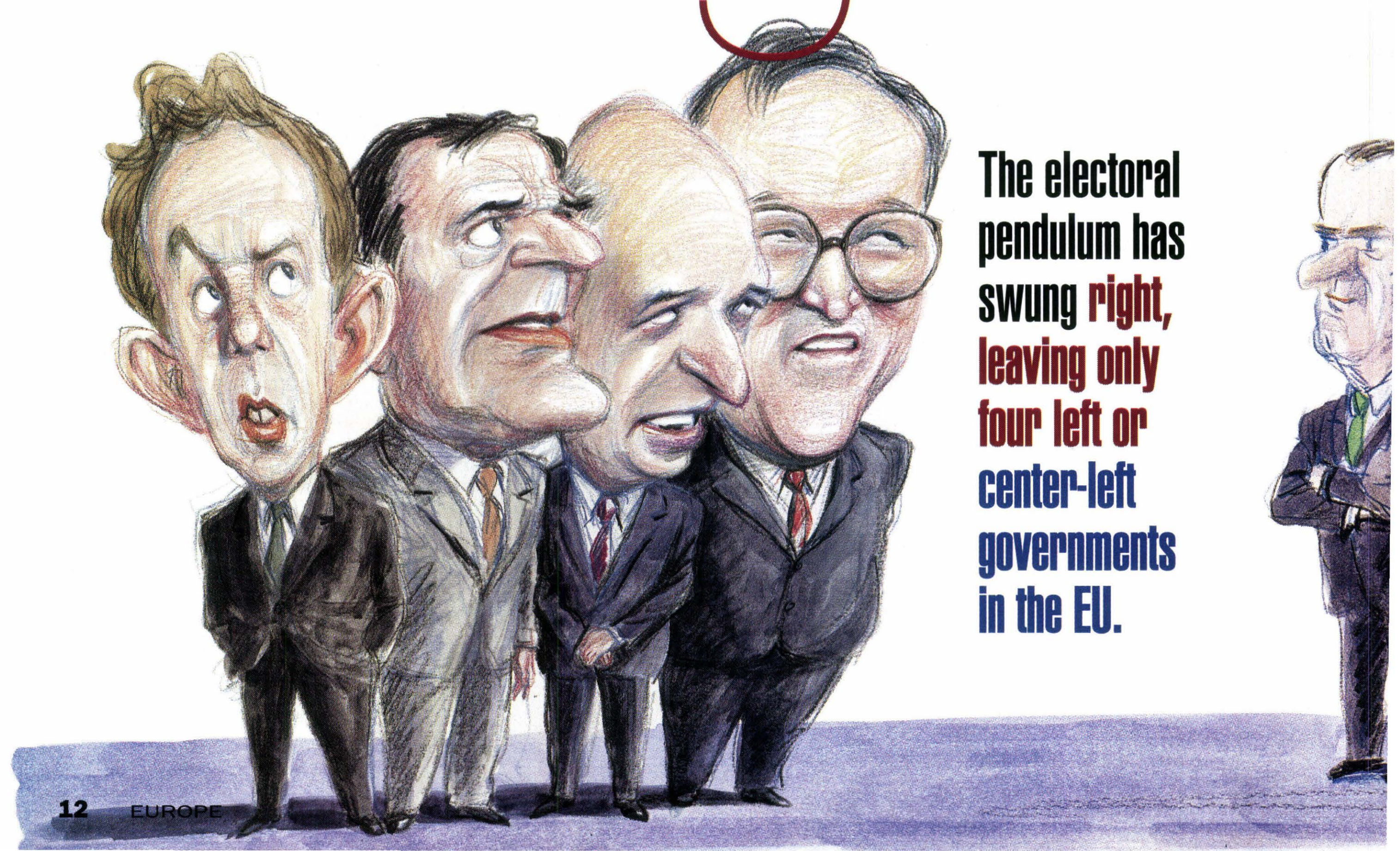
The question, however, is what next? Ambassador Bujon de l'Estang is right to say that France's Jews are "fully and thoroughly integrated"—witness the prominence of Jewish politicians and the fact that their religious background is rarely remarked upon. But it would be foolish to be complacent: after all, the Middle East conflict is not about to be solved overnight and in the meantime France is home to a potentially explosive mix of 700,000 Jews and more than 4 million Muslims (of whom more than 3 million are of Arab origin). Very sensibly, the French government is giving extra protection to Jewish institutions and promising a hard line on those who vandalize them. After all, the real risk is that if the spillover from the Middle East continues to inflame ethnic and religious passions, the extreme right will have the perfect excuse to disseminate its traditional message of hatred against Arabs and Jews alike. Then the genie really would be out of the bottle.

—*John Andrews*

POLITICS

Is Europe Moving Right?

By John Andrews



The electoral pendulum has swung right, leaving only four left or center-left governments in the EU.

Some three years ago, when the Socialist International met in Paris for its most recent Congress, two things were clear: the political left was in the ascendancy—after all, thirteen of the EU's fifteen members were governed by the left or center-left—and its star was the United Kingdom's Tony Blair.

How times change with the voters' whims. Today the electoral pendulum has left Tony Blair almost isolated within the EU: only in Sweden, Greece, and Germany are there fellow Socialist or Social Democrat leaders to keep Blair company—and Germany's Chancellor Gerhard Schröder has endured a tough re-election campaign leading up to this month's vote.

Indeed, many will say that the pendulum has swung much too far: although no EU country is governed by the far right, Austria, Denmark, Italy, and the Netherlands all have far-right parties as minor partners in their governing coalitions. Moreover, in the first round of France's presidential election, back in April, the far-right's Jean-Marie Le Pen came ahead of the Socialist prime minister, Lionel Jospin, in the attempt to deny the re-election of the center-right Jacques Chirac.

But why has the pendulum swung at all? One answer is that in their hearts most voters realize that what keeps a democracy healthy is a change of regime, even if—as with the UK for eighteen years under the Conservative governments of Margaret Thatcher and John Major—they are prepared to give one side or the other an extended run. In France, for example, the electorate may reelect presidents, but it very rarely reelects a parliamentary majority even if, as was the case under the left-wing coalition of Lionel Jospin, the country has prospered.

A second answer is that the left has failed to provide convincing answers to the questions that the polls show most worry the voters: crime, unemployment (consistently hovering around twice the US average), and increasingly, immigration. This explains first why so many European electors have cast votes for the far right: not because they want to elect extremist governments but because they want to send a warning message to the mainstream parties of both left and right. And it then explains the election of the moderate right, always trusted to be harder on crime or immigration than the "soft-hearted" left.

But does the swing of the electoral pendulum really mean a uniform swing in government policies? Although the paid-up political enthusiasts—witness the Socialist International—like to think so, the evidence is hardly

compelling. Tony Blair, for example, promotes a "third way," which supposedly marries social justice with market forces—but which leaves many, if not most, of the left in the rest of the EU unconvinced. Indeed, they have always noted that Blair rarely uses the word "socialist" in his speeches, and they snicker that perhaps in his heart he belongs to the center-right, along with his friends, Silvio Berlusconi of Italy and José Maria Aznar of Spain.

Maybe. But it is equally possible to argue that many in Europe's so-called center-right would be equally at home in the center-left. After all, traditionally the French center-right of Chirac has been far less willing to privatize industry or even dismantle protectionist barriers than the left under Jospin.

The truth is surely that both left and right are being pressed into the same middle ground—and that middle ground has over the years shifted right. One stimulus was clearly the ending of the cold war, more than a decade ago. This has removed much of the ideological underpinning of both sides of the political divide. A second stimulus has been globalization. It is hard to maintain the state-controlled economies traditionally favored by the left when the cross-border flows of trade and finance are so overwhelmingly powerful.

But perhaps the most important—and, to some, unexpected—spur has been the development of the European Union. For all such "socialist" ventures as the Common Agricultural Policy (which is hardly an example of market forces at work), the fact is that ever since the Single Market came into effect in 1993 the overall policy has been to lessen state aid and allow equal competition. In other words, governments of the left have been forced by EU treaties, by the European Commission, and by the European Court of Justice to behave in economic terms more or less like governments of the right.

Add to that the introduction of the single currency and the pressure becomes irresistible. Merely to qualify for entry into the euro zone, governments have had to trim their spending, and now to stay within the terms of the Growth and Stability Pact, they have to maintain rules of good financial housekeeping that inevitably lessen the role of the state. Put all that together and the reality is that whichever way the pendulum swings, governments of left and right will end up closer to Thatcherism than most of them would dare to think. ⓔ

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

Edmund Stoiber

German conservative challenges Schröder at the polls

By Terry Martin

If German Chancellor Gerhard Schröder is not reelected this month, it will be the first time in the country's postwar history that a sitting government was booted out after just one term. But lack of precedent isn't stopping Edmund Stoiber, Schröder's conservative challenger, from giving it a shot. He's doing all he can to convince German voters that a conservative-led government would substantially improve their lives. One should expect nothing less.

Exactly how things would change, however, isn't clear. Predictably, Stoiber and his team are promising to do a better job tackling the country's most pressing problems—high unemployment and the weak economy. But nobody is pretending that those are easy nuts to crack. The criteria for the Stability Pact, the rigid fiscal requirements agreed to by euro-zone members, place strict constraints on member countries' debt levels and budget deficits. Monetary policy, meanwhile, is squarely in the hands of the European Central Bank. Which leaves only fiscal policy. So, if Stoiber's Christian Democrats (CDU) want to boost consumer spending or encourage business expansion, they will have to do so using the same tools as Schröder's Social Democrats (SPD). Extra borrowing and interest rate cuts are off limits.

Given these constraints, economic policy becomes a matter of emphasis. Stoiber says he would cut taxes—from a current 48.5 percent to less than 40 percent. But the Schröder government is already planning to reduce taxes to 42 percent by 2005, and the complexity of the tax system makes it difficult to measure the burden precisely. The CDU says they will not implement parts of the Schröder government's controversial "ecological tax," but the legislation will not be rolled back entirely. The two candidates share the goal of reducing social welfare contributions to "below 40 percent," but those costs are already down to 40.8 percent of total wages. It's hard to get voters excited about a fraction of a percentage point.

In the aftermath of last year's terrorist attacks, it appeared that domestic security in Germany might become an important campaign issue. But Schröder's law-and-order interior minister, Otto Schily, proved remarkably tough and interventionist—to the annoyance of many civil libertarians. Schily's hard-line response stole the thunder from the political right. Consequently, while the word *Sicherheit* (security) does figure prominently in the CDU's campaign slogan, the phrase addresses job security and social welfare concerns as much as crime-related issues. And as for defense, Stoiber's advisors admit the current govern-

Edmund Stoiber, leader of the conservative Christian Democratic Union, faces off with Chancellor Gerhard Schröder in the September 22 general elections.

ment's military reform measures are headed "in the right direction."

On the foreign policy front, precious little distinguishes Stoiber's priorities from Schröder's. Both commit themselves to keeping Germany solidly anchored in the European Union and NATO. Both are devoted to cultivating the country's traditionally close links with France and the United States. Stoiber has made the rounds in recent months, reassuring global leaders that if he is elected Germany will maintain foreign policy continuity. The country may aspire to achieve a degree of political recognition commensurate with its economic weight in the world. But regardless of who wins on September 22, Germany will use nothing more than quiet diplomacy in pursuing its quest for a permanent seat on the UN Security Council.

GERMAN CHANCELLORS (PARTY)	YEARS IN OFFICE
Konrad Adenauer (CDU)	1949 – 1963
Ludwig Erhard (CDU)	1963 – 1966
Kurt Georg Kiesinger (CDU)	1966 – 1969
Willy Brandt (SPD)	1969 – 1974
Helmut Schmidt (SPD)	1974 – 1982
Helmut Kohl (CDU)	1982 – 1998
Gerhard Schröder (SPD)	1998 –

That said, two areas remain where Stoiber's views vary noticeably from Schröder's: immigration and EU enlargement. These are separate but related issues where Stoiber's conservative credentials come into relief. While Chancellor Schröder has pushed hard during his term in office to advance both causes (especially immigration), Stoiber has warned voters of the perils associated with integrating foreigners—be they states or individuals. It's a message that resonates broadly among voters with economic anxieties, especially during times of high unemployment. It also strikes a familiar cultural chord.

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

POLITICS

A Roadmap to EU Politics

By John Andrews

AUSTRIA


WOLFGANG SCHÜSSEL

Republic whose head of state, first elected in 1992, is President **Thomas Klestil** of the center-right Austrian People's Party. In the bicameral Federal Assembly the 64-member Bundesrat is elected by proportional representation and the 183-member Nationalrat by direct popular vote. **Wolfgang Schüssel**, also of the People's Party, is chancellor, or head of government, following the Nationalrat elections of October 1999. With no party commanding a majority, Schüssel heads a coalition in which he was forced to include the far-right Freedom Party. The next parliamentary election is due by October 2003; the next presidential vote will be in early 2004.

BELGIUM


GUY VERHOFSTADT

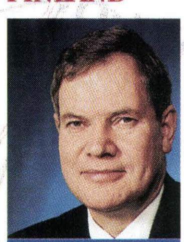
Constitutional monarchy with **King Albert II**, who succeeded in 1993, as head of state. A constitutional revision in 1993 made Belgium a federation of Brussels, francophone Wallonia, and Dutch-speaking Flanders, with levels of government at the federal, regional, and linguistic levels. The federal legislature consists of the 150-seat Chamber of Deputies and the 71-seat Senate, both elected for four-year terms. The government that emerged after elections in 1999 is a coalition headed by Prime Minister **Guy Verhofstadt** of the center-right Liberal Party.

DENMARK


ANDERS FOGH RASMUSSEN

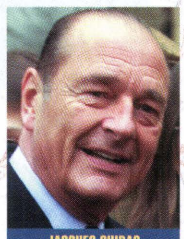
Queen Margrethe II heads the constitutional monarchy. The Folketing is a unicameral parliament with 179 members (including two from Greenland and two from the Faeroe Islands) elected to a four-year term by proportional representation from multi-member constituencies. A snap election in November 2001, four months earlier than necessary, ended nine years of Social Democrat-led government and produced a right-wing government led by the Liberal Party's **Anders Fogh Rasmussen**. To have a majority in parliament, Rasmussen needs the support of the far-right Dansk Folkeparti.

FINLAND


PAAVO LIPPONEN

Republic with **Tarja Halonen**, of the Social Democratic Party, elected by popular vote as president and head-of-state for a six-year term that began in March 2000. The Social Democrats' **Paavo Lipponen** has served since 1999 as prime minister of a "rainbow coalition" government drawn from the 200-seat unicameral parliament, the Eduskunta. This is directly elected by proportional representation for a four-year term.

FRANCE


JACQUES CHIRAC

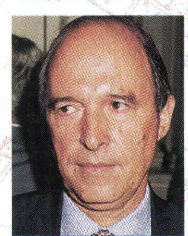
Republic with center-right **Jacques Chirac** as center-right president (elected by popular vote in a two-round run-off) and head of state. The 321-member Senate serves a nine-year term, with indirect elections held at three-year intervals. The 577-member National Assembly is chosen by direct popular vote to serve a five-year term. Following a constitutional change, effective from the presidential election of April–May 2002, the presidential term has been reduced from seven to five years. National Assembly elections in June brought a massive victory for the center-right Union for the Presidential Majority, ending the "cohabitation" Chirac had endured for the previous five years with a Socialist-led coalition. Following the elections, Chirac appointed **Jean-Pierre Raffarin** as his new, supportive, prime minister.

GERMANY


GERHARD SCHRÖDER

Federal republic with President **Johannes Rau**, from the Social Democratic Party, serving as head of state. In the bicameral legislature the 669-member Bundestag (the lower house) is elected for a four-year term by a combination of direct and proportional representation, with each party needing at least 5 percent of the national vote or mandates from three of the republic's sixteen *länder* or states. The other house of parliament is the 69-seat Bundesrat, whose members are delegates from the länder and change according to länder elections. Chancellor **Gerhard Schröder**, of the Social Democratic Party, has headed a center-left coalition with the Greens since 1998, with the next election due later this month.

GREECE


COSTAS SIMITIS

Republic with President **Constantinos Stephanopoulos**, reelected by parliament in 2000 for a five-year term, as head of state. The 300-seat Vouli is a unicameral parliament elected by direct popular vote for a four-year term. The current government was formed by the Socialist PASOK party and is led by

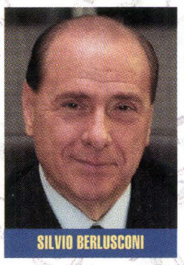
Prime Minister **Costas Simitis**, who has served since 1996.

IRELAND


BERTIE AHERN

Republic with President **Mary McAleese** directly elected in 1997 as head of state for a seven-year term. The bicameral Oireachtas (parliament) consists of the 166-seat Dáil, popularly elected by proportional representation for a five-year term, and a 60-seat Senate variously nominated by the prime minister or elected from the universities and other bodies to serve a five-year term. **Bertie Ahern** of the Fianna Fail party became taoiseach (prime minister) of a coalition government following the 1997 election; in elections in May he was again the victor, with his party coming impressively close to an absolute majority in the Dáil.

ITALY


SILVIO BERLUSCONI

Republic with **Carlo Azeglio Ciampi**, a former central banker, chosen as president—and so head of state—by an electoral college in May 1999 for a seven-year term. The bicameral parliament, consisting of the 630-seat Chamber of Deputies and the 315-seat Senate, is elected for a five-year term by a mix of proportional representation and first-past-the-post contests. Governments in Italy come and go with bewildering frequency. The prime minister (or more properly "president of the council") of the center-right government that emerged in June 2001 is **Silvio Berlusconi**, a billionaire businessman who founded his own party, Forza Italia.

LUXEMBOURG


JEAN-CLAUDE JUNCKER

The Grand Duchy is a constitutional monarchy with **Grand Duke Henri** becoming head-of-state in October 2000 on the retirement of his father, Grand Duke Jean. Parliament is a unicameral 60-seat Chamber of Deputies elected by popular vote for a five-year term. The center-right prime minister, **Jean-Claude Juncker**, heads a coalition government with the center-left. The next election is due in June 2004.

NETHERLANDS


JAN PETER BALKENENDE

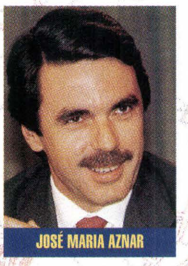
Constitutional monarchy with **Queen Beatrix** as head of state. The bicameral parliament, the Staaten Generaal, consists of the 75-seat First (or upper) Chamber chosen by indirect elections for a four-year term and the 150-seat Second Chamber (or lower) directly elected by proportional representation, again for four years. The government is formed by the largest party in the Second Chamber and is invariably a coalition. In the general election in May, Wim Kok's coalition of the center-left and center-right was swept from office, with the left-of-center Kok being replaced as prime minister by **Jan Peter Balkenende**, a Christian Democrat whose party won almost a third of the Second Chamber's 150 seats.

PORTUGAL


JOSÉ MANUEL DURÃO BARROSO

Republic with the Socialist Party's **Jorge Sampaio**, re-elected as president and head of state for a five-year term in 2001. The 230-seat single chamber Assembly of the Republic is elected for a four-year term by popular vote. An early election in March resulted in the defeat of the Socialist government of Antonio Guterres and victory for a more conservative Social Democrat-led coalition under Prime Minister **José Manuel Durão Barroso**.

SPAIN


JOSÉ MARIA AZNAR

Constitutional monarchy with **King Juan Carlos**, restored to the throne in 1975, as head of state. The bicameral National Assembly, serving a four-year term, consists of the 350-member Congress of Deputies, elected by popular vote on a system of proportional representation, and the 259-seat Senate. (Fifty-one are appointed from the regional parliaments, and the rest are elected by popular vote.) Prime Minister **José Maria Aznar**, of the Popular Party, has led a center-right government since March 2000.

SWEDEN

Constitutional monarchy with **King Carl XVI Gustaf** as head of state since 1973. The unicameral parliament is the 349-seat Riksdag, directly elected for a four-year term by proportional representation. The September 1998 election led to a center-left coalition under Prime Minister **Göran Persson** of the Social Democratic Party.


GÖRAN PERSSON

UNITED KINGDOM


TONY BLAIR

Constitutional monarchy with **Queen Elizabeth II** as head of state since 1952. The bicameral parliament consists of the 659-member House of Commons, directly elected on a first-past-the-post system for up to five years, and the House of Lords, composed of 92 hereditary peers (nobles)—until a 1999 reform there were around 600—along with 25 bishops and archbishops and approximately 575 "life peers." The life peers, representing various political parties and different walks of life, are appointed by the queen on the prime minister's advice. The government is composed by the party commanding a majority in the House of Commons. In elections in June 2001 the Labor Party under Prime Minister **Tony Blair** confirmed the majority it had earlier won in 1997. Since 1999 Scotland and Northern Ireland have had their own parliaments and Wales its own assembly; all are subservient to the national parliament in Westminster, London.

Flying Too High
The Fall of Jean-Marie Messier

By John Andrews

Jean-Marie Messier used to take a self-deprecating delight in being "J6M," a nickname invented by some wicked satirists on French television. Spelled out, the nickname was "Jean-Marie Messier, moi-même, maître du monde"—"myself, master of the world." Now, Messier is back with the two m's he started with: his business empire, Vivendi Universal, has come close to bankruptcy; his reputation as a Frenchman with a world vision is shot; the French establishment has deserted him; and, following his resignation in July as Vivendi Universal's chairman and chief executive, he is out of a job.

How did it happen? The short answer is that Messier, a dealmaker par excellence, went too far too fast. His vision was to take a boring French water utility, Compagnie Générale des Eaux, and turn it into "the world's preferred creator and provider of entertainment, education, and personalized services to consumers anywhere, at any time, and across all distribution platforms and devices."

What the vision meant in practice was a muddled conglomerate whose interests ran from sewage treatment through mobile telephones, pay-television channels, publishing, and the Internet to Hollywood's Universal Studios, acquired in late 2000 for $30

Messier-Vivendi Timeline

1994: Jean-Marie Messier is hired by Générale des Eaux, a vast international conglomerate with interests in water treatment, energy, construction, telecommunications, and other sectors.

1996: Messier named chairman and chief executive at age 39 and initiates a plan to steer the company into new growth markets

1998: Pays $5 billion for Havas, the French media conglomerate, which has large publishing interests and part ownership of pay television channel Canal+; renames the company Vivendi

1999: Buys 23 percent of Rupert Murdoch's pay television BSkyB network

2000: Creates the world's second-largest media group by merging with Canadian beverage conglomerate Seagrams, which owns US media giant Universal

2000: Teams up with Vodafone to launch mobile Internet service Vizzavi

May 2001: Pays $395 million for online music company MP3.com

June 2001: Acquires US textbook publisher Houghton Mifflin for $1.8 billion

billion, and the entertainment assets of USA Networks, bought one year later. As the analysts struggled to understand Messier's corporate logic, the fates abruptly turned against him: the dot-com bubble burst, stock markets sank, and the terrorist attacks of September 11 took their toll on business confidence. By the time Messier's fall from grace was complete, Vivendi Universal's debt was a massive $19 billion, its bonds had been downgraded to junk status, and searching questions were being asked about its accounting practices.

So is this simply another tale of one man's hubris leading to inevitable disaster? Not quite. The intriguing aspect in Messier's case was that here was a member of the French elite—a rare graduate both of the Polytechnique and the Ecole Nationale d'Administration, a former ministerial adviser, and so on—taking on the Americans at their own game. While he was winning, his compatriots loved it. The magnificent apartment in Manhattan, to which Messier moved himself and his family, was a source of pride. So, too, were the American-style corporate trappings, such as the private jet.

Unhappily, when the going got tough, these same accused him of being a traitor. In retrospect, the turning point was probably last year when he declared in New York that France's "cultural exception is dead"—a provocative thing to say given that under French law the Vivendi Universal pay-television subsidiary, Canal+, is required to subsidize France's film industry. Indeed, Catherine Tasca, the culture minister of the time, declared herself "scandalized" by Messier's remarks. By the time Messier had backpedaled, in a long article in *Le Figaro*, the damage had already been done.

The question is what happens now, not so much to Messier (presumably rich enough not to need a job, should he fail to find one) as to France's attitude toward business. The assumption, helped by the growth of Vivendi, in the late 1990s was always that France would inevitably become more "American" (or "Anglo-Saxon", as the French like to say) in its approach to capitalism. Privatization of state assets (increasingly common as governments strove to meet the budgetary norms of the euro zone); the growth of the Paris stock market; the spread of share-ownership (still only 16 percent of the adult population)—all would combine to challenge the tradition of an omnipresent state, a powerful public sector, and a private sector dominated by an incestuous elite moving easily between business and politics.

Arguably, that assumption still holds true; after all, in a global marketplace France cannot afford to be insular. But most French observers will put Messier's downfall in the broader context of the scandals of Enron, Global Crossing, WorldCom, and so on, and they will then claim that the American model of capitalism is one to be avoided rather than emulated. In other words, if the assumption is still true, the proof will come later rather than sooner. ⓔ

December 2001: Buys entertainment assets of USA Networks for $10.5 billion

March 2002: Reports $8.3 billion loss, the biggest in French corporate history, after revaluing assets acquired during the dot-com boom

April 2002: Faces widespread criticism and protests at Paris headquarters after firing popular Canal+ executive Pierre Lescure and saying the government should stop funding French cultural enterprises, including movies

June 2002: Sells 15 percent stake in Vivendi Environment subsidy

July 2002: Resigns with compensation package reportedly worth more than $20 million

German CEOs Ousted

The upheaval in the media/technology sector claimed two of Germany's most powerful CEOs.

First, Deutsche Telekom's Ron Sommer, fifty-three, resigned after seven years as chief executive of Europe's largest telecommunications company. The announcement came at a July meeting of the company's supervisory board.

"When the chief executive cannot rely on the full confidence of the supervisory board, resignation is the only responsible step left open," Sommer told reporters after the meeting.


Sommer


Middelhoff

Sommer's departure indicates how fast the fortunes of the new economy pioneers have turned. In 1996, after only one year on the job, he led the state-owned Deutsche Telekom toward privatization, eventually decreasing the German government's stake to 43 percent. In 2000, the stock price peaked at $104. However, a string of expensive acquisitions saddled the company with debts of nearly $67 billion, and this summer, Deutsche Telekom swooned to around $10 a share.

Conversely, Thomas Middelhoff, forty-nine, did not have to worry about Bertelsmann's stock price. In fact, he was busy preparing the media conglomerate for its first stock offering some time before 2005 when he found himself at loggerheads with the Mohn family, which controls 75 percent of the company and expressed reluctance to go forward with the stock sale.

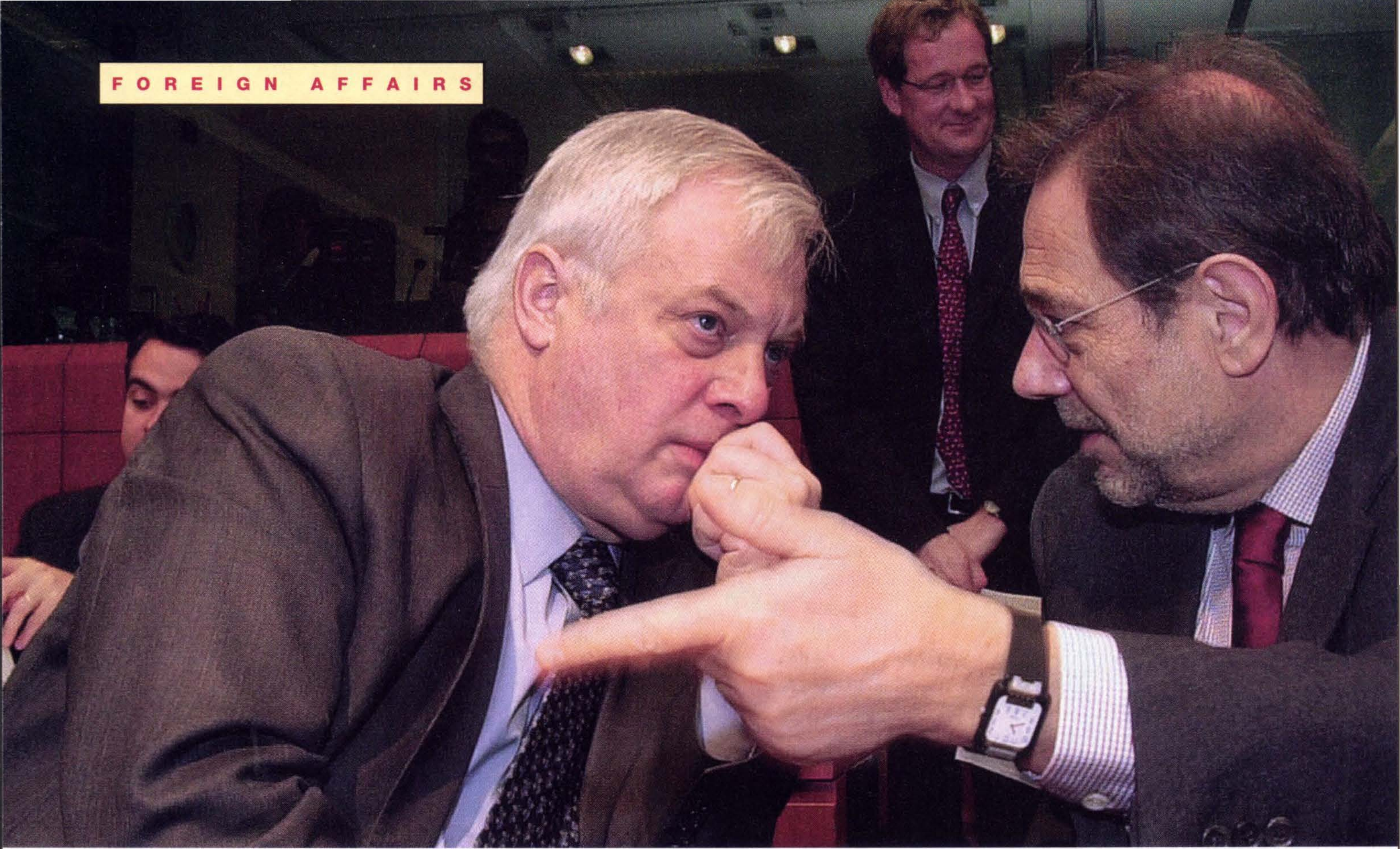
Middelhoff offered his resignation. He later told a German public television interviewer, "[The Mohn family] had mid- and long-term development prospects that were different from mine. In this context, I had no choice but to resign."

The move came as a surprise since in his four years at the helm Middelhoff had doubled Bertelsmann's size while keeping the company's debt level in check. He acquired US publisher Random House and European television group RTL, both major revenue generators. However, his best deal by far was acquiring a 50 percent stake in AOL Europe and selling it at the height of the market, reaping nearly $8 billion in cash.

Middelhoff hadn't completely avoided controversy. Critics said he overpaid when he acquired British record label Zomba for $3 billion earlier this year, and so far, Bertelsmann has nothing to show for the more than $80 million he invested in Internet music-swapping service, Napster.

Neither ex-CEO has announced his future plans. Sommer, however, will retain his reported annual $1.8 million salary until 2005. Meanwhile, Middelhoff has been rumored as the prime candidate to take over Deutsche Telekom.

—*Peter Gwin*



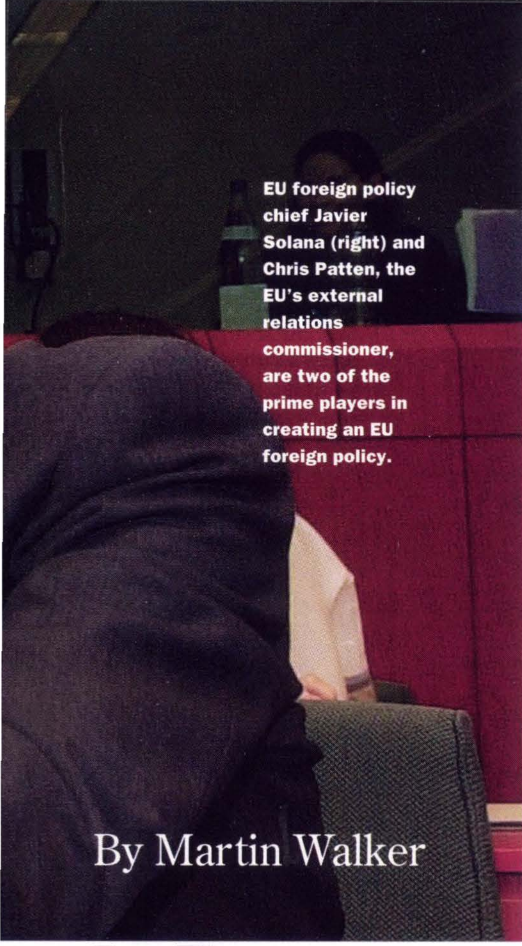
EU Foreign Policy Coming

In a few brief days this spring, the European Union's foreign policy, which had long existed more in theory than in practice, suddenly jumped into prominence in ways that showed how much it mattered. In Madrid, it became a key player in a new attempt to resolve the perilous crisis in the Middle East. And in Brussels, the EU's own constitutional convention on the future course and definition of the institution seemed suddenly to hinge on the question of who would run foreign policy in the future. Would it be the supranational European Commission in Brussels, or the European Council, which is to say the national governments of the member states?

European Commission President Romano Prodi gave the European Parliament a preview of his proposals to the convention, whose central feature was that the EU "should speak with one voice on all aspects of external relations." The EU members have already authorized the Commission to speak and negotiate for them in matters of trade; now Prodi sought the same authority over foreign policy.

This remark confronted directly the current system, under which EU foreign policy is coordinated by Javier Solana, the high representative who is appointed by the European Council, the body where the heads of government meet. Prodi's plan also confronted the proposal to the convention from French President Jacques Chirac that the Council should itself elect a president for a five-year term, who would swiftly become the authoritative voice of the EU and doubtless also of its foreign policy. The Chirac idea was swiftly endorsed by London and Madrid, proud nation states with long and jealously guarded histories of running their own foreign policy in the national interest. It was clear that a critical debate was underway over who would run foreign policy and that the EU was heading for a defining decision. And yet at the same time, far from the constitutional theorizing in Brussels and in the real world, the EU's existing foreign policy tools were being used to considerable effect. On his way to Israel in the hope of raising the siege on the Palestinian leader Yasser Arafat and restarting diplomacy, Secretary of State Colin Powell convened an unusual meeting. Called "the Quad," it brought together Powell representing the United States, Russian Foreign Minister Igor Ivanov, United Nations Secretary-General Kofi Annan, and the EU's Javier Solana. Between them, the four officials represented most of the world's military and nuclear power, most of its economic wealth and trade potential, and with Annan, a goodly proportion of its moral influence. Whereas earlier efforts by US and EU envoys had failed to secure an Israeli withdrawal from the West Bank, the efforts of the Quad succeeded.

The EU had little choice but to craft a foreign policy, however complex the constitutional issues and however



EU foreign policy chief Javier Solana (right) and Chris Patten, the EU's external relations commissioner, are two of the prime players in creating an EU foreign policy.

By Martin Walker

# of Age

tricky the balance of applying Europe's massive economic and commercial weight, when it wielded so little conventional military power. Surrounded by an arc of potential crisis that ran through Russia, the Balkans, North Africa, and the Middle East, the EU lives in a dangerous neighborhood. And the EU's own dynamic, of enlargement into Eastern Europe, taking steadily more responsibility for the stabilization of the Balkans and accepting Turkey as a candidate for membership, was thrusting it ever more intimately into its neighbors' affairs.

For more than forty years, the European Union had seen little need to devise its own foreign policy, when the parameters were so clearly defined by the cold war and thus by the NATO alliance to which most EU states belonged. German Foreign Minister Joschka Fischer was right to stress in his now famous Humboldt University speech in May 2000, "The core of the concept of Europe after 1945 was, and still is, a rejection of the European balance-of-power principle and the hegemonic ambitions of individual states that had emerged following the Peace of Westphalia in 1648." But as the cold war faded and American strategic interests began to shift elsewhere, the limits of the EU's ability to deploy a foreign policy without power became apparent.

What the traditional EU could do—in terms of trade and partnership agreements with potentially unstable neighbors and applying the EU's unmatched resources in development aid—had already been done. And the lesson of the 1990s Balkan wars was that these trade and financial tools were not nearly enough for the challenges. That was the central reason why, on an Anglo-French initiative, the EU decided in 1999 that it would build within three years its own Rapid Reaction Force, able to deploy 60,000 troops and keep them in the field for at least a year. A second important development was the increasing readiness of Germany, the EU's most populous and richest member, to grow beyond the post-1945 constraints and start deploying its own troops abroad, first in Kosovo and then in Afghanistan.

The EU foreign policy—and the tools available to give it weight—remains very much a work in progress. Repeated EU Council declarations have stressed that there is no wish to replace NATO, which remains the core of the transatlantic security system. Equally, there is neither the strategic nor the political will to build a European military capability that could begin to match, far less to threaten, the vast military predominance of its American ally. But there is a recognition that the US and NATO may choose not to become involved in regional crises that trigger important EU concerns. There is also room for some division of labor, in which EU peacekeeping skills, including financial aid and nation-building, policing, and reconstruction, can be a useful partner to the US military.

How far and how fast this process goes will depend largely on the unforeseeable challenges that the EU has to face in the future. The Balkans appear to be stabilizing fast, but in Europe's immediate neighborhood the potential for future crisis is clear in Moldova and Belarus, in the Caucasus, and North Africa. And with Turkey now accepted as a candidate member, the EU can start to predict the day that it will share borders with states like Iraq, Iran, and Syria. Most of these crises will be managed in partnership with the American ally and, with luck, in partnership with a Russia that is looking increasingly cooperative. But as the EU grapples with the future of its foreign policy, and with the thorny issue of whether the national states or Brussels should run it, one lesson is clearly being learned: Just because the EU is a zone of peace and prosperity is no guarantee that troubles beyond the EU borders can be safely ignored. Ⓔ

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From left to right: Russian Foreign Minister Igor Ivanov, UN Secretary General Kofi Annan, Spanish Foreign Minister Josep Pique, Secretary of State Colin Powell, and EU foreign policy chief Javier Solana attended the "Quad" meeting in Madrid in April to discuss the Middle East crisis.

The Tools of EU Foreign Policy

The famous question posed more than thirty years ago by then secretary of state Henry Kissinger: "If I want to call Europe, whom do I call?" is still slowly and sometimes confusingly groping toward an answer. Ironically, the answer might have been easier when Kissinger first put his question, when all the members of the then European Economic Community were members of the NATO alliance. But in 1973, Ireland became the first non-NATO member, and now three more neutral nations—Sweden, Austria, and Finland—have all joined. And the EU summit in Seville in June this year solemnly issued a guarantee to Ireland that its neutrality would continue to be respected, whatever the future development of EU foreign policy.

The end of the cold war helped trigger the first reappraisal, when the 1993 Treaty of Maastricht suggested the need for a Common Foreign and Security Policy (CFSP), later formalized in the 1997 Treaty of Amsterdam. At first, progress was modest, with the drafting of very broad common strategies on major issues, like policy toward Russia (to help steer it to democratic prosperity), the Middle East (to back the Oslo peace process with the EU's trade and aid assets), and so on. The Balkan wars of the 1990s helped accelerate the process, and at the 1999 Helsinki summit—after the Kosovo war—it was agreed that the former NATO secretary-general Javier Solana of Spain should become the first Mr. CFSP.

Solana became the first high representative appointed by the European Council, the fifteen heads of government of the EU member states, to develop and coordinate the common policy. But this brought confusion, since the EU's executive arm, the Brussels-based Commission, already had its own foreign policy tools. There was a commissioner for external affairs, who managed the world's largest development aid budget. There was a commissioner for humanitarian aid, who coordinated the world's largest emergency aid budget. There was a commissioner for enlargement, who dealt with the candidates for membership in Eastern Europe. And in a world where geo-economics were becoming as important as traditional geopolitics, there was also a trade commissioner, who was granted wide powers to negotiate trade agreements for all the member states. Solana's first diplomatic challenge was to avoid the prospect of turf wars between Commission and Council and work out amicable cooperation arrangements with the various commissioners.

The Helsinki summit also agreed to build a Rapid Reaction Force (RRF), a military arm of the EU that would allow 60,000 troops—plus fifteen squadrons of warplanes and a naval task force of fifteen warships—to be deployed for up to a year. Such a force would have been strong enough to man the Bosnia and Kosovo peacekeeping missions but not strong enough to have defeated the Serb forces—without which there could have been no peacekeeping. In the words of Ronald Asmus, former president Clinton's assistant secretary for European affairs, this force could be "strong enough to get itself into trouble, but not strong enough to fight its way out."

The RRF had other problems. First, the EU nations lacked strategic lift capability to deploy the force. In 2002, the German government finally secured sufficient authorization from the Bundestag to pay its share of the estimated $15 billion for a fleet of Airbus jets, modified into military cargo planes. (It would have been faster, and probably cheaper, to lease Russian or Ukrainian Antonovs, as Germany did to deploy its troops to Afghanistan.) Second, the EU nations lack the high-tech intelligence and military equipment like unmanned aerial vehicles, electronic warfare, and early warning aircraft and "smart" munitions that increasingly define the US military machine. As a result, the RRF would depend for years to come on sharing NATO assets, and even that remained in doubt since Turkey (as a NATO member) had to approve an agreement that Greece (as an EU member as well as a NATO member) found difficult to accept.

The RRF, however, was devised not to fight a modern high-tech war but to carry out the "Petersberg tasks" (named after a German conference center where they were defined) of peacekeeping and crisis management. This would include policing, maintaining order, restoring power and water supplies, and rebuilding communications links and logistics, as well as the more robust job of peacemaking and enforcement. But the RRF, like the EU's foreign policy that it was meant to uphold, was itself a work in progress, and should look more impressive and more experienced by the end of this decade. And recalling the three decades since Kissinger's question, that is fast work by EU standards.

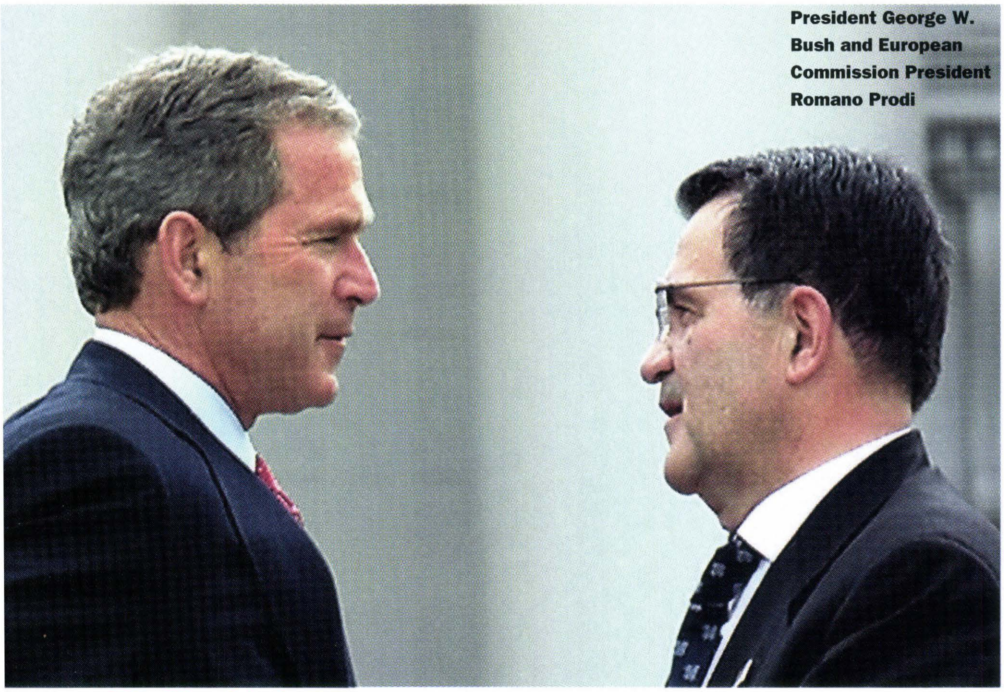
—Martin Walker

Henry Kissinger: Hello, may I speak with Europe?

EUROPE and the World

A wide-ranging view of EU relations around the globe

What is the current state of European relations around the globe? This is the question we put to our writers. We divided the world into six broad sectors with which the European Union is deeply involved, each with its own special set of circumstances: the United States, the EU's primary interlocutor; Russia, Asia, and Latin America, its growing trade partners; Africa, the largest recipient of EU humanitarian aid; and finally, the Middle East, a region that has vexing implications on Europe's domestic front.


President George W. Bush and European Commission President Romano Prodi

US: Troubled Transatlantic Alliance

These are troubled times for the transatlantic alliance. A combination of niggling trade disputes and divergent views on the Middle East have brought relations between US and Europe to their lowest point in two decades. Both sides bear a share of the blame. The Bush administration has been blunt to a fault, often acting with scant regard to European sensitivities. The Europeans have laid claim to a partnership of equals without having the means or the political will to match the world's only superpower.

Twelve months ago, the outlook was very different. The terrorist attacks on New York and Washington on September 11, 2001, encouraged a spontaneous solidarity in Europe. "We are all Americans now," proclaimed a headline in *Le Monde*, the influential French daily newspaper.

The mood shifted soon after the victorious US-led winter war against the Taliban and Al-Qaeda in Afghanistan. European governments woke up to the reality that they had contributed little to the military campaign. Yet they were now expected to put up money and peacekeepers to bolster the new regime in Kabul.

The turning point came with President George W. Bush's State of the Union speech in which he identified an "Axis of Evil" comprised of Iran, Iraq, and North Korea. In effect, President Bush served notice that the US would consider preemptive military action against these countries, which he accused of sponsoring terrorism and developing weapons of mass destruction.

This was a bridge too far for many Europeans. In their minds, Bush's declared war on terrorism was supposed to be confined to those linked to the outrages of September 11, rather than settling old scores with rogue states, notably Iraq.

The feeling in Brussels and Washington is that the alliance is going through one of its periodic bouts of turbulence.

There is still considerable unease about a US-led coalition opening a new military front against Saddam Hussein without simultaneously addressing the festering conflict between Israel and the Palestinians, a conflict that has escalated to new heights following a wave of suicide bombings in Israel.

Javier Solana, the high representative of the European Union on foreign policy, says that the Middle East is the most neuralgic issue for Europe and the United States. He has been in almost daily touch with Secretary of State Colin Powell in a bid to narrow the differences between the two sides.

Yet the gulf remains. The Bush administration, under fierce pressure from the conservative wing of the Republican Party, has tilted toward Ariel Sharon, the Israeli prime minister, and has called for a new generation of Palestinian leaders to replace Yasser Arafat, the old PLO leader. European governments still want to deal with Arafat. Washington officials complain the EU is unrealistic about America's ability to put pressure on the Israelis.

This mutual misunderstanding has spread to other areas. The EU has come down strongly in favor of an International Criminal Court (ICC) to deal with war criminals. But the US has rejected the treaty and threatened to withdraw troops from the Balkans if US troops do not receive blanket immunity from the ICC. Separately, Henry Kissinger, former US secretary of state, has called the ICC a "kangaroo court" because he risks becoming a target.

The US and Europe remain at odds over the Kyoto Treaty on the environment. The Bush administration, strongly supported by the Senate, refused to sign the protocol on the grounds that it discriminated against US energy consumers. European governments, under pressure from green activists, signed up.

Transatlantic trade relations have also soured. First came the imposition of US tariffs on steel imports. Then, a multibillion dollar US farm bill, which offers generous support to American farmers, raised fears that Europeans will see an excuse to avoid reforming their own generous Common Agricultural Policy.

Still, the European Commission points out that only 4 percent of transatlantic trade is subject to disputes. The rest is virtually trouble-free—and growing. The feeling in Brussels and Washington is that the alliance is going through one of its periodic bouts of turbulence, like the dispute over short-range nuclear missile deployment in 1982 and relations with then-Soviet Russia.

Over the next few months, several issues will help to define whether the relationship between the US and Europe will improve or whether it will sink further into disrepair.

EUROPE Update

SEPTEMBER 2002 VOLUME X/NUMBER 8

STATE PROFILE: TEXAS

With this issue of Europe Update *we introduce State Profile, a new regularly occurring feature that will offer greater insight into the EU-US relationship at the state level and the people and organizations, businesses, and government bodies that encompass it.*

Big Europe Loves Big Texas

Texas has kept ahead of all other states in attracting direct investment from Europe. In 2000, the total invested in the state was more than $61 billion—up $3 billion from the year before, an increase of $38 billion since 1988. German and British firms each represent $16 billion of investments in Texas in 2000, while Dutch investments amount to $10 billion.

There are many reasons for this romance, starting with the state's own eagerness.

"We are committed to Europe," said Jeff Moseley, executive director of the Texas Department of Economic Development.

Maybe giants like Ericsson and Nokia were watching when New Yorkers Exxon and JC Penney rebelled at tax and property costs and traded their skyscrapers for suburban campuses near Dallas. More often, European firms choose Texas for its convenient geography and airports—midway between the coasts, direct flights to Europe, and in and out in a hurry.

Another advantage has always been the state's vast energy connections. Texas no longer ranks as a giant in oil production. Crude oil output is just 917,000 barrels a day, which is less than one-third the production of Norway. Even when the state's oil wells run dry, however, Houston will be pumping knowledge and hardware around the world. British Petroleum, Royal Dutch Shell, Schlumberger, AGIP, and Statoil are among the Europeans with Houston addresses. In all, European investors have created 260,000 jobs in Texas.

Moseley sees good reasons for a continuing investment attraction. Wage costs are low, and there's no personal income tax. More than half the Texas workforce has either graduated from college or studied there. Moseley also has a theory comparing the North American Free Trade Agreement (NAFTA) to the fall of the Berlin Wall. (It helps to understand what he's suggesting if you remember Texas was part of Mexico 170 years ago.)

"Our wall was symbolized by the Rio Grande," he said. "We had trade tariffs, differing economic systems. NAFTA was a massive reunification of the economy." This reunion will grow in importance for a gentrifying workforce in the United States and Europe. Mexico has plenty of workers and factories integrated into cross-border manufacturing operations with Texas.

US and German high-tech companies have recruited in India and elsewhere in Asia to cover a shortage of computer programmers and engineers. Homeland security concerns will make such visas harder to get in the United States, Moseley predicts, while schools in Mexico and Texas will help fill the demand.

The chemical industry should also benefit. Mexico needs natural gas as fuel for the electricity demanded by border factories and communities. That will bring cross-border pipelines linking Texas gas with Mexico power plants. In the future, Mexico will likely be sending its own gas back up the lines to Texas customers. There should be enough gas in Mexico for any expansion plans of the petrochemical industries along the Houston Ship Channel, Moseley said. Plenty of European chemical firms already own plants outside Houston, including Bayer, Hoechst, BASF, and Air Liquide.

Other powerful knowledge clusters in computers, telecommunications, biotechnology, and medicine ring Dallas, Houston, San Antonio, and Austin. And many of these firms are strong in Europe. Dell sold $31 billion of computers last year and has 14 percent of the global market. CEO Michael Dell started the company while he was an Austin undergraduate at the University of Texas.

Texas Instruments (TI) anchors a highway in Dallas known as the Telecom Corridor. Its European subsidiary has facilities in fourteen countries, including manufacturing plants in Freisling, Germany, and Almelo in the Netherlands. TI's European plants employ 3,000 workers and had $2.7 billion of revenues in 2000.

Kimberly-Clark of Dallas has made itself Europe's indispensable supplier of disposable products like Kleenex tissues and Huggies diapers. EDS of Plano employs 4,200 workers in Germany, 3,000 in France, 1,500 in the Netherlands, and 1,250 in the Nordic countries. TXU started life as the local power company for Dallas and Fort Worth. Today it is an energy retailer in the United Kingdom, Germany, and Norway and is predicting that offshore wind power could someday account for 31 percent of British electricity.

Despite the extent of commerce, Moseley's department no longer has a Texas office in Europe. Offices in Frankfurt, Tokyo, and Taipei were closed years ago for budget reasons, though an office in Mexico City has been a fixture for more than twenty-five years.

Now that Congress has given President Bush trade negotiating authority, it should set off a boom in new trade advances and provide Texas an opportunity for raising its European profile, said Moseley. Texas exports to the EU rose slightly from $10.4 billion in 2000 to $10.7 billion in 2001 and accounted for 11.2 percent of the state's total exports for 2001, up from

10 percent in 2000.

Chemical exports to Europe were valued at $3 billion. Computer equipment and industrial machinery came next at $2.8 billion. Transportation equipment exports were worth $1.1 billion, followed by $985 million in instruments.

Willard Barry, president of the European-American Business Council, said much of the European trade with both Texas and the rest of the United States involved shipments among subsidiaries within the same corporation. The same holds true for European exports to the United States, he said. "It's a pretty integrated market," he said. "The Europeans who invest in Texas do a lot of trade within affiliates."

Texas A&M University's European Union Center at the Bush Presidential Library Complex is one of fourteen such centers around the United States funded in part with EU money. A&M's College of Agriculture has teamed up with Wageningen University in the Netherlands on joint research into transatlantic food and health concerns like mad cow disease and genetically modified organisms.

Jim Landers, based in Washington, writes about international business for the Dallas Morning News.

EU Ambassador to Visit Texas

The Dallas Chamber of Commerce has chosen "Europe" as the September theme for its monthly lecture series and will welcome Ambassador Günter Burghardt, head of the European Commission's Washington delegation, to speak to a European Business Forum. At the September 13 event, which is sponsored by the French-American Chamber of Commerce of Dallas/Ft. Worth and co-sponsored by the Dallas-based European chambers of commerce, *EUROPE* magazine, and the World Affairs Council, the ambassador will discuss the EU-US relationship in the wake of 9-11. On September 12, he will address an event hosted by the Dallas Federal Reserve Bank, the Economist Club, and the Committee on Foreign Relations.

Europe has strong ties with Texas and many European companies have key subsidiaries located throughout the state. Texas is host to Nokia (Finland), Siemens (Germany), EADS (France), Ericsson (Sweden), Bayer (Germany), Nortel Networks (France), and Petrofina (Belgium). The British beverage giant Cadbury Schweppes produces its Dr. Pepper, Seven Up, Hawaiian Punch, and Sunkist brands at its Dallas plant, and France's Accor, one of the world's largest hospitality companies, whose chains include Red Roof Inn, Motel 6, and Sofitel, has its North American headquarters in Dallas.

"With around 1,250 hotels and 25,000 employees, Accor has become an important local partner in the US," says Georges Le Mener, the company's North America president and CEO.

Furthering the dialogue between Texans and Europeans is critical to maintaining that partnership, says Isabelle De Wulf, executive director of the French-American Chamber of Commerce. "The visit of Ambassador Burghardt to Dallas is extremely important," she says, "and will allow the business community to better understand the benefits of the transatlantic economic relationship and the strong presence of European companies in our region."

—Susan J. Burdin

EU NEWS

EU Mourns Father of the Euro

Luxembourg mourned perhaps its greatest European statesman this summer when former prime minister Pierre Werner died on June 24 at age eighty-eight. His death, however, resonated far beyond this tiny country. If anybody could be called the father of the euro it was Pierre Werner. Forty-two years ago, in a speech in Strasbourg, he called for the immediate creation of a single European currency. It was one of those ideas that people call both "visionary" and "hopelessly impractical," as perhaps it was at that time.

A spell of currency turbulence in the late 1960s put the notion in a quite different light, and Werner was asked to chair a high-level group to see how monetary union could be established among the then European Community member countries. The subsequent Werner Report of 1970 has entered the mythology of post-war Europe. Oddly, it did not call specifically for a single currency, as such, though it proposed a degree of monetary intimacy that made such a development inevitable.

Pierre Werner 1914–2002

The collapse of the Bretton Woods fixed exchange rate system and the oil crisis in the 1970s put the Werner plan on ice, where it remained for some twenty years before taking on new life as the blueprint for the single currency that came fully into existence at the beginning of this year. Few men can have witnessed the fulfillment of their dreams during their lifetime on such a spectacular scale.

Werner, who retired from politics in 1984 to chair a telecommunications company, brought to his work on currencies and to his lengthy leadership of Luxembourg the steely professionalism of a banker, but behind it lay a deep understanding of the role that economic union had to play in preventing war between European nations. He was said to be thrilled when his idea came to fruition in the form of banknotes and coins earlier this year. However, by then he was already thinking beyond the EU, proposing a single world currency, which, he suggested, could be called the "mondo."

On a personal level he was an instinctively charitable man, once impulsively "adopting" a baby found abandoned at Luxembourg airport. His wife Henriette Pascatore died in 1984; he is survived by five children.

—Alan Osborn

Landmark Treaty Expires

The European Coal and Steel Treaty (ECSC), which launched the European Community fifty years ago, expired on July 23, its essential functions subsumed in subsequent treaties. The ECSC, which began largely as a peace project between France and Germany, became the driving force behind European integration. As Europe was recovering from World War II, six European countries decided to create an international organization to manage the peaceful use of two major industries—coal and steel. On April 18, 1951, Belgium, France, Germany, Italy, Luxembourg, and the Netherlands signed the treaty in Paris. The ESCS went on to play a central part in modernizing the two major industries in the difficult period of postwar reconstruction and became the cornerstone on which the

European Community and, subsequently, the European Union were built. The EU's founding fathers—Jean Monnet and Robert Schuman—had a hand in defining the blueprint for the ESCS, and this became the model for the European Community created under the Treaty of Rome (1957), which subsequently became the European Union under the Treaty of Maastricht (1992).

Commenting on the treaty's expiry, European Commission President Romano Prodi said, "The Coal and Steel Community was a courageous and hugely significant leap forward for Europe... History will record the founding of the ECSC as a defining moment in the story of mankind's struggle to manage our affairs more effectively, more fairly, and more democratically. As we look to the future of Europe, and the changes needed to make a growing European Union a success, we would do well to draw inspiration from the achievements of the postwar generation."

—Susan J. Burdin

REPORTER'S NOTEBOOK

Youth Summiteers Debate European Constitution

When twenty-four-year-old Anders Blok starts classes this month at the University of Copenhagen, he will bring news from the frontlines of European integration to his classmates. Anders has spent part of his summer holiday participating in the Youth 2002 Summit held in Denmark June 30–July 13.

The young Dane, together with nearly a thousand other participants age eighteen to twenty-five from thirty-three countries gathered at thirteen Danish high schools. The students, who came from EU member states, applicant countries, and Balkan nations, debated issues ranging from the future of the EU's youth policy, the opportunities and challenges of EU enlargement, and globalization and democracy. They also contributed to a joint proposal for a possible future European constitution, which was handed over to a representative of the EU presidency at a ceremony concluding the event.

"The summit is an excellent and much needed attempt to generate a democratic dialogue about the EU and the future of Europe," Blok, a third year student of sociology, told *EUROPE*. "It is not often that you get an opportunity to discuss human rights in relation to the Turkish Kurds with Turks, who live with the problem on a daily basis."

One of Blok's co-participants in the summit, twenty-four-year-old Michael Brooks, a student from Sheffield, UK, commented, "It is essential that all EU citizens gain a greater knowledge about the Union."

"It is a lack of understanding and a reluctance to let oneself be educated," Brooks says, "that creates disputes over asylum, defense, intervention in the Middle East, subsidies, and grants over Europe as a whole."

Although both Blok and Brooks agreed that drafting an European constitution is a significant process, neither believed that the document can be compared to the American Constitution.

"The American Constitution helped create a new nation, with a sense of identity and a shared view of what the future must be," Brooks explained. "The European equivalent will have to do a very good job in unifying a diverse continent of people already equipped with their own sense of national pride, their own unified countries of origin with their own political ethos or traditions."

Blok agreed, adding: "Until the European nations are ready to surrender their power of decision to a supranational level, it will be misleading to talk about a 'constitution.' And there is still a long way to go before that is achieved."

Despite such reservations, the constitutional draft was the key objective of Youth 2000. The young participants' proposal for a European constitution has been translated into twenty-five languages and distributed by e-mail to 30,000 European organizations and decision makers. It has also been published on the Web at www.youth2002.dk.

Søren Winther Lundby, Youth 2000's secretariat director, believes that the idea of giving young people the opportunity to join the debate about the Union's future will prove so compelling that Youth 2002 will be the first in a line of EU youth gatherings.

"Many will realize that bringing young people together across borders and providing them with a concrete task is the right thing to do," Lundby says, "as it helps generate a problem-and-solution-oriented debate."

—Maria Bernbom

WHAT THEY SAID...

"Europe, we're coming."

—headline in Turkish newspaper Milliyet, after the parliament passed legislation to abolish the death penalty and establish language rights for the nation's Kurdish minority, giving momentum to Turkey's bid to join the European Union

"If parity gets people in the United States to understand that the euro is there and won't go away, then it's good."

—Charles Grant, director of the Center for European Reform in London, after the euro reached parity with the dollar in July

"Every year the media comes up with something to describe my race. The first year it was 'the comeback.' Then it was 'the confirmation.' I don't know what it was last year. This year, for me, it's 'the year of the team.'"

—Lance Armstrong, professional cyclist, on winning his fourth consecutive Tour de France bicycle race

"We're not available for adventures, and the time for checkbook diplomacy is over once and for all. I can only warn against playing around with war and military intervention. We won't get involved in this."

—Gerhard Schröder, German chancellor, in a campaign speech, cautioning against statements by some in the Bush administration calling for military intervention in Iraq

"After eight years, America is back in the business of promoting open trade to build our prosperity and to spur economic growth."

—George W. Bush, US president, on signing a bill in August that gives him more authority on trade negotiations

BUSINESS BRIEFS

France's new center-right government plans to sell off a substantial slice of its 54.4 percent stake in **Air France**, isolating Italy's ailing **Alitalia** as the last major European airline under state control. The privatization of Europe's third-largest airline, which was nationalized in 1945, is the first in a list of thirteen asset sales, including energy giant **Electricité de France** and **Snecma**, the aero-engine manufacturer.

Finance Minister Francis Mer said the government will remain a major shareholder in Air France, but its stake likely will be trimmed to 15–20 percent, government officials say. The carrier says the sale will sharpen its international competitiveness and position it for future consolidation of the global airline industry.

Air France, which was partially privatized by the previous Socialist administration in 1999, has been transformed from a basket case kept in business with a $3 billion state subsidy into one of Europe's most successful carriers. In fact, the airline has made money while its major rivals **British Airways** and **Lufthansa** plunged into the red after the September 11 terrorist attacks triggered a collapse in air travel.

• • •

The **Nokia** success story rolls on, but even as it smashes new records the Finnish mobile phone manufacturer is squaring up for a titanic battle with an equally iconic company—**Microsoft**.

Nokia's success was underscored by a report that its top 2,000 staffers have cashed in options worth $3.6 billion between 1998 and 2001, an unprecedented windfall in corporate Europe that testifies to the spectacular surge in its share price in the late 1990s. The top fifty executives probably pocketed "at least €10 million each," according to **Cazenove**, the London investment bank.

Nokia continues to blow away the competition, taking advantage of the disarray at **Motorola** of the US and Sweden's **Ericsson**, which is quitting handset manufacturing, to move within sight of 40 percent world market share by year's end.

Nokia sells more handsets than its three nearest rivals—Motorola, **Samsung**, and **Siemens**—combined and has maintained margins and boosted market share during the downturn of the past two years that has savaged the global telecommunication market.

But the group is facing a new challenge from Microsoft as the computer and wireless world converge, moving the market from voice to data and from hardware to software. Microsoft's decision to license its Series 60 mobile phone software to other companies, including Siemens and **Matsushita** and low-cost manufacturers in Asia, has created an opportunity for the Seattle company to create a world standard—at Nokia's expense.

But Nokia remains confident it can weather Microsoft's entry into its market. "I simply don't see any way that this industry is going to go the path of the PC," says chief executive Jorma Ollila. He says the handset business is much more complex and the sales volumes—400 million phones are sold every year compared with 120 million PCs—and structures are completely different, he says.

• • •

Liberty Media, the US cable televsion group, jump started its stalled efforts to expand in Europe with a $735 million cash acquisition of **Casema, France Telecom**'s Dutch cable business.

The deal brings 1.3 million new subscribers to Englewood, Colorado-based Liberty Media, which already controls the **Dutch United Pan European Communications**, one of the largest cable televsion operators in Europe.

Billionaire television mogul John Malone, who controls Liberty Media, has been searching for European assets since German regulators vetoed his planned purchase of **Deutsche Telekom**'s cable networks earlier this year. He also suffered a setback in the UK after **NTL** and **Telewest Communications** bondholders rejected his offers to buy their debt as he bids to boost his stakes the two firms.

• • •

Airbus, the European aerospace company, is on a roll as it prepares to outsell US arch rival Boeing in 2003 and ratchet up production in 2004 after two years of falling deliveries.

The companies were running neck-and-neck in the summer with Boeing booking more orders while Airbus had a 52 percent market share by value. The balance will change when UK low-cost carrier **easyJet** decides where to place a $12 billion order for 120 jets with 120 options, but Airbus is confident it will remain in the pole position even if it loses out.

Airbus likely will deliver around 300 aircraft in 2003, ahead of **Boeing**, which expects to ship 275-300. What's more, Airbus expects to start raising production again in 2004 to between 320–340 aircraft while Boeing's output remains flat.

The global economic recession and the impact of the September 11 terrorist attacks on air travel have hit Boeing harder than Airbus. The US firm has laid off 30,000 workers, but Airbus has only had to postpone plans to raise output by 50 percent and trimmed overtime working. Airbus is also bullish about prospects for its A380 super jumbo after **FedEx** ordered ten freighter versions—the first US contract. Airbus chief executive Noël Forgeard says two Asian carriers will order the plane within the next twelve months, putting the company in the "dream position" of having 80 percent of the 250 contracts, including options, to break even on the plane.

• • •

The dimming prospects for Europe's third-generation (3G) mobile phone services, the one sector where it leads the US and Japan, looked even bleaker after Spain's **Telefonica** and **Sonera** of Finland pulled the plug on their joint venture in Germany and wrote off the $8.3 billion they paid for an operating license just two years ago.

This was the first admission by European telecom companies, which have spent nearly $100 billion acquiring licenses at the crest of the technology boom, that their investment is virtually worthless. Telefonica is also writing off investments in 3G licenses in Austria, Switzerland, and Italy and Sonera is writing off its investment in Italy.

Other firms are expected to follow suit in the coming months, paving the way for a long-awaited consolidation that is expected to be led by big players such as **Deutsche Telekom, France Telecom**, and the UK's **Vodafone**, the world's leading mobile phone operator.

The mobile meltdown will have a major impact on 3G equipment suppliers, especially market leader **Ericsson**. The Swedish firm, its credit rating cut to junk status and its shares down 95 percent in value in two years, has responded by laying off 40,000 workers and is now being tipped as a takeover candidate with **Nokia, Microsoft**, and **Cisco** seen as the most likely buyers.

—Bruce Barnard

EUROPE Update

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The Future of the NATO Alliance: The Prague summit later this month will decide whether to open the alliance to new members from Central and Eastern Europe. The US is inclined to press for a big enlargement, including the Baltic countries; but Europeans are anxious to discover whether Washington still sees NATO as the cornerstone of security in Europe or a second-tier political club.

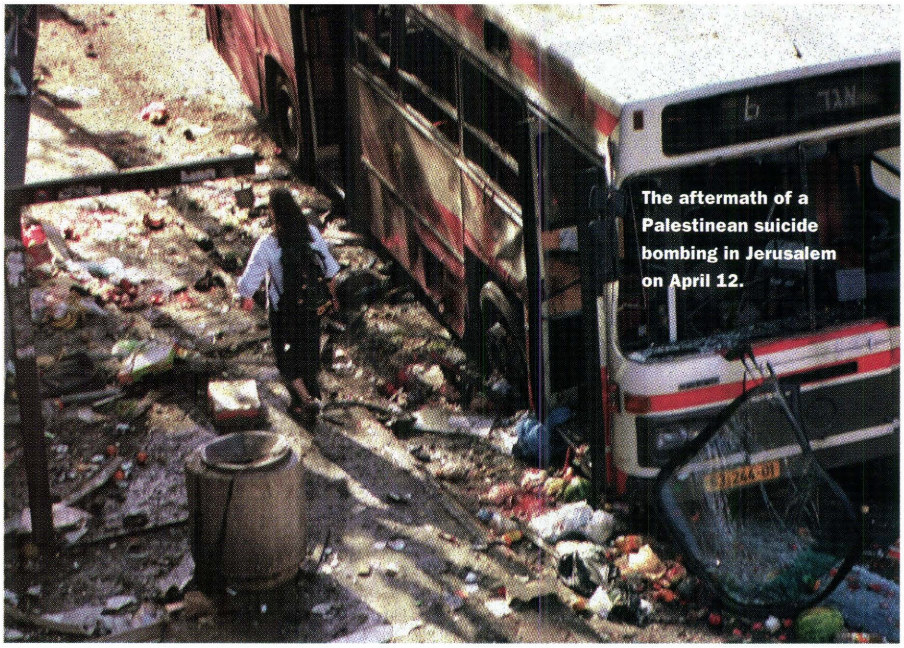
US-Russia Relations: President Putin's pro-Western policy and his support for the war on terrorism have impressed President Bush. Increasingly, the US seems more comfortable in dealing with its old adversary rather than grappling with a Europe consumed with constitution building. European governments are relieved that Bush has thrown his weight behind Putin's efforts to stabilize Russia and move it gradually to a market economy, but they worry the price may be that the EU is marginalized.

The Middle East and Iraq: So far, the Pentagon and the White House have yet to agree on a plan to oust Saddam Hussein, even if the intention remains. But an attack on Iraq could strain transatlantic relations to the limit. Even the United Kingdom, Washington's staunchest ally, has signaled unease about widening the war on terrorism without conclusive proof that Iraq is developing weapons of mass destruction.

Fundamentally, however, it seems that the US and Europe have an increasingly divergent view of the world. The Europeans incline more toward the status quo, fearful of using military force because they lack the means to project power but also because they are skeptical about its consequences.

But the Americans are far more comfortable about the use of power, and far more confident about inducing change, if necessary by force. This view of the world has deep roots in the American psyche. And September 11 made them even deeper.

—Lionel Barber



The aftermath of a Palestinian suicide bombing in Jerusalem on April 12.

Israeli soldiers reduced to rubble Palestinian leader Yasser Arafat's compound.

Middle East: Is Peace Possible?

Check the television newsreels and the newspaper columns and one thing seems blindingly obvious: if peace is to come to the Middle East it will be thanks to the pressure and policy—for better or worse—of the United States. After all, the American "hyperpower," as the French now term the US, is supposedly the one outside player that all parties to the Arab-Israeli conflict must listen to.

But are there influences that are rather less obvious? The fact is that the European Union has a long-standing involvement not just in attempting to resolve the Arab-Israeli conflict but also in developing the economies of the Mediterranean-rim countries, from Syria to Morocco (with Libya so far a deliberate exception). Put all of this together and it adds up to a considerable effort, in terms of money, commitment, and diplomacy.

The question is whether the effort is worthwhile. Take, for example, the Barcelona Process, named after the decision in the Spanish city in 1995 to build a partnership between the fifteen EU states and a dozen Mediterranean neighbors or near-neighbors (Morocco, Algeria, Tunisia, Egypt, Cyprus, Malta, Jordan, Syria, Lebanon, the Palestinian Authority, Israel, and Turkey). The idea, backed by some $2.8 billion for 1995–1999 and another $5.4 billion for 2000–2006, is to go from trade association accords to a free trade area. In the process, or so the theory goes, pressure for illegal migration into the EU will ease and trade links between the Mediterranean partners will soothe political tensions.

So much for a theory conceived in the days when the Oslo Accords seemed to promise an inevitable Arab-Israeli agreement. The reality is that the Barcelona Process has been a disappointment. Countries such as Morocco and Algeria lacked the bureaucratic infrastructure to cope with EU demands;

there has been precious little trade and investment between the countries of North Africa and the Middle East; and—most sadly of all—the resurgence of violence between the Israelis and the Palestinians has dashed one of the initiative's main hopes.

That violence, in turn, underlines how EU efforts aimed specifically at the Israel-Palestine dispute have also foundered. EU calls for Palestinian self-determination and an end to illegal Israeli settlements go back to the Venice Declaration of 1980, and in subsequent years the EU has put its money where its mouth is. For example, the EU has been the largest donor to the Palestinian Authority, with around $179 million a year in direct support, has monitored Palestinian Authority elections (in 1996), has helped train the Palestinian Authority's police force, and has dispatched Miguel Moratinos as a special peace envoy to the area since 1996. Add other aid to the region, and the EU bill mounts to well more than $810 million a year.

But what does it all add up to? Moratinos's efforts and Javier Solana's constant visits on behalf of the Council of Ministers have clearly not brought the antagonists back to the negotiating table. Moreover, all the EU commitment that went into constructing Palestinian institutions, from office blocs to police forces, has now been reduced literally to rubble and dust as the Israelis and Palestinians trade tank shells and terrorist bombs. Despair, rather than hope, now seems the order of the day.

On the other hand, politicians—and EU commissioners—are not paid to give up. In June 2000, Chris Patten, a former British minister and now the EU's commissioner for external affairs, stood before the European Parliament and roundly rejected Israeli accusations that EU aid to Yasser Arafat's Palestinian Authority had been diverted either to private bank accounts or to finance terrorism. He then added, "Let me repeat once more that if there is to be a Palestinian State there has to be a Palestinian Authority. I cannot see how it could help anybody to destroy the Palestinian Authority's infrastructure or undermine its financial base." In other words, if the EU cannot compare with the US in its influence in the Middle East, nonetheless it is still determined to use what influence it has—and for the long haul.

—John Andrews

Russia: Investors Finding Improved Markets

Businesspeople and bankers in the European Union and Russia are pulling all the stops to maintain the momentum built up by a series of breakthroughs in the past few months that promise to stabilize an often-troubled trading relationship.

The EU took the initiative in May when it recognized Russia's status as a "market economy," giving it better access to its markets and smoothing the Kremlin's path to joining the World Trade Organization. "As Russia's principal trading partner, it is right and proper that we be the first to recognize and reward the considerable efforts undertaken by the country in recent years," said Romano Prodi, the European Commission president.

The move, set for official approval by the end of the year, will have an immediate impact on Russian firms doing business with the EU by making it more difficult for Brussels to impose trade sanctions on their exports. The EU will have to consider Russian production costs, and not those of "surrogate" countries judged comparable, before imposing anti-dumping tariffs. This will give Russian firms more scope to challenge dumping claims by EU and US competitors—Washington followed Brussels' lead and recognized Russia as a market economy in June. Russian president Vladimir Putin claims there are more than 100 anti-dumping cases outstanding, costing the country an estimated $1.5 billion a year.

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Russia's new status will ease negotiations over its membership in the WTO, the Geneva-based body that writes and polices rules for global trade. But there are still several thorny issues to be resolved, according to EU trade officials, notably the Kremlin's policy of keeping domestic energy prices substantially below world levels. Other obstacles include a lack of protection for intellectual property rights, with illegal copying of compact discs a thriving business, counterfeiting of consumer goods, sanitary standards, and a corrupt customs system. The last round of talks before the summer break hit new snags after the EU rejected plans by Moscow to limit foreign ownership in telecommunication companies to 49 percent and just half that for its insurance and securities sectors.

But Russia boosted its credentials in Brussels and Washington earlier this year by overtaking Saudi Arabia as the world's biggest oil producer with production exceeding 7 million barrels per day and emerging as a key energy supplier to the West. Its decision to boost exports of crude and petroleum products by 15 percent to more than 3 million barrels per day at a time when OPEC is limiting its output at an eleven-year low bolstered its claim to be a reliable long-term supply alternative to the politically unstable Middle East. The EU already buys more than 20 percent of its oil and nearly 50 percent of its gas imports from Russia, figures that are likely to grow significantly in the next decade.

EU investors also are looking more positively on Russia again as it consolidates a remarkable recovery from the financial crisis of August 1998, which slashed the value of the ruble by 75 percent. Russian industry, led by oil companies and food-processing firms, has boosted productivity by an estimated 30 percent in the past four years, mainly by investing in western capital equipment and software. Privatized firms are making most of the gains while the still massive state sector continues to fall further behind. Yukos, the private oil firm, has slashed the price of a producing a barrel of oil from $7 to just more than $2 since 1998, which is less than half the cost at its state-owned rival Tatneft.

The leading Russian firms are rapidly adopting western business methods. The big oil firms are issuing profit statements that meet US accounting standards, seeking share listings in New York and other western exchanges and even appointing foreigners to their boards.

The turnaround is impressing foreign investors like British Petroleum and Royal Dutch Shell, both of which have checkered histories in the Russian energy sector. BP said its decision to spend $375 million to boost its stake in oil company Sidanco from 10 percent to 25 percent underlined its "confidence in Russia's improving business environment." Shell invited Gazprom, Russia's natural gas monopoly, to participate in its Sakhalin11 gas and oil project in Russia's Far East territory.

Few people pretend that "westernizing" EU-Russia trade relations will be easy. But more important, even fewer fear a return to the 1998 crisis.

—Bruce Barnard

Asia: US Hard Line Moves Many Nations Closer to EU

European and Asian interests are converging unlike any other time in contemporary history, largely because of the United States' "you're either with us or against us" reaction to the September 11 attack. Popular polls and private talks with policymakers in Brussels, in Japan, China, and Southeast Asia reveal a growing impatience with what is perceived to be an American-centric view.

At a time when European and many Asian countries are intent on meeting international expectations for agreements and treaties—ranging from dues payments to the United Nations, conventions on landmines, environmental protection, and the international court—the US is diffident, if not defiant. Yet Washington expects the war on terrorism—fought on its terms—to be the top priority of its allies across the globe.

That is pushing Europeans and Asians—who have learned about compromise through intra-regional cooperation on their respective continents and, in many cases, have come to regard their American counterparts as arrogant leaders making far-reaching policy decisions in relative isolation—toward each other.

"We have to be careful about too much divergence," cautions James Elles, rapporteur for the Foreign Affairs Subcommittee on Transatlantic Relations in the European Parliament and founder of Transatlantic Policy Network, a European-US based group of political, business, and public opinion leaders. The transatlantic partnership is still the world's most important strategic relationship, Elles says, and he's concerned about US expectations, for example, that Europeans and Asians will take the same approach toward combating terrorism—with manpower, high-technologies, and beefed up defense budgets—that Washington commands. Many countries simply don't have the will or the wherewithal to do so, he says.

Perhaps the most prickly foreign policy area where Europeans and Asians find common ground is in the Israeli–Palestinian conflict. "You cannot underestimate the global significance of that conflict."

The Asian view toward Europe is not an easy shifting of focus. "There's a huge reservoir out there of incredible admiration and goodwill for the US," says Clyde Prestowitz, president of the Washington-based Economic Strategy Institute and a former US trade negotiator in Japan. "Asian leaders want the US to be what the US says it is and to operate on principal," as the prime defender of human rights, builder of open markets, and supporter of democratic institutions. "But there's a sense of betrayal—of unrequited love—when we don't act the way they want us to."

"The US is the 800-pound gorilla, so people don't always tell us what they think," adds Prestowitz, who tracks policymakers and public opinion during his frequent travels through Asia and Europe. "There is tremendous and growing resentment of US attitudes," he says.

"Into that vacuum steps Europe—awkwardly, because Europe is not yet a political entity," Prestowitz continues. "It's not that the Europeans are looking for this, but they are the only alternative. And the Asians love the European perspective."

Perhaps the most prickly foreign policy area where Europeans and Asians find common ground is in the Israeli–Palestinian conflict. "You cannot underestimate the global significance of that conflict," Prestowitz says. The US, he contends, is virtually isolated in its strong support for Israel, and it chafes at both European and Asian sensibilities. "It has a dramatic influence in Asia's

A giant billboard advertising a Shanghai shopping mall offers further evidence of China's growing importance as an export market.

Muslim countries (in Malaysia, Indonesia, and in neighboring countries) as well as in European countries with large Muslim populations."

Just as it does throughout Asia, the European public sways strongly in favor of the Palestinians, says MEP Elles. National leaders in Paris, in Madrid, and elsewhere, are compelled to listen to their own domestic concerns first, he says. They do not want to risk local backlash for imposing security measures that would enrage rather than calm fears of their growing immigrant populations.

Of course, there is a crucial commercial side to the new dynamics of European-Asian ties. Will it result in a Buy Europe approach? The stakes are seemingly high. According to World Bank estimates, which put East Asia's infrastructure needs at well more than $100 billion per annum over the next five years. "There may be some marginal gains for Europe," says Prestowitz. "Governments can sometimes show their discontent with the US (by going elsewhere for their goods and services)."

The growing preference for European products may prove to be subtle, but the trade agenda continues to confound negotiators. Exacerbating European and Asian frustrations with Washington are the White House positions on steel tariffs, lumber restrictions, and agricultural subsidies to American farmers. MEP Elles sees this as a dangerous trend, especially when Europeans are finally making progress with their own agricultural reforms and developing countries are looking to the United States to lead by example.

"In a world trading system where there are evident needs to progress toward a successful multilateral round, no major trading partner should take action which is going to be seen as exporting their own problems onto the international marketplace," says Elles. By that, he refers to what he calls Washington's politically prompted push to deliver relief to steelworkers, farmers, and other constituents in the run-up to the midterm US elections this November.

Trade surpluses in Japan, China, and other countries in the region are registering historical highs. Second to the US, Europe is Asia's most important export market. With EU enlargement, Europe could likely become the biggest buyer of Asian output.

A key determinant of trading positions will be the outcome of the Doha Round, where Europe and much of Asia will probably part ways. "We are likely to see the US and Europe taking common positions," Prestowitz predicts, "with the divide coming down to the developed world versus the developing world."

—Amy Kaslow

Latin America: Nations Want More EU Trade

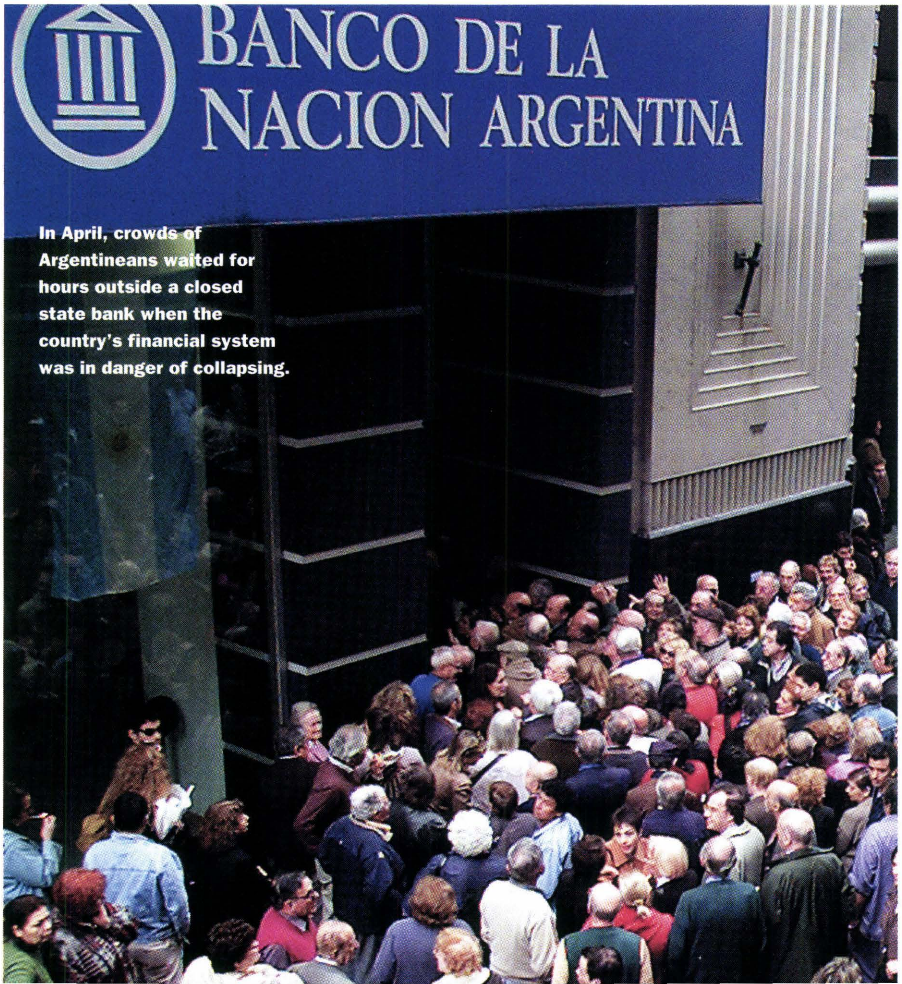
The European Union is finally getting serious about Latin America. At least that was the conclusion among EU, Latin American, and Caribbean leaders following their May summit in the capital of Spain, which has long acted as the region's champion in European forums and took advantage of its just concluded presidency to push for further agreements designed to boost trade and EU involvement in a host of bilateral programs.

"We've launched a renewed agenda which sets out a fresh framework [for cooperation with Central American nations]," said then-Spanish foreign minister Josep Pique at the end of talks with leaders of Costa Rica, Panama, Guatemala, El Salvador, Honduras, and Nicaragua, which are considered the poorest countries in Latin America.

The EU also promised to pay more attention to the Andean bloc of nations—Venezuela, Peru, Colombia, Ecuador, and Bolivia—which have their own economic problems, coupled with wide-scale drug production and, in Colombia's case, a crippling three-way civil war between leftist guerrillas, right-wing paramilitaries, and the US-backed armed forces.

The region's poorest nations have long complained that Brussels has ignored them as it rushed to conclude free trade accords with the continent's richest countries such as Mexico and Chile. At the summit, the EU signed an association agreement with Chile, which European officials said could generate as much as $7.7 billion in bilateral commerce. Mexico signed a similar deal with the EU in 2000, and Central American and Andean leaders would like to enjoy equal privileges.

And although the European Union has been generous in its various assistance programs to the region where it is deeply appreciated, Latin American leaders proclaim that "trade, not aid" is the key to their development and that



In April, crowds of Argentineans waited for hours outside a closed state bank when the country's financial system was in danger of collapsing.

opening up European markets to their products is especially important to Andean and Central American countries to help them stamp out regional scourges.

"The subject of trade is directly associated with drug trafficking and terrorism," said Peruvian President Alejandro Toledo, who complained that restricted European markets were preventing regional farmers from switching from drug crops to legitimate agricultural products.

"The 22,000 hectares planted with illegal coca could be sown with coffee and cotton if these products were allowed to be sold in Europe and in the United States without trade barriers," he argued. Guerrilla groups on the right and left use illegal drugs to finance their activities.

Since 1974, legislators of the European and Latin American parliaments have been holding regular meetings, but it was not until 1999 that the first EU-LATAM summit was held in Rio de Janeiro, triggering increased cooperation on a number of fronts.

In the last twelve years, bilateral trade has doubled, and annual EU exports to the region now total around $54.5 billion, mostly in machinery, heavy equipment, and chemicals. Meanwhile, the EU's fifteen partner nations buy approximately $48.8 billion worth of Latin American products, 20 percent of which are agricultural goods. Today, the European Union is the region's second-largest trading partner and the first for the Mercosur trade bloc nations of Argentina, Brazil, Uruguay, and Paraguay.

The European Union is also the largest provider of foreign investment in Latin America with $38 million flowing into the region alone in 2000 (the latest year for which firm data is available). EU officials contend this has contributed significantly to private sector development and public sector reform.

EU aid programs covering a wide range of sectors are also active and include a program to provide help to small and medium-sized companies that operate globally, the promotion of exchanges in higher education, fomenting the use of information technology, and the encouragement of rational energy use.

At the end of the summit, the fifty leaders gathered in Madrid also pledged closer cooperation in fighting

Cuba Embraces the Euro

European tourists visiting Cuba's largest seaside resort of Veradero Beach are now pulling euros out of their pockets and purses to pay for their rum cocktails, cigars, and holiday services. In an experiment by the Cuban authorities, the euro is now legal tender at the sprawling vacation complex alongside the US dollar and the local peso, and if all goes well, use of the EU currency could spread across the island nation.

Economists note that half of the 2 million foreign visitors who come to Cuba each year to loll about the Caribbean beaches or explore the colonial architectural treasures of Havana are from the European Union, and the government has provided shop assistants, bartenders, and cab drivers with calculators to help them in their dealings with their euro-spending customers.

A small gesture perhaps, but it symbolizes warming relations between the European Union and Cuba, which the United States has treated as a pariah state since Fidel Castro took over in 1959. More than four decades of a US economic embargo, coupled with the collapse of economic support from the now defunct Soviet Union, means that Havana is looking for friends wherever it can find them.

But it has been a rocky rapprochement. Since 1996, the EU has staunchly maintained what is referred to as its "common position" on Cuba, an effort to promote greater democratic practices and human rights.

The policy has prevented Brussels from signing an agreement with Havana that would allow the kind of development cooperation accords the fifteen have with other developing nations although the EU has long provided humanitarian assistance.

Relations took a turn for the better late last year after the EU lined up against the US economic sanctions in a United Nations vote, and European officials traveled to Havana in December for two days of talks on improving ties.

"A new era has begun in the ties between the European Union and Cuba," read a joint communiqué at the conclusion of the meetings and which went on to state that the talks could "create an appropriate framework for fomenting increased cooperation."

Perhaps most importantly, the communiqué said that both sides "reaffirm their willingness to exchange relative information in the area (of human rights)," which has been the touchiest issue between the two.

EU officials are now talking about opening a permanent office in Havana, and Poul Nielson, the EU's development and humanitarian aid commissioner, has announced that Brussels will begin phasing out humanitarian aid programs in favor of development cooperation projects.

Although the euro is welcomed in Cuba, reminders of the communist revolution remain prevalent throughout the island.

Bilateral economic relations are also moving forward on another front with companies from the European Union accounting for 52 percent of foreign investment in Cuba, led by firms from Spain (which are heavily involved in the tourism sector) and Italy.

—Benjamin Jones

terrorism, promoting human rights, and cracking down on illegal narcotics.

One example of the latter is already up and running: an EU-financed project in Venezuela to monitor drug use in the country with the aim of helping local authorities design and adopt anti-narcotics programs.

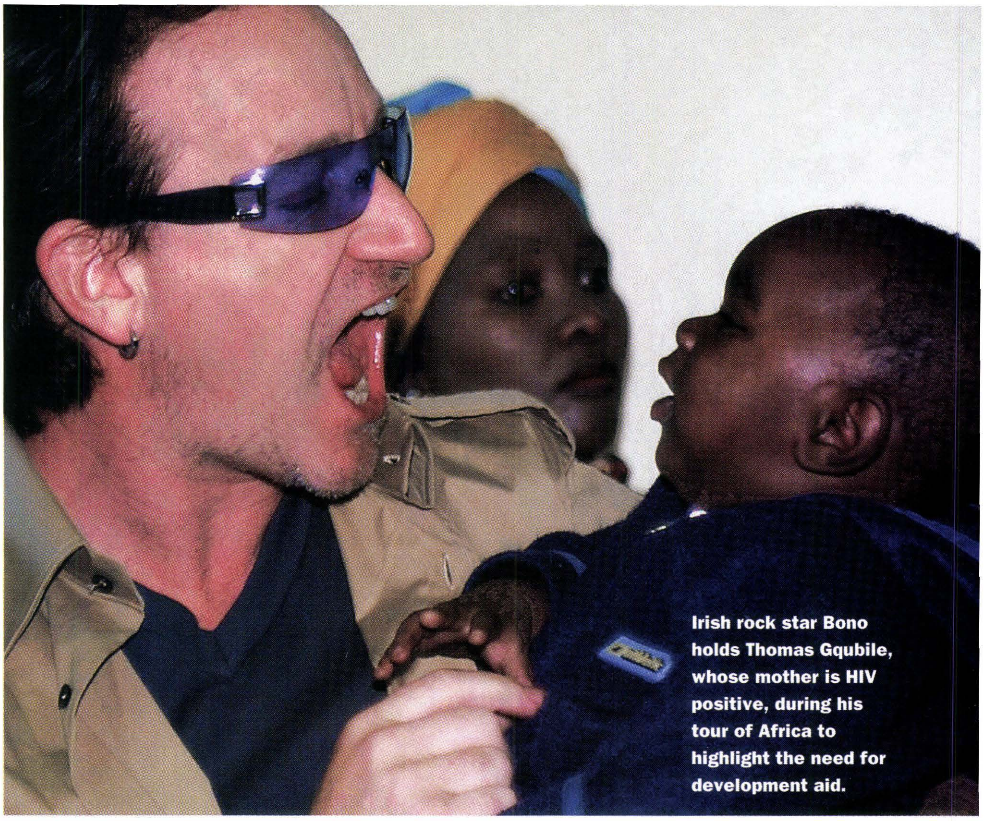
—Benjamin Jones

Africa: Revamped Aid Program Targets Biggest Problems

At the beginning of the new century, the African continent faces rampant poverty, political and military strife, and the unchecked spread of AIDs. Almost half the population of sub-Saharan Africa survives on less than $1 a day, and of the 22 million people worldwide who have died from AIDS thus far, 17 million are Africans. The European Commission and its member states, many of which have former colonial ties to various African nations, continue to craft policies that attempt to address the continent's problems.

Europe is the leading source of both development and humanitarian assistance to Africa. Two-thirds of all official development aid to the sub-Saharan region come from the European Union. Two years ago, the EU institutionalized its relationship with a twenty-year partnership agreement with seventy-seven African, Caribbean, and Pacific countries in Cotonou, Benin. The Cotonou Agreement replaces the former Lomé Convention with a multifaceted structure incorporating development assistance focused on poverty reduction, political dialogue, economic, and trade relations, financial cooperation, and support of nongovernmental organizations (NGOs). Among its innovations are built-in clauses to address conflict, human rights, corruption, and the right to impose sanctions, including the interruption of aid.

The Commission is initially allocating $26.9 billion in aid and loans, the bulk going to Africa. This includes $13.5 billion from the European Development Fund (EDF) over the first five years, $9.5 billion of uncommitted monies from the previous EDF, to be spent within seven years, $1.7 billion in loans from the European Investment Bank, which will also manage an additional $2.2 billion from the EDF Investment Facility.



Irish rock star Bono holds Thomas Gqubile, whose mother is HIV positive, during his tour of Africa to highlight the need for development aid.

The catch is that Cotonou has yet to be ratified by all EU member states—a necessary condition for the agreement to begin. The required two-thirds of the ACP countries have approved the agreement as has the European Parliament.

In the realm of humanitarian aid, the EU and US are coordinating their efforts. The European Community Humanitarian Aid Office (ECHO) funds, but does not directly conduct, humanitarian activities in response to natural and/or man-made disasters. There is significant contact and coordination, between ECHO, and the Office of Foreign Disaster Assistance at the Agency for International Development (USAID), and the Bureau of Population, Refugees, and Migration at the State Department. This includes regular exchanges of information about contributions, priorities, and activities. American program officers often stop by ECHO's offices in Brussels on their way to Africa, and earlier this year, ECHO's director visited Washington.

On the ground, in many countries, the cooperation has proved successful. For instance, in the Democratic Republic of Congo, the EU and US coordinated closely on medical assistance. Earlier this year, ECHO and USAID jointly held a meeting in Abidjan with all donors to West Africa, followed by one with all UN agencies in the region. "We look to what the Americans do and they look to what we do… The moment you duplicate things, you waste money, time, and lose effectiveness in saving lives," explained Michael Curtis, an ECHO spokesman.

Perhaps the strangest example of European and American cooperation in Africa is represented in the unlikely duo of Irish rock star-turned-poverty activist Bono and Treasury Secretary Paul O'Neill. Earlier this year, Bono invited O'Neill, a former CEO and chairman of Alcoa, the world's largest aluminum company, to tour Africa with him, and the treasury secretary returned a changed man. During the trip, O'Neill was quoted saying, "If you were on this trip with us, and you weren't affected by what we saw, you're a piece of wood or something."

While the two stars of music and finance did not exactly agree on how to help Africa, they concurred on the need. But O'Neill may find common ground with some other Europeans, namely the twenty-member European Commission. Just as O'Neill is now advocating more aid, but with accountability and local input, so too is the Commission in a reform of development policies begun in 2000. According to official documents, it seeks to "improve the quality and adaptability of project management" and introduce "a process of deconcentration and decentralization intended to bring decision-making closer to partner countries."

—Shaazka Beyerle

Lionel Barber reporting from New York; John Andrews (Paris); Bruce Barnard (London); Amy Kaslow, Shaazka Beyerle (Washington); Benjamin Jones (Madrid)

Of the Highest Waters

The Mont Blanc region holds one of the planet's purest resources

By Ester Laushway

Visiting the French Alps when they are not covered by their winter blanket of snow is like seeing a black-and-white movie transformed by Technicolor. You drive through green meadows where chestnut-and-white cows graze peacefully, past wooden chalets in rich tones of brown, and around each hairpin bend you encounter a profusion of flowers: every village, every house, from eaves to ground level, is festooned with hanging baskets, window boxes, and planters, which are aglow with red and pink geraniums. The mountains watch over the bright scene, craggy-faced and aloof, and the highest peaks remain outlined snowy white against the blue sky, untouched by the change of seasons.

This is a peak year for the world's mountains. The UN has declared 2002 as the International Year of the Mountain. In the Mont Blanc region, the lovely, photogenic village of Megève is playing a central role in one of the year's main events. On September 5–6, it hosts a two-day international symposium where experts from around the globe will discuss the management of mountain waters, one of our planet's purest and most precious resources.

Megève was an obvious choice for this high-level conference: water baptized the village and has run through its entire history. Its name (which stems from the Celtic words *mag*, meaning habitation, and *eva*, meaning water) refers to its location between two fast-

The village of Megève will host an international symposium on managing mountain waters, one of the planet's purest resources.

TRAVELER'S NOTES

Megève Tourist Office
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E-mail: megeve@megeve.com
Web site: www.megeve.com

St. Gervais Thermal Spa
Tel: +33 450 47 54 54
Fax: +33 450 93 67 23
E-mail: resa@thermes-st-gervais.fr
Web Site: www.thermes-st-gervais.fr

Mer de Glace in Chamonix:
Montenvers Railway
Tel: +33 450 53 12 54
Fax: +33 450 55 80 94
E-mail: info@mer-de-glace.com
Web: www.mer.de.glace.com

running mountain streams, the Glapet and the Nant des Cordes.

Since its foundation nearly ten centuries ago, the little village located 3,600 feet above sea level has undergone many transformations, from a high-minded religious community to a village living from farming and forestry to a resort renowned as much for its excellent hotels and restaurants as for its splendid site in the heart of the Mont Blanc region.

Its past is still visible today, in the carefully preserved medieval village center with its church, built on the site of an eleventh century Benedictine priory, in the fourteen little Baroque chapels that mark a surprising Way of the Cross on its outskirts, to the eighty working farms in the surrounding hamlets. Even the newest constructions have stayed faithful to the traditional wood-and-stone Savoyard style, giving Megève a charm and unity sadly lacking in some other mountain resorts that have let themselves be disfigured by concrete horrors housing as many skiers as indecently possible. Not so Megève. Its 45,000 tourist beds are tucked away in chalets and small hotels that blend in discreetly with the homes of the village's 4,700 permanent residents.

Down through the centuries, water has continued to be one of Megève's most vital elements. It is crisscrossed by springs, fountains, rivulets, streams, and waterfalls that murmur, burble, gush, and roar through and around the village as an ever-present leitmotif.

In 1902, the pure water from one spring, which has its source on Mont Blanc, was considered to be such an excellent source of natural minerals that it was bottled and sold in the village pharmacy. Exactly one hundred years later, perfectly timed to coincide with the UN's program dedicated to the world's mountains and their waters, Megève is going to rebottle its mineral water again and sell it, this time not in pharmacies, but in top restaurants.

It also has plans to build an educational center, a "Maison de l'Eau," bridging a stream, with a glass floor allowing visitors to walk on water. A water bar will dispense samples of the area's different springs, each with its own mineral make-up and taste. Another project that will take a few years to create will be a thermal water park, which will have swimming pools, waterfalls, and slides, but not in the blinding blue so popular with large families that enjoy both screaming colors and just screaming. This water park will be built to look as if it were a natural creation, part of the forested mountainside that will be its setting.

Already in place are three different water walks. They range from a gentle stroll for all ages through the village to admire its stone bridges, granite fountains, and rushing streams, to a longer walk up past the Way of the Cross, to the Creux Saint-Jean, a mossy, peaceful hollow cooled by a cascade, and they culminate in a three-hour hike up to a tiny emerald lake, originally used as a water reservoir for artificial snow making. Now the Lac de Javen is stocked with trout and has a restaurant on its shore, which makes an idyllic lunchstop before the walk back down.

From Megève, where water is a source of pure enjoyment, it takes only fifteen minutes by car, in the direction of Europe's most majestic mountain, the 15,000-foot-high Mont Blanc, to reach a village where the waters are taken very seriously indeed. Le Fayet, part of the four-village community of St. Gervais Mont-Blanc, is famous for the healing properties of its thermal springs, which smell and taste strongly enough of sulfur to let you know they mean business.

The overripe egg aroma aside, the medicinal virtues of the hot springs are uncontested: every year 5,000 patients come to be treated for dermatological problems like eczema and scar tissue, and upper respiratory complaints such as ear, nose, and throat infections. A range of hydrotherapy treatments is also available, including being smothered in deliciously warm green mud, soaking in a 104° F bath, having a thermal water massage and, less pleasantly, being pummeled by two powerful jets of St. Gervais water to remove surplus pounds.

The hot springs were first discovered in 1806, so the story goes, by shepherds who took their flocks to a spot where the snow melted earlier than elsewhere. It filters down through the mountains above St. Gervais from an altitude of 8,000 feet, and emerges just above the village. A business-wise local notary, Joseph-Marie Gontard, had the first spa installed, with four wooden tubs, and soon had to expand, to deal with the influx of people eager to experience the miraculous effects of the sulfurous water.

Today, the spa facilities are located in a forty-five-acre wooded park and are considerably more modern than in Gontard's time, but the water and its virtues have remained unchanged.

An easy half-hour drive further brings you right to the foot of Mont Blanc, to Chamonix, which is a world-class ski resort and an equally famous center for mountain climbing. A two-man team from Chamonix made the first successful ascent of Mont Blanc in 1786.

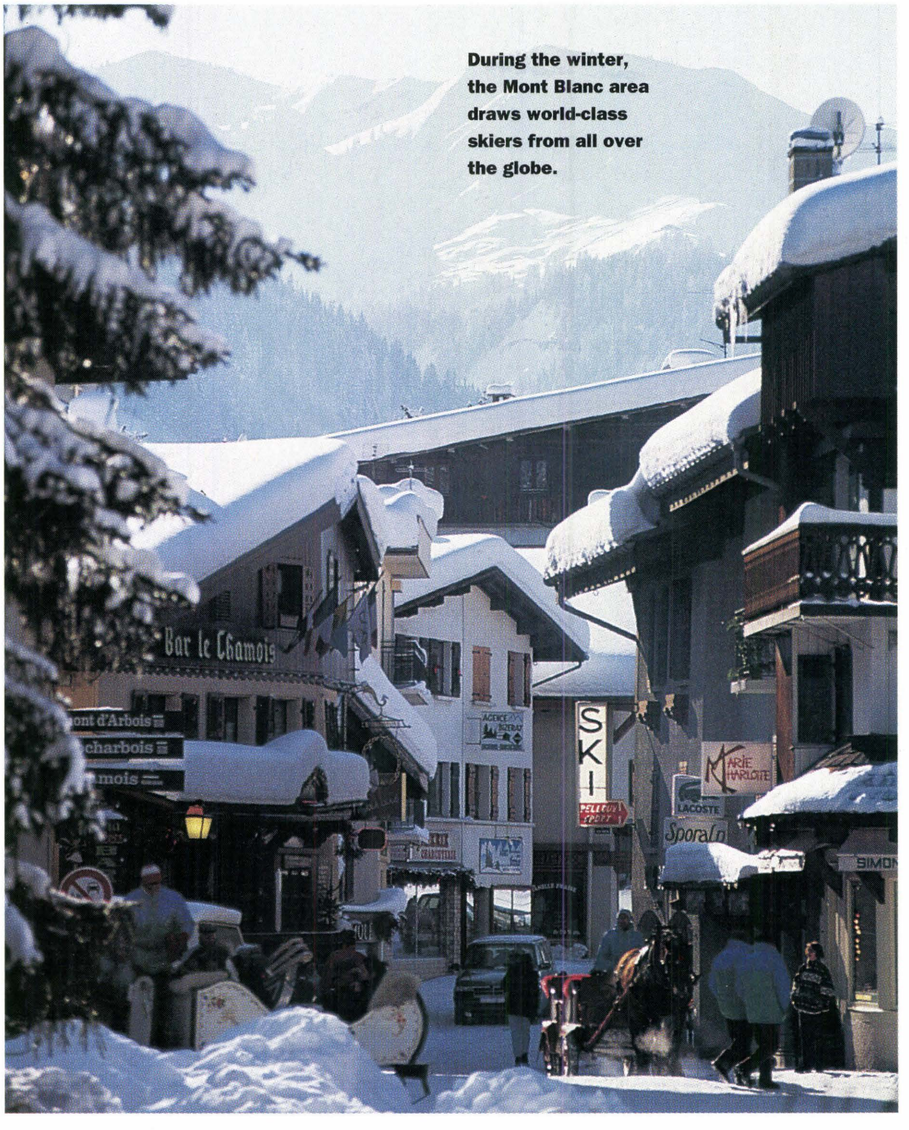
Without any of the physical hardships those intrepid mountaineers had to endure, it is possible to get a sense of the rugged terrain and to see water in its most solidly impressive form, by visiting the Mer de Glace—the Ice Sea. People have been known to bring fishing poles and must have felt pretty silly when they realized that the sea in question is France's biggest glacier.

A little brick-red train, leaves the Montenvers station on the outskirts of Chamonix every half hour. Like the little engine that could, it bravely climbs up through the tall fir forests, hooting as it goes through two tunnels cut through the rock. Twenty minutes later, you look down from a platform on a tongue of ice that, at the edges, blends in with the granite moraine it has created, but in the center, where the ice is from 600 to 1,000 feet thick, it resembles a wind-ruffled river that has been flash-frozen. This year, for the first time, a marked path makes it possible to actually walk on the ice without crampons.

All glaciers move, but this one practically gallops, advancing 250 to 300 feet every year. Because it moves constantly, an ice grotto that was first hewn in 1947, to allow visitors an inside view of the glacier, has to be newly cut every year. A cable car takes you down to its entrance, and the ice tunnel leading into it turns from a glistening pale gray to deep blue as you advance. The grotto is sculpted into a furnished house, guarded by an ice polar bear. Everything, from the bear to the bed and other furnishings, melts gently but inexorably, taking on increasingly rounded and vaguer contours until it is closed down in the winter and resculpted in its new location the following spring.

Once the snow starts to fall and battalions of skiers descend on the Mont Blanc region, the landscape will take on its dramatic black-and-white winter coloration, and the waters of the region will fall silent. But for the next couple of months, they are in full flow through mountain villages like Megève that are decked out in their most colorful finery, with room to breathe the fresh air and enjoy the fall season. ⓔ

Ester Laushway is a contributing editor to EUROPE.

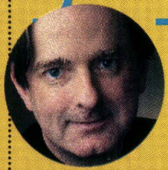


During the winter, the Mont Blanc area draws world-class skiers from all over the globe.

CAPITALS

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

Success Amid the Gloom



The past twelve months have been brutal on business. Already suffering from the bursting of the dot-com bubble, the world's markets were thrown into a tailspin by the September 11 attacks. Then came the shockwaves of US financial scandals (Enron, Arthur Andersen, WorldCom) and the after effects of European declines such as the Kirch Group meltdown, Vivendi's turmoil and Jean-Marie Messier's fall from grace, and the departures of Thomas Middelhoff and Ron Sommer from Bertelsmann and Deutsche Telekom, respectively. ■ In the wake of this year of disaster, we asked our correspondents to go in search of good news on the business front. Find the success stories, we instructed, from the small entrepreneur to the rising corporate star. Here follow their reports:

MADRID

A TASTE OF AMERICA

Cheerios, Smucker's Grape Jelly, Paul Newman's salad dressings, Green Giant Cream-Style Corn, and dozens of other distinctly American products fill the shelves of a store in an upscale Madrid neighborhood. Off to one side, a glass-doored refrigerator cabinet holds cans of chilled Dr. Pepper, Mountain Dew, and V8.

Lining the walls are cookie cutters, turkey basters, and Pyrex plates perfect for baking that quintessential American dessert classic—the apple pie. Shoppers bustle about, filling their baskets with goodies as one woman exclaims, "Oh Look! They've got Jif peanut butter—both crunchy and smooth!"

This is Taste of America, a shop started seven years ago by Spaniard Alicia Vaño and her American partner Dana Knowles to provide expatriate Americans and others with US-made food products. Last year, the company enjoyed sales of around $300,000 and currently employs three salespersons while the owners attend to the back office.

"Around 50 percent of our customers are Americans, 15 percent are Brits, Filipinos, Germans, or South Americans, and the rest are Spaniards who have worked or studied in the United States and need their fix of pancake syrup or brownies," explains Vaño, whose husband first came up with the idea of a store selling American food and kitchen gadgets.

Traditional US holiday products are the big sellers at Taste of America, and the store's busiest season begins in late October when shoppers flock in to load up on Halloween candy. Then comes Thanksgiving and Christmas when the cranberry sauce and pumpkin pie mix fly off the shelves. During the season, Taste of America sells 2,000 cans of cranberry sauce alone.

"As importers we have to keep an eye on things like the dollar-euro exchange rate, but the customs bureaucracy is our biggest headache by far," Knowles says. "We've spent many sleepless nights wondering if one of our containers will be allowed in to the country, and they've held up an entire container for forty-five days because some syrup contains an additive considered suspicious."

"Several years ago, a lot of people's holiday dinners were ruined when Spanish customs held up our seasonal shipment of cranberry sauce because it contains benzoic acid. It occurs naturally in American-grown cranberries, but the customs people decided it was an additive and wouldn't allow it in the country," Knowles recalls.

"We had a long fight with the authorities and even the US embassy and the Ocean Spray people got involved on our side, but in the end we had to destroy the entire shipment which meant a $5,000 loss," she says.

Last year, trick-or-treaters had to do without candy corn because it contains coloring agents on the European Union's no-no list, and some US breakfast cereals are also banned because of additives.

"We're expecting further problems in the future over genetically modified foods, which the EU is definitely against," says Knowles, "but we'll just have to adjust, go along with the rules and keep our customers happy."

—Benjamin Jones

LUXEMBOURG

BATTERIES JUICE UP ACCUMALUX

The manufacture of automotive battery casings and accessories is not an activity where you would have thought a tiny country like Luxembourg would enjoy a worldwide reputation, but the success of Accumalux offers striking proof of it. Today, the company operates one of the most modern industrial plants in Luxembourg, specializing in the supply of thermoplastic battery sets to the leading battery manufacturers, and ranks among the world's top suppliers of these sets.

Accumalux was created as an independent company in 1976 under the leadership of Charles-Louis Ackermann, fifty-one, who is today the company's president. He built Accumalux from scratch into an international operator with approximately 130 employees and a turnover of around $20 million a year. Sales have increased by more than 15 percent in each of the past three years.

Ackermann, a Luxembourger who was educated at Lausanne University in Switzerland, and worked in Switzerland, Germany, and Italy before creating Accumalux, makes clear that the company's success has been built on familiar entrepreneurial skills. Or, as he puts it, "finding new markets, developing new products, and using high-tech processes."

Accumalux has stuck to this formula and has diversified only into logical horizontal activities. In 1998, the company opened a factory in the Czech Republic, close to the VW Skoda automobile factory. It has created two subsidiaries: Luxbat, which produces traction cells "completely adaptable to customers' wishes," and Luxmold, which makes very high-specification molds.

The staple product range covers boxes, lids, and accessories for starter batteries in cars and trucks, and for standby batteries used in a wide range of establishments including nuclear sites, hospitals, transport, and telecommunications. But although production is largely automated, Accumalux can draw on its human and logistic resources "to offer our customers special services like assembly options, silk screen printing, and labeling or decorating." The company sets great store by its computerized storage capacities and modern logistics management.

For the future, says Ackermann, the group plans "technological consolidation" in logistics, the production and storage of new manifold battery lids, the development of stationary cells and accessories, and increased research into new raw materials. As in the past, the future seems to comprise a sensible, workmanlike approach to a closely targeted market, and there is everything to suggest it will continue to pay off in terms of growth and profits as handsomely as it has done in recent years.

—Alan Osborn

DUBLIN

SWEENEY'S SEARCH FOR THE GLOBAL SANDWICH

Brody Sweeney has a vision: to make his O'Briens Irish Sandwich Bars a global player, outstripping the dark brew known as Guinness as Ireland's best-known international brand.

Too ambitious? More than a decade ago, most business observers would have chanted yes, particularly after Sweeney's first Dublin venture ended in failure. He recalls that even on his wedding day he was worried that the check he had written to pay for the reception might bounce.

But, fourteen years later, the O'Briens empire now stretches across seven countries, with 170 outlets—and a projected target of 500 outlets by 2005.

Sweeney and his father had shared a printing business franchise, which, after his father's death, he sold back to the parent company. With a small amount of money in hand, he decided to set up a family business selling sandwiches to the rapidly growing white-collar office market. But seed money was hard to find.

Eventually, after bombarding a number of finance houses with his ideas, he managed to raise $60,000 for his startup venture. That first effort failed, but it provided Sweeney with invaluable learning experience. His second effort, based in a shopping mall, did take off, but a third failed—too much competition, the product too expensive.

From those experiences, Sweeney winnowed a successful formula for his sandwich business, which coincided with the Irish economy's upswing and the birth of the Celtic Tiger.

For the first six years, the business lost money and most people would have thrown in the towel. But Sweeney, forty-one, admits that, given his precarious financial position, it would have cost more to quit than to struggle on. He explains, "I would have given up if I had been able to, but I couldn't. I was even a year behind in my mortgage." The corner was eventually turned in 1988 when his first franchise operation opened in the Dublin suburb of Rathmines.

Why O'Briens rather than the family name Sweeney? Brody explains that, as the O'Briens concept was distinctly Irish, he wanted a name that was also recognizably Irish. He simply turned to the Irish telephone directory and picked O'Brien—the most frequently listed Irish surname.

But in the United States, where there are now two franchises in Chicago, the company trades as Brodys Irish Sandwich Bars because of a copyright restriction.

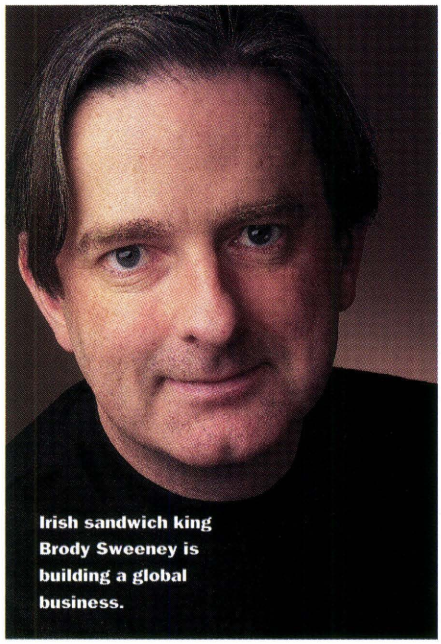
Jerry Radu, from Fort Wayne, Indiana, now heads the company's US development, recruiting new franchisees—and passing on his personal expertise. He should know—he already has the experience of owning and operating a Brodys in Chicago's financial district.

Radu first encountered the O'Briens team at a franchise expo in Washington, DC four years ago. A visit to Ireland followed to inspect existing stores. Radu was impressed. "I was intrigued and excited by the concept, which I felt had great potential. It was simple, it was unique, while keeping the Irish concept to the fore."

So what's the secret of the deli-style sandwich itself? First, it's fresh and made each day in each outlet. Customers can choose their favorite fillings and the type of bread—and it's made in front of them.

But it's not just sandwiches. O'Briens currently offers its own line of branded products for sale in each store, including coffee, bottled water, potato chips, cookies, chocolates, and muffins. Hand-painted tiles and photographs of Ireland give the stores a distinctive and comfortable atmosphere.

Fifty new stores are planned in Ireland and the United Kingdom, where a $75 million deal was concluded in March with SSP, a branch of the Compass Group, the world's largest catering company. It operates outlets in ports, airports, and rail stations throughout the UK and Ireland. Tony Monnickendam, SSP's managing director, says they were



Irish sandwich king Brody Sweeney is building a global business.

attracted by O'Briens "young, dynamic marketing approach," and he says SSP plans to rapidly expand the partnership over the next five years.

O'Briens, which opened its first UK store in 1995, is already the market leader in several English cities, has five locations in both Manchester and Birmingham, and three each in Leeds and Cambridge. It has also doubled its number in Scotland and, worldwide, now has stores in Australia and Singapore.

Brody Sweeney claims the only chain opening more outlets in the UK in recent years was McDonalds. He also claims that branded sandwiches are the biggest growth factor in the UK fast-food market, which has the built-in bonus of an estimated 6 million people of Irish descent or with another Irish connection. Last year the company had a $45 million turnover. This year it's on track to top $65 million.

—Mike Burns

LONDON

BRITAIN'S FASTEST BILLIONAIRE

Philip Green, owner of the British Home Stores retail chain, wrote himself a salary check earlier this year of around $250 million—that is some $750,000 a day. Not bad for a lad who dropped out of school at fifteen and entered the rag trade.

Hardly surprising then that he celebrated his fiftieth birthday in March with a Roman-style toga party at an exclusive Mediterranean resort. The tab for the 200 guests and entertainers like Tom Jones and Rod Stewart is reputed to have been $7.5 million. Newspaper headlines describing Green as "flamboyant" hardly seem an exaggeration.

But in case you think its easy being such a successful entrepreneur, you might want to bear in mind that "working sixteen hours a day" is among his explanations for how he got to where he is today, as is "staying 100 percent focused on the business."

Actually, that's too easy an answer. In reality the key to his achievements lies in his ability to identify an opportunity, buy shrewdly, and sell quickly, taking a handsome profit in the process. "Technically, everything I buy has a potential for sale," he says candidly.

Until now, he tells me, he has never owned more than one company at a time. "Don't get distracted looking at lots of other businesses. Remember, getting in is very easy, you just write a check," he says. BHS is the one he has yet to sell, but its acquisition bears all the Green hallmarks.

He picked up the almost moribund retail chain, "it had lost its way" he told me, for about $300 million two years ago, and today financiers estimate its worth to be at least $1.8 billion. When I asked Philip Green if that's true, he said in his down-to-earth way, "Listen, its worth what people want to pay for it, that's what matters."

Little wonder the press dubbed him the "fastest billionaire in Britain." London's *Observer* newspaper recently referred to, "Green doing what he does best—weighing up opportunities, trading and dealing, bargain-hunting, looking for the next deal."

After he left school, Green began selling clothes in London street markets, especially jeans that he bought at knock-down prices. The first million came to this natural dealmaker in his early thirties when he recognized the fashion potential of Jean Jeanie and sold it for $4.5 million.

In a whirlwind decade of deals, he bought and sold some of the best-known names in the British high street in ever bigger and more profitable deals. By his reckoning he has "owned, bought, and sold more than 3,000 stores since I opened my first shop in 1979."

Intelligence gathering for him has included strolling around the big high-street stores on a Saturday afternoon, checking out the opposition. Philip Green's name suddenly spread beyond the business pages of the papers a couple of years back when he made an audacious $9 billion bid for the struggling Marks & Spencer chain.

The bid was unsuccessful, "I ran up against the politics of M&S as a British institution," is his explanation. But Green immediately turned to the more down-market BHS, "which I had on the back burner for nine months in case I couldn't get M&S." Two years on, he has transformed it into a highly profitable and modern chain store.

How did he do it? "I understand retail and only buy in that sector. My deals are not financially engineered; I buy assets and cash flow. You need to be multi-skilled, and I don't bring many people with me, I try to re-motivate the existing staff. We don't have meetings about meetings. We have a tight team and can make decisions quickly."

Controlling costs, adding quality to the products, and keeping in touch with the business are essentials. Is it true, I ask him, that he can be seen checking hems and stitching in the stores? "Of course," replies the billionaire as though this is the most normal thing in the world. For him it is.

—David Lennon

VIENNA

SMOKE AND MIRRORS PAY

Gunther Schatz makes his living with smoke and mirrors…sort of. As a 3-D animator, Schatz, who originally hails from Salzburg, has worked on Hollywood blockbusters from *Pearl Harbor* to *Men in Black II.* He has made a name for himself in the realistic depiction of billowing smoke, clouds, and fabrics on film.

Schatz was awarded a stipend to work for half a year at the software company *Cortex.* He came to Los Angeles with his wife in 1996, eager to access the most high-tech special effects equipment available. At *Cortex*, Schatz gained valuable experience and learned to manipulate advanced 3-D software. As chance would have it, he met director Mark Dippe, who was working on the fantasy film *Spawn* at the time. Dippe had recently created his own media company, Banned From the Ranch Entertainment. Dippe hired Schatz away from *Cortex*, keeping him in the United States. Since then, Schatz has become a familiar face in the world of Hollywood effects. While working at Banned From the Ranch, Schatz contributed to seven movies, including *Paulie, Stir of Echoes*, and *Doctor Dolittle.* His projects included giving animals the power of speech and allowing ghosts to enter human bodies. *Stir of Echoes*, a ghoulish thriller starring Kevin Bacon, featured a scene in which a haunted old-fashioned movie theater turned black and began to drip and ooze black paint. Schatz' task consisted of modeling the walls and then making paint drip all over them. He also used a cloudy, mysterious effect to represent a moment when Kevin Bacon's character was pulled from a flashback to the present.

Soon, Schatz decided to found his own company, Influx Digital. Lately, he has been developing new ways of portraying billowing clouds, a common yet very difficult scene to evoke digitally. He is also intrigued by the visual representation of the way fabric moves, especially against skin. The difficulty lies not in the texture but in calculating the timing of reflexes between a body's movement and it's effect on clothing.

Schatz's hard work in creating realistic effects has paid off. He has made a name for himself with his professional simulations, attracting directors like Ridley Scott (*Gladiator*) and Michael Bay (*Pearl Harbor*). He has also worked on music videos, creating complicated effects for *Nine Inch Nails* and *Limp Bizkit*. He seems well on his way to meeting his goals: "To make my own movies with new visual looks, of course, and to build my own studio."

—Alexandra Hergesell

PARIS

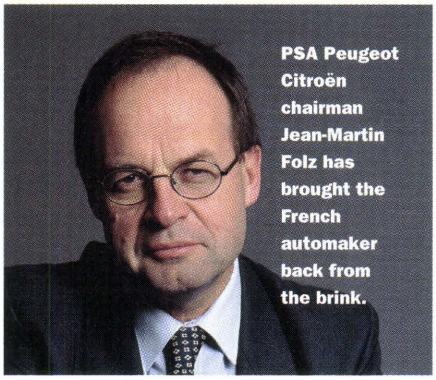
PEUGEOT'S DRIVING FORCE

The few public photos that exist of Jean-Martin Folz tend to show him in escape mode, trying to flee the camera lens. Named Manager of the Year by the French business weekly *Le Nouvel Economiste*, the chairman of the board of PSA Peugeot Citroën, Europe's second-biggest automobile manufacturer (behind the invincible Volkswagen), feels about as comfortable in the media spotlight as a deer caught in car headlights.

Journalists who insist on asking him personal questions either are deflected by answers like "I'm happy just doing my job: selling cars" or get responses making them wish they had not asked. For example, his reply to the coy query "What do you do when you go to bed?" was a yawning, "I turn out the lights and go to sleep."

Not that the man who has transformed PSA and hoisted it from ninth to sixth place in the world since taking over its direction in 1997 lacks humanity or charisma. Far from it. Wherever he has worked, management and staff alike remember him as a supremely likeable, charming, and approachable boss, willing to listen as well as lead.

He is also undeniably brilliant, graduating third in his class in 1969 from the elite École Polytechnique, the school to which only France's brightest ever gain access and which has produced the country's leading scientists and engineers ever since it was founded in 1794. It has also trained the CEOs currently running half of France's top 100 companies. Not content with that distinction, Folz went on to three years of graduate studies at the École des Mines, which does not, as the name implies, turn out coalminers, but instead some of the best engineers anywhere. There, Folz picked up another prestigious diploma and a desire to protect the environment, which has stayed with him ever since.



PSA Peugeot Citroën chairman Jean-Martin Folz has brought the French automaker back from the brink.

Self-discipline, strength of will, and inexhaustible energy allied with quiet but far-reaching ambition are other essential character traits that have helped him forge his way through life. Born in 1947 in Strasbourg, he was raised in Dijon, the capital of Burgundy, where his father was head of medieval studies at the university. The wines of Burgundy are one of Folz's passions, dating back to his youth, one of his few private pleasures that are public knowledge.

His career, on which he prefers to concentrate, began with six years spent working on environmental issues for the French government, during which he spent some time in Tokyo, fighting industrial pollution in Japan. Then, in 1978, came a decisive move for Folz. He joined the chemical giant Rhône-Poulenc, run at that time by the larger-than-life, adored or detested, Jean Gandois, who became his role model and mentor. "Jean Gandois was a very important influence in my professional life," admits Folz, even today. "He had a true strategy worked out for the chemical industry and knew how to make others share his goals." Folz learned his master's lessons with lightning speed and within two years climbed to the position of executive vice-president.

When Rhône-Poulenc was nationalized in 1982, Gandois left, and Folz followed his example a year-and-a-half later. Next came three years at Jeumont-Schneider, a company that made the switch from heavy industry to electrical equipment under his management, and in 1987 he teamed up with Jean Gandois again, who was directing the aluminum group Pechiney. This time, their partnership did not last. He and Gandois had been too close for too long and, like an old married couple, started bickering. In 1991, he decided it was time to leave, but "without bitterness," he says. "I still have a tremendous amount of respect for Gandois." From 1991 to 1995, as CEO of the sugar and food-processing group Eridiana Béghin-Say, he became an expert in understanding and negotiating his way through the complexities of EU agricultural policy. "We realized early on that he learned everything five times faster than anyone else," remembers Ross McInnes, former financial director of Béghin-Say.

In 1995, the Peugeot family offered Folz the chance he had been waiting for. After a thorough tour of all of the PSA group's European sites, he became head of its automobile division, where he observed, listened, learned, and kept a low profile.

On October 1, 1997, his moment came. Folz succeeded the tyrannical Jacques Calvet as CEO of PSA Peugeot Citroën. The next day he called a meeting of the 250-member management team and gave a mesmerizing speech. Two words: "Why Change?" projected on a giant screen, served as backdrop to the brilliant, incisive, and merciless analysis of the company Folz delivered like a skilled surgeon wielding a sharp scalpel. With the numbers to prove it, he zeroed in on three areas that were the group's weaknesses: growth, innovation, and profitability. He demonstrated that in-depth reforms were necessary and by the end of his speech, his audience gave him a standing ovation.

There followed a four-month news blackout during which a detailed plan for the internal restructuring of the PSA group was worked out. Implemented in 1998, its main thrust is centralization, its rallying cry: "one group, two brands." Anything that is not visible to customers who buy a Peugeot or Citroën has been regrouped under one roof. The quality control department and design center for both brands are one and the same; the factories can turn out both Peugeots and Citroëns on three platforms: one for compact cars, one for medium-sized vehicles and one for the top-of-the-line models. The objective for 2004 is to have cars on each platform assembled using 60 percent of the same components, and to have 85 percent of the group's cars assembled on the three platforms—right now, 75 percent of them are already being produced that way.

The centralization strategy imagined by Folz has paid off handsomely. In the last four years, the group's production has risen from 2 million to more than 3.1 million vehicles, and its shares have risen from €15 to €50, providing an average return on investment of 20.5 percent. Last year, unit sales rose by 11.3 percent, in a global car market that contracted by 1.2 percent.

New models such as the Citroën Picasso and the Peugeot 206 CC coupé-convertible, both launched in 2000, have rejuvenated the group's image and brought it younger customers. The Peugeot 307, unveiled in 2001, was voted this year's "Car of the Year" by a jury of fifty-five European journalists.

As for growth, Folz has not wasted any time there, either. He has implanted PSA in Argentina and Brazil and has signed a deal with Toyota for a joint production plant in Kolin, Czech Republic, for which construction is set to start this month.

Folz is also continuing his fight to clean up the environment by making PSA the world's first carmaker to sell cleaner, new-generation Hdi diesel engines. He has never been afraid to be the first, or indeed, the only one to head in a certain direction. With the quiet confidence of a man who trusts in his own instincts, who has always followed his own vision, even when it does not match the views of his contemporaries, Folz is bucking the global trend toward mega-fusions among car manufacturers. In an era where Daimler wedded Chrysler, Renault joined itself with a hyphen to Nissan, and General Motors did the same with Fiat, he has vowed to keep PSA Peugeot-Citroën an independent group, doing its own thing—just like Folz himself.

—Ester Laushway

ATHENS

A FUTURE IN CHIPS

Attend a graduation ceremony at any UK university and you realize there is no shortage of talented Greek information technology or finance specialists. Yet Greece boasts few homegrown high-tech companies. This, say analysts, is because the IT specialists have tended to stay abroad to work and because until the late 1990s the country lacked a financial infrastructure to promote startup companies.

That is starting to change thanks to the emergence of venture capital funds set up by a handful of wealthy entrepreneurs, among them several shipowners who are willing to invest in the IT sector. Even the government has joined in by setting up a "fund of funds" to promote innovative IT applications, with the help of a sizeable grant from the European Union.

But Greece still needs "techies" with management skills and a track record of bringing good ideas to market. Enter Theodore Varelas, a thirty-five-year-old specialist in chip design for wireless applications who took his first degree at Patras University—a pioneering IT center in Greece—and moved on to Canada for graduate studies.

Greece still needs "techies" with management skills and a track record of bringing good ideas to market. Enter Theodore Varelas, a thirty-five-year-old specialist in chip design.

Varelas jumped aboard Canada's high-tech bandwagon, worked as a consultant, and found himself participating in a startup, "though I knew nothing about them at the time." As Philsar Semiconductors expanded, "I bounced through all the levels of management and became vice president for engineering. It was a great experience—you see a lot of activity in the technical field, and it can be very rewarding financially."

Coming back to Greece, however, meant taking a much bigger risk. Varelas is general manager of Theta Microelectronics, a startup launched last year that has its research and development facility in Athens and its headquarters in Palo Alto, California. He intends to demonstrate that Greece can be a base for world-class chip design, with the California end of the operation taking responsibility for marketing and sales, developing future partnerships, and raising additional capital.

Theta, a semiconductor company, grew out of a partnership set up seven years ago between two Greek researchers, one based at Athens Polytechnic University and the other at Columbia University in New York, who carried out design projects for European and North American customers.

"Essentially we're following the Israeli model for the sector," Varelas says. "This enables us to overcome the barriers to growing a high-tech company in Greece, which isn't associated with this sector. Having a California headquarters gives us credibility."

"We've got a board of directors with a good network of contacts in industry and the markets, as well as with potential investors in Silicon Valley. And we're a group of people prepared to follow the international model that's proved a success but hasn't yet developed in Greece—that is to share ownership with investors and workers."

Theta raised $5 million from a group of venture capital specialists in Greece and abroad: National Bank of Greece, the country's biggest bank, which recently set up a venture capital fund for technology; Telos Venture partners, based in Silicon Valley; Nexit Ventures of Finland; and Cadence Design Systems of the US.

Varelas says Theta aims to become a world leader in providing chips for the emerging broadband wireless data markets. It is focusing on the WLAN (wireless local access network) semiconductor market. Its first offering is a single chip transceiver for the US market and another for the European market.

"We're at the prototype stage at the moment, so getting the prototype to market is the next goal. We aim to break even in 2003 and then grow really fast," Varelas says.

—Kerin Hope

AMSTERDAM

A HEAVY-LIFTING DUTCHMAN

The tragic sinking of the *Kursk*—the Russian nuclear submarine that foundered in the Barents Sea in the summer of 2000—gave Frans van Seumeren the opportunity of a lifetime. A year after the disaster, Van Seumeren's family business, Mammoet, managed to raise the *Kursk*. Russian President Vladimir Putin hailed Van Seumeren a hero and awarded him the Peter the Great Award. Van Seumeren also gained world recognition as one of the Netherlands' most astute entrepreneurs.

The lifting of the submarine, which took place in September 2001, was overshadowed by the September 11 terrorist attacks and did not receive as much publicity as it would have otherwise. Yet, it was an astonishing engineering achievement for the Dutch offshore industry.

Van Seumeren, fifty-two, is a man who shuns frills. A high school dropout and a sports fan, he entered his father's business at the age of sixteen as a machinist for Van Seumeren Holland, a company that specialized in heavy cranes and lifting machinery. Over the next three decades, he rose steadily through the ranks. In recent years, the company began looking to expand beyond the Netherlands and, eventually, beyond Europe.

Two years ago, Van Seumeren bought Mammoet, a subsidiary of the Dutch transport and shipping company Nedlloyd, for $100 million. Mammoet (Dutch for 'mammoth') was known for its heavy maritime transport facilities. The merging of these two companies combined extreme lifting machinery and maritime transportation facilities, establishing the new enterprise as the world's biggest firm in the sector.

Although the merged company dropped the Van Seumeren name in favor of Mammoet Worldwide, it remained a privately owned family business—two of Frans' brothers, two cousins, and his own two children work there today.

After explosions onboard the *Kursk* sank the submarine with its crew of 118 in August 2000, it took the Russian authorities months to decide what to do with it. Finally, they decided that the submarine should be lifted.

For all its industrial prowess, however, Mammoet had no experience with lifting sunken ships. In fact, another Dutch company, Smit-International, appeared better equipped for the job. Smit, joined by the Dutch offshore construction firm Heerema, made the first offer to the Russian call for bids. Nevertheless, many uncertainties surrounded the job, most notably the unpredictability of the weather and which lifting techniques might work on the massive wreck.

President Putin had promised the families of the drowned sailors that the bodies would be recovered before the end of the year, but harsh conditions in the Barents Sea would make it impossible to lift the Kursk after mid-September when the fall storms would start. Due to Russian delays, the Smit-Heerema team announced that it could not possibly finish the job before the following season—in the summer of 2002.

Early in 2001, Van Seumeren made his biggest entrepreneurial gamble. He guaranteed that Mammoet would be able to lift the Kursk before September 15 using an untested technique. Mammoet signed on with Smit, and the Russians agreed to pay the $65 million price tag.

Not only was the time schedule extremely tight, the working conditions were difficult and special equipment had to be made and tested. The *Kursk*—509 feet long and weighing 9,000 tons—was lying more than 300 feet below sea level, was severely damaged, and had nuclear warheads in its bow. It was decided that the submarine would be cut into two parts, and so using heavy metal saws, divers cut the bow off. The process took longer than everyone expected. Meanwhile, the weather steadily grew worse. Next, dozens of pins had to be attached to the hull and linked with steel cables to a specially constructed massive pontoon.

Early in 2001, Van Seumeren made his biggest entrepreneurial gamble. He guaranteed that Mammoet would be able to lift the Kursk before September 15 using an untested technique.

The actual lifting did not start before October 1, but seven days later, the *Kursk*, securely attached with steel cables, breached the surface. The following day, the submarine began its final journey to the docks of Murmansk. At Mammoet's offices in the Netherlands, tears were shed and champagne was spilled as Frans van Seumeren saw his massive gamble pay off.

—*Roel Janssen*

COPENHAGEN

DESIGNER GROWS GRAPHIC FIRM

Graphic designer Birgitte Vestergaard's company B:Graphic is situated high above the buzzing streets of downtown Copenhagen. The informal yet elegantly decorated office reflects the style that has become her trademark in the business: a simple, straightforward, and unambiguous design.

Vestergaard founded her company in October 2000 after having worked for a larger firm for six years. "It has always been my dream to go independent. Being self-employed was something I just had to try," the experienced graphic designer recalls with a smile.

In the beginning, Vestergaard worked from her home with a computer. The Danish Trade and Industry Agency provided her with the opportunity to get advice from a trade councilor for less than $1,000—an arrangement that has been available to Danish entrepreneurs since 1997. Still, to get her company up and running, Vestergaard had to finance the plan herself. "I made an agreement with my banking consultant to stake the equity of my apartment on the project," she explains.

Soon, it became evident that Vestergaard had made the right decision, and as B:Graphic's list of clients continued to grow, she decided to move her firm to new quarters.

From the very heart of Copenhagen, B:Graphic now designs publications for a variety of Danish ministries and boards as well as one of Denmark's largest trade unions, HK. The clients have come gradually, by means of Vestergaard's extensive network. "I enjoy having a large circle of acquaintances, as it enables me to meet a lot of different people," Vestergaard says with an energy that clearly mirrors her drive and ambition.

Networking is not the only thing thirty-seven-year-old Birgitte likes about her job, though. "I enjoy the freedom that comes with being independent, and the

Danish designer Birgitte Vestergaard mortgaged her apartment to found B:Graphic.

challenge of engaging in a project with my clients over a longer stretch of time," she asserts.

According to Vestergaard, being independent hardly has any disadvantages. "Of course I work a lot, at times from 9:00 am to 9:00 pm. But then again, you cannot go independent if you are not prepared to work hard. You have to prove that you exist on the market and that you can perform the tasks required within a reasonable amount of time and within the limits of a reasonable budget. And the amount of work is really not a big problem because I consider my work a hobby, just as I always look forward to getting started after a holiday."

Yet, Vestergaard does make time for herself in her tight schedule. "I attempt to keep my weekends clear of work. When I am out of the office, I am out of the office," she laughs.

To reduce the workload, Vestergaard has hired an external accountant and a lawyer to take care of some of the administrative tasks, just as she is currently planning to engage more employees.

This future expansion was part of Vestergaard's plans from the beginning, and partly explains the company name, B:Graphic. "I was very conscious that if the company should develop and grow in the future, it was important that the name was not tied to one person in particular. I allowed myself to think visionary and created a name that did not indicate the number of employees. And since everything I do with this company will 'be graphic,' I thought it was a highly appropriate name," Vestergaard says, before returning to the work she so enjoys.

—*Maria Bernbom*

BRUSSELS

PRESSING AHEAD POST SOVIET

Nina Bachkatov is Belgian, with a Russian-born father. Her partner, Andrew Wilson is British. Eleven years ago, they founded the European Press Agency, which has now become a leading Brussels-based consultancy—focusing on Russia and the fourteen other republics of the former Soviet Union (including the Baltic states).

The couple met in Moscow during the Gorbachev period. Both were working there as journalists—Nina for the Belgian daily *Le Soir* and Andrew for the *Observer,* the London Sunday newspaper for which he worked, in various capacities, for nearly thirty years. When their assignments ended in 1991, they decided to stay on in Moscow and set up their own business, supplying news and analysis on Russia and the other successor states of the Soviet Union.

They had no capital and no equipment, except an old, and very elementary, Amstrad computer. With this, they produced what Andrew describes as a barely legible ten-page newsletter and started to look for clients, particularly in the media. Their first taker was *US News & World Report,* but they soon found that corporations, embassies, and academic institutions were their most enthusiastic customers, though journalists have always been included among their subscribers.

One Moscow-based ambassador, in particular, was always on the phone urging them to produce their newsletter by a certain date each month, so that he could use it as the basis of his own report to his foreign minister. Within a year or two, Nina and Andrew decided to transfer their operation to Brussels, which could provide a more secure base and was close to the headquarters of both the EU and NATO, which became important clients.

They bought a large multi-story period house, where they both live and work, strategically situated within walking distance of the main EU buildings. They kept an office in Moscow, to which they go, usually for ten-day periods, every five or six weeks, as well as traveling extensively, either separately or together, throughout the former Soviet Union.

They have built up a team of collaborators in each of the fifteen republics, who supply the bulk of their material—most of which is rewritten by themselves. They still produce a monthly intelligence bulletin, known as *Inside Russia and the FSU,* but their main output is now on-line at www.RussiaFSU.org, where most of the material is offered on a subscription basis. They are also available to clients for personal consultations.

They now have an established reputation among universities, research institutes, and think tanks, where their work is recognized as being not only authoritative but also wholly independent of any government, international agency, political movement, or charitable foundation.

Popular figures on the Brussels scene, Andrew and Nina give every impression of being happy and fulfilled. They are both full of enthusiasm, doing work they enjoy, providing a useful service and earning a good living from their endeavors. As Andrew himself puts it, "What more could we want?"

—*Dick Leonard*

STOCKHOLM

MAX VERSUS MCDONALD'S

The employees call their company "the challenger," and it would be hard to find a better description for the MAX hamburger chain than that. Except, maybe, "the successful challenger."

MAX is the brainchild of entrepreneur Curt Bergfors, whose sons now run the company. Started in 1968, it is not only uniquely Swedish but uniquely northern Swedish. And therein may lie at least part of the secret of its success.

Bergfors was born in Gällivare, far north of the Arctic Circle. Long before fast food and hamburger chains had even been heard of in Sweden, Bergfors thought that selling mass-produced burgers was a business idea whose time in Sweden had come.

He opened his first restaurant in his hometown. MAX now has thirty-three restaurants and plans shortly to have fifty. Before 2009, company vice president Richard Bergfors promises there will be 100 restaurants from north to south.

Northern Swedes—*norrläningar* as they're known—tend to take a dim view of outsiders generally and those from southern Sweden in particular. And they consider most of the country to fall into the latter category. Curt Bergfors played on that local patriotism to build the business in the northern part of the country, and to keep American hamburger chains—notably McDonald's—out.

McDonald's successfully opened its first restaurant in Stockholm in 1973. But in the beginning of the 1990s, the hamburger chain was forced to pull out of the northern Swedish market, when locals boycotted its newly opened restaurant in the city of Luleå, where MAX is based.

It wasn't until 1998 that McDonald's finally broke into northern Sweden. Even then, there were protests by a group of young vegetarians against the American chain. The objection wasn't to McDonald's serving meat since, as protest leader Johan Åkerlund pointed out, MAX also serves meat. Instead, "we are mainly protesting against McDonald's as a business idea," Åkerlund said. "McDonald's pays badly and is also multinational, and therefore not welcome here."

As MAX has expanded southward, its management has cleverly broadened northern Swedish patriotism into a more general 'buy Swedish' campaign. "About half our restaurants are in southern Sweden," says Bergfors "and our concept works well around the whole country."

Bergfors' optimism will be truly tested as MAX continues its southward push, down to the southernmost tip of the country. Its first restaurant in the Stockholm city limits is also set to open this year, albeit not downtown. It will be interesting to see whether the capital city's hamburger lovers—who are used to gorging on burgers from McDonald's and Burger King and taking the kids for Happy Meals—will switch to "the challenger."

Despite its northern roots, MAX's strategy has accommodated regional differences as the company has expanded. On the island of Gotland, for instance, famous for its sheep, MAX offers a lamb burger. And its restaurant there has a bike-in window to accommodate all the tourists who cycle around the island in the summer. In Umeå, the center of the vegetarians' protest against McDonald's, MAX has a special vegetarian Umeå burger.

Even MAX's management admits it will never be as big as McDonald's, which has 230 restaurants in Sweden. In terms of revenue, it ranks third behind McDonald's and Burger King, with the equivalent of about $22 million in annual revenues.

But Bergfors says MAX doesn't need to be the biggest. In its advertising, MAX claims, "we know how to win Swedes' hearts." And, despite firmly embracing American culture and American fast food, it's likely Swedes will always keep a little room in their hearts for MAX.

—Ariane Sains

LISBON

THE GOLDEN MADEIRAN

At the age fifty-eight, after decades of hard work, José Berardo likes to feel that he has earned the respect of his peers and of the Portuguese in general. Owner of Portugal's finest private collection of twentieth-century art—now accessible to all in a restored former casino in Sintra, near Lisbon—and proud benefactor of educational and other foundations in Madeira, the Portuguese island where he was born, he is the very model of a modern magnate.

Berardo's interests in Portugal range from media to wines, but like many Madeirans he made his first fortune abroad. At the age of thirteen he started working in a Madeiran wine company, putting labels on wine bottles, but soon tired of the work. At eighteen he decided to venture abroad. Although in the 1950s many Madeirans headed for Venezuela, Berardo opted for South Africa because he liked the people he had met who had emigrated there. After some resistance, Berardo's father eventually gave permission for his son to set off—after he threatened to join the army otherwise.

He boarded a boat heading for Portugal's African colonies. Along the way he had some hair-raising adventures and ultimately was the only one of fifty boys on the boat who made it from Angola into South Africa. There, Berardo began work as an agricultural laborer. But in the distance he could see hills that contained abandoned mines, and he soon applied for a government license to work them. By the end of the 1980s, a gold boom was underway, and Berardo's fortune was assured. After canny negotiating with mining giant Anglo-American, which wanted to manage the mines, he secured 60 percent of the profits.

"I'm no expert—just a person with ideas," he now says modestly. Adaptable too. In his first three years in South Africa, Berardo learned new languages, including Afrikaans, English, and some of the native dialects. But he never cut his ties with Portugal and became increasingly involved with the growing Portuguese community in South Africa—overwhelmingly Madeiran—which was generally looked down on by other whites as drones that only sent money back home.

In 1988, the Portuguese president honored him for his work improving the image of the community in South Africa. Through his now well established Portuguese connections he played a role in setting up a meeting between Mozambican President Samora Machel and South African Foreign Minister Pik Botha for landmark talks that proved an important step toward the end of apartheid and South Africa's isolation.

After some brief but lucrative ventures in Canada, Berardo, who goes by Joe, increased his visits to Portugal, building his investments there. These now include one of the country's three top-selling newspapers and several glossy magazines, as well as the vintner JP Vinhos. He cites the latter company—where seventh-generation owner Antonio Francisco stayed on after selling his majority stake—as an example of how he values the people he works with.

"What's important is to have people around us who can advise us," he said. "Not yes men, but people who understand the businesses we're in."

He has harsh words for many Portuguese businesspeople, whom he accuses of lacking in dynamism and leaving the economy vulnerable to domination by Spain.

"Without optimism, we won't overcome the negative aspects," he recently told the Portuguese-Dutch Chamber of Commerce in Lisbon. "Portugal can't just rely on services and tourism. Don't forget, we have a powerful neighbor."

His views may not be exactly politically correct in today's European Union, but his criticisms do hit a nerve. And so long as he maintains his business success on the one hand and his philanthropic ventures—such as the funding of 1,000 university scholarships for young Madeirans—on the other, there will be plenty of people willing to heed him.

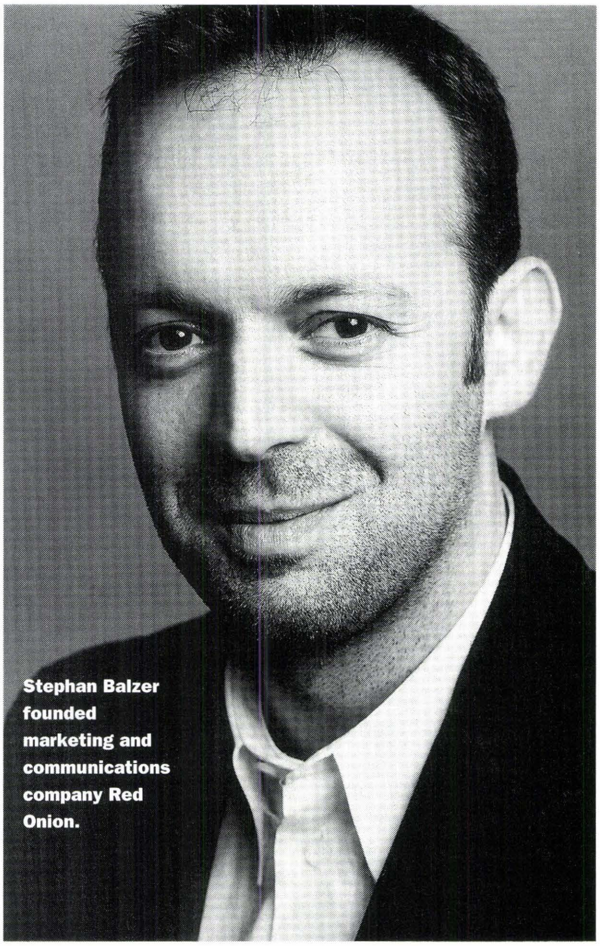
—Alison Roberts

BERLIN

NO TEARS FOR RED ONION

As the dust slowly settles on the ruins of the "new" economy, a fresh breed of entrepreneur is emerging. These are the digital survivors who've come through the tech tremor badly bruised but with their reputations intact. They laid the foundations for an industry that others shamelessly oversold. Their modest blueprints were distorted into financial properties of impossible proportions. And to everyone's horror, the shoddily constructed stock-market skyscrapers collapsed in a heap of hype and greed. Now, with the profiteers long gone, the humbled architects are climbing out from under the rubble and picking up the pieces.

Stephan Balzer is one such survivor. The Berlin native has been working in the wired world since its genesis, when the Internet was just a gleam in Microsoft's window. He's been celebrated as an interactive communications guru, a digital dealmaker helping clients expand their notions of medium and message. His specialty is bringing commercial and public-sector interests into dialogue with creative and technical talents, spawning projects, and guiding them through from concept to execution. Today, in a sector regarded with skepticism, Balzer is what buyers of multimedia services want: a true believer with an eye for the bottom line, a visionary with a level head.



Stephan Balzer founded marketing and communications company Red Onion.

His credentials burnished by boom and bust, Stefan Balzer now runs a small company with five employees. It's called Red Onion. He describes the firm as "a high brain company" specializing in marketing and communications. Among the firm's current projects is an ambitious undertaking for Autostadt, VW's giant mobility theme park near Wolfsburg. Red Onion's task, as Balzer understands it, is "to convert the idea of Autostadt into digital space." He quickly explains that he's not talking about doing a 3-D rendering of the park. Instead his firm is "looking at mobility from a broader horizon" with the goal of creating an "interactive digital platform." The value-added product is interactivity.

Red Onion's digital platform is flexible, utilizing whatever technology—DVD, broadband Internet, digital broadcasting—is best suited for expressing the relevant conceptual content. Balzer says the most daring and successful example he's seen so far in the auto industry was produced by the US division of a rival German carmaker. The fact that it originated in America, he believes, is no coincidence: the company's Munich headquarters would have dismissed it as "too risky."

Having visited the United States "twenty-five or thirty times" over the past eighteen years, Stephan Balzer has had plenty of opportunity to compare German and American entrepreneurial cultures. "The biggest difference," he says, "is that in the US failure is not seen as a problem, but rather something you learn from. It doesn't mean you'll never get financial backing again. You can try again. In Germany you get only one chance."

Balzer also believes the German education system does not do enough to encourage entrepreneurial spirit. He laments the popular assumption in Germany that "risk is bad." Raising a glass of mineral water with a grin, he adds: "What most people don't understand is that being an entrepreneur is fun!" If he could convince his compatriots to adopt that attitude, the country's business climate might well improve.

"In the US failure is not seen as a problem, but rather something you learn from. In Germany you get only one chance."

—Terry Martin

HELSINKI

FINLAND'S CAR BARON

Finland is a nation of tribal associations and connections. They start in the classroom and flourish during national service and university or other training. They are a marked feature of political party membership. They receive the unspoken loyalty of Lions and Rotaries; the lubricant is the sauna and its attendant socializing plus the attractions of reminiscence.

The biggest tribal daddy of them all, where the bonding and networking is at its strongest, is the hunting club. Membership in an old-established London club is easier to come by than acceptance into a fraternity of Finnish moose-hunters. Of course, it helps if one has his own 6,000-acre estate of forest and lakes teeming with seasonal prey.

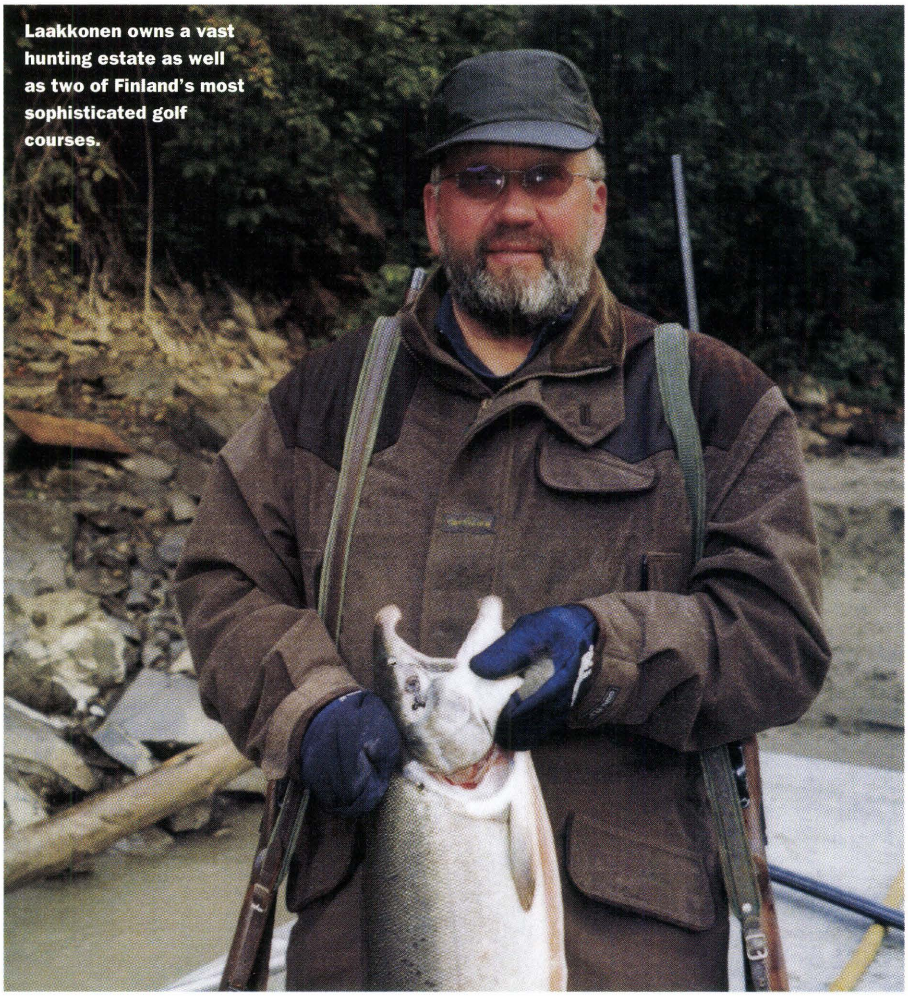
Such a man is Tauno Laakkonen, who started a car sales business when he was seventeen. His Midas touch has never left him as this business expanded to twenty-five showrooms and as he diversified into construction, stockbrokerages, printing companies, hotels, newspapers, and two eighteen-hole golf courses in the middle of the country.

His life is almost American in its style and tradition of local boy makes good; his gifted creation of wealth is delightfully old fashioned. Born in Joensu, North Karelia, the son of a country store manager who also founded the local bus service when there were no paved roads in the region, Tauno, together with his brother Reino, sought and was granted in 1960 a franchise to sell imported Volkswagens.

Last year, his car business, which as of last August included a new BMW showroom in Helsinki, turned over approximately $282 million. His six local newspapers and two printing houses generated $53 million. By US standards, these figures may seem modest, but for a nation of just more than 5 million people, they are huge.

In addition to VW and BMW, his companies sell and service a variety of makes, including Audi, Peugeot, Mazda, Saab, Subaru, Mitsubishi, and Skoda. There is also a lively trade in second-hand American cars, with the Studebaker being particularly popular with the younger customers.

Expansion has always been part of his strategy. In microcosm his career reflects Finland's postwar development but without the high-tech connection and certainly minus the capital's old boy network. During his early days, such circles would have regarded him as little better than a redneck—despite the egalitarian posturing of the 1970s politics.



Laakkonen owns a vast hunting estate as well as two of Finland's most sophisticated golf courses.

But money talks as loudly in Finland as elsewhere. Tauno Laakkonen's life has come full circle in his ownership of a hunting estate and two of the nation's most sophisticated golf courses where the elite enjoy their sports and where, of course, Laakkonen is the host.

Each summer he also has guests at the famous Savonlinna Opera Festival when—it seems—the whole of Helsinki society moves up country for the event.

More than this, more even than a proposal to join him on his yacht on Saimaa Lake, his hunting invitations are the most valued. These shooting parties at Kytaja follow age-old Finnish traditions. Before, during, and after the hunting lodge feast, the ancient ceremonies and songs are observed with atavistic pleasure. They are followed by an after-dinner production by a local youth theater group.

Those privileged to be present on such occasions report Laakkonen to be a great host: never boastful, still less snobbish. Not only does he like to shoot moose he enjoys above all to shoot the breeze and, one learns enviously, does so with uproarious results.

Enviously because these candle-lit, vodka-stained occasions are for insiders only and, as Laakkonen speaks only Finnish, a foreigner might feel welcome, though a little out of place.

There can be no greater satisfaction in Finland, surely, than to have the resources to create one's own "hunting circle" as Laakkonen has done—though some would say the creation of golf courses in a nation, which has in recent years become obsessed by the sport, might rank as the greater accomplishment. The Finns even play in the winter, using luminous balls that are easily traced in the snow.

Laakkonen's friends use his example to make the point that there is still plenty of money to be made at home.

—David Haworth

ROME

AGNELLI PREPARES THE HEIR

Being an heir apparent is not an easy job. John Philip Elkann, nicknamed Jaki, who was born twenty-six years ago in New York, knows this well. In his case, the leadership of the Agnelli family-controlled Fiat Group is a doubly heavy weight to carry. First, because he wasn't the designated heir: two tragic deaths forced his grandfather, the powerful but elderly and ailing patriarch Giovanni Agnelli, known as *l'Avvocato* (the Lawyer), to push him onto the launching pad. Elkann became the obligatory choice after the Lawyer's nephew, also named Giovanni Agnelli, who was the true apple of his uncle's eye, died of a rare form of cancer at age thirty-three in 1997. The Lawyer's son, Edoardo, who never distinguished himself as a future leader of the company, committed suicide at age forty-six in 2000. Further encumbering young Jaki is the fact that the storied family company, which has been a symbol of Italian industry and entrepreneurial and political power for more than a century, is facing its most trying times.

Right after getting his degree in engineering in Turin, writing his senior thesis about on-line auctions, Elkann, whose mother is the Lawyer's daughter and whose father is the Franco-Italian author/journalist Alain Elkann, was given an accelerated course on becoming a boss. He then completed his rapid apprenticeship in the company's most important sectors: one month as a worker (under a false name) in a factory in Cannock, United Kingdom; another one in Lille, France; and two months in Tichy, Poland, on the assembly line of a small Fiat vehicle. And then, the big leap: becoming a member of the board of the mother company in Turin. In order to refine his knowledge of the complex art of management, he joined General Electric's corporate strategy group in 2000 before moving to the auditing division, where he served until May. During the course of this royal apprenticeship, Elkann's tutors have ranged from Jack Welch, former GE chairman, to financier Felix Rohatyn, a former US ambassador to France, both members of the Fiat board of directors.

The heir apparent, John Phillip Elkann, appears set to take over the Agnelli empire.

Will the young, fresh-faced Elkann be able to take the pressure? Many observers say yes, pointing to similarities between him and the patriarch who has named him his heir. Although Italian, they both have had an international education with an American slant that should help Elkann in the future, since General Motors has increased considerably its stake in the Italian automotive company. And, like his grandfather, he knows how to separate business and relaxation. He is discreet, but can be seen at the "right" jet set gatherings. And, like his grandfather, he appears to have his heart set on marrying the descendent of a noble family, Lavinia Borromeo. It all promises well.

—Niccolò d'Aquino

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Pg. 34: (clockwise from top left)
Pg. 36: O'Brien's Irish Sandwich Bars
Pg. 45: Alberto Ramella/AP/Wide World Photos
Pg. 46: (top) The Royal Collection; (bottom) Tate Britain
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ART

LUCIAN FREUD: AN ARTIST OF EXPERIENCE

Tate Britain, London, through September 22

For some, Lucian Freud's paintings are hard to look at; for others, they are equally hard not to look at. Either way, art patrons in London have flocked to the Tate Britain, the national gallery of British art, to see a retrospective of the artist some have called Britain's greatest living painter. With more than 150 works on view, including twelve never-before-exhibited canvases and many from overseas collections, the show is the most extensive of Freud's illustrious career.

The grandson of Sigmund Freud, the famous founder of psychoanalysis, Lucian Freud was born in Berlin in 1922. His father, the architect Ernst Freud, fled the city with the rise of the Nazis and their anti-Jewish virulence, moving his family to London when Lucian was ten. Young Freud became a naturalized Briton and went on to study at the Central School of Arts and Crafts in London and the East Anglican School of Painting and Drawing in Dedham. As a teenager, he achieved his first artistic success when an avant-garde magazine published one of his self-portrait sketches. His schooling was interrupted during the war by a three-month stint on a North Atlantic convoy, but after receiving a medical discharge, he returned to his studies in London.

Interior at Paddington, 1951

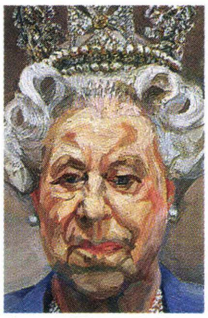
After the war, Freud spent brief periods painting in Paris and Greece but returned to London where he focused his energies on creating unsentimental, realist portraits. He attracted broad attention in 1951 when the Arts Council of Great Britain awarded him the Purchase Prize for his *Interior at Paddington*, a stark canvas depicting a man in a raincoat standing next to a withering potted palm tree.

Because he believed professional models impeded his attempts to depict realism, Freud's subjects are usually fellow painters, family members, and friends. They are often portrayed nude, looking out from the canvases with anxious or blank expressions. His detractors have eschewed his style, using rough brush strokes and posing his subjects in awkward or unflattering positions, as ghoulish and macabre. Others have praised the rich texture of his work, his unblinking eye for detail, and the fully human portrayal of his subjects.

Freud, now eighty, has heard such discussions about his work for much of his career. "I paint people not because of what they are like, not exactly in spite of what they are like, but how they happen to be," he has described his approach.

"I could never put anything into a picture that wasn't actually there in front of me. That would be a pointless lie, a mere bit of artfulness."

One Freud canvas that isn't part of the Tate retrospective but has generated much publicity is his Golden Jubilee portrait of Queen Elizabeth II. Given his reputation and the queen's reported indifference to modern art, many were surprised when Freud was granted two sittings with the queen at St. James Palace in May 2000 and last December. Unveiled just before Christmas, the tiny portrait (only six by nine inches) has stirred much controversy among the public and the art community. Elizabeth is shown solemn-faced, her features harshly rendered and framed by swirls of white hair. She is wearing the Diamond Diadem, which she dons for the opening of Parliament and is depicted wearing on banknotes and stamps.



Queen Elizabeth II, 2001

The picture, a gift to the queen from Freud and currently on view at the Queen's Gallery at Buckingham Palace, outraged several art reviewers. "Extremely unflattering" wrote the *Daily Telegraph*. "A travesty," exclaimed the *Sun*.

Others, however, saw some something else. Richard Cork, a critic for the *Times*, described the image as "painful, brave, honest, stoical, and, above all, clear sighted." The *Guardian's* Adrian Searle opined, "Portraiture is meant to get beneath the skin… This is a painting of experience."

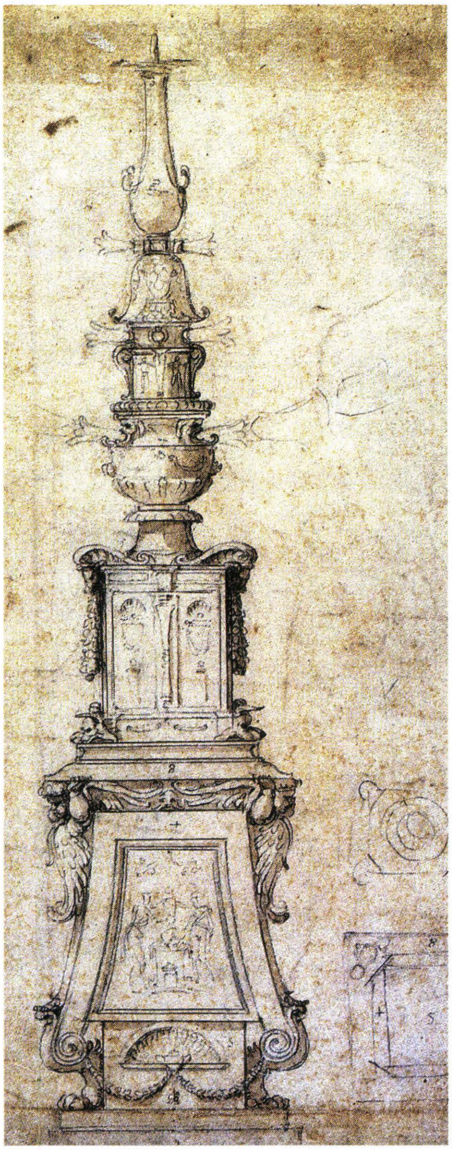
A description Freud would probably wish for each of his works.

—Peter Gwin

MICHELANGELO DISCOVERED IN NEW YORK

In a find worthy of *Antiques Roadshow*, an art historian recently scored the equivalent of discovering lost treasure in a cardboard box.

While completing a sabbatical at the Smithsonian's Cooper-Hewitt National Design Museum in New York this April, director of the National Galleries of Scotland Sir Timothy Clifford was sifting through a box of artwork by unknown artists, when he came across a drawing of an elaborate candelabrum. Turns out the drawing of black chalk, brush and brown wash with incised line on cream lined paper is a rare, unsigned drawing by none other than Renaissance master, Michelangelo Buonarroti (1475–1564). Sir Timothy, who is a specialist in Italian Renaissance art, said he recognized the artist's distinctive style immediately. "You recognize a Michelangelo as you recognize a friend," he said.


Michelangelo's lost candelabrum

The artwork, which measures ten by seventeen inches, was purchased by the museum in a job lot of drawings and prints in 1942 for a mere $60. Today, at auction, some experts believe the drawing could fetch more than $10 million, but don't reach for your checkbook just yet as it is not for sale. Sarah Lawrence, a director at the Cooper-Hewitt museum, said "We're looking forward to putting it on display and keeping it as one of the treasures of the Smithsonian."

The museum is currently exploring all options for exhibiting the Michelangelo and anticipates unveiling it to the public at some point within the next year when they can give it the full attention it deserves. In the meantime, if you have a burning desire to see original Michelangelos, there are a very limited number of the master's works on view in the US—at the J. Paul Getty Museum in Los Angeles, the National Gallery of Art in Washington, DC, and the Metropolitan Museum of Art in New York.

—Susan J. Burdin

MUSIC

ROUGH GUIDE'S AUDIO ADVENTURES

From the people who told you how to navigate the nightlife in Madrid, find the best ouzo in Crete, and locate the hidden dog cemetery in Paris, comes music. Rough Guide, the edgy travel publisher, is producing CD compilations of music from the regions its guidebooks cover, most recently Europe.

The London-based company, which was founded by four friends two decades ago, has always seen itself as more than just a publisher of guidebooks. The editors say they take a more comprehensive view of the travel experience when putting the Rough Guides together, including nearly as much cultural and historical information as hotel and restaurant advice. A few years ago, someone noticed that each of the books contained an extensive amount on the native music scenes, and so the *Rough Guide to World Music*, a veritable encyclopedia of the genre—covering everything from Congolese *soukous* to Greek *rembetika*, including biographies of musicians and extensive discographies—was born. The company has since published more than twenty music guides.

The next logical step was to offer the sounds themselves. Just as the guidebooks helped travelers explore a new place, the Rough Guide compact discs sought to introduce listeners to new genres, instruments, and musicians. For the project, the company teamed up with the London record label World Music Network, and together the two have released more than sixty titles, including guides to Tango, the music of the Andes, Zairean guitarist Franco, and Klezmer music.

Until recently, they have focused mainly on music from the developing world; however, Rough Guide is increasingly adding more European titles. Most recently, it has released musical explorations of Spain, Italy, the Alps, and Paris Café Music.

Each CD comes with a mini booklet offering nuggets of history about the genre and detailing the artists. Helpfully, the publishers included the names of the original albums the songs appeared on, making it easy to find additional music from a particular artist.

Although Rough Guide refers to these compilations as "glimpses" of a region's musical heritage, trying to encapsulate the musical roots of a country like Italy in a mere eighteen songs is like trying to experience Rome in a Lear jet. However, there aren't any famous arias or torch songs here, rather the cuts focus on the folk influences, the music that families and neighbors would gather to play in their courtyards and vineyards. Together the selections function as a guidepost to the culture beneath the culture.

Perhaps these samples will whet the uninitiated listener's appetite for further exploration, maybe even inspire a trip to hear the music performed live in its native setting, which, one imagines, would be just fine with the folks at Rough Guide.

—Peter Gwin

in CLOSING

In Memory of the Victims of September 11…

In a display of Franco-American solidarity, a New York City fire truck led French fire trucks down the Champs Elysées in Paris on France's national holiday, Bastille Day, July 14. The firefighters and family members of the New York City firefighters who lost their lives in the World Trade Center on September 11, 2001 were France's special guests at the Bastille Day celebrations this year.

French President Jacques Chirac invited them, along with New York City officials, to attend the traditional Bastille Day military parade and afterwards to a garden party held at the Elysée Palace. The military parade was led down the Champs Elysées by a contingent of more than 160 West Point Cadets, who were also invited guests of France.

The firefighters and family members were in Paris to attend the twinning ceremony held July 13 by the Brigade de Sapeurs-Pompiers de Paris (BSPP), the French elite fire fighting corps, and the New York City Fire Department (FDNY) at the BSPP headquarters to mark the solidarity, support, and friendship between the two fire departments. The French firefighters have been in close contact with the FDNY since the tragic day of September 11.

The group was also scheduled to visit major sites around Paris, Versailles, and the D-Day landing beaches in Normandy. The FDNY fire truck arrived at the port of Le Havre on July 4 and was show-cased with BSPP fire trucks on the esplanade of Paris City Hall.

—Susan J. Burdin