Sweden • 20 to Watch in 2002 • Steel Heats Up • Go Gotland

# EUROPE

April 2002

## The Stem Cell Frontier

Has the US administration's stand on stem cells given European researchers a crucial advantage?



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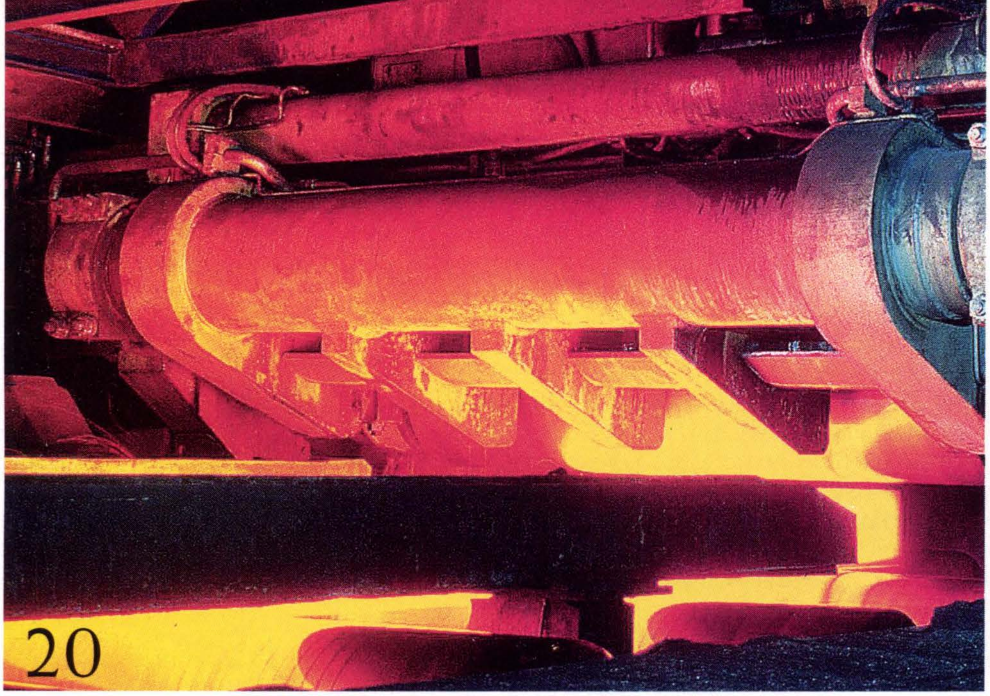




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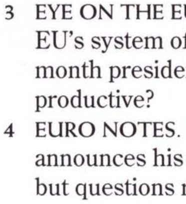
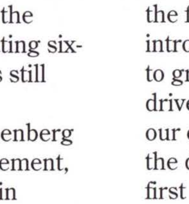
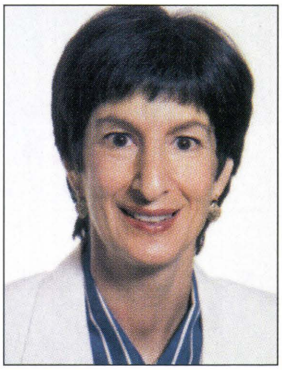



# LETTER FROM THE EDITOR

Europe seems destined to take the stem cell lead," writes Ariane Sains, reporting from Stockholm. "For scientists, Europe is increasingly the place to be for stem cell research because of more liberal regulations." Sains follows the stem cell research trail across Europe and discusses how European researchers have gained a lead on their American counterparts. As she reports, "When Bush limited federal funding of stem cell research last fall, he handed Europe a business opportunity that could prove to be better than the most favorable trade agreement."



**Ariane Sains, a *EUROPE* contributing editor since 1997, also writes regularly for *Business Week* from the Nordic countries and covers the region for several of Platts energy and business newsletters.**

**She has traveled extensively for assignments, including to Lithuania, where she was the second Western journalist to visit the Ignalina nuclear plant, home of the world's two largest Chernobyl-type reactors. From 1984–86, she covered Union Carbide and the Bhopal chemical factory disaster.**

**Born in New York, she grew up on Long Island, in Chicago, and in a Boston suburb. Sains moved to Sweden in August 1991, after her Swedish husband, Anders, became homesick, and they decided to settle in Stockholm. They met during a journalists' fellowship program at the University of Missouri in 1986 and were married six months later. A close friend, hearing of the engagement, asked in alarm: "Are you sure he's not doing it just to get a green card?" More than fifteen years later, they're still married and Anders still doesn't have a green card.**

Also in this issue, we look at twenty Europeans to watch in 2002. First, John Andrews asks, who moves the European markets? Writing from Paris, Andrews profiles ten leaders in the world of business and finance—from Nokia's Jorma Ollila to BP's Lord Browne to Marco Tronchetti Provera at Pirelli—whose words and actions are carefully considered by the markets across Europe. Meanwhile, Lionel Barber, writing from London, profiles ten political personalities to watch in the EU—from political activist José Bové in France to Vaclav Havel, the president of the Czech Republic, to Joschka Fischer, Germany's foreign minister.

Andrews also reports in *EUROPE Update* on the beginning of the EU's Convention on the Future of Europe, which convened last month. Will this historic meeting led by former French president Giscard d'Estaing be as momentous as the convention held in the new United States of America in 1787? We will continue to monitor the meetings of this important convention throughout the year in upcoming issues of *EUROPE*.

Against the backdrop of tariffs imposed by the Bush administration on imported steel, Bruce Barnard, writing from the United Kingdom, looks at how the European steel industry has restructured itself to become "global players with a series of ambitious cross-border mergers."

Barnard also looks at the broader economic picture in two pieces. First, he asks, "Is Europe ready for a rebound?" and probes Europe's potential for greater-than-expected economic growth this year. Barnard also looks at Europe's drive to deregulate, which he notes is "a powerful weapon in the EU's economic arsenal."

Meanwhile, on the financial front, Axel Krause explores Euronext, detailing the rise of the "upstart pan-European stock exchange" and its attempts to compete with the market heavyweights in London and Frankfurt.

Finally, Sains analyzes the political situation in Sweden and the run-up to elections next fall, and for our readers traveling to Europe, we take you on a tour of the unique Swedish island of Gotland in the Baltic Sea and to Barcelona's annual celebration of Sant Jordi's Day, when lovers trade books and roses.

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

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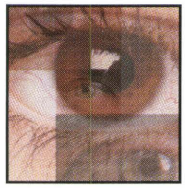


## WHAT TO DO WITH THE PRESIDENCY

In January, Spain took over the presidency of the EU's Council of Ministers for the third time since it joined the European Community in 1986. Quite possibly, it could be the last.

The London-based think tank, the Center for European Reform (CER) has just published a pamphlet that states baldly that "it is time to abolish the EU's rotating presidency." Entitled *Shaping a Credible EU Foreign Policy*, and written by Steven Everts, it states, "After several rounds of enlargement and with the EU assuming a greater role in foreign policy, many of the original reasons for a rotating presidency have disappeared. At the same time, three major problems have become apparent: a lack of continuity, poor external communication, and inadequate credibility."

Everts asserts that incoming presidencies are prone to add their 'pet priorities' to the work program of the Common Foreign and Security Policy (CFSP); however, he fails to demonstrate that this has had a noticeably disruptive effect. He is on stronger ground in arguing that the EU—despite the appointment of Javier Solana as its high representative for the CFSP—still has difficulty in speaking with one voice on foreign policy issues.

He quotes Swedish Foreign Minister Anna Lindh as relating how during the Swedish presidency she wanted to talk to Secretary of State Colin Powell, only to be told that he was already on the line with Solana. She offered to hold the line, only to learn that Commissioner Chris Patten was already holding.

"Finally," writes Everts, "there is the problem of credibility, particularly when a small country with limited diplomatic clout holds the presidency. Non-Europeans simply do not take the EU very seriously when this is the case."

I would make two comments on Everts' analysis. The first is that his criticisms, even if justified, apply exclusively to the CFSP, which is only a relatively small—if highly important—part of the responsibilities of the Council of Ministers. The second is that the solution he proposes is deeply flawed.

In essence, it is to create a permanent presidency led by Solana, or his successors, and staffed by a greatly expanded secretariat, bolstered by national officials on *secondment*. Either that, he suggests, "or an out-and-out *directoire* of the Big Three" (Germany, France, and the United Kingdom).

There is a case for scrapping the six-monthly rotation but for different reasons than those advanced by Everts. It has more to do with the inexorable expansion of EU membership, probably to thirty or more countries by the end of the decade, which would mean that member states would only have the responsibility every fifteen years or so.

By and large, the present system has served the EU well over its forty-four years of existence. National pride is involved, and there is little doubt that successive governments bring a great deal of enthusiasm and ingenuity to the task and that the fresh ideas they bring with them tend to have a positive effect on the development of the Union.

There have, in fact, been remarkably few examples of member states abusing their position by attempting to manipulate the presidency for their own advantage, and these have usually proved counterproductive. The most obvious case was the British presidency under John Major, and one might also mention France, in the second half of 2000, when the outcome of the Nice summit was distorted by what some considered Jacques Chirac's overbearing chairmanship.

The burden of the presidency is, of course, much greater for the smaller states, but they tend to compensate by marshaling their limited resources and making a more determined effort to succeed.

The greatest strain, of course, has fallen on Luxembourg, with its tiny population (less than 400,000), but as a founding member and with its high level of economic and political development, it has risen to the occasion each time and has not noticeably failed to deliver the goods. Whether some of the smaller candidate states, such as Latvia and Malta, could make an equivalent effort is, however, open to doubt, as some of their worried diplomatic representatives acknowledge, in private at least.

The conclusion I draw from this is that member states should not be excluded from running the presidency but should combine their forces in doing so. This was first suggested by Nils Ersbøll, the former secretary-general of the Council of Ministers, who proposed that in the future the member states should be divided up into four or five groups, which would pool their resources in team presidencies, lasting for eighteen months or two years, with different states responsible for chairing and organizing the various subject-specific ministerial councils. Ideally, the teams would mix large and small states, poorer and richer, and those from different geographical regions.

One such combination after the next enlargement could link France with Poland, Slovenia, Denmark, Portugal, and Malta. Another could consist of the UK, Lithuania, Luxembourg, Hungary, Sweden, and Cyprus.

Ersbøll first put forward his proposal seven years ago, and it seems to me that the passage of time has greatly strengthened the case for its implementation. It is very much to be hoped that it will be seriously considered, along with other suggestions for strengthening the presidency, by the constitutional convention now sitting under the chairmanship of former French president Valéry Giscard d'Estaing.

*—Dick Leonard*

# EURO NOTES

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

## DUISENBERG ANNOUNCES DATE FOR HIS DEPARTURE

After months of speculation, Wim Duisenberg has finally revealed the date of his departure from the European Central Bank. He will step down as ECB president on July 9, 2003, his sixty-eighth birthday, having served just more than five years of his eight-year term.

Duisenberg's announcement is a masterly piece of timing, which goes some way to assuring an orderly transition at the ECB. It allows him to preserve the fiction that his early retirement is an entirely voluntary act, while leaving plenty of time for European leaders to agree on a successor.

The favorite is Jean-Claude Trichet, governor of the Bank of France. Four years ago, in May 1998, Duisenberg and Trichet found themselves pawns in an unedifying chess game conducted between France and Germany. President Jacques Chirac, fearing that the future European monetary union would be dominated by Germany, insisted on nominating a Frenchman. Chancellor Helmut Kohl wobbled but finally agreed to stick to Duisenberg, a former governor of the Dutch central bank and the favored candidate of the Bundesbank.

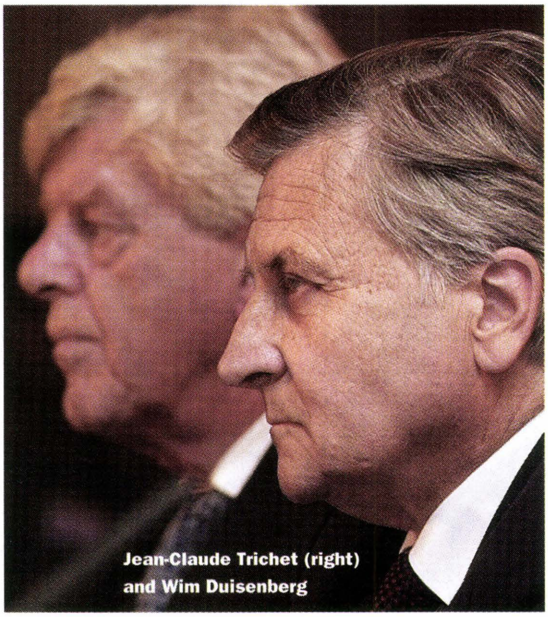
The compromise was a gentleman's agreement whereby Duisenberg agreed to step down mid-way through his term in order to make way for Trichet or another Frenchman. But in order to safeguard the terms of the Maastricht Treaty (and the Dutchman's dignity), Duisenberg was allowed to choose the precise time of his departure.

By electing to leave in July 2003, Duisenberg has stymied Chirac who wanted him out of office before the French legislative and presidential elections this spring. The Dutchman has also come to the rescue of Trichet, widely considered to be the best qualified central banker for the ECB post.

In an ironic twist worthy of a Balzac novel, Trichet has become ensnared in a judicial investigation into his role in what has come to be called "the Credit Lyonnais affair," which goes back to his previous job as director of the French treasury. Credit Lyonnais, then state-owned, squandered hundreds of millions of dollars on bad loans and questionable ventures. Trichet, nominally responsible for bank supervision, has been criticized for failing to disclose the true state of affairs.

Last month, a court hearing allowed the investigating magistrates to continue their inquiry. The ongoing investigation makes it very difficult to nominate Trichet for the ECB job. Unforeseen disclosures could damage the ECB. On the other hand, if the French central banker is given a clean bill of health, the way will be clear for him to take on the job.

This may not immediately satisfy Chirac, who is determined to restore the number of Frenchman in top international jobs. But in general, it seems that all European governments are determined to avoid another damaging spat over the ECB job. "This is a young institution," said a senior European diplomat, "we cannot afford another blow to its credibility."



Jean-Claude Trichet (right) and Wim Duisenberg

One positive sign is that France appears willing to sacrifice its present seat on the powerful six-member ECB executive board, that is the ECB vice presidency held by Christian Noyer, a former top French civil servant. In return, France would receive an implicit guarantee that no one will challenge its right to the top post.

Noyer will step down in May 2002. He is likely to be replaced by a francophone central banker from a smaller country. Insiders are tipping Yves Mersch, the governor of the Luxembourg Monetary Institute, the term used for the Grand Duchy's central bank.

Duisenberg's record to date as ECB president has been patchy. The introduction of the euro on January 1, 2002—the biggest logistical exercise in peacetime in Europe, has been an unqualified success. The institution's monetary policy has been cautious, perhaps too much so. Duisenberg has also suffered from poor communication skills.

Whereas Federal Reserve Chairman Alan Greenspan is studiously elliptic, Duisenberg is blunt to a fault. He has a tendency to shoot from the lip, never being able to resist wisecracks—such as his comment to Didier Reynders, the Belgian finance minister, who was pressing for an interest rate cut. "I can hear, but I do not listen."

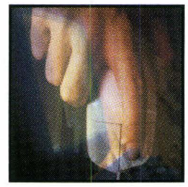
Duisenberg has worn the Maastricht-mandated treaty independence of the ECB as a badge of honor. This may be explained partly by the unfortunate circumstances under which he was appointed. But it is also inherent in his character. He is a man who is never afraid of saying what he thinks, no matter the offense.

Now the talk is of the post-Duisenberg era and reforms to the ECB's decision-making structure and its dual pillar monetary policy. That is certainly something that Britain would push, should a UK referendum on the euro go the right way. Trichet would probably lend a sympathetic ear, too.

*—Lionel Barber*

# e-EUROPE

Tracking the news and trends shaping Europe's technology sector



## DVD IS THE FAIREST OF THEM ALL

VCRs must have known all along that DVD players were coming. Ever worried that the clock would strike midnight on their days as the television's prime electronic partner, their clocks have flashed 12:00 as a stark reminder of their impending obsolescence. Although analysts say the videocassette recorder and the VHS format have considerable life left in them, they agree the electronics industry's new Cinderella is the DVD.

So what makes DVD the belle of the technology ball? Using digital technology (rather than analog), the discs offer several advantages over videotape. They can hold much more information (allowing for sharper pictures and theater-quality sound), are cheaper to produce, and do not deteriorate over time.

The movie industry conceived the Digital Video Disc in the early 1990s as the video answer to the audio Compact Disc. A consortium of electronics makers and film industry representatives agreed on a standard format in 1995, and the first players were sold in Japan twelve months later. The technology was launched in the US in 1997 and in Europe the following year.

Since then, declares Lavinia Carey, the British Video Association's director general, "[DVD] has become the fastest growing consumer product of all time." Alan Giles, chief executive of HMV, the UK-based multimedia retailer, concurs, calling the DVD, "a phenomenal growth machine."

Year-end figures for 2001 appear to bear out such boasts. According to market analyst NPD, falling prices led US consumers to buy more than 13 million DVD players last year, double 2000's total. Meanwhile, British shoppers led the way in Europe. The British Video Association estimates UK shoppers bought 2 million DVD players last year—snapping up 667,000 in December alone. As for Europe at large, Screen Digest, a London-based consultancy, estimates the number of European DVD households jumped to 17 million and predicts that number to rocket to 120 million in five years.

As for the discs themselves, Brits bought nearly 38 million DVDs last year, while in Germany and France sales grew 176 percent and 156 percent, respectively. Blockbuster, the world's largest video rental chain, estimates that 35 percent of its customers own DVD players and is cutting its stores' VHS inventories to add more DVDs.

Further contributing to DVD's growth is the technology's adaptability, allowing it to be used to perform a variety of functions beyond just playing videos. The CD player, until now the prime audio outlet in the living room, is likely to become extinct since most new DVD players also play audio CDs. However, stand-alone DVD players themselves face competition from the newest generation of video game consoles from Sony and Microsoft, which use DVD technology to run games as well as to play movies.

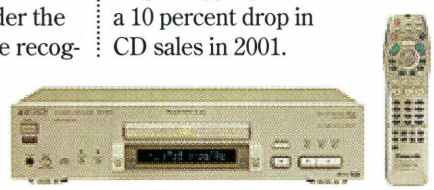
Its current growth notwithstanding, analysts predict that the real DVD explosion will occur when consumers can use them to record television shows, like they can with VCRs. Two electronics giants—the Netherlands' Philips and Japan's Panasonic—introduced DVD player/recorders last year, but their hefty price tags (approaching $1,000) put them beyond the budgets of most consumers. According to Screen Digest analyst John Miller, more models are expected to come to market and prices should fall significantly over the next eighteen months.

Meanwhile, computer makers have also fallen under the DVD spell, as they have recognized the technology's tremendous capacity (far exceeding CD-ROMs), which allows for storing massive computer files, including software programs, photographs, as well as video and audio files. As a result, most top-model PCs now come with a DVD player, and a few, including Apple and Dell, offer DVD player/recorders or "burners."

This widespread popularity has encouraged the DVD industry to change the format's name to Digital Versatile Disc, emphasizing the technology isn't just limited to video.

Although 2001 appears to be the DVD's breakthrough year, Miller cautions that VHS is not dead yet. In fact, the number of VCRs sold each year continues to increase, although the growth is slowing. He says that based on Screen Digest's latest figures, the videocassette business won't begin declining until 2006. By that time, Miller says, there will still be 140 million European VCR households, enough to ensure that distributors will continue releasing feature films on tape for some years to come.

While the electronics industry enjoys the DVD love fest, the movie industry worries whether it's helped unleash a digital monster, opening the way for people to easily copy movies and send them circling the Internet for anyone to download. Already, they've seen how Napster and other music-sharing Web sites have tormented the recording industry, which has said that illegal copying caused a 10 percent drop in CD sales in 2001.



In 1999, a Norwegian teenager wrote and distributed on the Internet a software program that cracked the encryption technology used to keep DVDs from being copied. Since then, other hacker programs have been widely disseminated.

Fortunately for the movie industry, the relative dearth of high-speed Internet connections (required to move the massive movie files) and the fact that most computer users don't yet have a DVD burner prevent the widespread copying of DVDs on-line. Film executives know those barriers are soon to fall and are working feverishly with the electronics companies to come up with a new way to encrypt the discs.

Meanwhile, one can only imagine the next DVD frontier—the kitchen perhaps? If your microwave starts flashing distress signals, you'll know.

*—Peter Gwin*

# 20 to

By John Andrews and Lionel Barber

With several major issues that will shape the future of Europe coming to the fore this year, EUROPE has compiled a list of twenty individuals—ten from the business world and ten from the political arena—to watch as events unfold over the coming months.

# Watch in 2002

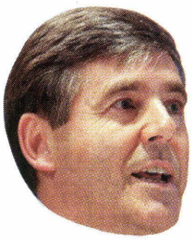
## Individuals shaping the European landscape

# Market Movers

With the European economies tentatively looking to rebound this year, we identify some of the leaders in business and finance who will help determine the financial headlines in the weeks and months to come. By no means is this list exhaustive; rather it is a sampling of some of the key figures who will shape Europe's economy in 2002.

## Josef Ackermann
### Chairman-Designate of the Board, Deutsche Bank

Josef Ackermann is about to take over at the top of Deutsche Bank—and that makes him one of the most closely watched businessmen in Europe. A former Swiss army officer, he is the first non-German to run Deutsche Bank and is intent on ushering in a cultural revolution. This means an end to the collective management style of the post-World War II era and the creation of a strong, US-style chief executive.



Ackermann, who formerly headed Deutsche's successful investment banking division, was named as successor to Rolf Breuer, some twenty months before the latter was due to step down. He will take over in May.

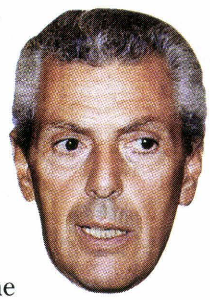
Ackermann's elevation owes something to Breuer's failure to pull off a merger with arch rival Dresdner bank in 2000. But it also marks a deliberate attempt to break away from the cozy model of German capitalism and embrace something closer to the Anglo-Saxon model.

Insiders are betting that Ackermann will strengthen his power base at Deutsche by appointing Young Turks in the London-based investment banking division to top jobs. This will give the "young, powerful, and very rich" a say in running the bank. Such a step would be the first toward sealing Deutsche's transformation from a traditional German lender to a global financial institution.

## Marco Tronchetti Provera
### Chairman, Pirelli

Last year, Marco Tronchetti Provera catapulted himself into the premier league of Italian capitalists. The chairman of Pirelli, the tire and cable company, organized a successful bid for Telecom Italia. Tronchetti Provera prevailed by teaming up with Benetton, the family clothing empire. They bought a controlling stake in Olivetti, the holding company that owns 55 percent of Telecom Italia, for a mere $6.1 billion in cash—and thus gained control.

The highly leveraged bid aroused controversy, but it underlined Tronchetti Provera's determination to sit alongside the Agnellis, the Benettons, and the Berlusconis at the top table of Italian business.

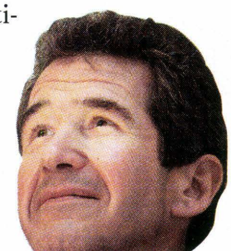


Tronchetti Provera first came to prominence when he married into the Pirelli family. Tall and athletic, he spends most of his holidays on a sleek eighty-two-foot yacht off Sardinia and Portofino. He earned his spurs as chief executive of Pirelli in the early 1990s when the tire company benefited from the turnaround at automaker Fiat. Pirelli diversified into telecommunications and optical equipment, and Tronchetti Provera netted a huge personal bonus on the sale of an optical components business to Corning in the US. Now the crown prince of Italian capitalism, he must prove he has the management skills to manage life after the telecom bubble.

## John Browne
### Chief Executive, BP

Regularly voted one of Britain's most talented executives, Sir John Browne has pulled off several stunning deals that have turned BP into one of the top-tier world oil companies.

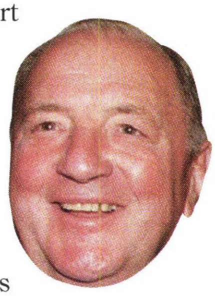
Sir John's advice is regularly sought at the highest government levels. Best known for his low-key style and his immaculate dress, he can easily be underestimated. But once he opens his mouth, the audience listens.



Sir John made his reputation in 1999 and 2000 when he spotted the opportunities for acquisitions in a world of low oil prices and high operating costs of his competitors. First, he snapped up Amoco for $57 billion, and later, he swooped on Arco for $26.8 billion in shares, as well as the smaller purchase of Burmah Castrol.

BP now has the geographical reach—and the serious US presence—to present the case to governments to take on the really big projects, whether it be liquefied natural gas terminals in China or gas projects in Saudi Arabia. Sir John has become one of the most powerful exponents of the theory that size matters, particularly in the oil business. In his world, being number one is what matters.

## Albert Frère
### Belgian Financier



Born into a family with a small nail-making business in southern Belgium, Albert Frère has been one of the most influential financiers in Europe over the past twenty years. A consummate dealmaker, Frère's interests range from banks and energy to media and steel companies. He embodies the distinctly Belgian system of capitalism where businesses have traditionally been controlled, diversified holding companies rather than institutional and small investors.

Critics say that these parents have often neglected their offspring's needs to grow—or were too often willing to sell out to the highest bidder. Frère's answer is that successive Belgian governments failed to create the thriving stock market capitalism of London or New York. Whatever the case, Frère has exerted enormous influence over the fate of famous European companies, including Suez, the utilities group; CLT-UFA, Europe's biggest commercial broadcaster; Petrofina, once Belgium's flagship oil company; Tractabel, another utility group; to Banque Bruxelles Lambert; and Royale Belge, the country's number-two insurer.

Now in his seventies, Frère says he does not intend to give up his business dealings anytime soon in favor of focusing on his other favorite pastimes, his wine cellar and collection of Magrittes.

## Henri de Castries
### Chief Executive, AXA

A graduate of the elite Ecole Nationale d'Administration, Henri René Marie Augustin de la Croix de Castries recently took over as chief executive of AXA, one of the world's largest insurance groups. He succeeded to the top job eighteen months ago, taking over from the legendary Claude Bébéar, who built AXA from a small firm in northern France into a global insurer with such aggression that he was known as "Crocodile Claude."

De Castries (the i is silent) is a history buff with a ruthless determination to succeed at AXA, which has 50 million customers and 100,000 employees worldwide. He is looking particularly at the growing life assurance business among Europe's ageing population, while offering corporate customers potentially lucrative products covering risk with food safety.

The ultimate test will be whether AXA can squeeze more organic growth out of the Bébéar empire he inherited and whether he can keep pace with the other two main European insurance groups, Allianz of Germany and Generali of Italy.

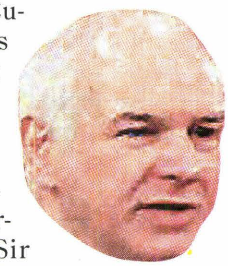
## Peter Sutherland
### Chairman, Goldman Sachs International

The ultimate Irish networker, Peter Sutherland is a former EU commissioner, director general of the GATT and the World Trade Organization, and now the public face of Goldman Sachs investment bank in Europe. Sutherland combines a gregarious sense of humor with a keen political nose and a ruthless determination to protect Goldman's leading role in deal making in Europe.

He is well skilled in dealing with the media and counts many leading politicians among his personal friends, notably Romano Prodi, president of the European Commission. Among numerous international honors, Sutherland ranks as a Chevalier, Legion d'Honneur (France), and he holds the Grand Cross, King Leopold II (Belgium); the Order of Infante Dom Henrique (Portugal); and the Grand Cross of Civil Merit (Spain).

Sutherland is based at Goldman Sachs London headquarters on Fleet Street but is a regular traveler, maintaining close contacts with the US and Hong Kong. Many believe he would have made an outstanding president of the European Commission, having served first as competition commissioner and then as GATT secretary general when he helped to broker the Uruguay world trade round. But coming from the small country of Ireland without a strong domestic political base, he missed out and decided to exercise his powerful influence from within Goldman Sachs.

## Howard Davies
### Chairman, Financial Services Authority



Sir Howard Davies counts as the most powerful financial regulator in Europe. When he speaks the City of London and other European financial centers listen. As chairman of the United Kingdom's Financial Services Authority, Sir Howard has the power to crack down on financial crimes, particularly money laundering, insider trading, and other forms of "market abuse." In this position, he serves as an integrated regulator who can police everything from stockbroking to insurance and banking, as well looking after the interests of consumers.

Aged fifty-one, Sir Howard is a native Mancunian and graduate of Oxford and Stanford Business School. He served in Whitehall and in the Foreign Office and the Treasury before moving to director general of the CBI employers' federation and deputy governor of the Bank of England. He has been the head of the FSA since 1997, and many tip him to move on soon to head the British Civil Service, Tony Blair's cabinet office, or the Bank of England.

## Paul Achleitner
### Chief Financial Officer, Allianz

Paul Achleitner is at the head of the cultural revolution sweeping corporate Germany. As chief financial officer of Allianz, the giant German insurance company, Achleitner pioneered the takeover of Dresdner bank, which created a new *bancassurance* force in Germany and Europe.

Achleitner, a dealmaker par excellence, spent many years in the US with Goldman Sachs and speaks English with a Swiss-American accent. He returned to Europe and soon put together the Allianz-Dresdner takeover. As such, he has supported the creation of a new German capitalism model that is more open and emphasizes the influence of capital markets and the Anglo-American form of corporate governance.

His arrival in Munich coincided with the German government's plans for reforming the capital gains tax, which passed the parliament in December 1999 and the upper house in summer 2000. The reforms encourage the disposal of cross-shareholdings (a holdover from the late nineteenth century), which are seen as the key to restructuring German capitalism.

## Jorma Ollila

### Chairman, Nokia

The dot-com bubble may have burst, but Jorma Ollila is still the most watched businessman in the telecommunication sector. As boss of Nokia, the phenomenally successful Finnish mobile phone company, Ollila, with little more than a word, can move a market from Barcelona to Budapest,via London, Frankfurt, Paris, and Stockholm.

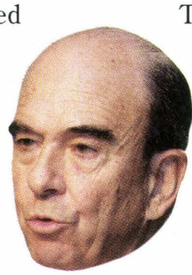
Nokia used to make everything from tires to toilet paper. But in 1991, after the collapse of the Soviet Union, Nokia became a dedicated maker of mobile phones and its market value soared 140 fold. At one point, it accounted for almost 25 percent of the Finnish stock market.

Aged fifty-one, Ollila, a graduate of the University of Helsinki and the London School of Economics, is one of the most gifted businessmen of his generation. His talent has been to match brilliant marketing with ground-breaking technology. He has eclipsed not only Ericsson, his main Scandinavian competitor, but also has given Motorola, the US giant, a fabulous run for its money.

## Emilio Botin

### Chairman, BSCH

Few would doubt that Emilio Botin is the most powerful banker in Spain. He heads Banco Santander Central Hispano (BSCH), which is both Spain's biggest bank and the largest in southern Europe, and rules it with an iron fist.



Three years ago, Botin, now aged sixty-eight, pulled off a supposed merger of equals between his Banco Santander and Central Hispano. However, it was soon very clear that Botin, whose grandfather held the reins of the 145-year-old Santander from 1950–1986, would brook no rivals.

Moving swiftly, he has purged the senior ranks of BSCH, which employs 130,000 people on both sides of the Atlantic and has $306 billion in assets. He is now intent on unifying brands, cutting costs within the banking group, and making sure that Santander comes out on top.

Botin's story underlines that dynasty still plays an important role in modern Spanish capitalism. He sees little difference between being the manager of the bank and being its owner, perhaps because for most of his life he has combined both roles. His daughter, Ana Patricia Botin, appears positioned to carry on the family tradition. In February, she was named head of BSCH's Banesto subsidiary. ⓔ

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

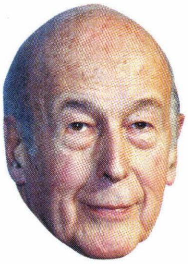
# Political Personalities

Consider the landmark political events unfolding in Europe in 2002—just at the EU level there are the introduction of the euro notes and coins, the opening of the EU's constitutional convention, and the advancing membership negotiations with several nations. Beyond these, there are the ground-breaking war crimes trials in the Hague, the continued debate on globalization, the launching of a new trade round, not to mention the war on terrorism. Certainly, it will be a notable year in the history books. With this in mind, we profile a few of the people who will offer distinctive voices in those arenas.

## Valéry Giscard d'Estaing

### President, EU Convention on the Future of Europe

Valéry Giscard d'Estaing, president of France from 1974 to 1981, is back in the limelight at the age of seventy-six, chosen by the EU's heads-of-government as president of the EU Convention on the Future of Europe, the body that will prepare the ground for the 2004 intergovernmental conference on who does what in an enlarged European Union. Giscard, the snipers say, is determined that this new presidency should command the same respect and perks as other presidencies—notably that of the Commission. But even the critics concede the intellectual brilliance of Giscard, founding father of France's centrist UDF party. And no one can doubt his devotion to the European cause. Along with Helmut Schmidt, the German chancellor of the day, Giscard in the 1970s was both a constant advocate of Franco-German friendship as the motor of Europe and an originator of the drive toward the European single currency. In other words, he could be the perfect man for the job: an idealist who is also a pragmatist.



## Tony Blair

### Prime Minister, United Kingdom

The UK has always been the European Union's "odd man out," but could the leader of a socialist party massively returned to power last year by the electorate, change all that? Quite possibly. The UK's Oxford-educated, French-speaking, and youthfully dynamic (he is a mere forty-eight) prime minister has a star quality that his peers in Europe both respect and envy. Already they credit him with smoothing over the problems created by the EU-skeptic Conservative governments of John Major and Margaret Thatcher.

But the big challenge will be for Blair to persuade the electorate, despite press opposition and the misgivings of his own finance minister and central bank governor, to adopt the euro. In the meantime, he has other ideas to push: Let Britain be not just Europe's bridge to America but also a member, with France and Germany, of a permanent body—a bit like the permanent five on the UN Security Council—to oversee the EU's affairs. Not a plan likely to go down with most EU states, but one that might yet go down well in Paris and Berlin.

## Joschka Fischer

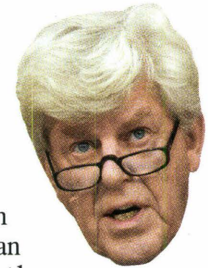
### Foreign Minister, Germany

Joschka Fischer was once a street-fighting, overweight, leftwing radical. Now, at the age of fifty-three, the witty Fischer is Germany's urbane—and slim—foreign minister and the leading light of its Green Party. More to the point for the rest of Europe, he is a constant fount of ideas for the future structure of the European Union—witness his speech in May 2000 at Berlin's Humboldt University, entitled "From Confederacy to Federation: Thoughts on the Finality of European Integration." Using federal Germany as his model, Fischer's thoughts mean a truly federal union with its own European government and a much smaller role for the nation state.

## Wim Duisenberg

### President, European Central Bank

More than the politicians, it could yet be Wim Duisenberg (not even his officials call him by his proper names, Willem Frederik) who sets the future tone of the European Union. The Dutchman has raised plenty of eyebrows—and swayed the financial markets—with incautiously expressed comments since his appointment in June 1998 as the first president of the European Central Bank, the man ultimately in charge of the euro zone's interest rates. On the other hand, the launch this year of euro notes and coins went very smoothly, and no one doubts Duisenberg's qualifications: a first-class academic career in the Netherlands; a stint at the IMF in Washington; and a spell as finance minister when the Socialist Duisenberg's hard-money policies turned the "Dutch disease" of the early 1980s into the "Dutch miracle" of the late 1990s.

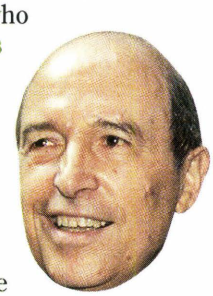


The big question used to be how long Duisenberg would stay at the helm. When he was appointed for an eight-year term, the French said there was a gentleman's agreement that he would step down this year to make way for Jean-Claude Trichet, governor of France's central bank. Duisenberg always denied the deal but has finally said he will step down in July next year, on his sixty-eighth birthday. That, of course, still leaves him with plenty of time to move the markets. The big question now is which way.

## Costas Simitis

### Prime Minister, Greece

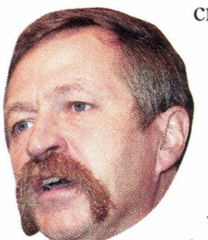
There is one subject on which most Greeks are hypersensitive: namely Turkey, their giant neighbor. In other words, Costas Simitis, Greece's Socialist prime minister since 1996, has a tricky task as the EU considers whether or how to admit into membership Cyprus, which is divided between Greeks and Turks and with its northern half occupied by Turkey since 1973. In theory, an unhappy Greece could take the whole enlargement process hostage. Optimists, however, point out that Simitis, a sixty-five-year-old former law professor, is a strong-willed pragmatist who knows how to bargain (as minister of agriculture in the 1980s he oversaw the integration of Greek farming into the Common Agricultural Policy). Moreover, the polyglot Simitis (who apart from his native Greek speaks German, French, and English) is no narrow-minded populist. The main reason Greece was able to join the euro zone in June 2000 is that Simitis persuaded his countrymen to endure some sustained economic discipline.



## José Bové

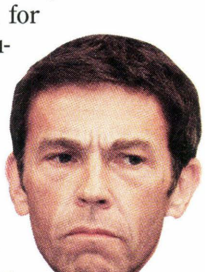
### Leader, Confédération Paysanne

With his luxurious moustache and trademark pipe, José Bové is a foreigner's caricature of a French peasant farmer. Appearances, however, are deceptive. Bové, leader of France's Confédération Paysanne, is probably Europe's most media-savvy campaigner against a globalization that he contends will Americanize the world to the benefit only of giant multinationals. To make his point, the forty-seven-year-old Bové specializes in direct action, tearing down genetically modified crops, for example, or vandalizing the site of a McDonald's restaurant. When the World Trade Organization met in Seattle two years ago, Bové was there in protest, brandishing a Rocquefort cheese in defiance of America's customs regulations. But do not dismiss Bové as a figure of fun when it comes to trade negotiations between the EU and the rest of the world. He is one of the most popular men in Europe, and French politicians line up to compliment him. Moreover, America is not his only target; he also has taken aim at the EU's Common Agricultural Policy—anything, in short, that smacks of industrialized farming. Ironically, it may have been America that radicalized Bové, who as a child lived in California while his academic parents were working at Berkeley.



## Jörg Haider
### Governor, Austrian Province of Carinthia

Is Jörg Haider a bogyman to be feared—or simply ignored? Ever since the telegenic, fifty-two-year-old leader of Austria's Freedom Party secured a place in government for the far right in February 2000, the European Union has been struggling to answer the question. Indeed, the first response was for the fourteen other EU states to boycott Austria—and Haider's resignation as party leader a few weeks later has not stilled their unease (cynics reckon Haider, governor of the province of Carinthia, remains the real power in the party). Arguably, the question will become more acute, with Haider—who once praised the employment policies of Nazi Germany and who described the SS as "a part of the German army which should be honored"—becoming a role-model for far-right politicians elsewhere in Europe. Indeed, some Austrians note that they were pilloried for Haider, but Italy has managed with barely a hint of criticism to integrate extreme right wingers into its government.

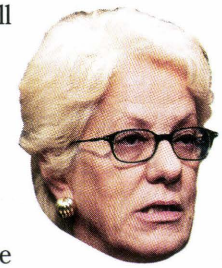


## Silvio Berlusconi
### Prime Minister, Italy

There is no European leader better dressed, more smoothly turned out, than Italy's Silvio Berlusconi. After all, in his youth Italy's prime minister was once a cruise ship crooner. Since then Berlusconi, whose trim figure belies his sixty-five-years, has created Italy's biggest fortune—based on real-estate and television channels—and his own center-right political party, Forza Italia. The result is perpetual controversy for a man who became prime minister for a brief period in 1994 and then again last year. What matters for the European Union, however, is not the judicial entanglements attached to some of Berlusconi's business activities, but his vision for Europe. One thing is for sure: unlike all his predecessors, he is not an instinctive advocate of ever closer European integration. In January, he sacked his foreign minister, Renato Ruggiero, for being too "pro-European," and took on the job himself. No one, he explained, should question Italy's European credentials, but they should certainly expect Italy to make its voice heard in defense of its own interests.

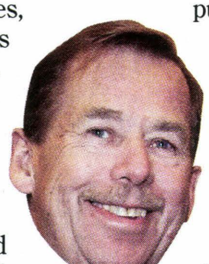
## Carla del Ponte
### Prosecutor, International Criminal Tribunal

When Slobodan Milosevic, the disgraced president of Yugoslavia, was finally brought to the Hague to stand trial before the International Criminal Tribunal for the Former Yugoslavia, Carla del Ponte, the court's diminutive Swiss prosecutor, must have silently exulted in her victory. More than anyone, the fifty-four-year-old, chain-smoking Del Ponte now represents Europe's conscience, relentlessly pursuing the alleged war criminals of the Balkans conflict—and in the process serving warning on any future atrocity makers. That warning should be taken seriously. Del Ponte has proved she is afraid of no one—witness her investigations into the Italian and Russian mafias and the Colombian drug cartel when she was Switzerland's attorney-general and her decision to name Russia's President Boris Yeltsin as an accomplice of Russia's crime syndicates.



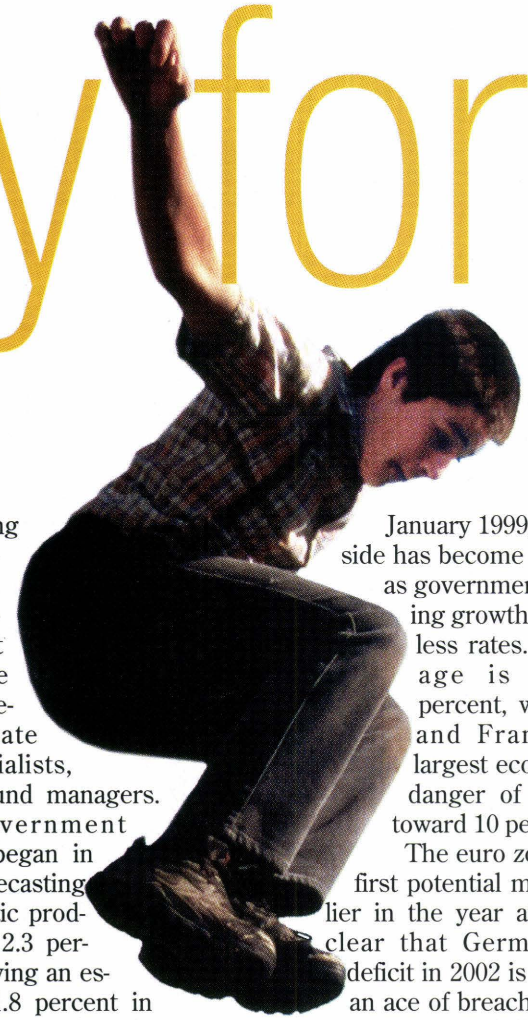
## Vaclav Havel
### President, Czech Republic

The Czech Republic will surely be among the first of the candidate countries to enter the European Union, and for that it should thank its remarkable post-communist president, Vaclav Havel. The sixty-five-year-old native of Prague has had three extraordinary careers: as a political dissident, as a playwright, and as president—first of Czechoslovakia and then, after the peaceful secession of Slovakia, in successive terms of the Czech Republic. Throughout, Havel, the son of a prominent family of intellectuals and entrepreneurs, has been his nation's moral conscience, spending almost five years in prison for his defense of human rights (he was a founder of the Charter 77 movement, which laid the seeds for the fall of communism more than a decade later in the Velvet Revolution of 1989). For Havel, dogged by ill health in recent years, his country's membership in the EU will be more than just an economic triumph; it will be a guarantee for freedom and democracy.



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

# Ready for a



## Fears of a

By Bruce Barnard

The European Union's high-risk gamble on a common currency is facing a critical moment as the twelve member countries of the euro zone struggle to grow their economies against the backdrop of a global slowdown that could easily slide into recession. The stakes were raised on January 1 when the euro ceased being a virtual money as bills and coins entered circulation replacing all twelve domestic currencies as legal tender at the end of February.

The EU is embarking on a huge and unprecedented experiment at a time when the national euro-zone economies have almost ground to a halt and are unlikely to start growing again until the second half of the year. After expanding by 3.4 percent in 2000, the fastest rate in a decade, the euro zone grew by only 1.6 percent in 2001 and almost skidded to a halt toward the end of the year. Worse, Germany, the euro zone's locomotive economy accounting for a third of its output, turned in the worst performance, growing a miserly 0.6 percent last year, the smallest rise since the recession of 1993 when its GDP shrank by 1.1 percent.

Fears have eased that the euro zone would slide into recession after the September 11 terrorist attacks in the US deepened the global slowdown that started six months earlier. However, much uncertainty remains about the size, timing, and durability of the recovery.

There are gaping differences between the generally more optimistic government forecasts and the more bearish predictions of private bankers, industrialists, and investment fund managers. The Italian government claims recovery began in January and is forecasting real gross domestic product will grow by 2.3 percent in 2002 following an estimated gain of 1.8 percent in 2001. That is far greater than the Organization for Economic Cooperation and Development's 1.2 percent forecast, which is backed by private economists. France's independent economists reckon the economy will probably expand by 1.3 percent this year, well below government estimates.

The economic slowdown is providing the first big test for the euro zone because its members have given up two key economic instruments—varying domestic interest rates and devaluing national currencies—that were traditionally used to manage and fine-tune national economies. This wasn't a big problem when the euro zone was enjoying relatively strong growth following the euro's launch in January 1999, but the downside has become more apparent as governments watch slowing growth ratchet up jobless rates. The EU average is around 8.5 percent, while Germany and France, the two largest economies, are in danger of heading back toward 10 percent.

The euro zone defused its first potential major crisis earlier in the year after it became clear that Germany's budget deficit in 2002 is moving within an ace of breaching the ceiling of 3 percent of GDP that could trigger massive fines running into billions of euros under the EU's so-called "stability and growth pact." Only four euro-zone countries—Austria, Belgium, Finland, and the Netherlands—backed the attempt by Pedro Solbes, the EU finance commissioner, to issue Germany with a formal "early warning." Portugal, which was also under threat from the Commission, was let off the hook too.

Although the crisis was defused after Germany gave solemn commitments that it will not breach the 3 percent limit, the episode has soured relations between Berlin and Brussels.

Ironically, Germany was the main

# Rebound?

## ecession are subsiding but questions linger about Europe's recovery

architect of the stability pact, which was designed to ensure that countries like Italy that have a history of irresponsible fiscal policies and a weak currency would not undermine the euro. However, Germany is the only EU country that has overshot its deficit target, which is agreed upon with the EU, for two successive years. While Germany remains the "sick man" of Europe, signs have emerged recently that its economy finally is recovering from last year's recession, with its export-oriented firms set to benefit from quickening economic growth in the United States.

On the plus side, the changeover to euro notes and coins proceeded almost flawlessly, and the new money is well established with retailers and consumers. The European Central Bank says the switch to euros could have a negative short-term impact on inflation, but increased competition between businesses will lower prices in the longer run.

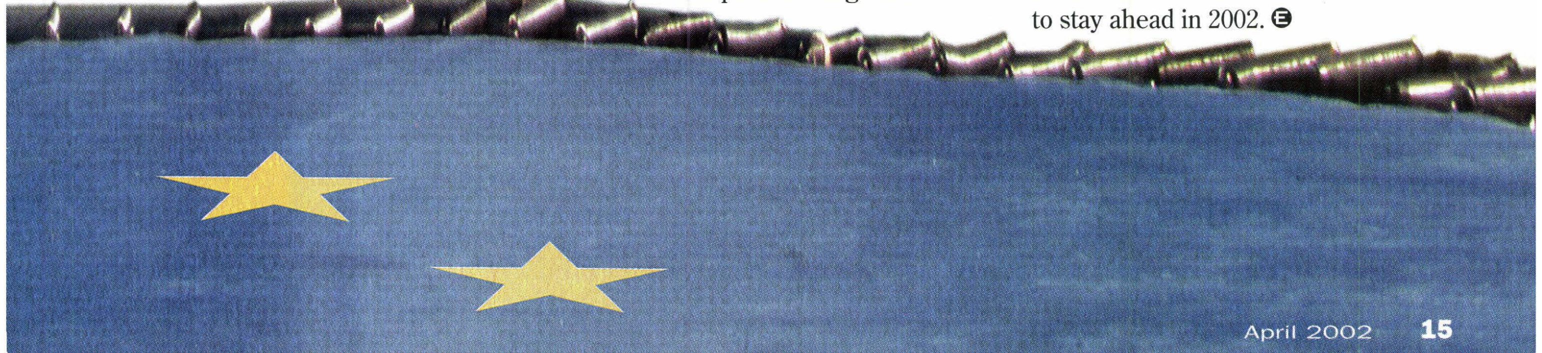
The arrival of the "real" euro is already having a positive impact on company strategy. For example, Japan's Canon, one of the world's biggest manufacturers of cameras and photocopiers, says it will cut its European distribution costs by 20 percent in the next two years partly due to changes linked to the introduction of the new currency. Using the same currency across most of Europe, coupled with moves to harmonize prices, will allow the firm to halve the number of European warehouses, which, added to lower costs for administration and handling orders, could deliver savings up to $263 million a year.

Many believe the euro likely will strengthen this year, recouping some of its 25 percent loss in value against the dollar since its launch on January 1, 1999. The decline largely was due to the huge outflow of funds across the Atlantic—euro-zone companies and investors spent more than $450 billion making acquisitions or buying bonds and stocks in the US over the past three years. But cash began flowing in the other direction in the second half of 2001, with nearly $90 billion net moving into euro-zone equities between July and November, and the inflow is continuing as investors question whether the US economy has really bottomed out.

Not that a weak euro has done much damage to the euro-zone members. In fact, it has made their products more competitive on world markets, especially compared with dollar-priced goods. Its weakness helped German exports grow by 5.1 percent in 2001 when world trade was faltering, following a 13.2 percent surge in 2000.

The struggle to qualify for euro membership also has made several EU countries much better placed to survive the global economic downturn. Spain's radical program of privatization, deregulation, and labor market reform, coupled with cuts in public spending, launched by Prime Minister Jose Maria Aznar when he came to power in 1996 has transformed the country into one of the EU's fastest-growing economies, which is responsible for one of every four new jobs created in Europe over the past five years.

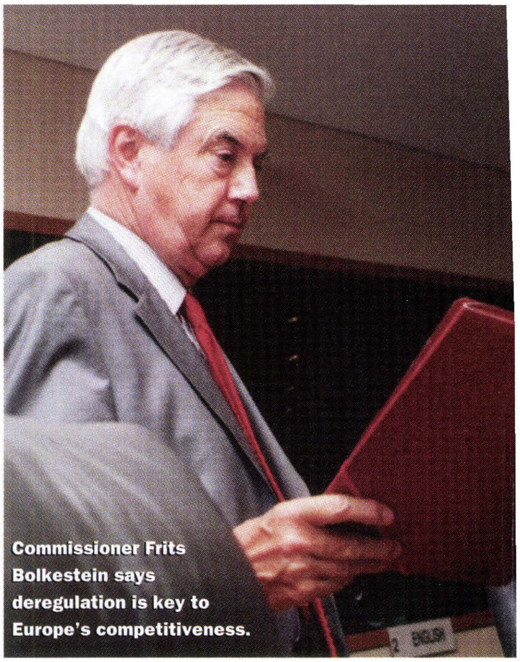
While the euro zone's core economies, especially Germany and Italy, have performed poorly, its smaller members have prospered, partly because they have embraced deregulation and labor market reforms. Ireland remains among the fastest expanding Western economies after a decade of explosive growth. the Netherlands has shaved unemployment to just more than 2 percent, and Finland displaced the US as the world's most competitive economy in the latest annual rankings by the World Economic Forum. Meanwhile, Europe's star economy, the United Kingdom, isn't a member of the euro zone and is unlikely to join for at least four to five years, if at all. It grew faster than the other leading G7 economies in 2001 for the first time since 1986 and looks set to stay ahead in 2002.



BUSINESS & ECONOMY

By Bruce Barnard

# Freeing Europe's Economy


Commissioner Frits Bolkestein says deregulation is key to Europe's competitiveness.

**Deregulation could save Europeans billions but proponents worry the drive to cut red tape is running out of steam**

European Union leaders recharged their campaign to transform the fifteen-nation bloc into the world's most dynamic and competitive economy in 2010 at the Barcelona summit in mid-March with renewed commitments to deregulate key business sectors. The EU launched its deregulation blitz two years ago at the so-called "dot com" summit in Lisbon in a determined bid to narrow the widening technological and productivity gap with the United States that threatens to relegate it to permanent second place in the race for global markets.

Deregulation is a powerful weapon in the EU's economic armory. Back-of-the-envelope calculations suggest that opening up markets, from gas and electricity to financial services, and removing bottlenecks and red tape would deliver savings to European companies and consumers well in excess of $200 billion a year.

But after an initial burst of activity, the deregulation drive is running out of steam as EU governments and vested interests block or slow down market-opening measures, fueling fears that the gap with the US will widen, not narrow, in the next few years.

That is already happening thanks to the United States' decade-long "economic miracle," which saw annual growth remain above 3 percent while the EU average hit that target only once. As a result, by 2001 per capita gross domestic product in the EU was less than two-thirds the US level—the biggest gap since the 1960s.

Yet the commitments at Barcelona likely will remain no more than commitments for the next six months as the EU's two biggest economic powers face national elections, France in April-May and Germany in September, and their ruling parties will be loath to adopt radical measures that could cost them votes. A slowing European economy and rising unemployment also have blunted policymakers' appetite for change.

The EU has gone a long way to mounting an effective challenge to the US by forging a single market between its fifteen national economies and successfully launching a common currency that is now the sole legal tender in twelve member states of the euro zone. However, more than eight years after the creation of the single barrier-free market, some key sectors remain in the grip of national monopolies sheltering behind protectionist barriers while others lack EU-wide regulations.

"Old protectionist reflexes have tended to block progress on a number of key files. Member states are strong on rhetoric but short on action," according to Frits Bolkestein, the European commissioner responsible for the single market. "Without structural reform to unleash the full potential of the [single] market, we will fall well short of meeting our objective of becoming the most competitive economy in the world."

Europe's leading businesspeople want EU policymakers to match their words with action. In an open letter to Prime Minister Jose Maria Aznar of Spain, the current EU president, the leaders of the major business federations, including the German Federation of Employers and the Confederation of British Industry, warned that "the very credibility of the process [to make Europe more competitive] is at stake."

To be sure, the EU has made significant progress in dismantling barriers, but it needs to speed up decision-making and implementation to keep up with the rapid pace of globalization. EU ministers reached agreement in December on opening up local markets for telephony and Internet access. An agreement to deregulate postal services means that 50 percent of this $90 billion-a-year business will be open to competition by 2006. EU governments adopted a legal framework for e-commerce, and steady progress is being made implementing the Financial Services Action Plan, which contains forty-two measures aimed at the creation of a deep and liquid financial market across Europe. Furthermore, late last year after more than thirty years of debate, the EU finally passed legislation to allow firms to operate throughout its fifteen member states as a single legal entity. This will enable companies to expand and restructure their cross-border operations without the costly and time-consuming red tape involved in setting up subsidiaries.

Nevertheless, Europe's leaders received a rude wake up call on the eve of the Barcelona summit from a

European Commission report warning that the use of the Internet in the EU was in danger of grinding to a halt just two years after the Lisbon summit launched a drive to "accelerate Europe's transformation into an information society." It estimates the EU is losing an average 0.3 to 0.5 percentage points of annual growth compared to the US because of a lack of investment in information technology.

Meanwhile, deregulation programs are stalling or have come to a halt. The EU's electricity and gas markets are only partially opened to cross-border competition because France, home to the world's biggest electricity firm, EdF, has blocked efforts to set a final date for full liberalization. However, EdF recently dropped its opposition to liberalization raising hopes the EU can now make progress toward an open market, at least for industrial consumers.

EU leaders vowed to have a common European patent in place by the end of 2001, but the deadline passed with governments still haggling over which languages should be used and national patent offices fighting turf wars. As a result, EU companies "are faced with a situation where they have to pay three to five times more for European patent protection than their US or Japanese competitors," observes Bolkestein.

In another serious setback last year, German members of the European Parliament blocked a proposed EU directive to harmonize takeover rules and boost shareholders' powers after coming under pressure from German labor unions and firms like Volkswagen that are worried about becoming the target of a hostile takeover bid, particularly from abroad.

The EU also has a long way to go to create a genuine single market in public procurement—the purchases made by central and regional governments and public bodies of everything from school desks to hospital equipment to garbage trucks. At present, barely 10 percent of public contracts involving goods and services are sourced from other member states, although the Commission reckons opening up public tendering would deliver potential savings of more than $43.6 billion a year.

Even greater savings would flow from the creation of a single market in services, which provide two out of every three jobs in Europe. "Europe's employment and productivity gap with the US can almost entirely be explained by persisting rigidities in our services markets," says Bolkestein, a former executive with oil giant Royal Dutch Shell. The Commission believes eliminating barriers to cross-border trade in business services alone could lift the EU's gross domestic product by between 1.1 percent and 4.2 percent.

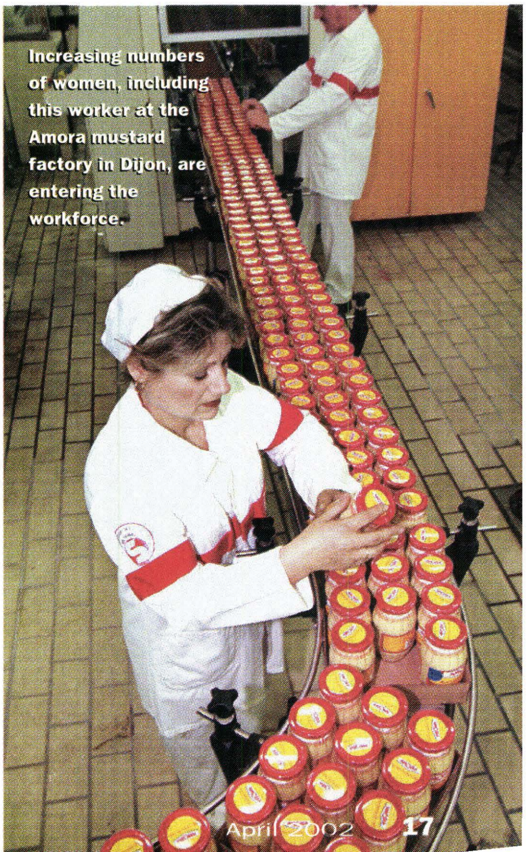
The Commission says Europe's multinationals are burdened by having to comply with fifteen separate sets of tax rules and suggests the EU establish a common consolidated tax base over the long term. It is also calling for an improvement in the quality of business regulation, which, it says, would save European companies more than $40 billion annually.

More worrying, the EU has been slow to reform its rigid labor markets, viewed by many as the biggest drag on its economic performance and the main cause of its high jobless rates compared with the United States. Federal Reserve Chairman Alan Greenspan reckons the euro's persistent weakness against the dollar reflects the widespread belief among investors that productivity growth will be greater in the US than in Europe because dismissing workers in the US is cheaper and easier so American firms have more freedom to pursue labor-saving and productivity-improving technologies and management techniques. It's a view long shared by European investment bankers and now increasingly aired in public by central bank officials like Otmar Issing, the ECB's chief economist who says the euro's exchange rate will reflect the progress made in implementing the program of the Lisbon "dot com" summit.

EU countries like the United Kingdom and the Netherlands that moved toward the more flexible hire and fire culture of the US have been rewarded with jobless rates lower than the US while the EU average has been nearly double. But Europe isn't about to embrace a US-style labor market. Prime Minister Lionel Jospin of France has argued that after spending a decade creating a single market the EU should switch its emphasis to creating a "social Europe." He has pushed through controversial legislation, notably the thirty-five-hour working week and laws making it more expensive to fire employees. Germany's finance minister, Hans Eichel, dismisses the idea of a radical revamp of one of Europe's most regulated and protective labor markets. Germany, he claims, has created 500,000 new jobs since 1999, and the unemployment figures have been inflated by the increasing number of women entering the workforce.

There is evidence, however, that the arrival of the euro has helped to reform Europe's labor market, according to Sirkka Hamalainen a member of the European Central Bank's executive board. Labor flexibility had improved and wage settlements had become more moderate since the currency was introduced in January 1999." This movement had already started well before the introduction of the euro but has now become more visible," according to the Finnish banker.

To be sure, Europe's policymakers are apprehensive about embarking on a new deregulation drive, but they are acutely aware that time is fast running out to free the EU economy to give it a fighting chance to pull even with the United States. ⓔ



Increasing numbers of women, including this worker at the Amora mustard factory in Dijon, are entering the workforce.

By Axel Krause

# Euronext

## Can the upstart pan-European stock exchange compete with the London and Frankfurt heavyweights?

For more than 160 years, the floor of the Paris Bourse was a hectic, noisy place, as traders used the *criée*, or auction outcry, method for trading stocks and bonds, forming a smaller, French version of the New York Stock Exchange. Today the floor in the Right Bank Brongniart Palace is empty and eerily silent, except during the occasional conference or reception. The scene is similar at the downtown Brussels Bourse, while the 400-year-old Amsterdam exchange is winding up floor-trading operations and Lisbon is in the midst of starting the process—merging into Euronext, Europe's first, integrated, computerized, cross-border market for stocks, bonds, derivatives, and commodities.

Two years ago, Frenchman Jean-Francois Théodore, a hard-driving former civil servant and head of the Paris Bourse since 1990, spearheaded the merging of Paris with the Brussels and Amsterdam exchanges. Earlier this year, the far smaller Lisbon-Porto exchange announced it was joining, and fully linking, its operations to Euronext's computerized trading platform and other investor services. "We both share the same vision of a leading pan-European exchange," Théodore, Euronext's chairman, said, "respecting domestic regulatory frameworks, being more competitive...and providing investors with a wider pool of liquidity."

While stronger, Euronext faces powerful, determined, not-exactly friendly competition from the independent-minded Deutsche Börse in Frankfurt; the preeminent London Stock Exchange (LSE), and to a lesser degree, rivalry from half a dozen smaller but merger-skeptical, or preoccupied, exchanges, notably Madrid, Milan, Zurich, and Stockholm.

Although approved by the Council of Ministers, the European Commission's Financial Services Action Plan, which was put forth in 1999 to streamline and integrate EU financial services by 2005, is creeping forward amid political wrangling among EU policymakers in Brussels and Strasbourg and faces many barriers, such as separate governmental regulatory systems and market structures.

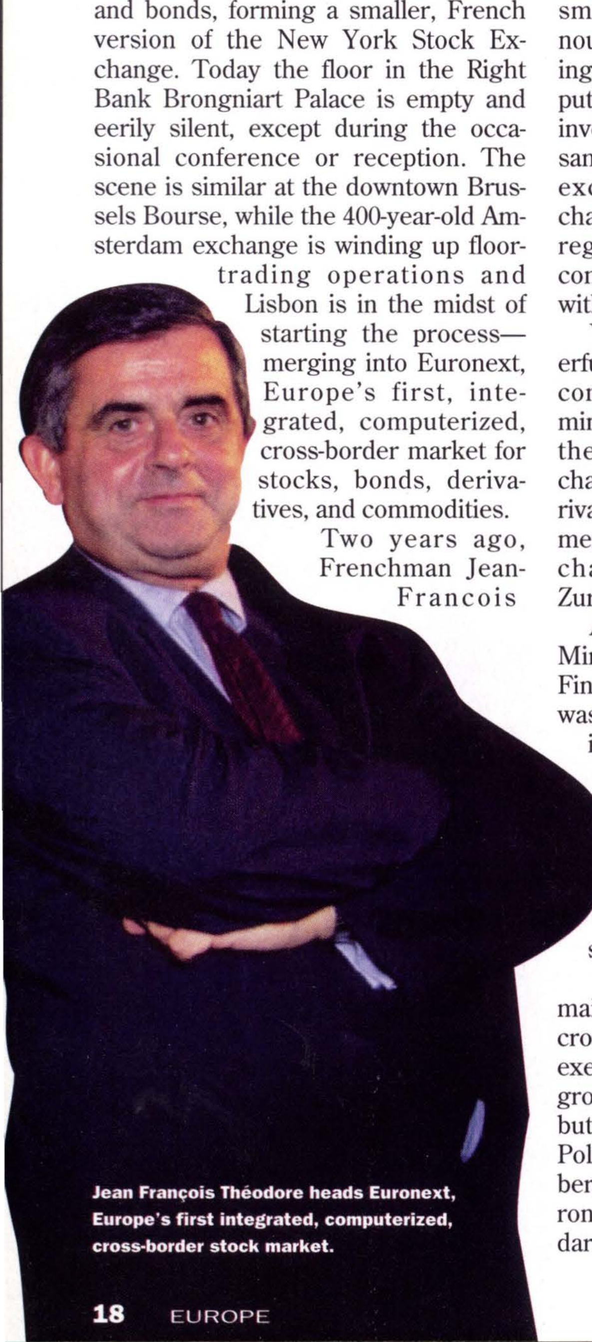
Despite the obstacles, Euronext remains the sole successful example of cross-border exchange building, and its executives are determined to continue growing not only in Western Europe but in Eastern Europe, starting with Poland, which is heading for EU membership. They note that Paris-based Euronext is already strong by any standard, compared to its two main rivals, whose ambitious efforts to merge collapsed two years ago. Measured in terms of market capitalization, the LSE remains solidly in first place, valued at nearly $3 trillion, followed by Euronext at $2.5 trillion. Deutsche Börse runs third with its capitalization at $1.4 trillion. Market capitalization at the New York Stock Exchange, the world's largest by far, stands in excess of $11.5 trillion.

At the end of last year, Euronext maintained the lead over its German rival in terms of number of companies listed, 1,539 compared to 984, but well behind London with 2,891 companies and a long-established position as the EU's prime financial center.

The current outlook is clouded by prospects of only a mild recovery of European and American markets during the next twelve months and by uncertainty regarding the intentions of the smaller exchanges. Madrid, for example, is currently trying to merge with rival Barcelona, while the Milan Stock Exchange has taken a wait-and-see approach. Meanwhile, in Frankfurt "the Germans are still riding high on their success and still doing their own thing," which is totally contrary to Euronext's strategy of horizontal integration, said Sylvain Friederich, who teaches financial markets at the University of Bristol.

The German approach, dubbed "Werner's silo," for Deutsche Börse's chief executive, Werner Seifert, involves establishing a vertical "silo" in the heart of the EU's securities market by building all services into a single, large exchange, developed through mergers or acquisitions.

On February 1, Seifert announced a major step in his strategy: completing a takeover of Clearstream International, a large, Luxembourg-based clearing house and one of the two main deposi-



**Jean François Théodore heads Euronext, Europe's first integrated, computerized, cross-border stock market.**


Euronext's screen-based electronic trading system has quieted the once cacophonous trading floors.

tories for international securities in Europe. Analysts immediately predicted the move will give Frankfurt a strong competitive edge because Deutsche Börse will now be handling all trading, clearing, and settling of securities listed on the Frankfurt exchange.

Skeptical or opposed, however, were some of Europe's largest banks, notably JP Morgan Chase & Co., indicating they planned transferring substantial holdings to Euroclear, Clearsteam's larger and independent Brussels-based rival, arguing—as does Euronext—that separation of trading and settlement leads to lower processing costs and greater transparency in transactions.

Indeed and not surprisingly, Euronext is confident that it will appeal to those European exchanges still on their own. "The results of our horizontal merging are now beginning to show as our costs come down," said Olivier Lefebvre, Euronext's executive vice president. Asked what exchange might join Euronext, Lefebvre, who is Belgian and previously headed the Brussels exchange, commented, "Everybody talks with everybody...the outcome is very difficult to predict."

Some big American investors like what they see. The Sacremento-based Californina Public Employees' Retirement System fund, with $155 billion in assets, has built a substantial portfolio in Europe—$6.2 billion in Britain, $2.5 billion in France, $1.9 billion in Germany, $1.7 billion in the Netherlands, $232 million in Belgium, and $111 million in Portugal. "It is important that the movement to integrate European exchanges continue...modern information technology simply lends itself to fewer exchanges, and attempting to maintain older methods will not pay off," said CalPERS' president William Crist. The merger trend, he added, is "seemingly inevitable."

A key force in Euronext's strategy is a screen-based electronic trading system, known as NSC, which it developed for stock and derivatives markets, such as options, futures, and warrants. All its partners are using the system, which is also licensed to a dozen exchanges around the world, including those in Beirut, Casablanca, Warsaw, Singapore, Montreal, and Mexico. The high-tech link was a major step in bringing the Lisbon exchange, with its sixty-five companies, into Euronext and providing what the head of the controlling Portuguese company, Manuel Alves Monteriro, described as "better conditions for the listed companies, the members, and the investors operating on the Portuguese market."

A similar arrangement is being explored with the Warsaw Stock Exchange, a full-fledged merger will most likely await Poland's taking its place within the European Union and its adoption of the euro, probably by mid-2004.

With British public opinion warming to joining the euro—a decisive factor in launching Euronext—there is growing speculation that the LSE may agree to some kind of cooperative alliance with its continental rival, possibly beginning with a central clearinghouse for all EU exchanges. New and deeply-annoying pressure on London came last November when to everyone's surprise, the London International Financial Futures and Options Exchange agreed to merge, not with the LSE, but with Euronext in order to take advantage of its pan-European strategy. Théodore has said repeatedly that his door remains open, but as Friederich and other analysts note, there is no immediate pressure on the LSE to take him up on the offer.

Meanwhile, the European Parliament on February 5 overwhelmingly approved a package of Commission-backed measures to accelerate integration of risk capital markets and financial services, notably the creation of a "single passport for issuers" of stocks and bonds. If approved by the Council of Ministers, it would mean that once a home country authority approves a prospectus, it would be accepted throughout the EU for a public offering. The measures, which also included proposals to regulate markets and investigate insider trading, represent a "tremendous breakthrough," according to Frits Bolkestein, European commissioner in charge of the Internal Market and Taxation.

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

# Steel Heats Up

By Bruce Barnard

## EU launches complaint with the WTO against

European steelmakers are scouring for new export markets and preparing to defend their home turf from a flood of foreign steel after President George W Bush imposed import tariffs as high as 30 percent to shield the ailing US industry. The European Union launched an immediate complaint with the World Trade Organization (WTO) against the US tariffs. At the same time, it vowed to take whatever measures are necessary to protect its steel firms from a surge in imports from countries looking for new markets for steel that will be shut out of the US for the three-year duration of the import tariffs.

The European Commission, the EU's executive body, estimates that EU steelmakers could lose 4 million tons of their annual 5 million tons of exports to the US while as much as 16 million tons likely will be diverted from the US to Europe.

The US action will depress steel prices in Asia and Europe where the main producers were planning to boost rates in April from their lowest level in twenty years.

Pascal Lamy, the European trade commissioner, warned Washington's "short sighted" move will end any hope of reaching agreement in the Organization for Economic Cooperation and Development for a program of reductions in global steel capacity. The EU has said it would only agree to production cuts if the US held back on tariffs.

While the US tariffs will hit Europe's steel industry, it is better placed to withstand the latest US protectionist move than in the past thanks to radical restructuring in the 1980s followed by widespread privatization and consolidation in 1990s.

Although two-thirds of EU exports to the US face the highest 30 percent tariff, the impact will be limited as Europe exports only 3 percent of its output to the US. But increased imports from Russia, Ukraine, and Eastern European producers threaten to destabilize the EU market.

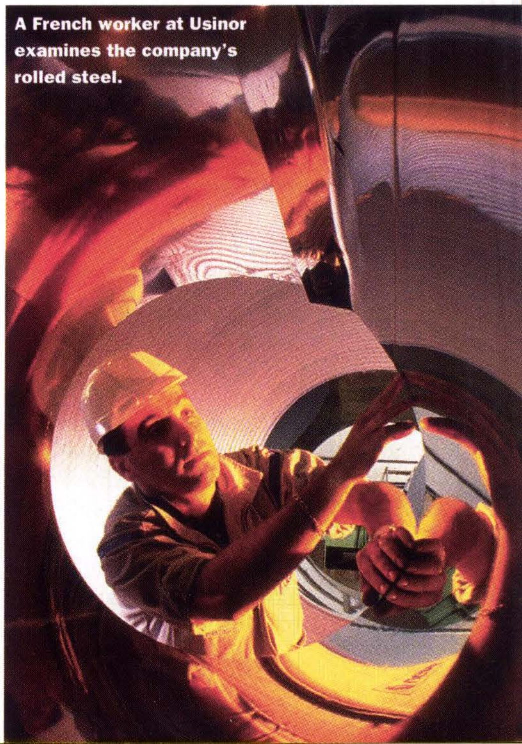
While the US industry is mired in crisis—thirty-one steel firms, including big players like Bethlehem Steel and LTV, have filed for bankruptcy protection since 1997—European steelmakers have managed to create world-size players with a series of ambitious cross-border mergers.

US firms complain that former state-owned European companies were given clean balance sheets to sweeten their privatizations, but the Europeans argue they are prospering because they have been more successful in cutting costs than their American and Japanese rivals. The euro's weakness against the dollar has also helped to sharpen the European firms' competitive edge on world markets.

The EU's steelmakers have also survived a surge in imports over the past decade. While the value of US imports fell by more than 23 percent last year and are well down from shipments in 1995 and 1996, EU imports are at record levels three times higher than in the early 1990s. As recently as 1997, the EU was still a net steel exporter by more than 12 million tons, but the surplus had shrunk to 3.8 million tons in 2001.

Europe moved into top spot in the $500 billion-a-year global steel business last year with the announcement of a three-way merger between Usinor of France, Arbed of Luxembourg, and Spain's Aceralia. The new firm, Arcelor, began operations in March as the world's largest steel producer, ahead of Posco of Korea and Japan's Nippon Steel. The Luxembourg-based group boasts 110,000 employees, annual production capacity of 45 million tons—6 percent of the world total—and annual sales of $26 billion.

The European industry saw cross-border mergers as a way to combat overcapacity and strip out costs. Arcelor expects its merger to shave costs by $610 million a year by 2006. Corus, the world's fifth-largest steelmaker formed by the 1999 merger of British Steel and Hoogovens of the Netherlands, has cut its capacity by 20 percent in two years with the loss of



A French worker at Usinor examines the company's rolled steel.


Europe moved into the top spot in the $500 billion-a-year global steel business last year with the announcement of a three-way merger between Usinor of France, Arbed of Luxembourg, and Spain's Aceralia.

10,000 jobs in the United Kingdom. It exported 740,000 tons of steel to the US last year, mostly from its Dutch plant, out of its total output of 18 million tons.

The consolidation accelerated in the late 1990s when the US industry was falling apart. France's Usinor acquired Belgium's Cockerill Sambre for around $1.1 billion in 1998 and made an abortive bid in 2000 to form an alliance with Germany's Thyssen Krupp, itself the product of a 1999 merger between Thyssen and Krupp. Arbed, the biggest industrial firm in Luxembourg, teamed up with Aceralia in 1997.

Some smaller European steelmakers like Austria's Voest-Alpine Stahl and Svenskt Staal of Sweden have remained independent and profitable by focusing on higher quality specialty steel. Others have achieved market leadership in niche sectors like Outokumpu, the Finnish mining and metals group, whose acquisition last year of Swedish-owned Avesta Sheffield created the world's second-largest stainless steel producer. But as competition intensifies and the market consolidates, these firms become prime takeover candidates.

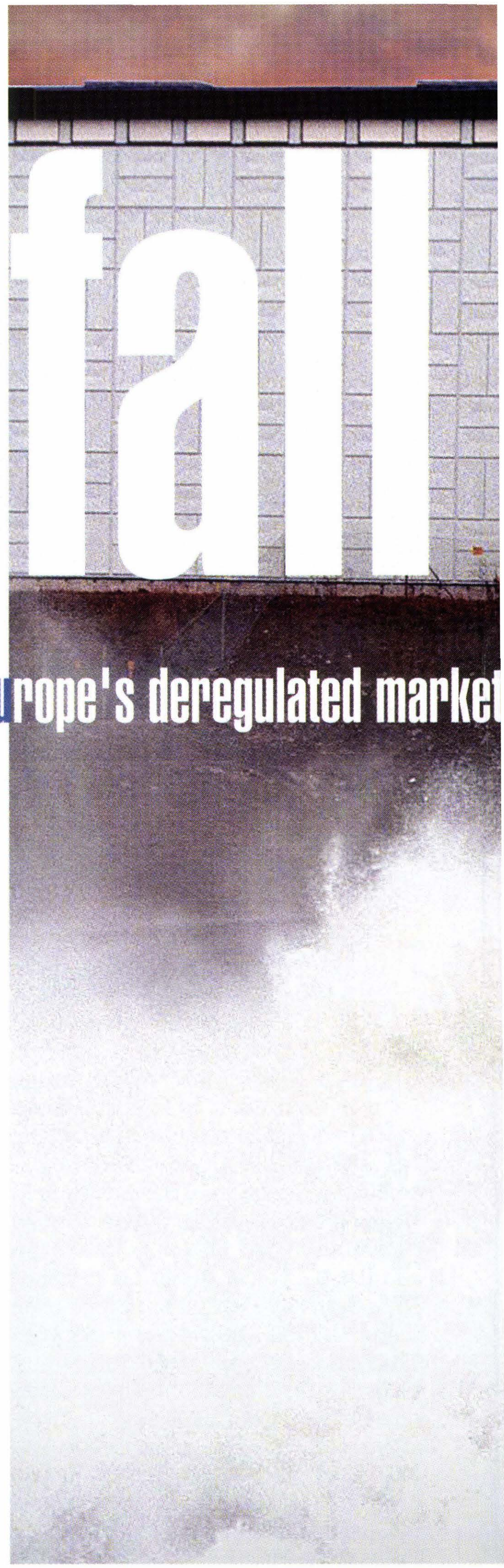
One of the most likely predators is Ispat International, the world's third largest steelmaker, registered in Rotterdam, quoted on the Amsterdam and New York stock exchanges, and run from an office in the swish Mayfair district of London by Indian billionaire Lakshmi Mittal. The company produces 15 million tons of steel a year from plants in Mexico, Trinidad, Ireland, Canada, the UK, France, Germany, Indonesia, Kazakhstan, the US (where it acquired Inland Steel for $1.43 billion in 1998), and Romania where it has just taken control of Sidex, the former state-owned steel producer.

Mayfair is also the base of the privately held Balli Group, which became Europe's largest independent steel distributor last year after acquiring Klockner & Co. from E.ON, the German utility, for $964 million. The combined sales of Klockner and Balli, owned by the Allaghband family, which left Iran after its steel and textiles businesses were nationalized in the 1979 revolution, amount to around $7 billion. Together, the two employ more than 17,000 people mostly in Europe and North America.

The established European steel firms also are trying to globalize their operations to keep pace with the demands of their multinational clients, particularly car manufacturers, which are building plants around the world. Arcelor has a 4-million-tons-a-year plant in Brazil as well as a small stainless steel plant in the US and another small facility in Thailand and has teamed up with Japan's Nippon Steel to jointly develop steel sheet products for car manufacturers. Thyssen Krupp has a joint venture in China, close to a Volkswagen plant.

The growth of foreign ventures notwithstanding, plenty of upside remains in Europe. That is the experience of US Steel, which is already reaping dividends from its $1 billion gamble on taking over VSZ, the troubled former state-owned steel producer of Slovakia.

And even as it braces for the loss of a large slice of its US market, Europe's steel industry is looking ahead to a new wave of consolidation at home and acquisition opportunities in the United States. Guy Dolle, Arcelor's chief executive, predicts that by the middle of this decade there will be three or four big steel companies, each with capacities of more than 50 million tons a year.



# Vattenfall

By Ariane Sains

## The Swedish energy firm's expansion into Europe's deregulated market

The name says it all: Vattenfall Europe. From being a big fish in a little Nordic pond, Sweden's largest utility has suddenly become a big fish in the much bigger European pond, as the name of its new German subsidiary suggests.

Thanks to acquisitions, it ranks among the top five European energy companies, in the same category as giants Electricité de France and E.ON of Germany. As the European electricity market continues to deregulate, Vattenfall chief executive Lars Josefsson says he's determined his company will keep playing in Europe's big leagues.

However, Vattenfall's expansion, primarily in Germany and Poland, is raising serious questions about whether the wholly state-owned power company has a double standard in Sweden and abroad. It has also opened a debate about the role of state-owned companies in deregulated markets and specifically about utilities in deregulated electricity markets.

Vattenfall's strategy is casting a spotlight on the Swedish government, since, as sole owner, it approves of that strategy. Questions are also being raised about whether the company is financing its growth at the expense of taking care of customers at home. Moreover, Vattenfall's hard-won environmentally friendly image is taking a beating because of the company's expansion.

Under Josefsson's leadership, Vattenfall has paid the equivalent of more than $2 billion to take majority control of Hamburgische Electricitaetswerk (HEW), the utility serving the city of Hamburg. HEW, in turn, through the Laubag power company owns brown coal mines and power plants operating on coal.

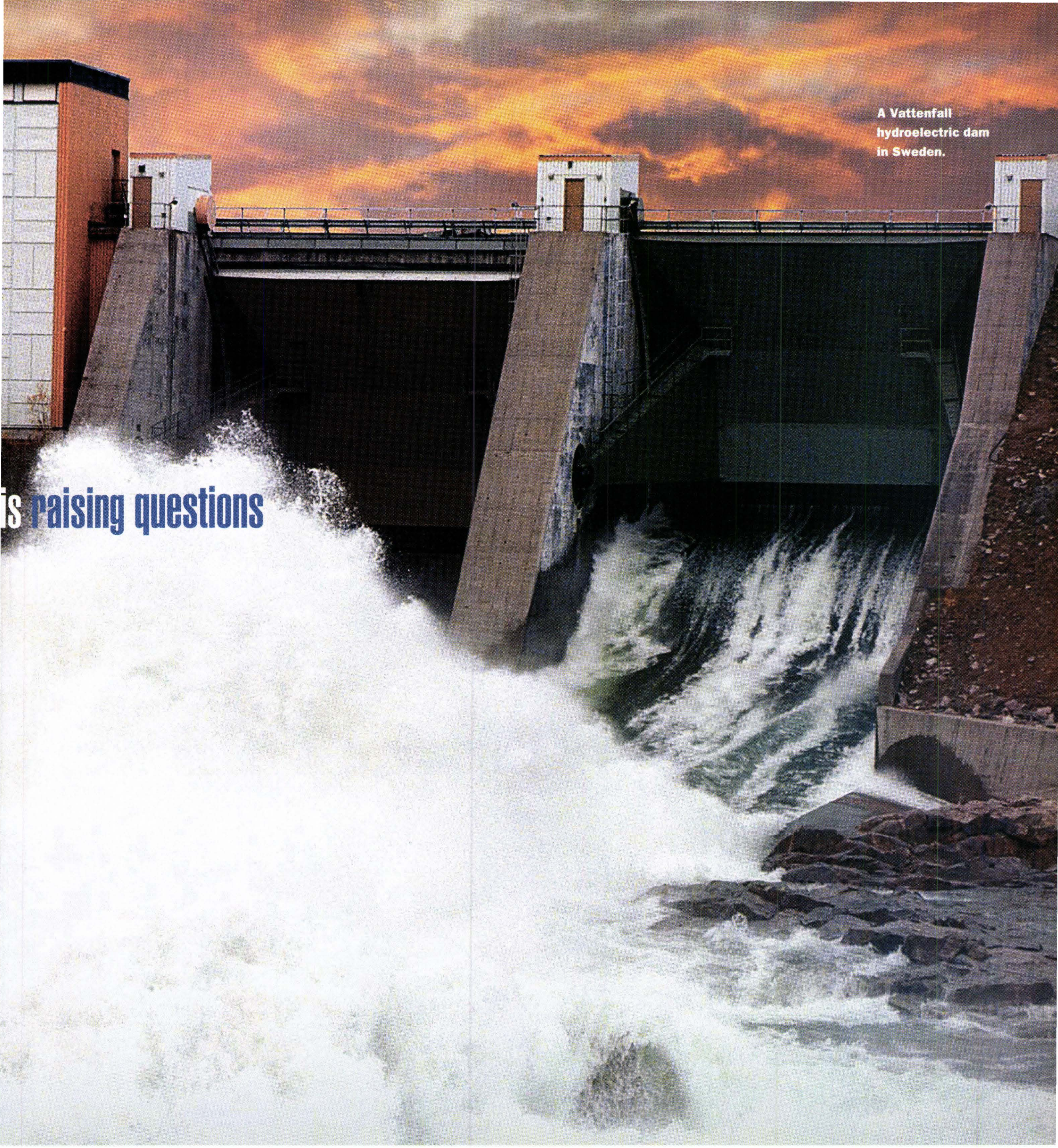
Vattenfall not only wants to continue the coal mining but also plans to expand. Company management is trying to relocate about 300 people in the eastern German town of Horno so that mining operations can be expanded. Many of the town's residents are Sorbs, members of Europe's smallest ethnic Slavic group. They came to Germany about 1,400 years ago, and Horno is considered a cultural landmark.

Vattenfall's efforts have raised strong protests both in Germany and in Sweden. Critics, such as Ewa Larsson, a Green member of Sweden's parliament, say that Vattenfall has a double environmental and ethical standard, doing abroad what it would never try at home.

Josefsson says his company has done nothing wrong. "This has been discussed extremely thoroughly, and we've met all the environmental, ethical, and other requirements," he claims. He also dismisses the idea that the Swedish government or the Swedish parliament should have any say in what the company is doing in Germany. "This is a domestic German issue," he says.

Vattenfall has similar problems in Poland, compounded by the fact that the Polish coal-fired power plants are considerably less clean than the German ones.

Björn Rosengren, Sweden's minister for industry, employment, and communications, says he doesn't believe the government should interfere in Vattenfall's operational decisions. However, that attitude could well back-is raising questions



A Vattenfall hydroelectric dam in Sweden.

fire. Sweden has a worldwide reputation for social responsibility as well as for having some of the world's strictest environmental laws. The government made the environment one of its top priorities when Sweden held the European Union presidency last year. If Vattenfall's actions are seen as a case of two-faced environmental and social policy, it will hurt Sweden's reputation as well.

On the other side, analysts and rating agencies such as Standard & Poor's are questioning how much longer Vattenfall can finance expansion through loans and bond issues, its only means of raising capital, since the Swedish government has firmly refused to privatize it and give it a stock listing. Even Josefsson admits that further big acquisitions will need broader sources of capital.

Vattenfall's moves in Europe's deregulated market raise different questions than Enron's in deregulated US and foreign electricity markets. Nonetheless, they go to the heart of the environmental, regulatory, and state ownership debates in a way that could well make the formerly obscure Swedish utility a European test case. Ⓔ

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*Ariane Sains, based in Stockholm, is a* EUROPE *contributing editor.*

By Ariane Sains

# Sweden's Social Democrats Sitting Pretty

## Prime Minister Göran Persson looks strong heading toward elections

It was a moment Swedish Prime Minister Göran Persson could have done without. As cameras clicked and microphones were pressed in her face, a tearful Mona Sahlin admitted that she had neglected to pay her bills and that she had been driving her car after it was banned from the road for serious safety violations.

It wasn't the first time that Sahlin, the minister responsible for employment issues and telecommunications, among other things, had landed in financial trouble. Several years ago, she was forced to leave the government of a previous prime minister after it was revealed that she had used her government credit card during a vacation to Mauritius and not paid the bills when she returned.

This time, Persson, who tightly runs the Social Democratic minority government, decided a thorough chastising would suffice and that Sahlin could stay. Political pundits believe he's betting that Sahlin will be more of a help than a liability in September's national election, especially with women and younger voters.

However, the opposition parties most certainly will use the Sahlin affair. Furthermore, other issues remain that Persson and the Social Democrats are going to have trouble avoiding. One is when Sweden will join the European monetary union. Persson had hoped to remove

Prime Minister Göran Persson (center) welcomed President George W. Bush (left) and European Commission President Romano Prodi to Gothenburg, Sweden during the EU-US Summit held last June.

EUROPE Update

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# EU NEWS: CONVENTION ON THE FUTURE OF EUROPE

No one doubts the importance of the Philadelphia convention of 1787: after all, the deliberations of America's founding fathers produced the Constitution, surely the single most important document in the history of the United States. Will the European Union's constitutional convention of this year and next prove equally important in Europe's history?

Possibly so, and the convention's French president, Valéry Giscard d'Estaing, can surely be forgiven for hoping so. As he told the European Parliament on February 28, the opening day of the convention, "If we succeed, in twenty-five or fifty years, Europe's role in the world will have changed. It will be respected and listened to, not only as the economic power it already is, but as a political power which will talk on equal terms to the greatest powers on our planet, either existing or future."

In which case, the question is how to succeed. The convention, meeting twice a week behind closed doors but with public meetings toward the end of its mandate in 2003, is supposed to produce its report in time for the European Union's next intergovernmental conference (IGC), scheduled for 2004. All IGCs are important, but this one will be more so than most: it is meant to decide, once and for all, "who does what" in a Union that could within a short time virtually double its membership from fifteen states to twenty-five or more. Hence, the importance of Giscard and his team: What they recommend, be it a putative constitution or a simplified institutional rulebook, could make or break the IGC—and so the EU's prospects for long-term happiness.

But at least the convention is taking its task seriously. For Giscard, the intellectually brilliant former president of France, it is a last chance, at the age of seventy-six (he notes that at the Philadelphia convention Benjamin Franklin was eighty-one), to return from the political shadows and seal his place in history. Moreover, he has won the perks that high office demands: €1,000 ($875) for each day he spends in Brussels to cover expenses for himself and his bodyguards.

Is there a risk that Giscard, who from his French presidency, between 1974 and 1981, can claim part parentage of many EU developments (including the eventual adoption of the single currency), will seek to impose his will on the other 104 members of the convention?

Only in theory. The reality is that such strong-arming will be impossible, given the presence of so many other men and women of brilliance and political stature. He will have to cope, for example, with two former prime ministers as his vice-presidents: Giuliano Amato of Italy and Jean-Luc Dehaene of Belgium. In addition, there are fifteen representatives from the present member state governments; thirty representatives—two for each country—from their national parliaments; sixteen members from the European Parliament; two representatives from the European Commission; and thirty-nine representatives, with no right to vote, from the thirteen countries, including Turkey, that are candidates for EU membership. Add them all together and the total comes to 105, or almost double that figure if the alternates are included.

But the more important point is not the number of delegates to the convention but their range. Italy's center-right prime minister, Silvio Berlusconi, intent perhaps on mutting the integrationist "federal" views of Amato, insisted that the Italian government should have a delegate separate from the presidential troika—and he chose Gianfranco Fini, of Italy's post-fascist right. Mix Messrs Amato and Fini with the pragmatic Peter Hain of the United Kingdom or Denmark's EU-skeptic MEP, Jens-Peter Bonde, and the scene is set for plenty of ideas—and plenty of arguments. Keep your fingers crossed that Giscard, who does not suffer fools gladly, will keep his cool: In theory (practice may turn out to be more streamlined), he will have to listen to the arguments in the EU's eleven languages. Benjamin Franklin had no such burden.

*—John Andrews*

## Reforms Dominate Barcelona Summit

Europe could have the most vibrant economy in the world by 2010, outpacing even that of the United States, if all the economic reforms approved by European Union leaders at the summit in Barcelona held in March are applied as planned.

"There is a new economic direction taking shape," said British Prime Minister Tony Blair, who along with the summit host, Prime Minister José Maria Aznar of Spain, is keen to keep the European Union reforms agreed upon two years ago in Lisbon on track.

"This summit symbolizes an important change of gear for Europe's economy," Blair added. "There have been limited but solid achievements."

The major issue decided at the meeting was to open up Europe's energy sector so industrial clients could choose among electricity and gas suppliers, despite opposition from the French government which wants to protect its sole state-owned supplier, EDF.

Under the agreement, there will be free competition among private energy companies to supply commercial users anywhere in the EU by 2004. A decision by the fifteen to extend the energy market reforms to private consumers will be made by the end of this year.

European Commission President Romano Prodi lauded the agreement as "an excellent opportunity for economic growth."

In other decisions, the EU leaders agreed to increase spending on research and development to 3 percent of gross domestic product by 2010, fully integrate financial services markets by 2005, improve the mobility of the European workforce, and create more jobs by reforming the benefit and tax systems.

Initiatives to boost Europe's high-tech capabilities were also given the green light and include ensuring that there is at least one Internet-connected computer for every fifteen students by 2004 and increasing the availability of broadband technology by 2005.

In a related move, the leaders reiterated their backing for the $3.2 billion Galileo satellite network, which is meant to compete with the US global satellite-positioning network.

The Barcelona summit was also historic as it was the first time that representatives of the thirteen candidate countries to join the EU were invited to take part in formal discussions and not just attend as observers as they had in the past. Those attending included the presidents or prime ministers of Slovenia, Bulgaria, Estonia, Czech Republic, Latvia, Turkey, Slovakia, Romania, Malta, Hungary, Poland, Cyprus, and Lithuania.

Meanwhile, outside the official meetings, anti-globalization protesters battled with Spanish police.

*—Benjamin Jones*

### Right Wins Portuguese General Elections

In Portugal, the right has won its first general election victory in more than a decade. The main opposition force, the center-right Social Democratic Party, failed to secure the absolute majority it was seeking in the March 17 poll, but it and the smaller conservative Popular Party together control just more than half the seats in parliament.

The general election—the second in less than three years—was largely a referendum on the economic performance of a Socialist administration that has held power since 1995. In the past year, growth has stalled and the government lost its grip on public finances, with last year's public sector deficit soaring to twice the official projection.

Social Democrat leader José Manuel Durão Barroso campaigned on a pledge to relaunch the economy by cutting corporate taxes and encouraging private investment in public services. That convinced enough voters to enable his party to beat the Socialists, making him the natural candidate for President Jorgé Sampaio to tap for prime minister. But at 40.1 percent to 37.9 percent the margin was smaller than might have been expected in the aftermath of December's local elections, when sweeping Social Democrat gains prompted Prime Minister António Guterres to resign, triggering the general election.

Barroso had appealed for an absolute majority in order to have a free hand in solving deep-seated problems such as low productivity and an inefficient state sector. The cautiously reformist Socialists made a start at tackling such issues but were often faced down—co-opted, critics said—by vested interests such as state doctors and public sector trade unions.

Although the Social Democrats fell short of an absolute majority, they could join forces with the smaller right-wing Popular Party, which has long been keen to form such a coalition. Together, the two parties could implement a program combining the market-oriented economics advocated by Barroso with the conservative social policies backed by the Popular Party. The PP would likely demand an increase in the basic state pension—which it argues can be funded by a crackdown on welfare fraud—and tighter controls on immigration, which has surged in recent years.

Though the PP has a record of being more skeptical about the European Union than the two main parties, there is a broad consensus in Portugal in favor of European integration. Therefore, foreign policy is unlikely to be much affected by the rightward shift.

In his victory speech, Barroso pledged to do all he could to provide Portugal with a "stable, credible government," and called on all parties to recognize what he saw as the voters' desire for stability. Given that his party has fewer seats in the new parliament than the Socialists had in either of the last two—they governed without an absolute majority—his words indicated that he was already contemplating a coalition.

The Socialists, in opposition for the first time since 1995, must rebuild. Their leader, Eduardo Ferro Rodrigues, described this as "an honorable defeat," on the basis that the margin was the narrowest since Portugal became a democracy in the 1970s. Party activists seem to agree, and he will likely be re-elected at their next congress.

It's a different story in the Communist Party. It had its worst ever result and was overtaken by the PP as the third-largest force in parliament. Calls by some members before the election for a special congress to discuss reform of one of Europe's last unreconstructed Marxist parties were slapped down. Dissent has already re-emerged.

*—Alison Roberts*

## WHAT THEY SAID...ABOUT STEEL

*Last month, the United States announced it was imposing tariffs on steel imports for three years in a bid to help the US's ailing steel industry. Canada and Mexico are exempted from the tariffs because of their partnership with the United States in the North American Free Trade Agreement. Here follow some of the reactions:*

**"The US decision to go down the route of protectionism is a major setback for the world trading system. The world steel market is not the Wild West where everyone can do as he pleases. There are rules and disciplines. In this case, as in others, they are the guarantee of the multilateral system...**

**We will take whatever measures are necessary to safeguard our own market."**

*—Pascal Lamy, EU trade commissioner*

**"[The US decision is] unwarranted, unacceptable, and wrong."**

*—Tony Blair, British prime minister*

**"This relief will help steelworkers, communities that depend upon steel, and the steel industry adjust without harming our economy."**

*—George W. Bush, US president*

**"In order to promote free trade the US has to manage the home front and the international front...And on the home front the only way that we can continue to get support from the American people for open markets and trade is to use our domestic and international laws to the fullest."**

*—Robert Zoellick, US trade representative*

## EU Drug Monitoring Office in Lisbon

Choosing the location for the EU's drug-monitoring agency was a relatively random affair. EU institutions are scattered around the fifteen member states, and after Portugal joined in 1986, it could expect to host the headquarters of one eventually.

Portugal's drug policies, however, have hit international headlines lately. Since July, possession and consumption of small amounts of illegal drugs is no longer a crime; users face a fine or community service, and addicts are given treatment. The policy shift prompted sensationalist coverage abroad, including suggestions that Portugal would become a drug mecca.

There is no sign of that. In fact, the law is not very different to existing ones in Italy and Spain. Dealing drugs remains a crime, but from the point of view of the European drug agency, Portugal's move was proof that the information it provides is getting through.

"I think it's just beginning to work like that," says Georges Estievenart, the agency's executive director. "It's obvious that in reshaping their policy, the Portuguese took into account information we provided on other countries."

The European Monitoring Center for Drugs and Drug Addiction was created in 1993, after EU leaders realized they lacked the data on drug consumption and the impact of policies that they needed to plan common action.

"Before the center existed, drug-related information was scattered, variable, and contradictory, making it virtually impossible to draw an accurate picture of the problem," says Estievenart. "National and EU policies tended to be based on speculation."

It took a year to get the center up and running. From the start, its remit was to provide reliable information, culled from a network of National Focal Point offices, just as the EU's single market got underway in 1993.

"If you promote free movement of people, capital, and goods, you're touching all major aspects of the drugs problem," points out Estievenart. "The EU is now trying to deal with the negative side."

However, the illegal drug business is global, so what about international cooperation? The EU is represented in forums such as the United Nations Drugs Control Program but has been slow to develop bilateral links with the United States and others.

For years, the main problem was that there was no coherent EU vision. That is changing as EU strategies take shape, and the center has had contacts with the White House's Office of National Drug Control Policy. When former drug czar Barry McCaffrey visited in 1999, he wanted to launch formal cooperation, but it was too early for the center, still coming to grips with its own tasks.

McCaffrey's visit did, however, highlight the differences, not only between policies in the US and EU, but the directions in which they are moving.

Legal experts say the emerging "European approach" contrasts with that of the US and most other countries. There have been a series of national measures decriminalizing the use of certain drugs (or all drugs in Portugal's case), often not via changes in the law but in prosecution procedures.

"Jail overcrowding has prompted policymakers to conclude that they need to avoid bringing into the judicial system people who are not criminals but could become so," says Estievenart. "Jail is not a convincing deterrent for these kind of people, so many states are trying to replace it with administrative sentences and separate the problem of trafficking from consumption."

Treating addiction remains a goal, but the focus has shifted to the reduction of demand and of health risks to the addict and the public. That is true even in EU member states with a so-called repressive approach, such as Sweden.

This strategy has borne fruit, most notably with heroin. European consumption has fallen and rates of HIV and other blood-borne infections among drug injectors dipped thanks to needle-exchange schemes.

It does not follow that the EU has given up the fight against drugs.

"We have to combine the best of all possible measures," says Estievenart. "There are some solutions to certain problems, but the problems are changing."

Take the rise of synthetic drugs. Heroin addictions among the young are trending down, while users of MDMA (ecstasy) and other synthetics have increased. This time, the EU is determined to be more proactive.

In 1997, EU governments determined to put in place an early warning system to detect new synthetic drugs and provide policymakers with information to make decisions. The center's area of competence was extended, and a new unit was created.

If it is suspected that a substance previously unknown in a member state has caused a death there, the authorities mobilize the center's network and the European police agency, Europol, to gather available information about it and make an expert assessment of the associated risks. So far, four synthetic drugs have been assessed via this process; two were declared controlled substances by all EU governments.

There is clear scope for cooperation with the US here. As heroin use in the EU has stabilized, US cocaine use—the scourge of the 1980s—has slumped, and use of synthetic drugs has soared. The US is keen to exchange information on these substances, whose rise has transformed the US and Europe into major producers as well as consumers.

The EU center's remit has since been changed in another important way: helping prospective EU members in Eastern Europe tackle their burgeoning drug problems.

"The concern is that there is a kind of vacuum in those countries [regarding] drugs," says Estievenart. "They lack institutions and traditions, and use is rising."

EU funding was earmarked for 2001 and 2002 to help establish National Focal Points, offices located throughout the EU that round out the center's network; the first began functioning work last year.

In the future, the center expects to step up cooperation with other relevant authorities, not only in the US and Latin America but also Turkey, Cyprus, and Malta—all candidates for EU membership—and Mediterranean countries. In the meantime, it remains focused on its proven competence: providing reliable, comparable information on consumption patterns and policies.

Estievenart, who headed up the European Commission's drug coordination department before taking over in Lisbon, is adamant about the need for the center. Whereas he previously commanded just four people, the Lisbon office has a staff of eighty and draws on the resources of the National Focal Points—each with five to ten people.

*—Alison Roberts*

EUROPE Update

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# BUSINESS BRIEFS

London strengthened its position as Europe's top financial center last year despite the UK's exclusion from Europe's single currency, the euro, as its main rival Frankfurt failed to capitalize on being the home of the **European Central Bank**.

London accounted for 20 percent of all global cross-border bank lending, 52 percent of foreign equity trading, and 31 percent of all foreign exchange dealing, as much as its three closest rivals—New York, Tokyo, and Singapore—put together. The comparable figures for Frankfurt were 9.3 percent, 5.8 percent, and 5.4 percent. London had $4.13 trillion of assets under management, almost three times Frankfurt's $1.45 trillion.

The February announcement by **Deutsche Bank**, Germany's largest bank, that it plans to build a thirty-eight floor "leaning tower" on the edge of London's financial district suggests market activity is still moving from Frankfurt to the UK capital.

London cannot, however, afford to relax, as the most rapid growth in many financial services over the next decade likely will be in continental Europe, as the funding of pensions shifts from governments to individuals. Frankfurt also appears to be benefiting from the arrival of the European Central Bank: the number of foreign banks has increased by 39 percent since 1998 to 320 compared with a 14 percent rise to 214 in Paris and a 14 percent decline to 478 in London—though this is largely the result of mergers.

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German companies are stepping up their investments in Brazil to establish a launch pad into the South American market, shrugging off fears that Argentina's financial crisis will infect the rest of the continent. The ten leading German firms in Brazil have announced new investments of almost $8 billion over the next four to five years, according to the **German Chamber of Trade** in Sao Paulo, which says it doesn't know of a single company that has reined in its spending plans as a result of the financial turmoil in neighboring Argentina.

German firms have directly invested $19 billion in Brazil, with the bulk in industry and auto manufacturing led by **Volkswagen**, but they didn't participate in the massive privatization of the 1990s that was dominated by Spanish firms, which acquired large banks and utilities.

But German firms are now targeting Brazil's massive infrastructure projects, including motorways, railways, and power lines that will require more than $100 billion. **Steag**, the electronics and energy group, is investing $800 million in a coal-fired power plant, and **Siemens**, the electrical engineering and telecom group, has just opened new assembly plants for mobile phones and telephone equipment.

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Argentina's financial crisis, however, is taking a heavy toll on Spanish firms that are the biggest foreign investors in the country with spending exceeding $24 billion. In the fourth quarter of 2001, **Telefónica**, the largest phone company in Spain and South America, posted its biggest profit decline in at least a decade with earnings halving to $449 million because of the devaluation of the Argentinian peso.

The Buenos Aires government has prohibited service companies like Telefonica, which generated 11 percent of its revenues in Argentina last year, and **Endesa**, the energy group, from raising prices to offset the plunge in the peso after scrapping contracts that tied them to the US dollar.

Several other Spanish firms have posted lower profits because of problems in Argentina, including **Santander Central Hispano**, Spain's largest bank, whose fourth quarter net income was down 20 percent, the first decline in five years.

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Italy's **Fiat** and Germany's **Daimler Chrysler** are mulling the assembly of their best-selling European vans in the US to cash in on the growing demand for light vehicles from mail order, parcel delivery, and Internet retail companies.

DaimlerChrysler is planning to invest nearly $522 million in a plant to manufacture its **Mercedes-Benz Sprinter** vans that will be sold under its US **Freightliner** brand. The company believes the North American market for such vans could reach 350,000 a year and will compensate for the decline in heavy truck orders—expected to fall to 150,000 units this year from 170,000 in 2001. It has yet to decide on a site for the plant. Last year, DaimlerChrysler began exporting its Sprinter vans to the US from a plant in Dusseldorf, Germany.

**Iveco**, the commercial vehicles unit of Fiat, is considering assembling its Daily light vans in the US and is discussing possible sites with **General Motors**, its US alliance partner which owns 20 percent of Fiat Auto.

Ford also is considering introducing the Transit, its best-selling European van, into North America as a possible replacement for its Econoline model.

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**Renault**, the French car manufacturer, spent almost $1.6 billion to increase its stake in Nissan from 36.8 percent to 44.4 percent as Japan's number-three auto maker prepared to announce a second year of record profits.

Renault, which stunned its rivals by buying into deeply troubled **Nissan** in 1999, boosted its holding a year earlier than planned to cement its alliance with the Japanese firm whose spectacular turnaround under ex-Renault executive Carlos Ghosn has made it one of the few star performers on the Tokyo stock exchange.

Nissan, which is expected to post a record net profit for the year to March 31, will buy a 15 percent stake in Renault within a few months.

•••

**Philips**, Europe's biggest consumer electronics manufacturer, will bounce back into to the black this year from its largest annual loss in 2001, according to Gerard Kleisterlee, chief executive of the Dutch multinational.

Philips slipped into the red in 2001 for the first time in five years with a deficit of $2.3 billion compared with record earnings of $9 billion in 2000 as revenues crashed 15 percent to $28 billion on lower volumes and worsening price erosion.

Kleisterlee said Philips had the financial strength to absorb the 2001 loss but warned that units that failed to meet internal targets for two successive quarters would not remain in the group. The company has already put twenty-seven businesses up for sale, which should raise around $900 million over the next eighteen months.

Philips is still closing factories and outsourcing production, but it is maintaining research and development in key sectors such as semiconductors where Kleisterlee says it will again rank in the world's top ten.

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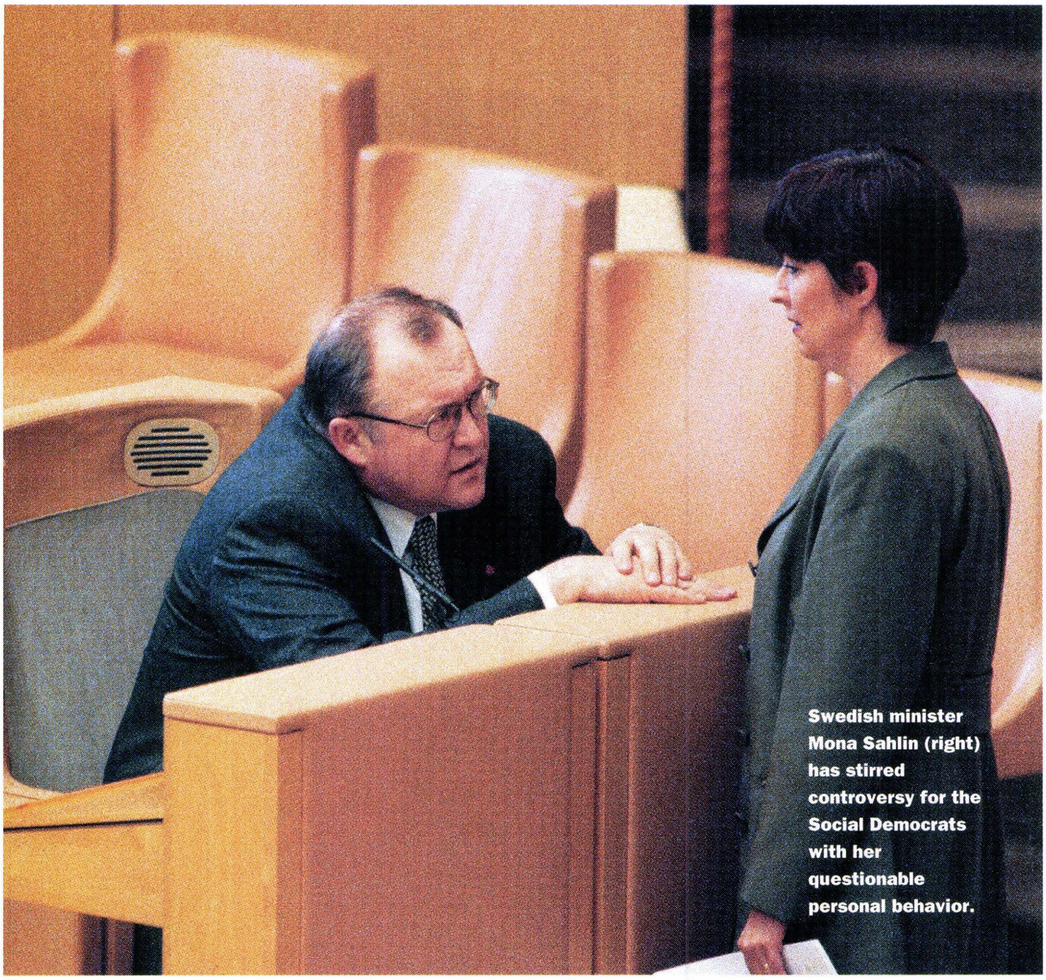
**Deutsche Post**, Germany's global mail and logistics group, which is challenging the dominance of **FedEx** and **UPS** in world express delivery markets, posted record revenues and earnings in 2001 despite the global economic slowdown in the wake of the September 11 terrorist attacks in the US.

The partially privatized company boosted revenues by 2 percent to $29 billion, while operating profits grew 7.1 percent to $2.3 billion and net income was 4.6 percent higher at $1.4 billion.

Chief executive Klaus Zumwinkel said the company expects to continue its success in 2002 but conceded, "it will be difficult to beat our operating result again."

*—Bruce Barnard*



**Swedish minister Mona Sahlin (right) has stirred controversy for the Social Democrats with her questionable personal behavior.**

that question from the election debate by scheduling a referendum on adopting the euro before the election vote, but he hasn't succeeded. His own party is split on joining the euro zone, and the political left, on whom the Social Democrats rely to get their proposals through Sweden's parliament, the Riksdag, is against both the euro and Sweden's membership in the European Union.

At the same time, the left is pressing for a coalition government. Sweden has a long tradition of minority Social Democratic governments, something the party is loath to change. Recent polls show the Social Democrats' popularity at an all-time high but that they still can't win a majority of voters.

One reason for the Social Democratic upswing is that Persson has grown into his job. He gave a stellar performance last year when Sweden had the EU presidency. From having been seen by many voters as something of a clumsy "buffalo," to use the Swedish expression, Persson is now perceived as something of a statesman. He's learned how to come across as an authoritative, rational kind of father figure and generally seems more relaxed as the head of the government.

The other major parties are the Conservatives and the Christian Democrats. But the Center Party, the Liberals (who are to the right of the Social Democrats), and the Greens are teetering on the brink of losing the minimum 5 percent of the national vote needed to retain their right to seats in the Riksdag. Sweden's political picture seems to be shifting closer to the US two-party system, something that distresses many Swedes who think a broader range of political opinion is needed.

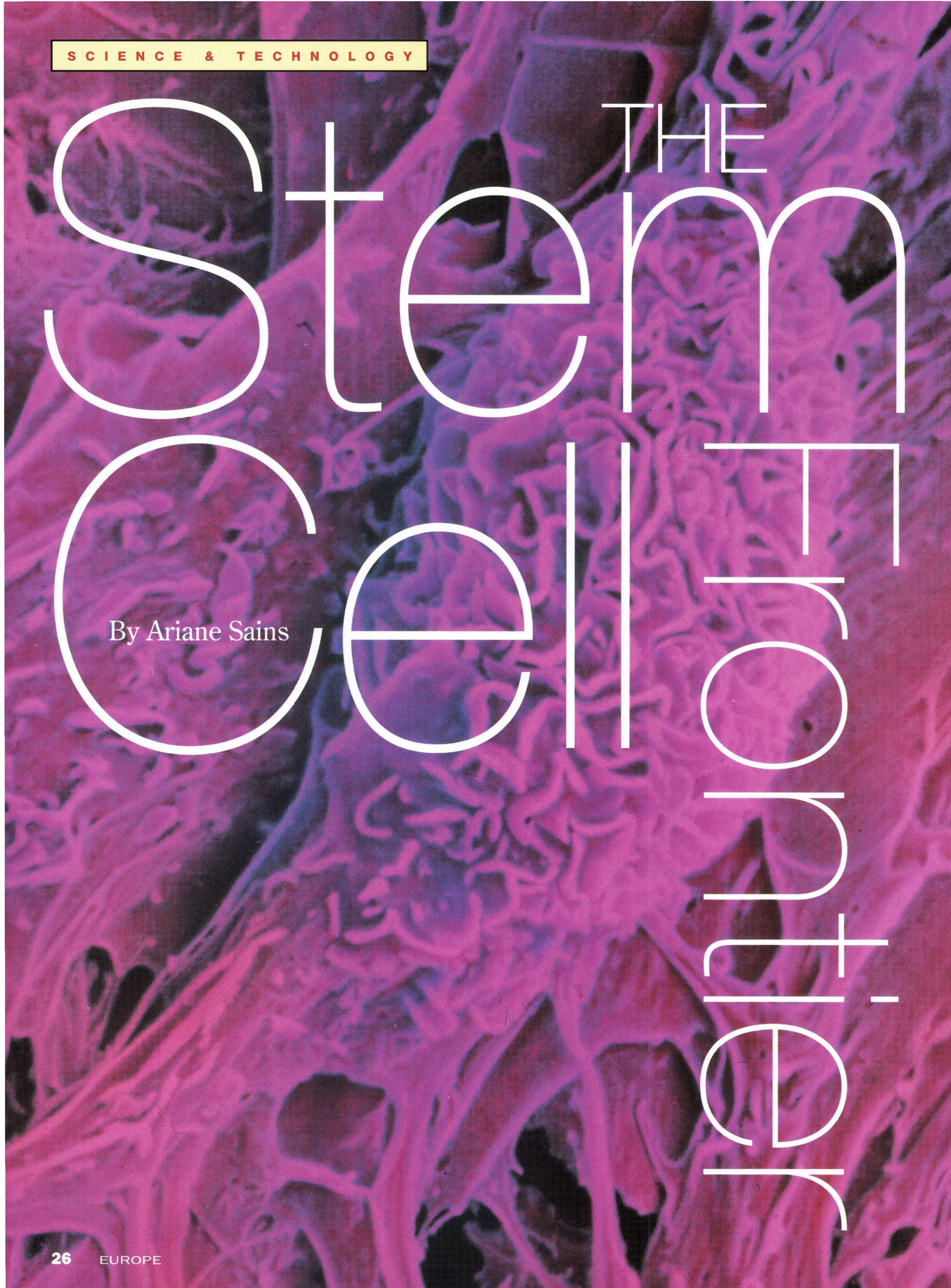
Another perennial issue in Swedish politics is energy. This month, the government is expected to outline a new energy policy, which will have been developed in consultation with at least some of the other parties. An important component is expected to be an indefinite postponement of the shutdown of Sweden's eleven nuclear reactors. One was closed by government order in late 1999, but despite its formal position that the reactors will be closed early, the government has clearly backed away from that stance. Instead, an agreement with the utilities that operate the reactors is likely to let them run as long as they are technically able, which could be forty years. That would be similar to the agreement in Germany, where a phaseout has been set but over the very long term. Those who follow the utility industry will also be watching to see what, if anything, the government says about state-owned utility Vattenfall and how it is prepared to help Vattenfall finance its European expansion.

The state of the economy, which just a few months ago would have been at the top of the Swedish election-issue list, is increasingly of less concern. Although there was a record number of layoffs last year, it didn't stop shoppers from emptying the stores during the holidays. Real estate prices remain high, especially in the bigger cities. Generally, consumers say they feel economically confident.

The ripples from the crash of Sweden's plethora of information technology companies have largely abated. Biotechnology seems to be replacing IT as an economic cornerstone. Although biotech startups can also be risky for investors, unlike IT, there is less hype and more concrete products. Sweden's biotech industry is also well developed and works closely with universities around the country and a number of hospitals.

Smaller, startup companies also have the advantage of multinationals such as Pharmacia & Upjohn and AstraZeneca having major operations in Sweden. That creates a market for subcontractors and an interest in helping to finance smaller companies that might develop products useful to the bigger companies.

Assuming no more surprises in the cabinet and no economic backslide, Sweden's Social Democrats seem headed for victory in September. Ⓔ



# THE Stem Cell Frontier

By Ariane Sains

# Has the Bush administration's stand on stem cells given European researchers a crucial advantage in health care's new frontier?

When President George W. Bush limited federal funding of stem cell research last fall, he handed Europe a business opportunity that could prove to be better than the most favorable trade agreement. Bush's action means that public financing of US stem cell research is limited to those types of cell groups—known as cell lines—already developed. Federal money will not be available to develop new lines. That restriction means the United States, normally at the forefront of biotechnological research, could easily fall behind in the stem cell race, especially because work is progressing so rapidly in European Union countries, notably the United Kingdom and Sweden.

**An electron micrograph depicting cultured embryonic stem cells, from which all the body's specialized cell types develop.**

# A Stem Cell Primer

*When political debates involve technical or scientific matters, terms and phrases can be tossed about, leaving the layperson unclear about their meanings. Here, then, is a primer about human stem cells—what they are, where they come from, and why the research is controversial.*

### What are human stem cells?

Human stem cells are self-renewing, *unspecialized* cells that develop into almost all of the 216 known types of *specialized* cells in the body, such as nerve, muscle, and bone cells. Biomedical researchers are seeking to learn whether this unique ability to change can be harnessed to develop therapies to treat such diseases as diabetes, Alzheimer's, and Parkinson's by replacing damaged or malfunctioning cells with new, healthy cells of the same type. Researchers also are using stem cells to understand how cells differentiate or develop, seeking clues that one day might be used to coax cells that are damaged or diseased into repairing themselves.

### Where do human stem cells come from?

Human stem cells are found in the embryo, fetal tissue, and adult (already developed) cells. Stem cells that come from the embryo and fetal tissue have a more robust ability to differentiate or turn into other cell types and are called pluripotent stem cells. Adult stem cells come from tissue that already has become specialized, such as blood, brain, or bone marrow. An adult stem cell can turn into the tissue from which it originated and also appears capable of developing into other cell types under certain conditions. While all three stem cell types have immense potential, most researchers in the field believe embryonic and fetal stem cells are the more useful because of their unique ability to differentiate.

### Why is the research controversial?

First, let's clarify something: most stem cell research conducted in Europe and the US is not controversial at all. This is because scientists have been experimenting with stem cells from laboratory animals (usually mice) or from such accepted human sources as placenta, fetal tissue obtained following spontaneous abortion (miscarriage), adult cells, and even human fat. The political and ethical controversy surrounds stem cells derived from human embryos. This is because the embryo, which typically is between five and fifteen days old, has to be destroyed for the stem cells to be removed and harvested for research. Thus, those who believe that human life begins at conception argue that destroying a human embryo to obtain stem cells is tantamount to murder.

—*Ted Agres*

It also means that European hospitals and research institutes are in a unique position to benefit from public and private money available for stem cell research. The US restriction means money is not available directly to the National Institutes of Health, for instance, to develop new cell lines in the US, but it doesn't stop NIH researchers from collaborating with foreign researchers abroad. Such collaboration is clearly in the works. And even if foreign researchers at public institutions are prohibited from selling embryonic stem cells, as most are, cooperative efforts will give them a broader scientific and economic base.

For scientists, Europe is increasingly the place to be for stem cell research because of more liberal regulations. "If you want to improve methods of deriving embryonic cells, then Britain is better," says Dr. Robin Lovell-Badge, who heads developmental genetics at the UK's National Institute for Medical Research. And, in this case, where the researchers go, the money is likely to follow.

Stem cell research is highly controversial on religious and ethical grounds. It generates questions about the ethics of creating embryos for research, through cloning or by using eggs and sperm from in vitro fertilization.

Embryonic stem cells come either from embryos or aborted fetuses. They can also be created through what's known as therapeutic cloning, one of the most controversial aspects of stem cell research, raising the specter of mad scientists cloning

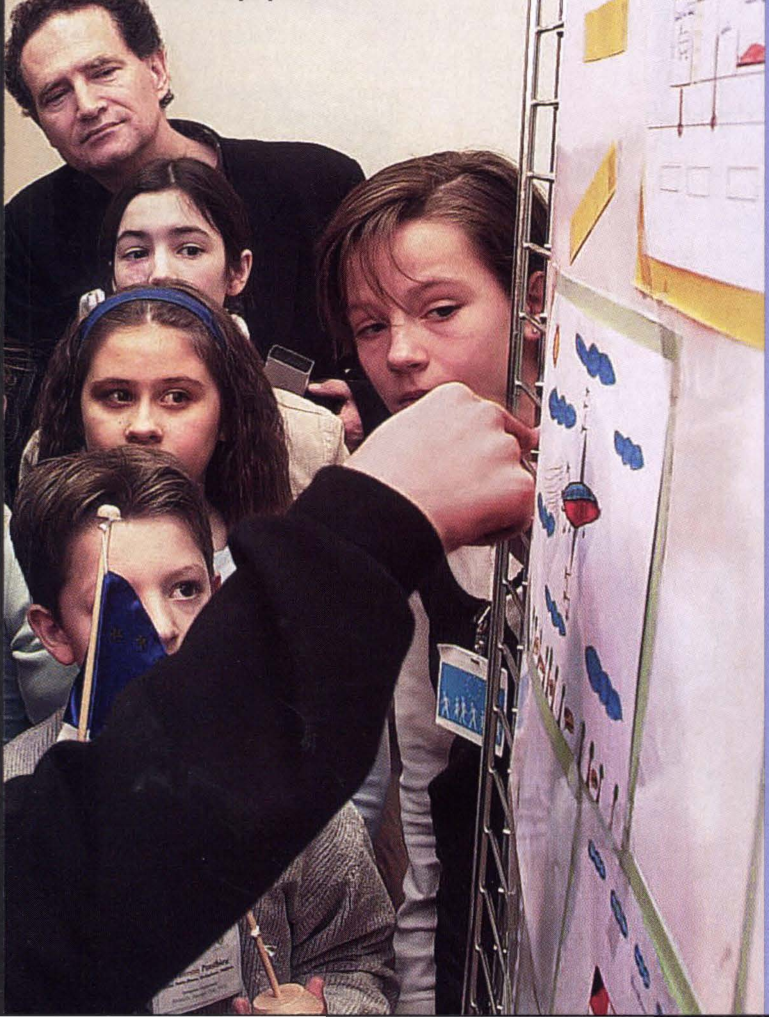
human beings in secret, like in the movie *Boys in Brazil.*

Because embryonic stem cells are not yet what's known as "specialized"—that is, they have no specific function—they can be developed into any type of specialized cell. Scientists believe that it may be possible to cure or prevent illnesses such as Parkinson's disease and diabetes using embryonic stem cells.

In some cases, it may be possible to test medications on human cells affected by specific diseases without actually testing them on human beings. In others, sick or genetically deformed cells could be isolated and replaced with healthy cells. Each disease requires a separate cell line. Developing cell lines is costly, time consuming, and far from certain.

Research has focused on embryonic stem cells, just because they aren't yet specialized. They can also divide indefinitely under the right conditions. But some scientists now believe that adult stem cells, which are specialized and which don't keep dividing, are equally useful. Others argue that that's simply an attempt to avoid the controversy surrounding embryonic stem cells.

The EU has financed fifteen research projects involving stem cells, for a total $24 million and fund-



The EU's research commissioner, Philippe Busquin, has said that European research programs "do not and will not fund research on embryonic stem cells that involves the creation of an embryo for research purposes."

# Swedish Researchers Follow Stem Cell Trail

Jonas Frisén, a researcher at Sweden's prestigious Karolinksa Institute, has a dream. Someday, he hopes to develop a drug that will stimulate stem cells to create new cells. Frisén may just be the person to do it. In 1999, he isolated stem cells in the adult human brain, building on research that showed the brain can repair itself.

The researchers at Karolinska, however, have taken their work one step further, creating a commercial entity, in cooperation with a Swedish biotechnology company called NeuroNova. Frisén helped start the company.

It's exactly that type of public-private partnership that has US researchers so interested in Sweden. Canadian biotech companies also have established a cooperative program with Karolinska. Recently, Sweden's Tobias Foundation endowed Karolinksa with the equivalent of $1.5 million for a professorship in stem cell research.

Karolinksa, however, is far from the only institute in Sweden at the forefront of stem cell research. Huddinge Hospital, in a suburb near Stockholm, has approved replication of stem cells from embryos. Sahlgrenska Hospital near Göteborg, Sweden's second-largest city, also does major stem cell research. Scientists there are working on a new type of cloning that doesn't require embryos, which would solve many of the ethical dilemmas involved with stem cells.

Sweden, in fact, has surpassed the United States when it comes to the number of cell lines developed, with twenty-four versus the US's twenty. And researchers could get an enormous boost if the Riksdag, Sweden's parliament, approves a government proposal that would allow therapeutic cloning of stem cells for research.

Despite protests from some of Sweden's opposition politicians, notably in the Christian Democratic Party, the government believes that the good that can come from stem cell research outweighs the bad. In general, the stem cell debate in Sweden has been much less shrill than in the United States.

With the research and politics falling into place, the money is following. In February, management at Investor, the holding company run by the powerful Wallenberg family, said it was considering investments in genetic biotechnology.

NeuroNova has a fresh $3 million infusion of venture capital and is developing already patented ideas. Patenting early is something new for Swedish researchers, but as NeuroNova's chief executive Ann Marie Janson points out, potential big drug company partners are not willing to invest in ideas that haven't been patented.

Only a few years ago, Sweden was synonymous with information technology and the e-revolution. But now, people are more apt to talk about the g-revolution as in 'g' for genetics.

—*Ariane Sains*

# US Stem Cell Policy

Under rules announced last year by President George W. Bush, federal funds for the first time are available for research in the US involving human embryonic stem cells (HESC). Prior to this, HESC research was permitted but could not be funded with government grants. Under the new rules, the HESC lines eligible for federal funding must meet three criteria: They had to have been derived prior to Bush's policy announcement; they were obtained from surplus embryos created by couples seeking in-vitro fertilization; and there was no financial incentive or payment to the donors. At present, seventy-eight cell lines from fourteen organizations worldwide are certified by the US National Institutes of Health (NIH). Because human embryos were destroyed to harvest the stem cells, the research is ethically and politically controversial.

The controversy began in 1998, when two US researchers, James Thomson and John Gearhart, independently isolated human stem cells. Thomson used donated cells taken from embryos grown in-vitro while Gearhart's came from aborted fetal tissue. While scientists would have liked to use federal funding for HESC research, a long-standing prohibition known as the Dickey Amendment bans the use of public funds for any research that destroys or harms a human embryo or fetus.

In January 1999, the Clinton administration announced that human embryonic stem cells were not in themselves embryos, suggesting that federal funds could be made available. In response to criticism, the rules were modified over the next year to strike a middle ground: Federal funds could not be used to destroy embryos to derive the stem cells, but federal funds could be granted to support research on the stem cells themselves.

The NIH drew up procedures to review grant proposals. But on April 25, 2001, the first scheduled meeting of an NIH policy group was quietly and indefinitely postponed as the new Bush administration sought to reevaluate Clinton's ruling. The new Bush policy, announced several months later, left the essential elements of the Clinton policy in place, only limiting research to existing stem cell lines.

In February 2002, the NIH announced the government's first-ever HESC research grant: a $50,000 supplemental award to a researcher at the American Red Cross who had been studying the formation of stem cells in mouse blood. That same day, however, Red Cross officials said they would not accept the award because their "strategic research priorities" do not match the scope of the grant.

It is highly unusual for a research organization to turn down a grant it requested, and other research groups suggested the Red Cross, already stung over its handling of donations following September 11, was fearful of public backlash against the controversial research. The NIH is evaluating several other grant applications and is prepared to award at least $4 million this year for research involving HESC, says Wendy Baldwin, deputy NIH director for extramural research. Baldwin adds she wants to make HESC funding "as mainstream as possible," moving it out of the realm of the unusual.

*—Ted Agres*

**ing continues in the latest framework research program that runs from this year through 2006. But the EU money goes only to research on adult stem cells and cells from umbilical cord blood or aborted fetuses, not to projects involving cloning or fetuses created from in vitro contributions.**

**Philippe Busquin, the European commissioner for research, is adamant that "European research programs do not and will not fund research on embryonic stem cells that involves the creation of an embryo for research purposes."**

**The European Life Sciences Group, set up by Busquin two years ago as an advisory panel, says that the EU "research on human stem cells...could revolutionize therapy, perhaps on a scale comparable to the introduction of antibiotics." But the group adds that therapeutic cloning should be prohibited.**

**Busquin would also like to see clearer national regulations that "unambiguously define what is allowed and what is forbidden." A survey last year by the research directorate general showed broad differences among EU member countries on stem cell research regulations. The EU's policy on stem cell research, with its prohibition on creating embryos, extends only to projects it finances. Otherwise, regulations are up to each member state. Regulations vary widely, from Italy and Greece,**

Batches of embryonic stem cells are carefully stored in an incubator.

which have no legislation on embryo research, to the UK, which allows research on human embryos.

Research on embryonic stem cells was banned in Germany, where the horrible shadow of Nazi experiments on human beings still lingers, although it has been legal on adult stem cells. In January, however, after a five-hour debate, the German parliament agreed to allow imports of embryonic stem cells for research under strict conditions. Both the parliament and the German government were deeply divided on the issue.

German Chancellor Gerhard Schröder, a Social Democrat, favored the plan, saying that "freedom to research is part of our basic rights." But Wolfgang Wodarg, a member of Parliament and also a Social Democrat, argued that "killing an embryo to use its stem cells isn't much different than killing a person to use her organs."

The US government's position is in sharp contrast to several European governments. Denmark allows research on embryos less than fourteen days old and also permits the creation of embryos for research. Spain allows research on embryos fourteen days or less. And in Sweden, an ethics committee recently declared that Sweden has no reason to change its policy allowing embryonic stem cell research, saying it is "ethically defensible," as long as the research is independently monitored.

Since 1989, the British Biotechnology & Biological Sciences Research Council has put about $28 million into embryo stem cell research. Much of that was spent on mice. But in January 2001, research on human embryos became legal in the UK, for purposes other than improving the chances for the success of in vitro fertilization. The UK also permits creation of embryos for research. In making the decision, the British government released a statement saying, "This research offers substantial hope for the treatment of serious human diseases."

As a result of the decision, the British Biotech Council expects funding to increase substantially and quickly. The Wellcome Trust, one of the world's biggest medical charities, is also considering financing a human embryo cell bank, under a plan proposed by the British government. In endorsing broader stem cell research, trust officials noted in a policy statement that "the use of human embryos in biomedical research raises a number of social and ethical issues." But they went on to say that expanding what's legally allowed is "ethically justifiable, in view of the new understanding and treatments it could offer for conditions that affect so many people."

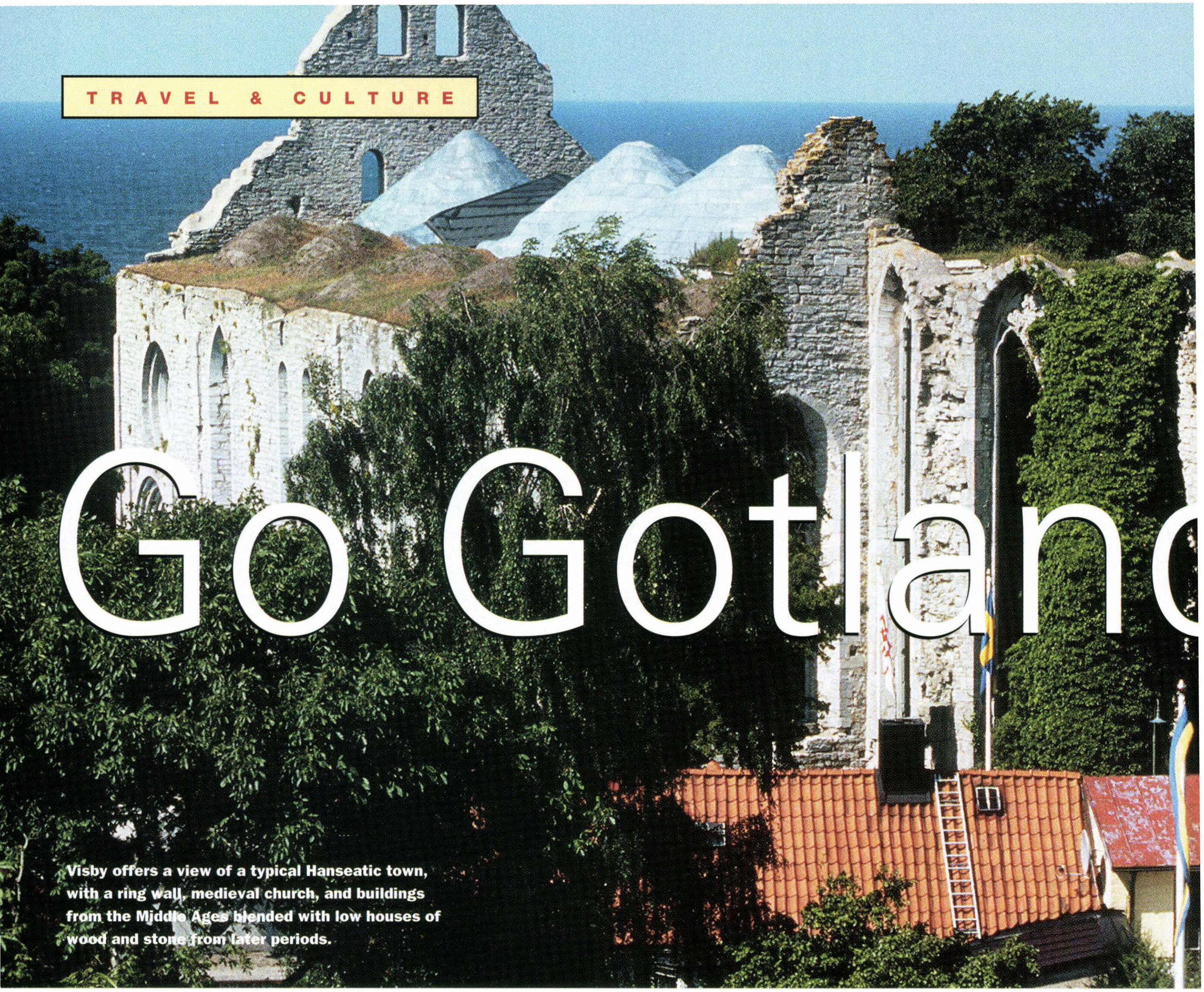
A human embryo at the ten-cell stage on the tip of a pin.

In addition to charitable and public funding, Europe's $40 billion venture capital industry is hungry for investments in cutting-edge biotechnology with the kind of potential payback that stem cell applications have. The type of smaller companies they're looking for often work closely with research institutes and hospitals. That, in turn, will attract both US researchers and US-based drug companies, creating an ever-widening stream of money into European stem cell research.

Coupled with the Bush decision to limit funding, Europe seems destined to take the stem cell lead. ⊜

*Ariane Sains, based in Stockholm, is a* EUROPE *contributing editor.*

# Go Gotland



Visby offers a view of a typical Hanseatic town, with a ring wall, medieval church, and buildings from the Middle Ages blended with low houses of wood and stone from later periods.

Drive around Gotland and you might think part of New Zealand had been transplanted to this Swedish island. Sheep of all sizes, shapes, and varieties are everywhere. Virtually every farm and shop has a sign advertising sheepskins and wool clothing for sale. Island or no, fish are not a hot commodity here.

Gotland is about three hours by fast ferry from the port of Nynäshamn, in turn an hour by car or bus from Stockholm. Going there is in many ways like taking a trip back in time. Parts of the main city of Visby date back more than 1,000 years. There's a sense of antiquity in the narrow cobbled streets that is remarkable even by European standards.

Then too, because it is an island and until fairly modern times was relatively isolated from the mainland, Gotlanders have retained a unique culture. They've also retained an accent that many mainland Swedes find hard to follow.

You can see the whole island by car in a couple of days. Especially noteworthy are the *raukar*, which are dotted around the island and look like some kind of Viking Stonehenge but are actually fairly modern geological rock formations created by water and wind.

Gotland's high season is, of course, summertime. There are large beaches, including the one on Gotska Sandön, a tiny island in the Baltic Sea off the main island's coast. There are also several weeks of medieval activities, featuring everything from jousting to smithing to strolling musicians.

Another worthwhile summer visit is to the Viking Village near Visby, where you can check out a traditional Viking longhouse.

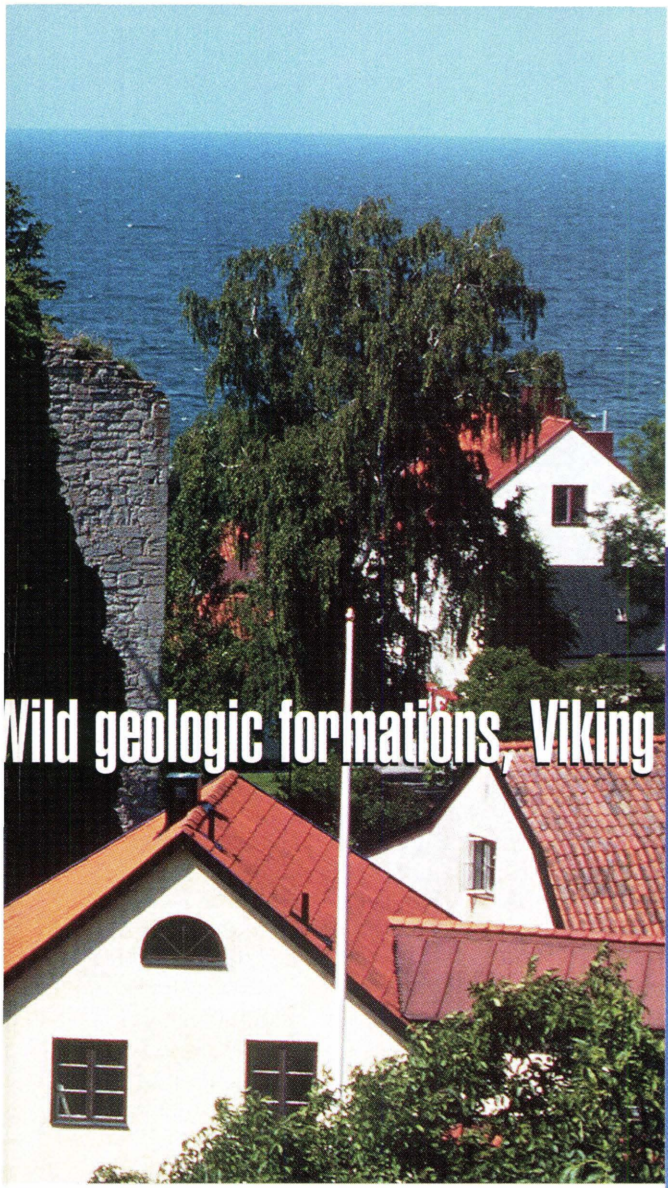
But some visitors may find it just too crowded at the height of the season, especially during the week that the country's top politicians gather there for a round of speeches and seminars. That tradition was started by the late prime minister Olof Palme, who had a summer home on Gotland.

Even without the politicians, in summer the streets of Visby can become choked with cars. Parking is limited, and making a restaurant reservation for dinner less than three days in advance can be a challenge.

The alternative is to try Gotland in spring or fall or around the December holidays. The island has different kinds of charm at each time of the year. Even during winter, there's a warmth that comes from the lights in the windows of the low wooden houses set directly on the streets in Visby. You can also see Gotland's winter roses that bloom all through December.

There are wonderful holiday craft markets, featuring—surprise—anything that can be made from any part of a sheep. It's hard to get tired of looking at what's available, though. The designs and colors of the handmade coats, boas, vests, and hats aren't likely to be found anywhere else.

There are also a number of talented glassblowers. Again, their designs are unique. You may, however, have to order pieces, since most glassblowers don't keep large stocks and even stores



# Wild geologic formations, Viking ruins, and the world's best kajp soup

By Ariane Sains

may have only one or two sample items. Unfortunately, the wait to get what you want can be long.

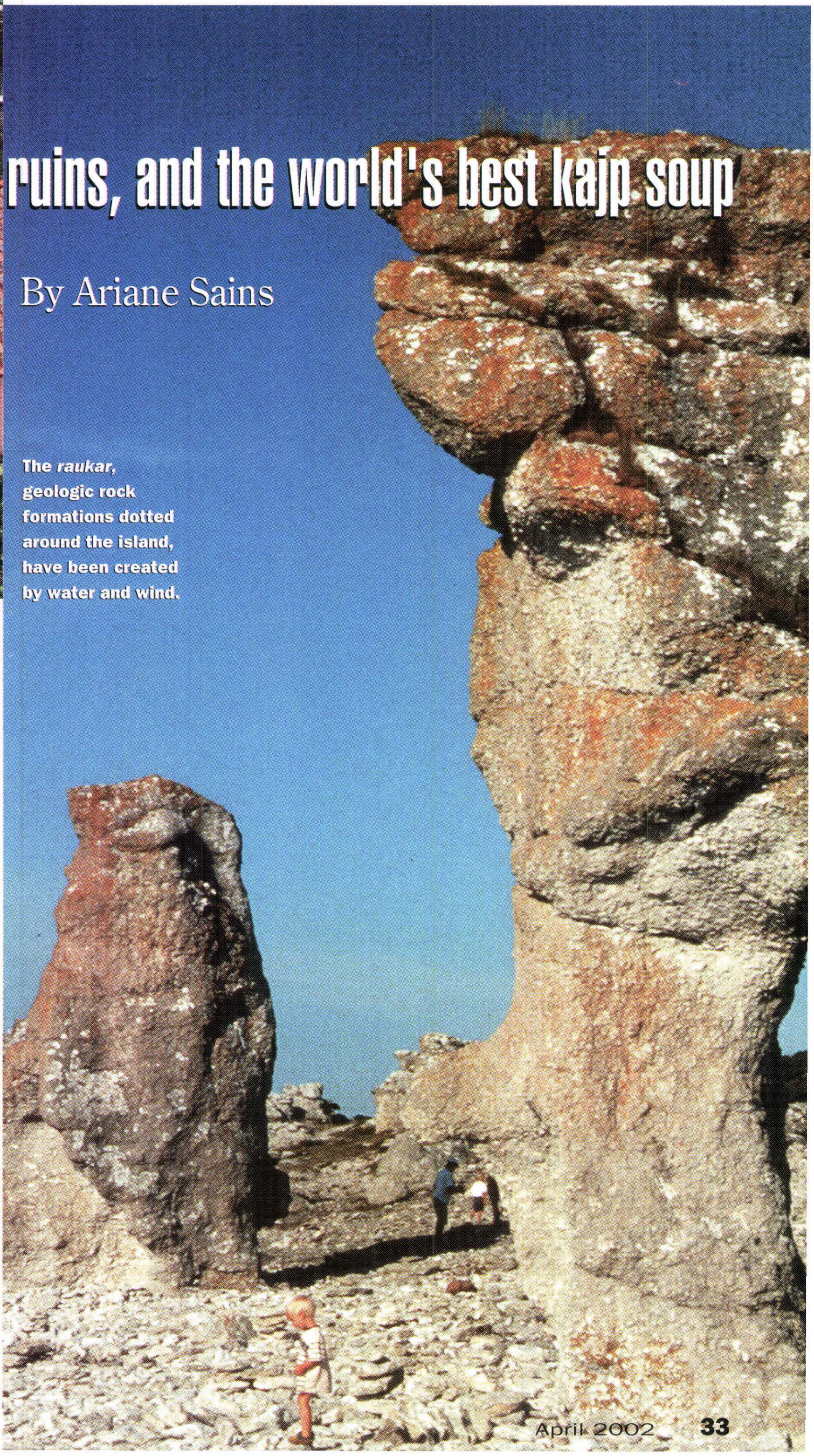
Regardless of what time of year you visit, the Historical Museum of Gotland is a must-see. There's an extensive collection of rune and picture stones that have been found on the island. It takes a while to realize that these are the real things, beautifully preserved, not just copies. The Viking period is also well represented, and there's enough information in English to help you get oriented.

When it comes to food, guess what's on the menu. Variations of lamb seem almost infinite and are always the main course in any restaurant's "Gotland Menu." First courses vary, but try to find a place that offers *kajp* soup. Kajp is a kind of onion found only on Gotland, with a flavor that's mildly pungent. Most Gotlanders grew up with their mother's kajp soup, although no two families have the same recipe. The classic Gotland desert is always a saffron pancake, but here too, recipes vary widely.

One of the best restaurants in Visby is Donners Brunn, in the town center. A cozy place with great food, the Donners' staff also provides outstanding service. Bakfickan, one of the few restaurants with a fish menu, has a good reputation but doesn't always live up to it. Even in the off-season, you need to book at most restaurants.

Food, and everything else on Gotland, is expensive, especially considering how relatively inexpensive the capital city of Stockholm has become with the favorable dollar-krona exchange rate. Be prepared to pay at least $125 per night for a room in an average Visby tourist hotel during low season and much more in summer. You can, however, camp or stay at a hostel for less.

Handcrafts and clothing are similarly costly. Although given that most are truly handmade and often unique, they are more likely to be worth the price than mass-produced tourist trinkets. It also pays to get out of Visby to buy. Prices are lower in shops elsewhere on the island and still lower if you buy directly from a farmer or glassblower.



**The *raukar*, geologic rock formations dotted around the island, have been created by water and wind.**

# Books and Roses in Barcelona

By Lucy Gordan

Hands-down, the most unique day of the year for a bibliophile to be in Barcelona is April 23, *La Diada de Sant Jordi*. This Day of St. George, patron saint of Catalonia since 800 AD when the French helped drive out the Moors, is an alternative to St. Valentine's Day. Men give roses to their *inamoratas*, who reciprocate with books (at heavily discounted prices).

Observed since medieval times as the Rose Festival, the lover's *festa* became even more poetic in 1923 when, thanks to a local bookseller, Vincenc Clavel, it merged with *el dia del llibre* or "the day of the book" to mark the nearly simultaneous deaths of Miguel de Cervantes and William Shakespeare on April 23, 1616. (That date is also Shakespeare's birthday, fifty-two years earlier).

Since 1997, "A rose for love, and a book forever" has been its official slogan. Approximately 4 million roses and 400,000 books are sold on Sant Jordi's Day—that's 50 percent of annual sales in the region, although the approximately 6 million Catalans read more books than other Spaniards, the least bookish Europeans. Bookstalls run the length of the "old" city's main boulevard, the tree-lined *La Rambla,* which is interspersed with news kiosks and performing mimes, jugglers, and acrobats, and according to author García Lorca, "the only street in the world which I wish would never end." Booksellers also appear overnight in spacious Plaça de San Jaume, originally the site of Barcelona's Roman forum and marketplace and since medieval times the Cathedral Square. On what is in fact an official workday, nearly all of Barcelona seems to take to the streets to browse through books and chat with their favorite authors, who are all-too-happy to sign their newest volumes.

The bookstalls lining the main boulevard of Barcelona's old quarter do a thriving business on April 23.

In Barcelona, Sant Jordi is everywhere. The Generalitat, Catalonia's seat of government, (open to the public only on April 23), displays no fewer than seventeen representations of Sant Jordi in bronze, silver, wood, bas-relief, oil painting, and a tapestry; one is in the center of its main façade. Sculptures by art-nouveau master Eusebio Arnau show the gallant knight piking the dragon on Palau de la Música Catalana, the Casa Amatller, and café Els Quatre Gats (the site for Picasso's first public exhibition in 1899). Eccentric native-son architect and mystic Antoni Gaudí's Casa Batlló has the cross of Sant Jordi implanted in its scaly roof, which represents the dragon, Barcelona's mascot. Throughout 2002, Barcelona is celebrating the 150th anniversary of Gaudí's birth. Nineteen different exhibits will feature his work as an architect, ceramist, and furniture designer and document his relationships to his patrons, the Güell family, and to his fellow artists: Miró, Dalí, Verdaguer, and Jujol, his disciple.

One of the most venerated of all historical figures, Sant Jordi is generally identified as a soldier in the Roman army who was martyred in the fourth century for adhering to his Christian faith. In 1264, or thereabouts, Italian writer Jacobus de Voragine further spread the Sant Jordi story in his biographical histories of the saints, *Legenda Sanctorum* (also known as *The Golden Legend*). No one nation can


The Generalitat, Catalonia's seat of government, displays no fewer than seventeen representations of Sant Jordi, including this one in the center of its main façade.

claim Sant Jordi, or St. George, exclusively, and in fact, he—and his symbolic Greek-style cross—subsequently became venerated across the entire face of Europe. The name George, moreover, is universally connected with springtime, agriculture, and the greening of the fields. Hence, many Sant Jordi's Day roses come with a spike of wheat to augur a rich harvest.

Why books? If Cervantes and Shakespeare aren't enough reason, there's more: according to *BMC* (the catalogue of books printed in the fifteenth century now in the British Museum), the first books were printed in Spain by itinerant Germans in Barcelona. They were Aristotle's *Ethica ad Nicomachum* (typographer Henricus Botel's contract is dated January 5, 1473) and the Nicolaus Perottus's, *Rudimenta Grammatices* (a volume dated December 12, 1475 by typographer Johannes di Salzburga). A bit later, in 1490 to be exact, the Valencian Joanot Martorell published *Tirant Lo Blanc*, a bawdy epic narrative considered the first true European novel and described by Cervantes as "the best book in the world."

Today Barcelona, though still a principally Catalan-speaking city, is the publishing capital of the Spanish-speaking world, as well as the planet's fourth-ranked book producer overall. On the Spanish government's initiative, April 23 was declared World Book and Copyright Day by UNESCO on November 15, 1995; roses and books are now exchanged in twenty-six countries, in places as diverse as Andorra and Japan.

Booked-out? Hungry? At Casa Leopoldo, (San Rafael 24), you can dine elbow-to-elbow with Barcelona's most famous contemporary writers Manuel Vásquez Montalbán, Joan Marsé, and Eduardo Mendoza. Or, after paying your respects to Cervantes's house (Passeig Colón 2), choose between eleven paellas, delicious homemade cannelloni, and a fantastic selection of fish dishes at nearby Set Portes (Passeig Isabel II, www.7puertas.com). It was founded in 1836, and the pages of its guest book bear the signatures of numerous famous authors, including García Lorca and Gabriel García Marquez.

For literary lodgings, the Hotel Oriente (La Rambla 45-47) was a favorite of Washington Irving, Hans Christian Andersen, and Ernest Hemingway. At Hotel Colón (opposite the Cathedral), Tennessee Williams always booked room 609. Ⓔ

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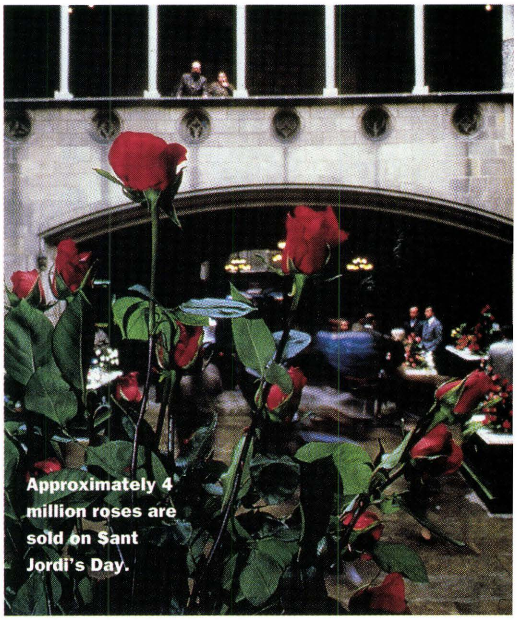
*Lucy Gordan, based in Rome, covers travel and culture.*



Approximately 4 million roses are sold on Sant Jordi's Day.

# CAPITALS

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


On January 1, euro notes and coins were finally retrieved from cash machines, tucked into billfolds, and exchanged for goods and services across the twelve-member euro zone. The arrival of the tangible embodiment of the EU's now three-year-old single currency appears to have gone according to its carefully scripted plan. Thanks to massive and detailed preparations by the euro nations' governments, the European Central Bank, and the European Commission, consumers and business owners greeted the cash changeover with little confusion and appropriate fanfare, even if the euro's value has remained well below the mark it set upon its introduction in 1999.

We asked our correspondents in euro member countries to report on the currency's first historic weeks in circulation, and we asked those correspondents in the non-euro nations (Denmark, Sweden, and the United Kingdom) to describe what effect, if any, the euro changeover has had on their local economies.

DUBLIN

## EURO SWITCH EASY, EXCEPT FOR CHECKS

It was New Year's Day and the first (almost) all-European currency was in existence for the first time since the Roman Empire. In came the euro; out went the Irish pound and the haunting image of a Chicago woman that had graced the Irish currency since the mid-1920s, shortly after the founding of the newly independent state.

Lady Hazel Lavery was a stunningly beautiful American who fell in love with Ireland—and even changed her birthday to St. Patrick's Day. Her portrait, painted by her husband Sir John Lavery, was chosen to adorn the Irish banknotes. But the portrait—supposedly "an emblematic image of Irish womanhood"—is now consigned to history.

Preceding her visage among the dusty stacks of history were the ideas of Richard Whately, the former Protestant archbishop of Dublin who, in the 1850s, proposed the establishment of a "uniform currency" for Europe. His concept, submitted to the British government and the consort, Prince Albert, uncannily mirrored today's euro. He stipulated that the coins "should have no indication of nationality" in order that national jealousies might not be aroused. Sound familiar?

Whately, a professor of political economy at Oxford University before becoming Archbishop of Dublin, pointed out to Prince Albert the advantages of a uniform currency. "The trouble, and often fraud," he stressed, "occasioned by having to change all one's coins in going from one state to another are evils of which no one is unaware."

More than 150 years on, all that remains of Whately's proposal is his original letter and a supportive response from Prince Albert, now tucked away in the library of Windsor Castle in England. So much for history.

No one even thought to raise a glass to either the lovely Lady Lavery or Archbishop Whately as the euro came bounding over the European horizon on New Year's Day. But there was plenty of champagne and other cheer to mark the historic occasion.

Before the euro changeover, the gloom-and-doomsayers had forecast calamity, particularly among the confused elderly, prompting one wit to remark: "They should have waited until all the old people were dead before they brought it in."

Five days after its introduction, banking and other institutions were happily reporting that the Irish public and, in particular, the elderly had taken to the new currency like ducks to water. Apparently, the €5.5 million ($4.8 million) spent on television, radio, and press advertising had done its job.

One week later, Philip Hamell, chairman of Ireland's Euro Changeover Board, was confirming that more than half the population were using euro notes and coins and the volume of cash transactions being carried out exclusively in euro was continuing to rise rapidly.

Half a million social welfare payments were made in euros in the first week. Retailers smoothly took in Irish pounds and gave change back in euros. Many Dublin bars and entertainment centers operated in-house bureau de change facilities, exchanging the euro for Irish pounds with the minimum of hassle.

Even the usually staid Central Bank of Ireland broke all taboos on New Year's Day as its normally sober-suited officials emerged from the vaults and dished out champagne and hot whiskies to those queuing to get the first of the new currency.

Well ahead of the February 9 deadline, the official word was that the conversion was "virtually complete." The mechanics of the changeover were executed without fault. There were few reports of "rounding up" prices and less than ten reports of forged notes.

Police Superintendent John Farrelly said these notes were "crude in the extreme" and easily detected. Only one forged coin appeared in the first few weeks—again, a crude attempt, according to Farrelly.

Along the border with Northern Ireland that, like the rest of the United Kingdom, was sticking to sterling, most businesses took euro notes and coins with alacrity. "Irish pounds, US dollars, British sterling, the euro—after all, it's only money," said one sales assistant.

Most travel firms and vacationers also welcomed the change. Instead of going through the old time-consuming currency exchanges as European borders were crossed, now it is a case of using the same notes and coins wherever the visitor ends up within the euro zone.

The only blot on the euro landscape came in the form of complaints from Irish importers and exporters—and others—wishing to use their euro checks to pay for goods and services. The Irish Exporters' Association (IEA) called for the introduction of a euro-zone check-clearing system after it emerged that Irish banks were clamping down on Irish companies using euro checks to pay European suppliers.

IEA chief executive John Whelan said it was "totally unacceptable" that Irish banks were insisting that checks drawn on Irish banks were intended for use within Ireland only.

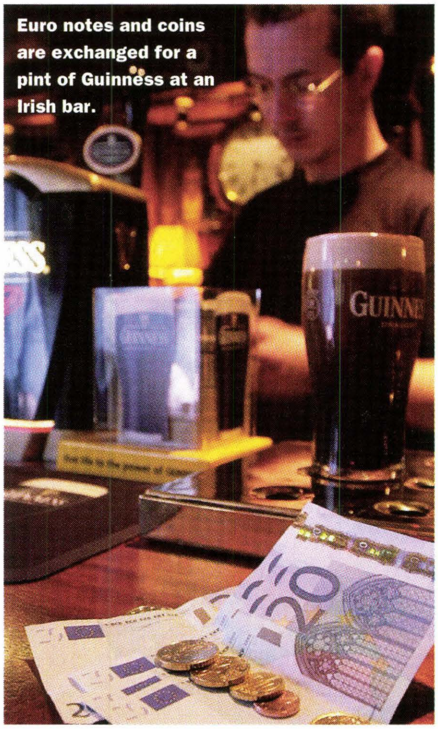
Dublin food ingredients manufacturer Daniel Hickey said if the banks wanted companies to cease using checks they would have to reduce their electronic transfer charges.

And Mark Fielding, chief executive of the small business lobby group Irish Small and Medium Enterprises Association (ISME), pointed out that people understood that once the euro zone was up and running an Irish check would be acceptable, but the European Central Bank (ECB) had not put a clearing system in place.

Last year, the ECB conducted a survey of European Union payment systems that showed 45 percent of all banking transactions in Ireland were made by check against 5 percent in Germany.

So apart from the general welcome and support for the euro, the bank clearing system remains unfinished business and a likely contentious issue down the road.

*—Mike Burns*




Euro notes and coins are exchanged for a pint of Guinness at an Irish bar.


A Belgian gas station advertises: "The euro is already here."

BRUSSELS

## BELGIANS PONDER SMALL COINAGE PROBLEM

Like most people in Brussels, I changed all my Belgian francs into euros within a couple of days. Three weeks later, I found a small hoard of coins in an old coat pocket, and went out to buy a couple of newspapers. I was astonished to find that I had great difficulty in counting out 66 Belgian francs, a currency that I had been using for more than twenty years. The truth is that I had got so used to handling euros in the previous weeks I had lost my familiarity with the old money.

I suspect that my experience was far from exceptional. Despite all the earlier misgivings, the changeover went amazingly smoothly, and reports of people finding difficulty with the process proved few. The economic affairs ministry set up a call center, expecting to receive thousands of enquiries each day, yet only 250 called on January 1.

Virtually the only recurrent complaint was that there were too many new coins and that they were too small. There are, in fact, eight euro coins against only five in the Belgian currency. The one-cent and two-cent coins—both very small—are particularly unpopular, and are widely regarded as unnecessary as they represent such small amounts.

It would not be surprising if they soon went out of circulation. There was a lot of popular support for the reported Finnish practice of rounding up or down all prices to the nearest 5 cents.

Fears that traders would make a "killing" by rounding up prices during the changeover did not materialize. As many prices were rounded down as up, and there were very few examples of an exorbitant price hike. However, a survey by the consumer organization Tests-Achats found that there had been significant price increases, averaging 7 percent in the previous six months. This suggested that traders had taken advantage of the forthcoming change to introduce price increases that otherwise might have been stretched out over a longer period.

The probability is that prices are now likely to remain stable for a lengthy period, with a tendency for them to fall, owing to the greater transparency and the ability to directly compare Belgian prices with those in neighboring countries that tend to be lower for many products.

*—Dick Leonard*

STOCKHOLM

## MOST SWEDES KEEP KRONOR

When do you think Sweden will get the euro?" the man asked the receptionist in the chiropractor's office as she gave him his receipt clearly marked in kronor, the national currency. "Who knows," she replied. "Who cares?"

While most of continental Europe now has a single currency, Sweden determinedly refuses to switch. Neither ordinary Swedes, nor the government or other politicians can agree about whether the euro is a good thing and, if so, when Sweden should move to the single currency.

Prime Minister Göran Persson thinks the euro would help Sweden, not least because it would mean a more stable currency. Just after New Year's, Persson floated a trial balloon on the idea of a referendum on the issue this year, likely before the September election, but won no support. Although Swedish referenda are non-binding, in recent years the government in power has promised to abide by the voters' decision. Even Persson admits that a vote would be close: his guess is 52-48 percent in favor.

But he says also that to win, he needs the powerful Swedish Trade Union Confederation on his side. Confederation leadership approves of the common currency but wants so-called buffer funds set up for members to protect their pension money in the event of an economic downturn that could put Sweden in conflict with the European Union economic convergence criteria. Such a system was put in place in Finland, at the unions' insistence, before that country joined the European monetary union.

Persson may have less trouble with the unions than with his own trade minister, Leif Pagrotsky. Pagrotsky says he has no sentimental attachment to the actual kronor bills and coins. But he has repeatedly said he thinks the euro will hurt the Swedish export industry. He also believes that Sweden needs to have an independent monetary policy and to keep the possibility for the central bank to raise interest rates to push down inflation.

While Persson was talking about a referendum, Pagrotsky said in a newspaper interview that if there was a referendum that day "I would vote no."

Despite Pagrotsky, Swedish businesspeople generally favor the euro. Göran Tunhammar, head of the Confederation of Swedish Enterprise, believes that "the arguments in favor of joining EMU have become even more convincing than they were five years ago."

But even if Swedes chose to switch tomorrow, it would be several years before they could. Among other things, the switch requires a constitutional change. For that to happen, the government must bring a proposal to the parliament, which then votes. If the vote is yes, before the change can take effect there has to be another parliamentary election and the new members must also vote on the proposal.

Since it is unlikely that the government would bring a proposal to parliament before a referendum, it means the absolute earliest a change could take effect would be after the 2006 election.

While the politicians argue, most Swedes do not appear too interested in the single currency. Swedes are great travelers, and there was a rush to trade in those currencies that were disappearing. But otherwise, it's a case of exchanging kronor for euro when they travel again—not much different than before. There is the advantage of being able to travel in a number of European countries with one currency. Ironically, however, this is of little help in the Nordic countries, since only Finland has switched to the euro. Denmark has said no, and Norway and Iceland aren't even EU members.

On the other hand, in some places, operating with dual currencies is taken for granted. In northern Sweden, merchants in communities on the Finnish border have long accepted the Finnish markka as payment, and they have simply started accepting euro instead. That part of the country is jokingly referred to as Sweden's Euroland.

Moreover, personnel on the luxury passenger ferries between various points in Sweden and Finland are also at ease with two currencies. They, too, will switch to accepting euro instead of the markka but may have to educate passengers from Sweden about their change. As one bartender explained as he gave a Helsinki-bound traveler a crisp €10 bill, "This is new."

*—Ariane Sains*

COPENHAGEN

## DANES WARM TO THE EURO

On January 1, when most European countries took leave of their familiar national currencies in favor of the euro, Denmark, along with the UK and Sweden, did not follow suit. At a referendum held in 2000, the habitually EU-skeptic Danes voted to keep in place four national reservations introduced in 1993 to limit the extension of Danish EU membership—reservations that included a ban on introducing the euro and on joining a European army.

Although unwilling to join the common currency, Danes showed no fear of contact with the new coins and notes. On the euro's first day in circulation, the Danish department of the prominent Scandinavian bank Nordea received twice as many orders for foreign currency as is normal for early January. Part of the explanation is that Danes in general have been curious about the euro. But also, many trade organizations wished to have the currency in stock, readily available for their traveling employees.

The public interest for obtaining the common European currency could be perceived as a sign of a more positive attitude toward the euro among the Danes. This is in accordance with a recent opinion poll showing one out of five Danes who voted against the euro two years ago have changed their minds and would vote in favor of having the currency introduced if a referendum was held today. Such a change of heart would increase the number of voters in favor of the common currency to 51 percent, securing full Danish membership in the monetary union.

The Danish daily *Berlingske Tidende* quotes the Danish minister for European affairs, Bertel Haarder of the Danish Liberal Party, as saying that the more positive attitude toward the euro is due to the fact that the new currency is now a reality rather than merely an abstract theory in the making. He predicts that support for the euro will increase in 2002, as people become more familiar with the new coins and notes.

However, neither he nor the minister for foreign affairs, Per Stig Møller of the Danish Conservative Party, would offer a guess at the date for a new referendum. Møller told *Berlingske Tidende* that a longer, stable period with the euro in circulation is required.

Experts here say that one other factor will be especially decisive in the outcome of a potential Danish referendum on the euro: whether or not the UK and Sweden choose to join the new currency. Should those two countries decide to abandon their respective pounds and kronor, Danish kroner would in all probability face difficulty on the financial markets as the only currency outside the European monetary union. Faced with such a prospect, a larger number of Danes would likely vote for the euro.

Still, since previous Danish referenda on the euro have all resulted in a clear vote against joining, it is probable that a new referendum will not be held until public opinion in favor of the common European currency has solidified. Because this time, the pro-EU politicians want to make sure that they get the result they have always wanted.

*—Maria Bernbom*

THE HAGUE

## GUILDER SAYS GOODBYE FIRST

Sunday, January 28, was the last day of the Dutch guilder. The guilder came into existence in 1325 and has been the sole currency of the Netherlands since the late seventeenth century, making it one of the oldest currencies in Europe. Yet with the arrival of the euro, the guilder was the first euro zone currency to cease to be legal tender. The Dutch government had decided that the dual period, having both euros and guilders in circulation, would only last four weeks—the shortest period of all twelve euro countries. Thus, the Netherlands was the first to replace its historic currency.

Nobody seemed to mind. In fact, the euro's introduction had gone much smoother than the government had envisaged, even in its most optimistic scenarios. At midnight on January 1, 2002, in Maastricht, the city where ten years earlier the European heads of state and government had agreed on Economic and Monetary Union (EMU), a government-sponsored party celebrated the arrival of the euro. Among the guests were Prime Minister Wim Kok, who as a finance minister in 1991 helped draft the EMU treaty; his successor Gerrit Zalm, who seconds after midnight took the first euros in the Netherlands from a cash machine; and the president of the Dutch central bank, Nout Wellink. The next morning, Wellink and Zalm announced that the changeover was going according to plan. "We want to be 'European champion' in the euro introduction," Wellink said, alluding to the absence of the Dutch team in the European soccer championship later this year.

Immediately, the Dutch public embraced the conversion to the euro. In fact, the rush to use euros was so large that for a few days stores worried about making change. But this was quickly resolved, and by the end of the first week, most daily transactions were done in euros, and guilders had disappeared.


The Netherlands' postal services were prepared months in advance to issue euro-denominated stamps.

There were few complaints, except for the new euro one-cent and two-cent coins. The guilder-cent was abolished in 1983, and the smallest Dutch coin had been a five-cent piece. Now pockets and wallets were filled with small coinage, and it did not take long for shoppers and shopkeepers alike to suggest the abolition of the smallest coins.

Overall, the success of the changeover could be attributed to favorable circumstances—no bad weather, no major con schemes, no attacks on the vehicles transporting the money—but it could also be attributed to years of meticulous planning. The police force strengthened their numbers on the streets by about 10 percent, lowering the number of street and bank robberies. The central bank had organized a free distribution service of coins to some 185,000 small shops, restaurants, and bars. In December, the government handed out a free set of coins to every citizen six years and older, and coin sets could also be bought in advance to minimize the shortage of change in the first few days of the euro era.

In the end, as the public enthusiastically took up the European currency, the doomsayers and critics were left with only the national soccer team to grumble about.

*—Roel Janssen*

ATHENS

## GREEKS EYE EURO SWITCH AS MORE THAN JUST MONEY

A time difference allowed Greece, along with Finland, to start using the euro one hour ahead of the other ten members of the single currency zone on January 1. But in spite of opinion polls showing overwhelming enthusiasm for the euro, many Greeks were still shopping—and receiving change—in drachmas for the first few days of January. While households were anxious to unload their drachmas, it turned out that small businesses had been slow to stock up on supplies of euro notes and coins ahead of the changeover.

But as the turnover gathered pace after the New Year's holiday, the euro quickly gained ground. By the end of January, 95 percent of Greek residents had made at least one transaction in euros, while 70 percent of drachma coins and notes in circulation had already been handed back to the banks. Lucas Papademos, the central bank governor, said, "Greece is among the group of countries that have made the fastest changeover. It has been a real success."

Fears the Greeks would be reluctant to part with drachmas—the second-oldest currency in Europe—proved unfounded. So did worries that with €1 equivalent to 340.7 drachmas, people would have trouble coping with the exchange. In fact, the hottest selling item at kiosks and on street corners in January was a *komputeraki*—a palm-sized euro calculator with a double screen to show prices in both currencies.

The changeover has also put a sizeable array of coins back in Greek pockets for the first time in more than two decades. High inflation rates in the 1980s drove small-value coins out of circulation. As a result, consumers paid with banknotes for a pack of cigarettes or a chocolate bar. In Greece, euro cents are known as *lepta*—a throwback to the days when 100 of them made a drachma. But just four weeks into the new currency, the one and two-lepta coins were becoming less common. One banker said, "When the drachma is formally withdrawn at the end of February, prices in euros will be rounded off and the two smallest coins are likely to move out of circulation quite quickly."

Greek hoteliers and tour operators are looking forward to the tourist season when euro-zone visitors, who account for half the 12 million tourist arrivals annually, are expected to spend cash more freely. The tourists, in turn, can expect a better deal, as they will be able to make direct comparisons with the price of a meal or a drink in their own country. As one Athens hotelier put it, "It's hard to predict what the impact of price transparency will be this summer, but we reckon it should be positive."

Given that Greece only joined the euro zone in January 2000—two years after the founding group of countries—its successful launch of the new currency has come as something of a surprise. But that achievement is only the start of something bigger. As Costas Simitis, the prime minister, said, "The goal isn't the changeover itself but true economic and social convergence with other European Union countries."

Greece is still the poorest EU member with an average per capita income of less than 75 percent of the European Union average. Over the past five years, it has achieved sustained economic growth exceeding the EU average by a wide margin as the government invested in modernizing infrastructure, with the help of grants from EU structural funds, and companies reorganized in order to compete effectively in the euro zone. However, the government has been unable to create enough new jobs to reduce high levels of unemployment, especially among new entrants to the workforce where the jobless rate is close to 30 percent.

In the new environment of the euro zone, Greece faces a tough challenge to catch up with its EU partners. As the prime minister put it, "We have to exploit the opportunities offered by being part of the euro, and just as important, we must have the self-confidence to succeed."

*—Kerin Hope*

## LUXEMBOURG

# GRAND DUCHY'S SMOOTH TRANSITION

The speed and smoothness of Luxembourg's changeover to the euro delighted government officials and the banks. "It went perfectly," said government spokesman Guy Schuller.

New Year's Day is normally a time for people to nurse hangovers in Luxembourg, but this year they piled into the streets to line up at one of the fifty-nine special €-change centers to get their hands on the new money. One week after the launch date, 90 percent of all payments here were being made in euros, rising to 98 percent after two weeks, and by that time, it was difficult to find a Luxembourg franc in circulation anywhere in the country. The €-changes were closed down at the end of January having done their job in less than half the allotted time.

"It wasn't really a surprise," said Schuller. "We're used to shopping in Belgium, France, and Germany and carrying around three or four currencies all the time, so this was something that made life much easier for people," he said. None of those countries is more than an hour's drive from anywhere in Luxembourg.

But meticulous planning had a lot to


Luxembourgers, who are used to carrying several currencies, say the euro makes shopping easier.

do with it as well. "It wasn't a real problem because the preparations for the changeover had been so broad and so intensive," said Lucien Thiel, director of the Luxembourg Banking Association. "Our promotional efforts had created a lot of curiosity among customers, and it turned out that we were better prepared than we'd expected."

One thing the Luxembourgers haven't quite come to grips with yet, however, is a euro mentality. The annual car-buying fair—where about half the annual sales of automobiles are negotiated—took place in the city in January. Sticker prices were denominated in euros, but all the haggling was done in Luxembourg francs.

"It's a problem for many people to think in euros. They use them, but mentally they change them into old francs. The euro dimension is not yet in the head," said Thiel. That will surely change and quickly.

It should be no surprise that Luxembourg took so eagerly to the euro because in its openness to foreigners, and their money, the country has no equal in Europe. Nearly a third of all jobs in Luxembourg are held by daily cross-border commuters coming in from the three much larger neighboring countries, and the locals have always been as skilled in money changing as they are in speaking other languages. I've even used British pounds in Luxembourg supermarkets—not something one could imagine happening in any other country on the continent.

Of course, Luxembourg deals in money on a grand scale—it handles by far the largest share of offshore fund investment in Europe. Many people wondered what effect the elimination of national European currencies would have on the country's huge banking sector that has made many an honest penny from currency transactions in the past.

The short answer is "very little." The Luxembourgers saw it coming a long time ago, and income from currency conversions now represents only a tiny share of banking profits as other activities have been taken up. There may be problems for the sector in the years ahead, but the introduction of the euro is not one of them.

—*Alan Osborn*

When the euro hit the streets in Italy, the lira quickly became old news .

**ROME**

## BERLUSCONI GETS POPULAR POINTS FOR EURO CONVERTER

Silvio Berlusconi kept his word. And even the 50 percent of the population that didn't vote for him, for once, had nothing to reproach him with. It was considered a calculated political move when the Italian prime minister announced his government would send euro converters to every Italian home, but the little yellow and blue converters were very much appreciated by just about everyone. However, it's also true that after the anxieties of the first few days of the changeover to the new currency had passed, people decided that all in all the gadget really wasn't very useful. In fact, just like most Europeans, Italians had little trouble with the new currency.

Of course, in the beginning there were a few technical hiccups, especially at vending machines that, in Italy, sell everything from coffee to gasoline. During the first week, many machines continued to function only with Italian lira. To the point that the European Commission, which was following the monetary changeover minute by minute, issued an unofficial classification that placed Italy in last place as far as practical adaptation to the new currency was concerned. But things were rapidly falling into place. And the Commission soon gave Italy full marks for its (slightly tardy) euro-preparedness. In fact, only ten days after the official launch of the euro, clients who were still paying with the old national money in bars or stores were superciliously looked at as antiquated fuddy-duddies.

As in other countries, the suspicion that prices were being raised with the excuse of the monetary changeover caused the most trouble. Since the official exchange rate was fixed at 1,936.27 lira per euro—an exchange rate that doesn't give a round number—readjustments seemed inevitable.

However, most Italian businesses do not appear to have taken undue advantage of the situation. There were, of course, a few exceptions. For example, it seems that prostitutes are charging a bit more for their services (but, for obvious reasons, there is no official verification of this). Unlicensed betting has become more expensive as well. Among the few official increases, newspapers printed an amusing item concerning Voghera, a small town in northern Italy. Access to the only public toilet now costs almost twice as much: half a euro, whereas before it was 500 lira, the equivalent of 26 euro cents. "It's all a question of coins," the local administrators replied. "It's too complicated to modify the token dispenser." At any rate, none of the frequenters of the public toilet appear to have complained, yet. If anything, more surprise was generated by the fact that many people played the numbers of the exchange rate (1,936.27) at the lottery. But the numbers didn't come up.

—*Niccolò d'Aquino*

BERLIN

## TRIALS AND TRIBULATIONS OF THE "TEURO"

Had they been asked to vote on the euro in a referendum, the German people would probably have said no. Opinion polls proved this with annoying regularity. Most Germans would have been perfectly happy to keep on using their trusted deutsche mark. So, three months after the new currency was introduced from on high, it's hardly surprising that enthusiasm for the euro in Germany is muted. But even the country's staunchest EU-skeptics didn't predict the initial wave of popular displeasure.

The citizens of Europe's biggest economic power have difficulty saying anything good about the euro. Their long list of grievances includes banal complaints about the notes and coins being "awkward," "ugly," or even "allergenic." Far more damning, however, is their accusation that the currency is inherently weak and inflationary. And evidence to support that charge is growing. If Germans were skeptical about the euro before its introduction, now they're bitter.

The criticism begins with the euro's design. One can usually debate the aesthetic merits of bills and coinage. But this correspondent found no one willing to entertain the possibility that the euro could be pleasing to the eye. Some argue that the absence of "heads" on German euro coins (and all bills) makes them impersonal. As for the three emblems gracing German-minted coins, the eagle is said to be too fat, the oak leaves too boring, and the Brandenburg Gate overwrought. Doubts have also been raised about the cultural relevance of having virtual architectural motifs on the bills.

Although highly subjective, the design debate is related to the more important question of functionality. Eventually, everyone will get used to the new notes and coins whether they like them or not. But some are wondering if proper care was taken in crafting the currency. Reports have circulated in Germany that the high nickel content in the coins could cause allergic reactions. Moreover, some researchers claim to have found that weight imbalances in the coins cause them to fall more often on one side than the other—thus jeopardizing the fairness of a "flip-of-the-coin." That charge caused an uproar in soccer-mad Germany, where kickoffs are traditionally decided by a coin toss.

Ultimately, though, what matters most to all Euroland residents is whether their new currency buys as much as the old. And Germans are convinced that it doesn't. A survey in January by the Forsa polling group found that 73 percent of Germans believe the new money is worth less. Seventy percent felt that prices had gone up. Consumer rights groups have been inundated with complaints of unjustified price hikes, particularly in the hospitality and service industries. Independent research seems to bear this out. Economists predict that euro-related prices hikes will significantly boost German inflation.

On the other hand, the euro's association with higher prices has enriched the German language. It's given birth to *Teuro* (the German translation of "expensive", *teuer,* with an "o" tacked on) as a rhyming synonym for euro. It's a pun tinged with disgust.

Germany's hostility toward to the euro can be attributed partly to a lack of familiarity with the new currency and lingering nostalgia for the mark. The chief benefits of a common currency—price transparency and lower transaction costs—will take time to work through to all levels of the economy. So public acceptance could improve in the coming months. Perhaps a single-currency shopping spree in another euro-zone country will help.

*—Terry Martin*

PARIS

## KING FRANC BIDS ADIEU

Who would have believed it? The French, who have never been in the running for the most positive nation in Europe award, have taken to the euro like frogs to water. They are having as much fun using the new currency as kids playing a nationwide game of Monopoly.

What is more, the euro has brought out an unsuspected neighborly side to the French character, normally hidden under a veneer of Gallic cynicism. In every checkout line in the country, they are helping each other identify the new "funny" money, with chuckles and witticisms, and are behaving with a bonhomie and patience that is the most unexpected perk to the whole conversion process. When the concept of European monetary union was coined, no one could have guessed that it would unify people on a human level as much as on an economic one.

A first sign of how warmly the French were going to welcome the euro came on December 14, when euro coin kits first went on sale in French post offices, banks, and some supermarkets. The bags of forty euro coins, worth 100 francs (or €15.24), were such popular Christmas stocking-stuffers that sales had to be restricted to just one per family. No one paid too much attention to that restraint, visiting as many locations as they needed to get their fill of coin bags.

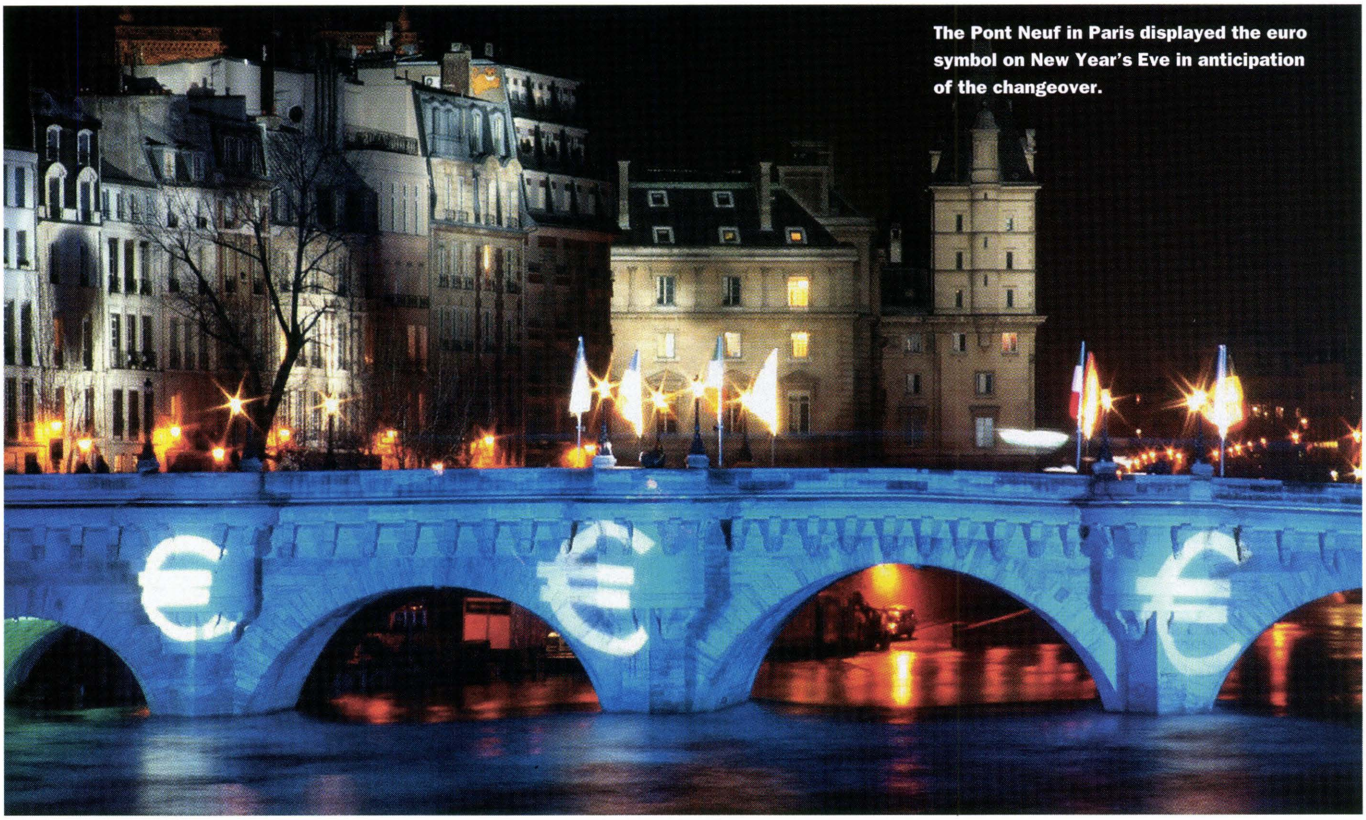
On January 1, a public holiday, with no banks or shops open, the French celebrated the official start of circulation of the euro by storming the automated teller machines right after the traditional champagne and kisses that bring in the new year. By 9 am, when most of France is usually in a post-party coma, 450,000 'hits' had been made on the nation's cash dispensers and, by the afternoon, 2.2 million operations had withdrawn €179.6 million in cash. Of the 36,500 ATM's in France, 86 percent had been stocked, as planned, with €10, €20, and €50 notes.

The one near my house obligingly spat out the €40 I wanted, but the man behind me had his request for €100 turned down flat. We spent a good five minutes together converting that to francs, to try and see if he had been too greedy or if the dispenser had just run out of cash. Then I left, having made a euro friend, the first of many French citizens that the new currency has transformed into friendlier, kinder souls, at least for a while.

There was the odd hitch, of course, not the least of which being the many banks and post offices that decided to go out on strike on the first working day of the year, January 2. That lengthened the lines but did not dent the good humor of the people standing in them. A national poll taken from January 2–5 reported nine out of ten people to be happy with the transition to the new currency. By January 5, 95 percent of those questioned had euro notes and coins in their pockets, and 67 percent had already used them to make a purchase. The 800 shopkeepers surveyed were equally pleased with the euro's arrival, only 20 percent of them considering the delays at the checkout counter to be a problem.

Everywhere, discreet price hikes have crept in, of course. For example, French taxis raised their rates by 1.9 percent, lottery tickets went up to €1 (6.56 francs) from 5 francs, and newspapers such as the daily *Libération* started charging €1.20 instead of 7.50 francs (€1.14).

Consumers have not complained very loudly about these increases, which went largely unnoticed in the confusing arithmetic of the changeover. More obvious



**The Pont Neuf in Paris displayed the euro symbol on New Year's Eve in anticipation of the changeover.**

were hiccups involving coin-operated machines, such as motorway tollbooths, parking meters, and shopping carts. In the first few days of January, some people who had jettisoned all their francs found themselves stuck in parking lots that did not yet accept euro coins as payment. Conversely, if you tried to use a 10 franc piece to get a shopping cart at the supermarket, you were in for a nasty surprise: they took only €1 coins, right from the start, never mind the much-publicized dual-currency policy that was in effect until February 17.

These annoyances were greeted with tolerant amusement by the French, who clustered around any fellow citizen in need of help, offering voluminous advice—very French—and practical help—not so typical.

The only real complaints I have heard concern the "boring" appearance of the euro notes: the thin, cheap-feeling paper used for them, the tiny size of the €5 and €10 bills (they increase in size as they go up in value), and the symbolic illustrations on them. Ever style-conscious, the French do not like the bland, stereotyped windows, gateways, and bridges depicted. They find them soulless and would have preferred a selection of genuine European monuments—but then someone would have had the impossible task of choosing the best ones from all of the EU's architectural marvels.

Minor quibbles like these aside, the French have taken the euro to their hearts with a warmth that has surprised press, politicians, and people alike. The most touching proof of how willingly they are adopting the new currency came from pensioners, many of whom had still not quite mastered the 'new' franc (worth one hundred of the old), which went into circulation in 1960. I overheard several of these old-timers proudly telling checkout clerks who asked if they would like to pay in francs or euros: "I don't have any francs anymore. I got rid of them back in January!"

By February 18, all of us in France had to follow those examples and pay only in euros. To celebrate the definite demise of the franc, the carnival in Nice adopted the euro as its main theme this year. The famous parade took an effigy of His Majesty King Franc on a last royal tour of the streets of Nice, before burning him, along with all the other old European currencies, on February 17. The franc is dead; long live the euro!

*—Ester Laushway*

## LISBON

# EXCHANGING ESCUDOS FOR EUROS

It only the Portuguese took two or three weeks to all but jettison the currency they had used for ninety years and fully embrace the euro. According to a survey carried out for the Bank of Portugal, by the end of January, as many as 95 percent of cash transactions were in euros. Of all notes and coins in circulation, just 15 percent were escudos. Among traders, 95 percent were giving change only in euros, and they said only a tenth of their customers had shown apprehension about the new currency.

However, the same survey found more than two-thirds of those questioned agreeing that the changeover had triggered an increase in prices, despite the assurances of the Bank of Portugal and the government that this would not happen. The first official figures released by Eurostat for the period following E-day appeared to confirm the general view, showing inflation in the euro zone at 2.5 percent in January, up from 2.1 percent in December.

Still, this does not seem to have undermined support for the new currency. Two-thirds of people here say they're doing all their shopping in euros, and the same proportion prefers using the new currency. Seventy percent claim never to have made any mistakes, nor been cheated, in using it. Another survey put that figure at 80 percent.

"I have a calculator, and I use that if I'm in doubt," said student Eva Duarte.

Such problems seem to pop up most frequently in stores. In public transport, where euros dominated from the start for practical reasons, they're extremely rare.

"I think the main confusion was having two currencies at the same time," said Sónia Ribeiro, who runs her own beauty salon. "But that's not such a problem now."

Other early stumbling blocks to a smooth changeover were also overcome thanks to swift action by the authorities.

"I heard that some banks were charging people for changing their escudos to euros," said Paula Cunha, a Lisbon office worker. "But the Bank of Portugal made a statement, and I think they've stopped now."

Compared with many Europeans, the Portuguese aren't great travelers. But after decades of emigration many people living here have relatives in other euro-zone countries. And those who do travel for work have already felt the benefits.

"It's great because I was in Spain when the euro came in, and it meant I didn't have to change money when I came back," said sales manager Paulo Trindade.

*—Alison Roberts*

## LONDON

# OUT OF STEP BUT FOR HOW LONG?

There was a feeling in the UK of "Everybody's out of step except our Johnny" when the euro notes and coins were launched into circulation on January 1. The smooth changeover across twelve EU countries did something to the attitudes of many in the United Kingdom. Opinion polls showed a decline in opposition to the euro by late January.

Urged by the editor of these pages to get the ordinary person's perception, I knew just where to go—my favorite London pub, the Lamb in Bloomsbury.

In the interests of research I decided to take a taxi, and I wasn't disappointed. "I ain't seen one," said my cabby when I asked if anyone had tried to pay in euros. But would he accept them, "No, there's lots of fakes about, and anyway I don't know the exchange rate, do I?" he asked rhetorically, then added, "Don't see much point in it really."

Things did not improve much on arrival at the pub when I asked the barman if he would accept payment in euros for my pint. "No," replied Guillaume, the genial young Frenchman from St. Etienne who has been working behind the bar for some months. When I asked why not, he raised both hands and gave me a full-blown Gallic shrug. That bit, at least, was truly European.

Well, the euro did not seem to be faring very well, so I decided to try some of the pub regulars. I turned to Tony, an expert in seventeenth century arms and armor, and not really the sort of person I would expect to favor the new currency.

"Would you accept euros?" I asked. "Yes" said Tony to my surprise, "but it depends who from," he said with a chuckle, quickly adding, "No, really, I think it's a great idea, not having to change currencies all the time." And does he worry about a loss of British sovereignty; a theme harped on by many who oppose the euro replacing the pound. "Of course not, look at history dear boy," he said with a dismissive wave of his hand.

Then in walked Philip, a lawyer, just back from a week skiing in the Swiss resort of Zermatt where I didn't think he had needed euros, as Switzerland is not in the euro zone. "I changed fifty pounds into euros before I left as I knew I would be skiing over the mountains to Cervinia in Italy," he said. "In fact the Swiss accept euros, everything is priced in both Swiss francs and euros."

Philip was quite happy to have brought back some euros. "I'll use them on my next skiing holiday in Austria." He is convinced the UK will eventually adopt the euro. "As more and more people travel and use it, they will want it."

He warms to his theme: "I know about all the arguments over a unified interest rate, but I think it's inevitable. Look, when I bought my euros from Thomas Cook the buy-sell spread for pounds was something in the region of 1.48 to 1.71. The difference is colossal and that sums up the whole reason for having the euro."

Sarah who had been listening intently to Philip couldn't wait to join in. "I want it here," she said with all the passion and concern of the social worker she is. "I feel quite left out. We joined Europe and now it's as though we have bailed out."

Feeling that my opinion poll was somewhat unscientific, my friend Larry, an American journalist and Lamb regular, urged me to go to the big department stores and supermarkets. "Ask them their policies on accepting the new currency and then speak to the people at point of sale to find out their experience with customers offering euro notes."

I knew he was right, but it was getting late, so instead I decided to buy us both a pint. I paid Guillaume once again in pounds. Too many, I think. I wonder if it would have seemed less expensive in euros?

*—David Lennon*

## HELSINKI

# FINNS CELEBRATE EURO'S ICONIC ARRIVAL

As one would have expected, the changeover to the euro was free of drama or even much inconvenience. The Finns were ready, even though it was the first new currency since the Russian ruble was dropped in favor of the markka in 1865. There was some sentimentalism because the markka was, of course, a symbol of national independence—despite devaluations and two zeros being dropped in 1963. But the euro's arrival on January 1 represented another form of iconic Finnish assertiveness, following the course set when the nation decided to join the European Union in 1995.

Indeed, because the country is so far to the east the Finns, along with the Greeks, were able to claim membership in the euro zone one hour before any of its other countries. This trivial fact gave added value to the traditional New Year's celebrations.

For the youngsters, in particular, the euro's arrival was a welcome underscoring of the country's membership in a political, economic, and financial bloc that lay to rest many of the geopolitical realities that have dominated Finnish attitudes for many generations. It was a liberating moment.

However, long before the formal introduction of the new monetary unit the authorities had decided not to put the one-cent and two-cent pieces into wide circulation. They were deemed too fiddly and irrelevant to routine transactions. Their value can be used in accounting but not in across-the-counter trade in Finland. Retailers here complained there would be too many small coins and since—by law—euro prices had to be rounded up or down, there seemed no purpose for the smaller tokens in the environment of a high price Nordic economy.

In a nation where the use of credit and debit cards is almost universal, businesses and consumers rejected the prospect of purses or wallets loaded down with small coins. There isn't much cash in circulation, anyway.

The matter was referred to the European Commission's legal services to get a ruling on whether or not the Finnish rejection of the small denominations was permissible—and this turned out to be the case.

As in most other euro-zone countries, the speed with which the changeover took place surprised the authorities. The city of Helsinki was caught short by the transition and was not able to alter all the parking meter mechanisms. Furious motorists were steaming up and down the pavements asking passers by to exchange their euro for markka so that they could feed the machines. This frustration lasted for about three weeks and was the only serious glitch in the capital.

*—David Haworth*

## MADRID

# SPANISH HICCUPS

One month after the euro began to replace the peseta in pockets, purses, and cash registers in Spain, the former currency is little more than a curiosity. Now, most people pulling out a wad of the old bills to settle accounts at the supermarket or neighborhood bar now invite rather bemused looks from others.

Just ten days after the new currency was introduced, Spanish financial institutions estimated that 75 percent of commercial transactions were being handled in euros and announced that use of the peseta could cease within days.

That was clearly optimistic, and merchants say that while not everyone is entirely comfortable with the new coins and notes, the transition went smoother than they thought possible. But there were some hiccups.

"At the beginning, the banks didn't have enough change in coins or bills and the automatic teller machines were only giving out notes of €20 ($17) and €50 ($43)," said Alberto Dorado Simon, a thirty-four-year-old owner of a newsstand in central Madrid. "So we ended up having to change these large notes and had to run back and forth to the bank ourselves to get change." He continued, "Another problem stemmed from the nature of our business. People buy newspapers and magazines when they're hurrying to work, and in the early days, it took us time to calculate and make change that triggered some impatience among our customers. This was especially true if they paid in pesetas but wanted their change back in euros. What a headache!"

A month after the introduction of the euro, Dorado reckoned only about 10 percent of his business was still done in pesetas. "Like a lot of places, I have two cash boxes, one for pesetas and one for euros. It's mostly the older folks who can't seem to let the peseta go. And they also complain that the denominations on the new coins are too small to see," he said.

Pesetas disappeared at the end of February following the two-month introduction period. Dorado said he was glad to see its passing.

"It would have been much better if they had stopped trading in pesetas on

January 1 and just forced us to use the euro," he declared. "Easier for everyone. Thank God it's almost over."

*—Benjamin Jones*

VIENNA

## EURO CHALLENGES IN AUSTRIA

According to the Euro Initiative, the office responsible for implementing the new currency here, almost 100 percent of the cash in circulation in Austria was denominated in euro bills and coins by the end of January 2002. While the euro changeover seems to be proceeding quite smoothly, no change this large could come without some glitches and questions.

Austrians have been aided in their adjustment to the new currency by information distributed through the Internet, over the telephone, and in shopping centers. Complete information and suggestions regarding the euro changeover are available at www.euro.gv.at and through the twenty-four-hour euro hotline at 0800 221 222. The European Union and the Austrian government set up the Euro Initiative for the sole purpose of easing the Austrian transition to the euro. This Initiative teamed up with the National Bank of Austria to send experts to shopping centers throughout Austria in order to answer questions. Thousands of Austrians were reached by this service that visited all of the largest stores in Austria in thirty-two days. According to Euro Initiative reports, the most frequently asked questions concerned the currency's security features (watermarks) and the difficulties of conversion from shillings.

In particular, the euro's arrival provoked many complaints about the heavy, bulky coins. "I am a man and wear my wallet in my shirt pocket—that's why it has to be thin!" explained Johann Wieland, the president of Austrian Cash Registers. Wieland believes this irritation with copper coins may have led to a lack of available five and ten-cent coins for cash registers. According to Wieland, many of the machines ran out of these pieces, upsetting sales. He estimated that every register has lost up to fifty percent of their sales income and complained that refills were insufficient.

However, Stefan Augustin, of the National Austrian Bank, responded that the demand for coins could easily be met. "What may still be missing is the correct currency mixture in circulation," he explained.

**Aside from a few isolated cases, most ATMs were well stocked and dispensed euros without a problem.**

Some Austrians are also hesitant about the bills that feature architectural designs. Josef Umatham made his first euro purchase on January 2. He told *Die Presse,* "I am all for the euro, but the bills have no soul, no mystique. There may be nice bridges on them, but that doesn't compare to phrases like 'In God we trust' on the dollar."

Of further angst to consumers was the rounding up of prices in favor of easy convertibility, but already more attractive prices are beginning to return. At the grocery chain Hofer, most prices are now ending with a 9.

Michael Paul, CEO of Simon, Kucher & Partners, an entrepreneurial firm focusing on price consulting, believes that most prices will be reformatted by midyear. These changes will vary depending on the market.

"In gastronomy, euro prices will be rounded up to be attractive," Andreas Kreutzer, a partner in the consulting group Kreutzer Fischer & Partner, told *Die Presse,* "while in sales the large-scale competition will cause stores to round up and down just as they did in the past."

*—Alexandra Hergesell*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# ARTS & LEISURE

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

**FILM**

## HUNTING BEARS AT THE BERLIN FILM FESTIVAL

If you thought bears came in only two drab colors—brown and black—you are obviously not familiar with the more glamorous species found at the Berlin International Film Festival. Every year in February, filmmakers from around the world dawn their urban safari outfits and descend on the German capital to hunt bears of the golden and silver variety.

As cinema awards go, gilded bears are among the most important in the industry. They can't compete with Oscars for prestige. But the Berlin Film Festival is considered one of Europe's big three, vying with Venice (September 1–8) for second-place status behind market leader Cannes (May 15–26). Winning a Golden Bear may not catapult you to global stardom, but it can give you a boost. And it provides an attractive trophy for your mantelpiece.

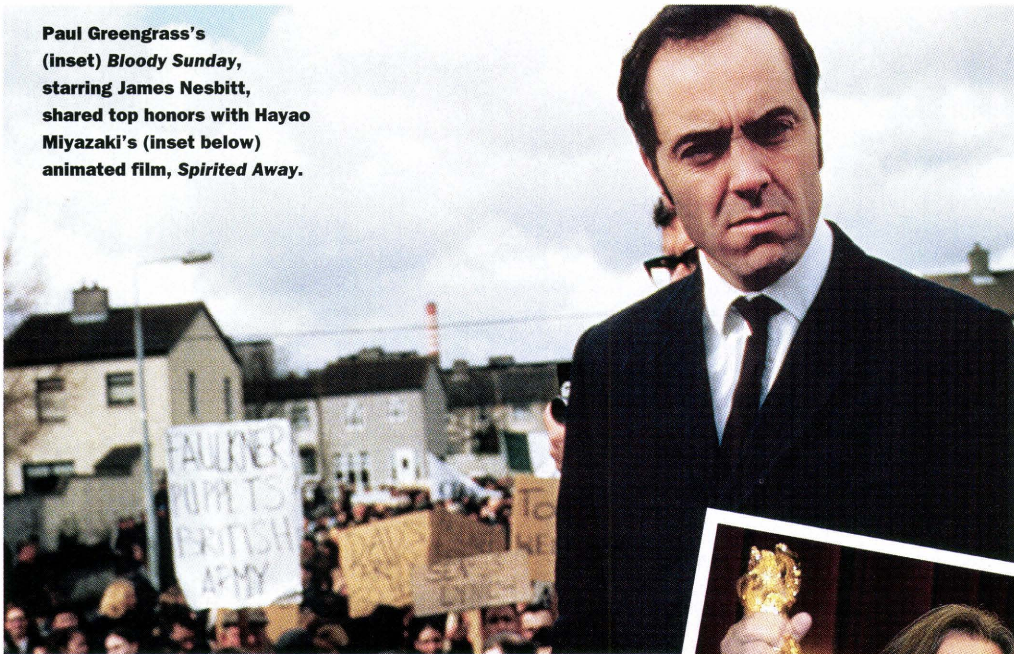
Berlin proved particularly bountiful this season, with two golden bears (instead of the customary one) being bagged. The British-Irish coproduction *Bloody Sunday* shared top honors together with the Japanese animated film *Spirited Away*.

Directed by Paul Greengrass and starring James Nesbitt, *Bloody Sunday* dramatizes the events of January 30, 1972, when British troops fired on protesters at a civil rights March in Londonderry. Thirteen unarmed demonstrators were killed; another died later. Intimating how wars against terrorism can get out of control, Greengrass has called his film "a bit of warning from history since September 11." The festival's international jury praised the film for its "extraordinary authenticity."

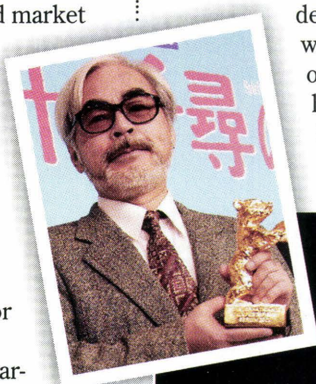
*Spirited Away*, the gold-winning Japanese entry, was already a major hit in its country of origin before entering the competition in Berlin. The film bears the stamp of master animator Hayao Miyazaki, who achieved international success three years ago with *Princess Mononoke*. A manga-style animated feature, *Spirited Away* illustrates the adventures of a ten-year-old girl who travels through a tunnel to find herself in a bizarre world of goblins, ogres, and gods. One German critic described it as a mixture of Shintoism, *Cinderella*, and *Alice in Wonderland*.

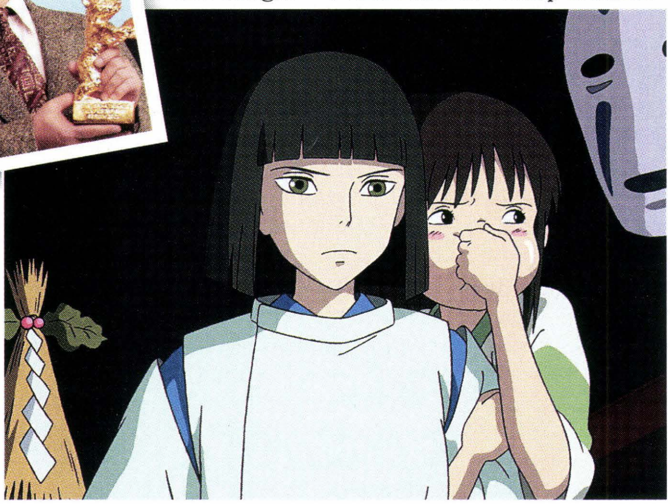
The Berlin Film Festival tends to cast its net a bit wider than its rivals. The more adventurous nature of the German event—now in its fifty-second year—was reflected in the choice of this season's slogan: "Accept Diversity."

—*Terry Martin*




**Paul Greengrass's (inset) *Bloody Sunday*, starring James Nesbitt, shared top honors with Hayao Miyazaki's (inset below) animated film, *Spirited Away*.**





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