

FINANCIAL TIMES

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Tuesday April 15 2003

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Do cheap handsets spell trouble for the mobile telecoms industry?

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All the rave

'The Napster tale is one of shocking incompetence and naivety'

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PLUS Poland - a 'Yes' vote on Europe will not end problems Separate section

Bush goes back to battles at home

In sign that war is over, president is shifting focus to economy ahead of re-election bid

By James Harding in Washington

President George W. Bush, fresh from victory in Iraq, will today launch a nationwide campaign for tax cuts to boost the flagging US economy and pave the way for his re-election bid next year.

As US-led forces yesterday took Tikrit, Saddam Hussein's last stronghold, the White House appeared to mark the conclusion of the military campaign with a presidential message of thanks to the troops.

Describing the Iraq campaign as among America's "great military successes", Mr Bush said in a televised statement to US service personnel and their families: "You stand tall in times of conflict and you stand ready in times of peace."

His remarks came as the US moved to establish a postwar administration for Iraq, with a meeting of leaders from several different Iraqi factions in the southern city of Nasiriyah.

The meeting, the first of several, will be overseen by Jay Garner, the retired US general who heads the new Office of Reconstruction and Humanitarian Assistance. US officials hope the talks will pave the way for a national council that will establish an interim government within a few weeks.

But Mr Bush today will shift the emphasis of his administration to the domestic agenda, fighting a seemingly unwinnable battle for a \$726bn tax plan in the face of Congressional opposition.

In his first public address on the economy for nearly two months, Mr Bush will mark April 15th - the day that millions of Americans are due to submit their tax forms - with a speech in the White House Rose Garden calling for tax cuts to fuel economic growth and much-needed job creation.

The White House also announced yesterday a concerted effort by the administration to



A US marine on guard outside Saddam Hussein's main palace in Tikrit, captured yesterday in a surprise dawn raid

Reuters

make the case for tax cuts even in a time of war, despatching 25 senior officials to speak at 57 events in more than 40 cities over the next two weeks.

Mr Bush and his closest strategic advisers are mindful of the political fate of his father. As the 41st president, George H.W. Bush led coalition forces to a swift, low-casualty victory over Iraq only to be defeated in his bid for re-election at the US polls less than two years later.

The 43rd president's approval rating bounced back up to 71 per cent over the weekend, after sliding into the 50s earlier this year. But, regardless of his success in Iraq, the polls show the American public continues to question Mr Bush's handling of the econ-

omy; in a new Newsweek poll, 46 per cent of people said they disapproved of Mr Bush's performance in that area, while 44 per cent approved.

After nearly eight weeks of speeches focused on Iraq, Mr Bush's comments on the economy today will be seen as a moment of transition as he switches role from wartime commander-in-chief to campaigning politician with an eye on re-election in 2004.

Karl Rove, his chief political adviser, has been working with a small team on the Bush 2004 campaign. While the president led the nation to war, Mr Rove was instructed to keep the embryonic campaign effort out of view.

Mr Rove's groundwork on the campaign is now likely to become evident as Mr Bush re-engages with the American people on domestic issues.

Mr Bush will tomorrow fly to St. Louis, where he will tour a Boeing factory and talk on the Iraq situation, his budget and the economy.

The president's tax-cut proposals, particularly the central suggestion to eliminate taxes that investors pay on dividends, has run into opposition from Republicans and Democrats on Capitol Hill.

Charles Grassley, the Republican chairman of the Senate Finance Committee, has pledged to block any more than \$350bn in tax cuts in light of concerns

War briefing

- US threatens Syria with diplomatic and economic pressure but says it is not next on the list for military action
- Tikrit, Saddam Hussein's powerbase, falls to US forces with barely a fight
- US military says the allies are still not officially an occupying force

about war spending and the rising deficit. As John Snow, the Treasury secretary; Don Evans, the commerce secretary; and Elaine Chao, the labour secretary, fan out across the US from today, they will be making the

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The murky line between war and peace
Allied troops must now juggle the roles of soldiers and policemen
www.ft.com/tacticalview

argument that the president is still seeking \$726bn in tax cuts. But, referring to a compromise figure, a White House official said yesterday the president is determined to get "at least \$550bn" in tax cuts.

War crimes chief seeks answers from Greece

By Kerin Hope in Athens

United Nations investigators fear Greece is hindering their inquiries into war crimes in the former Yugoslavia.

Carla del Ponte, UN war crimes tribunal prosecutor, asked in February for a meeting with George Papanastasiou, the Greek foreign minister, and sought documents relating to sanctions busting. The meeting has yet to take place.

The trial is due to start within weeks of Milan Milutinovic, the former Serbian president who served as the Milosevic government's ambassador to Athens and is charged with war crimes.

Mr Milutinovic was allegedly involved in the transfer of large amounts of cash from Belgrade to banks in Greece.

Yugoslav cars with diplomatic number plates drove sacks of D-Marks through Macedonia to the Yugoslav consulate at Thessaloniki in northern Greece. The cash was mainly deposited in European Popular Bank, a subsidiary of Popular Bank of Cyprus, in which UK-based HSBC group is the biggest shareholder.

An FT investigation has found that Yugoslav front companies based in Cyprus used foreign currency accounts at Popular Bank and its Greek subsidiary to transfer funds to buy weapons, fuel and spare parts in defiance of UN sanctions. The front companies also made transfers to accounts at Greek banks. The companies' foreign owners claim they did not know of these transactions.

Mrs del Ponte also asked the Greek government for bank documents relating to the front companies' activities. Athens pledged to provide "everything Mrs del Ponte asks for", but UN investigators say some are missing.

Greece, which supported the regimes of former Yugoslav president Slobodan Milosevic and former Bosnian Serb leader Radovan Karadzic, yesterday denied it had ignored Mrs del Ponte's requests, but said Mr Papanastasiou had been busy.

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OTHER NEWS

Grundig joins German corporate collapses

German electronics maker Grundig filed for insolvency, joining the list of corporate collapses in the eurozone's largest economy. Bankers say Grundig owes about €200m to creditor banks. Page 17

China orders quarantine in Sars crisis

Chinese premier Wen Jiabao has called the country's Sars pneumonia crisis "grave" and ordered quarantine for aircraft, boat and train passengers suffering from the disease. Page 7

Citigroup and BoA report rising earnings

Citigroup and the Bank of America, the two biggest US banks by market value, both reported rising first-quarter earnings. Page 17; Lex, Page 16

ABB indicates U-turn on rights issue

ABB moved to improve its financial flexibility by seeking approval for the issue of up to Sfr800m (€534.2m) in new shares to help cover asbestos liabilities. Page 17; Lex, Page 16

Obasanjo party close to victory in Nigerian polls

Nigeria's ruling Peoples' Democratic party was close to victory last night in parliamentary elections. Page 8

Bids for SPG yellow pages rise to €5bn

Suitors for the Seat Pagine Gialle yellow pages business being auctioned by Telecom Italia are understood to be bidding up the price to close to €5bn. Page 17

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VW chief to shake up board in bid to push plans through

By Uta Harnischfeger and James Mackintosh in Wolfsburg

Bernd Pischetsrieder, chief executive of Volkswagen, is preparing to shake up the board as he sets out to stamp his authority on Europe's largest carmaker.

Mr Pischetsrieder said he would start with a "blank sheet of paper" in allocating the top jobs after a fall-out with Robert Buechelhoefer, who quit as sales and marketing director last week. The chief executive's reshuffle is designed to push through his reorganisation of the German company.

In a year in the job he has split the company into two brand groups, while increasing component sharing and abandoning the strategy of Ferdinand Piëch, his predecessor and now group chairman, for sharing the basic "platform" which underlies a car.

"We will review the total organisation and look at whether it is right or wrong to have regional responsibilities as we have them now and whether it is right or wrong to have one set of

responsibilities for each brand," he said.

In an interview with the Financial Times, Mr Pischetsrieder said the new "modular" approach to component sharing would cut investment and research and development spending by 20 per cent over the next decade.

Critics blame the rigidity of the platform strategy for the age of VW's model range, which has led it to lose market share. It is about to start a major offensive that will lower the average model age to 2.4 years from 3.8.

The exit of Mr Buechelhoefer came shortly after the shares touched a new low following a double profits warning last month.

VW is expected to see profits drop by up to 60 per cent in the first quarter, mainly due to the sharp drop in the value of the dollar against the euro.

The company warned that full-year profits would be down on last year's €4.7bn operating profit thanks to sluggish sales and the cost of launching new models, including the replacement

Golf and Touran people-carrier. Earnings are set to be hit further by a one-off tax charge of several hundred million euros this year after changes to the German tax on retained profits. Under a three-year moratorium, the government will stop reimbursing companies for the difference between retained and distributed profits, which Mr Pischetsrieder said would mean paying "three digit [millions] of taxes more than we would have paid otherwise". After 2007, the government will spread the reimbursement over a period of 12 years, so VW will get the refund eventually.

Mr Pischetsrieder hinted that he might not appoint a new sales and marketing director. He said that because of VW's multiple brands - including Audi and Skoda - a co-ordination role would be needed, but he has assumed responsibility for it himself for the moment.

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WORLD MARKETS

Stock Markets	Currencies	Interest rates
Dow Jones Ind. 8298.50	Apr 14 prev %chg	price yield chg
Nasdaq Comp 1373.53	\$/€ 1.079 1.076	US Gov 10 yr 99.840
S&P 500 878.39	Yen/\$ 120.2 120.4	UK Gov 10 yr 103.57
FTSE Eurotop 300 808.21	\$/¥ 1.574 1.572	Ger Gov 10 yr 102.03
DJ Euro Stoxx 50 2273.96	£ index 107.8 108.0	Jap Gov 10 yr 103.35
FTSE 100 3849.4	¥/€ 210.3 210.3	US Gov 30 yr 105.75
FTSE All-Share UK 1845.80		Apr 14 prev chg
CAC 40 2874.98	Oil - Brent May 24.97	Fed funds eff 1.24
Xetra Dax 2776.78	Gold 326.20	US 3m bills 1.16
Nikkei 7752.10		Euro Libor 3m 2.54
		UK 3m 3.63

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FINANCIAL TIMES INVESTIGATION

Milosevic sanctions-busting trail entangles law firm headed by Greek Cypriot leader

On brink of European Union membership, doubts persist about financial regulation in Cyprus, home to thousands of offshore companies, writes Kerin Hope

The mood among Greek Cypriots is buoyant. Their small island on the edge of Europe is on the threshold of joining the European Union, a glorious and historic moment for a community of little more than 500,000 people.

Tassos Papadopoulos, a veteran lawyer who in February was elected president of the Greek Cypriot-controlled south of the island, is polishing the brief speech he will deliver at a once-in-a-lifetime event.

Tomorrow Mr Papadopoulos will join leaders of the EU's 15 member states and the other nine new entrants at a glittering ceremony in Athens. The new members will sign their EU accession treaties in the Stoa of Attalos - a restored ancient shopping mall - in the shadow of the Acropolis.

But accession is a business opportunity too. Greek Cypriot bankers, accountants and lawyers are eager to expand their business in EU markets when Cyprus becomes a member in May 2004.

Yet doubts persist about the Cyprus authorities' commitment to regulating international companies according to EU best practice. The obstacles faced by two Serbian bankers who are trying to trace records of Cyprus-based offshore companies involved in UN sanctions-busting during the Yugoslav succession wars have highlighted these problems. And the law firm founded and still controlled by Mr Papadopoulos is at the centre of the dispute.

The island's financial services sector, worth about \$300m yearly, covers some 1,100 international companies based in Cyprus as well as several thousand brass-plate operations, which do not operate offices in Cyprus. More companies are expected to set up on the island after Cyprus's accession to exploit the advantages of operating from an EU member state.

The government sees financial services as a promising growth sector that will help reduce the Greek Cypriot economy's dependence on tourism. The tourist industry, which accounts for about 20 per cent of gross domestic product, has faced problems since the September 11 attacks. This season's bookings have crumbled because of the war in Iraq.

Ljiljana Radenkovic and Radmila Budisin are former senior executives at Beogradska Banka, a state-controlled bank with links to Slobodan Milosevic, the former Yugoslav president now on trial in The Hague for war crimes. They want to press charges against the Greek Cypriot president's firm. They say it has failed

to provide documents about the activities of two front companies Antexol Trade and Browncourt Enterprises that were registered in their names by Mr Papadopoulos' firm.

In separate interviews with the FT, the two women said they knew nothing about the establishment and operation of the two front companies. They added that they were not involved in signing the company documents and they believe that other people's signatures were used instead.

Partners in Mr Papadopoulos' firm could face charges of fraud and conspiracy if they cannot produce company documents signed by Mrs Radenkovic and Mrs Budisin. The accountants who audited the companies' books and officials at the Cyprus central bank, responsible for supervising the activities of offshore companies, could face charges of complicity.

The two said they were not involved in signing any documents and believe that other signatures were used instead

According to investigators at the UN war crimes tribunal, Antexol and Browncourt were among a group of eight Cyprus-based front companies - all registered by Mr Papadopoulos' firm - that were used to buy weapons, fuel and raw materials for the Milosevic regime in defiance of UN sanctions against the former Yugoslavia. Cyprus endorsed the sanctions, although - unlike other western countries - the government did not introduce legislation making them part of Greek Cypriot law.

Carla del Ponte, the UN war crimes prosecutor, in a confidential letter in August 2001 to the Cyprus authorities, obtained by the FT, said she believed an examination of records maintained by the law office of Tassos Papadopoulos "will provide further evidence of the Milosevic regime's wartime funding arrangements" - including purchases for the Bosnian Serb army and paramilitary organisations.

But the Cyprus government, headed at that time by President Glafcos Clerides, ignored her request for copies of all documents, including documents in electronic format, relating to the front companies that were kept at Mr Papadopoulos's

offices. The Serbian bankers last October made a similar request. Through a Nicosia-based lawyer, they asked Mr Papadopoulos' firm to hand over all documents relating to the establishment and activities of Antexol and Browncourt, as part of a joint effort to clear themselves of involvement in sanctions-busting. The firm has failed to provide any of the documents.

Pavlos Angelides, the women's lawyer, says: "These documents are the property of Mrs Radenkovic and Mrs Budisin as the beneficial owners of the two companies. It is a criminal offence under Cyprus law for Mr Papadopoulos' firm to withhold them."

The two women have taken a bold step. Few Greek Cypriots would dare to challenge Mr Papadopoulos, the island's most prominent lawyer and an influential member of its close-knit business and political elite. He was backed for the presidency by his own centre-right Democratic party and the Cyprus communist party, the island's biggest political group.

While Yugoslavia was shunned as a pariah state in the 1990s, Cyprus-based banks and front companies became the Milosevic regime's main financial link with the outside world. These companies were financed with cash flow from Belgrade to Cyprus and deposited in special accounts, mainly at Popular Bank, the island's second biggest bank in which the UK-based HSBC group is the largest shareholder.

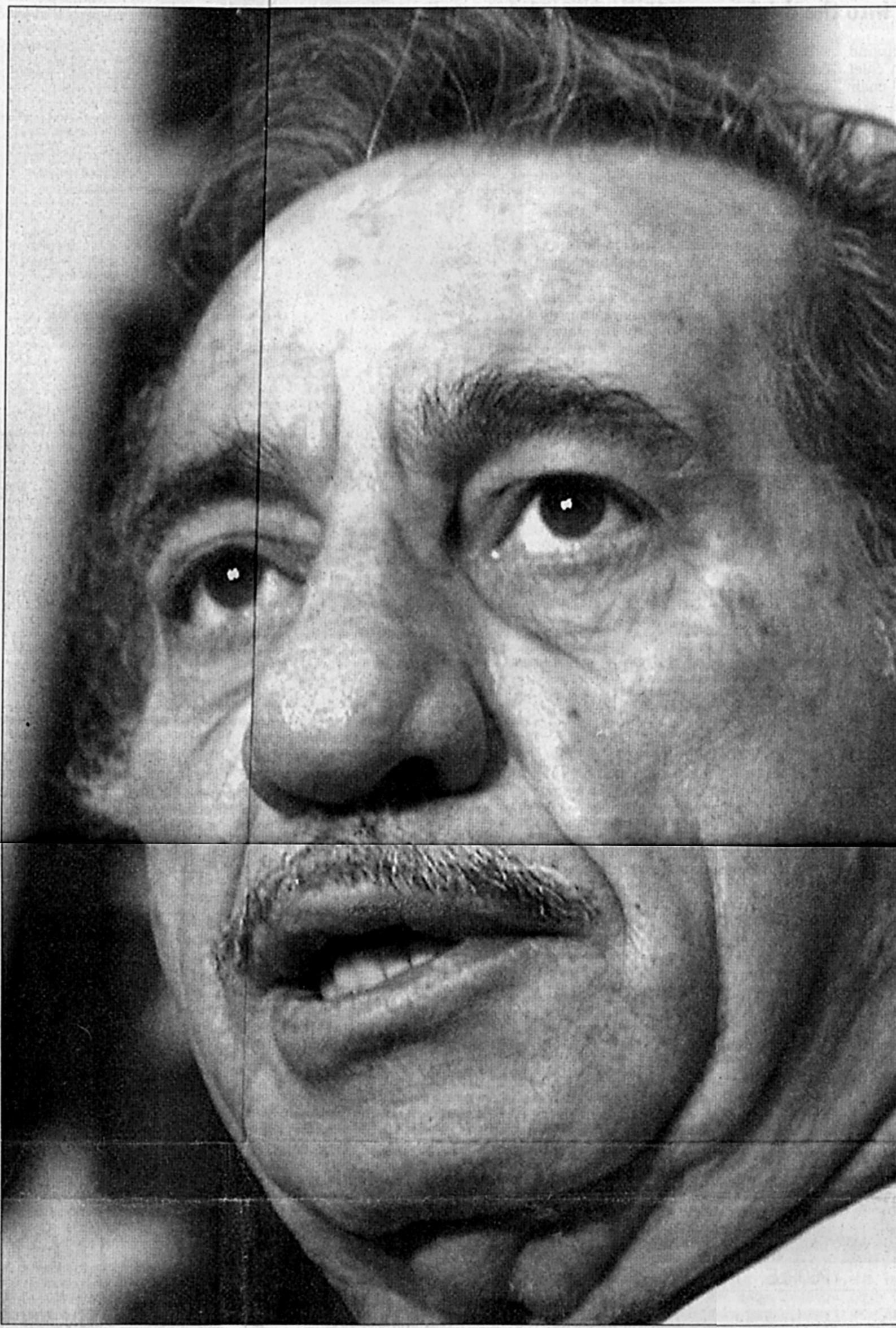
According to Serbian officials at least \$4bn and perhaps as much as \$12bn moved through Cyprus in the 1990s.

According to Morten Torkildsen, an investigator with the UN war crimes tribunal at The Hague, Antexol and Browncourt were both managed by Beogradska's offshore branch in Cyprus.

Mr Papadopoulos' firm set up Antexol and Browncourt in 1992 and 1995 at the request of Borka Vucic, head of Beogradska Banka's offshore branch in Nicosia and a confidante of Mr Milosevic. Mr Papadopoulos was Beogradska's legal adviser and, until he became president, was also an adviser to Popular Bank.

While Mr Papadopoulos handles affairs of state, his law firm is being run by Pambos Ioannides, the managing partner.

Mr Ioannides, who served as a director of Antexol, brushed aside the Serbian bankers' request. In a letter to Mr Angelides, he said they were involved "in a malicious attempt to defame our law office". Mr Ioannides refused to answer questions



The law firm of Tassos Papadopoulos, Greek Cypriot leader, has been linked to sanctions-busting for the Milosevic regime

signed them but I definitely didn't."

According to Mr Torkildsen's report on transactions that bypassed UN sanctions on weapons purchases in 1998-99, ahead of the Kosovo conflict, as much as DM560m was deposited in Browncourt's accounts at Popular Bank. During the same period, the company made 290 payments, most of which would be expected to have written authorisation from the company's owner as these were large-scale transactions.

Mrs Budisin said: "I never signed anything related to these companies." Popular Bank has not replied to the Serbian bankers' request, Mr Angelides said. A bank spokesman told the FT: "It's up to these women to prove they are the beneficial owners of these companies before we can release any documents."

The central bank has also refused to hand over documents concerning Antexol and Browncourt. Christodoulos Christodoulou, a former interior minister who took over last year as central bank governor, said they could not be made available because the Cyprus attorney-general's office was already investigating the companies in co-operation with the Yugoslav authorities.

He said providing documents "to a third party could affect the course of the inquiry". Alec Markides, the former attorney general, told the FT he launched an investigation in 2001, at the request of the Belgrade government, into Cyprus's financial links with the Milosevic regime.

In August 2002 he said he had asked the fraud squad to speed up their inquiries. The investigation has not yet been completed. In February, Cypriot investigators failed to keep an appointment to interview Mrs Budisin in Belgrade that had been arranged in co-operation with Serbian authorities.

The case of the Yugoslav bankers was placed on hold during the presidential election campaign. Earlier this month, Mr Papadopoulos appointed Solon Nikitas, a supreme court judge, to replace Mr Markides.

The new attorney-general must decide whether to complete the inquiry launched by Mr Markides. He must also consider Mrs Radenkovic's and Mrs Budisin's request for an investigation to determine whether charges should be brought against Mr Ioannides and other partners in the president's firm. However, with Cyprus on the brink of EU accession, there appears to be little appetite among Greek Cypriot officials to expose the government to renewed international criticism over its support for the Milosevic regime.

Kyros Chrysostomides, the government spokesman, summed up the situation from the Greek Cypriots' point of view: "That's all in the past."

from the FT about the case. Mrs Radenkovic and Mrs Budisin told the FT they were determined to prove they had nothing to do with the front companies. Mrs Radenkovic works for Anglo-Yugoslav Bank, a London-based subsidiary of Beogradska which, like its parent, is being liquidated. She said: "I'll do anything within reason to help the relevant authorities get to the bottom of this story."

Mrs Radenkovic says she first heard of Antexol in 1995, when she agreed to sign a power of attorney after Mrs Vucic threatened to ruin her career by sending her back to Belgrade and dismissing her from the com-

pany. The power of attorney was used to transfer ownership of Antexol to Mrs Budisin, a cousin of Mrs Vucic's late husband. As a result, Mrs Budisin became the owner of Antexol as well as Browncourt.

Together with Mr Papadopoulos, the women were put on a US government blacklist in the 1990s because of Antexol and Browncourt's role in sanctions-busting. They were banned from visiting the US or working with US companies. Mr Papadopoulos came off the blacklist after the sanctions were lifted in 1995, while Mrs Radenkovic's name was removed last year after she hired a Washington lawyer to press

her case. Mrs Budisin's name is still on the list. Mrs Budisin, the former head of Beogradska's legal department, now has her own law practice in Belgrade. In an interview in her comfortably furnished apartment, she said: "I had nothing whatsoever to do with these companies. I am determined to take whatever steps are required under Cyprus law to rebut these charges and clear my name."

The Serbian bankers have also requested copies of documents concerning the two companies from Popular Bank and from the central bank, which approved the companies' registration. The central bank did not require

the women's signatures but only a bank reference, which was provided by Beogradska. Under Cyprus company law, however, written authorisation from the owner is required to appoint directors.

Both owners and directors are permitted to handle the company's bank transactions but, following corporate best practice, a director would be expected to inform the owner when a sizeable transfer takes place. The owner would leave the director to handle small-scale transactions.

Mrs Radenkovic said: "As a banker, I know that all those payment orders must have a signature. Someone

suffice as outlets for internal party dissent.

Opposition has grown within the party since the chancellor presented his proposals last month, in particular from leftwing members of the SPD's parliamentary party group and regional party associations.

Several regional associations have adopted motions calling for a special conference and a dozen leftwing MPs last week launched a campaign for a referendum of all SPD members on the changes. Yesterday's move by Mr Schröder was seen as an attempt to prevent opponents of the reforms gaining further momentum. Despite yesterday's setback, the chancellor is expected to receive the party's support for his proposals, which are seen by many economists as important steps in modernising bureaucratic and costly rules on employment, welfare and the health sector.

Wolfgang Clement, economics and labour minister, has already held talks with SPD legislators and has made concessions such as the introduction of long lead-in times for the most controversial measures. Leftwing SPD members are likely to use the party conference to push for further concessions.

Leaders of the Green party, the junior coalition partners, this month also succumbed to internal party pressure and are to hold a consultative conference on the reforms in the summer.

Under a campaign launched last week by opponents of the chancellor's plans, critics say they are "worried about the future", and the party would only be successful "with a clear Social Democrat identity".

By Hugh Williamson in Berlin

German chancellor Gerhard Schröder suffered a setback yesterday when he was forced to hold a special party conference to debate his controversial economic reforms.

Social Democrat party leaders said the conference would be a vote of confidence in Mr Schröder personally as well as his planned policy changes on employment, welfare and health.

Leftwing SPD opponents, drawing on strong trade union support, are angry about plans to cut unemployment and social welfare benefits and to water down Germany's strict job protection rules.

Having for weeks ruled out the need for an extraordinary SPD conference, Mr Schröder yesterday told the party's executive committee to convene one.

The conference, to be held on June 1 in Berlin, will follow regional SPD meetings on the reforms that the chancellor had hoped would

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Constitutional team pushes plan for single EU foreign minister

By George Parker in Brussels

Europe's tattered common foreign policy should be rebuilt under the leadership of a single foreign minister, according to the team drawing up a draft European Union constitution.

The proposal would see the merger of the separate roles performed by Javier Solana, the EU's foreign policy chief, and Chris Patten, who represents the European Commission in external relations.

The new job could be created as early as autumn 2004, and Joschka Fischer, German foreign minister, has been reported as being interested in the post.

Germany's stance over Iraq could make him an unattractive candidate to countries such as Britain and Spain, although in recent days he has spoken of the need to restore the transatlantic relationship.

Valéry Giscard d'Estaing, president of the European Convention drawing up a draft treaty, says his team

must compile a framework for delivering an EU foreign policy, even if disagreements persist on its direction.

Plans to create a single foreign minister have been agreed in principle by the Convention's inner presidium drawing up a proposed new EU treaty.

Final details have yet to be agreed but officials close to Mr Giscard d'Estaing said there was a consensus that the EU's foreign policy should be represented by a single person.

"There are a few differences on the detail but in principle we agree," said one presidium member. Final proposals are expected to be presented to a plenary session of the European Convention on April 24.

Under the plan the new foreign minister would have two separate bases and two separate masters.

Part of the job would involve representing the EU member states in areas where they agree on a common foreign policy, the post currently filled by Javier

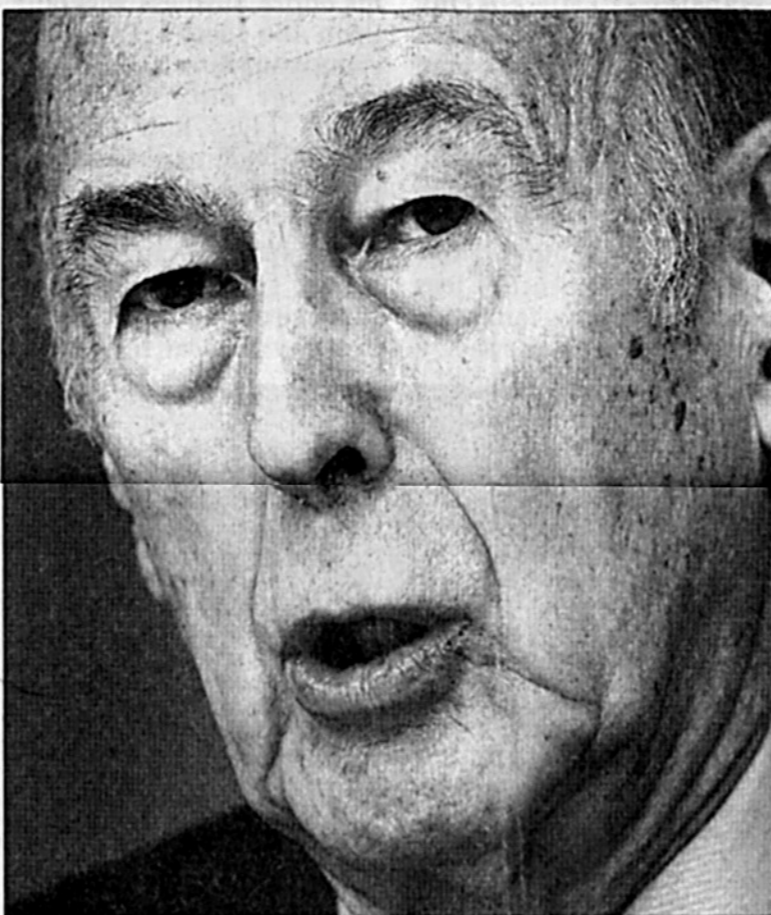
Solana, with a budget of €30m a year.

While that job would be based in the European Council, the foreign minister would also be a vice-president of the European Commission and spend part of his tenure in a separate building 500 metres away.

In that guise, the minister would be responsible for those parts of foreign policy delivered by the Commission, including €12bn a year of external assistance programmes. That part of the job would be subject to collective responsibility among 25 commissioners.

Britain and France say they will not accept any settlement that sees the foreign minister being drawn too closely into the Commission, and away from the control of member states. "We will not accept any communitising of foreign policy through the back door," said a British spokesman yesterday.

However, the Commission offers the tantalising prospect of being the location of both the majority of the



Valéry Giscard D'Estaing: drawing up a draft treaty

Reuters

money and staff devoted to EU foreign policy.

The precise formulation of the job will be hammered out as part of a wider EU institutional deal, which will be discussed informally by EU leaders in Athens tomorrow.

Also on the agenda will be the possible creation of an EU president and the issue of whether the president of the European Commission should be elected by the European parliament.

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Inside Brussels

Road to Rome: Daniel Dombey, the FT's Brussels correspondent, looks ahead to the Italian presidency of the European Union and examines possible compromises in the Convention on the Future of Europe.
www.ft.com/brussels

Blow for Schröder as SPD forces conference on economic reforms

By Hugh Williamson in Berlin

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