

# bulletin



The Credit Suisse Magazine Since 1895 Number 3 Sept. 2007

## Adrenaline

**Fight or Flight** The History of a Stress Hormone

**Roller Coasters** Making Billions by Scaring Millions

**David Blumer** The CEO of Asset Management

**Chocolate** Bitter Beans Sweeten Sector Outlook

**Total Connectivity** High-Tech is Big Business

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**Alcohol is a savior** in times of need according to a song by German musician Herbert Grönemeyer, and fans at his concerts bawl out the same words thousands of times over. How wrong they are! From a biological point of view, at least, they should be singing: “Adrenaline is a savior in times of need.” When danger looms, this stress hormone triggers a state of maximum alertness in the body, a relic of a time when human life was still marked by the naked fight for survival. When adrenaline enters the bloodstream, the body switches to “fight or flight” mode, and maximum levels of speed and force are required. Today, many of man’s natural enemies are rare, such as bears in Switzerland, or extinct, like the once much-feared saber-toothed tiger. Since we are hunters and no longer the hunted, the flow of adrenaline through the body that is triggered by fear is mostly of no use. What good do the increased flow of blood to my skeletal muscles and the mobilization of my last reserves of energy do me – wedged behind the steering wheel of my car – if another car that I am about to overtake on the motorway suddenly pulls out into my path? The scenario on a motorcycle is even worse. I rarely take a ride without the adrenaline surging through my veins at some point or other, and yet I remain a passionate motorcyclist. Or perhaps that’s precisely the reason why. In any case, millions of people every day are on the lookout for that quick fix of adrenaline. And whereas only a minority choose to jump from great heights attached to an elastic cord or indulge in some other extreme sport, the vast majority of people get their adrenaline kicks in more mundane ways. This could be by watching a horror film at home on the sofa or visiting an amusement park to experience total insecurity in a fully secure environment. In today’s affluent society, experiencing what was once our sole savior in times of need has become a billion-dollar business. Faced with new global forms of danger, let’s just hope that modern man is still able to react – if no longer with the stress hormone produced by his own body, then at least with a heightened sense of understanding.

A short, happy footnote closer to home on the topic of adrenaline: My excitement was great when the five candidates for the gold medal were introduced at this year’s **Best Corporate Publishing Awards 2007** in Munich. The announcement: “The winner is Bulletin by Credit Suisse.” I made my way to the stage to accept the award with a racing pulse and a burst of energy. Long live adrenaline!

**Daniel Huber, Bulletin editor-in-chief**



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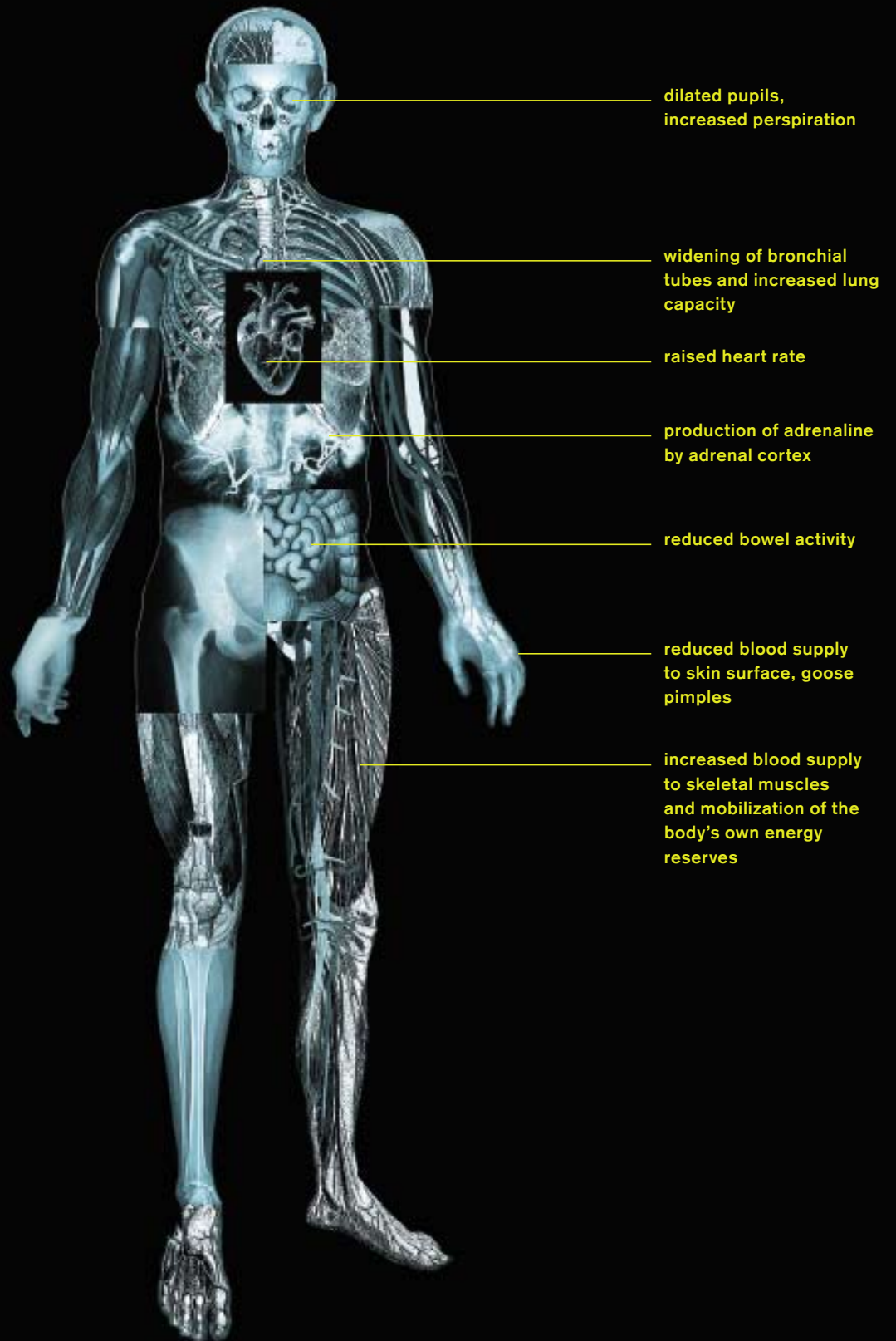
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# Adren

Shock Flight  
In Love Energy  
Euphoria  
Running High

# baseline

Defense Rage  
Pulse Rate  
Fight Tension  
Strength





**For primitive humans, the “fight or flight” hormone adrenaline was vitally important in surviving confrontations with predators. Today, this hormone is used in medical emergencies to restart the heart. It is also the naturally produced hormone of choice for those in pursuit of a “rush” – including extreme sports fans or the more passive moviegoers. The biggest kick every human experiences is at the moment they enter the world.**

# High on Hormones

Text: Regula Gerber

The first and biggest natural “high” experienced by humans comes on day zero. During birth, a baby’s body produces 15 times the amount of adrenaline normally secreted under stress situations. This is why it is possible for mother and child to bond immediately after the birth despite their extreme exhaustion. The adrenaline effect causes the pupils to dilate and as a result, the mother’s and baby’s eyes are wide open. But this is not all that happens during an adrenaline rush – in order for the body to be able to perform, the skeletal muscles that are put under such a heavy strain need to be supplied with sufficient oxygen and nutrients. So blood circulation increases and the heart pumps more blood through the body. But bowel activity falls dramatically because digestion in these circumstances would just be a waste of energy. In order to increase nutrient supply to the heart and muscles despite this, sugar is released into the blood from the liver, and fatty acids from the fatty tissue. To increase oxygen absorption in the blood, the air passages dilate and respiratory volume increases. But this isn’t all: The pupils dilate and perspiration is increased.

## Doping – the Natural Way

The adrenaline release increases the body’s performance potential to maximum levels. Under extreme stress, the sympathetic nervous system – a branch of the autonomic nervous system – produces substances that activate the adrenal glands. In humans, these hormonal glands, consisting of cortex and medulla, are found on top of the kidneys. The adrenaline is formed in the medulla. From there it is released into the bloodstream, which transmits the hormone to the various organs, supplying them with energy. In primitive times in particular, this reaction was vital for fight or flight. Yet despite all the evolutionary developments, adrenaline release has remained intact as an instinctive response to this day. First indications of the substance that would only later be known as adrenaline were discovered by the French physiologist Alfred Vulpian in 1856. It was

artificially synthesized for the first time in 1904 by Friedrich Stolz. Adrenaline (from the Latin ad “on” and ren “kidney”) was the first hormone to have its structure determined and produced in pure form. Today it is also often used for emergency medicinal purposes as a drug to stimulate cardiac action in cardiac arrest, to open blood vessels in anaphylactic shock and sepsis, and to dilate the bronchi in acute bronchial asthma. The effect of an injection of one milligram lasts between 90 and 120 seconds and is potentially lifesaving. But nothing is known about how long a naturally induced adrenaline rush lasts in humans.

## A Shot of Stress Hormone

People who like to give themselves a deliberate shot of the stress hormone, through extreme sports or watching horror films for example, have a low basic activation threshold. In psychology these people are called “sensation seekers.” They look for excitement in order to maintain a desired level of stimulation. Sensation seeking refers to a personality trait that looks for variety and new experiences in order to be in a state of constant tension. It is a personality construct with a physiological basis, according to American neurobiologist David McCobb among others. McCobb says a protein in the body is responsible for the fact that one person’s heart beats faster when playing a simple card game, while it takes a horrific sight for another to experience any real sense of agitation.

From a medical point of view, the actual kick lasts only a short time. But if people deliberately expose themselves to it, adrenaline can certainly cause a more lasting rush and give people a high. If stress situations occur regularly and against one’s will – this leads to a permanently raised level of adrenaline secretion in the body, which can in turn cause excessive strain on the heart, weaken the immune system and, in extreme cases, result in illness.

The following 18 pages on the subject of adrenaline are guaranteed to be free from risks and side effects! <



Though it's difficult to admit, many people are fascinated by evil and horror, so long as they're not personally involved. The best way to get "the creeps" remains in the comfort of the movie theater or on your own living-room sofa in front of the TV. But the monsters, ghosts and ghouls of the silver screen also have something to say about real life.

# Sheer Horror

Text: Mandana Razavi

Picture the scene: At a school not far from where you live, rumors fly about a sinister video that later brings death to anyone who views it. As a sensible, rational adult, you think nothing more of this sort of teen talk – not even when the video falls into your possession. Out of curiosity, you put the tape in the VCR. For a few minutes you're confronted by disturbing movie sequences that have no context and make no sense at all. Before you've got time to digest the content of the weird video, the phone rings. A mystery caller tells you that you've got only seven days to live. By this point, you're sure to be showing signs of extreme nervousness. A short while later, you're told that all the young people who've already seen the video have gone on to die a mysterious death. You begin asking yourself how much time you've got left. The blood rushes to your ears, your mouth becomes dry, and your pulse starts racing: You're frightened...

## A Penchant for Evil

Fortunately, these dramatic events are not based on a true story – they're actually from the script of cult horror movie "The Ring". So it seems all the more astonishing for people to respond to the viewing of such events with similar physical and psychological symptoms: increased heartbeat, rapid breathing, and tensing of the muscles. The person witnessing these happenings – even if they're confined to the movie screen – is experiencing fear. Their body is releasing adrenaline. Those movie-goers not into horror will at this point be asking why people watch these sorts of horrifying scenes in the first place. And they've got a point: Why do people watch as the

protagonist in "The Ring" tries in desperation to save her life because the sinister video has placed a curse on her? In this day and age, what motivates people to watch the movie's portrayal of the revenge of a dead child that, absurdly enough, has a habit of crawling out of the TV set? One might have assumed that ghosts, curses and the irrational belonged to times gone by. Shouldn't stories like this be bringing no more than a jaded smile to the face of the cool, savvy urbanites of the 21st century? But the continued popularity enjoyed by the horror genre – both in literature and in the movie industry – speaks for itself.

## Dying From Fear

The fascination with horror has a long tradition. In all cultures there is "evidence" of the supernatural. Legends and myths that wove themselves around the places of the damned and the restless dead have been casting spells on people for centuries and at the same time robbing them of sleep. Frank Wilhelm, professor of psychology at the University of Basel, is an expert on the subject of "fear" and has an explanation for this ambivalent phenomenon: "Tension and excitement are often seen by people as positive, and in this context we talk of the 'suspense effect.'" Besides this tension people experience when they come into contact with horror stories, however, there is another factor at work: the fear that is kindled in us by coming face to face with the supernatural. Notwithstanding that, human beings show an affinity with the "spirit world." As Wilhelm explains: "The first encounters people have with 'spirits' occur in their dreams, for instance when they dream of someone who >





Terrible curses, as well as the figure of the Yūrei (Japanese for dark spirit), play an important role in J-horror. Yūreis are female spirits that possess morbid beauty: Dressed in white, with long black hair, they return from the Kingdom of the Dead in order to take revenge on those who caused them suffering during their lifetime. Top: scenes from “The Grudge”. Hollywood versions of Asian horror flicks are also luring audiences to the movies (below left: poster for movie “The Ring”). Below right: Journalist Rachel Keller (Naomi Watts) tries to protect her son Aidan (David Dorfman) from the deadly curse of the mystery video.



has died. As human beings, we process knowledge and experiences on a metaphorical basis in our dreams. This is a culturally independent process. Furthermore, it's known that if people believe a curse has been placed upon them this can result in major physical consequences ranging all the way through to heart failure and death." As with everything that preoccupies human beings, these kinds of dramatic occurrences have become established in literature. There are any number of folktales in which the rogues and villains die from sheer terror when they see the ghosts who are out for revenge. When the movie was invented later on, horror then took up residence in the cinema.

### Of Vampires and Psychopaths

The first horror movies were shot back at the beginning of the 20th century. There was no shortage of script material: Novels which dealt with the "other," such as Mary Shelley's "Frankenstein," already enjoyed immense popularity long before cinema was born. The Europeans – the Germans, to be more precise – first crept themselves out on a collective basis: 1920 saw Robert Wiene's silent movie "The Cabinet of Dr. Caligari" flicker across the silver screen. Two years later, the vampire Nosferatu – still silent – instilled terror among the movie-going public. Tod Browning's Dracula, which unleashed a veritable wave of monster films in Hollywood's golden age of the '30s, was finally able to speak – and he had a Hungarian accent to boot. From then on, raging mummies, flesh-eating zombies, and angry oversized gorillas brought their evil deeds to the movie theater and ensured lucrative box office takings for Universal Pictures in particular. It was the Brits who produced the first proper blockbuster: "The Curse of Dracula," produced at Hammer Studios, gave people the creeps around the world.

Soon after, these horror cabinet creatures then suddenly began disappearing. People began bringing horror to the screen in a more subtle manner. Evil was portrayed in less stark terms. Suddenly, it had no face, and no longer was it as obviously linked to the "dark side." Good hardly ever triumphed over evil anymore, and a truly happy ending was a rare occurrence. Instead, the focus was on examining the depths of the human soul. Alfred Hitchcock's 1960 "Psycho" marked a clear milestone in this direction, but the director Roman Polanski "Rosemary's Baby" also knew that true horror did not have to be portrayed in an explicit manner to be palpable to its audience. In the '70s, it was primarily psychopaths and detailed portrayal of violence that shocked audiences, while in the '80s there was a tendency to draw out film successes to unbearable lengths with innumerable sequels (the "Nightmare on Elm Street" slasher series alone consists of eight movies). In the '90s, there was a continuation of the cult for sequels with the knife-wielding protagonists of "Scream". All in all, the City of Angels has managed to produce little in the way of innovation in recent years as far as evil is concerned. Despite this, the conclusion film freaks could draw from nearly 90 years of horror film is that evil never dies. And it's always advisable to shoot twice when someone's tailing you.

### Horror Made in Japan

The question remains as to how much longer the last couple of insipid attempts at horror to emerge from Hollywood would have kept audiences begging for more if there hadn't been an abrupt change in direction for the genre. This change came – as in the economic sphere – from the Far East. In 2002, Gore Verbinski

generated a kind of mania among by now seriously bored horror fans with the launch of the first part of his "Ring" series. The disturbing story surrounding the cursed video hit the spot no longer merely for a handful of teenagers, but instead developed into a veritable cult. At the same time, Verbinski started a trend: The fact is, "The Ring" was a new take on the Japanese horror movie "Ringu" by director Hideo Nakata. This resulted in a huge wave of remakes of Asian – especially Japanese – movies. Dozens of films including the cult classics "Dark Water," "The Grudge," "Pulse," and "One Missed Call" thus made their way to Hollywood. The American dream factory quickly transformed itself into an extremely lucrative recycling facility for Asian nightmares.

### Anachronisms and Innovations Have a Long Tradition

This phenomenon was given a name: J-horror. What was seen in Hollywood as a welcome boost in the thrills stakes has a long tradition in Japan. And this tradition, too, has its origins in the history of the country, in mythology, religion and culture. With his 1825 play "Yotsuya Kaidan," Tsuruya Nanboku created an important platform for Japanese horror cinema. His play was probably Japan's most famous ghost story, and was made into more than 20 films. It centers on a young woman (Oiwa) who returns as a ghost to haunt her husband and drive him insane because he had wronged her during her lifetime. By now, aficionados of movies like "The Ring" and "The Grudge" will have recognized the characteristics of a figure who plays a key role in J-horror: the figure of the Yūrei. Yūrei in Japanese means something along the lines of dark spirit. It revolves around traditionally white-clothed female ghosts with long black hair. They appear in order to take out their revenge on those who have tormented them during their lifetime.

The belief in spirits is deeply rooted in Japan. Unlike in Western cultural circles, there is less questioning of the unexplained or the supernatural. This attitude points the way to another feature of J-horror: an affinity with irrational or illogical content. But there are other key themes distinguishing J-horror. Jay McRoy, professor of English and film sciences at the University of Wisconsin and author of the book "Japanese Horror Cinema," has been preoccupied with the subject for years: "Aside from the figure of the Yūrei, modern means of communication play a central role in contemporary Japanese horror cinema: videos, Internet, and the ever-present cell phones. Often, an element of mysticism is attached to them. The importance of this 'technology theme' can be explained by Japan's history. After the Second World War, innovations in this area were the primary driver of the country's successful reconstruction. The key theme in movies takes you directly to whatever it is a society is specifically preoccupied with." This maxim probably applies to all horror films – whether from Asia or America. And this fact gives not only horror fans something to think about. As Jay McRoy says: "Behind what might be the superficial façade of horror, these films serve as a veritable instrument for gauging why personalities or modes of behavior in a society are marginalized or even demonized. I myself long ago came to the conclusion that one of the best ways of learning about a society is to study its monsters."

It remains to be seen what sort of fear-inspiring monsters and maniacs are in store for audiences in the movie theaters of the future. That these fictional creatures will probably always exist on screen goes without saying because the fascination with evil – and evil itself – is something that never dies. <



**Photographer Gilles Peress has been in conflict areas around the world for the past 30 years to portray reality – no matter how horrific. He has been in the midst of the Iranian revolution and the genocide in Rwanda to raise public awareness of global issues. And while he is often in the hot zone, he believes adrenaline is addictive and dangerous.**

# Capturing the Heat of the Moment

Text: Peter Hossli

The doorbell is broken, and a handwritten note on the door requests visitors to knock at the window. The door opens promptly, and two curious and alert eyes stare out from a face topped by a head of curly gray-white hair. "Welcome," says Gilles Peress, his gentle voice betraying a French accent. He leads the way through to the garden, lights a cigarette, takes a sip of coffee from a paper cup, and makes the visitor feel relaxed. "Living in Brooklyn is like living in paradise," says Peress, who lives in a smart brick house in this quarter of New York together with his family. "Yet the chaos in my head is greater than the chaos outside, so I have the perception of not being at peace." This also explains why this photographer has been drawn to extreme places for 30 years. To places where wars rage and human beings do inhuman things to one another. "I am more comfortable when the external chaos is greater than the chaos within," he explains. "That's when only what is really important counts."

Born in France in 1946, Peress has encountered chaos on many occasions. After experiencing the Paris Spring of 1968, he documented a long strike at a coal mine, and religious strife in Northern Ireland. At the end of the 1970s he experienced the Iranian revolution up close. Then he found himself avoiding sharpshooters in Sarajevo. In stirring documentary fashion he photographed the mass graves of Srebrenica and Vukovar, as well as the chilling scenes of genocide in Rwanda. On September 11 he captured the southern tip of Manhattan as terror came to New York. Soon afterward he photographed war in Afghanistan and Iraq, as "a continuum of history," as he describes both these and all other conflicts.

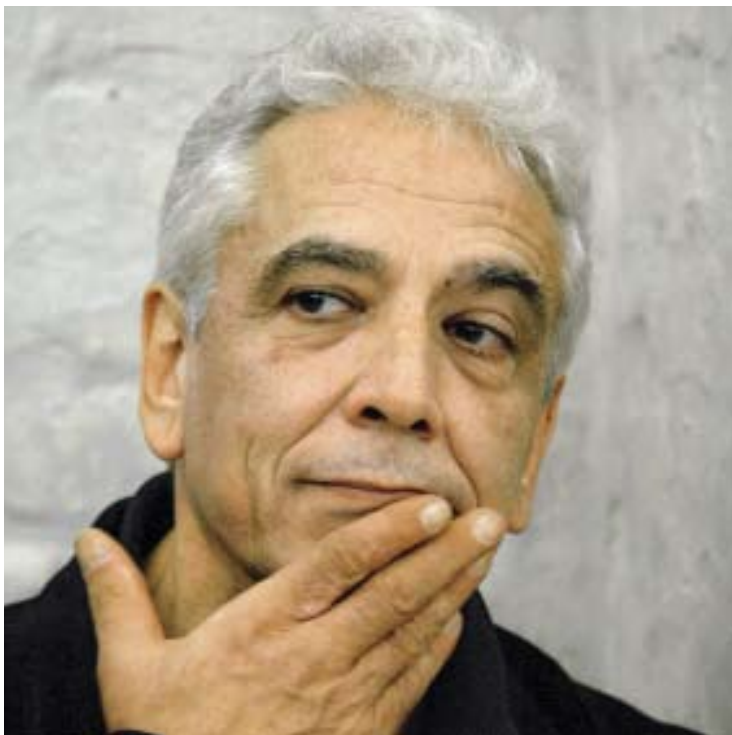
For him, there is never a clear distinction between war and peace anyhow. "War is never total war; in the same way, peace is never total peace," observes Peress. He embellishes this observation with an anecdote. In 1982, during the siege of Beirut, he visited a Lebanese man burned by Israeli phosphorus in hospital. Through the window he could hear a rhythmical "tock, tock, tock" sound. He looked out – and saw a couple playing tennis. At this point he lights a second cigarette. Tenderly he thanks his wife for the coffee that she has just brought him. He talks of his children, who he adores above all things, and the reason why he moved to New York in the 1970s: "I was fleeing the mediocrity of being in Paris." At the same

time he joined the legendary Magnum agency that for years played a leading role in war photography.

Peress does not view himself as a war photographer. For him, journalism's only appropriate role is to raise wider issues. Nor does he view himself as an artist, although his pictures are collected and exhibited by renowned museums worldwide. "I don't like labels," says Peress, before going on to explain why: "Interesting work happens in the no man's land between journalism, art and cinema," he says. "Besides my work is never about me. I don't take myself terribly seriously." While other photographers might have preconceptions of heroic epics in their heads when entering conflict zones, he prefers to concentrate on the civilian sacrifice alone. "If you look at wars at the beginning of the 20th century, you have civilian casualties amounting to 10 percent, and the armed forces bearing 90 percent. Today that ratio has flipped," points out Peress, who likes to show precisely this aspect in photos, books and exhibitions. "It's morally reprehensible to deny this fact."

## History Must be Confronted, Not Ignored

Peress talks in a friendly way, at times radiating charm, at others humor. "I was born in France, but there's nothing French about me," he says. His grandfather was a Georgian Jew, a product of the Soviet Union, while his mother came from an orthodox Christian family from the Middle East. He grew up in Paris, where he studied philosophy and political science. Perhaps this explains why he does not like simple explanations or quick conclusions. "I need to understand," is his response to the question of why he is drawn with his camera into war zones. Nor does he put his faith in the words of media or governments. "I have to go and see for myself." This is particularly true when the official line deviates grossly from gruesome reality. He simply couldn't listen any more in 1994, as UN attorneys engaged in pettifogging debate as to whether the massacre in Rwanda constituted "acts of genocide," or "genuine genocide." The paralyzing failure of the European diplomatic elite to act drove him to both Bosnia and Croatia. "We need to confront history because we can't ignore it. It will always catch up with us," he says. The scenes he records through his camera lens often be- >



**Gilles Peress does not view himself as a war photographer. For him, journalism's only appropriate role is to raise awareness of big issues. Nor does he view himself as an artist, although his pictures are collected and exhibited by renowned museums worldwide.**

come pieces of evidence. His nightmarish shots of mass graves in the Balkans served as visual arguments that drove forward the establishment of the International Criminal Court in The Hague.

But Peress is no warhorse. He undertakes painstaking risk analyses. "Carrying out proper due diligence allows you to reduce your risk in percentage terms," observes Peress, who considers himself "a very low risk taker." When circumstances require it, he wears a bullet-proof jacket. He travels during the day, as traveling by night is something he considers more dangerous. He prefers armored vehicles to conventional cars. He checks carefully whom he can trust, where the front line lies, and which parties are pursuing which interests. Only when he has examined every conceivable risk will he allow himself to go. "Then I'm in the hands of God, and I enter a different spiritual and mental sphere." This is the way he feels he can photograph, "otherwise I couldn't do anything."

He admits to knowing the feel of adrenaline flow. "I know the adrenaline is addictive, and as with any addictive substance it needs to be handled with the greatest caution." In his view, it reduces an individual's clarity of judgment and changes their lifestyle. War photographers who are primarily motivated and bewitched by the adrenaline rush quickly forget why and how they are taking photographs. In the first days of a war, it would be the rash adrenaline junkies and young and inexperienced who would most probably be

the first casualties. "War photography is a serious undertaking," explains Peress, "and should never be about you but about things that are more important than you." It is precisely this meaningful engagement that he demands from himself – a noble intention that drives a worthy process.

He evades the question about what goes on inside him when he is confronted by atrocities and monstrous acts. This is too personal. But he never suppresses in his mind the situations he is exposed to. "At times my work is underscored by my awe of mankind." He lights another cigarette. He grew up believing that all people were essentially good – that even when things went wrong the system could be tuned and fixed. Rwanda darkened this perspective. There, 800,000 people were murdered by others with knives in just a month. At that time Peress started to believe that maybe 90 percent of people are malicious by nature. "What saved me is that 10 percent who do things that are good and beautiful," he states. "Without them I would have sunk into deep depression." And without the work that he uses to process his experiences, to give them "form," as he puts it. "The Silence" is what he called his book on Rwanda. It's a title that expresses the silence after the machete massacres between Hutus and Tutsis, as well as the silence of global opinion and the deep silence that welled up in him when processing the pictures. "When I was traveling through Rwanda there was not a single sound. Not only were all the people dead, but all the animals too, everything."

### Finding the Intersection Between Reality and Fiction

Peress has taken photos of young people from Northern Ireland throwing Molotov cocktails at armored vehicles; others that show rotting corpses or appalling trains of refugees. He has photographed firemen searching in vain for survivors in the ashes of the World Trade Center. He is conscious of the complicated relationship with suffering people that he stirringly depicts. "All important work happens at the intersection between the inner world and the outer world," is how Peress eloquently describes the terrible dilemma of war photographers who profit from horror. "I always have to know precisely where the intersection between real and fictional perception lies, what is happening in my head and what I'm seeing. Only then can I stand on both sides of the camera." He argues that this makes possible an authentic situation, and if the intention is honorable, this is what sets a decent process in motion.

Peress usually photographs in black and white, and his pictures at times have a primeval beauty. But can misery be aestheticized, and can the ghastly be made to look beautiful? This is a question that troubles many war photographers. "Compared to those of others, my photos are less beautiful," argues Peress. "They are more diffuse and highlight the chaos of the situation." At least he often finds the precise intersection between order and chaos, between calm and turmoil. "If you find any beauty in my photos, then it has less to do with me than with the paradox of life and death, the paradox of history." The dialectical struggle between form and content is something he thinks immensely important, however. Only if this tension is real between a strong form and a strong content, Peress reckons, can a picture, a book, or a museum installation really challenge. In the end, the content must always win the battle. "But I do find it pathetic when, due to political correctness, the content dominates immediately without that dialectical battle, and what's on the wall means nothing and is pale." Where-





**Srebrenica, the path of life and death.**

ever he encounters it, Peress rejects the postmodern critical view that is not possible to present an adequate view of reality. That every picture gorges on a conflict rather than bringing it nearer. That it is therefore amoral to photograph war scenes at all. "These are reactionary theories, thought up by people living in the ivory towers of the academic world," says Peress. "If there is no adequate representation of reality there is no point of going into the world, and if you don't go into the world, how in the hell are you going to change it? The alternative would be to do nothing, to stay silent, to stay home," he says. "But the consequences of this would be utterly horrific for me, the complicity with evil would be intolerable." Does

he feel that his photos could change the world? Peress is too intelligent to answer this question with a simple yes or no. "I'm a patient man," he says. Not for him the world of quarterly results, or the continual urge for immediate satisfaction. One thing by itself cannot change the world, nor turn the world's perception on its head. "It is the accumulation of many small tipping points that changes us," argues Peress. "Outstanding achievements require a great deal of time, and are never brought about by one individual but by several individuals." As he points out, he himself participates "humbly" in the course of history. "Whatever you try to achieve, you have to accept that it may not happen in your lifetime." <



The roller coaster business has developed into a multibillion US dollar industry ever since the first organized rides emerged in Russia during the cold winters of the 15th century. As roller coaster design improved their popularity soared, making them into one of amusement park visitors' favorite rides. Today more than 2,000 coasters operate worldwide with millions of people embarking on them every year.

# Making Billions Scaring Millions

Text: Dorothee Enskog

Why are people voluntarily subjecting themselves to roller coaster rides with a drop of more than hundred meters and which can reach a maximum speed of 200 kilometers per hour? What are they after? It's about being scared, putting your senses on full alert and be able to scream loudly. "Roller coaster riders are after a secure insecurity and an intense adrenaline rush," says Andreas Wild who has been designing roller coasters at Ingenieur Büro Stengel GmbH in Munich for nearly two decades. "It's all about entertainment, excitement and knowing nothing can happen, while still fearing the ride." Passenger security is the absolute priority when it comes to designing roller coasters. The sector-wide norms that emerged in Germany in the '60s have since evolved into European norms, though global regulations are still lacking, Wild explains. After security, it is the variety of figures coming up in a roller coaster and speed differences which is key. "Until the '80s roller coasters mainly had loopings and corkscrews. In the '90s the focus switched to making coasters faster, higher, steeper and longer. Today the trend is more in favor of rides offering a variety of figures one after the other, from a looping to a figure eight followed by a corkscrew or an inversion," Wild says.

Rides are the number one reason Americans visit amusement parks. Out of the numerous types of rides on offer, 46 percent of people consider just roller coasters as being their favorite ride, according to the International Association of Amusement Parks and Attractions (IAAPA). To be able to try out a maximum number of roller coasters in a single day, a trip to the Cedar Point amusement park in Ohio is recommended. The park is often dubbed the coaster capital of the world as it operates 17 world-class roller coasters. Though if you are after extreme thrills and want to test the world's fastest, highest and steepest roller coaster, a visit to the Six Flags Great Adventure park in New Jersey should be high up on your agenda. The Kingda Ka coaster rolls at maximum speed of 206

kilometers per hour with its tallest point at 139 meters and maximum drop of 127.4 meters. When it comes to longest coaster, Steel Dragon 2000 in Japan holds the record with its 2.5 kilometers long track. These recordholders are exclusive structures, costing 20 to 50 million dollars or more. Obviously, not all roller coasters are as big and expensive, notes the coaster designer Wild, adding it is the manufacturer who decides whether the design is exclusive or not. Vekoma Rides makes both standard and customer-designed rides, says Charlotte van Etten, an account manager at one of the industry's largest roller coaster manufacturers. The Dutch company has to date produced 290 coasters and more than 60 other types of attractions. "The Vekoma Boomerang has been installed in over 45 parks worldwide, as do the Vekoma Suspended Looping, Family and Junior Coasters. But we continue develop and improve existing products to accommodate our clients," van Etten says.

## Designing a New Roller Coaster

It usually takes a year from scratch to the opening of a new roller coaster, out of which one to six months are needed for engineering and the remainder for the production and construction of the ride, says the roller coaster designer Wild. "A degree in civil engineering is a good base, though a good coaster designer must also be able to see and think in three dimensions even if most work is nowadays done with the help of a PC." The amusement park puts forwards its ideas, visions and then works together with the producer and designers. Ultimately, the designer comes back with a detailed plan highlighting what is technically feasible and what is not. The engineering bureau Wild works for has over the past 42 years designed more than 500 roller coasters. "Unfortunately I haven't been able to test them all, but I always try to include a roller coaster I still haven't tested when going on holidays and change the itinerary accordingly. That can sometimes irritate my wife," he acknowl- >





Out of the numerous types of rides on offer at amusement parks, 46 percent of its visitors consider just roller coasters as being their favorite ride. These have over time evolved from wooden structures covered with ice into high-tech steel attractions riding through curves, corkscrews, sweeping turns, with inversions, drops of more than 125 meters, at maximum speeds above 200 kilometers per hour.



edges. Wild's favorite coaster among the ones he has tried is Expedition GeForce located at Holiday Park in Hassloch, a one-hour trip from Frankfurt.

### Russian Winters Behind the First Coasters

The precursors to the first roller coasters appeared during the cold winters of 15-century Russia. Man-made wooden structures covered with ice were built, and iceblock sleighs fitted with seats lined with straw slid down these artificial slopes. The sloping ramps could be up to 25 meters high, and reached from stairs located at the back of the edifice. The base of the slide was sometimes sprinkled with sand, to make sure riders would be able to stop. With time, ice slides became the major attractions of the winter festivals held in St. Petersburg and Moscow. Then, the first ice-free ramps appeared and small wheels were added to the sleds. By the early 19th century, the pastime reached Paris where it was called "Montagnes Russes" (Russian mountains). The French used carts with locking wheels, continuous grooved tracks and cables pulling the carts to the top of the peak. Two centuries later, the Roller Coaster Database has a total of 2,072 operating roller coasters registered across the globe in gated amusement parks, with 727 of them rolling in the USA alone. The first modern theme park, Disneyland in California, opened its doors in 1955 and even contains a roller coaster based on the Swiss mountain peak, the Matterhorn. Fifty years later, The Walt Disney Company remains the overall market leader, owning eight of the world's largest theme parks measured in terms of attendance, according to the 2006 attendance survey of Economics Research Associates (ERA), a consulting firm analyzing the entertainment and leisure industry. Magic Kingdom at Walt Disney World in Florida is the amusement park attracting most number of visitors, with a total of 16.6 million visitors in 2006, ERA says.

Global spending at amusement and theme parks is estimated at 24 billion dollars for 2007 and growing, according to a PricewaterhouseCoopers (PwC) survey of the sector. The popularity of amusement parks remains fairly uncorrelated to the economic cycle. "It seems, no matter the circumstances, people always try to put a little aside for some family fun," the IAAPA association says. In fact, 28 percent of Americans surveyed visited an amusement park in 2006, with half of them indicating that they plan to visit one within the next 12 months, it adds. Amusement parks are again and again listed as one of the top activities international travelers seek in a destination, with more than a third of all overseas tourists visiting an amusement park during their holidays in the USA, says Destination Marketing Association International, which promotes the long-term development of a destination. As the number of people with free time increases across the planet and their discretionary incomes – the amount available for spending after essentials like food and housing have been paid for – also rise the entire amusement park industry should continue to grow in the coming years. This year alone hundreds of new rides and attractions will be opening up worldwide, according to IAAPA. Another factor to take account of is the aging global population. Amusement parks increasingly target entire families through rides appealing to all ages, rather than mainly focusing on teenagers seeking intense thrills.

### USA Remains Largest Theme Park Market

The USA currently has more than 600 amusement parks and rides, creating more than 612,000 jobs. Some 335 million visitors, who

enjoyed a total of more than 1.5 billion rides, generated revenues of about 11.5 billion dollars last year, according to IAAPA, which underlines that this revenue figure is rather conservative. "The US market remains substantial. It's a vast continent with demand for family outings. More parks will be opened and existing parks will continue to expand," says van Etten from the roller coaster producer Vekoma Rides. "But the fastest growing markets are found in Asia and the Middle East, as they started later with amusement parks."

The USA represents half of the global amusement park market and should be buoyed by the weak US dollar in the shortterm, PwC says in its Global Entertainment and Media Outlook: 2006–2010 study. The sector's strongest growth is however found in Asia, particularly in China which has a rapidly expanding middle class craving for thrills. Generally improving economic conditions and the opening up of Hong Kong Disneyland in 2005 and new parks in China, India and other Asian countries boosted the value of the region's amusement park spending to a 6.5 billion dollars last year. This figure compares with the European theme park market spending of 4.3 billion dollars. Here, medium-sized parks are opening up and existing parks convert themselves into minitrip destinations with hotels in their vicinity to encourage overnight visits and consequently lead to higher attendance figures, all according to PwC.

### Reinvesting Key in Mature Markets

Few new major parks have been built in the USA since the '90s as its amusement park market is maturing. The industry instead attracts visitors by offering improved facilities and new rides. "Rule number one in the theme park industry is 'Thou shalt reinvest,'" says Ray Braun at the consulting firm ERA. "American and European parks will continue to invest in new attractions to keep up with the demands of their clients," echoes Vekoma Rides' van Etten. There is an above-average rise in attendance at parks that add major family-oriented zones, explains John Robinett, who also works at ERA. The 10 million dollars spent to create Pirate Shores at Legoland California boosted attendance by 16 percent last year, compared with a worldwide rise in park attendance of 2.2 percent, he cites as example.

The future of the global amusement park market remains full of promise, as improved economic conditions spur both international and local tourism. PwC forecasts that amusement park spending will grow at a compound annual rate of 4.5 percent between 2006 and 2010, to reach 27.6 billion dollars in 2010 from 22.1 billion dollars in 2005. The USA will remain the largest market, thanks to its destination parks like Disneyland, Epcot, Universal Studios and SeaWorld, all located in Florida or California. Such parks include hotels and other services, encouraging visitors to spend several days at the park. They are the sector's largest and attract more than a quarter of total US park attendance, though they generate over a third of revenues as they charge higher admission prices. The industry's future however lies in China and India, PwC says. China already has about 2,000 amusement parks, though many fail due to lack of reinvestments. Meanwhile India has a relatively small amusement park market. Foreign investment has been low, as the average admission price is the world's lowest at 2.5 dollars. But as the Indian economy expands, the industry should benefit. A theme park, set to become South Asia's largest, is under construction outside New Delhi. The park named World of Wonder is forecast to attract 30,000 visitors per day when it opens in 2008. <





**Few things can trigger a flood of adrenaline as quickly as the word “shark.” Yell the word at a beach and chaos, triggered by visions of the man-eating great white from the film “Jaws”, will ensue. These toothy, misunderstood superpredators are among the most feared creatures in the world, and for that reason also the most fascinating.**

# The Hair-Raising “Jaws” Effect

Text: Michèle Bodmer

A lone diver floats on the surface of the Atlantic struggling to force the theme from “Jaws” from her thoughts while she keeps her eyes on the unmistakable silhouettes of a half-dozen sharks patrolling below. Technically, she had enough lead on her belt to descend with the others, but her anxiety and erratic breathing keep her afloat. Forced to wait until the nearby dive boat circles back to provide the few more pounds of lead she needs to sink, Brigitte Jirschik tries, with little success, to concentrate on the mantra that shark behaviorist Erich Ritter drummed into her head during his lecture the evening prior: “The fear of sharks is irrational and unfounded.” And yet, the Austrian biology teacher and hobby diver Jirschik, 33, is not alone in her fear. “Nine out of 10 people are afraid of sharks,” explains Ritter, who holds a doctorate from Zurich University in behavioral ecology and is one of the world’s leading experts on this much-maligned animal. “People fear the water, the dark, the deep – all of these fears can be transferred onto sharks, which live in this foreign element. Some of this fear is primal, and over the course of human evolution has anchored itself in our psyche. Yet, I believe much of it is learned and perpetuated by the media.”

Fear of sharks wasn’t always universal. “Pacific island populations considered sharks mythical and god-like animals, while the Western civilization primarily associated them with the terms ‘evil’ and ‘dangerous,’” explains Ritter. “Hawaiians believed that people were reincarnated in the form of sharks. Christianity toppled many of these beliefs. However, in many of these regions sharks are still treated with respect. Sadly, much of the Western world still cannot seem to shake the notion that sharks are monsters.”

Ruthemae Mackey, 24, who has lived on Grand Bahama island all of her life, is one of them. “I have been deathly afraid of sharks ever since I was a little girl, so I never go into the ocean even though I love swimming,” says the receptionist. Ritter has met many people like Mackey during his career as a shark-human interaction specialist. “My life’s work has been to demystify the shark, to quell people’s fears through education, and hopefully save sharks from extinction,” says Ritter. This is why he opened SharkSchool 12 years ago. His school, located on Grand Cay island off the northern Abaco chain of the Bahamas, enables people to come into close contact with sharks and conquer their fears by experiencing just how shy and restrained sharks really are. “I have worked with someone with such

pronounced selachophobia (fear of sharks) that she passed out snorkeling a few meters from shore in shallow water, even though no sharks were present,” explains Ritter. “Her heart rate spiked from 85 to over 200 during this supervised behavioral-therapy exercise.” By the end of the weeklong intensive course with Ritter, she was able to snorkel with sharks with a normal heart rate, but first she had to unlearn everything she had previously seen, read or heard about sharks. The main issue she had to exorcise was the image of the man-eating great white from the horror film “Jaws”.

## Media Hype Fuels Shark Phobia

Sharks were dragged into the public eye in 1975 following the release of “Jaws”, in which a giant “rogue” shark terrorizes the island community of Amity. In filming his adaptation of Peter Benchley’s novel, Steven Spielberg created tension and suspense by showing little of the menacing shark, thereby playing on our primal fear that terrors lurk in the oceans. This tactic was also born from necessity as the mechanical shark built for close-ups was inoperable during most of the filming. The imaginative filming was enhanced with an ominous, Oscar-winning score, which warned of danger by implying the shark’s presence even when it wasn’t on screen. Even today, the influence of “Jaws” both on screen and off is undeniable. It triggered a wave of revenge killings of sharks and a hysterical fear. Since then, although much evidence has come to light which dispels the myth that sharks are mindless killing machines, the reputation caused by this piece of popular culture is the one that stuck.

While “Jaws” is a prevailing factor of shark phobia, several other events provided fodder. Shark accidents have been recorded since the late 1800s, but they did not take center stage until 1916, says Ritter, who never uses the word “attack” in reference to sharks. Instead he uses the word “accident”. Within 12 days in the summer of 1916, four fatal shark accidents occurred off the coast of New Jersey. These events were the first of their kind to be reported in the mainstream media and caused mass panic. “The hatred and fear of sharks this sensationalism caused was never placated,” explains Ritter. It did lessen, but reemerged with the sinking of the American warship USS Indianapolis in 1945. When it was hit, 900 of the 1,196 men went overboard and about 300 were rescued three days later. “Everyone was convinced that the majority were killed by sharks, >



Above: (Left) Different species of sharks seem to establish a common hierarchy when near a source of food. Bumping and light biting are often observed in these feeding situations to establish this hierarchy. This establishing of hierarchy is often mistaken for the common misconception of “feeding frenzy.” (Right) One of Erich Ritter's doctorate students, dressed as a soldier for a Navy-related study, demonstrates what to do when in the water with sharks. Should a person be in deeper water with sharks, Ritter recommends getting into a vertical position and not to move one's legs or feet as these motions may cause sharks to investigate out of curiosity. One should keep afloat by moving the arms slowly, without splashing, across the water's surface.

Below: (Left) Erich Ritter observes sharks to understand their behaviors. (Center) A bull shark glides through the shallows at Walker's Cay island in the Bahamas. (Right) This image of the great white is what many adventure tourists expect when they book cage dives in South Africa or California. “One of the negative consequences with this type of tourism is that the fascination with the fear of sharks is exploited for profits. These tourists learn nothing about sharks prior to their dives and they are only there for an adrenaline rush,” says Ritter. “People looking for that mindless kick when coming to my courses are in the wrong place. My goal is educate in order to promote shark conservation and to help individuals lose their fears.”



but today it is believed that they died of exposure and of injuries sustained from the sinking,” Ritter says. “Regardless, this event is burned in the memories of subsequent generations.”

In December of 1957, several people were killed by sharks in South Africa. These tragedies were hyped by the press as “Black December” and fired another wave of shark killings. Then in 1975, “Jaws” hit the theaters and left its mark. In the late ’90s, an experiment was carried out at a beach in Miami, which underlines the role the film plays in the fear of sharks. It was a sunny day and hundreds of people were playing in the water. A band playing Caribbean music further lifted the cheerful mood. Then, the band switched to the theme from “Jaws”. In the first few minutes, general agitation was apparent. Bathers left the water and those on the beach scanned the ocean’s surface for sharks. The relaxed atmosphere soon returned when the band switched back to upbeat music. This is one of many examples of what Ritter calls the “Jaws” effect. Jirschik, who in July participated in SharkSchool, is another case. “I have been afraid of sharks since I saw the film.” While she carried that fear of sharks with her since age 13, she was also fascinated by them. Ritter has coined his own term for this phenomenon of “angst” and “fascination” – “angstination”. Jirschik says it was this “angstination” that compelled her to visit Ritter, whom she refers to as “the Pope” of shark research.

### Debunking Myths by Swimming With Sharks

In the past 20 years, Erich Ritter, 48, has logged over 7,000 shark encounters around the world with various species. He does this to study their body language because he believes the inability to interpret and understand sharks has led to much of the fear. “It’s important to learn what their behaviors in the vicinity of humans are, and how to interpret them. Accidents should also be put into perspective. The shark is the most plentiful predator weighing over 45 kilos on the planet. Yearly, there are roughly 14 billion events of swimming, diving and surfing in the oceans and less than 100 accidents. Of those, three to five are fatal,” he says. “Every year in New York City, over 1,000 people are hospitalized after being bitten by humans. So, the likelihood of being bitten in the ass in the subway is greater than that of ever brushing up against a shark.”

Despite the statistics, the misconception that sharks are aggressive is widespread. “I have never seen an aggressive shark, and have never been given proof that they exist,” says Ritter. Many of the myths about sharks were developed by an expert commission created by the US Navy in 1958. Ten years later, this board was disbanded because the findings of these experts, who never actually entered the water to study sharks, were deemed deficient. “Some of the biggest shark myths were spread by this panel of scientists,” Ritter explains. “They recommended slapping the water as a defense against sharks. We now know that low-frequency sounds actually attract them. The panel would have learned this had they actually tested their own theories. We also have proven that sharks do not mistake surfers lying on their boards for seals and that when they bite, it is exploratory. They do not bite humans because they are hungry; the rogue shark theory is absolute nonsense; they are intelligent and are not attracted by human blood – and yes, there are sharks in the Mediterranean.” To dispel old theories of why sharks sometimes bite, Ritter travels the world to analyze shark accidents. The evidence he collects is recorded in the Global Shark Attack File (GSAF, [www.sharkattackfile.net](http://www.sharkattackfile.net)). >

## Do’s and Don’ts for Beach Goers

**Most of what the media reports about sharks and the reasons for shark accidents are incorrect, explains Erich Ritter. He believes a public education campaign will help to minimize the risk of being injured by a shark. The top 10 recommendations listed below are based on analysis of shark accident deaths and interviews with survivors. To help victims and families of victims deal with shark accidents, Ritter has established the Shark Accident Victim Network. The complete list of more than 30 recommendations is available at: [www.savn.org](http://www.savn.org)** Source: Shark Accident Victim Network

	Advice	Reason
1	Do not swim, surf, dive or snorkel alone	Sharks may be more likely to approach solitary individuals. Should you get injured no one is there to help.
2	Avoid swimming at night	There is strong evidence to suggest that sharks move in closer to a land mass (island or shore) following sunset. It is also difficult to defend yourself from something you cannot see.
3	Avoid murky or turbid water	Some species of sharks hunt in murky or turbid water, others may bite because of stress, and still others (but very rarely) bite an unfamiliar object to find out what it is. It is also difficult to defend yourself from something you cannot see.
4	Avoid swimming close to river mouths	Freshwater plankton dies and attracts fish, some species of fish spawn at river mouths, and carcasses of dead animals are carried downstream. All of these conditions attract predators, including sharks.
5	Be cautious when swimming in the breakers	There is good chance that sharks are in the breakers because there is more oxygen there. They could become stressed due to the low visibility and the sudden presence of humans.
6	Don’t swim close to sandbars or piers and jetties	Any structures attract a variety of marine animals and may be feeding areas for sharks.
7	Be cautious crossing channels between sandbars or on the edge of steep drop-offs	These are often feeding areas for sharks, and there is often a higher current, which requires stronger swimming motions, which creates the low-frequency sounds that attract sharks.
8	Avoid areas where any type of fishing activity is taking place or offal is dumped into the sea	All of these conditions attract predators, including sharks.
9	Refrain from excess splashing or making quick, abrupt movements in the water	Low-frequency noises, as caused by splashing, attract sharks as the sounds are similar to those of animals in distress. One should not swim with dogs or horses for this reason.
10	If a shark grabs you, you should try to reach its gills	Whenever sharks try to harm each other, they aim for this area. This action will cause the shark to back off. Do not poke its eyes or hit in on the nose as this is an action they do not recognize and may cause them to bite again.

Reconstructing shark accidents helps in understanding when and why sharks sometimes bite humans and makes it possible to lessen the likelihood of such accidents," he explains. "It is my firm belief that there are no dangerous sharks, just dangerous situations."

### Sharks Never Bite Without Reason

Ritter developed a Constellation of Factor's concept (page 25) which he believes all beach goers should receive from any business dealing with the ocean in order to recognize and avoid potentially dangerous situations. The US Navy supports this concept, and ADORE-SANE, a shark-interaction concept Ritter developed over 10 years, which enables better understanding of shark encounters independent of whether a person is swimming, diving, snorkeling or surfing, or what type of water (deep, shallow, etc.) he or she is in. "Tourism boards in beach cities around the world should support this and think in terms of safety, and not in terms of profits."

Ritter believes that some beaches should even be closed for a period of days when many of these uncontrollable factors come together. "When this happens, the chances of having an encounter, which could lead to a bite, are higher," he says. While sharks do bite humans – as Ritter can attest based on his own accident in 2002 when he was bitten in the calf by a bull shark during an experiment – the motivation is often misunderstood. In fact, most of the incidents Ritter and his colleagues analyze for the GSAF are motivated by a shark's feeling threatened; or the result of it responding to sensory predatory input, for example, the presence of a low-pressure system, a full moon, murky water, or "struggling" sounds emitted by humans may cause the animal to get closer than normal. This may result in a bite, due to or partially due to a response to these stimuli. Sharks are also very curious and may investigate unknown

or unfamiliar objects by bumping into them or using their mouths. In most cases, these types of wounds are superficial because the bite is of an exploratory nature. "The actual injury does not really occur when the bite is made, but rather when the person pulls away, as sharks barely clamp down when exploring. Rarely, as in my case, the exploratory bite was followed by a stress bite due to the rapidly changing situation. I had to choose between drowning or risking a serious wound. It's obvious which choice I made," he says with his ever-present grin. "In all my years analyzing shark accidents I cannot say that sharks bite without reason. It is always a result of something the person or persons did consciously or unconsciously, or is triggered by third parties who animate the animal's impulse to react to the situation. My accident could have been avoided if my spotter had alerted me. I would have then just turned slightly to make the animal aware that its presence is known – this is a simple reaction with a tremendous effect on sharks that approach from behind."

After 10 years of similar experiments, this situation which went sour is the one most reported. "Even some of my critics in the academic arena took this incident out of context to say sharks are indeed dangerous as proven by my accident. They also used it to promote their message that shark-human interaction is not necessary in order to better understand them. This is a fallacy. The only way to gain meaningful information about shark behaviors is to see them in action and understand why they do what they do in close contact with humans, and what factor(s) influence the situation most." Brigitte Jirschik agrees. "By the end of the week I was so enamored by the charisma of these creatures that my fears were banished. Now my goal is to educate my biology students so that younger generations will lose their fears and recognize the importance of shark conservation." <

## Saving Sharks Will Save the Oceans

**For each human that is bitten by a shark, approximately 200,000 sharks are slaughtered each year. That equates to about 200 million sharks. This mass killing has already left detrimental effects on the global shark population.**

A majority of sharks die from finning – the practice where sharks are caught, their fins cut off, and the bodies, often still living, are tossed back into the ocean. "Many fisheries that fin will argue that they use the entire shark, including its flesh, cartilage and even the jaws, but I have witnessed the brutal practice on vessels around the world and this is not the case," explains shark expert Erich Ritter. "Finning will increase as Asian economies grow and the demand for shark-fin soup, served at special occasions as a symbol of wealth and prestige, is raised."

According to the Humane Society of the US ([www.hsus.org](http://www.hsus.org)), global custom's data show that over 100 countries are involved in the shark-fin trade, the majority as producers. They list the main consumer countries in Asia as mainland China, Hong Kong,

Singapore, Taiwan, Malaysia and Thailand, however, large volumes of shark fins are imported into the US and the EU, to supply local Asian communities.

"Sharks, depending on species, need from 10 to 25 years to mature before they can reproduce. Gestation takes anywhere from nine to 22 months," Ritter explains. "Taking these factors into account, in the next 20 to 30 years entire ecosystems will go down the drain because the super-predators that control them will have vanished." The endangered great white is an example. Though it is now protected, the World Wildlife Fund lists it among the 10 species of animals most likely to become extinct. mb

**To learn about shark conservation or to make a donation visit [www.shark-world.org](http://www.shark-world.org) or [www.sharks.org](http://www.sharks.org).**



**Sport fishing also takes its toll on sharks, primarily because it is the mature ones that are caught. The flesh from large sharks, like this hammerhead displayed at Florida storefront, is inedible.**

Photo: Erich Ritter

# Credit Suisse Business

## Middle East



## Saudi Swiss Securities Opens Brokerage in Riyadh

Saudi Swiss Securities, a Saudi Arabian financial services company, opened for business at the end of May this year. The Riyadh-based company offers broking and share trading services to the Saudi public and plans to provide other financial services in the future.

Credit Suisse is among the company's shareholders, along with a mix of local partners, including Olayan Financing Company, Ali Zaid Al Quraishi & Brothers Company, Sheikh Mohammed bin Ali Abalkhail, Omran bin Mohammad Al-Omran, Saleh bin Abdulaziz Al-Omair and ABQ Investments.

"We are fortunate to have the support and expertise of one of the world's leading financial institutions at our disposal," said Dr. Saleh bin Abdulaziz Al-Omair, deputy chairman of the board of directors, at the launch press conference on May 28.

Michael Philipp, chairman of Europe, Middle East and Africa (EMEA) for Credit Suisse, closed the press conference with his views on the growing market: "Credit Suisse is pleased to be part of Saudi Swiss Securities and to be among the first global financial services companies to offer our services in this important market. Saudi Arabia is the dominant economy in the Gulf region and has one of the fastest growing equity markets in the world." Philipp also underlined the significant opportunities this opens for international and regional investors. **mb**

## Private Equity Geneva



## Investing in Emerging Market SMEs

In many developing and emerging countries, small and medium-sized enterprises are responsible for a significant proportion of new jobs, for the introduction of new technologies, and for a broad spectrum of economic activity. They are thus playing a key role in their country's national development. But prosperity is often hampered by restricted access to funding facilities, and at the same time there is a shortage of investment vehicles to make it easier for investors to gain access to these interesting companies with potential.

But the more meager the returns in conventional markets become, the more attractive it is to invest in these enterprises. The Geneva Private Capital Symposium, to be held on September 24 and 25, 2007, is devoted to this theme. With support from a number of sources, and with Credit Suisse as the principal sponsor, the event will feature experts from business and politics making a business case for this form of investment. They will highlight the factors determining the provision of and demand for funding, with particular attention to both risk management and the potential returns from investments in SMEs in developing and emerging countries. **ba**

[www.geneva-private-capital-symposium.com](http://www.geneva-private-capital-symposium.com)



## New York



## Two Leaders in the Carbon Markets

Credit Suisse will invest 44 million euros, acquiring a 9.9 percent stake in EcoSecurities Group plc, a company which develops and commercializes carbon credits from greenhouse gas emission reduction projects. EcoSecurities develops and guides greenhouse gas emission reduction projects through the clean development mechanism (CDM) of the Kyoto Protocol. The company works with project developers and buyers of carbon credits around the world. Under CDM, industrial countries can offset their emissions of carbon dioxide and other greenhouse gases by supporting projects which cut emissions in the developing world.

Paul Ezekiel, head of Credit Suisse's carbon trading business, said: "Through this strategic relationship, our firms are ideally positioned to serve the needs of companies and governments aiming to reduce carbon emissions or comply with environmental regulations, while at the same time providing investors with financial opportunities related to global climate change."

Credit Suisse's carbon trading business provides corporate buyers and investors with carbon credit trading strategies as part of the European Union Emissions Trading Scheme. Through this business, Credit Suisse trades carbon credits from emerging market countries with its emerging markets' franchise across the Americas, Asia, Europe, the Middle East and Africa. Credit Suisse is currently the only major financial institution with a carbon trading desk based in the US. mb

## Central Asia



## Credit Suisse Establishes Office in Kazakhstan

Credit Suisse has opened an office in Kazakhstan, as part of its growth strategy. The new office is located in Almaty, the largest city in the country.

This office will enable Credit Suisse to deliver the services of the integrated bank to its clients in Kazakhstan, one of Central Asia's most dynamic markets. In addition, the establishment further solidifies the bank's presence in the country and reflects its commitment to the region.

Fawzi Kyriakos-Saad, CEO of Emerging Markets for the Europe, Middle East and Africa (EMEA) region at Credit Suisse, said: "Credit Suisse is pleased to be opening an office in Almaty, which reflects our commitment to our clients in Kazakhstan. We are excited about the growth opportunities and investment potential offered by the country, and the office in Almaty will allow us to continue to drive our growth in the region."

Credit Suisse has been at the forefront of the development of the Kazakh capital markets, leading benchmark initial public offerings for Kazakhmys, KazMunaiGaz and Halyk Bank. mb



Private Banking Leisure Convention in Lucerne

# Uncovering the Meaning of Leisure in Lucerne

Text: Andreas Schiendorfer

Credit Suisse recently invited clients to explore the topic of “leisure” at a convention in Lucerne. They learned about key leisure trends in the Western world and Asia, and which sectors will play a paramount role in leisure time activities in modern society.

Given the growing importance placed on individual well-being, and the changing desires of retirees, in some economies, some 20 percent of the workforce is now involved in goods and services dedicated to the leisure time of others, according to Credit Suisse analysts. Technology, consumer goods and mobility are just a few of the sectors growing as the result of the leisure trend. In Asian countries, in line with a generational shift toward greater financial security, the region's youth are shifting from surviving to thriving. This fact, coupled with the changing attitudes in Asian societies, is driving the growth of leisure options.

The leisure convention, hosted by Urs Dickenmann, head of Credit Suisse Private Banking Switzerland, also provided guests with many ideas for their free time, such as wine tasting. Speakers Arthur Cohn and author Paulo Coelho shared their views on the topic. After waiting so long for his first success, 40 years and 10 days to be exact, Coelho's view on leisure is to take on new challenges. For filmmaker Arthur Cohn, it is about enjoying the outdoors and discovering new places. <



**1** Three leisure tips from the confirmed city dweller and Oscar-winning film producer Arthur Cohn: 1. Walking and skiing in the Engadine valley; 2. enjoying the sand of the so-called “elbow” on Sylt; 3. discovering the mystical spirituality of Jerusalem. **2** The Brazilian author Paulo Coelho spoke at the conference about his own use of leisure time and provided tips. “Everyone has a book in them, a story to tell,” he said. **3** During the break, guests were treated to a concert from the inspiring World Orchestra for Peace. **4** Urs Dickenmann (left), head of Credit Suisse Private Banking Switzerland and host of the conference, together with presenter Mona Vetsch and Charles Kaye, director of the World Orchestra for Peace.

Credit Suisse Asset Management Interview with CEO David Blumer

# “Good Performance Is the Key to Get to the Negotiating Table”

Interview: Daniel Huber

**The One Bank strategy is having an impact in Asset Management. According to David Blumer, the division is already winning mandates where it would have had no chance only a couple of years ago. Now it is time for the next step.**

**Bulletin: When was the last time you had an adrenaline rush?**

David Blumer: The first thing that comes to mind is the gigathlon in mid-July 2007.

**How do you find the time to train for a gigathlon?**

I manage by training on weekends or early morning before work. Training is very important to me because it allows me to let my mind wander. Often, that helps me to put problems into perspective and to find the solutions I have been searching for.

**And what about work? Does that boost your adrenaline as well?**

Of course. Whenever we reach the decisive phase in a major project and bring it to a successful conclusion, I get a real kick.

**When do wealthy clients go to Private Banking and when do they come to you at Asset Management?**

Normally, private clients speak to their advisor at Private Banking first. If they are exceptionally wealthy, or interested in complex transactions that require more specialist knowledge, the client advisor calls in Asset Management. Our specialists then come up with the best solution.

**Could you give me a specific example of the sort of transactions you mean?**

Recently, we handled the purchase of a

large property portfolio for a client who was passed on to us by Private Banking. And the Investment Bank structured the financing – a great example of how the integrated bank works.

**Wouldn't that also have been the case before One Bank was introduced?**

Not as systematically. The One Bank strategy has already had a significant impact – and that will increase in the future. I am convinced that we have not yet exhausted the full potential this strategy has to offer. If we continue to go on about things in a consistent manner, we'll be able to offer our clients broader and more innovative solutions than ever before.

**Last year there was a lot of talk about restructuring Asset Management. If you look back over the two years, what has changed most in terms of organization?**

We have brought together what used to be a highly fragmented asset management business into a single organization. Now we need to grow into an even more closely knit team, which will take time.

However, the new structure and the increased number of opportunities it is bringing mean that we're already winning mandates where we wouldn't have stood a

chance a couple of years ago. I find this positive trend extremely encouraging.

**Purely in geographic terms, where do you see the greatest potential?**

Asia and the Middle East are promising growth markets right now. Eastern Europe and Latin America are attractive as well, and we've already taken a major step by acquiring Hedging-Griffo in Brazil.

**Is Hedging-Griffo a model for your strategy of expanding into new markets?**

Not exactly. The situation is completely different from market to market. Sometimes organic growth is the best option, in other markets alliances or acquisitions make more sense. Besides, we're not simply interested in flags on the map; our principal objective is to tap into local expertise around the world.

**Do clients in different regions have different preferences in the global asset management business?**

Everywhere you go, good performance is the key to gaining a seat at the negotiating table. We can only gain clients' trust – and ultimately their business – if we can jump this hurdle and are in a position to offer added value with customized investment solutions. For example, in one Asian country we are now strategic advisor to the state pension fund, which has hundreds of billions of assets and is growing at a double-digit rate every year.

At the moment, most of its assets are invested in the domestic market. Obviously, the client expects us to generate an appro-



David Blumer had the task of bundling the various units around the world under the umbrella of the new Asset Management division. Cost synergies and dynamic growth are turning this into a rapidly growing business.

## Profile

David Blumer is Chief Executive Officer of the Asset Management division at Credit Suisse and a member of the bank's Executive Board. He has worked for Credit Suisse Group since 1993 and has held a number of positions in Zurich, London and New York. Before assuming his present role he was employed in Private Banking, where he was responsible amongst other things for setting up its industry-leading alternative investment platform. David Blumer was appointed head of Trading and Sales in 2004 and has headed the Asset Management division since January 1, 2006.

appropriate return on its investments. It has also specifically asked for advice on global investment strategy and support in selecting external managers – as well as in risk management, reporting and staff training. That shows we're no longer simply a conventional asset manager: We're an all-round partner offering full-service solutions. Suddenly we are breaking into business areas that were closed to us in the past because we lacked an integrated approach.

**Asset Management seems to be a breeding ground for star individuals. To what extent does success in this business go hand in hand with personalities?**

It depends on how the markets are doing at any given time. A bull market tends to produce stars. Once the markets aren't doing so well, people suddenly start thinking in terms of teams again. For me, the truth lies somewhere in between. We do need strong personalities, there's no doubt about it. But we don't just need them to generate new assets, they're also there to attract and groom promising new talents as well. So for us it's really all about teams at the end of the day, not stars.

**If we look ahead, what do you expect to be the main investment trends in the next few years?**

There is a clear trend towards 'core-satellite' approaches – in other words, dividing assets between core investments like the XMTCH on SMI exchange-traded fund, which track market performance, and a range of actively managed funds like Swiss Select and Small Cap Germany, which can substantially outperform the market.

There's also been a rapid rise in demand for partners who provide customized solutions, since regulatory conditions are becoming increasingly complex in a number of countries. Another major trend that is bound to gain importance is global expertise. However, our staff are – and will remain – our most important success factor. <



## Useful to Know Financial Market Jargon

### Swap

#### Agreement Between Two Parties Concerning the Exchange of Future Cash Flows

While “swap” might sound like the perfect name for a new board game, it already has a specific meaning in the business world. When people talk about a swap in a financial context, they are referring to an individual agreement between two parties which governs the exchange of future cash flows. The agreement defines the dates and duration of the swap, as well as all of the preset conditions determining how the payments are to be calculated. Such swap contracts may either be limited to the exchange of a series of differently structured interest payments (interest rate swap), or extend to the exchange of interest payments and nominal amounts in different currencies (currency swap). Swaps are used to hedge against unfavorable trends in market bid rates. **mr**

### Treasury Note

#### Medium-Term Money Market Security Used to Bridge Liquidity Shortages

It's easy to be misled by the name, but treasury notes have nothing to do with buried treasure or “X marks the spot.” In Switzerland, the term treasury note refers to a debt instrument issued by a public authority of the Swiss Confederation. They are treasury certificates – similar to bills of exchange – which are sold by the Confederation and evidence short or medium-term debt on the part of the state. The treasury notes issued by the federal government, a canton or a local authority may have terms of between three months and four years, but most run for one or two years. Collectively, these debt instruments have a special name in Switzerland – Reskriptionen or rescriptions – and are used as a means of short-term borrowing. Provided their remaining term to maturity does not exceed three months, treasury notes can be discounted with the Swiss National Bank. Another name for a treasury note is a treasury bill. **rg**

### SPI

#### Swiss Stock Index

The trilogy of financial terms in this issue of Bulletin concludes with one of the most familiar stock market-related abbreviations in Switzerland: SPI stands for Swiss Performance Index, and it is the most comprehensive of Switzerland's equity indices. It covers all 397 Swiss companies listed on the SWX Swiss Exchange, weighting them according to their market capitalization. The SPI is adjusted for dividends, which means that dividend payments are factored into its trend. The SPI is therefore seen as the comprehensive market index for the Swiss stock market. It has been calculated and published by the SWX Swiss Exchange since June 1987, when its base was set at 1,000 points. To date, the Swiss index family has comprised the SPI and the Swiss Market Index, SMI. However, the family grew in July 2007 with the birth of a new member, the Swiss Leader Index, SLI. This latest addition is fixed in size at the 30 largest and most liquid stocks in the Swiss market. Its component equities are weighted artificially to prevent a small number of large stocks – known as blue chips – dominating the index too heavily, as happened with the SMI. **rg**



# Credit Suisse Commitment

## Credit Suisse Calendar 3/07

## Zermatt Festival

### Football

September 7, Vienna  
**Switzerland vs. Chile**

September 11, Klagenfurt  
**Switzerland vs. Japan**

October 13, Zurich  
**Switzerland vs. Austria**

October 17, Basle  
**Switzerland vs. USA**  
[www.credit-suisse.com/football](http://www.credit-suisse.com/football)

### Golf

September 6–9, Crans-sur-Sierre  
**Omega European Masters**  
[www.omegaeuropeanmasters.com](http://www.omegaeuropeanmasters.com)

### Art

Until September 16, Lugano  
**Georg Baselitz**  
Museo d'Arte Moderna  
[www.mdam.ch](http://www.mdam.ch)

Until November 19, Martigny  
**Marc Chagall**  
Fondation Pierre Gianadda  
[www.gianadda.ch](http://www.gianadda.ch)

September 21–January 6, 2008, Berne  
**Horn Please.  
The Narrative in Recent  
Indian Art**  
Kunstmuseum  
[www.kunstmuseumbern.ch](http://www.kunstmuseumbern.ch)

### Theater

Until September 8, Einsiedeln  
**World Theater in Einsiedeln**  
Klosterplatz  
[www.welttheater2007.ch](http://www.welttheater2007.ch)

October 8, Moscow  
**"Queen of Spades"**  
Bolshoi Theatre  
[www.bolshoi.ru/en](http://www.bolshoi.ru/en)

See also [www.credit-suisse.com](http://www.credit-suisse.com) >  
About Us > Sponsoring > Event Calendar.



## Following the Musical Footsteps of Pablo Casals in Zermatt

The world-famous cellist and composer Pablo Casals (1876–1973) preferred being addressed by his Catalan name of Pau, which means "peace". After Franco seized power in Spain, Casals emigrated to Puerto Rico. However, he regularly returned to Europe, particularly to Zermatt, home of the Matterhorn, where in the 1950s and 1960s he held a series of prestigious summer concerts and master classes.

This is a tradition that was revived a few years ago. "The Zermatt Festival takes place over three weekends from August 31 to September 16 in a unique atmosphere. It is characterized by a magnificent mountain setting, in which personal encounters between guests and artists are still possible, and the music is of an above-average quality," explains Patrick Wyer, head of Credit Suisse Zermatt and the Board of Trustees of the Zermatt charitable foundation established in 2004. "We have managed to attract chamber musicians and now also members of the wind section of the Berlin Philharmonic Orchestra," Wyer explains. In addition to the Zermatt Festival Chamber Orchestra, the Scharoun Ensemble from Berlin and the Orchestre de Chambre de Lausanne will also perform in this beautiful setting. schi

Manhattan Island Marathon Swim Alan Shanken's Story

# Taking the Plunge to Raise Awareness and Money for Charity

Text: Nicole Baumann

**Choppy chilly water, floating debris and boat traffic. These are the conditions the six swimmers of the Credit Suisse team who took part in this year's Manhattan Island Marathon Swim endured not just for the sake of athletics, but also for a good cause.**

Most people would think twice about even dipping their toes into the murky waters surrounding Manhattan. But on June 16, almost 100 dedicated swimmers, including Alan Shanken, plunged into New York's rivers to raise money for charity.

The swim also provides a unique view of the city. "This marathon is a fabulous way of seeing New York. You get to swim past major attractions like Yankee Stadium or the Statue of Liberty. It's an amazing perspective, but it's also a bit awe-inspiring," says Alan Shanken, who has worked for Credit Suisse as a relationship manager in San Francisco for 12 years. He was a member of a Credit Suisse team of six employees spanning from New York to Chicago to Raleigh, North Carolina, and to San Francisco. Having also competed in 2004, this was his second crack at the Manhattan Island Marathon Swim (MIMS), in which teams complete a 28.5 mile (about 46 km) swim around the island in order to raise money for charity. For years, the MIMS has also been supported by the Credit Suisse Americas Foundation.

To prepare for the swim, some participants go so far as get vaccinated against tetanus and hepatitis, others cover their body in grease to protect them from the

cold. Shanken, though, prefers to rely on motivation and swimming experience to see him through. "Everyone in our team swims competitively in their leisure time, or – like me – have competed in triathlons in the past. So it's safe to say that we're in pretty good shape," Shanken says.

## The Fearsome Hell's Gate

Despite the cold, neoprene wetsuits are not permitted in the MIMS. The water temperature this year was around 20°C. "But there are other challenges to consider," explains Shanken. Just the color of the water is enough to make most observers shudder. However, Shanken points out that it's much cleaner than people think, but even he admits that you cannot see your hand once it's below the surface. "There are absolutely no health issues to worry about, but that warm shower afterward sure is welcome."

The race gets underway in south Manhattan by Battery Park, then runs counter-clockwise – or with the current – from the Hudson River north into the East River. The real fun begins at the ominous Hell's Gate section in north Manhattan where the East and the Harlem River converge, creating serious currents. "Luckily I wasn't in the water at that stage, as it can get really wild

out there," says Shanken. The race then heads south along the Hudson again, taking the swimmers close to a water purification plant. This is not to be underestimated, as the suction from the plant is so strong that it can even be felt on the swimmers' legs.

This type of marathon swim takes many hours to complete and the water temperature is often low, therefore each team member takes turns to swim 45 minutes, followed by a second 30-minute session. They're accompanied by a boat that transports the other contestants. "We had a great team and two enthusiastic captains on board," recalls Shanken. "We were spurring each other on, providing advice, pointing out things to see. There were no real problems, and luckily no one suffered cramps or hunger pangs. Once you'd finished your stint you'd get back into the boat, and start motivating the next swimmer."

## Geese, Storms and Plenty of Money

In addition to the escort vessel, a canoe also accompanies the swimmers, occasionally steering them clear of any floating debris. "I apparently swam right past a dead goose, but was unaware of it until my teammates told me about it later." Overall, however, Shanken said they came across less debris and garbage than expected. Despite the number of swimmers taking part in the marathon, he only noticed the others when they were overtaking him or vice versa. "But it sure feels better if you're the one doing the overtaking," he says with a laugh. While



The cold waterways surrounding Manhattan Island weren't a deterrent for Alan Shanken, 46, who swims regularly in the waters of Aquatic Park in San Francisco Bay where temperatures vary from about 10°C to 15°C. The sport enthusiast has even taken part in an organized swim from Alcatraz Island to San Francisco. He plans to participate in the MIMS again.

## Credit Suisse America's Foundation

The Credit Suisse America's Foundation was developed to address societal challenges in the communities in which Credit Suisse operates and where its employees live and work. It is also designed to support a culture of community and inclusion within the organization. This is achieved by leveraging grant making with relationships and resources, the most important of which is the time, energy and talents of our employees. Credit Suisse's involvement goes beyond financial donations and material contributions: In accordance with the concept of "corporate volunteering", it also encourages its employees to volunteer their services to support philanthropic projects, such as the Manhattan Island Marathon Swim. This not only generates benefits for society but also for the employees themselves by promoting abilities such as social skills and teamwork and establishing informal networks.

the overall conditions were good, the race was unexpectedly interrupted for an hour due to a heavy downpour. "Just after we'd gone under George Washington Bridge, the thunder and lightning started up." At almost exactly the same time, a cruise ship was making its way out of the harbor. "Almost everyone had to get to shore to secure their boats until the rain and the cruise ship had passed."

The strain of the race proved more than worthwhile as the Credit Suisse team raised 22,000 dollars for two non-profit organizations. The first is the Challenged Athletes Foundation (CAF, [www.challengedathletes.org](http://www.challengedathletes.org)), which supports people with disabilities, by using sport as a means to boost self-confidence, increase independence, and improve general quality of life. Shanken has been supporting CAF for a many years. He was born without a right foot, and refuses to let this restrict him. The second beneficiary is the Manhattan Island Foundation, which has two goals: to support and expand public learn-to-swim programs in New York City, particularly those that serve at-risk youth; and to raise public awareness of the waters that surround New York by supporting efforts to clean and protect them. Thanks to the Foundation, more than 40,000 city children have learned to swim in the last 12 years.

Thus motivated, the team completed the swim in nine hours 40 minutes – the winner in the individual competitor race took just eight and a half hours. But for Shanken, the time in which the marathon was completed is not what matters. "For me it's about achieving a meaningful athletic goal, raising money and awareness for worthy causes, camaraderie, and teamwork," he explains. His reaction after completing the marathon? "Totally phenomenal! Many people think I'm crazy to take part in an event like this, but now they all want to hear about it." The Credit Suisse team celebrated their achievement at a restaurant. "Needless to say, we were pretty hungry after the swim and in the mood for a celebratory drink and some good food." <



## Zurich Film Festival

# Zurich Takes Center Stage in Promoting Young Filmmakers

Interview: Andreas Schiendorfer

**This year's Zurich Film Festival, with Credit Suisse as principal sponsor, will be held from September 27 to October 7. The program has again been expanded. We talked with festival director Karl Spoerri.**

**Bulletin: What do you see as the real role of the Zurich Film Festival in terms of promoting young talent?**

Karl Spoerri: This may come as a surprise to some, but Zurich has played a vitally important role in the world of film for many years. So, when Antoine Monot Jr, Nadja Schildknecht and I decided to establish the Zurich Film Festival, we chose an area which not only suited us, but where we believed we could play a leading role once the event got on its feet. I'd like to make special mention of onedotzero.ch. This was the digital film festival that started all of this in 2004. Our primary goal is promoting young filmmakers and their work. We've modeled our festival along the lines of the two premiere events of this kind, the Sundance Film Festival and the Tribeca Film Festival. There's nothing comparable in Europe that so effectively combines the supporting of new talent with red-carpet glamour. We want to fill that gap, and can see the Zurich Film Festival becoming the most important event of its kind in Europe.

**It's well on its way based on the numbers. Didn't the number of tickets sold double last year?**

We actually sold more than 18,000 tickets last year after starting out with only 8,000 the year before, so sales more than dou-

bled. And this fall we're expecting at least 25,000 ticket sales. These figures are important, because we also want this festival for the public and not only for the celebrities we hope to attract. We're really pleased that so many people attend, because debut films by unknown directors are by no means guaranteed to draw sell-out audiences.

The primary means we use to measure the success of our festival is the quality of the program and the prospects we can give the people who participate.

**And by measuring in these terms do you believe you've been successful?**

We're convinced the films shown in Zurich stand up to the competition. In retrospect, we don't think we misjudged any of our picks, and some were really of exceptional quality. We already feel the same way about our program for 2007. If you're looking for a more objective yardstick, the interest shown by the media and the film industry is another good benchmark. The number of accredited media and industry representatives has grown from 150 to 500 in the course of a year.

**What has the response been from the industry thus far?**

The first year, a lot of people were frankly skeptical and the festival met with a great

deal of harsh criticism. This wasn't easy for us to swallow, because we went into this with a lot of idealism, and not much money or experience. The second year, the general consensus was that our organization had improved in many ways. And the response was positive. Now, a good month before our third festival, I feel sure we will make another big step forward.

**In what way? Have you created more competition categories?**

In 2006 we awarded a "Golden Eye" not only to the best debut film, but also to the best film and best documentary by up-and-coming filmmakers. This enabled some young directors to enter their second or third films. Now the international competition has expanded from 17 to 24 films, including numerous international premieres. We want to give each film a proper showcase, with a premiere and six showings. This will give all viewers an opportunity to see the entire program.

**Does this mean the extensive fringe program will be cut back?**

No, the rest of the program will be continued, and new elements will be added. This means that we will extend the festival to 11 days and two weekends, and get even more movie theaters involved. We're grateful to have such a reliable partner in Kitag, a Swiss chain of movie cinemas, which has made it possible for this festival to grow in the first place.

**What else is on the program for young filmmakers?**



Much headway has been made for the Zurich Film Festival in the past two years thanks to its three creators. From left to right: Karl Spoerri, director of the festival; Antoine Monot Jr, program director; and Nadja Schildknecht, who is responsible for communications and public relations.

Twenty-five young filmmakers will be given the opportunity to participate in workshops at the Zurich Master Class Theater am Neumarkt. These workshops will be led by big names in the film industry. Last year we got Stephen Frears, Christian Frei and Ueli Steiger to come. This year we will also have a guest of honor who will receive a "Golden Eye" and be the focus of a tribute. We will again hold Zurich talks at Theater am Neumarkt. The Zurich Master Class ([www.zurichmasterclass.org](http://www.zurichmasterclass.org)) will take place in cooperation with Schweizer Fernsehen (Swiss Television).

**You mentioned some innovations in the accompanying fringe program.**

The series "Neue Welt Sicht" (New World View) will be exclusively devoted to Russian

film. This is quite an undertaking, as Russian cinema has come a long way in recent years. Many people will be surprised by how entertaining and moving Russian films are. In fact, the first "Golden Eye" in 2005 was won by Russian director Andrei Kravchuk for the "The Italian". <

**The detailed program for the Zurich Film Festival had not been finalized when this article went to print.**

**The latest information can be found at [www.zurichfilmfestival.org](http://www.zurichfilmfestival.org).**



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## Gotthard Railway 125-Year Anniversary

# Donna Leon's Criminal Fantasies in the Gotthard Tunnel

Text: Donna Leon

**The Gotthard Railway opened 125 years ago and changed Swiss history thanks to Alfred Escher, railway-construction pioneer and founder of Credit Suisse. Novelist Donna Leon, who lives in Venice and often travels by train through the tunnel, writes an exclusive story about her fantasies along the mystic track.**

Every profession leads to deformation, I suppose: Mine is crime. Ever since I started writing crime fiction, my mind has taken a certain path, like a morning glory seeking the light or a pumpkin vine growing up and over the compost heap. I'm drawn to crime. That is, my imagination tends to criminalize even the most innocent of situations and see them in terms of the sort of crime they might produce or how a greedy or violent person might turn them to his advantage. If I go into a shop to buy a bottle of wine, I might buy a few bottles of prosecco, but my imagination always emerges with a few bottles of Tignanello or Gaja stuffed into my boots or the sleeves of my jacket. I don't know how many cashmere sweaters I've tried on in various shops in this city, always planning how to layer them, one on top of the other, before I slice off the price tags, put my jacket back on, and make a quiet exit from the store. And there is not a pen or notebook I have not secretly slipped from the shelves of Testolini, the stationery store.

Shops are not my only victims: Many are the purses I've taken from shopping carts left carelessly in front of the cat food in Billa, the pockets I've picked on a crowded vaporetto, and just a few weeks ago, in the church of St. George in Hanover Square in

London, I could not take my eyes from the wallet left carelessly lying just inside an open purse by a woman who left her pew to go to communion. So I leave it to you to think of what my imagination gets up to as the train approaches the Gotthard tunnel, whether from the north or from the south. On the way up, we've already had the customs inspection, which means I have to keep my eye on the elegant woman who got on at Como, for I am sure she's got more in that suitcase than a change of clothing. And the guy with the bad haircut: I know he's got large packages of something – drugs, diamonds, plastique – taped to his body. And why did the customs inspector not ask to see the passport of the man who had become increasingly nervous as the train approached the border?

On the trip back to Italy, all of the other passengers are, of course, carrying vast amounts of cash, though I can never figure out what it is they intend to do with it. Buy guns? Buy girls? Buy politicians?

My own smuggling, and this I confess openly, is confined to two products: parmigiano on the way north and chocolate on the way south. This way, too, should the train ever become trapped in the Gotthard, I am well prepared to become the new

best friend of everyone in the carriage, for on each trip I carry enough with me to maintain the Seventh Fleet for at least one week. The train trip back and forth between Venice and Zurich is something I actually look forward to. It is, each way, eight hours during which there will be no phone, no fax, no e-mails. There will be only the chance to sit and read for eight hours, interrupted by nothing but my own imagination.

And interrupt me it does. I don't go to the cinema, so I've no familiarity of disaster films, though I do read about the cinema, and thus am familiar with the burning buildings, the sinking ships, the giant crabs that will inherit the earth after some sort of nuclear disaster. I've read enough disaster books to have become familiar with the formula: Whenever disaster can occur, it will. There is always something nasty lurking in the woodshed. Or the tunnel.

Thus, 10 kilometers before Airolo, I begin to study the people in the train with me, wondering how they will behave when the inevitable happens: The train enters the long tunnel and, just at mid-point, something happens that will block the tracks both forward and back. Who will be the hero, who the coward, and who the villain? How long will we be trapped? That question inevitably leads my thoughts to the water supply: For 40 years of riding European trains, I've always wondered if the "acqua" really is "non potabile." How long will the crackers and panini in the bar hold out? Will there be



light? Could I bring myself to drink a Coke? Won't the parmigiano make us all thirsty?

Because I don't like to read in the tunnel, I keep my eyes on the protagonists of the drama I am busily constructing. Unlike heroes, cowards and villains, they have always remained calmly in their seats, reading or talking or sleeping and seemingly entirely unaware of the dramatic futures I am painting for them. And each time, usually about halfway through the tunnel, I am forced to abandon my fantasy and accept the fact that no train I've been on, in these 15 years commuting between Venice and Zurich, has ever so much as slowed down in the tunnel. So much for giant crabs.

Specific incidents from various trips remain. A few years ago, I made the trip to Zurich on the day of Ferragosto, the day of the grand vacation exodus, when Italians vanish from the country, heading north. The radio had made mention, days before, of the number of cars estimated to be on the roads that weekend, but because I knew I'd be on the train, I'd paid no attention to how many tens of millions it was going to be. But then, as the train got to within a few kilometers of the tunnel, I glanced idly to the right, to the autostrada running parallel to the tracks, and I saw what looked like a scene from one of those disaster films: kilometer after kilometer of stopped cars. People paced around them, many cars had their hoods raised, a few had steam vents erupting from their radiators. Traffic jam. The scene lacked only – yes – the giant crab to pull itself up and out of the ravine and begin to pluck the shrieking motorists from the road.

That evening I learned that there had been 14 kilometers of coda on the Italian side of the tunnel: We had sailed through and arrived on time. A source of great delight, though it is more common on the trains going north from Italy, when the Italian passengers have set out on the trip from their homes – that is, their kitchens – is the common meal. Italy is a country where, though the official religion might be Catholicism, the real religion is food. Influenced, no doubt, by the sacrament of communion, Ital-

ians sense a moral, perhaps religious, obligation to offer food to anyone who is sitting with them when they eat. I have never been in a train carriage with an Italian who has not offered me part of whatever they are eating. If I refuse, they insist that I not make compliments and have one or some or half of whatever it is. Or at least a taste: His mother made it, in which case the event really does partake of the sacramental.

Because I've come to believe that this offer is never an empty courtesy, I often accept, thus enriching my trips with all manner of fruit, halves of sandwiches, large chunks of cheese. Often a glass of wine or, once, fresh apple juice from the trees outside of Trento. And once, on the way home, I found myself in a carriage with five Italians, and that demanded that I open the box of Cru Sauvage and offer them round, did it not?

One curious phenomenon I encounter on the train is my own invisibility. This arises from the fact that I am a woman of a certain age with white hair, who reads. Thus the customs inspectors walk past my carriage and fail absolutely to see me. They see young women, young men, anyone who looks like a non-European, anyone with a particularly large suitcase. But they do not see white-haired women who sit and read. I realize that I am perhaps abandoning all possibility of an interesting career in crime by failing to take advantage of my invisibility at the border. Well, there is that parmigiano, and there is that chocolate.

Truth be told, I confess that I prefer to make the trip by train. Go to the station, get on the train, read, get off the train, be there. To go by plane, instead, requires a boat to Piazzale Roma, a bus to the airport, check-in, customs, security, wait, delay, fly, customs, wait for bag, get the train, be there. In the end, the difference is only a few hours, but the staccato rhythm of flying is not one that encourages the peace and tranquility that is necessary for reading.

And there is the emotional and aesthetic difference. People on planes are usually grumpy and in a hurry: People on trains are patient and eager to chat. Airports are – let



The American crime writer, born in 1942, left the US at age 23. **Donna Leon** lived in various countries before settling in Venice in 1981. It is here that her 15 crime novels featuring the fictive Commissario Guido Brunetti are set. Respecting the author's wish, these bestsellers have not been translated into Italian. But the German translations are published by Diogenes publishing house in Zurich. Donna Leon therefore regularly travels between Venice and Zurich, mostly using the train.

us tell the truth here – shopping malls where everything from sunglasses to diapers is sold at prices far higher than would be paid outside of the airport. Though I've been told that it is a beautiful thing to see a plane take off, I fail to understand why it is more beautiful than a bus pulling out of a bus stop.

As for beauty: Clouds are, well, they're clouds, aren't they? And since I never want a window seat, what I see of the ground is limited to slices here and there. All right, all right, the approach to Venice (if you sit on the right side and have a window seat and it's a clear day) is spectacular. But so is the train trip, on either side, once we are beyond Como going north and begin to pass through those glorious Alps. Lakes, cows, sheep, more lakes, cataracts splashing down, and often beyond that, snow-covered peaks, that piercing blue of mountain skies that is unlike any blue I've ever seen.

And ahead, ahead is the mouth of the tunnel, that place where – even after all these tranquil years of easy passage – I can still hope that some adventure is about to begin. <

# The Future of SMEs

Credit Suisse is looking at megatrends specifically from the standpoint of small and medium-sized enterprises (SMEs). Which **megatrends** are of relevance to SMEs and what opportunities and risks do they entail? Are SMEs aware of the consequences of the demographic problem of ageing? Have they taken appropriate steps?



Text: Claude Maurer, Economic Research

Credit Suisse analysts are leaving the evaluation of opportunities and risks relating to megatrends to the specialists – the SMEs themselves. As part of the “SME Future Forum,” Credit Suisse wanted to find out how SMEs rated the six following megatrends: the knowledge society, globalization, changing values, scarce resources, technology and demographics. Its Economic Research unit therefore surveyed around 1,500 companies in various sectors. Credit Suisse, as a strategic partner for SMEs, launched the forum at the end of January 2007 with the goal of motivating people to think about these issues and contributing to the debate

about the megatrends. Both clients and non-clients took part in the survey. Demographics played a key role in this year’s survey and two aspects were taken into consideration: One was the market potential resulting from an ageing population and the other had to do with the impact on the labor market.

## Future Mostly Holds Opportunities

The future holds more opportunities than risks for SMEs. In fact, 48 percent of SMEs view the impact of the megatrends on their business as an opportunity, while just under 29 percent feel that risks outweigh opportunities. The overall result (opportunities

minus risks) is therefore a positive balance of about 19 percent.

The megatrend in the direction of the knowledge society, technological progress and changing values is also viewed as a positive development. The demographic’s rating is just barely positive. And globalization and scarce resources were deemed to be risks by most of those surveyed.

## Ageing Population Not a Benefit to All

The intergenerational balance is coming under pressure. Fewer children are being born, and life expectancy is rising. In 30 years’ time, one in four inhabitants in Swit-

zerland will be 65 or older. The survey shows that SMEs view this demographic challenge differently, with positive answers more or less balancing out the negative ones.

The two million or so senior citizens of the future will be mostly healthy, active and well-off. They will thus become an attractive client group. According to the Credit Suisse survey, only 35 percent of SMEs have planned or already taken steps to cope with these demographic changes. And not even one in four SMEs has actually implemented measures to retain or win senior citizens as customers. Here, they have mainly adapted existing products and services or focused to a greater extent than before on the specific needs of older people in developing new ranges. Advertising and communication tailored to older people is mentioned as the third-most common measure. Those SMEs that have not planned any such measures tend to justify this by saying that they do not expect the age of their customers to increase. These are presumably the SMEs that target a young audience. Another plausible reason, however, is that certain companies simply have not yet come to terms with these demographic scenarios. The ageing population is already an issue: According to the survey, the customer base of the over-65s has already increased for one-third of the SMEs.

Quite a lot will change in terms of the labor market in the decades to come. As baby boomers gradually withdraw from working life, those that take their place come from years with low birth rates. The working population is likely to decrease as of 2019, according to the Swiss Federal Statistical

Office. Younger employees in particular will become harder to find. Companies are therefore relying more and more on retaining older members of staff.

The survey showed that over a quarter of the SMEs have seen a steep increase in the proportion of over-55-year-old employees in recent years or expect to see such a rise in the next five years. The sharpest rise can be seen in the construction sector and in industry, while personal and company-related services and tourism and entertainment are least affected.

### Ageing Workforce at SMEs

About 73 percent or 213,000 of Switzerland's SMEs do not expect to see any significant ageing of their workforce in the near future. This is surprising in terms of demographic scenarios. At the moment, it is obviously sufficient to counter an ageing workforce by hiring young employees. One SME in two takes this approach. However, the age structure of SMEs is likely to change enough over the next ten years to make further measures necessary. Part-time work for retirees and a greater focus on the needs of older employees will become more important. About 28 percent of SMEs – for example some 100,000 – already employ retirement-age staff on either a regular or occasional basis. A systematic analysis and projection of the company's internal age structure is certainly a good starting point for assessing the situation.

Staff of pensionable age who already work at SMEs occupy a wide variety of functions. One-fifth of the SMEs state that their

employees of pensionable age have a regular employment relationship; pass on their knowledge to junior employees; act as owners; continue to support selected core customers; and take on other roles such as auxiliary tasks within the company. The survey also showed that the capital goods industry has the highest share of SMEs – just under 40 percent – that employ people of retirement age. The proportion in commerce and other segments of industry, as well as in trade and transport, is also above-average with 31 percent or 30 percent respectively of the companies surveyed.

### Succession Planning Becoming Urgent

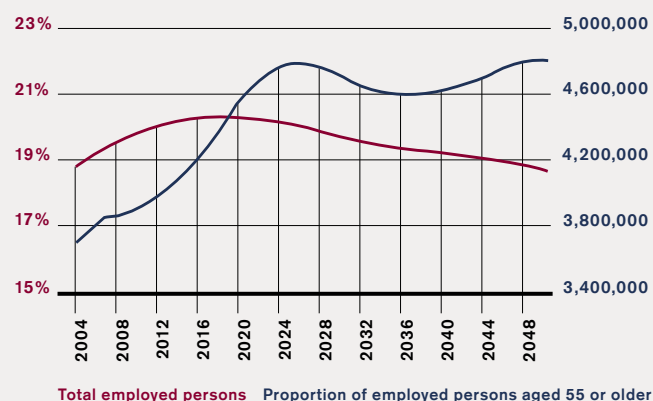
Currently, two-thirds of entrepreneurs in Switzerland are already at least middle-aged and have to start thinking about their successors. The survey showed that succession planning will be a major topic in the next 10 years at 64 percent or 185,000 Swiss SMEs. Swiss companies are thus facing major changes. Despite the trend, succession planning is a topic that is being addressed by only one in three SMEs.

The topic is equally urgent in all segments. The largest proportion of SMEs that are currently addressing the subject of succession planning is in the construction sector (50 percent), and in commerce and industry (40 percent). However, succession planning will become critical at almost one in two SMEs which have not yet addressed the topic over the next 10 years. Health care and welfare services as well as commerce and industry will have to deal with the topic over the next decade. <

## Working Population by 2050

The number of persons in employment aged 55 and over is increasing steadily. This is a challenge for SMEs.

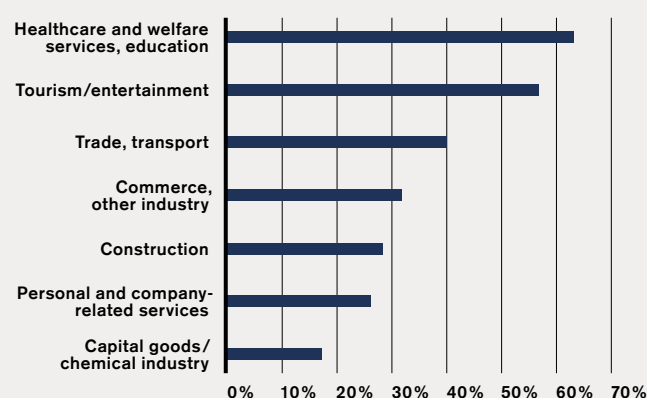
Source: Swiss Federal Statistical Office (BFS)



## Learning to Appreciate Older Employees

Too few SMEs have taken steps to bind older employees and their wealth of experience to the company.

Source: Credit Suisse Economic Research SME Survey





# Making the Most Out of “Mixflation”



**Inflation, deflation and now “mixflation” – we have entered an era of profound shifts in relative prices. Mixflation, where either inflation or deflation comes to the fore, offers many opportunities in the financial world and beyond. When millions respond to these price changes it sends powerful signals around the globe that can potentially result in profound economic action.**

Text: Giles Keating, head of Global Research for Credit Suisse Private Banking

Oil, copper and prime city real estate prices have doubled, trebled or quadrupled in just a few years. Yet the cost of computers and phone calls has plummeted, prices of consumer electronics fall almost continuously, clever retailers have made fashion affordable, sports equipment is getting cheaper and better, and so on. There is nothing new in some prices rising while others fall, but today the dispersion has become much wider and the pace of change much quicker.

### Three Forces at Work

Three main forces are driving this trend. First, new technologies lower the cost of mass-produced goods and services, and create exciting new ones at low prices. It's not just that computer chips get faster and cheaper, it's new lightweight materials for skis; it's the software to design clothes in Milan and have them made up in Hanoi the same day; it's the Web site reuniting you with a lost school friend.

The second force is the surge in urban populations. This is increasing the supply of labor to world markets, bringing down the prices of mass manufactures and services – but demand for resources also rises, so the price of these soars. Shanghai's (unofficial) population of 25 million produces goods ranging from cars to fragrances at much lower cost than in the US or Europe. But as it builds new housing, factories, roads and metro lines, its demand for copper, cement and electricity is spiralling upward.

The third factor is the increased concentration of wealth. This raises demand for rare and special things, like fine wines, haute couture, and the best real estate in town.

So we have three forces, the first causing deflation of many prices, the third causing inflation of a different set of prices – and the second depressing the prices of one set of things while boosting the prices of others.

All three forces seem likely to stay in place for a long time. Innovation in nano- and digital technology, like previous enabling technologies such as electricity, will probably have an impact spread across many decades. The shift of populations to the cities in Asia and elsewhere is a profound part of economic development, which can also last for decades. And the concentration of wealth is largely being driven by the other two forces and so is also likely to be long-lasting.

In this era of mixflation, there may be times when either the inflationary or the deflationary side comes more to the fore. Over the last year, the inflation side has tended to lead, as global monetary policy has turned out a bit too expansionary. Very rapid growth has led to labor and infrastructure bottlenecks in China and India, and Chinese import prices to the US have actually started to rise slightly. Prime real estate prices in many locations have also risen sharply, as have the prices of commodities and fine artwork. But this bias may soon change.

### Global Interest Rates Likely to Rise

Global interest rates have been on an up-trend now for four years and will likely go higher, which should take the edge off some of these prices, especially those like real estate, art and fine wines where the cycles tend to be exaggerated by liquidity. Meanwhile, the infrastructure boom, the creation of new universities, and the establishment of massive private sector training centers should ease the bottlenecks in Asia. So the deflationary side may be resurgent over the coming year. But on a bigger view across several years ahead, these swings between inflationary or deflationary bias are likely to be relatively minor deviations from the broader picture of mixflation. This phenomenon offers many opportunities. Within investment portfolios, it suggests long-term

exposure to natural resource companies (including water, energy and mining), luxury goods producers, real estate and companies driving the process, like those in the nano-technology field. However, the entry point should be chosen carefully, especially for real estate, where new exposure should be delayed for a while given the expected shift from inflationary to deflationary bias.

### Mixflation Offers Many Opportunities

But the phenomenon of mixflation also offers opportunities beyond the financial world. All economists view prices as signals, and the great Austrian economist Friedrich August von Hayek emphasized how the decisions of millions of individuals responding to these signals would transmit information into economic action far more effectively than any central planner could ever hope to do. Relative price changes on this scale are sending us very powerful signals. They warn us to use natural resources more carefully – even if there were no concern about climate change, we have to share these among a much larger pool of people than were alive when any of us were born. They counsel us to learn to benefit from the exciting but unfamiliar capabilities of the new technologies – not just in new hardware, but in software like the social networking sites where usage is not simply cheap, but often actually free. And they advise us to weigh up carefully whether we really want to compete in the bidding war for the big names, be they streets, châteaux or artists, rather than seeking out less familiar alternatives.

The younger generation does not have the baggage of a redundant set of relative prices in their memories. So their example can be very useful to their older peers – although in a fast moving world of mixflation even the young can benefit by revising their spending patterns faster than ever. <

# Luxury for Less

The outlook for premium chocolate manufacturers is looking good. This traditional, yet innovative industry responded to the latest consumer trend for affordable luxury with new, **high-end products** that also justify higher, yet still reasonable prices.



Text: Olivier P. Müller, Fundamental Analysis

Some major trends are currently emerging in the consumer goods sector. As the global economy has grown and consumers' disposable income has gone up, there has been an overall increase in demand for premium products and affordable luxury goods. This can be primarily ascribed to the steady rise in incomes, favorable demographic trends, and more discriminating consumers.

Another factor behind this development is, however, the cross-subsidization of premium products, achieved by "trading down" (repositioning) product categories where the luxury factor is less important or the

brand name plays a subsidiary role. The result is that mass products that are neither brand-name nor premium products have tended to get stuck in the middle, strategically speaking, in the current environment. Secondly, convenience is increasingly becoming a more important trend in today's society, and this too is attributable to changing habits, a higher standard of living, and demographic developments.

A graying population, cultural transformation and lifestyle-related conditions like obesity, high cholesterol levels, and cardiovascular illnesses have triggered a debate

on health and wellness in recent years, and producing health-promoting foods has become a significantly more important trend as a result.

## Trendy Chocolate is Healthy and Tasty

There is much to suggest that the trends toward premium products and health and wellness will have a more pronounced impact on the chocolate business as well. Consumers, growing increasingly sophisticated and enjoying higher disposable incomes, want premium chocolate products, and are willing to spend more for affordable luxuries.



This means in turn that price elasticity on the demand side is correspondingly low for these segments and product groups.

The premium chocolate industry will benefit from the health and wellness trend – at least indirectly. The reason is that as the economy grows and the standard of living rises, consumers are not prepared to do without luxury foods entirely, despite a greater level of health awareness. New attitudes toward nutrition are especially boosting sales of dark chocolate with high percentages of cocoa, which many consumers think is healthier. Accordingly, although per capita consumption of chocolate in Switzerland in the last six years has remained more or less constant at 11.3–11.9 kilos, the kilo price of semifinished and finished chocolate products has gone up slightly, by 1.3 percent a year. This is even somewhat higher than the rate of inflation for food prices in general (1.1 percent), despite the fact that food prices trended weaker on the whole in 2005 and 2006.

#### Good Business with Premium Products

We can assume that although the trends toward premium products and health and wellness will lead to consumers eating less chocolate in the medium term, the amount they spend on it will be roughly the same. In other words, consumers are now paying more per unit of chocolate. And in view of the low price elasticity on the demand side in this segment, we can also assume that

direct and indirect suppliers of premium chocolate will see sales grow – growth that will stem from increases in volume as well as price and mix.

#### Demand for Dark Chocolate on the Rise

As for types of chocolate, there is a definite trend away from milk and white chocolate in favor of dark chocolate with a high cocoa percentage, and single-origin chocolate. These product categories are more laborious and expensive to produce and they push up commodity prices significantly, since only the best beans can be used for dark chocolate. To manufacture single-origin chocolate, only top-quality beans grown in certain small cultivable areas, such as Cuba, Ecuador and Madagascar, are used. As these are grown in only small quantities, supply is correspondingly tight. Since Swiss chocolate manufacturers alone account for a large proportion of the demand for these high-end single-origin beans, prices will continue to rise.

Prices for agricultural products have risen steadily in recent years, and we can assume that they will remain high. In addition, the raw materials used to make chocolate – such as cocoa beans, cocoa butter, sugar, hazelnuts, almonds, and especially milk – have become significantly more expensive recently.

Companies in the consumer goods industry have only limited options for passing on these higher commodity prices to consumers via higher prices. For some time now it

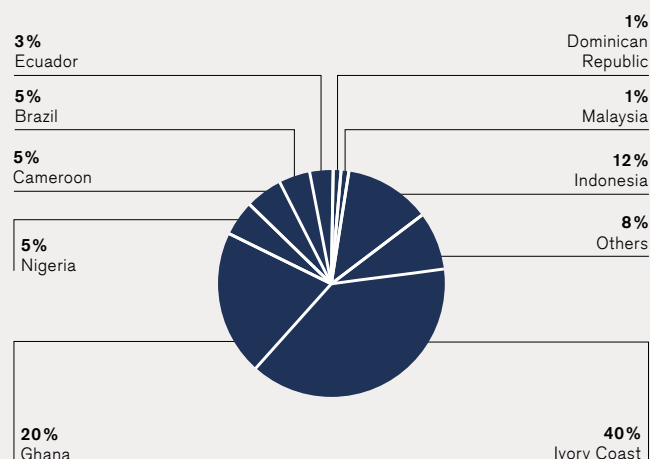
has been clear that higher prices can often only be justified by innovation, which frequently means that only suppliers of premium products can raise their prices.

With the market as it is, the outlook for manufacturers of premium chocolate is on the whole good: The classic brands Tobler and Suchard belong to the US food giant Kraft Food; Nestlé (Cailler brand), Barry Callebaut and Lindt & Sprüngli are listed on the Swiss stock exchange. Without a doubt, one of the main beneficiaries of the trends toward premium products and health and wellness is Lindt & Sprüngli. For example, not only does it have a successful business model, but it also has a good portfolio of premium chocolate products. Thanks to its innovative strength and efforts to expand into new markets, it will be able to maintain its above-average growth in sales and improve its margins. What's more, prices for its products are always increasing, thanks to Lindt & Sprüngli's exceptionally strong and internationally recognized uniform brand.

Barry Callebaut, on the other hand, is internationally the biggest vertically integrated manufacturer of chocolate in the business-to-business segment. The company has evolved to become a leading provider of outsourcing solutions for the food industry. There is therefore reason to believe that in the medium term, Barry Callebaut will be focusing on the business-to-business segment and disposing of its brand name products as a result. <

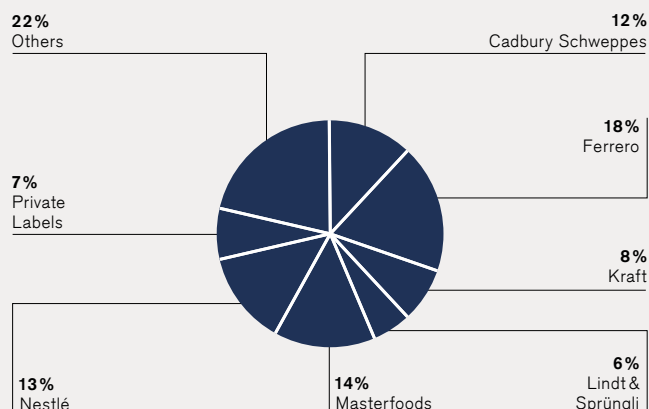
### World Cocoa Production

Premium cocoa beans often come from Ecuador, Cuba and Madagascar. Source: International Cocoa Organization



### Market Share in Europe

Lindt & Sprüngli is posting very good growth with its premium chocolate. Source: AC Nielsen (moving average 52 weeks to end-May 2007), Credit Suisse



# The Benefits From Accession



**After its accession to the EU, Bulgaria is expected to benefit from increasing investor interest, production relocation and higher financial assistance. The small country on the shores of the Black Sea could become a strategic place for investment.**

Text: Adrian Zürcher, Equity Strategist

Bulgaria has been undergoing profound change since the collapse of the Iron Curtain in 1989 as it has moved from a centrally planned economy to a free market system. This process, like any transition from one system to another, covers all areas of social and economic life. The transition from a planned to an open economy was a hindered path for Bulgaria and was accompanied by the transformation of outdated political structures with the aim of reintegrating Bulgaria and its 7.7 million people into the international community and global trade. Seventeen years after the fall of communism, Bulgaria's reintegration into the global economy and its progress in carrying out structural reforms have contributed to a stable economic environment that encourages investment in the country's economy and stock market. Bulgaria's accession to the European Union (EU) on January 1, 2007, was an endorsement of the progress the country has made so far. Future prospects are tied to the country's increasingly important integration with the EU member states.

#### Accession as a Growth Driver

The strength of Bulgaria's economy is mirrored in the strong performance of its stock market, the SOFIX, which gained 740 percent since the start of 2003. Research shows that EU enlargement has coincided with very positive market performance: After joining the EU, new member states' stock indices rose 75 percent on average in the two years following their accession as they benefited from more trade and financial assistance. Having already benefited from high levels of EU aid prior to accession, being a full member ensures a continuing flow of funds aimed at improving the country's infrastructure. By 2013, EU funding will reach 11 billion euros in total – a substantial sum for a 25 billion euro economy like Bulgaria's.

Rising FDI inflows, an improved business environment, strong domestic demand momentum and declining interest rates have already led to stable economic growth. Real GDP increased 6.1 percent in 2006 on the heels of the 6.2 percent growth recorded for 2005. Main contributors to GDP in 2006 were private consumption and investment, expanding 7.1 percent and 17.6 percent, respectively. The robust growth dynamics should continue to attract strong FDI inflows.

A key benefit of Bulgaria's accession to the EU is the expected transfer of business production sites from Western Europe. Western companies are likely to be attracted by the country's skilled workforce and the EU's most competitive wages – the average annual wage in Bulgaria, at 1,635 euros in 2006, is 13 times lower than the EU average. The outlook for labor costs is favorable because the convergence of wages toward EU levels will take years or even decades.

#### GDP Growth to Remain Strong

With growth rates averaging 5 percent from 2000 through 2006, Bulgaria's real GDP growth has been showing strong momen-

tum and has outperformed the euro zone as well as countries like Hungary and the Czech Republic since 2001. Its economic expansion has been powered by exports, a lending boom, the lowest taxes in the EU (maximum income tax of 24 percent, corporate tax of 10 percent in 2007, and zero corporate taxes in more than 100 municipalities with high unemployment) and foreign investment, which have helped to improve living standards and strengthen the economy. Investment has been by far the most dynamic growth component, mirroring the ongoing modernization of the Bulgarian economy and export use. The investment ratio has increased from roughly 15 percent of GDP in 2000 to 25 percent this year.

#### Deficit Offset by FDI

Buoyant consumer spending and fixed investments continue to widen Bulgaria's current-account deficit, which remains a key area of vulnerability on the macro side. After reaching 11.8 percent of GDP in 2005, the current-account deficit widened to an eight-year record of 3.87 billion euros, or 15.9 percent of GDP, in 2006 after access to cheap lending fueled consumption. Since >

### Unemployment – Year-End

**Massive investments resulted in a remarkable reduction in the unemployment rate.**

Source: Employment Agency







**Arthur Vayloyan**

Head Investment Services and Products  
of the Private Banking Division

## New Perspectives on Bulgaria

Arthur Vayloyan, Head Investment Services and Products of the Private Banking Division, hosted Credit Suisse's third Interactive Fieldtrip, giving around 25 investors from Europe and Asia a deeper insight into Bulgaria's present situation.

### Why does Credit Suisse organize field trips for customers?

We want to give the participants a comprehensive experience that goes beyond the mainstream. It's about gaining in-depth and unique insights.

### What feedback do you get from the participants?

They very much appreciate the opportunity to discuss various topics with Credit Suisse's analysts in the evening and then having open questions clarified the next day, for instance, by the finance minister. It's an experience that money can't buy.

### What kind of activities did you plan around this field trip?

The event itself was part of a broad range of activities. These included the creation of a new product – a certificate on major Eastern European industrial enterprises with strong links to Bulgaria. In addition, analysts in Zurich and New York wrote several research articles, and the Asia-Pacific and EMEA Private Banking departments could make use of their client relationships. These interactive field trips give us the unique chance to exploit both the expertise within our integrated bank and our global presence in an extremely efficient and client-focused way. **ba**

local companies could not meet the rising demand, imports soared as the country prepared for EU membership.

However, a substantial current-account deficit is not necessarily a bad thing at this point: Developing countries like Bulgaria can run a current-account deficit in the short term if it is aimed at equipping the country with industrial and service facilities that in the long run will enhance the country's competitiveness and help it become an export platform. Furthermore, the 27 EU nations' open market for exports will potentially reduce the current-account deficit to 13.6 percent of GDP in 2007, to 12.8 percent in 2008 and to 12.4 percent in 2009, according to the latest government report. The Bulgarian National Bank (BNB) expects the negative impact of net exports to decline on the back of improved competitiveness of Bulgarian goods and high levels of investment in main export industries, which should boost exports over the course of the year.

Foreign direct investment inflows remain very strong, reflecting buoyant international investor confidence and calming concerns about the large external deficit. FDI reached a record level of 4 billion euros in 2006, or 16.6 percent of GDP, and thus covered 104 percent of the current-account deficit last year. EU membership prospects spurred foreign investment as more foreigners invested in Bulgarian real estate and new factories. The vast bulk of FDI has been flowing into greenfield projects. Greenfield investments occur when a company starts a new venture in a foreign country by constructing new operational facilities from scratch. Greenfield investments are the primary growth driver

for a developing nation because they create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace. Bulgaria has proven its ability to exploit every foreign investment opportunity to its advantage. The progress resulting from the massive investments can be seen in the remarkable reduction in Bulgaria's unemployment rate, from 19 percent in March 2000 to 8.4 percent at end-April 2007.

### Fiscal Performance Set to Improve

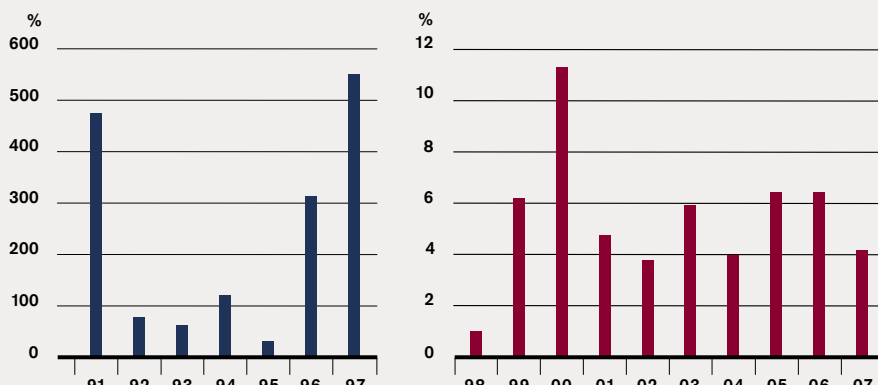
Fiscal policy remains tight. After ending 2005 with a budget surplus of 2.4 percent of GDP, the Bulgarian government agreed with the IMF to target a fiscal surplus of 3 percent of GDP in 2006. Indeed, the budget surplus for 2006 was 3.6 percent of GDP. This number puts Bulgaria in a leading position within the EU in terms of budget surplus as a share of GDP for 2006, as Eurostat data show. Denmark is the leader with 4.2 percent, followed by Finland (3.9 percent), Estonia (3.8 percent) and Bulgaria (3.6 percent). At the other extreme is Hungary with a budget deficit of 9.2 percent of GDP, followed by Italy (4.4 percent), Poland (3.9 percent), Portugal (3.9 percent) and Slovakia (3.4 percent). The official fiscal target for 2007 is to achieve a consolidated budget surplus of 2 percent of GDP. This objective is aimed at curbing growth in domestic demand and restricting the current-account deficit.

After a record inflation rate of 2,000 percent at the beginning of 1997, Bulgaria introduced a currency board on July 1, 1997. The currency board has been a crucial factor in the success of the country's latest stabi-

## Inflation – Year-End

**A currency board, introduced in 1997, has brought the inflation rate under control.**

Source: National Statistics Institute



lization program. A currency board is a monetary authority that has the power to create currency only in exchange for a specific quantity of another currency – the euro in the case of Bulgaria. The adoption of a currency board provides a method of unifying one currency with another that has greater credibility on international financial markets. Furthermore, the money issued by the currency board is 100 percent backed by the foreign currency. In other words, there are sufficient funds to exchange the domestic currency for the foreign one at a fixed rate. Since the adoption of the new system, Bulgaria's inflation rate has fallen to 4.1 percent as of March 2007.

The magnitude of the decline in the longer run depends to some extent on developments in the price of natural gas. Bulgaria relies on Russian imports for 97 percent of its natural gas needs. At the start of 2007, Bulgaria signed a new contract with Gazprom, Russia's state-controlled energy giant, for future development of cooperation between the two countries in the gas sector. The agreement runs until 2030. However, Bulgaria has to gradually raise the purchase price for gas from spring 2007 until 2012, by which time the price will be up 40 percent.

This will put moderate pressure on inflation later in the year. Nevertheless, the underlying picture for inflation has improved, and Bulgaria has approved a three-year program that aims to raise living standards to EU levels while reducing inflation to 3 percent in 2008 and 2.9 percent in 2009.

All in all, Bulgaria is already close to many Maastricht criteria like gross government debt to GDP, which is at 25.6 percent and way below the reference level of 60 percent. The inflation criterion now seems within reach and the Bulgarian government's goal is to join the euro zone in 2010.

#### How to Gain Exposure?

Bulgaria offers attractive future investment opportunities, but investments in single stocks are still associated with higher risks compared to stocks from established markets. For diversification reasons buying a structured product or gaining indirect exposure through companies from Western European countries could be advisable. One of the best ways to participate from Bulgaria's sound growth perspectives would be investing in a combination of both the aforementioned strategies. <



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Thinking New Perspectives.

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# Total Connectivity





**Thanks to new technologies the global spread and networking of broadband Internet and wireless technology are increasing rapidly. Businesses that recognize the signs of the times at an early stage will benefit from enormous new market potential.**

Text: Uwe Neumann, Fundamental Analysis Telecom and Technology

Today more than 1.1 billion people have access to the Internet. 300 million of these already have broadband access and the numbers are rising every month. The US is still in the lead with around 60 million broadband users, but China with its 56 million users is catching up fast and looks likely to overtake the American superpower in the near future.

The Chinese government intends to provide every household in Beijing with broadband access by the time the Olympic Games come to the capital in 2008. Although Europe, North America, and high-tech countries like South Korea are still clearly in the lead where the level of broadband market penetration in their populations is concerned (US 53 percent, Europe 38 percent, Korea 80 percent, compared with China's 14 percent), high growth rates and the expressed will of the government make it likely that China will soon assume the leadership position in the broadband Internet community.

#### **Quick Solutions for Rapid Access**

The lack of fixed network infrastructure means that many emerging regions – such as India or Africa – trail far behind the leaders, but here too there are alternatives which can provide more rapid Internet access. Mobile communication technologies like UMTS and WiMAX can be used to plug the gap. One model here is Eastern Europe, where mobile wireless networks have been expanded more rapidly than fixed networks and where approximately 10 percent of all

broadband users access Internet services via their mobile phone. Mobile wireless networks are in fact quicker and easier to set up than cable or telephone networks, which means that the future is likely to be theirs. With a total of more than 1.5 billion users, mobile wireless has more adherents worldwide than the Internet.

Since the 3GSM Mobile World Congress in Barcelona in February of this year, so-called femtocells have become a hot topic in the industry. These indoor wireless cells can be used to reduce the load on mobile wireless networks while simultaneously increasing the wireless bandwidth in enclosed spaces. The mini base station is plugged into the fixed network broadband link and can communicate with the mobile terminal device. Using the mobile terminal device in this way generates no additional load for the mobile wireless network because data transmission takes place via the IP transport network. This means that it is possible to make phone calls using this local GSM base station within a range of approximately 30 meters or to surf the Internet using a mobile terminal device at high speed and at fixed network prices.

The general opinion is that the future is rosy for femtocells. For example, network specialists Netgear and Ubiquisys (the developers of 3G mini base stations) have plans to jointly launch a product this year which will act as an access portal for data and telecom services in both private households and business premises. Estimates from within the industry assume that as

many as 36 million devices of this kind could be sold in the next five years – an estimate that many consider to be very conservative, because in theory private customers would only have to pay for a mobile wireless connection and a broadband Internet link. At home they would save the per-minute charges that they would normally have to pay for a fixed network connection plus the higher charges for mobile wireless calls – all for the price of a relatively cheap one-off >

**Femtocells** are indoor mini base stations which can connect mobile phones within a range of approx. 30 meters to a fixed network broadband link. One femtocell is usually enough to cover the needs of an average household. A mini base station supports various transmission technologies such as GSM, UMTS, WLAN and DSL.

**WiMAX** stands for “Worldwide Interoperability for Microwave Access.” This technology is used to provide broadband access to the Internet, for example, via a wireless network.

**RFID** stands for “Radio Frequency Identification.” RFID is a procedure for automatically localizing and identifying objects and living things and for capturing and storing data.

investment (the mini base stations should cost no more than 200 dollars). A similarly positive market trend is also being predicted for the WiMAX base stations, which deliver comparable benefits. However, they are substantially more expensive because of their higher transmission speeds and would be more suitable, for example, for developing new urban/suburban wireless networks, which would tend to compete with the traditional mobile wireless networks. Wireless chips that can automatically capture, save and transmit data represent another technology that will condense the global communications network. This is the so-called RFID market. Reporting on the sell-by date of foodstuffs; vacuum cleaners that are controlled by RFID-enabled carpets; field robots that are automatically informed by wireless chips about the need for pest control intervention – these are just three examples of applications that either already exist or will be with us in the near future.

### Networking Opens Up New Markets

By 2010 these technologies look likely to grow together to form a large global network. We are currently in a phase in which this “networking process” is accelerating globally. Networking of this kind makes it possible to access new markets and enables more than merely mobile Internet surfing. In the broadest sense one could speak of the “Google-ization” of consumer markets and of the “mobilization” of processes. What does this mean? Increased connectivity means on the one hand that it is easy to set up new local markets; on the other hand, these can be better served by global providers who tailor their offerings to meet local demand. In general terms, this means that market entry barriers will tend to fall, which will lead in turn to an increased fragmentation of consumer markets – away from mass production and toward niche production.

One obvious example of this trend is YouTube. Making homemade videos available on a broadband Internet platform in TV quality makes it possible for everyone to become a “TV videostar.” Local communities which no longer consume traditional TV output at all can come into being. Local Internet programs – for example, coverage of a local-league soccer game – could become enormously popular within a region, even though the lack of a mass market would make it a nonstarter for a national channel. This in turn would lead to a reorientation of the advertis-

ing market and hence also of the type and content of product placements via this new medium. There is practically no limit to the “mobilization” of processes. Unmanned wireless-controlled emergency vehicles that can be used for hazardous tasks; the automatic monitoring of an individual's health; remote-controlled field robots that will turn agriculture into a high-technology sector; “mobile-phone wallets” that automatically pay for public transportation tickets – there's practically no limit to the possibilities.

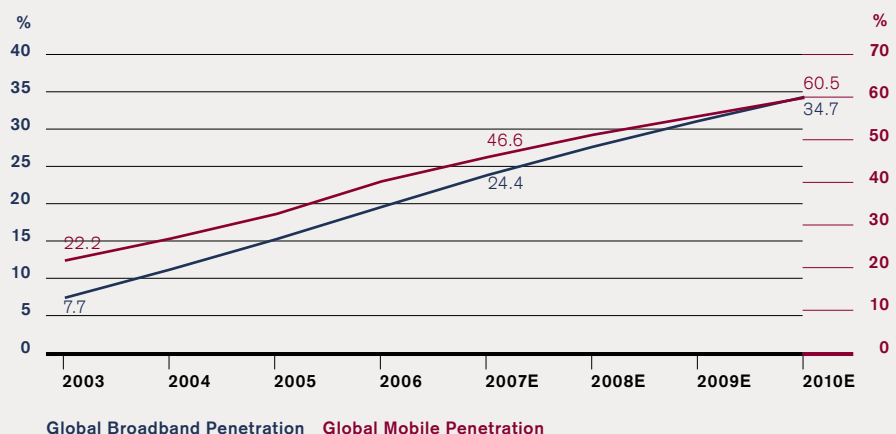
### Potential Winners in Many Sectors

This fundamental process of change will throw up a multitude of opportunities. Businesses that implement it actively in their strategy will win and those that ignore it will lose. Businesses that advertise via mobile

wireless or develop payment systems based on wireless chips are worth watching carefully. However, most of these companies are still at the start of the development process and have not been noticed to any great extent by the wider public. The expected sharp increase in data exchange in the various networks will most probably benefit businesses that are involved in equipping, managing, controlling, and securing networks and their services. The most likely candidates here are: telecom service providers, who may be looking at a comeback; telecom providers who supply network technology; businesses that operate data/computing centers; businesses that produce security software for mobile wireless applications or that are in the market for content delivery, digital advertising or e-commerce. <

## Mobile Wireless and Broadband Penetration

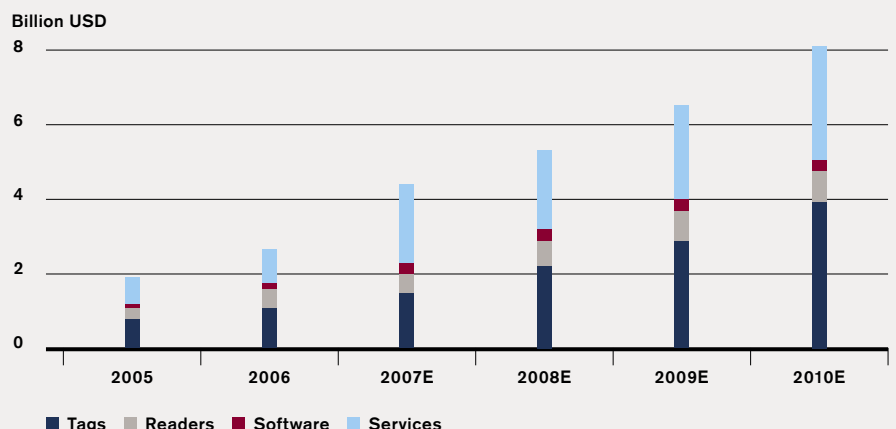
The numbers of broadband connections and mobile wireless users are increasing steadily. Source: Credit Suisse



## Global Spending on RFID Products by Category

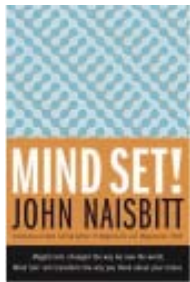
The new technology will soon be revolutionizing life for the public at large.

Source: Robert W. Baird & Co.



## Mind Set!

How We Decode the Future



By **John Naisbitt**

Hardback edition

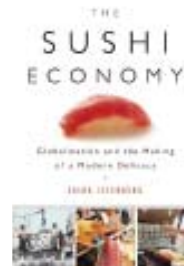
320 pages

ISBN 0-06-113688-3

"Megatrends" was on the New York Times Bestseller List for over two years. First published in 1982, and subsequently released in 57 countries, the book sold over a million copies, and made the term "globalization" familiar worldwide. In the meantime, futurist John Naisbitt has published eight other books, including "Megatrends 2000" (1990) and "Megatrends Asia" (1996). For Naisbitt, the key to opening the secrets of the future remains with regional newspapers, which he believes are better indicators of certain development patterns than the national media. The idea has been copied since, but others have drawn different conclusions from the same information. Why? The reason, says Naisbitt, is the thought patterns that become ingrained in every one of us over decades. In "Mind Set!" he summarizes the 11 he sees as the most important. These include such provocative concepts as "From Nation States to Economic Domains" or "Europe: Mutually Assured Decline". The book's simple style and illustrative examples make it easy to read. However, it is hard to keep track at times of the mindset currently being discussed. But then just thinking about which mindset is the most important is a sufficient source of stimulation. To quote Naisbitt: "Use the power that lies in not needing to be right." Only then is it possible to imagine everything, to suggest everything – to be visionary in other words. Some will find the rather trite conclusion "While many things change, most things remain as they are," especially worthy of consideration. And sometimes it wouldn't be a bad idea to heed the following advice either: "Don't add anything without leaving something out." **sch**

## The Sushi Economy

Globalization and the Making of a Modern Delicacy



By **Sascha Issenberg**

Hardback edition

352 pages

ISBN 1592402941

Sushi bars and restaurants are almost as prevalent worldwide as a certain American coffee chain. Whether you love raw fish or hate it, the fact is that the sushi craze has developed far beyond the borders of its island origins to becoming a global cuisine. This book revolves around the sushi staple of bluefin tuna. This species, once considered a fish fit only for tins of cat food, has become a hundred-dollar-a-pound commodity. One of the most surprising anecdotes is that it was Canada that first fueled the global journey of tuna in the 1970s. Tuna caught at Prince Edward Island was sent via air freight to Japan, which was feeling the effects of overfishing even then. The Canadian bluefins were selling at what was then a high of 4 dollars a pound at Tokyo's Tsukiji fish market. Journalist Sascha Issenberg traces the journey of sushi from a simple food sold by Tokyo street vendors in the 19th century, to its rebirth as a culinary staple in Japan. He traveled to 14 countries on five continents to visit suppliers, fishermen, fisheries, distributors, black market tuna dealers and sushi chefs to track the infrastructure of the tuna trade. Issenberg writes: "In few places are the complex dynamics of globalization revealed as visibly as in the tuna's journey from the sea to the sushi bar." In fact, a fish destined to land in a sushi bar might change hands up to nine times in two different hemispheres before reaching its final destination – your stomach. This book about commerce and culture is a worthwhile read even for nonfoodies. The only criticism is Issenberg does not go into detail about what will happen once the oceans have been overfished beyond salvation. Perhaps that will be dealt with in a sequel... **mb**

The books reviewed can be ordered from [www.buch.ch](http://www.buch.ch).

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# “There Is No Progress Without Risks!”

Interview: Marcus Balogh

**Nobel Laureate Edmund Phelps, best known for his work on the trade-off between unemployment and inflation, makes a strong argument for innovation and entrepreneurship.**

**Bulletin: Did you ever imagine that you would receive the Nobel Memorial Prize?**

Edmund Phelps: Well, I hope this doesn't sound arrogant: But there was a time when I thought that it could one day come my way. Later, I thought the moment had passed. When I then received the message that I was to receive the Nobel Memorial Prize I was truly surprised and honored.

**Almost a year has passed since then. How much has your life changed in that time?**

Apart from the fact that I still feel very much honored – not much. Perhaps, I get invited to more TV shows and people ask me even more impossibly difficult questions during interviews.

**For example?**

For example, how to breed entrepreneurs.

**That might be a difficult question, but certainly also a very relevant one, isn't it?**

We certainly do not have enough entrepreneurs. I would probably become quite rich if I had a quick answer to this question – but sadly I don't have a quick-fix answer. However, I do have a hunch. I believe the classical idea of what life is about: adventure, the expansion of one's horizon, the discovery of one's unique talents and the willingness to

take risks – as can be found in the works of Aristotle, Cervantes or Shakespeare – is a notion that has just about disappeared. This is regretful, because the willingness to take risks is an essential part of an entrepreneur's background.

**With what has the willingness to take risks been replaced?**

Today, people seem to be obsessed with job security. They expect politicians to do everything in their power and beyond to erase that uncertainty. But you just can't have excitement without uncertainty.

**Is this an impression you have or do you actually see it in your students?**

Both. I think that when I became a student I knew less – less history, less mathematics, less psychology. Students of today have a much broader knowledge base. However, I believe we were more driven and hungry for inspiration. I think that the visionary quotient among my fellow students was definitely higher, whereas many students today have a very defined master plan in their minds detailing exactly what to do and where they want to go.

**Doesn't this simply prove that today's students are more focused? And, isn't this exactly what the business world is demanding from them?**

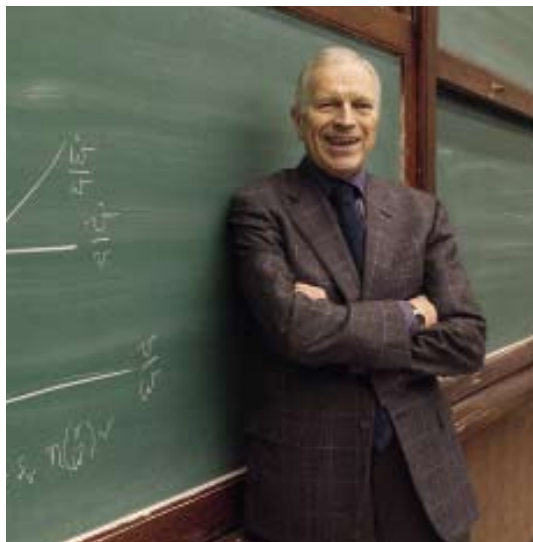
Perhaps there is more focus – but what we lack is the creativity in business, the ability to come up with new ideas and to think out of the box. There is no progress without risks and there is no leap of understanding if you cannot think outside the conformist playing field. We need pioneers who will overcome stagnation.

**Aren't there renowned economists who say that it is much better to be an imitator than to be a pioneer?**

There is a theory that postulates that the savings in investment in research and development (R&D) of imitating countries more than compensate a possible loss in productivity in comparison with pioneering countries. This is all wrong in my view. If a country only imitates and copies, and if the pioneering country continues exploiting new technological advances, then the gap between the two will narrow, but it will narrow only so far. In general, there will always be a gap between the imitator country and the pioneer country.

**Why is that so bad?**

Let's take China and the US as an example. By historical measures, Chinese economic growth is extremely fast, but the technological gaps are enormous. It will take China quite a few years to even partially close. >



**Economist, philosopher and professor Edmund Phelps, 74, obtained his doctorate from Yale University in 1959. At the age of 28, Phelps had already acquired an international reputation through his work on the golden rule of capital accumulation. Later, he focused on the trade-off between inflation and unemployment. For his seminal papers in the late '60s overturning the conventional wisdom in this area he has been awarded the 2006 Nobel Memorial Prize in Economics. In the late '70s, Phelps spent some time at Stanford University, where he became acquainted with John Rawls, the leading philosopher on social justice. This encouraged Phelps to broaden his economic interests and examine issues of economic justice. Since 1982, he has been McVickar Professor of Political Economy at Columbia University. Alongside his recent research on capitalism Phelps has also done research on the causes and cures of joblessness and low wages among disadvantaged workers. His recent book for the general public "Rewarding Work" combines these interests.**

The big question is: What will happen when China has caught up as far as it can with the West – or the US in particular – and if, at that moment, there is no indigenous innovation? In that case, the growth rate of productivity slips back to more normal levels. And, similarly, the growth rate of wages drops back to a normal level. That happened in Europe in the '70s and '80s – and that's a very bad thing.

#### **Again: Why is that so bad?**

It gives wealth a chance to regain its former ratio to wages. Once workers become wealthier relative to their wages their appetite for staying in the job and advancing in the job dulls. It also dulls the appetite for joining the labor force to begin with, or dulls the appetite for hanging in there in later life rather than taking early retirement.

#### **Forgive me for putting it so bluntly:**

**Are you saying that the unemployment rates we have in certain countries are due to the fact that the workforce has become too wealthy? And, if they would agree to work for less, we would not have an unemployment problem?**

Well, that is a somewhat odd way of putting it. What I mean to say is that in Europe in the '30s and the early '50s there was a certain ratio of wealth to wages and corresponding to that you had high unemployment rates in the '30s, the late '40s and early '50s. These were followed by the glorious years of the German miracle, the Italian miracle and the French miracle. During that period, wages took off – but wealth can't take off that way as it is sluggish. This was followed by a relatively stable ratio between wealth and wages until the mid '70s.

#### **What happened then?**

Growth stopped. Initially it wasn't a problem as unemployment was still low. As wages stopped growing, wealth started to catch up, to get back to a normal relationship with wage rates. Whenever that takes place, bad things happen to employee morale. There's less interest in joining the labor force, and greater interest in retiring early. All these things push up employer or labor costs, and the result is that employment falls relative to labor force, and labor force falls relative to working age population. This results in higher unemployment and lower employment, and that's exactly what happened in Europe. In addition to that, there are other things worth noting.

#### **What other things would that be?**

When catch-up is over, an era of feeling good will also be over. Lots of things that weren't noticed, or that were to some extent offset during the catch-up period, now become very visible. There may be a lot of discontent in the workplace, job satisfaction scores may be very low, and data on employee engagement may look very bleak. All those things are a problem in Europe.

#### **But the recent economic outlook for Europe hasn't been so bad.**

Amar Bhidé, a colleague of mine from Columbia University, would argue that the hallmark of economic success in a country is that there's a satisfactory number of firms that grow by leaps and bounds. I agree with him. I don't really see that trend with firms in Europe.

#### **Is there anything we can do about this situation?**

Europe lacks the dynamism that comes from widespread indigenous entrepreneurship. It also lacks a cosmopolitan but hardnosed financial sector and an adequate number of broadly educated, adventuresome consumers and managers.

#### **How much better is it really in the US?**

I worry that the US economy is drifting closer and closer to the character of the continental economies.

#### **Will China – or India, for that matter – end up there too?**

China – or any other nation going through this process – will not be exempt from these mechanics. As growth begins to slow – whenever that may be anywhere from five to 20 years from now – wealth will start catching up and China will run into the social problems that have always followed once, relatively speaking, stagnation strikes.

#### **That is a very bleak outlook.**

Not at all. It is important to understand that there is no universal law that says that the story has to end here. This is one of the reasons why I am talking about innovation and entrepreneurship. The question is: Will China be able to become an innovative nation that actually introduces – on a significant scale – indigenous innovation? I don't see any reason why it can't accomplish that. Obviously, as catch-up nears, two sorts of institutional challenges will arise. A better education system is needed in order for people to gain a broader horizon. China will also need to improve its institutions. In that sense, China is not very different from Europe or the US.



### Can you elaborate?

All of the structures are totally different, of course. But in all three I see the need for investment in education – and I mean in a broad education with a wide horizon. In addition, there is the tendency for overregulation that has to be checked. And then I think that there are too many entrenched institutions in the financial sector.

### What do you mean with entrenched financial institutions?

I mean there is too much concentrated power and too much relational banking. Some people in the financial sector are lamenting the lack of young entrepreneurs. It is the risk aversion of the financial institutions that has made it difficult for an outsider with new ideas to get started.

### And what kind of regulations do you have in mind?

I am not talking about Wild West capitalism. Instead, I am focusing on things such as

reducing the number of license requirements that a new entrepreneur has to get to start up a new company. Or special social security regulations that apply for companies that have 15 or more employees. Perhaps regulators should consider increasing that threshold to 30 or 100 employees.

Other regulations that have a big effect are things like Sarbanes-Oxley – what kind of business culture do you create when you have a system in which a CEO might be accused of not having exercised due care, when he was simply exercising his intuition in a difficult situation rife with risks and uncertainty? And how should an entrepreneur be able to jump into the void and follow his or her intuition when everything needs to be justifiable in a court of law? I firmly believe we need to aim for a culture that rewards risk taking, that stops seeing uncertainty as a danger, and that values innovation, education and vision. <

## Short Run – Long Run

Edmund Phelps received the Nobel Memorial Prize for his work on the relation between short-run and long-run effects of economic policy – central goals of stabilization policy are low unemployment and low inflation. During the '50s and the '60s the theory took hold that there is a stable trade-off between inflation and unemployment – the so-called Phillips curve. In the short run, in order to lower the rate of unemployment in an economy, the economy – or the government of a country and its central banks – must be prepared to have a one-time increase of the inflation rate.

Phelps challenged this view through a more fundamental analysis. He brought expectations into the analysis of price and wage setting, and formulated the hypothesis of the expectations-augmented Phillips curve.

In their explanatory statement for awarding the Nobel Memorial Prize the committee stated that: "As a consequence, the long-run rate of unemployment is not affected by inflation but only determined by the functioning of the labor market. It follows that stabilization policy can only dampen short-term

fluctuations in unemployment. Phelps showed how the possibilities of stabilization policy in the future depend on today's policy decisions: Low inflation today leads to expectations of low inflation also in the future, thereby facilitating future policy making."

Interestingly, the Nobel Memorial Prize committee also referred to other fields of Edmund Phelps' work that concerns the desirable rate of capital formation. By foregoing consumption for investment in, for example, education and research, today's generation can raise the welfare of future generations. In his work Phelps worked on shedding light on possible distributional conflicts among generations. He also pointed out that all generations may, under certain conditions, gain from changes in the savings rate, and he pioneered the analysis of the importance of human capital for the diffusion of new technology and, through the diffusion of new technology, for growth.

In the past two decades Edmund Phelps has dedicated a significant amount of time to finding ways to reduce long-term unemployment. **ba**

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## @propos



### People Power on the Internet

michele.bodmer@credit-suisse.com

At the end of 2006, the Time magazine Person of Year edition caused much hubbub. The editors named "You" Person of the Year and fueled a lot of snickering and bickering from other media and bloggers – the very individuals or movement the magazine was applauding. Cynics suggested that the editors had just run out of worthy individuals on whom to shine the spotlight, but the likely reason is that they never looked beyond the cover. I had the same superficial reaction until I took the time to read the articles behind the nomination.

The issue touts the new Web, dubbed Web 2.0 by Silicon Valley consultants. It's not a new version of old software, but rather a revolution of how we use the Internet. It's about consumers taking control. It's a movement that enables anyone and

everyone to post their views online in the form of words, photos, music and even videos. Time reporter Lev Grossmann says it best: "It's a story about community and collaboration on a scale never seen before. It's about the cosmic compendium of knowledge Wikipedia and the million-channel people's network YouTube and the online metropolis MySpace. It's about the many wrestling power from the few, helping one another for nothing and how that will not only change the world, but also change the way the world changes."

According to Hitwise – a company that monitors 25 million Internet users – this trend toward "citizen's media" became obvious in 2005. This may be the case for the true techies, but for many of us, myself included, who are primarily consumers of

mainstream media, this migration to user-generated content is just now coming to light; and it has its pros and cons. Again, Grossman sums it up well: "Web 2.0 harnesses the stupidity of crowds as well as their wisdom. Some comments on YouTube make you weep for the future of humanity just for the spelling alone, never mind the obscenity and the naked hatred. But that's what makes all this interesting. Web 2.0 is a massive social experiment, and like any experiment worth trying."

We can also choose to "consume" only the things that agree with our views by filtering out news. While this is a time-saving service, we also miss out on information we should be digesting – no matter how bitter – in order to stay knowledgeable about the world around us.

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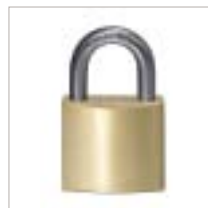
### Online Forum: Internet Security

The Internet has long since evolved into a global playground for hundreds of millions of surfers. And from the real world we know that wherever lots of people gather, fraudsters, thieves and con-men are sure to follow. Unfortunately, this is a truth that has not been universally recognized in the virtual world. There are still plenty of users out there who conduct themselves on the Internet with astonishing carelessness.

While few of us would leave our homes without locking up behind us, lots of people still surf the Internet without a firewall or any type of virus protection. Similarly, the vast majority of users would never entrust their ATM PIN code to a stranger they met on the street. On the Internet, on the other hand, they are often only mildly distrustful when they receive a phishing e-mail.

All the more reason, therefore, to sensitize users to dangers of this kind. Credit Suisse would also like to make its contribution in this regard – after all, the Internet has become an important sales channel for banks over the last 10 years and this will only

**In the forum you can learn  
all about hackers, phishing,  
spam and viruses.**



increase in the future. Maximum security in online banking can be achieved only if the end user's PC is protected as well as possible. It is against this background that In Focus – the online magazine of Credit Suisse ([www.credit-suisse.com/infocus](http://www.credit-suisse.com/infocus)) – has organized a forum on the subject of Internet security. Our qualified experts will answer all sorts of questions – about anything from viruses, spam, hackers, to phishing.

The procedure is simple: You submit your question at [www.credit-suisse.com/security](http://www.credit-suisse.com/security). Your query will be answered, although there will be a time delay because all questions are sent directly to the experts. You will be notified by e-mail as soon as the reply to your question has been received. At the same time, the question and answer will be published on the Internet (without mention of the e-mail address).

The forum starts on September 3 and will remain online for three weeks. **ath**

**For more information visit [www.credit-suisse.com/infocus](http://www.credit-suisse.com/infocus)**

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# In Focus

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