SUZY MENKES
IT'S UPTOWN VS. DOWNTOWN

PAGE 9 | FASHION NEW YORK

122

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German tries a light hand at winning Greeks over

RHODES, GREECE

With charm as a weapon, Merkel's emissary works to ease rough feelings

BY NICHOLAS KULISH

To long-suffering Greeks, German officials embody the harsh diktats from abroad that have deepened their country's descent into depression and insolvency. Listening to Germany's Iron Chancellor, Angela Merkel, her tough-talking finance minister, or the uncompromising head of the Bundesbank, it often feels like a game of bad cop, worse cop, worst cop.

Now Ms. Merkel hopes to reverse the spiral of recrimination that has unraveled the bonds between the two countries. Her handpicked emissary Hans-Joachim Fuchtel, a deputy labor minister and member of Parliament, is willing to try almost anything to mend relations, even riding a bicycle through a ballroom at a banquet with local officials here.

The bicycle was a gift from his hosts with an implicit message: Greek workers and businesses manufacture products that Germans want. Mr. Fuchtel — a jovial, brass band-loving Black Forester — knew when the time for talk had ended and the moment to pedal had arrived. He went for a short spin, to the delight of the crowd.

By boat, by plane, by bus and ever so briefly by bike, the man the daily Süddeutsche Zeitung called Ms. Merkel's "secret weapon" has zigzagged around Greece building strategic partnerships between municipalities that, if successful, would make the ailing country a bit more efficient and perhaps a little more German.

Mentoring and the exchange of know-how are hardly enough to pull Greece's

ADAM FERGUSON FOR THE NYT

Hans-Joachim Fuchtel was ready to ride a bike through a Greek banquet.

economy out of a deep and protracted recession, of course. But the hope is that they can serve as models for the future, despite all the uncertainty surrounding the prospects for the country and the euro zone.

The European Central Bank took a significant step last Thursday to hold the Continent's debt crisis in check by announcing a plan to purchase vast quantities of Spanish and Italian bonds to prevent those countries' borrowing costs from soaring to unsustainable levels. Yet the next challenge to the crisis-fighting strategy already looms, as the German Constitutional Court will announce its ruling on the constitution-

ENVOY, PAGE 17

Lull in crisis of euro zone faces triple challenge

FRANKFURT

Court ruling, Dutch vote and bank reform could upend debt rescue plans

BY JACK EWING AND MELISSA EDDY

With a few choice words last week, the European Central Bank and its president, Mario Draghi, managed to tame bond markets and inspire a market rally. But the coming week may reveal whether the rescue plan for Spain and Italy was a turning point in the euro zone crisis or just a short-lived spell of relief.

On Wednesday, the work of the central bankers in Frankfurt could be undone in a stroke by judges in the sleepy university city of Karlsruhe, Germany. There, the German constitutional court could block the country from contributing to the European rescue fund on which the E.C.B.'s plan is heavily dependent.

The mood could also be soured by voters in the Netherlands, if on that same day they elect a government less committed to keeping the euro currency union together.

Or things could bog down in the days and weeks ahead as political leaders in the euro zone take on thorny issues like how to better supervise the region's banks.

The E.C.B. bought time Thursday when it pledged to buy government bonds in unlimited amounts to hold down borrowing costs for troubled countries. It is now up to governments to use the time to solve the underlying problems in the European banking system and create conditions for economic growth.

"It's an important step," Lorenzo Bini Smaghi, a former member of the E.C.B. executive board, said of the bank's action last week. "But it requires other things to be done. Ultimately, the crisis will be solved when growth comes back and deficits are substantially reduced."

Most analysts do not expect the German court to prevent the country from contributing to the rescue fund, the European Stability Mechanism. The court, on the edge of the Black Forest, plans to issue a ruling on whether to meet demands from a group of German lawmakers and citizens for a temporary injunction against their country's participation in the mechanism.

But if the court did keep Germany out, the consequences would be catastrophic.

The fund could not operate without German money and support, meaning it could not proceed with plans to rescue Spanish banks or work with the E.C.B. to contain market interest rates. The E.C.B., in announcing that it would buy government bonds in unlimited amounts to hold down borrowing costs for troubled countries, stipulated that it would do so only in tandem with the stability mechanism.

No mechanism would mean no bond buying. "It is clear that next week's German constitutional court ruling

EURO, PAGE 17

EURO AID CAN'T BE LEFT ON THE SHELF

Spain and Italy need to ask quickly for help from the European Central Bank, Hugo Dixon writes. *PAGE 20*

German envoy seeks to mend Greek ties

ENVOY, FROM PAGE 1

ality of the euro zone's permanent rescue fund on Wednesday.

Meanwhile the "troika" is back in Athens, where the dreaded representatives of Greece's three major foreign lenders — the European Commission, the European Central Bank and the International Monetary Fund — are scouring the country's balance sheet to see if their demands for spending cuts have been met.

"The big problem of the economic situation the last two years is you only hear about sacrifices and penalties, what we did wrong," said Andonis V. Cambourakis, president of the hotel association here on the island of Rhodes. "You need to look forward, to hope."

Advice from German city managers about waste management or solar panels won't add to Greek economic growth in the near term. Many projects are still out of reach for cash-strapped communities, or difficult to achieve with Greece's multifarious bureaucratic restrictions.

But that shouldn't stand as an excuse for doing nothing, Mr. Fuchtel said.

"We have to get the stone rolling," he said, speaking in German, with a translator. At every stop on his most recent trip he cited the wisdom of Albert Schweitzer, the philosopher, doctor and missionary, telling his Greek partners, in his rumbling voice with the thick Swabian accent, "The little you can do is a lot."

ADAM FERGUSON FOR THE NEW YORK TIMES

Hans-Joachim Fuchtel, a German good-will envoy, has expressed empathy for the difficult situation the Greeks find themselves in.

Mr. Fuchtel exhibited empathy for the difficult situation Greeks find themselves in. He grew up in humble circumstances and worked from an extremely young age. He said that his first job was catching edible snails when he was just [illegible] money the young Hans-Joachim then reinvested to buy a trap for moles.

Unlike some of his countrymen, Mr. Fuchtel has demonstrated that he understood the importance of symbolic gestures, particularly after the battering Greek pride has taken in recent years. He regularly talked about how he served delicious Greek wine to guests at his 60th birthday earlier this year or how he had driven around Greece as a student in a Volkswagen.

"I believe we needed such a baroque figure," said Dietmar Metzger, a member of the delegation Mr. Fuchtel brought to meet with Greek counterparts last week. "A cold technocrat wouldn't work. That would just strengthen the stereotypes. He breaks them."

Mr. Metzger is the head of international development for the Dekra

With his thick Swabian accent, he told Greek officials, "The little you can do is a lot."

Akademie, a major provider of job training. According to Mr. Metzger, Dekra is now working on setting up pilot training programs in a couple of Greek cities. The company is also designing a module for kindergartens and grade schools to begin teaching children the importance of recycling, something of a German obsession. Both will come at no cost to the Greek government.

Not everyone has welcomed Mr. Fuchtel with open arms. Before his visit this summer to Crete a picture circulated showing him as a paratrooper, part of the German invasion of the island in 1941. "Fuchtel you are not wanted," it read. "No subjugation."

"I don't see how this is different from the Nazi occupation and the lackey Greek government," said Antonis Prokopis, 57, out for a walk in central Athens while Mr. Fuchtel was meeting with Prime Minister Antonis Samaras. Though many average Greeks still don't know him by name, his fourth visit in just a few months has raised his profile.

"I've been cursed for developing the relationship, with people asking how I can work with the Germans while they suck our blood," said Yiannis Boutaris, the mayor of Salonika, known himself for being a bit unconventional. "The Germans aren't trying to force anything on us. They're opening the door and letting us go through, which a lot of Greeks have yet to understand."

Before the debt crisis, relations between Germany and Greece were relatively good. Germans enjoyed traveling to Greece for vacation and extolled the same relaxed lifestyle they now so often deride. In the 1950s and '60s, Greeks were among the earliest guest workers to take advantage of Germany's booming export economy. Now they blame the hypercompetitive regional giant for muscling out their own manufactured goods.

The atmosphere has been further poisoned by anti-Greek sentiment in the German media, including the infamous suggestion that Greece sell the Acropolis and its islands to pay its debts. Greek taunts about Germany's Nazi past and demands for war reparations completed the picture of mutual dysfunction. Contradictory calls from German officialdom to leave and to remain in the euro zone have added to the confusion here.

During his final dinner in Corfu, Mr. Fuchtel, who once masterminded a camel race in Berlin, rattled off his latest off-the-wall ideas, including organizing a televised cooking show with a German chef and a Greek chef and exhibiting Greek contemporary art in 40 shows across Germany.

It was not a Marshall Plan, but it was a vision for nurturing the relationship. "It's like a plant," Mr. Fuchtel said, hands crossed over his belly as he leaned back in his chair, "and the plant is growing tremendously."

Dimitris Bounias contributed reporting from Athens.

Las Vegas Sands chooses Madrid as new resort site

MADRID

But region's fiscal woes must first be resolved, gambling giant warns

BY RAPHAEL MINDER

Sheldon G. Adelson, an American billionaire casino magnate, is set to build a giant gambling and leisure resort on the outskirts of Madrid, ending a lengthy bidding battle between the Spanish capital and Barcelona, the country's second-largest city.

But the project, called EuroVegas, remains clouded in uncertainty. Las Vegas Sands, the company controlled by Mr. Adelson and his family, has offered few clues on how EuroVegas would be financed amid a deepening recession and banking crisis in Spain.

In a statement issued Friday, Sands said the project was at an early stage and dependent on how the debt crisis in the euro zone would evolve. "Progress towards resolution of the current economic challenges within Europe will be an important consideration," the company said. Sands plans to contribute between 25 percent and 35 percent of total equity for EuroVegas and said it would explore "financing options from the capital markets for the project."

Mr. Adelson had repeatedly delayed announcing a final choice between Madrid and Barcelona, intensifying a tussle between the two cities, which sent delegations to Las Vegas this year. "Barcelona is an outstanding tourism destination, and choosing Madrid over Barcelona was not an easy selection," he said Friday.

Underscoring the fierce rivalry between Spain's two largest cities, the regional authorities of Catalonia, whose capital is Barcelona, unexpectedly presented on Friday a casino and theme park project of their own. The resort, called Barcelona World, is set to be built at a cost of €4.8 billion, or $6.15 billion, near one of Spain's most successful theme parks, PortAventura.

Barcelona World will occupy land now owned by La Caixa, a savings bank based in Barcelona, and planning is being led by Veremonte, a Spanish property developer. The financing of the project is yet to be determined.

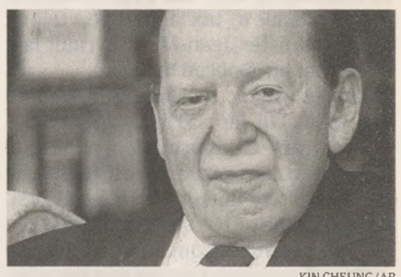
EuroVegas appears to be a more ambitious project. It is also a risk for Mr. Adelson, who hopes to reproduce in a recession-hit Europe the success he has enjoyed in Las Vegas and Macau.

In recent months, Sands executives have presented the future EuroVegas as a giant resort that will have 12 hotels with a total of 36,000 rooms, six casinos with 18,000 slot machines, and three golf courses. On Friday, however, the company said it still needed to determine the exact size and location of EuroVegas.

Mr. Adelson and other Sands executives visited three locations around Madrid, all of which have plots of land that have stood empty since the collapse of the Spanish property market.

On Friday, Mr. Adelson emphasized the enthusiasm that the project had generated in Spain at a time when the country has struggled to convince most investors that it will not be forced into a Greek-style bailout. "We have met so many tremendous supporters of both cities and are thankful for the friendships we have developed," he said.

But his plans have run into opposition from civic groups on environmental and ethical grounds. In particular, there has



KIN CHEUNG/AP

Sheldon G. Adelson hopes to reproduce in a recession-hit Europe the casino success he has enjoyed in Las Vegas and Macau.

been concern about how extensively the authorities might be prepared to change or loosen existing regulations to attract the investment. Esperanza Aguirre, president of Madrid's regional government, recently urged the national government to make concessions requested by Mr. Adelson, including tax exemptions and an easing of restrictions on smoking in public spaces.

Tomás Gómez, regional leader of the opposition Socialists, said his party would investigate whether Ms. Aguirre had agreed to "secret conditions" for the deal. "The law must be equal for everybody," he said on Saturday.

Euro zone faces crucial court ruling

EURO, FROM PAGE 1

could render the E.C.B.'s plans irrelevant," Christoph Rieger, an analyst at Commerzbank, said in a note to clients.

While the German judges are releasing their decision, voters in the Netherlands will be choosing a new government. No party is expected to win a majority, meaning that there could be several months of uncertainty as political leaders struggle to form a coalition government.

Along with Germany and Finland, the Netherlands is one of the countries where there is widespread voter resentment at having to pay for rescuing Greece and other troubled euro zone members. There is a risk that Dutch voters could choose a party that would try to stand in the way of further aid.

"The political parties and the electorate are split between those supporting austerity and those that do not," analysts at Credit Suisse said in a note. "We believe that a coalition of euro supportive parties is the most likely outcome, but it is a close call."

Euro zone political leaders will also be busy. In recent weeks, they have refrained from the brinksmanship, infighting and Greece bashing that has so often characterized political dialogue during the past two years. They were united in support of E.C.B. bond buying, including even Chancellor Angela Merkel of Germany.

This week, though, could be less harmonious. On Wednesday, the European Commission is to present major elements of its plan for a so-called banking union. The commission, the executive arm of the European Union, has said that it would propose shifting ultimate supervision of all banks in the euro area to the E.C.B. One lesson of the crisis has been that countries like Ireland and Spain were not equipped to regulate their banks effectively, pay for the bailouts that were needed or guarantee customer deposits in order to prevent bank runs.

Still, countries remain reluctant to relinquish control of their home institutions to Frankfurt. And there is widespread grumbling about the enormous power that the E.C.B. is acquiring, which will include the authority to issue and withdraw banking licenses and to wind down failed institutions.

Officials in Brussels have argued that all the roughly 6,000 banks in the euro zone should come under this new supervisory system, though local regulators would keep some responsibility. But German leaders have already signaled that they want to limit the E.C.B.'s writ to big cross-border banks, retaining regulatory control over the hundreds of small local banks that still do much of the lending in Germany. German officials argue that only national governments have the staff and expertise to do so.

"We have a decidedly large interest in seeing a strong European banking oversight authority installed and that it will happen swiftly," a high-ranking German government official said Friday, speaking on condition of anonymity. But he noted that Germany alone has 1,500 officials overseeing banks, to emphasize the level of expertise that the E.C.B. would have to acquire to operate effectively.

Michel Barnier, the European commissioner in charge of regulation, expressed Saturday his determination to start supervision of euro zone banking by the beginning of next year, despite German opposition, Reuters reported.

The scope of the banking union is likely to be discussed when euro zone finance ministers meet Friday in Nicosia. The officials will also review the situation in Greece, whose dreadful economy and political instability continue to pose a threat to the euro, and discuss the level of conditionality countries like Spain and Italy would face in return for aid, including secondary-market bond purchases by the E.C.B.

The E.C.B. made clear last week that any such purchases would need to be accompanied by an aid program that

There is widespread grumbling about the enormous power the European Central Bank is acquiring.

could be monitored by E.U. and international authorities.

In Athens, Greek leaders on Sunday resumed the search for a way to cut government spending and satisfy international creditors. The Greek finance minister, Yannis Stournaras, met Sunday afternoon with representatives of the European Commission, European Central Bank and International Monetary Fund, the so-called troika. Later, Prime Minister Antonis Samaras was scheduled to meet leaders of the Socialist and Democratic Left parties, his partners in a coalition government.

The talks Sunday were just the beginning of what will probably be lengthy, difficult negotiations on issues like cuts to pensions and social benefits. Mr. Samaras will meet troika representatives on Monday.

Politics in Berlin could also be a source of euro zone tension. While Ms. Merkel gave her approval to the E.C.B.'s bond-buying plan, stressing the independence of the bank and emphasizing that it had acted within its mandate, she faces unrest within her governing coalition.

So far she has been able to ignore much of the dissent, which comes from perennial critics of the euro. There has also been grumbling from the Bavarian branch of her coalition, which is trying to win points with voters before a state election next year.

Peter Gauweiler, one of the Bavarians and one of the people who has challenged the stability mechanism in court, filed a new complaint with the German high court on Friday arguing that the E.C.B. bond-buying plan is an additional ground to reject use of German tax revenue for the rescue fund, the Süddeutsche Zeitung, a Munich daily, reported Sunday.

Ms. Merkel needs to keep her party in line as lawmakers reconvene in Berlin next week after their summer recess to debate the 2013 budget. Opposition lawmakers have criticized her government for taking on new debt even though tax revenue is at a record high. Outside Germany, political leaders and many economists are eager for Europe's biggest economy to bolster government spending to help stimulate the euro zone.

Ms. Merkel's willingness to commit German resources to preserving the euro has increased as it becomes clear that the domestic economy is beginning to suffer from slack demand in the rest of the currency union. Germany will sink into recession in the second half of this year, according to a forecast Thursday by the Organization for Economic Cooperation and Development.

Germany is also threatened by signs of slowing economic growth in the United States, an important export market for companies like BMW and Siemens. Some relief could come from the U.S. Federal Reserve, which meets Wednesday and Thursday and is expected to create additional stimulus in the form of more bond purchases.

The Fed is expected to purchase mostly mortgage-backed securities, in contrast to the E.C.B., which will buy government bonds from countries whose borrowing costs are threatening to become unaffordable.

Ms. Merkel is to address lawmakers Thursday morning, which could prove to be a chance for her to react to the court decision in Karlsruhe. Even if the court does not block German participation in the stability mechanism, it could require that the German Parliament be more involved in decision-making.

On the other hand, if the court lets the European rescue fund proceed without too many strings attached, a major element of risk will be out of the way, and markets could rally further.

But then other questions arise. Chief among them is whether Spain and Italy will ask for E.C.B. help and agree to conditions in return. The E.C.B. will not act until they do. If they wait too long, perhaps hoping to avoid the stigma of asking for help, the crisis could quickly heat up again.

"The E.C.B. has laid out the new rules of the game," economists at Nomura said in a note last week. But they added, "We see major hurdles ahead for this new initiative to bring about a sustained return to market stability."

Melissa Eddy reported from Berlin. James Kanter contributed reporting from Brussels and Niki Kitsantonis from Athens.