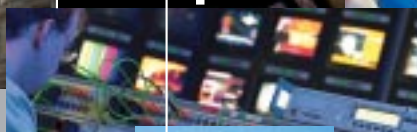
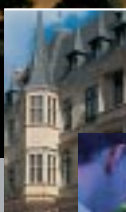


Grand Duchy of Luxembourg



panorama



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history

The history of Luxembourg and of its economic development



THE ORIGINS

The history of the Grand Duchy can be traced back to the year 963, when Count Sigefroi of the Ardennes, founder of the House of Luxembourg, acquired the rocky outcrop of the Bock, an area situated at the very heart of the present day capital. There, upon the remains of a roman "castellum" called Lucilinburhuc, he had a castle built which, as time went by, became the centre of a fortified town.

DYNASTIES AND THE OBJECT OF THEIR DESIRE

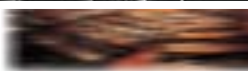
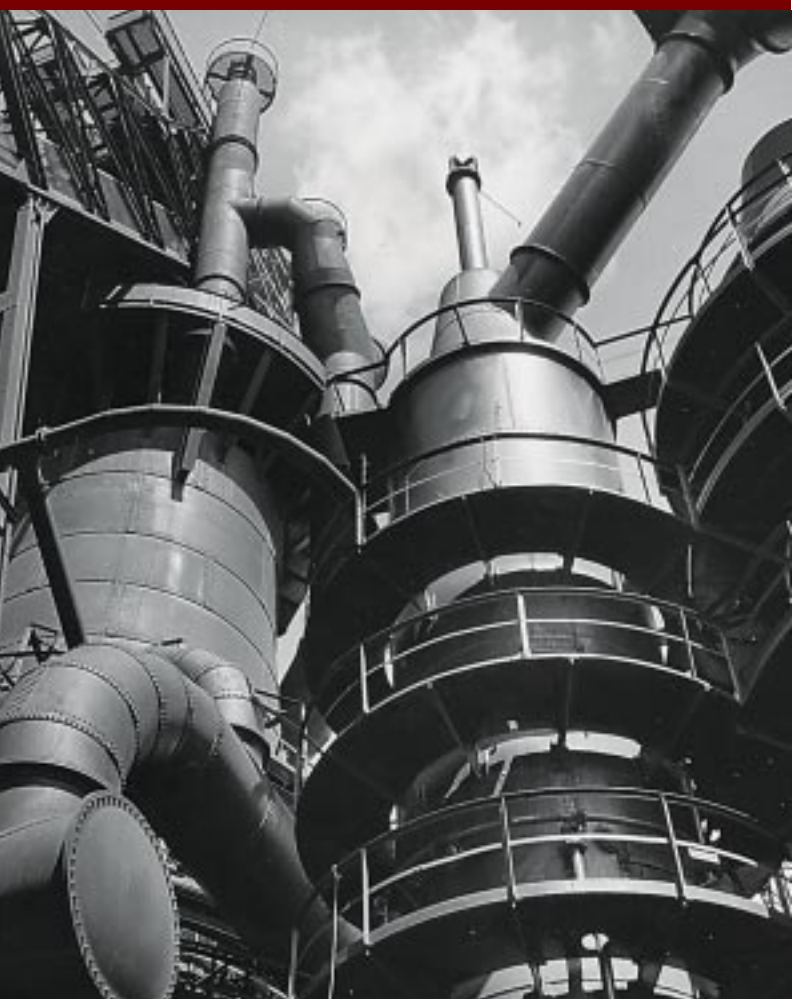
From the start, the dominion was envied for its strategic position, and the House of Luxembourg was destined for great things. The dynasty produced four Emperors of the German Empire, four Kings of Bohemia, a King of Hungary and several Princes Elect.

In 1437, the absence of an heir saw Luxembourg enter into a long period of foreign rule under the reign of the Habsburgs, which lasted until the 18th century. Known as "the Gibraltar of the North", the fortress of Luxembourg was the prize in the unremitting and bloody battles between the Burgundians, the Spanish, the Austrians, the Prussians and the French. As a province of the Spanish Netherlands, conquered by Louis XIV, and a French Forest Department during the 1789 Revolution, the territory was besieged, ravaged, carved up and restructured about twenty times during four centuries.

THE CREATION OF A STATE

At the Congress of Vienna in 1815, Luxembourg was given the status of a Grand Duchy, gaining its independence in 1839 (Treaty of London). After losing its Belgian "quarter", the territory's geography has remained unchanged to the present day. The reign of William I of Orange-Nassau (1815-1840), heralded the start of a new era: the growing awareness of a national identity and the development of democratic institutions,





led progressively to a more pronounced independence in foreign politics. In 1867 in London, with the collective guarantee of the major European powers of the day, Luxembourg acquired its neutrality.

ECONOMIC UNION

Blessed with natural boundaries, yet convinced of the need for economic integration into larger markets, Luxembourg joined in 1843 the *Zollverein*, the German economic confederation. This commercial relationship proved to be very favourable to the Grand Duchy under William II, who subsequently sped to renew the treaty of customs union in 1846.

THE BIRTH OF INDUSTRY

During the 1840s, a vast deposit of iron ore stretching from the north of the Lorraine region, France, to the southern part of Luxembourg was discovered. The town of Esch-sur-Alzette became the Grand Duchy's industrial heart.

From the 1870s onwards, Luxembourg became part of the powerful "steel belt" formed by the border regions of the Saar, Lorraine and Luxembourg. In Luxembourg, the expansion in the region known as the *Minett* was such that as the First World War approached the area was, in proportion to its size, the world's largest steel producer. Founded in 1911, "ARBED" (Aciéries Réunies de Burbach, Eich et Dudelange) already controlled 31% of steel production in 1913.

THE SHOCK OF WAR

From 1918, the Luxembourg Government withdrew from the *Zollverein* agreement. During this difficult time, politicians looked vainly to France for a solution, and finally, in 1921, reached an agreement on the "Belgian-Luxembourgish economic union" (UEBL). The post-war economic depression was followed by a period of prosperity.

EMIGRATION AND IMMIGRATION

The striking phenomenon that accompanied this industrial revolution was to be seen in the intense changes which took place amongst the country's working population. The mines and the factories were not attracting Luxembourg's rural population. They preferred to leave their impoverished farmsteads rather than go down a mine: instead they emigrated to France or the USA in ever increasing numbers.

At the same time, the workforce needed for Luxembourg's industrialisation arrived in two periods of mass immigration; the first from Germany (1868-1939), and the second from Italy (1892-1970). Between 1908 and 1913, Italians and Germans made up almost 60% of the workforce in the steel and mining industries.

THE INTER-WAR YEARS

From 1930 onwards, the world-wide economic crisis hit Luxembourg hard, causing severe unemployment. Two thirds of the foreign workers lost their jobs. Industrial production advanced unregularly despite the production allocations laid down in the International Steel Agreement of 1926.

INTERNATIONAL DEVELOPMENTS

The lack of respect shown, right from the start of the Second World War, for the Grand Duchy's neutrality, was a deep war wound that ultimately highlighted the ineffective nature of this status, particularly as it had already been flouted in 1914. After the War, under Grand Duchess Charlotte, Luxembourg felt a pressing need for moral, political and economic repair. At the forefront of the country's foreign policy, traditionally concerned with national security, was the need to foster international co-operation and to become a player in international markets. On June 26th, 1945, Luxembourg signed the Charter of San Francisco and became a founding member of the United Nations. The Constitution was



revised in 1948, and the country's neutrality, stated in the first article, was revoked.

A year later, Luxembourg joined the North Atlantic Treaty Organisation (NATO).

THE BUILDING BLOCKS OF EUROPE

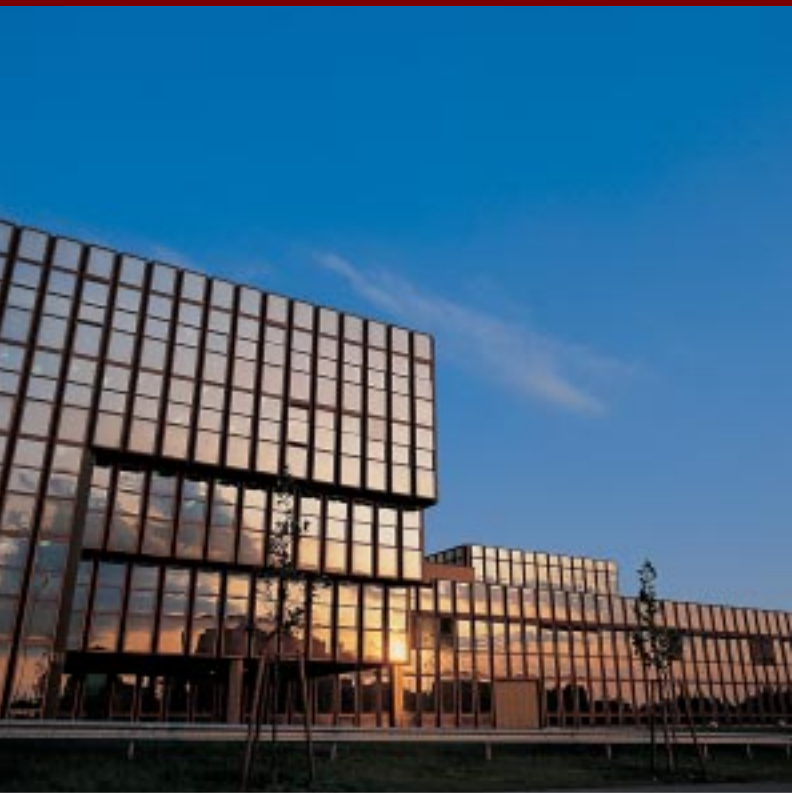
Luxembourg became a founding member of the European Coal and Steel Community (ECSC, 1951, Treaty of Paris), then of the European Economic Community (EEC, 1957, Treaty of Rome) and of the Community of Atomic Energy (Euratom, 1957). In 1952, Luxembourg City became the provisional seat of the ECSC, and thus, the first capital of Europe. When in 1965, the executive powers of these institutions merged, Luxembourg became, along with Brussels and Strasbourg, the third capital of the European Community.

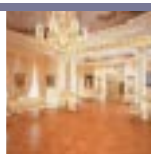
The ECSC formed the basis for a new stage of growth in the Luxembourg steel industry. The Common Market provided new opportunities for all aspects of the country's economy, and, once again, encouraged immigration in order to enable economic expansion.

THE SECOND HALF OF THE 20TH CENTURY

In 1964, Grand Duke Jean succeeded his mother, the Grand Duchess Charlotte. The 1950s and 1960s were marked by a notable progress in steel production, which reached 6 million tons at the beginning of the 1970s. During this decade however, following the crisis in both the European and the world-wide steel markets, a major restructuring of the industry was undertaken at the expense of an effort towards national solidarity. The result was a progressive fall in the industry's contribution to GDP to less than 5% (1990). The setting-up in 1977 of a "tripartite" arrangement facilitated negotiations between the Government, the unions and industry aimed at finding a solution to the crisis.

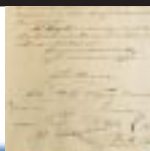
The expansion of Luxembourg as a financial centre, brought about by a favorable legal framework, together with the emergence of new sectors, profoundly changed the country's economic structure at the end of the 20th century.





politics

The political system



The Grand Duchy of Luxembourg is a representative democracy in form of a constitutional hereditary monarchy, that of the House of Nassau.

The separation of powers is flexible in Luxembourg: as in all parliamentary democracies, there are many relationships between the legislative and executive powers. The judicial power is, however, totally independent in its functions.

The Grand Duke and the Government form the decision-making body of the executive power. A third organ, the "Council of State" (*Conseil d'Etat*), consisting of 21 members, acts as a consultative body in the legislative procedure.

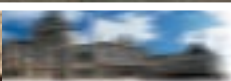
The Constitution allows the Grand Duke to choose his own ministers. In practice, the Grand Duke appoints the Prime Minister according to the results of the parliamentary elections. The Prime Minister then proposes his list of ministers, who are appointed by the Grand Duke.

In addition of exercising jointly the executive power with the Government, the Constitution reserves to the Grand Duke the power to sanction and promulgate the laws voted by Parliament.

The legislative power consists of the joint actions of the Grand Duke, the Government, the Parliament and the Council of State. In such a single chamber system, the Council of State exercises the moderating influence of a second legislative assembly. In fact, every bill proposed by the Government or a member of Parliament has to be passed to the Council of State for review.



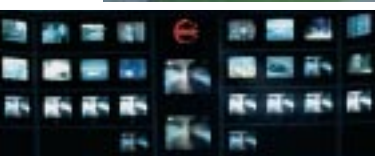
Constitution
of
Great Duchy of Transylvania
1848.



The *Chambres professionnelles* and the "Economic and Social Council" (*Conseil économique et social*) also act as consultative bodies. The task of the *Chambres professionnelles* is primarily to safeguard and defend the interests of the professional groups they represent. They must be consulted on every bill and Grand Ducal Decree proposal.

The Economic and Social Council follows the country's economic, financial and social problems either on its own initiative or at the Government's request. The ESC's conclusions on present-day issues reflect the opinions of Luxembourg's unions and management, as well as its Government experts.

The system of a constitutional monarchy suits perfectly a country where social consensus and dialogue are key words. Moreover, this stability is illustrated by the fact that changes in Government occur without any disruption or upheaval, whilst in general over past years, two of the three main political parties (the Christian Social Party, the Socialist Workers' Party and the Democratic Party) have entered into coalition after legislative elections that take place every five years.



ECONOMY

**An open, performant
and dynamic economy**



During the second half of the 20th century, the Grand Duchy has achieved one of the strongest economic performances in Europe: sustained growth, an outstanding price stability, a very low rate of unemployment and constant growth in the employment market. Today, public finances are in excellent health despite the substantial resources spent on economic restructuring.

Luxembourg owes its wealth to the discovery of iron ore in the south of the country. This enabled the progressive development of a powerful steel industry. The steel company ARBED is known throughout the world for its high quality products. In 2001, ARBED signed a memorandum of understanding with ACERALIA and USINOR establishing the founding principles of a new European steel-making group with global presence, ARCELOR.

In the 1960s the Government, ever mindful of maintaining a balanced structure in the economy of Luxembourg, began to implement a policy of economic development and diversification. Today, the results of this policy are clearly evident. Modern companies from extremely varied backgrounds, using advanced production technologies, now stand alongside traditional heavy industry. The offensive aimed at breaking down the monolithic nature of Luxembourg industry revolves around three main points:

- building economic co-operation in Europe;
- a voluntary policy of economic diversification which includes the implementation of measures to encourage investment;
- the development of an international finance center



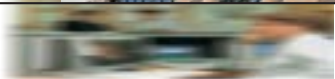


The modest dimensions of the Luxembourg market explain why foreign trade is an essential part of the country's economy. Industry exports more than 80% of what it produces. Around 89% of these exports go to countries within the EU.

Given its geographical position at the heart of the EU, its political and social stability, its highly qualified and professional workforce, as well as the opportunities it offers for investment and foreign capital, Luxembourg has always been an attractive location for the establishment and expansion of numerous foreign companies.

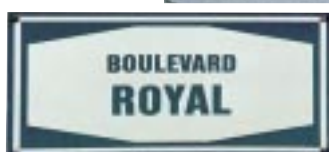
Luxembourg is also well-known for its calm and peaceful social climate. This state of affairs universally known as the "Luxembourg model" is based upon an institutionalised and continuous dialogue between the three key players involved in social issues: Government, management and trade unions.

Luxembourg is proud of its social harmony, founded upon this constant dialogue and fostered by a sense of moderation and responsibility felt by all those involved, and also by advanced social legislation based on the principles of responsibility and solidarity.



finances

A financial centre



Within the EU, Luxembourg has successfully managed to strengthen its role in world financial affairs and create a niche for itself in a sizeable market. Today, it offers a complete range of financial services, both for the professional and a growing number of private customers.

Nowadays, Luxembourg's financial centre comprises around 170 banking institutions and close to 100 insurance companies. Over recent years, Luxembourg banks have made a concerted effort to diversify their activities. The main consequence of these efforts has been a considerable development in private banking operations, particularly in the fund management sector, so that a complete range of financial products and services is on offer.

Luxembourg, as a centre of investment and management, is home to a stock market which alone accounts for the quotation of more than 65% of the Euro-bonds floated on the European market.

There has been particularly rapid expansion in the unit trust sector, emphasising the importance that fund management now enjoys in Luxembourg. Pension funds are set to become another key activity in the financial sector.





communication

**"MEDIAPORT Luxembourg",
a centre for the audio-visual
and communications industry**



Luxembourg also plays a unique role in Europe's media industry: with its multilingual background and its location at the crossroads of the French and German culture. The Grand Duchy is host to two giants in the world of audio-visual communications: RTL-Group, which broadcasts over 40 radio and television programmes, and the *Société européenne des satellites* (SES), which operates the ASTRA satellite system. In the wake of these two pillars of audio-visual communication, several smaller and bigger companies in closely linked spheres of multimedia and telecommunications have been set up in Luxembourg. Among the bigger companies, Amazon and AOL have installed their office at the beginning of 2004 in Luxembourg. Together they represent a skill base which bodes well for future economic development.

The Luxembourg Government is currently pursuing an active policy of encouraging the development of audio-visual and communication services. This is supported by the potential offered by moves towards the liberalisation of telecommunications markets in Europe and technological progress.

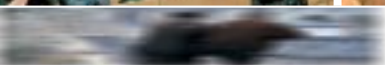
At the start of the 1990s, as part of this pro-active policy, Luxembourg adopted several schemes aimed at encouraging the development of audio-visual production.





population

The population's contribution to the Luxembourg economy





The Grand Duchy is today home to more than 451.600 people. It has a healthy demographic rate of growth and large scale immigration, both of which developed rapidly during the 1990s after a period of considerable economic growth. Non-Luxembourg nationals make up more than 38% of the population.

The employment situation in Luxembourg during the 1990s was characterised by a high level of employment growth, a large influx of foreign workers, and a positive net job creation rate of more than 3,5% each year (from 1985 to 2000), as well as a very low rate of unemployment.

With the slowdown of the economic activity, which started at the beginning of 2000, the net job creation rate has decreased and has stabilized at around 2% per year.

Amongst the working population of the Grand Duchy, Luxembourg nationals can of course be found in all sectors of employment, even if certain preferences do exist. The foreign workforce is fully integrated into the economy. On the one hand it is formed by people living in Luxembourg that are mainly from other EU countries, and on the other hand there are many people commuting daily from neighboring countries to Luxembourg. The latter represent an ever increasing section of the country's working population.

Today, foreigners living in Luxembourg and commuters from neighbouring countries make up for more than 65% of the Grand Duchy's workforce. They work in diversified sectors of economic activity. Luxembourg's main communities, Portuguese and Italian, have been present in the Grand Duchy for several generations, as have groups from the neighboring countries of Germany, Belgium and France.



crossroads

**Luxembourg:
an international crossroads**



Luxembourg is a favoured workplace for the institutions of the European Union. In 1952, the capital of the Grand Duchy welcomed the first of the European institutions, the governing body of the ECSC (European Coal and Steel Community).

Today, Luxembourg is still one of the capitals of Europe, thanks to the presence of Community institutions such as the European Court of Justice, the European Investment Bank, the Secretariat of the European Parliament, the European Court of Auditors, the European Office of Statistics, the Office of Official Publications and several services of the European Commission.

In the midst of these institutions towers the European Conference Centre: a vast complex endowed with a complete technical infrastructure enabling the Council of European Ministers, conferences, seminars, or international gatherings to take place in the best possible conditions.

Due to its geographical location, its modest dimensions and its own specific economic and political features, Luxembourg is a country where many influences come together.

The role of a country like Luxembourg in the European community involves first of all bringing another dimension, a sense of proportion and a particular way of seeing the many different points of view which must be reconciled in a community of different nations.

This dimension and this different perspective are necessarily concerned with issues of human interest and a sense of community; they arise from a distinct sense of the need for interdependence between nations and groups. Luxembourg's voice is one of understanding, of conciliation, and of defending the word of law and treaty agreements. In European affairs, the emphasis is on solidarity and co-operation, all in a community spirit.



From an economic point of view, the structure and location of the Grand Duchy logically leads to collaboration with other states. It is in this way that, throughout its history and particularly since its independence, once again, Luxembourg's foreign policy has been dominated by the thorny problem of reconciling national security with integration into larger economic unions.



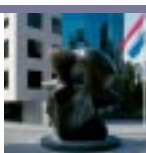
co-operation

Development co-operation

Considering the material disparities that exist in the world, the Luxembourg Government believes that it is appropriate to reinforce its policy of development cooperation. Thus, the Government encourages developing countries to strengthen their democratic processes, to guarantee that human rights and international law are respected, and to promote good government and social justice.

From an international point of view, the Luxembourg Government favours better recognition of the interests of developing countries when strategic policies regarding economy, finance, business and agriculture are being discussed at both an international and regional level, be it through the European Union, the OECD, the WTO, the IMF, the World Bank or the UN.

The activities of the Co-operation Fund for Development (*Fonds de coopération au développement*) represent the backbone of Luxembourg's co-operation. These activities take the form of long-term commitments to projects and programmes which ensure greater impact in terms of lasting development in the target countries.



culture

Culture: a source of national identity



With more than a third of the population being non-Luxembourg nationals (a figure which rises to over 50% in the capital); a linguistic system based on the simultaneous use of three languages, the national language Luxembourgish as well as French and German; Luxembourg's geographical location at less than half an hour's drive from France, Belgium and Germany; all of these are the key-factors that have contributed to the Grand Duchy becoming a place of encounters, exchanges and dialogue.

In 1995, after Lisbon had been the European Community's Capital of Culture in 1994, Luxembourg was selected to be "European City of all cultures". Since then, much effort has been made in three particular areas: namely helping artistic creativity, preserving and appreciating national heritage and developing important projects of cultural value that are designed to become the tools of more coherent and structured action in the future.

In 2007, Luxembourg will be again one of the European Capital of Culture, together with the Great Region. There will be five major topics: migration (emi-and imigration), industrial culture and inheritance, the great european personalities, culture and memory, expression of modernity.

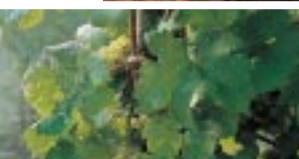
The industrial past of the country, with its mines and steel works, is not forgotten. The *Musée des mines* in Rumelange, the *Fond-de-Gras*, and notable other industrial sites serve as a useful reminder that Luxembourg's main economic activity was for years the steel industry.





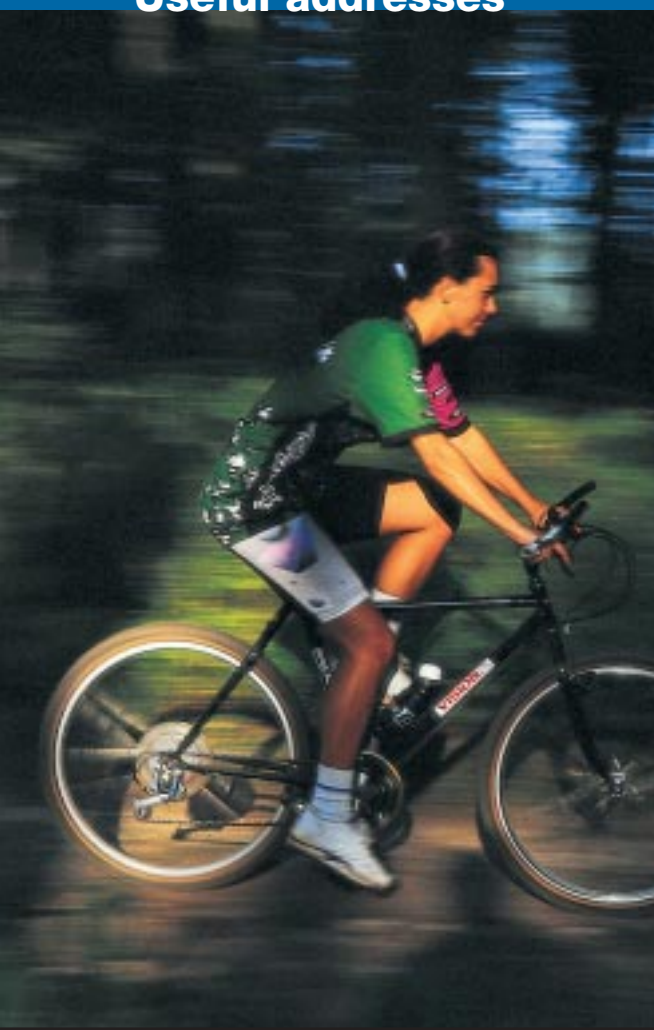
Besides this, Luxembourg offers a diverse range of important cultural events. As well as the internationally renowned festival of classical music at Echternach, the Grand Duchy offers other important annual cultural events such as the concerts at the Castle of Bourglinster or the European Festival of Open-Air Theatre and Music in Wiltz. Classical music orchestras such as the Luxembourg Philharmonic Orchestra or the *Solistes européens, Luxembourg*, are internationally renowned cultural ambassadors for the country.

Theatrical productions in three languages are presented in Luxembourg's theatres. They regularly unite actors from Luxembourg with professionals invited from abroad.



addresses

Useful addresses



**Service information et presse
du gouvernement
(Press and Information
Office of the Government)**

33, boulevard Roosevelt
L-2450 Luxembourg
Phone: (+352) 478-2181
Fax: (+352) 47 02 85
E-mail: sip@sip.etat.lu
www.gouvernement.lu

Ministry of the Economy

6, boulevard Royal
L-2449 Luxembourg
Phone: (+352) 478-1
Fax: (+352) 46 04 48
www.eco.public.lu

**Central Service for Statistics and
Economic Research (STATEC)**

13, rue Erasme, bâtiment Pierre Werner,
B.P. 304
L-2013 Luxembourg
Phone: (+352) 478-4252
Fax: 46 42 89
E-mail: statec.post@statec.etat.lu
www.statec.lu

**Ministry of Middle Classes
and Tourism and Living**

6, avenue Emile Reuter
L-2420 Luxembourg
Phone: (+352) 478-4706
Fax: (+352) 46 11 87
www.mcm.public.lu

Chamber of Commerce

7, rue Alcide de Gasperi
L-2981 Luxembourg
Phone: (+352) 42 39 39-1
Fax: (+352) 43 83 26
E-mail: chamcom@cc.lu
www.cc.lu

Chambre des métiers**(Chamber of Handcraft)**

2, Circuit de la Foire internationale

B.P. 1604

L-1347 Luxembourg

Phone: (+352) 42 67 67-1

Fax: (+352) 42 67 87

E-mail: contact@chambre-des-metiers.lu

www.chambre-des-metiers.lu

**FEDIL - Federation of Luxembourgish
Industrials**

7, rue Alcide de Gasperi

B.P. 1304

L-1013 Luxembourg

Phone: (+352) 43 53 66-1

Fax: (+352) 43 23 28

E-mail: fedil@fedil.lu

www.fedil.lu

ABBL - Luxembourg Banker's Association

20, rue de la Poste

L-2346 Luxembourg

Phone: (+352) 46 36 60-1

Fax: (+352) 46 09 21

E-mail: mail@abbl.lu

www.abbl.lu

ONT - Luxembourg National Tourist Office

66, boulevard de la Pétrusse

B.P. 1001

L-1010 Luxembourg

Phone: (+352) 42 82 82 10

Fax: (+352) 42 82 82 38

E-mail: info@ont.lu

www.ont.lu

**SNCI - National Society for Credits
and Investments**

7, rue du St-Esprit

L-1475 Luxembourg

Phone: (+352) 46 19 71-1

E-mail: snci@snci.lu

www.snci.lu

Impressum

Publisher:	Service information et presse - Department Communication with the citizen
Texts:	Press and Information Service of the government
Layout:	M&V CONCEPT
Print:	???

Pictures

Photothèque S.I.P.

Archives photographiques de l'Arbed

Banque Centrale du Luxembourg

Banque de Luxembourg

BCEE

Casino Luxembourg - Forum d'art contemporain

CLT/UFA

Delphi Automotive Systems Luxembourg S.A.

Goodyear S.A.

Imédia

Yves Kortum

Luxair

Luxembourg City tourist office

Christian Mosar:
Exhibition "Sous les ponts le long de la rivière" Ilona Nemeth, Balls

Musée d'Histoire de la Ville de Luxembourg

Musée national d'histoire naturelle

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Christophe Olinger

Photothèque de la Ville de Luxembourg

Samsa

Marcel Schmitz

SES - Société européenne des satellites

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January 2005

