

▶ industry; the other is the growing demand from consumers for things that make them feel healthier. Surveys find that three out of four adult Americans now feel that their lives are “out of balance”, says Mr Kelly. So there is a huge opportunity to offer them products and services that make them feel more “balanced”. This represents a big change in consumer psychology, claims Mr Kelly, and one that is likely to deepen over time: market research suggests that 35-year-olds have a much stronger desire to lead healthy lifestyles than 65-year-olds.

One difficulty for wellness firms will be acquiring the expertise to operate in several different areas of the market. Another will be to maintain credibility in (and for) an industry that combines serious science with snake oil. One problem—or is it an opportunity?—in selling wellness products to consumers is that some of the things they demand may be faddish or

nonsensical. Easy fixes, such as new-age therapies, may appeal to them more than harder but proven ways to improve health. And there is much debate about the health benefits of vitamin supplements, organic food and alternative medicines, let alone different forms of spirituality.

One of Canyon Ranch’s answers to this problem has been to hire Richard Carmona, who was America’s surgeon-general until last summer. In that role, he moved prevention and wellness nearer to the centre of public-health policy. The last time a surgeon-general ventured into business, it ended disastrously: during the internet bubble, Everett Koop launched DrKoop.com, a medical-information site that went bust shortly after going public and achieving a market capitalisation of over \$1 billion. This time around, the wellness boom seems unlikely to suffer such a nasty turn for the worse. ■

Alitalia

## Terminal decline

LONDON AND ROME

**Will anyone offer to buy Italy’s ailing national airline?**

THE stoicism of Italy’s air travellers seems likely to be tested yet again on January 19th. The main trade unions at Alitalia, the national airline, have called on their members to strike that day. There was also a strike on January 19th last year, followed by more cancellations when employees ignored a ministerial injunction to remain at their posts. Labour unrest also left Alitalia’s passengers grounded in the autumn. While the rest of Europe’s airlines are thriving and even fighting back against budget-carrier competition, Alitalia (like Olympic in Greece) is stuck in a 1970s time-warp of losses, strikes and cancellations.

Yet this month’s strike, if it goes ahead, will take place in a different corporate climate. On December 29th Italy’s finance ministry, Alitalia’s largest shareholder with a 49.9% stake, invited expressions of interest for the purchase of at least 30.1% of the airline and of 1.3 billion convertible bonds, with a nominal value of €450m (\$590m), due to mature in 2010.

Interested parties must declare themselves by January 29th; those that meet the government’s conditions will receive more information about the troubled airline and will be allowed to bid for it. But since those conditions include keeping all 18,000 jobs and maintaining the route structure and the Italian nature of the carrier, “no rational bidders can be expected”, says a leading aviation analyst. In fact, the whole offer for sale could be seen as a cynical, if necessary, charade. With no takers and no permission from the European Union to pump in further aid, the government would have to let the airline go bust.

Potential buyers are said to include Air France, a member, with Alitalia, of an alliance called SkyTeam; Air One, an Italian airline which has a partnership with Germany’s Lufthansa; and private-equity groups. But none is likely to make an early move. Much more probable is that potential partners will sit tight until the airline runs out of cash this time next year and is grounded because it cannot pay its airport and fuel bills. After a week of national wailing and gnashing of teeth, Alitalia could be reborn with staff on 60% of their old, bloated pay rates, as a regional adjunct of the powerful Air France-KLM group, rather in the way that Swiss emerged from Swissair’s collapse as a short-haul feeder in the Star Alliance group, based around Lufthansa and United Airlines.

Thanks partly to its perennial labour ▶▶

### Wellness drinks

## A magic potion?

Coca-Cola prepares to launch a “wellness” drink

NATURAL and functional are the latest buzzwords in the food and soft-drinks industries. Enviga, a new health drink made by Coca-Cola, the world’s biggest maker of fizzy soft drinks, and Nestlé, the largest food firm, is supposed to be both. A concoction of “natural” green-tea extracts, caffeine and “plant micronutrients”, it will go on sale across America next month. Its makers claim it can help consumers to lose weight.

“Enviga increases calorie burning,” declared Rhona Applebaum, Coca-Cola’s chief scientist, when the new drink was unveiled in late 2006. Coke claims studies have shown that a healthy person of normal weight can burn 60 to 100 calories by consuming three cans of Enviga over 24 hours. The studies have not been made public.

Health and wellness are the main sources of growth in the soft-drinks industry. In 2005 global sales of healthy drinks, which include bottled water, fruit juice, and sports and energy drinks, amounted to \$138 billion, or 45% of the soft-drinks market. Growth rates are seven times higher than for carbonated sugary drinks. In America sales of carbonated drinks declined a little in 2005 as government campaigns and media coverage raised concerns over obesity.

Will consumers take to Enviga? Only one out of every three new soft drinks is a success, says Robert van Brugge, a drinks analyst at Sanford Bernstein. Recent high-profile flops include Vanilla Coke and Coca-Cola c2. Mr van Brugge



The antithesis of Coke

says he does not much like the taste of Enviga, which comes in green tea, berry and peach flavours. And the suggested retail price of \$1.29-1.49 is relatively high.

Enviga’s fate will probably turn on Coke’s claim that it helps to burn calories. The Centre for Science in the Public Interest, a consumer lobby group, threatened to sue Nestlé and Coke over the weight-loss claims for the new drink unless they changed their marketing strategy by January 4th. Yet even if the claims made for Enviga are accurate, drinking it would be a pretty inefficient way to lose weight. To shed the 560 calories in a Big Mac, you would have to swallow about 20 cans of the stuff. Going for a long run would seem to be a lesser—not to mention more economical—punishment for gluttony.

► problems and government interference with management attempts to solve them, Alitalia has lost money for years. It accumulated net losses of about €2.6 billion between 1999 and 2005 and by the end of September last year it had lost a further €275m. It has had some €2.8 billion of fresh capital pumped in since 2002. Such is Alitalia's plight that Consob, Italy's stock-market regulator, requires it to report monthly on its debt and cash positions. Imaginative shuffling of assets and a capital injection saved the group just over a year ago. At the end of 2005 it had net debt of €879m and cash of €1.1 billion. By the end of October 2006 debt had risen to €972m and cash had fallen to €769m. Its figures for November are late.

A team of aviation consultants from America, who turned round Continental Airlines in the mid-1990s, tried to fix Alitalia but were defeated by the intransigence of its workers, who surpass even America's notorious aviation unions in their determination to defend overmanning and economic privileges. Poor management is another problem, although Italy's politicians must bear some of the blame in their choice of bosses and their reluctance to allow the radical restructuring that the airline has long needed.

In October Alitalia's board reviewed a revised industrial plan for 2007-09 and confirmed the airline's position as a "highly efficient network carrier". Parties interested in buying the government's stake that pass the preliminary screening will have to make their ideas known in business plans. Keeping the airline Italian, as the government requires, should not be difficult. But creating a highly efficient network carrier while guaranteeing the quantity of services and territorial coverage sounds a much taller order for any buyer wanting a return on its money. ■



For sale—with strings attached

## Mining

# Shock and ore

TOM PRICE MINE, WESTERN AUSTRALIA

**Iron-ore prices continue to rise as demand outstrips supply**

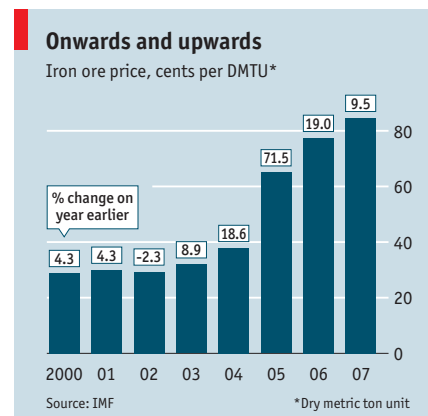
**I**N THE dry, dusty town of Dampier on the west coast of Australia, a gigantic machine lifts up railway cars, two at a time, and tips out their contents—roughly 110 tonnes of iron ore apiece. The crushed rock falls onto a conveyor belt, which carries it to ships queuing up in the nearby harbour. They, in turn, will distribute it to steelmakers around the world—at a price. In late December, Rio Tinto, the mining firm that owns the facility, announced that one of its biggest customers had agreed to pay 9.5% more for iron ore in 2007, in line with price rises announced by other big producers. The latest increase follows jumps of 19% in 2006 and 71.5% in 2005 (see chart).

Steelmakers around the world are chafing at this long run of price rises. Indian firms are calling on the government to cap exports of iron ore, to ensure affordable local supplies. The Chinese authorities are making it harder for small producers to import iron ore, to reduce competition for the stuff. Some steelmakers, including Arcelor Mittal, the world's biggest, are developing ore deposits of their own.

But demand still outpaces supply, thanks to fast and unforeseen growth in countries like China and India. "We can sell every tonne we produce, and more," says Dave Smith, the managing director of Pilbara Iron, a division of Rio Tinto. He says his firm is working flat out, in difficult conditions, to increase supply. The port at Dampier, for example, could handle no more than 68m tonnes of ore in 2003. By the end of 2006, its capacity had almost doubled, to 116m tonnes. By the end of 2007, it should reach 140m tonnes. The firm's other port in the region, Cape Lambert, is also expanding rapidly.

Naturally, Rio Tinto is also expanding its mines and the railways that ferry ore from the interior to the ports on trains more than 2.5km (1.6 miles) long. Back in 1998, when the firm opened a new mine called Yandicoogina, planners expected a slow expansion in output to 15m tonnes a year in the remote future. But it is already producing 36m tonnes, and should reach 52m by the end of 2007. The firm is also doubling up tracks on its rail network—the world's biggest in private hands.

All these expansion schemes have cost Rio Tinto A\$5 billion (\$4 billion). But growth is getting more expensive, as other mining firms, and Western Australia's booming oil and gas industry, compete for labour and materials. "We have a shortage



of just about everything," Mr Smith complains. The delivery of new locomotives to pull the ore trains, among other items, has fallen behind schedule. The price of tyres big enough to fit the mining firms' gargantuan trucks has doubled in recent years, he says, while construction costs for new facilities have increased by half.

Workers themselves are another problem: with labour in short supply, oil and mining firms are poaching staff from one another. The annual turnover of employees has reached 100% at some of Rio Tinto's sub-contractors. Shops and restaurants in the mining region are short-staffed, hotels and flights are fully booked, and car-hire agencies have no vehicles to spare.

Obtaining permits can also cause delays. All construction projects must meet strict rules concerning damage to the environment and aboriginal heritage. The bureaucrats who process this paperwork are overstretched, says Mr Smith, in part because many of their colleagues have resigned to drive trucks in the mines. At Tom Price, Rio Tinto's biggest mine in the area, managers point out scrub-covered hillsides whose cultural significance they are debating with the authorities. Even the weather slows things down: six cyclones battered north-western Australia in 2006, and another is now prompting closures at several mines and ports.

Rio Tinto's scale—it is one of the world's biggest mining firms—should help it cope with these pressures. It pools its procurement to increase its clout with suppliers and to allocate goods where they are most needed. Even so, says Mr Smith, "We're only barely keeping pace." It will be a little while yet, it seems, before the world's steelmakers get much relief. ■