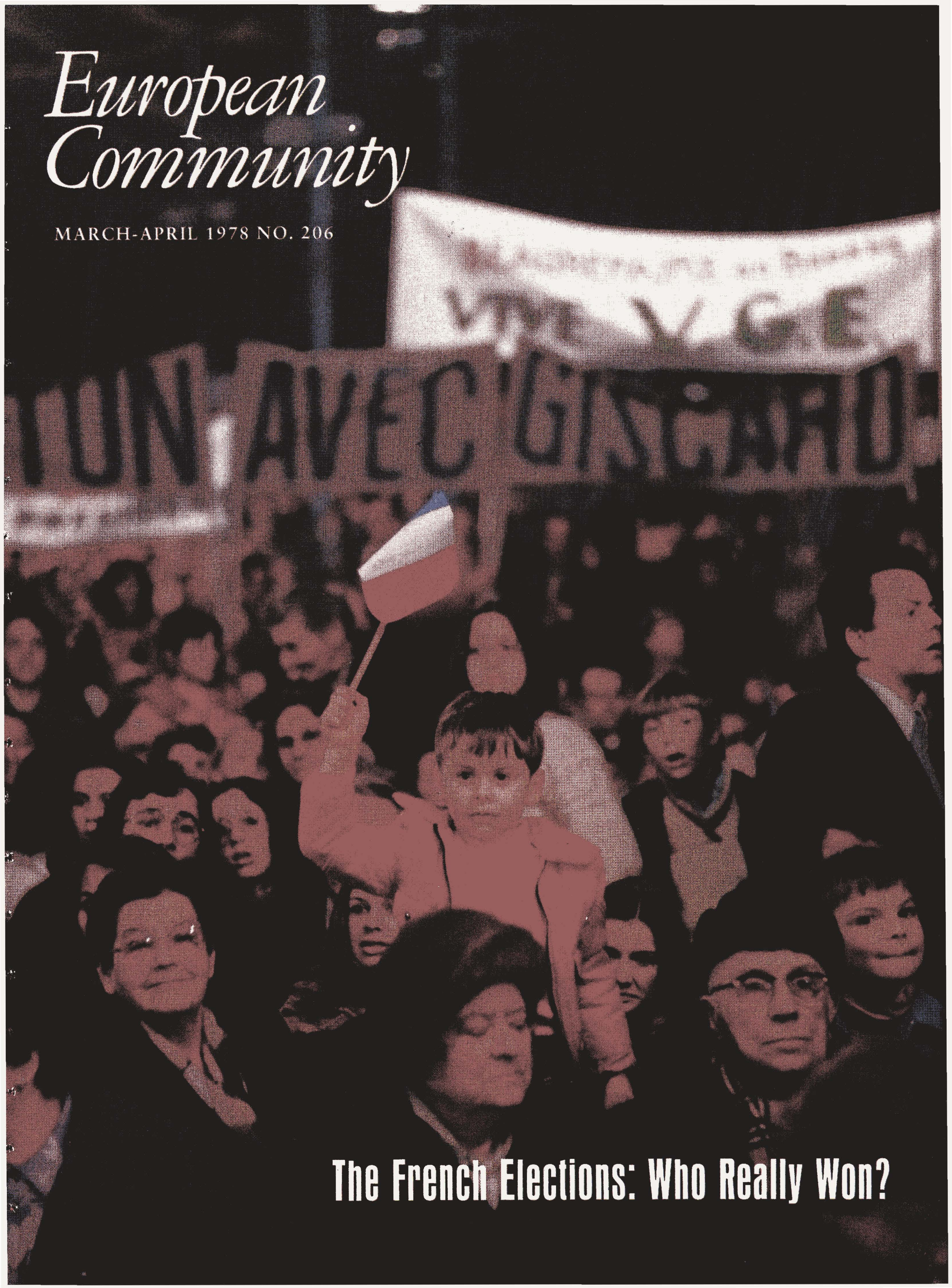
European Community

MARCH-APRIL 1978 NO. 206



The French Elections: Who Really Won?

European Community

MARCH-APRIL 1978 NO. 206

Publisher Andrew A. Mulligan
Editor-in-Chief Walter Nicklin
Editorial Assistant Candace Denning
Advertising Manager Webster Martin
Circulation Manager Janet Sullivan

Contents

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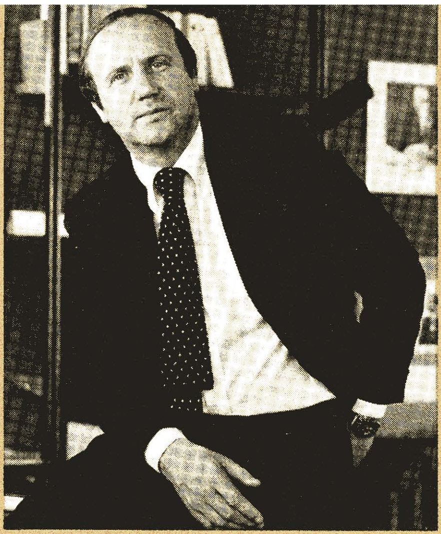
Publisher's Letter



This March the eyes of the Western world and the Communist world for that matter have been riveted on the French Parliamentary elections. Not only will the election decide what kind of society the people of France have opted for—or against—but its effects will reverberate through Europe and could effect France's crucial relations with her partners in the European Community, in the Atlantic Alliance, and even her future relationship with the Eastern Bloc.

Accordingly European Community *has commissioned Don Cook, Paris correspondent for* The Los Angeles Times, *and one of the best informed observers of the French political scene, to write his assessment of what was at stake in the French election. We also commissioned photographers Richard Kalvar and Jean Gaumy to give us a visual flavor of the election campaign seen through their cameras.*

It is perhaps a hallmark of French politics that the two principal actors on the political stage are still Valéry Giscard d'Estaing and François Mitterrand. That's the way it was when as the Paris correspondent of The Observer, *I covered the first Parliamentary elections under de Gaulle's Fifth Republic in Clermont Ferrand exactly 11 years ago. I was so impressed by one of the candidate's speech "oui . . . mais" that I unjournalistically prophesied he would be President of the Republic in 1976. His name—Valéry Giscard d'Estaing!*

No one could have prophesied the outcome of this election, but anyone who watched the Giscard-Mitterrand televised debates in April 1974 must have been impressed by the high level of the debate—a unique kind of intellectual democracy in its highest form—and by the closeness of the result that reflected and still reflects the genuine dilemma facing great democratic people.

Andrew A Mulligan

Andrew A. Mulligan

CARTER SCORES HIT IN BRUSSELS

friendly relations may bring concrete achievements

STEPHEN MILLIGAN, *Brussels correspondent for* The Economist

IF TODAY'S FRIDAY—IT MUST BE BRUSSELS. PRESIDENT Jimmy Carter's whirlwind tour ended in Brussels on January 6. He spent barely seven hours in the city and had few concrete results to show for his day when his jet took off from Brussels' Zavantem airport.

But it is a journalistic fallacy to suppose that concrete results, or the lack of them, are the only measure of the success of such a trip. Carter's aim was not to resolve specific issues—either in Brussels or in other foreign capitals—but to demonstrate the aims of his foreign policy and to establish better personal contacts with foreign politicians.

By this measure Carter scored a hit in Brussels. After talks with the Belgian Prime Minister, he went to visit the EC Commission and finished by meeting leaders at North Atlantic Treaty Organization (NATO) headquarters. Unbelievably, no American President has ever before visited the Commission, and there was an enthusiastic crowd outside the big glass Berlaymont building when he arrived. As he left, he leaped up on the edge of his car—to the obvious dismay of his security aides—to wave to the crowd, as though he was in the midst of an election swing. By an odd coincidence the day of his visit was the anniversary of the present Commission, which took office on January 6, 1977.

His meeting with Commission President Roy Jenkins and the rest of the 13-man Commission was brief and rather formal. But Jenkins was delighted simply by the presence of the American President: It seemed to indicate that Jenkins was a "European President" of comparable stature. Unfortunately, few of the EC governments regard the Commission President like this. The big countries, notably Britain and France, always want to downgrade the role of the Commission—for fear that its powers might interfere with their national sovereignty. Last summer the French President tried to stop Jenkins from attending the London economic summit "on behalf of the EEC"—but he gave way under pressure. One man who pressed strongly that Jenkins should be there was none other than Jimmy Carter. And during his meeting with Jenkins, Carter emphasized that his Administration

Jimmy Carter, shown here with Commission President Roy Jenkins, is the first American President to visit the EC Commission headquarters in Brussels.

was more committed to backing European integration than those of his predecessors.

Carter also suggested that he and Jenkins should meet every six months in the future. This represents a considerable boost to Jenkins's prestige. Few other European leaders can expect to see an American President so often.

The good relations between Jenkins and Carter have been imitated by other members of the two administrations. Most important of all, the EC Agriculture Commissioner Finn Olav Gundelach has become a close buddy of the US Agriculture Secretary Bob Bergland. This link is important because arguments about farm trade policy have bugged transatlantic relations for years. The Community has been worried by the growing American surplus in farm trade ($5 billion in 1976), while the Americans have protested the protectionist nature of the EC farm policy.

These good relations are due to human factors and to politics. Both Jenkins and Gundelach speak perfect English—which helps—unlike their predecessors. And policies on both sides of the Atlantic have converged. The United States, for example, accepts the need to provide guarantee prices for farm goods to stabilize trade. The Community accepts that some of its farm prices are too high.

IF FRIENDLY RELATIONS are important, however, it is only because they should eventually lead to concrete results. And the test for relations between the two sides is imminent—in Geneva, in the multilateral trade negotiations.

These negotiations, like the Kennedy Round of the 1960's, are meant to liberalize world trade. This is rather an odd goal at a time when there is intense pressure in both the Community and the United States for more protectionism, especially in crisis-hit industries like steel and textiles. But both sides feel more liberalization is needed for the 1980's—if only as a way of keeping protectionism at bay. The talks originally started back in 1973 but got bogged down. Now Bob Strauss, the American special trade negotiator, has launched a new thrust. He wants to get serious bargaining going immediately—hoping for a deal to be on the table by July. The aim is to agree to a phased 40 per cent cut in world tariffs, to be introduced between 1980 and 1988, plus a variety of other measures to help trade grow.

Although 97 countries are involved in the negotiations, the real bargaining is between the two giants: the United States and the European Community, who together account for nearly two-thirds of world trade. During the last few months of 1977, Strauss's officials visited Brussels every 10 days to thrash out a series of "working hypotheses" with EC officials as a basis for the real bargaining.

If a deal is agreed, it will be a triumph for US-EC relations, but it is still possible that the negotiations will go wrong. The ultimate decisions on EC trade policy are taken by the Council of Ministers, in other words the nine governments. And there is a risk that some of the more protectionist EC nations like France or Britain may reject a deal agreed by the Commission. Already the French have queried the 40 per cent target for tariff cuts which the Commission agreed with the United States. But the Commission argues that, equally, Strauss could be undermined by the protectionist US Congress, which will also have to take the ultimate decision. So both sides face domestic dangers.

Apart from trade, there are two other areas of prime concern in EC-US relations: the dollar and nuclear proliferation. European governments are still worried about the consequences of the dollar's fall. Several are keen to negotiate more effective joint intervention on foreign exchange markets to stop both the dollar and EC currencies from fluctuating so wildly. But this issue was only briefly mentioned in the Carter-Jenkins talks.

And little time was given to discussing nuclear questions. Although both the United States and the Community have agreed that the nuclear issue should be discussed by technical experts in the special joint study group on "nuclear fuel cycle evaluation," legislation just passed by the US Congress demands that the Community should agree to renegotiate the Euratom-US treaty on nuclear supplies (to improve safeguards against misuse) or otherwise that all nuclear supplies to the Community should be cut off. As yet the Community has not agreed to open negotiations. One leading American observer in Brussels reckons that the row about nuclear proliferation could be reopened soon—and re-emerge as the most awkward dispute between the Community and the United States.

Carter's visit to the Commission's Berlaymont building and his suggestion that he and Jenkins should meet every six months in the future "seemed to indicate that Jenkins was a 'European President' of comparable stature."

EUROPEAN MONETARY UNION

it deserves another look

SAMUEL BRITTAN, *principal economic correspondent for* The Financial Times

VISITING AMERICANS MUST OFTEN FIND THEIR PATIENCE sorely tried in Europe by having to comprehend so many different currency systems. Just as they think they have the pound sterling figured out, they must learn another if they move to Italy, and so on, and on and on. They must often wonder why there cannot be one currency, like the US dollar, over a wide area.

Indeed, the innocent observer might think a single currency would be one of the agreed objects among member countries of the European Community; after all, the tearing down of customs barriers is only the first step toward real economic unity. A great many other barriers ranging from mere human prejudice in favor of the local product to subtle twists in local laws and purchasing practices interfere with trade. The need to use another currency that will change in value quite unpredictably against one's own is just one more barrier.

Yet until very recently the goal of monetary union was acutely controversial, not only among governments who saw it as a threat to their freedom of action, but even more among independent experts and commentators with no particular ax to grind. Indeed I will admit to having been one of those who thought that European monetary union was an absurdity on the scale of the common agricultural policy.

Even today the case for monetary union is far from watertight. So much depends on how it is brought into operation and what happens meanwhile. Still the argument has moved on. The main thing that has changed is that the most powerful arguments against monetary union have been knocked clean out of the ring. The debate now among professionals working out the logic is between those who think there are really big gains to be had from moving to a common currency and those who doubt it. Governments are still stuck on the old tram lines, and EC Commission President Roy Jenkins has had to fight a lone battle to get the subject brought back on the agenda.

There can be only one yardstick for being either for or against the project and that is the welfare of the individual citizens of the nine Community members. Jenkins'

Would European monetary union indeed help cure inflation in countries like Italy?

first full statement of the case for monetary union was made last October at the new European University Institute at Badia Fiesolana in the hills above Florence, Italy. The occasion was the first "Jean Monnet lecture," and the surrounding could hardly have been better for shedding some clear Renaissance light on old theological cobwebs.

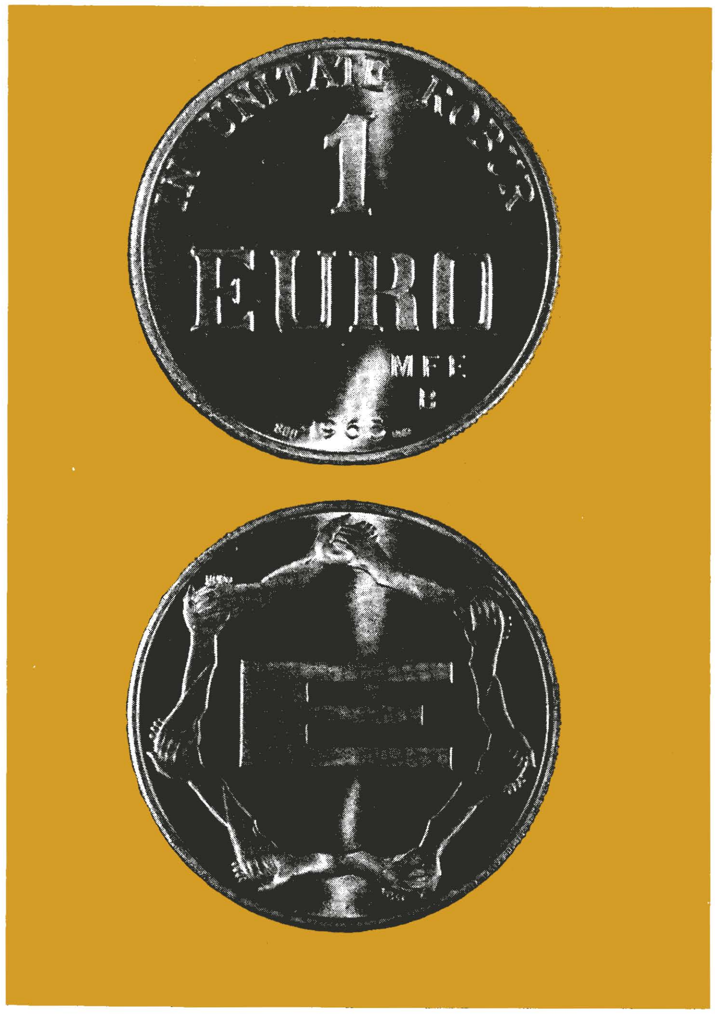
WHAT THEN WERE THESE OLD BELIEFS that made economists of all people shy away from monetary union? It was an idea fairly familiar from the financial columns of the US press—that there is a trade-off between unemployment and inflation. If this is so, some countries might want to put employment first and live with resulting inflation. This is a subject on which strongly opposed ideas are heard. A Commission President who tried to tell the Germans to tolerate some inflation would find himself rapidly traveling back from Bonn to Brussels on the very next TEE Express. On the other hand, can one imagine the fate of anyone with a Continental accent telling the Britishers to take risks with employment? The only way in which countries with such highly different preferences could live together was by having exchange rates change to accommodate different rates of inflation. This might be inconvenient for business, but less so than a series of currency crises and trade restrictions that tended to happen when currency rates were held together artificially.

It would be a bold man who would say whether this kind of argument was ever right, but in today's condition it is almost certainly wrong. It is now the fate of most countries to have both unemployment and inflation. Governments have discovered the hard way that they cannot buy more employment by running a higher inflation rate than their neighbors. The theory of full employment policies is also now much better understood. The stimulus to business activity from running an enormous budget deficit or printing a lot of national currency is at best temporary. At the end of the day there is no more employment to show for it.

One does not need to quote either Roy Jenkins or any high-brow monetary theorists. Prime Minister James Callaghan—no fanatic for European integration—told the 1976 Labour Party Conference that it was an illusion to think they could spend Britain's way into full employment. In this he was relying on very much the same set of ideas as the Commission President.

The old idea of an unemployment/inflation trade-off did rise once again in slightly more subtle form. The more recent talk was (swallow hard) of "different propensities to inflate." The argument was that Italy and Britain were not particularly enjoying their high rates of inflation. All the same, expectations that prices would rise rapidly had permeated business life: They had been written into business contracts and into the structure of interest rates. An attempt to terminate the inflation illness would also terminate the patient. In the very dim and distant future, inflation rates might converge. But the path of wisdom was to accept the facts of life and have flexible exchange rates so that very inflationary countries like Italy, and devotees of hard money north of the Alps, could live together in one community.

This argument does not survive if one looks at the facts too closely—which is why some people would rather not be troubled by them. Far from always suffering from runaway price increases, Italy had almost as much price stability as Germany during parts of the 1950's and 1960's. Great Britain experienced nothing worse than the average European inflation rate of 3 or 4 per cent until the 1967 devaluation. Right now the British inflation rate has come down from a dizzy 20 per cent plus in 1975 to



Coins such as these, now experimental, might gain currency with European monetary union.

less than 10 per cent—very much the average for the Western world. Inflation rates can move, and what happens to jobs when they do is neither obvious nor predictable.

Jenkins has listed several positive advantages for making the whole Community into one monetary region. The first is the gains in efficiency and convenience from the end of currency uncertainties. This is really the example of the confused American traveler with which this article began, but the confusion and inconvenience extends to business as well. No one knows how far currency uncertainties have contributed to the weak investment situation in Western Europe. But they are hardly helpful.

One should be just a little bit cautious. In the world of computers the business community could probably cope with freely floating exchange rates fixed in the market place. A lot of the present travel comes from controls, restrictions, and policy lurches designed to stop currency rates from changing. This may be one of these areas where a compromise is worse than either extreme. Freely floating rates and utterly unchanging relations, as in the old gold standard, have a similar appeal. It is the messy in-between situations, when governments run separate currencies but want to argue with the market about what these are worth, that really do create the obstacles to trade.

Jenkins also cited problems of the dollar. Of course, many oil sheiks, international corporations, and even individuals would like to have another strong international currency into which they could switch funds when they worry about US money. But it is not obvious that such switching from one center to another would really help world stability. The answer here may have to come from a different direction altogether.

THERE IS ANOTHER JENKINS ARGUMENT that is broadly true, but has to be handled with great care. This is that regional disparities between different parts of Europe could be better tackled. In some respects it is the other way around. A top-level European budget through which the strong regions could help the weak would be necessary if monetary union is ever going to be for real. A common money would, however, get rid of one confusing signal. As things are, a country can have a large payments deficit not because it is poor, but because it is printing too much money, or its money is becoming less popular among international investors. This has nothing to do with poverty and affluence. If it did, the United States could pass the hat along as a world pauper. With a common money, it would be possible to see which countries and regions really were poor and had difficulties in meeting their budgets. Affluence and poverty would no longer be mixed up with money creation.

But monetary union will stand or fall on really one issue. Will it help Community countries to overcome the high unemployment that has come upon them so unexpectedly in the middle and late 1970's? The best case that can be made is this. Governments are now afraid to put more spending power into the hands of their citizens lest it simply conjure up expectations of still more rapid inflation. Suppose, however, there were one European currency controlled by a European Federal Reserve, which had a good record and had not been overissued. Let us call it "Europa." It might then be possible in an unemployment emergency to issue more of these and do something to stimulate jobs.

The call here is for a currency reform on a European scale. Inflation is not creating jobs, but may even be destroying them. Many countries are too far gone on the inflationary road to restore stable prices without causing a depression en route. Why not start again with a new international money?

There would be a great many problems to overcome. What would happen to old debts? How would interest payments contracted in the old currencies be calculated? Or if the old and new money circulated side by side, could the new be used to pay taxes, even if that meant governments foregoing taxes on paper profits in their own inflating currencies?

Most advocates and students of monetary union now see a Europa coming into existence side by side with national money rather than replacing it overnight. They would like to see a Europa convertible into national currencies at rates which would guarantee stability of purchasing power over goods and services. But how does one introduce a new money? And would the problem be to get it accepted? Or would it be that it would drive out the old at such a rate that governments would panic and stop the experiment?

We can have a lot of fun talking about medieval Genoa or the United States after the Civil War when different currencies did circulate side by side. But these historical episodes do not really tell us what would happen today. We will have to proceed bit by bit. In the meanwhile the true friend of the Europa will have nothing to do with ideas for freezing together still separate national currencies, such as the Snake or the ill-fated Werner Plan. Indeed the true supporter of a European money will want to see clean floating among the separate currencies so long as they exist.

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A final word of warning. The main reason there are more than 6 million unemployed in the European Community has nothing to do with currency. It reflects rigidities in the labor and goods markets. This is a polite way of saying that governments and labor unions stop wages and prices from being fixed at market clearing levels and, therefore, there are shortages and surpluses side by side. Perhaps a million of the unemployment total is due to overall demand deficiency and might be more easily cured if Europe were starting from a stable money and no inflation. But the root of the trouble lies in the down-to-earth reasons why businessmen hesitate to invest or offer jobs and why workers hesitate to take them. Debate on currencies should not obscure these uncomfortable realities.

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EUROPE'S ECONOMIC FUTURE

a look at the "rich" condition

ROBIN MARRIS, *chairman of the Economics Department at the University of Maryland*

THINGS ARE BAD: PROTECTIONISM IS RISING; STAGFLATION won't go away; the youth of Europe are jobless. The governments are quarreling over responsibility for recovery. The private sector has lost confidence. And finally—Catch 22—even if economic growth does come back, Eco-doom will soon overtake us.

How true is it all? This article will take a coolish look at some facts and a second article will criticize some of the prevailing pessimistic arguments. The main concern here is with the condition of the so-called rich countries and not, for the time being at least, with North/South problems. There is much less economic interdependence between the Rich and the Rest than is popularly supposed. Defining as "rich" all the members of the Organization for Economic Cooperation and Development (OECD)—except Greece, Ireland, Yugoslavia, Portugal, Spain, and Turkey—only a tenth of the total gross national product (GNP) of the Rich is represented by imports from countries outside the group, even after the great oil price hike (which added only 2 percentage points). Within the European Community, even after the admission of Britain, intra-rich-country autarchy is even stronger. Relations between the Rich and the Rest may well be in reality mankind's gravest long-run political problem, but if the Rich are approaching a new Marxian Apocalypse, North/South dialogue is rather academic. Lame ducks are not much use to ducklings.

The Rich did not become rich by accident. A considerable part of their affluence today is due to the extraordinary performance of their economies since the end of World War II. From around 1947 to the end of 1977, the total rich-country GNP grew at an average annual rate of 4.5 per cent; so with populations growing at less than 1 per cent, per capita growth was at least 3.5 per cent—enough to double every 20 years. And this happened despite the presence of five countries mainly founded by Anglo-Saxons (namely Australia, Canada, New Zealand, the United Kingdom, and the United States) who hold half the population of the entire group but whose economies seemed to have become mature in the sense that their average per capita growth rate was no more than 2 per cent. As of today, the whole rich group has nearly half the world GNP (adjusted for international cost-of-living differences) with only about a fifth of the world population: The EC countries within the group have 18 per cent of the world GNP with 7 per cent of the population.

In the 1960's the governments of the OECD countries used to underestimate their future growth rates. This led to more optimistic projections around 1970 averaging over 5 per cent per annum for total GNP up to 1980; whereas in fact, of course, the actual performance of the 1970's has been distinctly slower. At the same time inflation has considerably increased and in the phenomenon of persistent stagflation, Cassandra is seeing a general propensity to increasing macro-economic disorders of all kinds.

Prices are rising every day and almost everyone's real income is falling. Only stupid economists believe the equation that says for every group losing from inflation somewhere in the world other groups have gained. But there is no doubt people do exaggerate inflation losses. In the United States, for example, where the 1974-1975 recession was particularly sharp, inflation-adjusted consumer spending no more than faltered—dropping 1 or 2 per cent for about 18 months—and it has now recovered sufficiently to be 7-8 per cent above the previous peak of 1973. The EC picture is less buoyant, because the Community was necessarily hit harder by the oil price rise. But there is still no way of arranging the figures to show that the standard of living of the average EC household has declined. What has happened, of course, is that with slower growth and worse terms of trade, the regular upward progression of the previous Halcyon years is no longer, and that has been rather a shock.

At the same time official unemployment statistics have settled at higher figures; foreign workers have been sent home from a number of countries; work permits for

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This is the first of two articles discussing the economic future of Europe. Part II will appear in the May-June issue of European Community.

would-be immigrants both within and without the Community (EC regulations or no) are becoming more difficult to obtain; and young people—especially young people with the wrong qualifications—are finding that they can no longer walk into jobs with the ease to which they had become accustomed. But in all the countries there are still shortages of people with the right qualifications or people who are prepared to do unpopular jobs.

AND THERE IS NO DOUBT that unemployment statistics do not mean the same as they used to mean. It is said the many liberalizations of the arrangements for unemployment assistance have taken place in most countries in the past 15 years have produced "abuses." Less well appreciated is the fact that entirely legitimate behavior under the newer arrangements necessarily increases the amount of unemployment that is going to be reported for any given state of the economy. If people deliberately take longer between jobs, so-called "frictional" unemployment is permanently increased. So in order to make valid comparisons with earlier years, 1-to-2 percentage points should probably be subtracted from most countries' official unemployment rates.

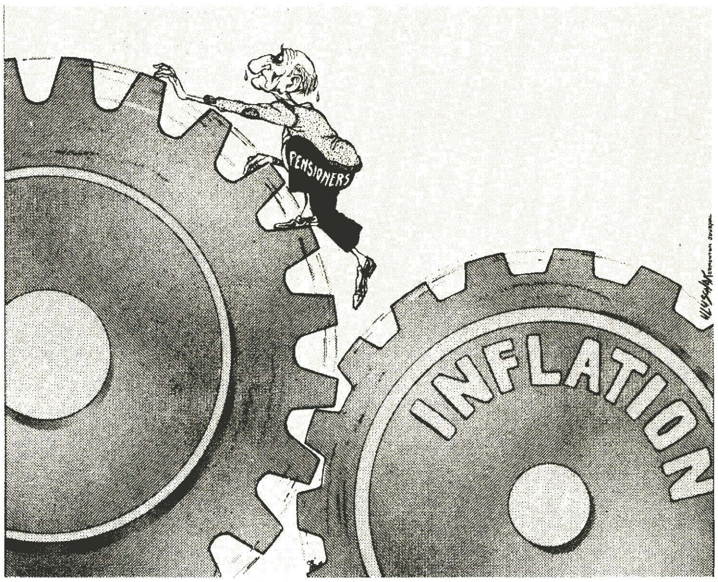
The average of official rates for all the rich countries is at present 5 per cent. For the EC group the figure is a little lower, offset by the traditionally higher figure in the United States. The lowest figure ever recorded for all the rich countries was 2.5 per cent in 1966. If in 1966 every country had had the present unemployment assistance arrangements, the actual figure might have been as high as 4 per cent. This seems to point to a deterioration of the job market from its historical high on the order of 1 percentage point of true involuntary unemployment.

But many people would argue that it is not the unemployment but the persistent inflation that is the real cause for concern. Others would say that what is intolerable is the combination of the two. From the end of the recovery from the Napoleonic wars to the end of World War II the only permanent increases in the general price level were those that occurred during the two wars themselves. The peace time long-run trend of basic prices was virtually flat. Then in the first 20 years after World War II, the average annual increase in consumer prices among the rich countries became distinctly positive, although it was in fact not greater than 2 per cent. Everyone became inflation conscious—especially in Europe—but 2 per cent inflation (which takes 35 years to double prices) is hardly catastrophic. The big change came in 1968, when the OECD inflation rate increased by one-half in one year, and has hardly looked back since. In the decade following 1968, consumer prices will have averaged 7.25 per cent per annum and the current figure for the whole OECD is not much less than this. The Viet Nam War, President Johnson's attempt to fight it with a peace-time welfare state, *Les Evénements* in Paris in 1968, and other factors

Everything from Vietnam to the 1968 demonstrations in Paris (Les Evénements), *pictured above, have been blamed for the West's jump in consumer prices.* © Bruno Barbey, Magnum are variously blamed for the jump—which happened well before the great primary price inflation of 1973 and after. But whatever the causes, no one could seriously argue that a trebling or quadrupling of the "permanent" inflation rate is a matter of little consequence: At 7.5 per cent, for example, prices take less than 10 years to double, which is pretty disturbing even for people of no property with more-or-less indexed incomes.

Again, however, it is desirable to put the facts into a historical perspective. The OECD calculates something called the Discomfort Index, which in fact does no more than add together the average of official unemployment rates and the average of the inflation rates—a perhaps dubious method of calculation. The idea is to obtain some measure of the combined impact of the two most prominent economic diseases—unemployment and inflation. The OECD does not calculate the index for periods before World War II, but it finds that in the 1960's the index tended to average about 5 points for the whole OECD, and rather lower—about 3 points—among those OECD members which were in the original EC Six. In those days, therefore, "discomfort" was a reasonable appelation for this statistic. Today when the figure is running twice or three times as high, "diswelfare" might be more appropriate. However uncomfortable a 20 per cent inflation rate, for example, might be, it would be absurd to claim that this amount of inflation would cause as grave a loss of general well-being as would a (genuine) 20 per cent unemployment rate.

Poor Man's Burden. © Vadillo, *Siempre,* Mexico



Modern Times. Uluschak, *Edmonton Journal,* Canada

HERE IS A SLIGHTLY MORE COMPLEX INDEX—using a geometric (rather than arithmetic) method of combination, and in such a way as to give different weights to different unemployment or inflation rates at different levels. It was possible to calculate this back into the inter-war period, with the results: 1933-1939—35; 1955-1970—8.5; end 1977—15. So, yes, conditions have definitely deteriorated since before 1970, but they are still far from calamitous by pre-war standards. And this index is not adjusted for the upward bias in the more recent unemployment statistics; if it was, the current figure might go down 2 points.

There are also other more sophisticated calculations available. Colleagues at the University of Maryland made econometric estimates of the relation between wage-inflation and unemployment for no less than 15 OECD countries on quarterly data over 13 years—about 750 observations. A definite increase in the underlying rate of wage-inflation was found—meaning that part of the inflation which cannot be attributed either to abnormally low unemployment or to previous prices increases—after 1968. The underlying wage-inflation rate was estimated at 4.75 per cent per annum in the period from the first quarter of 1963 to the second quarter of 1969 and at 6.5 per cent per annum from the third quarter of 1969 to the fourth quarter of 1976. If one assumes that in the long run output per worker will grow on average by 3 per cent per annum, and also that in the long run profit markups are constant (admittedly both quite strong assumptions), the price inflation caused by underlying wage-inflation would have gone up from 1.75 per cent in the first period to 3.5 per cent in the second. So we have again a story of significant, but not catastrophic, deterioration.

Inasmuch as the current inflation rate is substantially greater than this estimated underlying rate, either the calculation is wrong or the economy is still running down towards the underlying rate from the shocks of 1973-1975, or some new factor is at work above and beyond the

And the resolution of unemployment is made more difficult by the increased participation of women in the work forces of both the United States and Europe.

factors functioning in the past eight years. For this reason I support those who favor caution in the recovery program, and do not think that European governments who also favor caution should be subjected to bullying.

Inflation tends to be a special concern of conservatives and especially among people with moderate substance who lack time and opportunity to find inflation-hedged investments for their property. Unemployment concerns, on the other hand, are the traditional prerogative of the left. What we are witnessing is a "point of inflexion" in capitalism or a deceleration to be followed by settling onto a slower path, rather than a crisis. We are often told—particularly by conservatives—that rather than gazing at statistics of unemployment, one should look at what has been happening to total employment. There is known to have been a considerable increase in labor-force participation especially by women in both Europe and America. But what is the scale of this?

Young people, such as these students at a technical school in Brussels, are finding that they can no longer walk into jobs. . . .

Suppose that the population is growing at, for example, 1 per cent per annum. Then one could hardly complain of the performance of the economic system if taking one year with another, whatever was happening to unemployment, employment itself was also rising by 1 per cent: If employment and population are rising together, except when special demographic factors are at work, the job market can hardly be described as deteriorating.

The truth is that among the rich countries as a whole, for the whole period 1955 to 1970, employment was on average growing significantly faster than population, the difference being about one whole percentage point, enough to increase the proportion of the population that has paid employment by over a tenth, therefore, every decade. Only in the years 1973-1976 was the relationship between employment growth and population growth negative, and then only by a quarter of a percentage point a year. In 1977, it seems, a small positive relationship reappeared. So as a provider of jobs, capitalism in the third quarter of the Twentieth Century has been spectacularly successful, and it will have to do very much worse in the last quarter of the century if it is to deserve to be described as failing.

Of course "points of inflexion" can be tricky. Certainly international economic cooperation is currently not at its best. A significant crisis of a more Leninist variety is also occurring within the rich group. This is matched by a remarkable takeover of world trade by the countries who were defeated in World War II. In the early 1950's the United States and Britain between them were responsible for more than half the world's manufacturing exports. Today their joint share is down to under a quarter (contrary to what might have been expected, the weight of the drop was shared about equally between them), and almost the whole of the difference has been taken up by Germany, Italy, and Japan, with just a little help from France.

This brutal truth is the real cause of today's protectionism. But if protectionism is successful, some world trade may be repressed, and the "inflexion" could perhaps turn into something more serious. This is a perfectly fair scenario, but it is one which can be avoided. If we fail to do so, it will be a failure of politics, not of economics.

EUROPEAN UNITY IN THE AIR

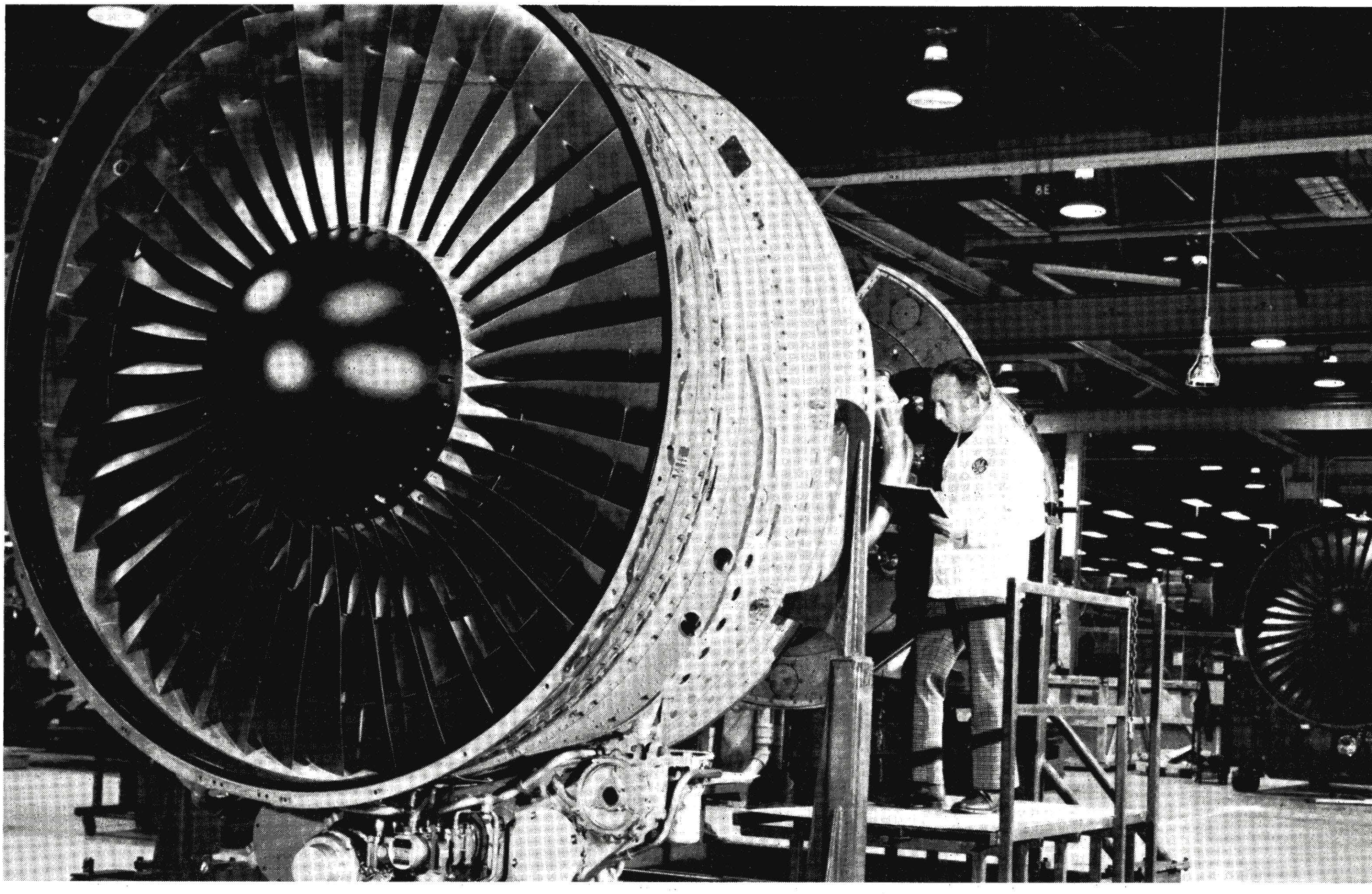
airbus purchase may be test case

ADRIAN DICKS, *Bonn correspondent for* The Financial Times

DURING THE FIRST HALF OF MARCH, THE BOARD OF Eastern Airlines was due to take a decision that could determine the future of the entire Western European aerospace industry. Former astronaut Frank Borman, who is now Eastern's chairman and chief executive, has given notice that by that date the airline should be able to tell whether it is going to place a firm order for the A-300 European Airbus, the wide-bodied "Whispering Giant" introduced for a six-month trial period on its busy routes between the New York City area and Florida.

If Eastern's verdict on the A-300 is favorable, and it decides to buy anywhere between 20 and 50 of the aircraft, the consortium of European aerospace companies that builds it, Airbus Industrie, believes the way will be open for further orders from US airlines including Allegheny, Continental, and Pacific Southwest. Moreover, the manufacturers are aware that potential airline customers around the world are hesitating in making their own decisions until Eastern has pronounced its judgment on the European Airbus. If the plane has managed to meet the rigorous technical, maintenance, and cost performance criteria of Eastern's busy "Sunshine Corridor" routes at their peak season, it can probably acquit itself on any route in the world.

Jet engines are assembled by SNECMA *in France for installation in the A-300 European Airbus.* courtesy of General Electric Company



Should the A-300 fail to come up to scratch, on the other hand, Europe's hopes of ever building a civil aircraft that could challenge US giants of the industry on the world market would suffer a crushing blow from which they would probably never recover. Although the A-300 has been chosen by a dozen airlines, with total sales including firm orders and options of about 100, failure to penetrate the US domestic market would almost certainly mean that not enough of the aircraft could be sold to make the $1 billion project show a profit. This, in turn, would weaken the chances of the next generation of airliners planned by European aerospace companies.

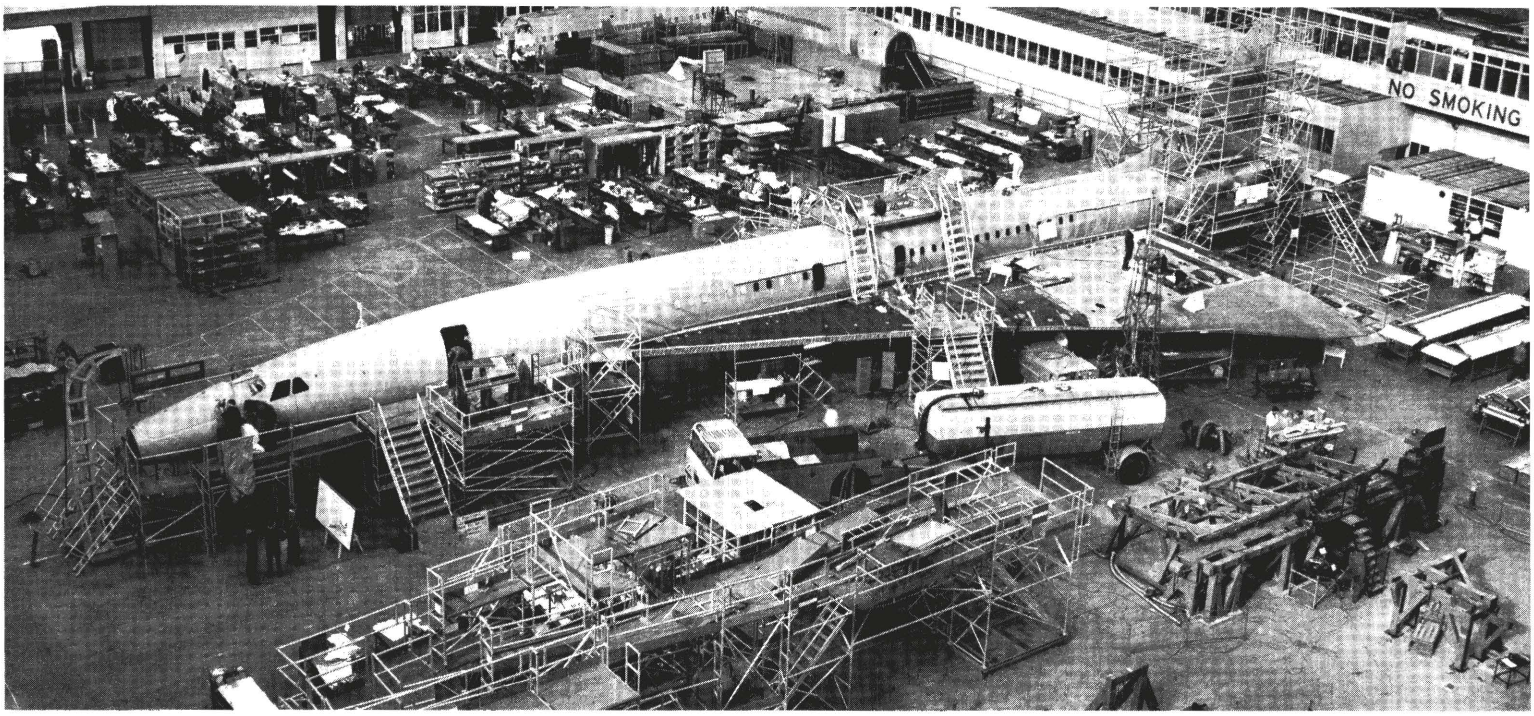
So far there is no agreement on exactly what the new generation ought to be. Aerospace firms themselves have been involved for over a year in a round of talks with one another and potential customers while European governments, which will wind up paying much of the research and development costs of whatever the industry decides, are inevitably being drawn into the discussion.

It has been almost universally agreed in Europe for the past two decades that, measured against the huge size of the US aerospace industry, none of the national industries of France, Britain, Germany, Italy, or Holland—let alone the smaller countries—could hope to survive alone. International cooperation has therefore been seen as the obvious solution, and some solid foundations have been laid. The Airbus consortium in the civil field has been by far the most successful—grouping French, German, Dutch, and Spanish companies, with British participation as an associate. In the military field, Britain and France have cooperated on the Jaguar strike aircraft and on a range of helicopters. France and Germany are jointly producing the Alpha-jet trainer, as well as a number of highly successful missiles, while most ambitious of all, the German-British-Italian Panavia consortium is expected to begin series production by the end of this year of the "Tornado" multi-role combat aircraft.

The question that now arises is whether these various ventures can form the basis of some more permanent form of cooperation that might itself be the first step toward an actual integration of the European aerospace industry into a force able to compete with US companies on equal terms. The EC Commission, for one, dreams of such development and has over the years produced a series of reports and recommendations on how it might become reality. Events have not borne out the Commission's hopes, however: In a speech to the European Parliament in January, Viscount Etienne Davignon, the energetic Commissioner for industrial affairs, roundly accused member governments and their aircraft industries of doing all they could to prevent integration. As a first step he is seeking to get the Nine to agree to set up a joint aeronautical research program, comprising a transsonic wind-tunnel among other projects, and with a starting budget in the region of $40 million a year.

WHAT IS THE ALTERNATIVE to greater cooperation among European governments and national aerospace industries? In the view of many of those who favor the "European solution," failure by Europe to pursue joint pro-

The "Whispering Giant" has been introduced for a six-month trial period on Eastern Airline's "Sunshine Corridor" routes. courtesy of Eastern Airline



Europeans underestimated the strength of US public feeling against landing rights for the Anglo-French Concord supersonic airliner, shown above under construction in Britain.

grams leading to progressive integration of the national aerospace industries would leave individual manufacturers with little choice but to turn to the US giants. Since none of the European companies is, except in very limited areas, capable of entering a joint venture with any of the American giants on equal financial or technical footing, the argument continues, they would eventually find themselves relegated to the role of mere subcontractors.

The temptation of getting together with one or another of the big US aerospace companies is, however, always attractive to the Europeans. Dr. Ludwig Boelkow—recently retired from the chairmanship of Messerschmitt-Boelkow-Blohm (MBB), the industry's leading German company—admits that his firm has learned invaluable lessons in technology and management from its close association with Boeing, which holds some 8 per cent of MBB's shares. And not withstanding the relationship with Boeing, MBB has reacted enthusiastically to the opportunity given it by McDonnell Douglas to carry out joint research on an advanced fighter aircraft for the late 1980's or 1990's.

Britain, too, has close links with the US aerospace industry—with Rolls-Royce, the Government-owned aero-engine builder, closely involved in the Lockheed TriStar program, and virtually every other manufacturer engaged in some form of cooperative work. Even in France, often more prickly than any other European country in its attitude toward the greater strength and weight of US industry, there is unbounded enthusiasm for American engineering and "le knowhow transatlantique"—though the Dassault-Breguet group's attempt to develop its Mercure airliner series in partnership with McDonnell Douglas, the most ambitious joint airframe project, seems to have come to nothing. But it is Snecma of France that, in collaboration with General Electric, has developed one of the two jet engines, the CFM-56, that seems likely to be used in the next generation of airliners wherever they are built.

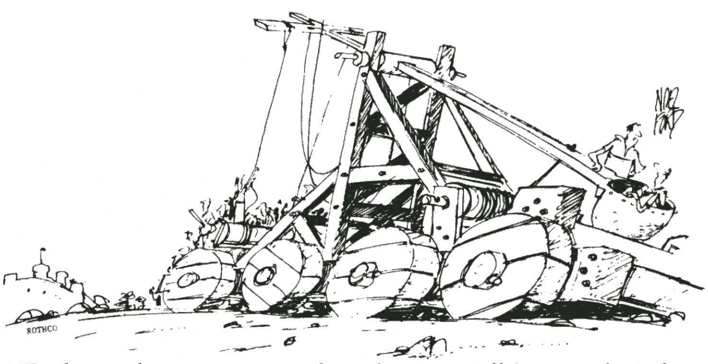
No less important, though at present less in the public eye, is the contribution of the Europeans to the Spacelab program. Some time this summer a dozen contractors in 10 European countries will deliver parts they are building for Spacelab, to be assembled by ERNO, a subsidiary of the Dutch-German VFW-Fokker group, at its Bremen plant and shipped to the United States at the end of 1979. So far, this unprecedentedly complex consortium has met the demanding technical, financial, and timetable requirements laid down by the US National Aeronautics and Space Administration back in 1974.

These projects, both as they affect intra-European cooperation and joint developments with the United States, are worth listing in order to show the complexity of the web of contacts that exists already. The European companies have proved they can make the consortium structure work in terms of engineering and economics. There are those like Dr. Boelkow who think these consortium companies, such as Airbus Industrie, Panavia, Euromissile, and, perhaps in the near future, a Franco-German-British "Eurohelicopter," may in time become mightier than their national parents, offering as they already do more exciting opportunities for engineers and designers. If the consortium companies remain in being, it is possible they could indeed evolve into truly European entities.

As attractive as this vision may be, it does not take into account equally strong forces often still pulling European aerospace policies in opposite directions rather than pushing them closer. None is at present stronger than the fear for jobs. In every country last year there was short-time working in aerospace factories, and there is little likelihood it can be ended this year. In Britain Lord Beswick, chairman of the state-owned umbrella corporation British Aerospace that took over most of the industry in June 1977, is faced with the difficult task of slimming down an industry of over 200,000 people unless work can be found for them all. France, with half that number, has similar over-capacity and is likely to solve it by forcing the state-owned Aerospatiale Company closer together with the Dassault-Breguet group. And in Germany a merger of MBB and the German half of VFW-Fokker has been in the making for some months.

Any European solution to the industry's structural difficulties must not fail to include provisions for reducing total capacity to something more closely resembling an economic size. Even more important, though, it has to be engaged in making products that can find buyers. Too much of the European aerospace industry's postwar history has consisted of brilliantly conceived "engineer's planes" that no one bought—Britain's VC-10, France's Mercure, the Anglo-French Concord, and most recently, Germany's VFW-614.

IT IS FOR THIS REASON that the round of talks now going on about a new "family" of narrow-bodied airliners, to



"In short, either we come up with a military spin-off damn quick, or they stop funding the space program." © Noel Ford, *Punch*

come into service in the 1980's and beyond, is of such crucial importance. In the United States, Boeing has already unveiled some details of its "new airplane program" embracing several designs, while McDonnell Douglas plans its Super-80 development of the DC-9. France has put forward a plan for a 120-160-seater to be known as the AS-200, while Britain is suggesting development of its short-range BAC-111 to be known as the X-eleven, and is wondering whether to go ahead alone with it if European partners can't be brought round.

The major European companies have set up a series of teams whose job is to try to settle common guidelines on the design, marketing, and work- and cost-sharing of a program in which all could participate. They have set themselves the task of reaching agreement by the end of the year and of trying to get backing from governments. The task will not be easy, and the Europeans are painfully aware that Boeing, McDonnell Douglas, and perhaps Lockheed, are much further ahead with their plans which may well include offers of collaboration with individual European companies.

Yet the prize is a glittering one, with a market estimated at between 1,000 and 3,000 aircraft. If Europe cannot get a foot in it, there may not be another chance later. US manufacturers already control well over 90 per cent of the world market in civil aircraft and the Europeans feel it is not overly ambitious to aim at a slightly larger slice than the 2-3 per cent they now supply (though Europe itself is a good 25 per cent of the world market).

It is at this point, however, that the A-300 Airbus and its fate become a crucial part of the equation. The European manufacturers' faith in the plane is based on the contention that no fully comparable US-built competitor is yet on the market, as well as on the plane's quietness and economic use of fuel. Borman has mentioned all these as factors that attracted his airline to the A-300. But there has been no mistaking the concern with which the American aerospace industry has viewed the potential encroachment on its home market—a reaction that gives rise to bitterness in Europe. Not only does the US dominate the world market and the European market, but it also protects its aerospace sector with the "buy American" policy and with a substantial tariff on foreign aircraft imports (a point that the European Community is taking up in the Geneva multilateral trade talks).

Many of the same points were raised during the long and acrimonious argument over landing rights in the United States for Concorde—when the Europeans, in turn, were guilty of seriously underestimating the strength of US public feeling as well as of ascribing the supersonic plane's unpopularity to political machinations in Congress.

Now that that unhappy episode is, at least in its political implications, largely forgotten, the air is clear for what the European aerospace industry and governments alike firmly expect to be a fair test on the part of Eastern, but no less, a test of President Jimmy Carter's willingness to put into practice the "two-way street" between Europe and the United States. More will suffer than the European aerospace sector if each time Europe feels it has a good product to offer, that street is discovered to be full of roadblocks.

Why the A300 is big news for fuel-conscious America.

If A300's did the work now done by 707's and DC-8's, just on domestic routes, the annual fuel saving could exceed 400,000,000 gallons.

Looking at it another way, the A300 carries one passenger 58 miles on a gallon of fuel in wide-body comfort while a 727 takes one passenger only 36 miles.

How can this be? Very simple. The A300 flies with today's aerodynamics and today's quiet, fuel-efficient engines.

Now it doesn't take much imagination to translate the A300's fuel economy into its beneficial effect in helping reduce oil imports and improve airline profitability as well.

That's why the A300 is looking better and better to the airlines of the U.S.

A300

Airbus Industrie of North America, Inc.
489 Fifth Avenue New York, NY 10017

The A300 is now helping Eastern Airlines surmount the fuel crunch while bringing new wide-body comfort and luxury to more of Eastern's flights.

INDUSTRIAL DEVELOPMENT SUCCESS STORY

Ireland is now Europe's economic growth leader

PHILIP REVZIN, *staff writer reporting from Dublin for* The Wall Street Journal

"Sure, this is a poor country," says Liam Kelly, driving through the sprawling Bluebell industrial estate on the outskirts of Dublin. "Just look how poor," he says with irony, pointing to scores of factories and warehouses aswarm with workers and trucks.

Complexes like Bluebell embody Ireland's strategy for recovery from the recession, and its hope for the future. The recently arrived industries, including many American firms such as Fieldcrest Mills and Abbott Laboratories, have helped fuel a boom in industrial production and exports.

Little Ireland, in fact, with a 1977 growth rate of 5 per cent to 6 per cent, has vaulted to the position of European economic growth leader and is likely to repeat in 1978 with a growth rate of perhaps 7 per cent. While problems persist—in particular, naggingly high unemployment, a widening balance of payments deficit and erratic labor relations—many analysts both inside and outside Ireland think this country finally may be succeeding in restructuring its economy.

"A year ago I honestly thought this country was moving headlong into disaster," says the managing director of a big Irish bank. "Now I'm convinced we're not only back from the brink, but building a solid foundation for growth."

Part of the confidence of this banker and other Irish businessmen stems from the landslide election victory last July of the Fianna Fail party, led by Jack Lynch. In six months as Prime Minister, Lynch, a former prime minister, has cheered and surprised many by keeping a number of generous promises he made during the campaign.

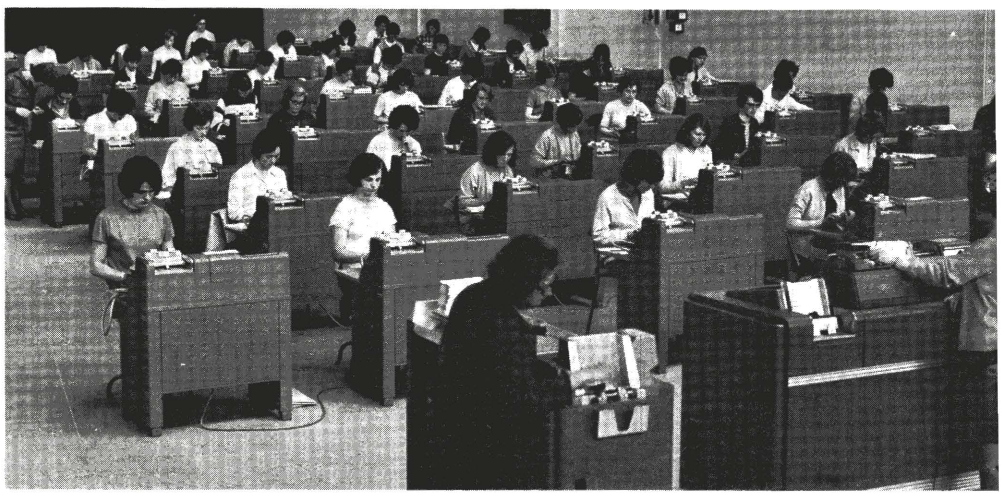
These include the abolition of rates, or property taxes, on private homes as of January 1; removal of all government taxes on many small and medium-size automobiles, as measured by horsepower; giving $1,900 grants to first-time home-buyers; and the pumping of millions of dollars into job-creating programs. All this has resulted in an unprecedented popularity rating of 85 per cent approval for Lynch in recent polls.

"Our credibility is still intact," says Frank Dunlop, the Government's information chief. "And it will probably stay that way for another six months or so, as we keep most of the rest of our promises. It can't last forever, though, since economic and budgetary considerations can instantly make you change course."

So far, however, the course is one of steady stimulation. In its budget announcement of last week, the Government cut income taxes for most workers, except farmers, eased corporate taxes and abolished the three-year-old "wealth tax," all moves designed to spur domestic consumption and business confidence.

about 50,000 recent secondary school graduates, "is the single most serious problem" facing Ireland, Lynch told a recent session of the Dail, the parliament. Economists say the recession, and the sluggishness of domestic industry, foiled previous job-creation plans.

The Irish labor force has been growing. More women are looking for jobs, and Ireland's traditional emigration pattern has been reversed. Before 1970, the population was depleted by Irishmen who left, mostly going to Britain or North America. Since the beginning of this decade, with jobs becoming scarce everywhere, more Irishmen have been coming home than have left.



"The Irish labor force has been growing. More women are looking for jobs (such as in data-processing), and Ireland's traditional emigration pattern has been reversed."

The Government also will increase spending on social programs by 10 per cent. All of this is producing increasing budget deficits; the figure for fiscal 1978 is put at about $1.6 billion, up from $1.1 billion in the previous fiscal year.

More domestic investment, coupled with government grants to the construction industry and other public sector job-creation programs, will create 20,000 new jobs next year, and another fulfilled campaign promise, Government spokesmen say.

Current unemployment of about 110,000, or 10 per cent of the work force, not counting

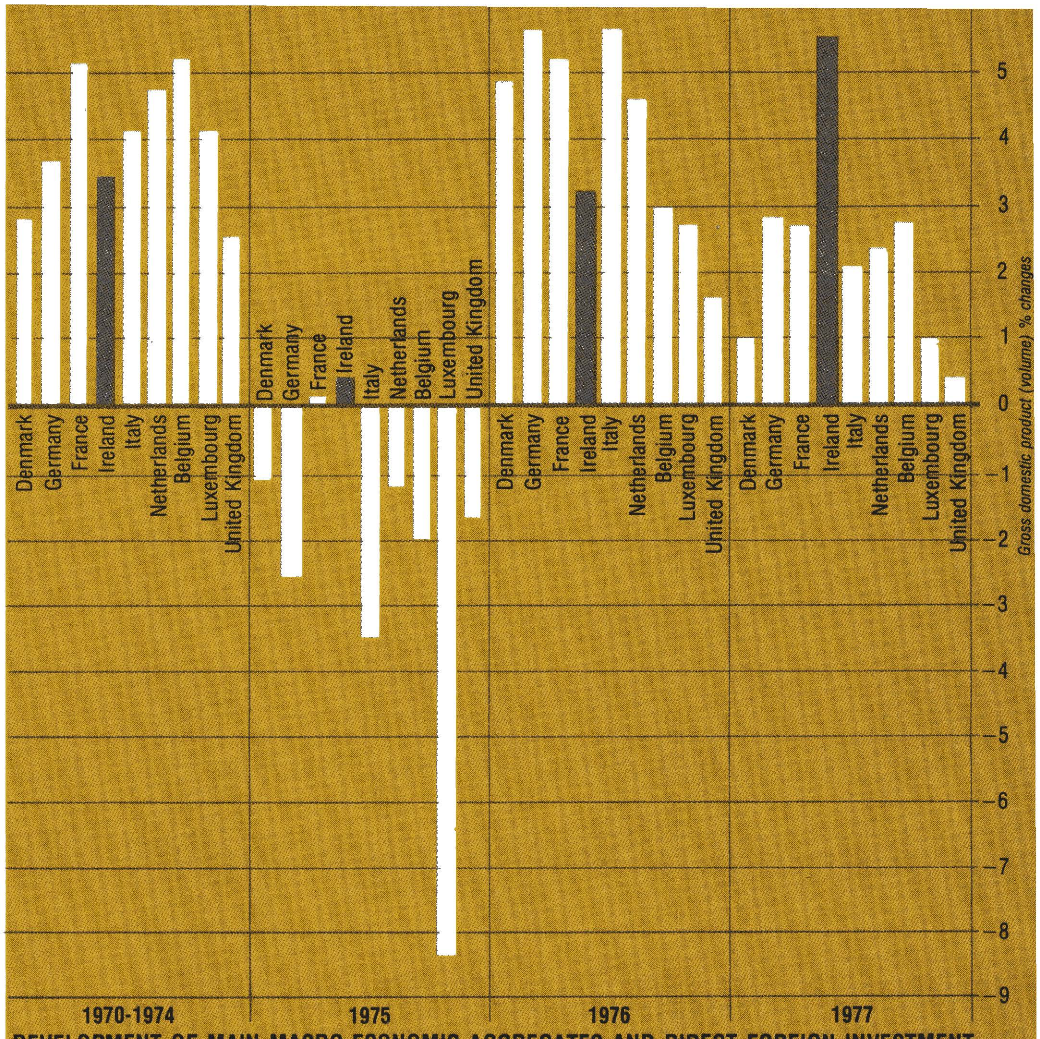
Those Irishmen who do have jobs have become more vocal, and more prone to strike, a cause of growing concern among employers. Irish officials still are smarting from the recent closure of the Ferenka steel-cord factory in Limerick, owned by Akzo N.V. of Holland. The company shut the 1,400-employee plant after a two-month strike caused, among other reasons, by an interunion dispute.

An Irish banker calls labor relations "our Achilles heel." He adds: "We're not yet as bad as Britain, but we're moving in that direction. The current negotiating process is disorderly and doesn't allow business to plan ahead."

This banker, and other businessmen, say they will be cheered if the Government succeeds in holding next year's national agreement on wage increases to 5 per cent. Talks now underway between union and employers representatives will set the pattern for Irish industry. The budget message said that if the 5 per cent limit is kept, the tax cuts for an average worker would mean a further 6 per cent boost in take-home pay. And, say officials, if their current inflation prediction of 7 per cent for this year is met, it will mean an increase in real earnings of about 4 per cent. (Last year's inflation rate was 14 per cent; many bankers and economists doubt that it can be brought below the 8 per cent to 10 per cent range this year. Unions are asking for 12 per cent wage increase.)

Apart from keeping down Irish labor costs, which are low in comparison to most industrialized countries, a 5 per cent settlement would help Irish efforts to attract foreign investment. Most economists don't see native Irish industry being able to close the employment gap for years to come.

The Government has made a sustained effort to draw foreign firms. The resulting new investments—more than $1 billion last year alone—have created more than 40,000 new jobs, says the Industrial Development Authority (IDA), the Government plant-hunting agency.



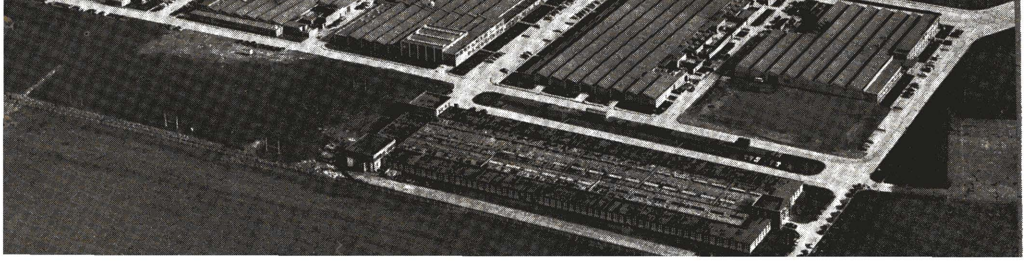
DEVELOPMENT OF MAIN MACRO-ECONOMIC AGGREGATES AND DIRECT FOREIGN INVESTMENT

The IDA has had its best luck with American investment. Between 1960 and 1976 US companies accounted for about half of all the foreign investment in Ireland. During the past few years the US percentage has been about 75 per cent. US investment in Ireland has grown faster in the past two years than in any other European country.

The Irish, helped by generous terms of their European Community membership agreement, have been able to offer the best incentives for new foreign industry in Europe. A foreign firm need pay no taxes on products made for export until 1990, and can get grants to cover up to 50 per cent of the cost of its plant and equipment, among other concessions. Helped by this aid, the Irish say the return on investment for US companies in Ireland in 1975 and 1976 was 29.5 per cent, far higher than in any other European country, and nearly triple the average rate of 12 per cent in the European Community.

Foreign firms have helped industry boost its output by 10 per cent in 1977, and have helped soaring Irish exports, particularly to the new-found EC markets. Exports of industrial products increased by 20 per cent in volume in 1977, while world trade was growing by only about 6 per cent. More exports to Europe also are lessening Ireland's traditional economic dependence on Britain.

"Ireland may finally be succeeding in restructuring its economy," as illustrated by such complexes as the Shannon Industrial Estate.



These new markets are the prime reason why most Irishmen still are delighted to be in the Common Market. Political observers say about two-thirds of the people still would vote to join, down a bit from the 83 per cent who voted for membership in 1973. While EC membership has raised some grocery prices, it also has boosted farm incomes.

Farm income rose by about 40 per cent in 1977 and is likely to rise another 10 per cent or 15 per cent next year, says Lorgan Blake, chief economist for the Irish Farmer's Association. Farmers still make up 23 per cent of the Irish work force, and produce 16 per cent of goods and services, including 42 per cent of the value of exports.

But economists say there is still room for the Irish to develop a food-processing industry alongside its growers. "In the United States, for every farmer there are four people employed in ancillary processing industries," says William P. Sutton, a Citibank official in Dublin. "Here there are three farmers for every processing employee. If they exported more steaks instead of cows, they'd be able to put a lot more people to work."

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REGIONAL INTEGRATION AND GLOBAL INTERDEPENDENCE

"in a certain sense every Latin American is a European"

ALEJANDRO ORFILA, *secretary-general of the Organization of American States*

To the European, Latin America has always seemed to be the region of the future and its development potential still remains greatly untapped. But Latin America is more importantly a region of the world which has:

- more than 150 years of independence and its political and economic institutions are more firmly grounded than those of other developing nations;
- an endowment of natural resources, renewable and nonrenewable, which is superior in per capita terms to other global regions;
- a modernized transportation and communications network linked directly to the industrialized nations;
- economic and social systems that have considerable similarity to those of Europe;
- a vigorous industrial sector which speaks the same language as European industry and an increasingly specialized and diversified work force;
- a population of 320 million persons and a gross regional product of $250 billion; and
- a projected population of 600 million by the end of the century, with perhaps a quadrupled regional product.

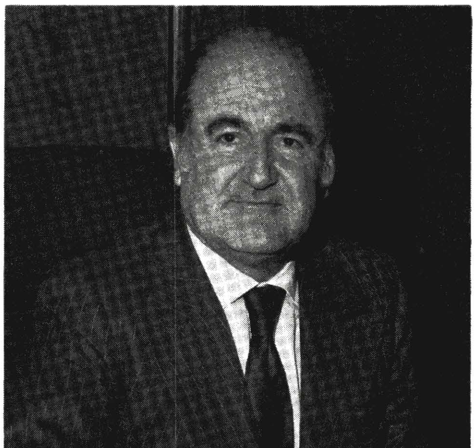
This is a Latin America which by the year 2000 must grow more rapidly than it has during the previous 200 years of its existence. Our region—now ranked on the world's intermediate development levels—must build entire new cities, provide thousands of new housing units, offer unprecedented educational horizons to its people and generate millions of new employment opportunities. As one of the world's most dynamic regions, Latin America is moving steadily into the ranks of the fully industrialized and developed nations.

European business and industry should feel at home in cooperating with this transformed Latin America. We in the Americas are deeply conscious of our historical debt to Europe. The mark of Europe is on our culture and on our social and political institutions. In a certain sense every Latin American is a European.

excerpts from Ambassador Orfila's basic speech during a recent European trip.

However, Latin America has its own proper identity. Our history and our peoples were formed through an extraordinary mixture of cultures, races, and civilizations. From these circumstances there has arisen the new Latin American man, ever more conscious of his own personality, his strengths and his limitations, the interdependence of Latin America and its increasing role on the world scene. It seems evident that the deepest source of Latin America's own interdependence is its awareness of its geographic and cultural identity.

Latin America occupies the immense physical space that stretches from the Rio Grande to the tip of the Antarctic. Within this vast territory the transportation and communications barriers of yesterday no longer separate our nations from one another. Intra-regional trade is constantly expanding. Between 1970 and 1975 intra-Latin American exports rose from $1,962 million to $5,354 million—a cumulative annual rate of 24 per cent, with a high percentage consisting of manufactured exports. This steadily widening internal market within the Latin American region is a consequence to our evolving awareness of the urgent need to achieve regional integration.



Secretary General Alejandro Orfila courtesy of the Organization of American States

US foreign investment in Latin America doubled in the 1970's in areas such as Brazil's auto industry. UPI

It is not difficult for Europeans to sense the value and importance of economic integration. Europe's postwar achievements in harmonizing national policies into regional ones provide a beacon for communities and societies in every area of our interdependent planet.

In Latin America efforts to promote regional unity were present from the moment we gained our independence from Europe. However, just as in Europe, the road to regional unity has not been an easy one. Between 1820 and 1958 the nations of Central America attempted on many occasions to establish a "Patria Grande." In South America fusion of regional interests was periodically promoted during the Nineteenth Century through international treaties largely of a commercial nature signed by several countries.

With the foundation of the Pan American Bureau in 1890 and the Organization of American States (OAS) in 1948, the inter-American system received a new impulse toward regional harmony. With the passage of time, consultation and cooperation rather than conflict and confrontation have become the basis of our living together as citizens of the Western hemisphere. The recent signing of new treaties for the Canal Zone between the United States and Panama illustrates our regional ability to solve geopolitical differences in a harmonious manner.

BEYOND GEOPOLITICAL AND SECURITY CONcerns, however, there has been a new emphasis on regional unification within Latin America itself during the past 25 years. This has taken the form of regional economic integration and trade movements under four regional groups: the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACOM), the Caribbean Economic Community (CARICOM), and the Andean Regional Group.

Latin America has discovered that this integration process advances well as special financial provisions are made to help less developed countries, as greater cooperation takes place between the business and industrial sectors of the countries participating in each group, as multinational projects are put into effect and public and private financing is done on a more cooperative basis. It has also found that this regional integration process must be considered from short, intermediate, and long-range perspectives.

There are periodic and temporary difficulties facing integration in Latin America. The Central American movement has encountered problems since the contention between El Salvador and Honduras in 1969; LAFTA has not moved as far ahead as its potential might allow, and Chile withdrew from the Andean Group.

Yet despite these obstacles, despite periodic setbacks, the growing impact of the Latin American integration movement is evident:

- the establishment in 1976 of an international market of Latin American bankers' acceptances to promote and expand intra-zone exports;
- the recent renewal of negotiating efforts, under the auspices of the Organization of American States, by which El Salvador and Honduras seek both to find a definitive solution to their differences and to revitalize the area's Common Market;
- the steadily rising volume of intra-regional trade and commerce among the Latin American nations themselves after 1960;
- the fact that this intra-regional trade has grown less when compared with Latin America's declining share of world trade;
- the creation by 17 countries of the multinational Caribbean shipping company; and
- the efforts made by the Latin American nations to more clearly identify their own regional development goals and to gain control over their own development destinies. These efforts are reflected in the 1969 consensus of Viña del Mar, the establishment of the Special Committee on Consultation and Negotiation (CECON); the formation of the Latin American Economic System (SELA), and in the continuing efforts to modernize the charter and programs of the Organization of American States.

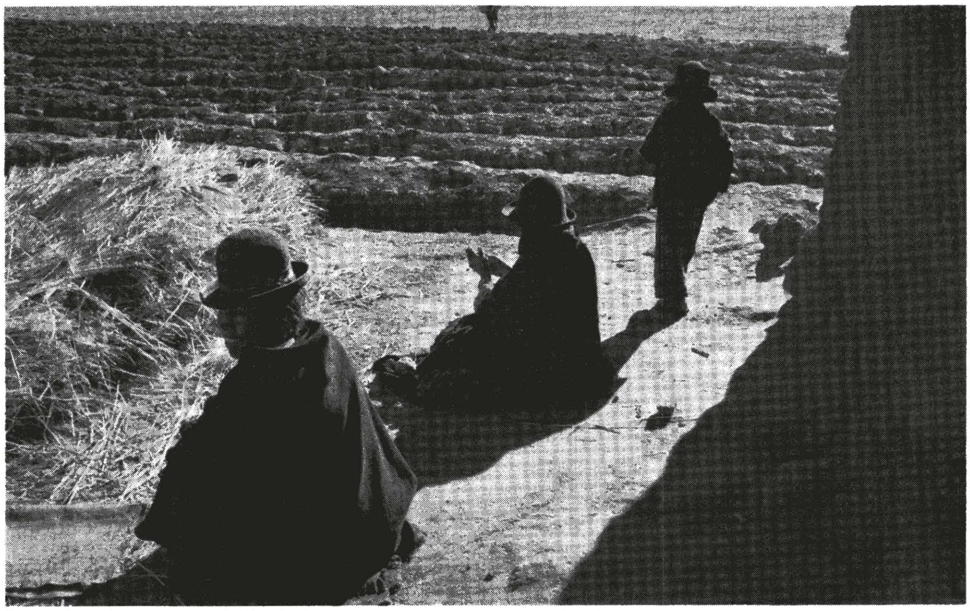
It is important to stress that the trends of geographic and economic integration are only part of the motivating dynamism at work in Latin America at present. A more decisive factor promoting regional harmony is the underlying cultural unity—the deepest source of Latin American interdependence, a unity achieved through the constant interaction of related languages and social, intellectual, and moral forms of expression that are largely European in origin.

The regional identity of Latin America and our cultural affinities especially with France, Italy, Portugal, and Spain must serve as a frame of reference for promoting and accelerating interdependence between Latin America and Europe. Austria, Germany, Holland, and Belgium have also greatly influenced Latin American life and thought, notably in the fields of philosophy and art but also in the areas of production, commerce, and trade.

It is this broadened sense of regional identity and interdependence—geographic, economic, and cultural—that is the hallmark of contemporary Latin America. In the American hemisphere we have learned from hard experience that the tendencies and tides which bind us together are equally strong as those which divide our nations and our peoples from each other.

Rich in natural resources like this forest in Chile, Latin America is a prime target for development.
© Sergio Larrain, Magnum.

Our hemisphere, then, is increasingly interdependent—especially in trade relations. It is seeking to live with other global regions in a pattern of mutual accommodation and cooperation. And the growing shortages of energy and mineral resources will create even stronger pressures for regional and global interchange of material, financial, and human resources. It therefore seems essential for the future growth, security, stability, and welfare of both Europe and America that we begin to search for newer and more dynamic means



Latin America—region of both the past and future, for "its development potential still remains greatly untapped." © René Burri, Magnum

and arrangements to bring our nations and our peoples closer together.

It is important that European business and government recognize that the growing hemispheric focus in development in Latin America now revolves not around external financial assistance but, in most countries, around the expansion of hemispheric export trade. In the immediate aftermath to the Second World War, Latin America tended to pursue development through a process of import substitution. Barriers were set up against foreign imports as a way to stimulate national industrial growth. This process is still followed in a few countries.

However, for most OAS members this process did not produce all of the results desired. Internal national markets were not always large enough to stimulate production. And protected national industries were frequently unable to develop a strong sense of competitiveness for foreign markets.

In recent years the import substitution process has been downplayed in Latin America, and emphasis is placed on accelerating export promotion. Developing countries have generally—with certain major exceptions—also sought to have the developed societies recognize the principle of granting unilateral nonreciprocal trade preferences for them. While there is some discussion about what it actually provides in practice to developing states, the Community's Lomé Convention is based on this principle.

WE ARE ENTERING A PERIOD when strong leadership will be required at national, regional, and international levels to reduce or restrict the growing tides of trade protectionism. It is essential that we move firmly ahead with our efforts to liberalize world trade. Both developed and developing nations require that growth and expansion take place through export development. It is inconceivable that the world as a whole or the Americas as a region can become more prosperous by producing less and contracting markets.

The growing economies of Latin America are seeking to open up new trade and investment relations with Europe. To accelerate the building up of these relations we need an analysis of the complementary differences which exist between Latin America and Europe. Both regions would benefit from a balanced mutual promotion of economic relationships that take these complementary factors into account. And both Europe and Latin America should recognize that they are now seeking to promote development through a rapid expansion and diversification of their export sectors. This gives them a common outlook and common objectives.

Yet Latin America's contemporary relations with Europe in the field of trade and development are not adequately structured around these complementary differences. To a significant degree, I believe, this seems to follow because the European Community has a well-integrated trade policy, while the field of technical cooperation for development still resides in national hands. From Latin America's perspective this appears to lead to an uneven European response to its overall development requirements.

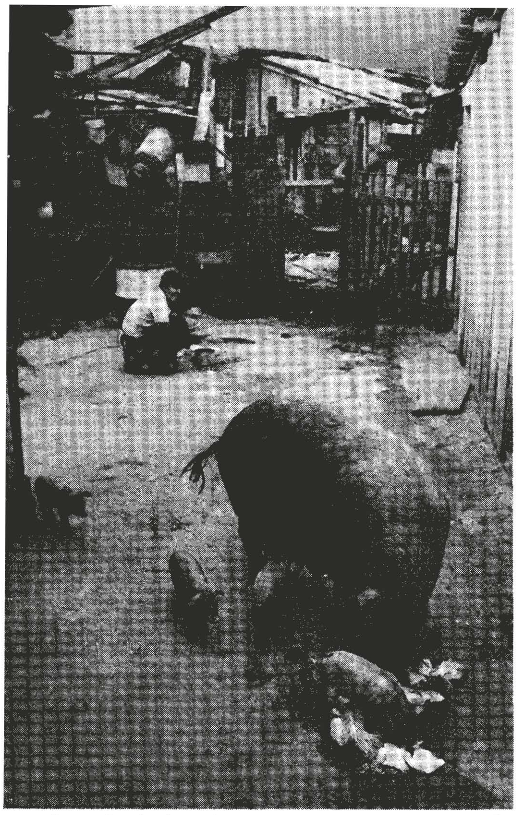
A particular difficulty is the Community's restraint on the entrance pf primary products from Latin America into its regional market—at times a severe and drastic restriction. In 1974 these led to Latin American beef exports to Europe suffering a decline of over $500 million. The imposition of quota mechanisms and the placing of countervailing duties of Latin American products are inducing a growing and unfavorable trade balance for Latin America with the European Community, amounting to $2 billion in 1975.

Latin America—despite its enormous progress in the postwar period—still remains a region of the future. Its development potential in energy, agriculture, and natural resources is as yet largely untouched. It is at this point where European assistance can prove essential: in financial cooperation, in the lowering of trade barriers, in helping to stabilize the export earnings of Latin America, in promoting mutual industrial cooperation and technological transfer, in assisting Latin America to lessen its external debt problems, and in helping our region to benefit from the new nontraditional sources of funding.

Latin America and Europe must learn to rediscover one another. We must extend the framework of our historical dialogue to a recognition that our common past is but a prologue to our increasingly interdependent future.

There is—and will continue to be—an enormous burgeoning demand for goods and

War in 1969 between El Salvador and Honduras set back movement toward Latin American integration. UPI



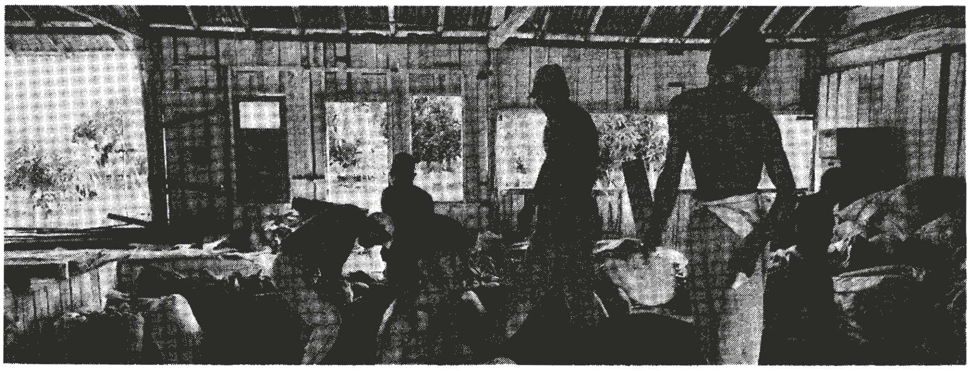
Intra-Latin American exports rose an average of 24 per cent annually between 1970 and 1975. . . . Still, poverty is common. © Bruno Barbey, Magnum

services in Latin America. This demand cannot be satisfied when our countries remain excessively dependent for income on volatile world markets for primary commodities. To achieve the productivity levels essential to self-sustaining growth we must have massive amounts of new investment—including foreign capital.

But this investment must be specifically attuned to the requirement in Latin America for greater local participation—joint ventures—in investment and for an effective transfer of technology. Unless appropriate technology is brought in with foreign private investment Latin America will continue to confront the volatile swings of economic fortune that accompany one-commodity economies.

There is a new climate for foreign investment in Latin America. Inflation is being kept under strong controls, solid economic strategies are in effect in various major countries, and trade doors are open. It is clear that business confidence is reaching high levels and that investment potential is expanding.

It is within this new framework that Latin America seeks a renewal of its dialogue with Europe. For our region Europe remains a source of incomparable strength—moral, political, and economic. It is for this reason that Latin America has welcomed the reintegration of Spain and Portugal into the mainstream of the European democratic tradition. Our ties and our debt to these two vigorous nations are immense and as their relationship to the European Community expands, Latin America's opportunities for achieving greater interdependence have a parallel increase.



Expanding trade both within Latin America and with the rest of the world provides opportunities for small businessmen such as this family of Japanese merchants in the Amazon basin. © Bruno Barbey, Magnum

But we cannot work together in isolation from the world community. The world economy has undergone severe changes during this decade. Latin America remains vulnerable to the periodic crises that adversely affect the global economy. In recent years inflation in the industrialized countries and the increase in prices of products derived from petroleum and of some basic foods have caused serious problems for the industry and agriculture of our continent. Several countries in Latin America have found it is difficult to obtain the external financing required to strengthen their development process.

Latin America today is aspiring to strengthen both global and regional development and interdependence. There is agreement within our countries that they should seek fairer and more flexible access for their export products to the markets of the industrialized countries. This goal is being pursued specifically with the European Community. Latin America's goals also include the reorientation and improved mobilization of multilateral and bilateral financial and technical assistance, the creation of standards of conduct for the transnational enterprises, and finally, a more dynamic access to the world's capital markets.

Regional development and global interdependence, then, are related closely to each other. This is a Latin American perspective shared, no doubt, by Europe. To achieve genuine interdependence to build a new economic order is, however, a long-range proposition. These objectives can only be reached through a steady but sure achievement of integration and accommodation between diverse areas of the globe.

BUT THE TASK OF FULFILLING these objectives cannot be the responsibility of governments alone nor of regional private enterprise. To the contrary this is a call to action for European private business and industries to join with their Latin American counterparts in forging a new era for development in our countries. Our region needs harmonious relations between national and foreign enterprise and capital if it is to fulfill its development potential. This means not only direct investment but also the establishment of multinational enterprises of a specifically Latin American-European nature. In turn our countries must continue to provide flexible guidelines for investment suitable to each specific industry.

In Latin America at present we find many forms of cooperation existing and growing between the private and the public sectors. This includes tripartite forms of association between foreign and national private investors together with public capital in various countries. There are also intermediary financial institutions operating at both national and sub-regional levels that cooperate with private capital. The doubling of private US foreign investment in Latin America, from $9 billion to $18 billion between 1964 and 1975, alone provides evidence that the new rules of the investment game in our region are secure, well understood and mutually beneficial to foreign investors and to our nations.

For their common future Latin America and Europe need new thinking, new insights, and new programs of common action. The challenges ahead are of long, not of short duration. Whether we have the imagination and sound judgment to respond to them will determine whether we have remained true to the hemisphere's peaceful traditions—which it has absorbed from Europe—and open to its promising future. It will also determine the contribution which Latin America and Europe can make together towards resolving the broad problems facing mankind.

By the signing of the new Panama Canal treaties, the American hemisphere has demonstrated that it has the capacity to translate into practice the ideals of peace and friendship between nations that it received—in no small measure—from its European origins. We should therefore have no doubt that Europe and Latin America also possess the ability to overcome the malaise of the present and to translate their vision of regional integration into a unified experience of regional and global interdependence.

THE FRENCH ELECTIONS

has anybody really won?

DON COOK, *Paris-based European correspondent for* The Los Angeles Times

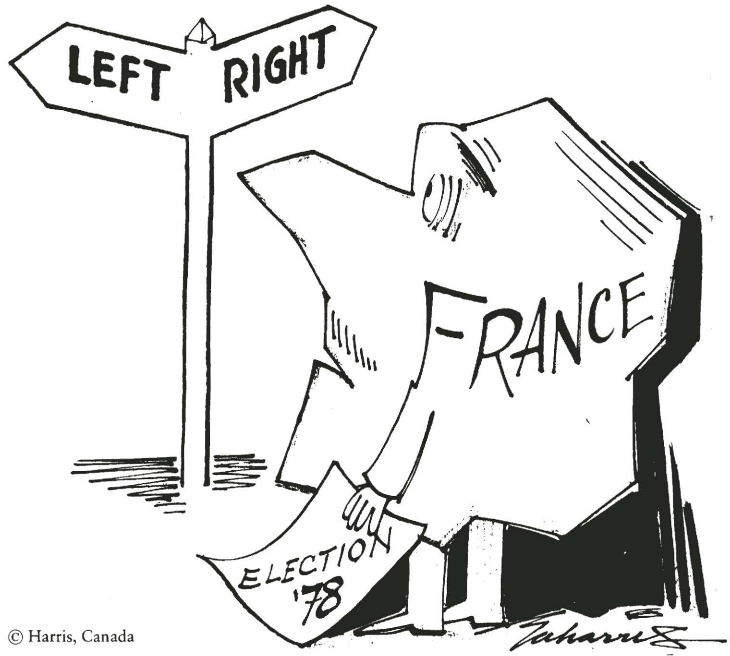
FOR 20 YEARS FRANCE HAS BEEN GOVERNED STABLY AND effectively under a constitution with a fatal flaw. But the 1978 parliamentary elections have now finally called that flaw into question, and the fate of the Fifth Republic may be at stake.

The Constitution was hand-crafted by General Charles de Gaulle in 1958 to put an end to the old confusions and divisons and weaknesses of the Fourth Republic by establishing clearly that supreme power in France would henceforth reside in a strong President. He would choose his own Prime Minister, approve the selection of cabinet ministers, preside over cabinet meetings, and be the arbiter and director of French affairs. The composition and policies of the Government should logically reflect the composition of the National Assembly, but the role of the legislature would simply be to vote the Government's program.

The Constitution thus never resolved the question of how France was to be governed if the President of the Republic were elected by a conservative majority in the country, but the National Assembly wound up controlled by a leftist or opposing majority. In Britain, of course, such a situation can never arise because the Government is always formed out of the existing majority in the House of Commons. In the United States there has always been the clear constitutional "separation of powers"—making it quite normal for the President elected by one party to run the executive branch and govern in peaceful coexistence with the Congress controlled by an opposing party.

General de Gaulle could afford to ignore the problem because of his great popular hold on France and his enormous personal authority and prestige. During his 11 years in office, his legislative majority was never remotely in question. Gaullist domination was supreme. When he found his popular support in the country slipping and lost the constitutional referendum in 1969, he simply quit and retired to his country home. But he left behind a National Assembly with an overwhelming Gaullist majority which had been elected in 1968.

President Georges Pompidou, who succeeded de Gaulle, then held a comfortable majority in the legislative



© Harris, Canada

elections of 1973 when the National Assembly came to the end of its five-year term. The Gaullists and their allies captured 298 out of 491 seats. It was this majority which President Valéry Giscard d'Estaing inherited when he entered the Elysée Palace after Pompidou's death in 1974.

But Giscard d'Estaing was elected in the narrowest of victories—barely 1 per cent majority over his run-off opponent Socialist Party leader François Mitterrand. The decisive swing to the left in France was already well under way. Time had begun to run out for the Gaullists. The majority in the National Assembly no longer reflected the voting trends in the nation. The swing has now reached its climax in the elections for a new National Assembly for the next five years.

ALONG WITH THE CONSTITUTIONAL FLAW, General de Gaulle left behind another political myth for France—the myth that the President of the Republic, once elected, automatically ascends into some nonpolitical heaven where he is "President of all the people," and therefore above and immune from the hurly-burly strife and conflict of politics and electioneering.

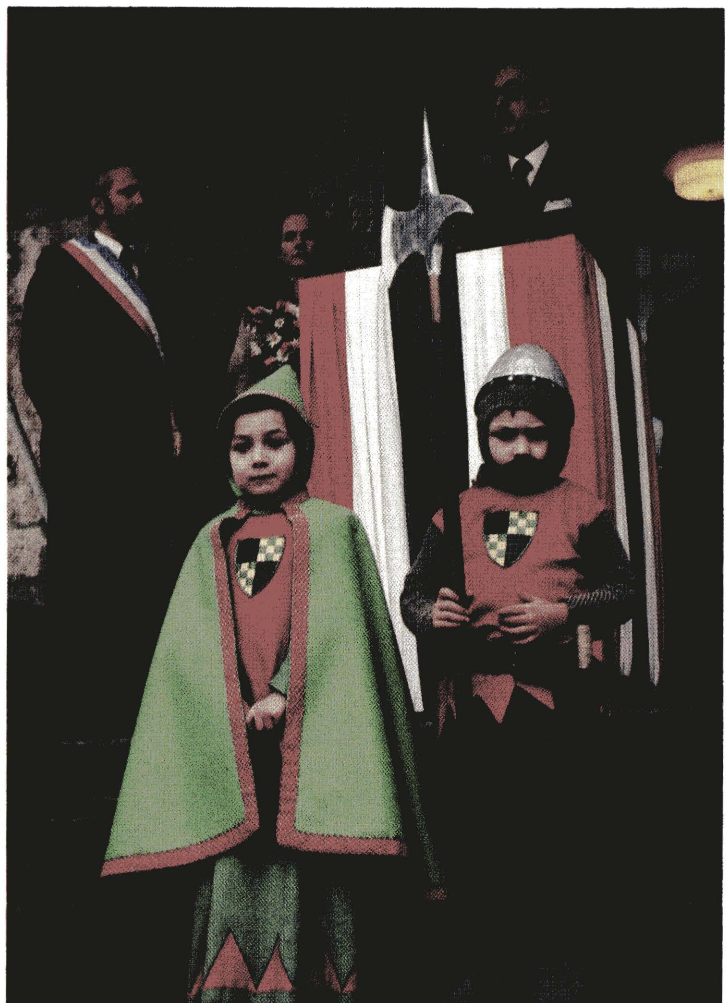
This was all right for the Presidents of the old Fourth Republic, who were indeed elected to be above political strife—arbiters of confusion and figure-head chiefs of state like kings and queens. But they held no substantive power. The concept of "President of all of France" also could work for General de Gaulle, with his vast personal hold on the imaginations of the French and his monarchial approach to power. After de Gaulle, both Pompidou and Giscard d'Estaing went through the ritual of resigning the leadership of their respective political parties when elected to the Presidency, ostensibly elevating themselves above politics by this self-immolation. But no matter how each sought to keep his head above the clouds of strife in the Elysée Palace, neither President could ignore his political feet of clay. Pompidou died before the shifting tides of French politics really began to be felt. Giscard d'Estaing has had to face it full-force, not only from the left but also among his own coalition supporters, almost continuously since he took office. President of all of France he might be, but immune from politics and from the political necessity of fighting for his own policies and concepts and ideals—never.

"Some people have tried to deny the President of the Republic the right to speak his mind," Giscard d'Estaing finally declared in a February election speech which was rated by *Le Monde* as probably the most important of his three years in office. "It would be an odd Republic that is run by a dumb President. Nobody has the right to tell me how I should act. I act as Head of State, and in accordance with my conscience. And my conscience tells me this: The President of the Republic is not a member of a party. He is not a party leader. But he cannot remain indifferent to the fate of France. His role is to defend the nation's higher interests."

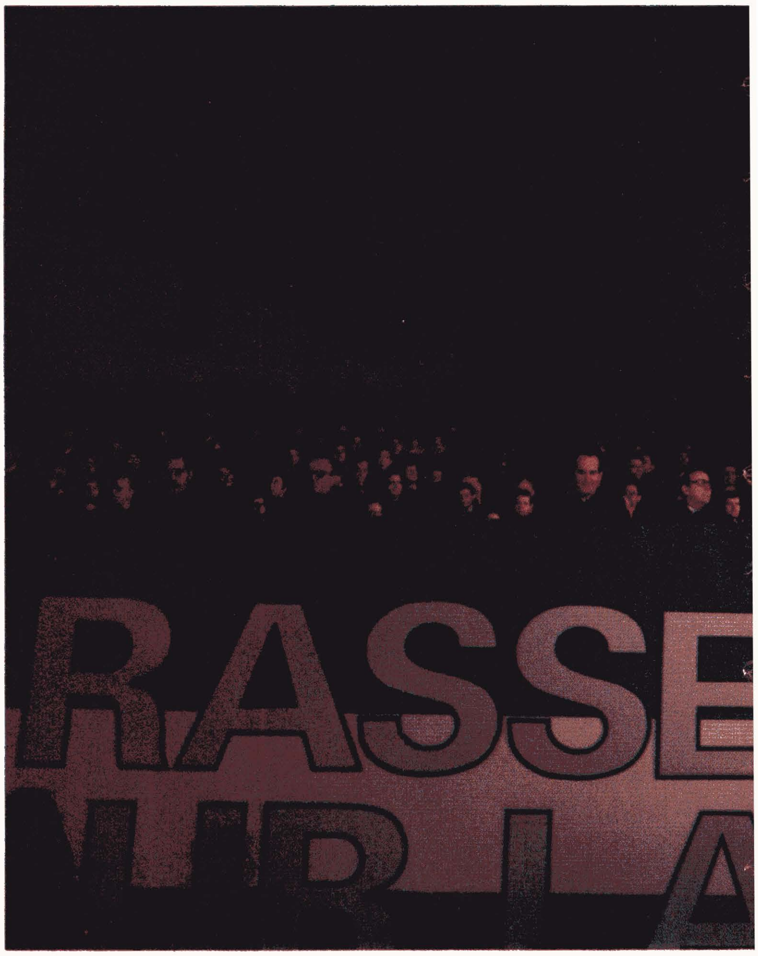
The President of France was saying in direct terms that his conscience and his concept of the higher national interest had put him at this juncture in opposition to the left. Paradoxically, from the time he took office in June of 1974, Giscard d'Estaing had clearly recognized the shifting center of political gravity in the country and had sought continuously to shift his Government with it. He had tried to govern slightly to the left of center, and had sought to keep the door open against the possibility that he might one day wind up presiding over a coalition in which moderate socialists could play a role. His little book on "French Democracy" published early in 1977 was a plea for reformist policies and programs for France that in essence differed little from social democracy in Sweden or Norway. But the Gaullists on the right did everything they could to thwart d'Estaing's reformist ideas, and finally in the heat of the election campaign he had little choice in conscience except to come down out of the clouds of political theory, enter the arena and declare his conviction that even the program of the Socialist

Politicking intrudes even on the traditional domain of the sidewalk artists. © Richard Kalvar, Magnum

President Valéry Giscard d'Estaing campaigning in Bourgogne. © Jean Gaumy, Magnum



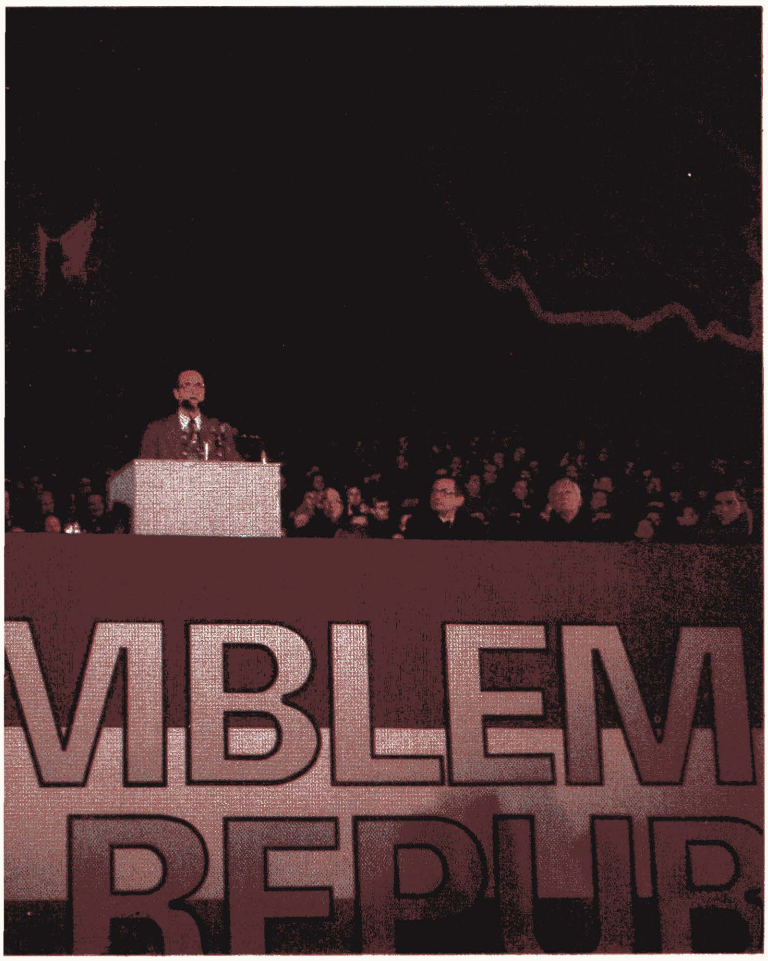
American-style media blitzes and phone canvassing are no substitute for old-style solicitations. © Richard Kalvar, Magnum

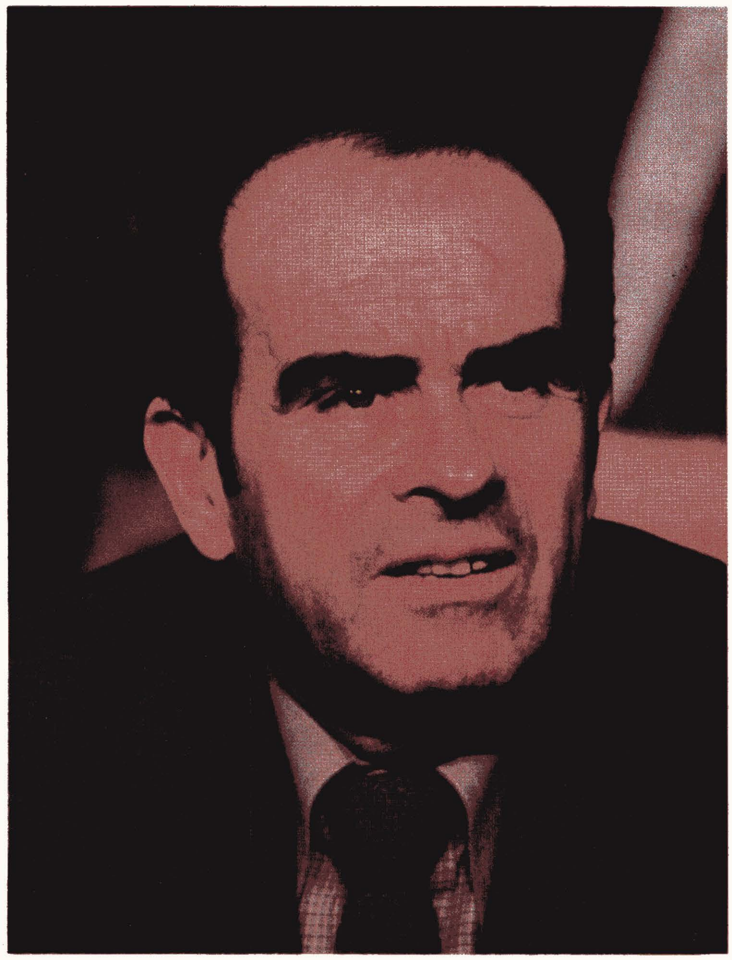


Gaullist Party leader Jacques Chirac at a Paris rally. © Jean Gaumy, Magnum

Socialist Party leader François Mitterrand. © Richard Kalvar, Magnum

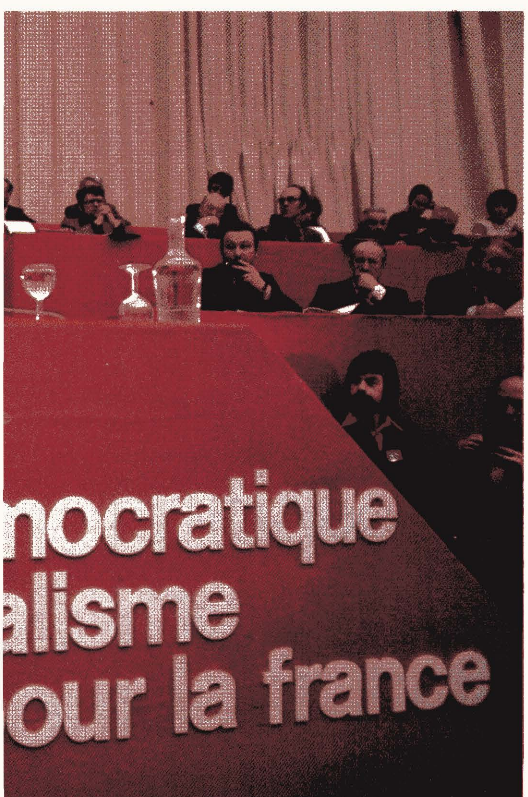
Communist Party leader Georges Marchais. © Jean-Paul Paireault, Magnum

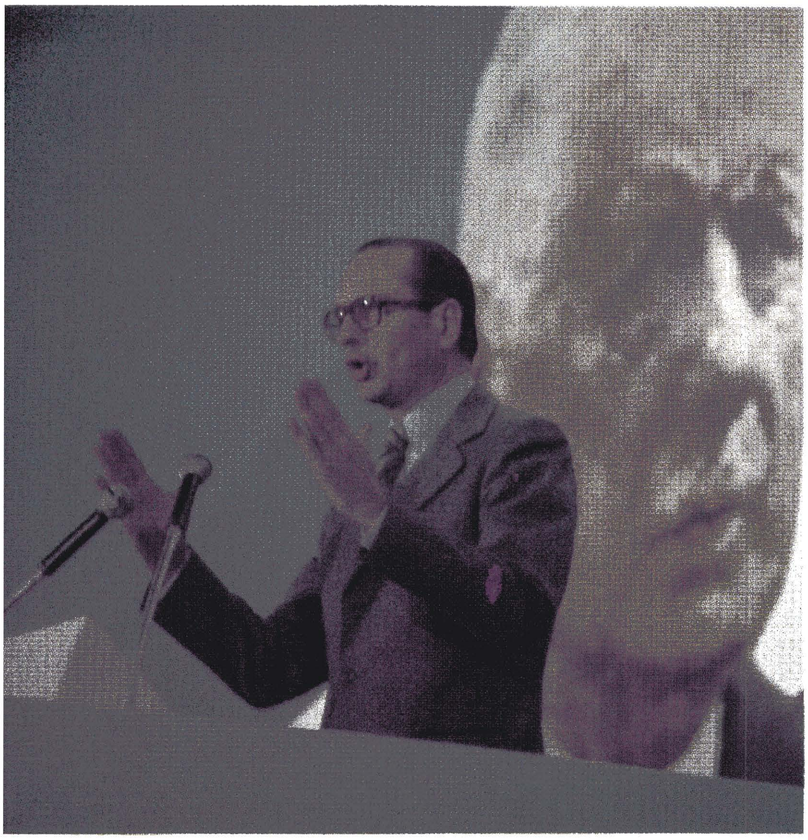




Communist Party leader Georges Marchais. © Richard Kalvar, Magnum

Too young to vote, but never to young to campaign. . . . © Richard Kalvar, Magnum





Jacques Chirac campaigns before the background of a legend.
© Marc Riboud, Magnum

Prime Minister Raymond Barre in Lyon. © Richard Kalvar, Magnum

Party—considerably more moderate and less Marxist than the program the Communist Party was pushing—would mean economic disaster for France. It was too far left of center for the French President.

AT THE SAME TIME, Giscard d'Estaing reiterated his firm intention to remain in office until his term ends in 1981 no matter what the election outcome. But as for enactment of a socialist program if the left were elected, "do not imagine that I have the constitutional means to stop it," he warned. With a majority in the National Assembly, the left would have the votes and the means to carry out its program no matter what the conscience of the President of the Republic or his concept of higher national interest. At that point, the President, the Government, French politics, France itself would simply be enmeshed in that fatal constitutional flaw. Unlike General de Gaulle, Giscard d'Estaing cannot or will not walk away from the consequences of the national vote.

"If we lose this election, Giscard d'Estaing will be the last President of the Fifth Republic," declared Gaullist Party Leader Jacques Chirac at the height of the campaign, since Chirac's enmity for the French President, whom his party ostensibly supports, is only slightly below his enmity for the French Communists, the remark was largely political hyperbole. But it contains at least a grain of possibility of truth. A left victory, said Chirac, would make Giscard d'Estaing "a prisoner in the Elysée Palace." Can the French President in good conscience really preside over a government that is dedicated to carrying out policies he deems to be against the national interest? Can the constitutional fabric of France stand the strain?

Since Chirac would dearly love to replace Giscard d'Estaing as President of the Fifth Republic—or any other Republic—there is a large suspicion among moderate conservatives in France that the Gaullist leader is not averse to a period of leftist chaos in the country. Victory for the left would leave Chirac riding a political white horse for the next three years as the Gaullist heir-apparent to save France from itself, while Giscard d'Estaing struggles with his conscience and the country struggles with its problems.

In fact, throughout what was the most decisive and important election campaign in postwar France, on each side there was a faction that always seemed to be *trying to lose.* On the left, the Communists certainly did everything they could to scuttle the chances of victory, from last September on, when they deliberately broke up the five-year-old federation of the left because the Socialist Party would not agree to revise their common program on Communist-Marxist terms. Meanwhile, the Gaullists under Chirac performed throughout the campaign as if they were more interested in cutting down Giscard d'Estaing than winning a victory for the Government coalition.

And, in fact, by the end of a confusing, emotional slam-bang electoral campaign, it was well-nigh impossible to see anybody really *winning*. It was certainly no win for the Communists to come in second-fiddle to the Socialists. Yet it was no win for the Socialists to emerge at long last as the strongest party in the country and still not be able to govern on their own terms without compromising with either the Communists on the extreme left or with one of the moderate radical or reformist or centerist movements to the right. Jacques Chirac might believe that he was a winner through strengthening his personal grip on the Gaullist Party, but it was no win for the Gaullists to fail to stem the tide of the advancing left. And in the middle of all this, Giscard d'Estaing could scarcely win at all. His idealistic hopes for finding or creating a moderate left-of-center governing base simply were ground to powder and dust by the uncompromising forces of the left and the right.

YET FRANCE MUST STILL BE GOVERNED—and Giscard d'Estaing is still the President of the Republic, President of all of France. He still selects the Prime Minister, and still approves the list of cabinet ministers which is then submitted to him. The Government must technically seek a vote of confidence, then, at some point from the National Assembly. But it does not automatically fall or dissolve if the vote is negative. Technically it can remain in office, except that a constitutional impasse has then been reached. Even though the President of the Republic holds supreme power, therefore, the exercise of that power has got to reflect the realities of the votes in the National Assembly.

With a combined left majority of Socialists, Communists, and Left Radicals in the National Assembly, would François Mitterrand be able to negotiate successfully with the Communists on an agreed legislative program and on distribution of posts in a left coalition cabinet? And would the President in good conscience approve?

In the light of the way the Communists fought the election, a left victory would be no guarantee at all that Mitterrand could form a cabinet. The Communists might well refuse to cooperate on any terms except their own, which would be unacceptable to Mitterrand, Giscard d'Estaing, and the country. Would an "Italian solution" then be possible in France—a leftist Government that counts on either Communist abstentions or Communist token support to be able to govern?

But if there were no clear and solid majority for the left, could Giscard d'Estaing simply form a "government of technicians" that would go to the National Assembly with a program of moderate reform measures designed to appeal to the left without all the extremes of nationalization of industry and other such causes that Mitterrand and the Socialists and Communists espouse? Prime Minister Raymond Barre was a technician and not a politician, and so was Prime Minister Maurice Couve de Murville and even at the outset Prime Minister Georges Pompidou. Why not a leftist technician?

If there were no clear majority to the right, either, could the French President perhaps find a political figure from the center-left who could put together a coalition of Radicals, Centerists, Reformists, Giscardian Republican Party supporters, and maybe even some moderate Socialists in a political grouping that ignores the Communists on the left and the Gaullists on the right? Would a consummation be devoutly wished, and by Giscard d'Estaing in particular?

The sad basic truth is that nobody has won. No post-election "solution" is going to be more than temporary. France is entering a period of prolonged political crisis. This does not necessarily mean a crisis of violence, upheaval, or disorder. But it does mean a period of weakness, uncertainty, mounting economic difficulties, and unrest in which France is going to be an irascible, nervous, and difficult neighbor, partner, and ally.

Underlying it all is that fatal constitutional flaw. It would indeed be one of the great ironies of French history if de Gaulle's Fifth Republic, which has given the nation its greatest period of stability and expansion in two centuries, should in the end fall because its constitution proved unworkable.

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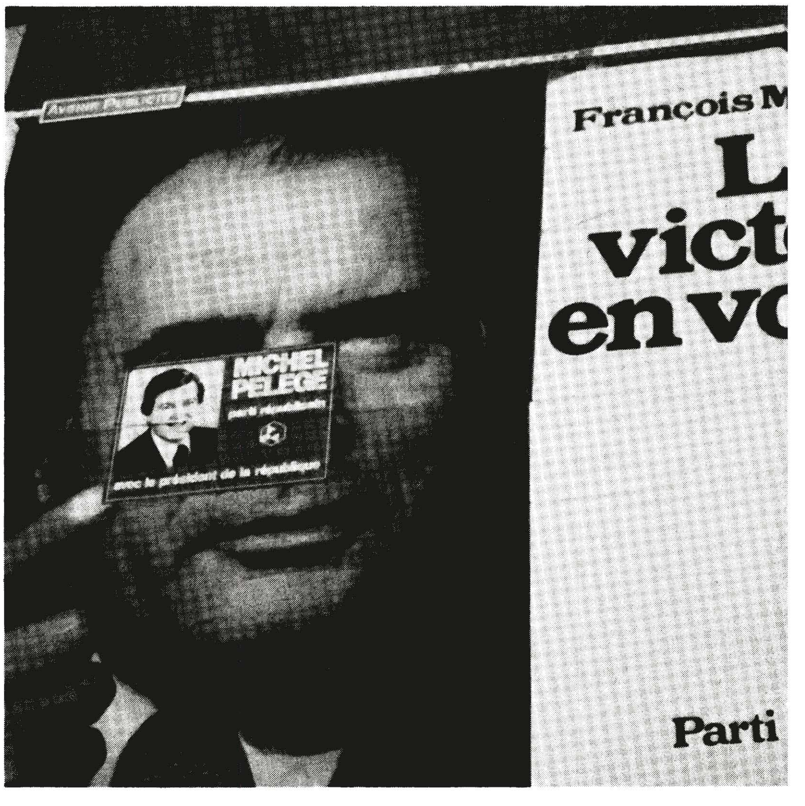

DENMARK'S DILEMMA

Nordic and/or European?

ROLF BUSCHARDT CHRISTENSEN *a Dane, works at the Delegation of the European Communities in Ottawa*

Denmark holds the Presidency of the EC Council for the six months that began January. Thus, in the first of a new series of regular features on the individual member states, the following historical but timely article gives perspective to Danish EC membership.

TO ASK WHETHER DENMARK IS A NORDIC OR A EUROPEAN nation might seem absurd, since Denmark is of course both. To many Danes, however, it is an either/or question.

After the favorable outcome of the October 1972 referendum, where nearly two-thirds voted for EC membership, Denmark joined the Community in January 1973 along with Britain and Ireland. Since then, however, many Danes have become discontent and according to some recent opinion polls, if a referendum were held in Denmark today, a majority would vote against EC affiliation.

Many anti-marketeers point to the "Nordic alternative." To a great extent Denmark shares a common history and culture with the other Nordic countries, among whom Denmark can consider herself an equal. The opponents, or anti-marketeers, claim that Danish sovereignty is threatened by EC membership; so are Danish traditions and institutions as well as the language and culture. They maintain the Community is a "narrow Germano-Latin union" whose political culture is clerical, reactionary, and anti-parliamentarian. Rome, where the EC Treaty was signed, does not symbolize the same thing to all Europeans. To many Danes "Rome" stands for imperialism, Catholicism, Roman Law, and suppression. Further, as a small country, Denmark is dwarfed by the other members of the Community, which might increasingly dominate Denmark economically and politically. In time Denmark would become a German possession, EC opponents argue.

Denmark, situated most southernly of the Nordic countries and bordering on Germany, has often made a deliberate effort to look north. It has often been the Danes who advocated a united Scandinavia or Nordic Union, although few have had, or have presently, a vision of a politically united Europe. Economically, however, they have consistently advocated the liberalization and expansion of free trade, and Danish tariffs have been among the lowest in Europe. Trade is extremely important simply because Denmark has few natural resources of its own. Presently Denmark exports about two-thirds of its agricultural production and about one-half of its industrial production. Denmark's two most important trading partners are, and have traditionally been, Germany and Britain, from whom industrial goods are imported. In return, bacon, and butter are exported to Britain and meat, eggs, and cheese to Germany. Recently, however, Sweden has become an important trading partner for Danish industrial exports.

In the late 1940's and early 1950's, Denmark sought to establish a customs union with the other Nordic countries, but Norway and Sweden were reluctant to include agriculture in the arrangement. They feared Danish agricultural competition, and ultimately the attempt to establish a Nordic customs union failed. In 1957 the Danish farmers, represented by the Agricultural Council with support from the Liberal Party, advocated that Denmark join the newly formed European Economic Community. Most politicians, however, preferred to follow Britain and consequently Denmark joined the European Free Trade Association (EFTA) creating free trade in industrial goods among the Nordic and other non-EEC European countries. In this way a major economic Nordic objective was achieved, albeit by forces outside the Nordic countries.

WITH THE CREATION of the Community and EFTA, two of Denmark's major trading partners—Germany and Britain—fell into two different trading blocs. Politically Denmark felt comfortable within EFTA as no sovereignty had to be surrendered or transferred to a supranational level. Nevertheless, Denmark's membership did not solve the problem of farm exports since EFTA did not include the agricultural sector and the Community was creating a common agricultural policy that would make it increas-

Despite strong sentiment against joining the Community—as displayed on the sign propped against a Hans Christian Andersen statue—two-thirds voted for EC membership in the 1972 referendum. UPI

ingly difficult for Denmark to maintain existing levels of agricultural exports to Germany. Consequently, when Britain applied for EC membership in 1961, Denmark did the same, followed by Norway. Britain's bid for entry was vetoed twice; and because Danish membership was linked to Britain's application, Denmark turned north after the second veto to see what the possibilities were for creating a Nordic Common Market: NORDEK. The Danish Prime Minister presented his proposals in February 1968 at the meeting of the Nordic Council. A committee of high-level civil servants from Denmark, Norway, Sweden, and Finland was instructed to submit concrete proposals for NORDEK. The four Scandinavian prime ministers told the committee that in principle:

- Nordic cooperation could not hinder any one country from joining the European Community, which meant Denmark and Norway would not withdraw their applications for EC membership;
- there could be no discrimination or limitation on economic or commercial relations with third countries;
- cooperation had to be organized so benefits and disadvantages were equally shared among the four countries;
- Nordic cooperation could not include national security or defense policies.

In addition, the prime ministers listed 10 fields of potential cooperation, including agriculture, where policy should be similar to that of the EC common agricultural policy. Regarding the creation of common institutions, it was decided to wait and see what was necessary.

The committee's report, submitted in January 1969, also contained a separate Danish declaration with six demands:

- the customs union could not limit the Nordic countries' options in international trade, including arrangements with the European Community;
- cooperation in the field of agriculture had to be such that there was an adequate and efficient division of labor;
- the flow of capital had to be liberalized so a Nordic common market would function satisfactorily;
- the Nordic countries should be willing to finance common institutions and policies;
- any new common institutions should be of such character as to assure the implementation and development of common policies within the framework of an eventual Nordic agreement; and
- an eventual Nordic agreement should ease the way for creating an enlarged European market, and therefore a Nordic agreement would have to be adaptable to the European Community.

The committee felt that the Nordic agreement should be established by treaty, but be of limited duration, perhaps 10 years. At the same time it should also be possible to withdraw before that time, in case Denmark's and Norway's applications were accepted in the Community. The committee also recommended the agreement contain an emergency clause so unilateral action could be taken in case of a general strike or an international crisis. In regard to establishing common institutions, Sweden, Norway, and Finland wanted to create a common secretariat, whereas Denmark wanted to create a cooperation committee with tasks similar to those of the EC Commission, but without supranational authority.

Moreover, the Danish Government clearly made it understood that if agriculture were not included, then there would be no NORDEK. However, Sweden, Norway, and Finland opposed Denmark. About 33 per cent of Danish export earnings came from agricultural products, compared to only 3-to-6 per cent in the other Nordic countries. In addition, Danish agricultural prices were about 20 per cent below EC prices, Sweden's were 5 per cent above, and the Norwegian and Finnish prices were 15 per cent above. Danish agricultural prices were thus about 35 per cent below those of Norway and Finland. This was not only due to geography, climate, and soil, but to the bigger, more modern, and more efficient Danish farms. Furthermore, Nordic agricultural products were more competitive than supplementary. A common Nordic agricultural policy would thus have benefited Danish farmers, while it might have been detrimental to the farmers of other Nordic countries.

By mid-1970 the choice was not between NORDEK and the European Community, as many Danish anti-marketeers claim, because NORDEK was dead. Denmark had no alternative but to follow Britain—along with Norway—into the Community. Because Britain had decided to join, a new situation would exist for Denmark after January 1973 whether or not it became a member. Moreover, during the negotiations with the Community, Denmark and Norway secured free trade for industrial goods between them, a principle later applied to all EFTA countries. Even though Norway voted down EC membership in a referendum held a week before the Danish referendum, the Danes voted for joining the Community knowing they would be the only Nordic member state. Danish agricultural exports as a percentage of total exports had been steadily diminishing, and where else could Denmark export but to EC countries, especially Germany and Britain? Danish industrial exports had grown increasingly more important, and the biggest market was Sweden. EC membership would mean Denmark could look south for new markets; and, according to the Accession Treaty, no new barriers would be created between Denmark and Sweden. In other words no new obstacles to trade could arise among the original EFTA members.

THE DANISH DEBATE over whether or not to join the Community was referred to as the "market debate." There was the Nordic market, the British market, and the German market, and the Danish aim was to unite these markets into a single market to include both agriculture and industry. Therefore, Denmark joined the Community primarily for economic reasons, not political ones. In fact, supporters of EC membership used economic arguments, while anti-marketeers used political reasons. Since 1973 the debate has become increasingly more political. Few Danes are in favor of the Community developing into a political union. In the latest national election in February 1977, EC membership was not a major campaign issue, and the newly formed Nordic Party of the People, a political party established with the expressed purpose of getting Denmark out of the Community, did not get any candidates elected.

When Denmark joined in January 1973, the *Folketing* (Parliament) consisted of five political parties, the four so-called old parties—Social Democrats, Liberals, Conservatives, and the Radicals—and the Socialist People's Party. Since World War I the four old parties had dominated Danish politics, even though smaller parties would from time to time be represented in the *Folketing*. However, in the first election following accession to the Community in December 1973, the number of parties represented jumped from five to 10, and by the 1977 election there were 11. The strongest opposition to EC membership is found on the far left of the political spectrum. Before 1973 the Socialist People's Party was the only party against membership. During the past year four parties opposed to EC membership—and pointing to the "Nordik alternative"—have been represented in the *Folketing*: the Socialist People's Party, the Leftist Socialists, the Communist Party, and the Single Tax Party. Their opposition to EC membership is probably best explained in ideological terms, in which the Community becomes an obstacle to a more egalitarian or socialist society. Many of the opponents are young Danish or Nordic nationalists as well as socialists. So far no fascist group has emerged against Community membership—comparable to, say, the National Front in Britain.

A recent study showed that most Danish decision-makers support the Community, whereas the lower socio-economic groups support European integration less, favoring instead a Nordic orientation. The study also showed a close correlation between support for NATO and support for the European Community, while EC opponents who favored a Nordic orientation were often also against Danish membership in NATO. Moreover, since the 1973 referendum, supporters have been passive while opponents have been active. Recession, inflation, and unemployment, major problems emerging shortly after Denmark joined the Community, meant that membership did not bring the benefits and advantages advanced by supporters in the referendum campaign. The high expectations became disappointments.

The EC opponents see a European orientation, and even an Atlantic one for that matter, as diametrically opposed to a Nordic orientation. To the opponents, the Nordic alternative is just that, an alternative, and not a complementary dimension. On the other hand, EC supporters would hardly argue against Nordic cooperation. Many supporters of the Community speak of Denmark as a bridge between the Nordic countries and the Continent, and historically Denmark has played this role. Those who advance the bridge concept argue that not only is Danish membership without any other Nordic country acceptable, but is highly desirable both from a Danish and a Nordic point of view.

Denmark will support further Nordic integration and cooperation in so far as this is not incompatible with EC membership. Within the Community, however, Denmark will be unwilling to accept integration initiatives that would increase the distance between it and the other Nordic countries. This indicates a positive Danish attitude towards integration among the Nordic countries, and a cautious attitude towards European integration. At the same time the hard economic facts show that there is no Nordic alternative to the present EC membership. Denmark is Nordic in culture and tradition, while economically it has become European.

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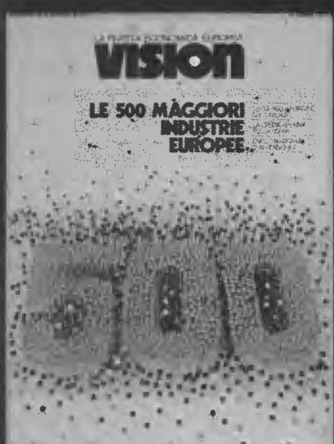

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London

By default, race could become a major issue in Britain's next general election. The opposition Conservative Party until recently banked on the nation's economic miseries as the most obvious lever with which to unseat the ruling Labour Government. But the healing of Britain's economic ills has begun, and the economy is no longer the obvious chink in Prime Minister James Callaghan's armor.

Although liberals in the Conservative hierarchy shudder at the thought of immigration and race relations becoming a new party spearhead in the election battle now generally expected to take place this autumn, Party Leader Margaret Thatcher has aired the possibility. In a television interview she said, "People are really rather afraid that this country might be swamped by people with a different culture." She said a Conservative return to power offered "the prospect of an end to immigration except, of course, for compassionate cases." This sparked an angry parliamentary row between Callaghan and Thatcher with each accusing the other of playing politics with a highly emotional issue.

Thatcher said—wrongly—that between 45,000 and 50,000 colored immigrants were entering Britain annually and that a parliamentary committee estimated if immigration continued at the present rate, there would be a colored population of more than 4 million out of a total 55 million by the year 2000. Callaghan was also off the mark when he retorted that the total entering each year did not exceed 25,000, most of whom were dependents of immigrants already in Britain.

Actually the rate of immigration has begun to drop and is likely to keep doing so. The Home Office said last year's figure for new immigrants was 28,000. Another 16,000 people already living in Britain were permitted to settle. The overall figure of 44,000 marked a 10,000 decrease in 1976 totals. The best forecasts, government and unofficial combined, peg Britain's immigrant population at no more than 3.3 million, or one in 17 of the population, by the end of the century.

Most of Britain's immigrants are West Indians, Asian holders of British passports expelled from Uganda in 1973 by President Idi Amin, and natives of India, Pakistan, and Bangladesh. Large-scale immigration from these countries began in the early 1950's as Britain dissolved its former colonial empire. But successive British governments since the early 1960's have tried to trim the numbers of immigrants allowed in. Britain has large concentrations of colored immigrants in some inner city areas. There have been racial confrontations and even some rioting, but never anything approaching the scale of racial trouble in the United States.

The 1948 British Nationality Act gives the automatic right of entry to Britain of anyone from the former colonies holding a UK passport. This Act, coupled with laws introduced when colonies became independent, led to the Ugandan-Asian influx and could lead to another inflow from Kenya if there is turmoil after President Jomo Kenyatta goes. There is the long-term possibility of a flood of several million Chinese from Hong Kong when ownership of the territory reverts to China in 1999. But politicians believe immigration statutes will be altered long before then to stop this from happening. The bulk of the 28,000 new immigrants in 1977 were either UK passport holders or the wives, children, or elderly relatives of those immigrants who settled in Britain before the last Immigration Act took effect in 1973. Experts say that, short of amending the Nationality Act, Thatcher's only way of reducing the number of colored immigrants would be to forbid many of those already in Britain to settle. Even this, they reckon, would only cut the projected end-of-century total by no more than 200,000.

Race looms larger as an election issue because the Labour Party knows community problems in some areas with large immigrant populations have sent home Labour voters—vital for holding marginal seats in a general election—into the camp of the far-right National Front Party. They also are ripe for Conservative wooing. A Gallup poll for the *Sunday Telegraph*, taken before Thatcher's television comments, showed 59 per cent of Britons think immigrants are a serious social problem, 46 per cent believe race relations are getting worse, and 45 per cent think Britain has been harmed by immigrants. Yet colored immigration came only fifth in the list of what those polled felt were Britain's most serious social problems—after crimes of violence, juvenile crime, drug-taking, and bad housing.

The first real test of race as a ballot box issue will come at a by-election in the Ilford North constituency, probably in mid-March. Private Conservative polls show race is a major issue there despite a tiny immigrant presence. If the Conservatives win the seat, their margin of victory will indicate how valid a role race could play in a nationwide vote. —PETER J. SHAW

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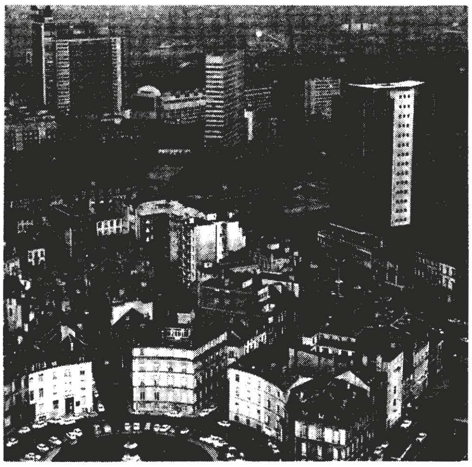
Brussels

There was some unfamiliar litter swept up with the confetti after this year's Mardi Gras celebrations in many towns throughout Flanders—banners and posters reading *Egmont Pakt–Nooit* ("Egmont Pact—Never"). Less than a month after the Coalition Government of Prime Minister Leo Tindemans produced its legal blueprint for implementing the Egmont Pact on a new federal constitution for Belgium, it has become plain that many of the country's Dutch speakers are less than charmed by the plan.

But let's put it no stronger than that for the moment. There have been demonstrations in Flemish cities; there have been expressions of powerful political



opposition—but no violence. Frankly it would have been a miracle if the Government had been able to settle, at one stroke, the ferocious internal nationalisms that divide Belgium's French- and Dutch-speaking communities.

The conflict has its roots in Nineteenth Century history and may at least partly be blamed on Britain's trenchant diplomatic efforts to halt the development of a powerful and united cross-channel neighbor. For generations Flanders, tucked under the wing of Holland, was the weak sister to the politically, economically, and culturally dominant French-speaking region of Wallonia. That changed after the Second World War with the heavy flow of investment into Flanders coupled with the decline of the basic coal and steel industries of Wallonia. Prosperity in Flanders fed the long suppressed Flemish nationalist yearnings, at the same time creating a conservative political attitude that contrasted with the traditional socialism of the French-speakers.

This political, cultural, and economic polarization has been further complicated by the position of Brussels, a largely French-speaking outpost in Flemish territory. As Brussels expanded, so the French-speakers moved out into the city's suburbs—creating the linguistic frictions that have become familiar stories for newspaper readers here for years.

The Egmont Pact is an attempt to enshrine these conflicting nationalist realities in a constitutional framework. The country will have three regions—Flanders, Wallonia, and Brussels—each with its own elected assemblies and an executive government. These regional bodies will be given quite substantial powers to conduct economic and industrial policy, including the right to levy taxes, under broad guidelines issued by the central Belgian Government. But the latter will retain the conduct of defense and foreign policy for the country as a whole.

If that were all, the Dutch speakers would have rich cause for complaint since the regional division explicitly legitimized Brussels and thus effectively created two French-speaking communities and one Dutch-speaking in a country where the latter are in a clear majority. This obstacle is being met by the creation of two community councils, based on the language division, into either of which the Brussels population will be brought. The councils will monitor all questions involving culture, language, and discrimination.

The really ticklish issue is that of the French-speakers who work in Brussels but live in the surrounding Flemish areas. They are to be given, temporarily, quasi-citizen status in Brussels and so will come under the latter's regional government—an unwieldy arrangement that smacks of privilege to the Flemish and is the main source of their irritation with the pact. But if there is a better method, no one has yet defined it.

—ALAN OSBORN

Bonn

Is this spring going to see a rerun of last year's squabble between Bonn and Washington over international economic policies? Although neither of the two allies wants to let disagreements between them seem to dominate their relationship, a clash may be hard to avoid. The Germans are dismayed at President Jimmy Carter's continuing "benign neglect" of the dollar, whose falling value against the deutschmark can only make life harder for a country that depends on exports for one job out of four. Germans are disturbed at what they feel is the naive approach of the White House towards the troubles of the world economy: Simply trying to pump up demand in Germany won't necessarily help anyone else, Bonn feels. Yet it would run the risk of renewing inflation in Germany, now down to less than 3.5 per cent—and that is a risk that no German politician wants to run.

So the prospects for the July summit meeting, for which Chancellor Helmut Schmidt sent out invitations in January, look a little doubtful. Is no summit preferable to one marked by disagreements? On the positive side, Schmidt has apparently managed to get his personal relationship with President Carter onto a more friendly footing, though not everyone in high positions in Germany is equally complimentary. One very senior figure who has been involved in trying to smooth things over with Washington complained of the Carter Administration, "These people think they can treat us in Europe as though we were children."

None of that means that the Germans won't go on trying to reach a sufficient degree of consensus among the major nations invited to Bonn in July to make the summit able at least to avoid open rows. For Chancellor Schmidt and his embattled coalition, in fact, a few days of seeing this quiet capital turned into the center of world events could bring substantial domestic political benefits.

Only a few months after the surge of public support for the Chancellor that followed the Mogadishu rescue of a planeload of hijacked hostages, Schmidt's Social Democrats (SPD) appear to be at war with one another and on tenser terms than usual with their partners in the Government, the Free Democrats (FDP). Passage of a bill designed to help the police control contact between imprisoned terrorists and the lawyers suspected of being their accomplices was a parliamentary cliffhanger for Schmidt. Still more embarrassing continues to be the Government's floundering efforts to put the finances of the national old-age pension scheme onto a firm footing—the same issue that nearly broke the SPD-FDP coalition up altogether just after the two parties narrowly won re-election in the fall of 1976.

Worst of all at the turn of the year was the impact of the Lutze spying affair and a series of unauthorized buggings by a seemingly uncontrollable military intelligence agency, the MAD. These gaffes in his domain forced the resignation in February of Georg Leber after long and widely appreciated service as Defense Minister. Schmidt, giving an

Chancellor Helmut Schmidt

unfortunate impression that events had taken him by surprise, carried out a hasty cabinet reshuffle that changed six of the 12 SPD ministers. Four relatively young men have come up from the ranks of the state secretaries, but the most important change is the nomination of Hans Apel to the defense portfolio and his replacement by Hans Matthoefer as Finance Minister.

This leaves Apel, at the age of 46, as the heir-apparent to Schmidt himself, while Matthoefer's elevation should improve the Chancellor's links with the left of the SPD.

The new look of the cabinet ought to help the party in the four state elections that are coming up at different times later this year—and where the party will be under pressure. Will it also help cement the present partnership with the FDP, both in Bonn and at state level?

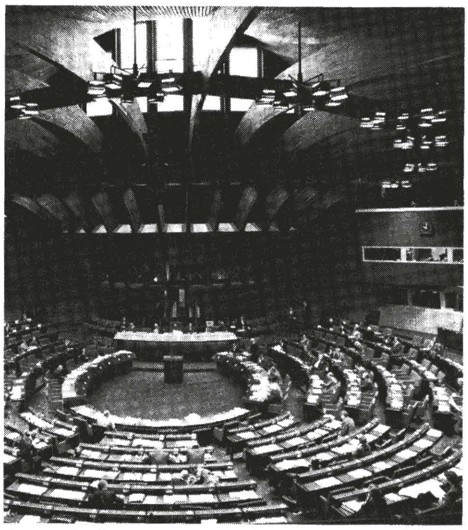
More than anything else, the Chancellor seems to need a few successes to turn the corner for his party, after the recent series of blunders and scandals. The FDP, always conscious of the need to nurture its tiny but just sufficient share of the vote, likes to be able to tell its supporters that it's going with a winner. And if the Chancellor's party doesn't manage to find its sense of direction, the endless speculation about a change of allegiance by the FDP, so that it would form a new coalition with the Christian Democrats, could come true. All in all, the spectacle of Schmidt presiding over a concourse of world leaders should be a valuable gain this summer. But first, he and President Carter need to have a better idea of what it is they want the summit to do.

—ADRIAN DICKS

Luxembourg

Don't underestimate the tenacity of Gaston Thorn—that must surely be lesson number one for anybody trying to put down Luxembourg. Rumors that moves were underway to shift the European Parliament headquarters from the Grand Duchy to Brussels had scarcely surfaced before the Prime Minister acted. A sharp letter went off to the President of the Parliament reminding him that Community governments, not the Parliament members themselves, decided where the Parliament should sit. That was followed by a dash up to Brussels and a similar warning in the ear of Prime Minister Leo Tindemans. Then to Paris for moral support from President Giscard d'Estaing—which was, of course, given. The French find the prospect of Brussels cornering all the major EC institutions even more distasteful than does Thorn.

What brought it all on were reports that a committee of the Parliament was proposing to rent some capacious new premises in Brussels. Innocent enough on the face of it. A lot of committee work is already done in Brussels and the existing accommodation is wretched. But cynics wondered if the Parliament really needed all that much new space. Was something conspiratorial afoot? Brussels has an embarrassingly large surplus of empty office blocks at present. Could it be that the city authorities were discreetly



Council of Europe in Strasbourg, cite of present European Parliament meetings.

offering some of this to the Parliament in return for a promise to build a fine new assembly for the directly elected Parliament?

Fanciful or not, the idea alarmed Luxembourg—hence Thorn's flurry of activity. It has probably worked. He has won from all concerned a formal, public acknowledgement that the 1965 agreement which gives governments the say over the sites still holds good. A threatened political blow-up has been averted. But Luxembourg has gone further. If the city, under the 1965 deal, has the right to play host to the Parliament, then by the same token, it argues, it has the duty to provide adequate premises for the directly elected Parliament next year. Accepted—after all wasn't it Luxembourg's inability to offer adequate facilities that made many of us wonder if it were really all that serious about keeping the assembly?

Thorn's response was bold and unexpected. Plans were suddenly wheeled out for a grandiose $150 million office-chamber complex that the Parliament could rent for 20 years if it wanted to—and it had little choice, the Luxembourgers implied. But there was some rather tempting icing on the cake—the proposed design included personal apartments that the members of Parliament could have rent free. This has caused raised eyebrows in some Community circles where there are already fears that the new European Parliament members will be grossly overpaid. But it seems neatly tailored to two of Luxembourg's purposes: It could erase the hostility of the Parliamentarians themselves to sitting in the Grand Duchy—the main stumbling-block at present—and it could further encourage them to actually settle full-time in the city.

There the matter rests for the moment. Luxembourg will have to gamble that the present legal commitments over the site are sufficiently ironclad for it to build its new tower. In the meantime it is expected to woo members of Parliament—discreetly through promises of better communications and, more openly, perhaps by a campaign to promote the social and scenic charms of the "green heart of Europe." One point that will presumably not be overlooked is that in a recent Community poll only a tiny 1.2 per cent of Luxembourgers were convinced that the next 10 years would bring serious social tensions and civil disorders—a fact no doubt partly connected to the country's unusual lack of any university students.

—ALAN OSBORN

Rome

As Italy's economic situation continues difficult, and unemployment figures in particular show no signs of improvement, the country's militant trade unions have publicly decided to change their tack. One novelty, outlined in January in a document by the leadership of the three big union confederations and approved overwhelmingly in a meeting of union representatives in Rome in mid-February, is the attitude toward labor mobility. The other regards pay rise ceilings.

For years job mobility, in a country with chronic unemployment problems, has been vetoed by unions as "the preliminary to unemployment." The interpretation of job rigidity went so far as to block the transfer of workers from one branch of the same company to another. In principle, this was undoubtedly meant to protect workers from every whim of a poor administrator, but in some cases, such as the Standa retailing chain of the Montedison chemical conglomerate, such inflexibility was frequently cited by the parent company as one of the main reasons why the subsidiary was in the red.

Less emphasis has been placed by the unions on pay increases, at least after Italian workers' wages had largely been brought into line with those of other countries in Europe in the few years following the "hot autumn" of the late Sixties; but with inflation continuing at around 20 per cent per year for the last several years, the argument that workers should not have to bear all the sacrifices of cuts in purchasing power has been heard frequently, and a ceiling on pay rises has never really been a part of union policy.

Under such circumstances, the union position in January that officially approved labor mobility and approved salary rises came as a change of heart to most people. The newspapers immediately talked of the new stance as a "turnabout" in union policy. A widely-publicized interview on the subject by Luciano Lama, head of the Communist-dominated Confederazione Generale Italiana del Lavoro (CGIL) served to draw more attention to the union position. In the current situation, Lama said, industry must be able to count on labor mobility—particularly in large cities such as Milan, Turin, or Bologna, where industries can no longer be expected to keep excess workers indefinitely. Short-time pay, which comes out of a fund supported largely by the state, must be limited in a year, and during that time a worker must be given help in finding a new job. With regard to wage rises, a tacit ceiling of 30,000 lire a month has been outlined. It will be spread out over the three years of the next labor contract period.

Why the change of heart? As the unemployment problem persists, the unions, long under criticism for protecting workers while neglecting jobless, have taken the position that full employment must be their first priority. They are therefore willing to let some of their traditional defenses of workers' rights take second place. But not without concessions on the part of employers and the Government. To achieve the medium-term goal of full employment, the unions have demanded a vital role in defining an economic program for the new Goverment. They also want a definite timetable drawn up for carrying out development programs in the South, specific plans for promoting certain sectors of the Italian economy such as agriculture and energy, an assurance of increased investments by industry that would aid employment, and a reorganization of the state industry sector to reduce its huge losses. And despite their own willingness to make concessions, union leaders have made it clear that they will not hesitate to stage a general strike in order to achieve these goals. —CHRISTINA LORD

Demonstrations in Rome. UPI

Dublin

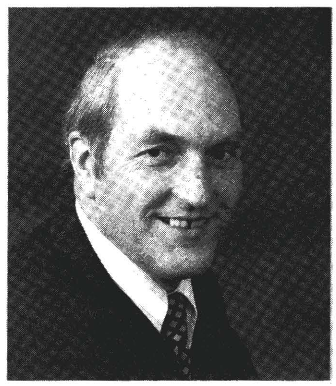
The conservative nature of the Irish character should not be underrated. In the June election last year Jack Lynch's Fianna Fail Party pitted its "work ethic" approach against the "welfare ethic," which had prevailed during the four-and-a-half years of Coalition Government of Labour and Fine Gael; and Fianna Fail won. Now with the February budget, Finance Minister George Colley has hammered home his party's message that future policies will be based on principles of self-help.

And the response has been favorable. He has abolished wealth tax on the principle that it was stopping exactly the kind of investment that Ireland needs most desperately at the present time, and that it was also introducing an atmosphere of instability at a time when there were more than enough external forces doing just that. He has substantially modified capital gains taxation, so that it penalizes short-term, speculative capital gains without affecting long-term investments. He has made generous reforms in income tax, raising allowances substantially, and he has introduced a number of incentives for industrial and business investment with special aids to small enterprises and to sectors such as building and clothing industries that require a boost. He imposed no new direct taxes, and the enlargement of the income tax net for farmers—expected to cause strong reaction—was largely offset by the abolition of wealth tax, a tax that affected even relatively modest landowners.

All of this required substantial borrowing, and the 1978 total stands at 13 per cent of gross national product. It has been higher in the past four years, reaching 16.2 per cent in 1974; but given the size of the overall budget, the country's indebtedness, at 821 million pounds, makes the overall package a bit of a gambler's throw. The thinking behind it has a lot to do with the restoration of confidence. Ireland's basic credit-worthiness is sound enough, but a revitalizing of industry, together with the encouragement of investment, was essential if the high level of unemployment was to be tackled at all.

And it needed to be achieved without a further burst in inflation. Colley sought job creation through growth and expansion without inflation. To do this he provided partial improvement in wages through the income tax cuts so that the balance of wage increases could be kept at a modest level. What the Fianna Fail Government sought, on its way back into office, was a 5 per cent wage ceiling. What the unions are looking for is a 12 per cent wage award at the level of a national agreement. What is likely to emerge is a 7 or 8 per cent final deal. This would probably result in the bringing down of Ireland's level of inflation to single figures for the first time in five years and would redirect the country towards recovery. It is indisputably a gamble. But it is one that could well come off. Its conservatism extends beyond just the helps to business, the encouragement of individual effort, the abolition of taxes on wealth, and the enticements offered to investment.

Against recent trends a cool breath of wind was allowed to blow through the avenues down which social welfare payments have flowed in the past five years. A general 10 per cent increase was announced and an undertaking was given that social welfare recipients in Ireland would not lose out against inflation. But that was the extent of largesse. It was followed by some fairly stern warnings from Lynch himself, who told Parliament that social welfare assistance was going to be much more closely and firmly policed and that in future it would be more selective. Taken together with Colley's budget speech, it signaled a marked change



Finance Minister George Colley
courtesy of the Irish Embassy

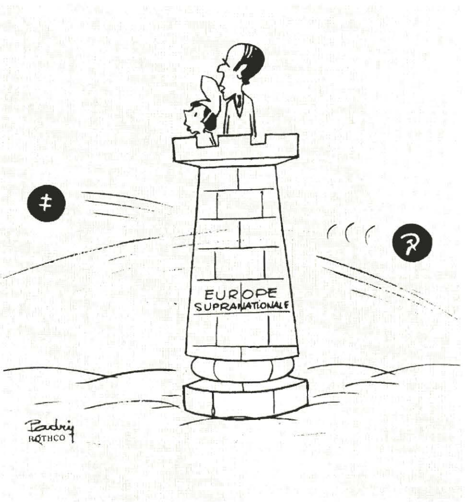
of direction. This change has met with a wide range of descriptive terms, not all of them complimentary. What's in a name? The package itself is popular. And it has a fair chance of working.

—BRUCE ARNOLD

Paris

One hardly knows when one campaign stops and another begins these days. France has just achieved the extraordinary feat of actually reaching the end of a legislature without anticipated elections, and still it seems as though France has been in a permanent electoral period for the past decade. This nation has one of the longest spans between elections (seven years for the President and five for the legislature) and still it seems that a perpetual campaign is underway. What is to be done?

President Giscard d'Estaing had some ideas, but not all of them have worked. He insisted all along that he would not call anticipated elections, and that this legislature, elected under Georges Pompidou in 1973, would serve a full five years. He was true to his word. Though at one point it seemed like Gaullist Jacques Chirac would lead his followers out of the majority, and probably bring down the Government, he did not, and the Assembly made it to 1978. One other idea dear to Giscard did not come off: He was unable to shorten the Presidential term to five years and make it coincide with the



"We're being attacked from all sides!"
© Padry, *Le Herisson*, Paris

Assembly's mandate, which would have given the nation one less election. He still seeks that goal, and can only hope the new Assembly will follow him.

France now lives in a permanent electoral campaign. A year ago it was the municipals; the year before, the county elections, and the year before that, the Presidentials. Since the politicians never cease pointing out the national significance of each election, each one calls for a national campaign. Unlike in the United States, where the nation really gets wound up only every four years (and that is bad enough), France seems to be wound up every year. The politicans never tire of it, but the people do.

Radio Station Europe Number One, which traditionally has the most extensive election coverage, noted this year that what the politicians were talking about did not seem to correspond to what listeners cared about. To bring the politicians closer to reality, the radio station this year rented its own airplane and began flying newsmen, politicians, and equipment around the country every day for debates—oh wonder! Not in Paris, but in the provinces. The politicians, more comfortable in the rarified and familiar surroundings of Paris, were obliged to go into the localities and confront the electorate on its home ground. A typical comment came on one of the first shows from Montpellier in southern France: "We just don't seem to be speaking the same language," said an exasperated questioner who couldn't get a straight answer from the Paris politicians.

One thing that keeps the politicians out of touch is the French system—followed by a few other countries as well—of allowing candidates to run at large. A politician need not be a Breton to run in Brittany or an Alsacien to run in Alsace. He need not be a Savoyard to run in the Savoy or an Auvergnat to run in the Auvergne. Many—indeed most—politicians are what the French call *parachutés,* carpetbaggers who are plumped down by their party in a given locality because it is a safe seat. If all goes well, the politician will eventually take roots in his new area, but it does not save him from remaining in hearts and minds of all, a *parachuté*.

There are many illustrious examples. Jean-Jacques Servan-Schreiber, now a leading Radical supporter of Giscard d'Estaing, calls himself "the deputy from Lorraine," even though he went from Paris into the region seven years ago for the first time. Former Prime Minister Jacques Chirac, born in Paris, found a safe seat in the Corrèze a decade ago and since then has taken roots in the area, going so far as to buy a local chateau and restore it. The fact that he was now a Corrèzien did not stop him from running for the mayor of Paris last year as a Parisian.

Prime Minister Raymond Barre, a non-politician, needed a safe seat, decided on a circumscription in Lyons, a city with which he has had almost no contact. Controversial owner of *Le Figaro* Robert Hersant, wanted to run for a seat in Paris to be near his newspapers, so the Gaullist Party decided to dump the local incumbent Florence d'Harcourt in favor of the power of the press. Unfortunately, d'Harcourt, showing character, refused to bow to that backroom deal and ran as an independent against Hersant. Another prominent figure, Jacques Kosciusco-Morizet, the former ambassador to the United States, turned politician, and the Gaullists found him a seat in Rheims, where the local citizens are complaining that not only don't they know him but they can't pronounce his name.

The most famous case, however, is that of Michel Debré, General de Gaulle's first Prime Minister. Debré, a true Parisian if ever there was one, found a safe seat 15 years ago on tiny Reunion Island in the Indian Ocean. He has been re-elected from there in every election since 1963, and will certainly go on being re-elected until his retirement. He makes a visit to the island each year to stay in touch with local problems.

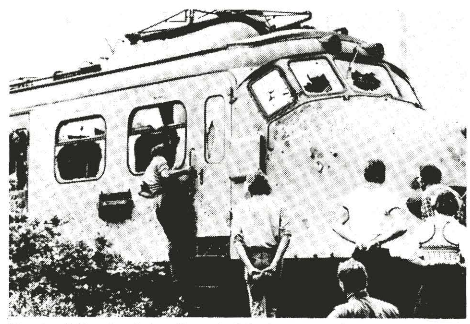
—JAMES O. GOLDSBOROUGH

The Hague

You can shout all you want to, but don't expect us to recognize your demands for an independent republic, still less support them. That, put bluntly, is what the Dutch Government has told the South Moluccans in its long-awaited report on the troublesome minority group. A brush-off? Many in Holland's 32,000 strong Moluccan community think so. The brusque tone of the report and its flat rejection of any sympathy for the historical case for independence have offended even the older, less militant Moluccans.

Quite how the extremists will react is not yet clear. Many of the more militant leaders are now dead or in prison following the often spectacular acts of terrorism in recent years. The Dutch authorities showed toughness and imagination in tackling last year's train hijacking and school seizure. The special anti-terrorist squads have been fortified since then, but no prudent Dutchman will pretend the problem of the Moluccans has been finally solved.

Who are they and what do they want?



Train hijacked by South Moluccans last year. UPI

Most are the children of immigrants who entered Holland after World War II when Indonesia was granted independence. Few have ever seen the tropical islands whose independence they seek from the Jakarta Government.

Successive Dutch Governments have never held out the slightest hope that they would back Moluccan independence. The new administration of Andries Van Agt is clearly no less steadfast. But it may be moving somewhat further than its predecessors in the direction of supporting a separate cultural identity for the Moluccans in Holland. "The Moluccans cannot and will not be forced to integrate into Dutch society," it says, officially abandoning the dwindling generation-long hope of voluntary gradual assimilation.

So, money will be provided to subsidize employers taking on more Moluccans, special linguistic and cultural teaching will be promoted, housing improved, and Moluccan radio and television programs established. The program has been grudgingly accepted by the senior political leaders of the community—though conspicuously not by the younger generation.

Shortly after the Government report a senior official of the "Government in Exile" was shot in his home, apparently by militant young Moluccans. The speculation is that the terrorists were striking at the increasing tendency of the older Moluccan generation to engage in joint studies and discussions with the Dutch and Indonesian Governments. This, they feel, could be the first step towards renunciation of the independence claim.

—ALAN OSBORN

Copenhagen

The pronouncement of a Supreme Court verdict is usually a solemn occasion, with all parties observing proper legal decorum. Individual, not to mention collective, responses to a verdict are generally suppressed. Not so in Copenhagen one day in February when the President of the Supreme Court read the verdict in a highly political case, the legal status of the so-called Free City of Christiania.

The reading was broadcast live to more than a million Danes to become the major news topic of Danish television that day. In court more than 100 young inhabitants chanted the battle hymn of the Free City of Christiania, cheerfully enough, even though the verdict dismissed any legal claim to a future for the most controversial social experiment of newer Danish history.

Christiania is a former military camp in the center of Copenhagen. The actual built-up area is small, only about 30 acres, but is enclosed on three sides by a large green area, originally ramparts and moats of the defenses of Copenhagen. The army moved out in 1971 and the same year a group of young people moved in and proclaimed the Free City of Christiania. The barracks were in a sorry state but some of them could be made habitable fairly easily, and since then a large number of buildings have returned to active duty. Today the population is estimated at about 500.

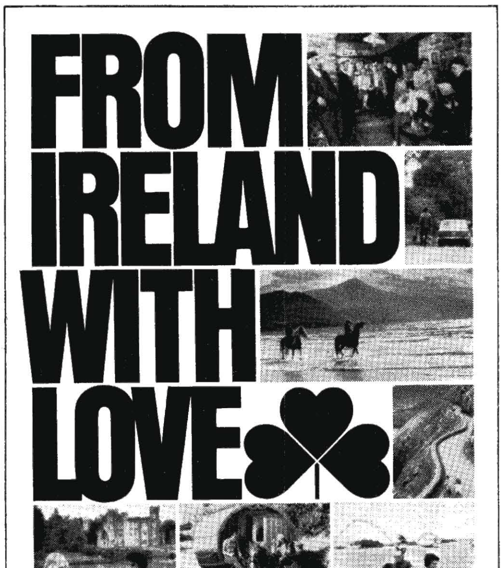
The Free City immediately became a refuge for a motley assortment of political and social dissenters. It also attracted drug addicts and dealers, and the police and social welfare authorities found truant minors among the city-dwellers. Popular opinion was offended, many demanded the eviction of the entire group as more trespassers on government property. The media prominently disclosed that not only did the Free City not pay any rent, it did not pay for water and electricity either. The bill was simply sent to the Ministry of Defense, the formal owner of the buildings being serviced. The Ministry was not amused and a political solution had to be found. Political, because Christiania had developed into a social experiment. Left-wing intellectuals, some of them prominent, moved into the Free City temporarily or permanently, and the group tackled the drug problem, according to the social welfare authorities, with some success.

But at the same time Christiania became a symbol of degenerate socialism to the Liberal and Conservative Parties, and they launched a campaign to eradicate Christiania. For the Social Democratic Government the issue was not easy to explain to its worker voters, and perhaps more to the point, the Social Democratic mayor of Copenhagen wanted to use the area for housing. The Free City was informed that it could exist until April 1, 1976, but after that date the bulldozers would move. This was the clear decision of a majority in the Danish Parliament, the *Folketing*.

But the Free City disputed the legality of this eviction notice, and the case ended in Supreme Court. The lower courts said that there was no legal barrier to an immediate eviction, and this was upheld by the Supreme Court. Private property is still private property in Danish law, though the verdict suggestively adds that it is a political decision whether or not Christiania should be allowed to continue to exist. This is in fact what may happen, at least for a few years more. It seems that the majority in Parliament has shifted, and that the soft approach of Prime Minister Anker Joergensen will win the day. Joergensen visited Christiania with his family several times, privately—he found it "untidy"—and he declared even before the Supreme Court verdict that there would not be any immediate closing down of Christiania.

One of the practical problems is what to do with the inhabitants, especially the young. But others support the soft line because they believe the experiment will peter out if it is denied the stimulus of a strong opposition from society. They may be right.

—LEIF BECK FALLESEN



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THE POLITICS OF ENERGY

European and American style(s)

PAUL KEMEZIS, *Washington editor for McGraw-Hill's* Oilgram, *who formerly reported from Brussels*

PRESIDENT JIMMY CARTER'S MUCH-HERALDED PLAN TO cut energy consumption in America ran into serious political trouble in late 1977, and Carter has had his hands full trying to save it early this year. The President's troubles in getting the plan passed have perplexed America's Western allies as well as Organization of Petroleum Exporting Countries (OPEC) producers, both of whom want the United States to end its massive energy waste. To most non-Americans, raising the price of oil to cut consumption appears to be an obvious, straightforward policy. But somehow the Americans can't bring themselves to do it.

Part of the problem is the hesitancy of the American public to mend their energy-wasting ways. This is reflected in Congressional caution toward voting any energy price hikes. But a second key reason why the United States has not been able to resolve the conservation issue is that another major issue must be resolved at the same time: energy regulation. Unlike conservation, which is brand new for most Americans, control of oil and natural gas markets has been a hot political issue for a generation. President Carter has not started a new debate here but simply stepped into one that has been going on for a long time and remains far from settled.

The issues and politics of energy are very different in the United States and Europe, and it may be difficult for non-Americans to understand what the fight is about in Washington. The problem starts from the fact that it is still theoretically possible in America for an individual to drill an oil well on private land, sell the oil he finds on a relatively free market, and make a huge profit. Unlike most European and OPEC countries, oil rights in the United States are not assumed to be government property except on federal lands. All oil companies are private, and there is no state-affiliated group to corner part of the market.

A second part of the problem is that America produces a great deal of its own oil and gas, which means that allowing prices to rise to world levels would provide windfall profits for the private domestic producers. With such potential profits and power at stake, the politics of energy in the United States has revolved around controlling the oil industry's prices and wealth while maintaining a theoretical free enterprise/free market system. The result has been a compromise system—leaving both the producers and consumers unhappy and perpetuating a sprawling bureaucracy that makes the oil business one long string of federal rules and paperwork.

In most European countries oil rights are controlled by the government, and producers cannot make huge profits. More importantly, most oil and natural gas is imported, and there is no question of whether to pay the world market price: If you don't, you get no oil. European governments, instead of subsidizing imports as the Americans do, tend to tax oil sales to increase public conservation. Thus the politics of oil in Europe seldom focuses on price and regulation.

Instead, the Europeans are mainly concerned with providing competition between homegrown oil companies and the great multinational oil firms—American, British, and Dutch. This has been done mainly through setting up government-controlled oil companies and slanting tax and oil distribution laws. The Americans are still far from setting up a national oil company to check their own giants. With a dogged faith in free competition, they have instead started thinking about breaking up the larger companies into nonintegrated parts as a means of controlling them.

To understand President Carter's political problems, you must start in the 1950's, when oil state politicians such as Lyndon Johnson and Sam Rayburn, both from Texas, pretty much ran Congress. This meant the oil lobby usually won its battles. The industry received vast tax breaks and pushed through oil import quotas and even controls on oil flows between the states to prop up prices in what was then a chronically surplus market. The industry was less successful in natural gas policy, where tight federal controls on the price of interstate gas were firmly established in 1954 through a Supreme Court decision.

In the 1970's the political situation changed in many ways for the industry. Oil and gas were becoming scarce commodities, and the industry objective changed to lifting all federal controls so that prices could rise with market demand. At the same time a newly powerful consumer lobby developed in Washington that rallied opposition to "big oil." Revelations of bribery scandals and huge profits increased public suspicion and made taking an anti-oil position necessary for many politicians. As a result, the industry lost many of its larger tax breaks and was unable to win its fight to deregulate natural gas prices despite numerous hard fought campaigns in Congress. As a crowning blow, oil price controls imposed in the wake of the 1973 oil crisis held the prices received by the producer for domestic crude oil far below OPEC levels. A system to subsidize foreign oil imports to aid those refineries dependent on OPEC oil also was set up.

In the 1950's "oil state politicians such as Lyndon Johnson (left) and Sam Rayburn, both from Texas, pretty much ran Congress." UPI

Although the situations in the United States and Europe are very different, there are some similarities in oil and gas regulation and some areas where one side can learn from what has been tried on the other. Besides the policies of the individual European states, there have been attempts to create an energy regulation system at the European Community level. These have been generally unsuccessful because of major differences among the EC Nine on basic policy. Proposals at Council of Ministers meetings have usually been thinly disguised attempts by one member to get everyone to adopt his system or solve a pressing national problem.

• **Price regulation.** Most European governments maintain tight control of oil and gas prices; but with little domestic production, there is little need for the complex system on the US model. The Netherlands, a major gas producer, has a problem with domestic gas prices, which have long been low and now must rise to world levels. The Dutch, who have already put up the price of their gas exports, do not want to increase home gas prices since it would hurt the competitive position of Dutch industry in the Community. They are currently seeking a common solution to the problem in Brussels. Britain has long sought a minimum oil pricing system in Europe to protect the value of its North Sea oil. It has asked the Community to guarantee to purchase its oil at a minimum floor price if the bottom drops out of the world oil market. No one has been very interested, and the British have stopped taking other nations' energy proposals hostage to get the minimum selling price idea through in Brussels.

• **Import regulation.** The Americans ended tariffs on oil imports in the late 1960's since the industry no longer sought protection against cheap foreign oil. During the oil crisis, President Gerald Ford tried to reimpose tariffs but was stopped by Congress, leaving major legal confusion about the President's power to order oil quotas and tariffs. Carter's Energy Secretary James Schlesinger has said the Administration would impose import fees on oil as a last ditch conservation measure if the Carter energy plan was defeated. Such a move would certainly cause a major uproar in Congress, with the import dependent Northeast leading the fight against the President.

The US Energy Secretary and the EC Energy Commissioner: James R. Schlesinger and Guido Brunner, during a recent meeting in Brussels.

In Europe the French, with their tightly controlled domestic market, have established oil import quotas set in monetary terms. The 1976 import quota was $10.1 billion, and in 1977 it was $11.8 billion. The French have repeatedly tried to convince their EC partners to set up a common quota system, but most have opposed this. The majority are comfortable with the European Community's voluntary import target system, which does not have any real teeth, and the British are simply against any strong control of oil policy from Brussels. Britain has its own problem deciding how much North Sea oil to export

A new Texaco marine terminal at Zeebrugge, Belgium.

and how much to refine at home and sell as product. For the moment British policy is pragmatic following short-term market developments.

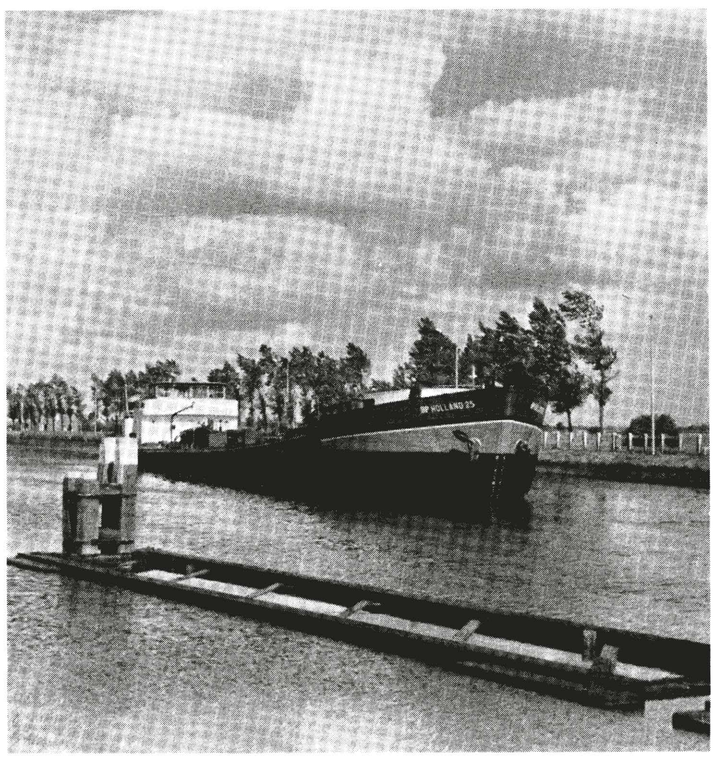
• Market structure. France again leads the pack with its tightly controlled market, where annual licenses are required for all importing, refining, and sales. This system enables the Government to reserve a precise amount of the market for domestic companies and keep operations of the majors under control. The Italian market has some of these features but is not as precise, and most other countries run on a general free enterprise system. All, however, have improved measures to collect data on oil movements and refining since the 1973 crisis, and both the European Community and International Energy Agency now have oil and gas information available.

• Taxes. Most European countries have high taxes on oil products and, along with conservation, use tax policy for numerous other ends. In Italy the tax structure was bent in the 1960's to give the national company, ENI, a sales advantage over the foreign majors. More recently a foreign exchange control system set up in Italy has been heavily criticized by foreign companies and left many looking for ways to get out of the Italian market. In Germany a windfall profits tax has been recently proposed by the Government on domestic oil production. This is considered a means to give a break to the main national oil company, VEBA, which does not own domestic oil properties and competes with foreign companies that do.

In the United States energy taxes are presently limited to gasoline, which is taxed by both the states and by the Federal Government. An attempt by Carter to raise the federal tax from 4 cents per gallon was overwhelmingly rejected. Besides the crude oil tax, Carter has also proposed a tax on industrial use of oil and gas to promote switches to coal. This idea has been more or less accepted, but its fate rides with the success of the entire package. Oil tax policy in the United States, however, still means giving tax breaks to oil companies, and plenty of ideas along those lines have surfaced in 1977 in Congress.

• National oil companies. Most European countries have a national oil company either fully or partially controlled by the government. ENI in Italy, ELF/ERAP and Compagnie Française des Pétroles (CFP) in France, and VEBA in Germany are all designed to provide national competition to the foreign majors. They get various forms of preferential political treatment. Since British Petroleum is government-owned but traditionally operated as a private company, the British Government set up a new group, the British National Oil Company (BNOC), in 1975 to watch its vast North Sea Oil wealth. So far BNOC has set out to be a fully integrated firm like its continental brothers. In the United States proposals for a federal oil and gas company were submitted to Congress in 1973 and 1975 and got nowhere. But if the Carter energy bill is thrown out, the push to set up such a company may get new momentum. The group would be touted as a means to push energy production on federal

". . . Europeans are mainly concerned with providing competition between homegrown oil companies and the great multinational oil firms . . ." Shown here is a British Petroleum barge on a Dutch canal.



lands, where private companies do not want to get involved.

• **Government oil purchases.** France, with its controlled market, has long sought to arrange government-to-government sales to secure oil from OPEC members. After the 1973 crisis it was joined by other governments, including the Germans and Belgians, in seeking such deals, with the objective of getting a direct, secure supply. The existence of national oil companies created ready means to absorb and distribute the oil. Belgium, in fact, abortively proposed to set up its own joint venture with Iran to get Iranian crude. The United States, under Carter, has gotten into the act mainly because of the need to find 1 billion barrels of oil somewhere to fill its new strategic petroleum reserve. Energy Secretary Schlesinger has already started talks with Saudi Arabia for such a deal.

• **Outer continental shelf.** Most EC countries have some sort of leasing system for private development of offshore oil. But Britain with its vast North Sea region has developed the most sophisticated one. The British Government in its lease contracts originally retained control of all export of offshore crude and the right to but 51 per cent of oil produced. But the latest update of law has given BNOC the right to acquire 51 per cent of equity in any drilling operation. In the United States a long standing initiative to change the offshore leasing process to give the Government more control is presently moving through Congress. But it would allow for the first time government test drilling of leases before bidding and a switch from the current bonus bidding system.

• **Refinery aids.** The United States maintains a long list of aids to oil refiners designed mainly to help the smaller companies, which cannot get cheap oil to compete with major integrated companies. There is no general plan to prop up the entire industry. In Europe, where there is far too much refinery capacity, the EC Commission has drawn up a plan to cut back capacity on a rationalized Community-wide basis. While most European oil companies like the idea, it has gotten stuck in the Council of Ministers because of British objections to Community control in this area.

• **Antitrust.** Trying to break up the oil "trust" has been a great American tradition since 1911, when the Supreme Court split up John D. Rockefeller's Standard Oil empire. This titanic decision set the basic structure of the American industry as it still exists today. Since then government trustbusters have tried with varying success to attack other suspected cartel arrangements. Current efforts include cases against eight top companies for price fixing and against major US and European operators in the Persian Gulf for unspecified collusion during the 1973 oil crisis. The European governments have looked warily on

The basic structure for the American oil industry was established in 1911, when the Supreme Court split up John D. Rockefeller's Standard Oil empire. UPI

this American activity rooted in free enterprise ideology, especially when it has affected their firms. The EC Commission, whose antitrust division is more active than those of most EC national governments, has begun to look at the French market system and also price collusion among majors on the European market.

A major new thrust in the United States, horizontal divestiture, would force the large oil companies to divest non-oil and gas operations. This has been stirred by the diversification of companies into coal, uranium, and even solar energy. A more radical proposal, also in the air, is vertical divestiture—to separate the producing, refining, pipeline, and marketing operations. While a plethora of bills has been introduced in Congress toward these ends, the Carter Administration has remained cautious and little concrete action is expected in 1978.

Despite this regulatory activity, control of oil still means different things in most Western countries. In fact the diversity of national regulations has made it all the more difficult to establish international energy policy both in the Community and in the International Energy Agency. The main beneficiaries of this diversity have been the great international oil companies, which may lose battles in one country or another but do not have to fight against a single general regulatory system. They can therefore adjust the focus of operations to the most profitable areas while keeping a toehold everywhere.

Since energy regulation is such a controversial issue in the United States and would be in the Community if anyone dared push it seriously, there is little chance of developing an international system in the foreseeable future. The danger to the companies may be, instead, from the proliferation of national companies in Europe. These enjoy both privileged operating conditions and perhaps better relations with OPEC producers, which are also organized on a national basis.

NEWS OF THE COMMUNITY

EXTERNAL

EC-China Agreement

The first trade agreement between the European Community and the People's Republic of China was initialed in early February.

Under the new five-year agreement each side offers the other most-favored-nation status toward promoting and intensifying trade between the Community and China. The two parties said they would seek to create favorable conditions for trade and to ease the structure of their trade to allow for greater diversification.

A consultation procedure will be set up and a joint committee formed to review annually progress in the trade situation.

The agreement, was to be signed within a month when Chinese Trade Minister Li Chang was expected to visit Brussels, is the first in which China has made such a trading concession.

US Law Causes EC Problems

The possibility of the new US Toxic Substances Act creating nontariff barriers for European chemical exports brought US and EC officials together early this year.

The Brussels meeting was attended by members of the EC Commission Environment Service; a team of US officials from the Environmental Protection Agency, the Commerce and State Departments, the Food and Drug Administration; industry representatives, and invitees from environmental nongovernmental organizations.

The group said it hoped to establish common environmental reporting requirements, information, testing procedures, and mutual recognition of testing laboratories. A similar meeting last autumn helped clear up some initial concerns, and US officials said some of the European suggestions had been incorporated into recent rule changes.

The Community is considering amendment of an existing directive on packaging and labeling dangerous substances, which is the closest equivalent to the US law.

EC Stand in Trade Talks

The European Community told some 90 countries participating in the Tokyo Round that it will not stand for recession or protectionism. Commission Vice President Wilhelm Haferkamp also told the gathering of top negotiators in Geneva that the Community refuses to accept underdevelopment in some countries.

Haferkamp then stressed that the Community favors balanced progress in the various aspects of the trade talks and said that since the talks are equally political and technical, they cannot be rigidly programmed.

Observing that negotiations in the field of nontariff barriers is perhaps the most important, he said the Community gives priority to total application of the injury test in countervailing duty application, selectivity for safeguard clauses, a world code on customs valuation standards, and the agricultural phase of the talks.

Haferkamp also said the Community is seeking harmonization as a rule in the tariff-cutting aspect and that it does not favor substitutes for other countries seeking exception for certain goods.

Another major point of the EC position, he said, was the policy of preferential treatment for the least developed countries. Although the Community would not seek strict reciprocity from developing countries, Haferkamp noted, it expected the most advanced to make appropriate contributions to the talks.

EC Acts on Japanese Trade

Separate bilateral negotiations with Japan asking for action from Tokyo to improve the trade imbalance between Europe and the Japanese were decided on in early February.

The EC Council of Foreign Ministers felt that recent Japanese-US accords on trade would not have enough beneficial effect on the EC trade deficit with Japan. They asked for action on a number of requests made in the past to liberalize Japanese trade policies to open up its markets to more European imports.

The ministers requested the Commission to initiate contacts immediately in hopes of obtaining concrete results by the next EC Council summit in Copenhagen in April. Commission Vice President Wilhelm Haferkamp is expected to visit Tokyo soon.

EC-Yugoslav First Round

The first round of the negotiations between the Community and Yugoslavia aimed at renewing the expiring commercial agreement between the two took place in Brussels in mid-February.

The opening sessions were largely limited to presentation of the two points of view on future relations. As in previous encounters, the Yugoslav delegation placed considerable emphasis on the need to correct its trade deficit with Community countries. This deficit reached some $2.4 billion in 1977.

Both sides expressed satisfaction with the mutual desire to work out difficulties in their relations and said that the next phase of negotiations might get underway toward the end of March.

Another major issue that will be attacked during these negotiations will be the policy toward the approximately 500,000 Yugoslav migrant workers now in the Community. The thrust of the negotiations, however, will be toward achieving closer economic, financial, and technological cooperation between the two countries.

Mauritanian President Visits

The President of the Islamic Republic of Mauritania Moktar Ould Daddah paid an official visit to Brussels in early February. He told the EC Commission his country was ready to accept a renewal of the Lomé Convention with the proposed changes that include a system of trade investment guarantees and a human rights clause.

Also discussed were economic difficulties such as the drought affecting the Saharan region, fishing rights discussions with the Community, and the impact of the EC steel crisis on the Mauritanian iron ore industry.

The President also informed the Commission about the conflict that pits his country and Morocco against the Polisario guerrillas and Algeria—assuring Brussels that EC aid would go only for civilian aid programs.

EC, US Discuss Steel Plans

New price mechanisms in the steel sector were the subject of EC-US talks in January.

The two sides explained their import price mechanisms and compared them with prices applied on domestic markets. European officials had expressed concern that US prices were based on Japanese production costs plus freight charges from the US West Coast, which might have a major effect on the price and competitiveness of EC steel shipments.

Since the US market absorbs some 20 per cent of the Community's total steel exports, the EC-US talks came early; talks between the Community and other European steel producing countries such as Norway, Sweden, and Austria were to follow.

Anti-dumping Action Taken

Anti-dumping duties on steel shipments on from several countries were levied early this year. This is the Commission's first action since the establishment of an imported steel price system setting a price "floor."

The levies, set on a case-by-case basis, went into effect immediately on the first category of six products from seven countries. In the meantime an investigation in accordance with EC and international trade rules was started on these products and on shipments from six other countries.

The actions, resulting from complaints filed by Community steel companies and backed by national governments, are in keeping with the emergency measures enacted by the Community in late 1977 to combat the growing internal and international steel industry crisis. These are intended as temporary measures to reduce the impact of the crisis while the Commission attempts to negotiate trade adjustments with individual steel producing countries.

Shipping Strategy Planned

Sometime this spring the EC Commission will present concrete proposals for dealing with threatening competition in international shipping from the Soviet Union and other Communist countries.

Transport Commissioner Richard Burke told a Boston audience recently that the European Community has been seriously considering reacting at the Community level and in association with other nations in forming a common defensive strategy for shipping.

The Community does not want to provoke a confrontation with the Soviet Union or other Comecon members, Burke said, nor does it wish to exclude them from shipping trade. But he added that Eastern shipping in recent years has reached the point where the Comecon group has a virtual monopoly in bilateral trade with Western countries and has also obtained at least 20 per cent of the shipping in other lucrative routes, such as the North Atlantic, Northern Europe, and the Mediterranean. This has been accomplished by under-cutting Western rates because of lower wages.

Japanese Minister Visits

A top Japanese trade official visited Brussels early this year to discuss the EC-Japan trade imbalance.

Minister for International Economic Affairs Nobuhiro Ushiba explained the recent Japanese trade proposals designed to increase imports into the Japanese market in order to reduce the deficits of its major trading partners.

Community officials noted, however, that the measures were negotiated partly at the insistence of the United States and might be oriented more toward that country. The measures were also partly dependent on a fairly high level of internal Japanese growth that many economic experts did not feel would be realized.

The European Community had recently sought to boost European exports to Japan rather than relying on restrictions on Japanese shipments into the Community for reversing the trade imbalance.

Textile Negotiations Ended

The results of weeks of difficult around-the-clock negotiations between the Community and over 30 major textile supplier countries was accepted late last year. The adoption is the basis for Community accession to a new world textile trade treaty.

Foreign ministers gave approval to quotas for shipments into the Community accepted by most of the leading textile exporters with only a few nations remaining outside the accords, including some with whom the Community has special arrangements.

The textile decision was a major one, required as a result of the Community's refusal to accept a straight extension of the world Multifibre Agreement (MFA). Negotiators sought to negotiate accords that would guarantee suppliers increased deliveries into the Community market while keeping a lid on these shipments.

The Community has adivsed authorities of the General Agreements on Tariffs and Trade in Geneva that it can now participate in renewal of the MFA.

ENLARGEMENT

EC Looks at Greek Entry

Greek Prime Minister Constantine Karamanlis stopped over in Brussels early this year to talk about his country's entry into the Community.

Just prior to his visit the Commission had approved and transmitted to the Council a first negotiating position for customs union and industrial matters between the Community and Greece. Commissioner Lorenzo Natali told the press a timetable had been set for presenting major propositions before the end of the summer and completing negotiations on the most important issues by the end of the year.

Natali discussed at great length potential difficulties in the agricultural sector and the possible terms of the transition period for Greek entry.

Spain's EC Benefits

A Spanish audience was told recently by EC Commissioner Guido Brunner that 47 per cent of Spain's exports went to EC countries and that EC membership would strengthen this position. It would also, he noted, assure Spanish industries a place in Community markets and help develop the potential of its chemical, steel, textile, and transport equipment industries.

Turning to agriculture, Brunner said Spain was highly competitive in products such as wine, citrus fruit, olive oil, and vegetables. The EC consumer would benefit from these products while producers in France and Italy would have to be compensated.

On the political side, Brunner suggested that Spain's new democratic structure would be strengthened through the Community and that it would expand relations with the rest of the world as a member of the Community.

Greece Requests Timetable

Greece wants its entry negotiations with the Community speeded up.

A Greek delegation late last year requested a timetable for beginning and ending various phases of the negotiations. It expressed concern over the EC agricultural policy, while Community officials felt priority should be given to industrial aspects of the customs union.

It was expected that final EC positions on the customs union and external relations should be cleared up and that the Community's position on Greek negotiations should be clarified before the Commission gives its opinion on Portugal's application in April.

ECONOMY

Small Business Exemptions

In an effort to boost small businesses the EC Commission has adopted two measures exempting small- and medium-sized business from competition laws.

The first action taken early this year concerned raising the corporate turnover floor for companies applying for exemption from restrictive agreement or joint venture competition laws.

The other move raised the cutoff limit on turnover and market share for small firms entering into industrial or specialization agreements.

The Commission said it plans other measures to benefit smaller operations, such as those designed to facilitate subcontracting, patent licensing agreements, exclusive dealer contracts, or mergers.

Jenkins Stresses Economy

Promotion of growth industries and an elevation of EC integration were stressed as the necessary ingredients for Community economic recovery in Commission President Roy Jenkins's annual report to the European Parliament in mid-February.

Jenkins told the Parliamentarians that economic policies must not only comprise emergency action for industries which are no longer competitive but also for new emerging industries. These include new ventures in aerospace, data processing, electronic components, and telecommunications.

He added that the needed effort to maintain employment and prosperity must come through a dramatic and historic new economic impulse. Only economic and monetary unity, and not just sporadic recoveries through some of the EC countries, can provide the spark, he said.

In the field of energy, the Commission President said: "We need political impetus more than rhetoric." Projects and decisions must go forward on both new alternative energy sources and traditional means of power.

The Community's agricultural policy must come to grips with the problem of surpluses and to accomplish this, he said, the Community must continue to follow the prudent price policy initiated in 1977. Otherwise, even harsher measures will be necessary. Part of this farm policy will also include a sound fishing program, he added.

On the two major political issues, Jenkins said that the most important elements of the negotiations of Greek membership in the Community must be completed by the end of the year and that the Community badly needs the impulse that could be provided by direct elections to the Parliament.

EC Meets With Auto Industry

A meeting between EC Commissioner Etienne Davignon, in charge of industrial affairs, and leading auto industry executives, held in mid-February, was aimed at finding nonprotectionist means of combating international competiton.

At present, the most serious challenge was seen as coming from Japanese imports, but European leaders were also concerned about American and East European manufacturers.

Officials from Mercedes, Fiat, Renault, Peugeot, Volkswagen, and British Leyland attended the meeting. Paramount in their thinking was the need to counter the increasing market share taken by Japanese imports. Japanese automakers now represent 5.4 per cent of the EC market, compared to 4.6 in 1975. Another troublesome omen for the future was seen in the American decision to invest heavily in research to achieve better mileage performance in US cars.

Work-sharing Surveyed

The EC Commission completed a survey which it sent to the Permanent Committee on Employment in mid-February on the question of work-sharing programs to create more job opportunities.

Commissioner Hank Vredeling, in charge of social affairs, told a press conference that the study on work-sharing was but one possibility for alleviating unemployment that has reached a record 5.5 million in the Community. He added that between now and 1985 something like 9 million new jobs would have to be created to accommodate young people entering the job market and the arrival of more women into the work force.

Vredeling said the Commission is examining other possibilities for creating new jobs such as the relationship between investment and employment, new job opportunities in the service and public sectors, and the changing international environment resulting from the transfer of some industrial activity to developing countries.

Among the types of plans envisaged in the document were reductions of shift work, overtime, annual time worked, and examination of early retirement and part-time work.

Such action, said Vredeling, would have to be applied throughout the Community so as to avoid distortion in competiton. And such an EC accord should be subsequently followed by international negotiations with countries such as the United States and Japan to assure equal competitive conditions.

Worker Participation Eyed

A Commission proposal to institute worker participation in corporate decision-making got a favorable opinion from the EC Economic and Social Committee in early February.

The committee advised that a final proposal for an EC directive should be flexible and take into account existing systems and traditions in some member countries. It also advocated the introduction of a two-tier corporate board system in countries where one does not already exist and the implementation of special organs to represent workers in large companies where that is not already in practice.

EC Commissioner Etienne Davignon, in charge of industrial affairs, also said there should be a lengthy transition period involved in adopting any such system throughout the Community.

INSTITUTIONS

1978 Program Presented

A year dominated by proposals aimed at alleviating the current economic recession and creating a more integrated Community were the main ideas in the 1978 program presented by the EC Commission to the European Parliament in mid-February.

The 36-page memorandum was basically a work plan for the coming year in which the Commission forecast what action it would take. The bulk of the document was devoted to building an integrated economic unit, followed by discussions on the European citizen and his environment, Europe in the world, and enlargement.

Among the more noteworthy plans in the economic field, the Commission foresaw a whole series of steps aimed at closer coordination on budgetary issues, including one proposal that the Community assume full responsibility for financing in certain industries and sectors, thus relieving the national burden.

Affecting the consumer and environment programs, the memorandum proposed labeling of household appliances that would emphasize energy consumption, action on EC environmental impact statements, and implementation of a program on health and safety at work.

Considerable space was devoted to sketching out the schedule of international activities the Community will undertake during the year. These ranged from the multilateral trade negotiations in Geneva, key bilateral talks with Japan and the United States, and a series of contacts with developing countries aimed at following up the North/South Dialogue. Also of importance will be the beginning of discussions aimed at renewing the Lomé Convention with 53 associated countries.

Budget Supplement Proposed

The EC Commission presented a proposal early this year for an additional 2 million European units of account (EUA) for the 1978 budget.

The increase was almost entirely due to the need for more personnel to administer the new trade systems for steel and textiles. The additional staff is to be directly connected to the new price and anti-dumping system in steel, the negotiations for new textile trade accords with a number of exporting countries, and the renewal of the world Multifibre Agreement.

In addition there is some additional funding involved in the extension of the bilateral fishing agreement between Italy and Yugoslavia. The additional request will bring the total budget request for 1978 to EUA 12,364 million.

Trade Unions Get Institute

The EC Commission approved a draft convention early this year for cooperation with the proposed European Trade Union Institute, including financial aid of 500,000 European units of account for 1978.

The European Trade Union Confederation had earlier examined the possibilities of creating such an institute for providing research and information on European trade unions and their membership. This idea was approved by the Council in 1974.

The new institute, which may be established in Brussels, will provide assistance to national projects, undertake its own studies, organize and exchange information, and set up seminars and archives.

Public Warms up to Elections

Europeans seem to be warming up to the idea of direct elections to the European Parliament, according to a recent public opinion poll.

Of those interviewed 72 per cent were in favor of direct elections. This was an increase over the 69 per cent registered in November of 1976 and the 62 per cent in May 1976.

The support was strongest in Italy, where 79 per cent were in favor, and in Luxembourg and Ireland, where 76 and 74 per cent answered positively. In Denmark, which had the lowest level of support with 54 per cent, the idea was more popular than the previous 44 per cent support.

Despite the poll, a fairly high level of skepticism was registered concerning the impact of the elected Parliament on European unity. One in two viewed it as an important event and indicated they would turn out to vote. In both cases Italy and the Netherlands manifested the highest levels of importance and voting intention.

Another key question asked for the first time in the Euro-Barometer showed that between three and four persons out of 10 felt the addition of Greece, Portugal, and Spain to the Community would be a good thing.

Direct Elections Postponed

Direct elections to the European Parliament may be put off as much as a year.

Although many observers and officials have speculated that the date might now be postponed until the autumn of 1978, British Foreign Secretary David Owen said May or June of 1979 seemed a stronger possibility. He added that "most people are taking a more relaxed attitude" about the delay.

Owen, speaking during the January meeting of EC Foreign Ministers, said the situation was very "fluid" concerning a date for the elections. He told his colleagues that the British House of Commons was still considering the election rules and organization.

He told the press at the same time that other countries were having problems as well and the next date chosen would have to be well thought out because "we want to make sure any commitment we make is attainable."

A decision on the new date may be taken at the European Council summit meeting in Copenhagen in April.

Audit Court Pays Visit

The recently created EC Audit Court paid its first working visit to the Commission in late January.

Members of the Court, based in Luxembourg, which has been formed to examine the financial operations of the EC institutions, conferred with Commission President Roy Jenkins and other Commission officials during their visit.

Among the institutions whose books will be regularly scrutinized will be the European Schools, the European Foundation for the Improvement of Living and Working Conditions, the Euratom Supply Agency, and the institutional programs such as the agricultural guarantee fund, the regional fund, and the food aid program.

1978 Budget Approved

Averting an institutional clash between the Council of Ministers and the European Parliament over budget amendments, the Council approved late last year the higher figures decided on by the Parliament the week before.

The Council of Finance Ministers meeting in Brussels agreed to a budget of 12 billion European units of account as proposed by the Parliament after the Council had made earlier reductions below that total. Following the Parliament's amendments, it was widely felt that the Parliament had overstepped its powers to change the budget.

The main characteristic of the new budget is its 56 per cent increase in spending for nonobligatory expenses. Obligatory expenses are those to pay for such programs as agriculture that have more or less automatic increases from year to year. Others require specific budget approval for programs such as the regional and social funds.

AID

Exports Promotion Discussed

Ways of promoting exports from developing countries were discussed in early February when representatives from the African, Caribbean, and Pacific (ACP) countries associated with the Community under the Lomé Convention met with EC officials in Brussels.

The Commissioner in charge of relations with developing countries, Claude Cheysson, observed that commercial development is more important to developing countries than financial aid. Areas where the Community can be of assistance are increased participation at trade fairs, training of marketing and promotion experts, and careful selection of sectors for promotion.

Cheysson also noted that half of the 53 ACP nations' exports go to the Community—which represents about two-thirds of what the Community exports from a large entity like the United States.

Lomé Position Adopted

The EC Commission adopted and sent to the Council in mid-February a memorandum on the Community negotiating position for the first phases of talks on renewal of the Lomé Convention with 53 developing nations.

EC Commissioner Claude Cheysson, in charge of development policy, told the press he believed the actual negotiations would begin sometime in the autumn.

He added that this first approach by the Community toward the renewal talks did not contain any major structural changes in the operation of Lomé. He added, however, that a major innovation could be the treatment of human rights observance in the Convention states. He said it is too early in the experience of the first Lomé Convention to make funadmental changes.

Among the other changes he cited were an emphasis on development of small- and medium-sized companies' activities in trade between the member countries, international co-financing arrangements with such countries as the Arab oil-producing states, and encouragement of regional cooperation. He also said there would be a request for a 10-15 per cent increase in the financing available and more consultation between labor, industry, and the developing countries to consider the industrial impact of industrial or trade development.

Cheysson, in dealing with the human rights question, acknowledged that this would have to be negotiated cautiously because such action as the withdrawal of aid because of human rights violations might be counterproductive for a country's citizens and neighbors.

Seven New Projects Funded

Funding for seven new projects in associated developing countries was adopted by the Commission in late January.

The approvals brought total European Development Fund spending to over 1 billion European units of account (EUA), involving projects in the Ivory Coast, Chad, Senegal, Swaziland, Zaire, and Rwanda.

The most import was EUA 4.9 million for financing of a cocoa processing facility in Zaire to develop agricultural projects in the Ubangi region. Approval for EUA 3.5 million for an irrigation canal from the Fairview Dam on the Black Umbuluzi river in Swaziland was also given.

Chad will receive EUA 2.8 million for the creation and training of crews to maintain road systems in that country in addition to a smaller amount for developing social and sanitary care programs.

Snow Storm Causes Damage

The violent snow storms that struck much of Europe and North America during January caused such damage that the EC Commission announced financial aid totaling 1.9 million European units of account (EUA) for storm ravaged regions.

The assistance will go to areas of France, the United Kingdom, and Scotland. In France, EUA 500,000 will be devoted to repairing damage to dikes, ports, and other facilities mostly in the north. The most affected nation, the United Kingdom, will receive EUA 1 million. A maximum of EUA 400,000 will be set aside for Scotland for use after a more detailed study of the storm damage.

The Commission has alloted from EUA 5 million for such emergency aid to areas affected by catastrophes.

Private Investors Encouraged

The EC Commission wants to boost its sagging investments in developing countries. A communication containing outlines for such a program was sent to the Council early this year.

Stepped-up private investment, argued the communication, would contribute not only to the development of the Third World but also assist the EC economy in its quest for raw materials and strengthen links between the industrialized and developing worlds. In the face of growing international competition, increased investment would reinforce the Community's presence in the Third World.

The Commission suggested as a first step assistance to the European mining industry through a system of investment guarantees against noncommercial risks. Such guarantees might involve trilateral negotiations among the Community, the host country, and the industry.

Commissioner Claude Cheysson said such an approach was necessary in a "time when aid development policy has ceased to be marginal." He also noted that such arrangements should involve attempts to improve working conditions in the Third World.

Cheysson elaborated that low wages were a natural phenomenon in the Third World but that efforts should be made to improve health, child labor, and other abnormal conditions.

AGRICULTURE

Farm Officials Consult

When US Agriculture Secretary Bob Bergland met with EC agricultural officials late last year, he reassured Community representatives on several issues. First Bergland said the United States wished to guarantee a steady flow of soya products from the United States to EC purchasers. He also announced the United States was willing to discuss holding international negotiations on feed grains and added that it would not sign an international wheat accord that would not work, as the previous accord which had failed.

EC Commissioner Finn Olav Gundelach underlined the importance of agricultural talks in the Tokyo Round but noted that previous rounds of international trade and tariff-cutting negotiations had failed to deal with agricultural issues properly.

Both sides discussed the possibility of an international agreement on trade in dairy products and said such an accord would have to take into consideration the situation in countries like New Zealand.

"Green" Rates Devalued

Following some hard bargaining during the past few weeks, agriculture ministers agreed on a proposed devaluation of the "green" British pound and Italian lira, the elevated currency rates used in agricultural trade. But they broke up without an accord on the controversial fishing system proposed for EC waters. The pound was devalued by 5 per cent to take effect in two stages and the lira by 6 per cent.

The devaluation of the pound was especially difficult because some EC members reserved their approval in view of Britain's strong and isolated stand on the coming year's farm prices and fishing plan. Britain was in effect obtaining an increase in farm prices for its producers through the devaluation but opposed any overall increase in Community prices. It has also been refusing to go along with the Commission fishing proposal unless it obtained preferential access for its own fishermen in a zone around its coast, instead of granting equal access to all EC fishermen.

EC Agriculture Commissioner Finn Olav Gundelach told the press he was "deeply concerned" about the failure to reach a fishing agreement. He said the Commission's plans for financial assistance to EC fishermen, plans for conservation of threatened species of fish, and mandates for negotiating fishing rights with third countries will not be put into effect because of the British impasse.

ENERGY

Parliament Discusses Energy

The European Parliament's February session in Strasbourg delved into various elements of the EC energy policy, from emergency oil sharing plans to the development of fast breeder reactors.

Council President K. B. Andersen noted that a number of steps have been taken to avoid repeating problems occurring in the Community as a result of the 1973-1974 energy crisis. He specifically pointed to the emergency oil sharing system devised by the Community and mentioned the creation of a 90-day stockpiling of oil and plans for a new coal policy.

Energy Commissioner Guido Brunner welcomed support given to the Commission by a Parliament report also stressing the need to keep open the eventual decision on the construction of fast breeder reactors. He explained that when President Jimmy Carter visited the Commission in January, the American leader said he was not opposed to construction of fast breeders but wanted to make sure the proper safeguards were developed before the go-ahead was given.

Brunner said the Commission agreed with that view. He also said fast breeders that operate more efficiently than existing reactors are a higher priority in energy-short Europe than in the United States, and some decisions are necessary in order not to foreclose the possibility of choosing fast breeders at a later date.

The Commissioner also indicated that discussions may be held soon between the United States and the Community in the aftermath of the new US nonproliferation bill. He noted that the United States is the Community's sole supplier of highly enriched uranium.

Oil Reporting System Adopted

For the six months that began February 1, oil companies and traders will report price information to European authorities. This trial system is an attempt to bring more openness into the small but important Rotterdam oil market.

Greater transparency in the Rotterdam price system was one of the measures requested by five small national EC oil companies last year as a way to improve their competitiveness against the seven major international oil companies.

This technical operation could pave the way for important changes in oil pricing. Although it accounts for only some 3 to 5 per cent of the world market in oil, the Rotterdam spot oil market prices are widely regarded as a guide for prices, contracts, and other aspects of the international market.

Another measure recently adopted by the EC Commission was a request for a curb on distillation capacity in the refinery sector and for adapting refinery output to meet demands for lighter refinery products.

Nuclear Embargo Ended

A pact signed early this year ended Canada's embargo on uranium shipments to the Community. The signature kicked off a week of talks between the two countries on a number of issues, including trade.

The nuclear accord was the culmination of 18 months of intense negotiations between European and Canadian officials over the safety of uranium shipments to the European Community. The Canadian embargo on these shipments began January 1, 1977.

Narrower bilateral issues, such as EC concern for the recent Canadian restriction on shoes covering Italian shipments, were also discussed. Two subcommittees met on industrial cooperation and in preparation for another EC-Canada meeting.

Such areas of industrial cooperation as nonferrous metals, telecommunications, steel, construction, and Canadian participation in the Community's "marriage bureau" for business joint ventures were also covered.

Second Nuclear Round Held

Nuclear energy hearings focusing on safety were held in Brussels early this year against a news background of the Soviet satellite that fell out of the sky into Canada leaking radioactivity.

Topics covered included how the production and use of various forms of energy can affect human health and environment, with special reference to the problem of waste disposal. The risk of accidents and other safety problems during production, use, and transport of nuclear and non-nuclear forms of energy; safeguards; the risk of terrorist attacks, and the spread of nuclear materials were also discussed.

This was the second in a series of open public hearings sponsored by the EC Commission. An earlier round held in December concentrated on the economic aspects of nuclear energy and alternative energy sources.

Australian Uranium Wanted

The European Community wants to talk about uranium with Australia. Australia has some of the largest uranium deposits so far known in the Western World.

During recent high-level exchanges Community authorities received the text of a draft accord sought by the Australian Government assuring supplies of uranium with requested security procedures.

In previous encounters Australian officials indicated they link the uranium supply issue with other trade difficulties with the Community. Requests for easing trade barriers, especially in agriculture, have been made by top Australian officials during recent visits to Europe.

COMPETITION

Dutch Cartel Terminated

A cartel controlling the marketing of pharmaceuticals in the Netherlands has been terminated, following recent EC Commission intervention.

The Commission announced in mid-February that the Pharmaceutische Handelsconventie "did not contribute to an improvement in the distribution of goods: Their main purpose was to shield the market to the detriment of the consumer."

The cartel's activities resulted in restricting competition between the manufacturers, importers, and dealers affiliated with it and preventing competition from nonmembers, said the Commission.

The Commission also objected to the imposed resale price policy practiced by the organization.

Major Competition Ruling

The European Court of Justice recently handed EC competition authorities a major new weapon to use against excessive corporate market power.

The Court sided with the Commission on three of four counts when it rejected most of the appeal of a major American company contesting a Commission antitrust ruling. The Commission had charged the United Brands Company of abusing its dominant market position in the banana sector in six EC countries.

Specifically, the company was charged with levying unfair and discriminatory prices and using restrictive sales practices—forbidding its distributors to resell green bananas and refusing to sell to a particular wholesaler. The company was fined 850,000 European units of account.

The Court's 185-page opinion, however, sided with the company in rejecting the Commission's other charge that the firm had levied excessive prices for its well-known Chiquita bananas.

United Brands officials in Brussels immediately said the decision would change the business climate in the Community. They explained that the case opened the way for a more active EC Commission competition policy against firms holding a dominant power in a market, since it significantly lowered the threshold of what is regarded as dominating a market from the previously accepted 80-85 per cent to some 40 per cent in the United Brands case.

Flurry of Competition Rulings

A flurry of competition rulings late last year embroiled the EC Commission in over a dozen cases.

In some instances the Commission gave its authorization to practices that, although restrictive in nature, were deemed beneficial to trade. The Commission has broad and autonomous powers to deal with competition matters without recourse to a decision by the Council of Ministers.

In one case the Commission attacked the policy of Distillers Company Limited and subsidiary companies for charging higher prices on their Scotch whisky, gin, vodka, and other products destined for export. The firm reacted by threatening to withdraw its famous Johnnie Walker Red Label whisky from the British market and to raise British prices. Commission officials later noted this might contravene EC rules against refusing to sell products.

A Swedish firm owned by that country's Consumer Federation was fined 50,000 units of account for limiting the supplying of spare parts to cash registers. The Commission approved a technical cooperation accord between French and English microscope companies because of the technical benefits and because strong competition already existed in the same market.

However, a case involving exclusive sales contracts between a major British spice firm and three major Belgian food chains was disapproved.

ENVIRONMENT

Pollution Research Proposed

Two major pollution research projects aimed at assessing contamination of air and water have been sent to the Council of Ministers.

EC participation will amount to 1.1 million European units of account (EUA) in coordination of research being done in the member states. The first project will aim at improving methods for detecting and counting organic trace compounds in water to assess the danger to human health from water pollution. So far over 1,000 chemicals, including some highly toxic and carcinogenic compounds, have been identified. The second project will research air pollution through a study of the changes of atmospheric pollutants and their elimination.

In both cases the work to be undertaken follows research also conducted by EC member states and 10 other European countries within the European Cooperation in Scientific and Technical Research (COST) group. The proposals were drawn up and presented to the Commission by Commissioner Guido Brunner.

Pollution Controls Drafted

For cleaning up underground water sources, the EC Commission sent the Council a draft directive in late January setting limitations on some harmful substances and prohibiting other highly toxic pollutants.

A temporary measure adopted in 1976 led to the draft directive setting precise standards prohibiting the discharge of substances such as mercury, cadmium, mineral oils, and hydrocarbons. The draft directive also requires authorization for the discharge of less toxic and more soluble substances including uranium, cobalt, silver, and tin. Prior permission would also be required for the indirect discharge of highly toxic materials.

Such a measure is considered necessary by experts because an average of 70 per cent of all drinking water in the Community originates underground.

RESEARCH

Single Euronet Rate Set

A single rate system for the Euronet computer data transmission network being set up among EC member countries was announced in early February.

The new unified rate structure negotiated by national postal and telecommunications authorities will also offer benefits to the users of the data storage and retrieval system. The rates will be calculated on the basis of usage, favoring small and medium users. Off-peak rates will also offer lower costs.

The Euronet system is an international computer network that will link EC countries and some nonmember nations to data memory banks through various terminals. At the start Euronet will store scientific and technical information, but it is hoped to be expanded into other fields soon.

Medical Research Approved

The Council of Ministers adopted a first Community research program to probe into questions of the ageing process, improving heart-long machines, and congenital defects.

The program proposed by Commissioner Guido Brunner will help coordinate a group of small independent research activities with the Commission and 10 non-Community countries participating. The total research costs will involve some 10 million units of account.

The first program for research on the ageing process will include studies on the liver, the immunity process, and the crystalline lens of the eye. Research into improving heart-lung machines will aim to extend the duration of treatment during heart and lung operations. The third area will involve the improvement of registration and study of congenital abnormalities throughout the Community.

Computer Privacy Hearing

The European Parliament's subcommittee on data processing and the rights of the individual held unusual public hearings in Brussels recently on possible problems arising from new computer technology.

Witnesses were heard from Sweden, the United States, Germany, France—all countries where legislation has been adopted to safeguard the privacy of individual citizens. An active participant was an expert from the Council of Europe, which has been preparing a draft convention on this subject.

Virtually all speakers, including industry representatives, cited the need for legislation to harness the development of computer technology without undermining the individual rights of citizens. But all underlined the need to coordinate national approaches to avoid unfair competitive advantages for some countries.

While certain EC nations and the Council of Europe are considering controls, the European Parliament subcommittee members hope for a Commission draft proposal on the issue so member states will undertake a coordinated approach.

HARMONIZATION

EC Drivers' License Agreed

The Council of Transport Ministers agreed to an EC drivers' license late last year. Now such a license must be designed and put into effect.

The ministers also discussed the thorny problem of harmonization of shifting to "summer time" throughout the Community. Germany still must complete the necessary legislative process, and thus it is improbable that a joint summer time policy will be possible in 1978.

Another deliberation ended up in agreement to an increase of 20 per cent in EC road-hauling authorization quotas, which had been frozen since 1975. The ministers also decided to establish an advisory committee on Community transport infrastructure policy which would deal with topics such as meshing EC transport policy with other policies and studying estimated transport requirements.

VAT Directives Proposed

Two new directives on value added taxes (VAT) have been proposed to cover used goods, art, and antiques, and the problem of tax refunds.

For used goods, works of art, antiques, and collectors' items, the Commission suggested that a standard percentage of the selling price be taken as the taxable amount.

The second new directive would lay down common methods of refunding VAT to firms established in a member state other than the state where the goods or services were invoiced. This would help firms that regularly provide goods and services in other countries and exhibitors at international fairs and international carriers.

MONETARY

Loan Program Recommended

A 1 billion European unit of account loan program to stimulate Community investment was proposed by the Commission to the Council earlier this year.

The procedure would link the European Investment Bank and the Commission in a partnership to raise capital and identify projects to receive aid. It could be a major element of the renewed emphasis on economic and monetary union by channeling needed capital toward major projects inside the Community.

First indications are that loans might go toward financing of energy, industrial reconversion, and major infrastructure programs. Commission officials indicated that the measure might be approved in time for operations to begin sometime this spring.

EMU Plan Presented

A plan for the first year in a five-year program for economic and monetary union (EMU) was presented by the EC Commission in early February.

The action program is aimed at three major areas of Community activity: the need for additional economic and policy convergence between member states, more progress toward a unified and competitive market, and movement toward development of EC structural and social policies. Translated into practical terms this means more coordination of monetary policies and budgetary programs.

New areas of interest include taxation, loans, and monetary policy measures. In the quest for a unified market the emphasis is on recently adopted directives for tax harmonization, abolition of technical barriers, and public supply markets. Closer coordination in internal customs matters is also believed essential.

Publications Available

Publications listed may be obtained from the European Community Information Service, Suite 707, 2100 M Street, NW, Washington, DC 20037. Persons in the New York area can order copies from the European Community Information Service, 245 East 47th Street, New York, New York 10017.

TECHNIQUES FOR THE SEPARATION OF BARLEY AND MAIZE SEED PROTEINS. *EUR 5687 e.* Commission, Luxembourg, 1977, 114 pages $6.70
Papers of a workshop held at Rothamsted Experimental Station, Harpenden, Herts, England, November 8-12, 1976.

TECHNICAL RECOMMENDATIONS FOR THE USE OF RADIOPHOTOLUMINECENCE DOSIMETRY IN INDIVIDUAL MONITORING. *Radiological Protection No. 10, EUR 5655 e.* Commission, Luxembourg, 1977, 35 pages $3.50
Report of the working group on the use of radiophotoluminescence dosimetry. Deals with the principles of the method and recommendations on its use in monitoring individuals for ionizing radiation.

MALTA AND THE EUROPEAN COMMUNITY. *Information No. 157/77,* Commission, Brussels, 1977, 7 pages ....free
Review of economic and trade relations between Malta and the European Community.

THE EUROPEAN COMMUNITY'S SCHEME OF GENERALIZED TARIFF PREFERENCES. *Information No. 161/77,* Commission, Brussels, 1977, 7 pages ....free
Description of the main features of the Community's system and the value of trade since 1971.

THE EUROPEAN COMMUNITY AND THE EASTERN EUROPEAN COUNTRIES. *Information No. 163/77,* Commission, Brussels, 1977, 14 pages ....free
Notes on trade with the Eastern Bloc, the Community's autonomous commercial instruments and policies for state-trading countries, member state cooperation agreements, export credit policy, contacts with the Council for Mutual Economic Assistance, and negotiations on fishing arrangements.

THE EUROPEAN COMMUNITY AND SOUTHERN AFRICA. *Information No. 166/77,* Commission, Brussels, 1977, 18 pages ....free
Details on European Development Fund assistance to southern African members of the Lomé Convention as well as to Angola and Mozambique; describes coordination of member state policies toward the Republic of South Africa and reproduces the code of conduct for EC firms operating in South Africa.

STRONG U.S. ADMINISTRATION SUPPORT FOR EUROPEAN UNITY. *Background Note No. 1/1978,* EC Information Service, Washington, January 13, 1978, 6 pages ....free
Texts of official statements of US President Jimmy Carter and EC Commission President Roy Jenkins during President Carter's visit to Commission headquarters in Brussels.

REPORT ON THE CREATION OF A EUROPEAN FOUNDATION. *Information Memo P-108/77,* Commission, Brussels, November 1977, 3 pages ....free
Outline of the report to the European Council on the terms of reference, objectives, and funding of a European Foundation.

JAPAN AND THE EUROPEAN COMMUNITY. *Information No. 164/77,* Commission, Brussels, 1977, 7 pages ....free
Outline of the mechanisms for bilateral consultations with Japan, the trend of EC trade with Japan, and specific sector problems in EC-Japanese trade.

EEC-YUGOSLAVIA RELATIONS. *Information Memo P-109,* Commission, Brussels, November 1977, 3 pages ....free
Summary of the draft negotiating directives presented to the Council by the Commission for a framework economic and trade cooperation agreement to replace the existing agreement with Yugoslavia.

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Organizational listing of the Commission's departments and services; gives directors-general, heads of directorates, and chiefs of divisions.

THIRD MEETING OF THE GENERAL COMMITTEE OF THE EURO-ARAB DIALOGUE. *Information Memo P-100,* October 1977, 4 pages ....free
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Summary of the list of priority actions needed to implement goals of the 1973 transport policy program.

PRAEGER SPECIAL STUDIES

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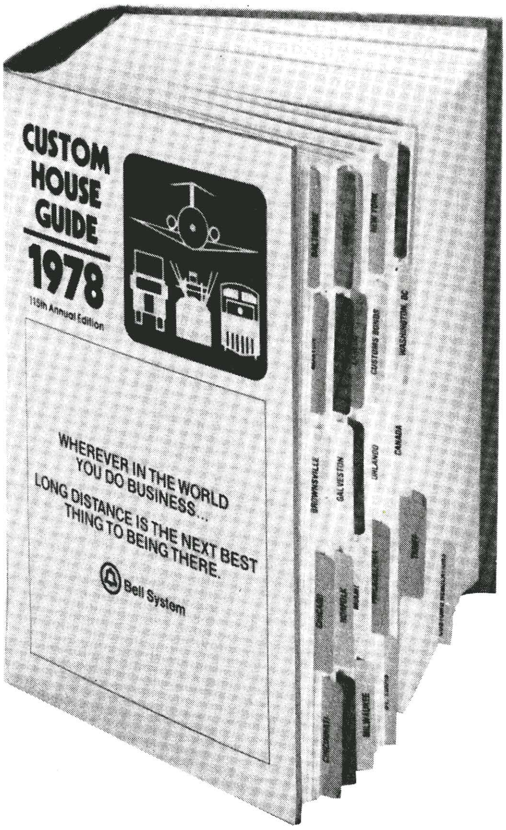

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