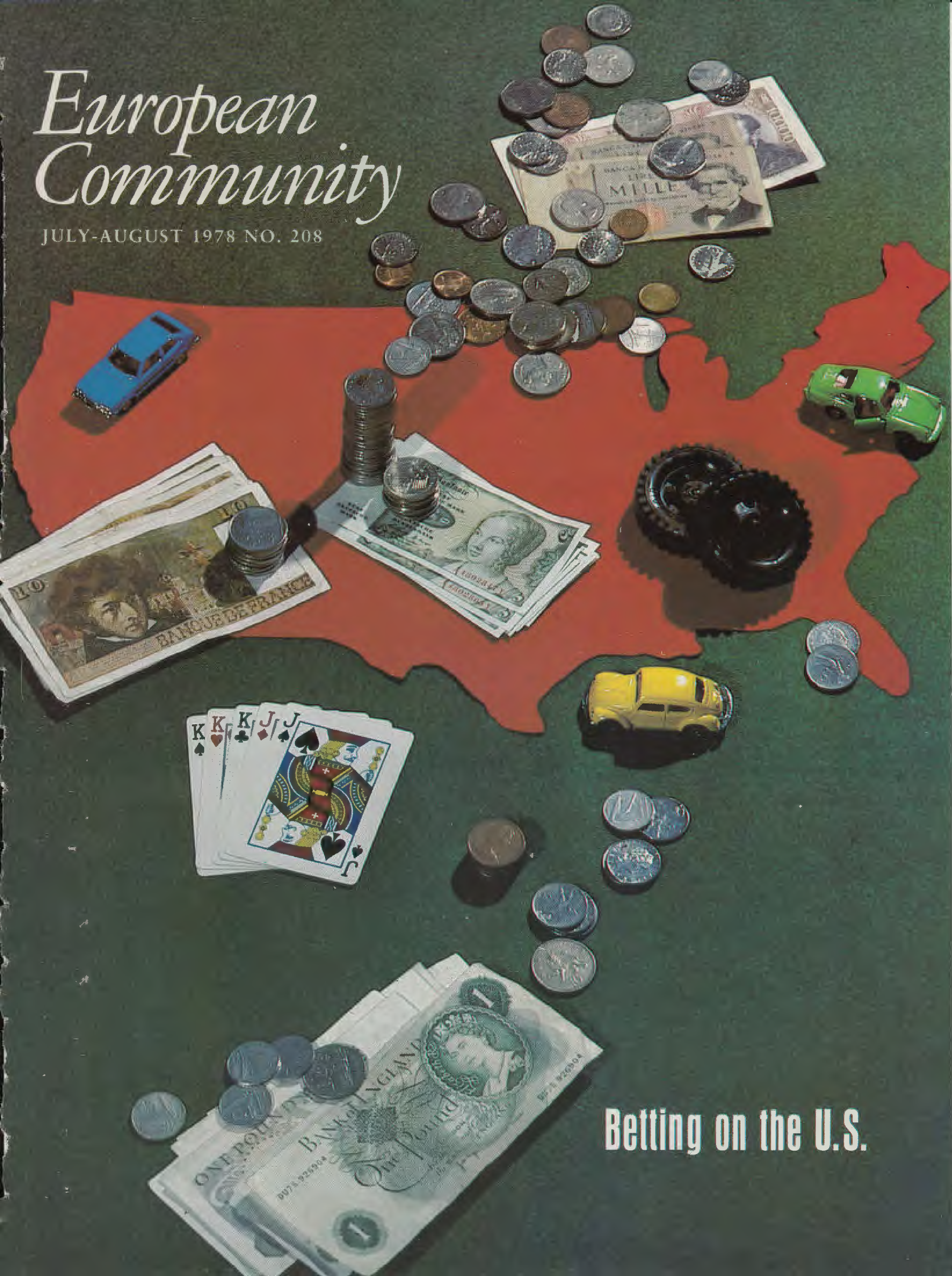
European Community

JULY-AUGUST 1978 NO. 208



Betting on the U.S.

European Community

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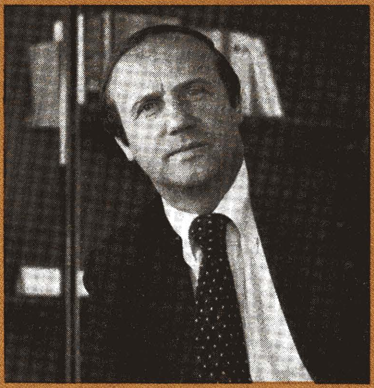


Publisher's Letter

At a recent conference in Washington on trade and investment, EC Commission Vice President Wilhelm Haferkamp referred to Jean-Jacques Servain-Schreiber's book of a decade ago—Le Défi américain ("The American Challenge").

Haferkamp said the book "expressed the fear that Europe would become totally dominated by American multinationals and their capacity to innovate. Today that picture seems no longer valid. European industry has caught up with American technology—even in sophisticated fields such as nuclear science and aeronautics."

He went on to note that the stream of investment is no longer one-way from the United States to Europe; westbound European investment to the United States now equals almost half of all American direct investment in Europe.

Clearly there has been a secular change in patterns of the world economy. In this issue of European Community *we take a close look at some notable European investments in the United States—the linkup between Renault and American Motors Corporation as well as Michelin's continued US penetration by Axel Krause, Volkswagen's new US production by Paul Kemezis, Michael Blanden's report on National Westminster Bank's takeover of the National Bank of North America, and an analysis by investment consultants Booz • Allen & Hamilton on European acquisitions of or investment in US firms.*

"Le défi américain" may have become "le défi european"—further proof of the ebb and flow of economic tides on both sides of the Atlantic.

Andrew A. Mulligan

Andrew A. Mulligan

THE BONN "SUMMIT"

The world economy looks up, or further down?

PAUL LEWIS, *Paris-based European economics correspondent for* The New York Times

THE WESTERN ECONOMY HAS BEEN BUMPING ALONG AT the bottom of a trough for the past two years, and unless something dramatic occurs, it may well stay there for a third year and perhaps a fourth as well.

For despite the oceans of ink and the millions of words that economists, politicians, and commentators have devoted to the world recession, it is still quite unclear whether the major Western powers are able or willing to do anything about it. This summer President Jimmy Carter has his second try since taking office at forging a Western consensus on remedial action—at the meeting in Bonn with leaders of the European Community, Canada, and Japan for their annual economic summit meeting. For several weeks prior to the summit the air was thick with rumors that the Bonn meeting would produce agreement on a new plan for a coordinated reflation of the major Western economies that would help them break out of the vicious circles of slow growth and rising unemployment they are now trapped in.

No doubt this is what Western leaders will claim they have done; for to admit less might be taken as acknowledgement that they have lost control over their countries' economic destiny. But if any recession-busting agreement at Bonn this summer is to carry conviction, it will have to look a lot more impressive than the similar pact these same leaders made at their London summit last year and which turned out to mean next to nothing at all.

It is true that since the London summit the differences between the major countries over dealing with the recession seem to have narrowed a bit and that a possible basis for compromise is emerging. But at the same time the forces perpetuating the economic slowdown are growing stronger. Meanwhile, there are increasing signs that the West's economic difficulties may be more deep-seated than first thought and likely to respond only slowly at best to the medicine now being prescribed for them.

More than two years have passed since former US Federal Reserve Chairman Arthur Burns told Congress, "The old economic rules don't seem to work like they are supposed to any more." Only now are the full implications of that celebrated warning starting to emerge.

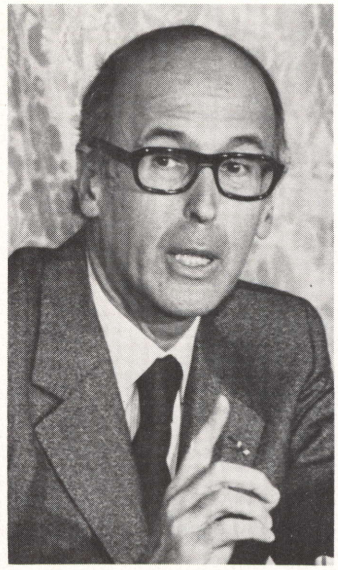
If the forecasters are to be believed, the Western industrial nations are already halfway through another year of slowing economic growth and rising unemployment, with the prospect that 1979 will offer more of the same. According to the Paris-based Organization for Economic Cooperation and Development (OECD), growth in the 24 Western industrial economies will average only about 3.5 per cent this year and slightly less in the first six months of 1979. With a growth rate of about 4.5 per cent needed to sustain present employment levels, this means unemployment will creep up another 500,000 to around 17.5 million by next Christmas.

The economic slowdown will be most pronounced in Western Europe, where most of the increased unemployment will be concentrated. Currently the EC Commission is forecasting economic growth at no more than 2.7 per cent for its nine member states this year. By contrast, unemployment has been falling in the United States, where some 8 million new jobs have been created in the past three years. French President Valéry Giscard d'Estaing pointed out at the EC Copenhagen summit in May, "The recession is essentially a European phenomenon."

WHILE THESE GROWTH PREDICTIONS ARE WORRYING enough, there are three reasons for thinking that the West's economic prospects may be more serious than the mere numbers suggest and that give added urgency to the Bonn summit's deliberations. First, it is now clear that the United States will be unable to provide as much support for the international economy in the future as it has in the recent past. After encouraging the American economy to grow at between 5 per cent and 6 per cent a year during the last two years, the Carter Administration is now being forced to lower its sights by a combination of rising inflation and a yawning trade gap. Currently it aims for no more than a 4-to-4.5 per cent growth rate in 1978 and 1979, or just enough to keep unemployment steady.

A second worrying feature of the world's present economic environment, which also suggests the slowdown is becoming harder to reverse, is the growing recourse to

British Prime Minister James Callaghan and Canadian Prime Minister Pierre Trudeau UPI



French President Valéry Giscard d'Estaing UPI

Italian Premier Giulio Andreotti UPI

protectionist measures throughout the West. Such measures tend to perpetuate current patterns of slow economic growth by restricting the expansion of world trade and featherbedding inefficient industries. The last few months have seen a proliferation of protectionist restrictions and subsidiaries in all the major Western industrial countries, some formal, some less so.

World trade in steel and textiles is now covered by official cartel arrangements designed to protect the inefficient producers of Europe and the United States against competitors in the poorer countries of the world. Similar plans are afoot for the chemical, footwear, and plastics industries. At the same time the United States and Western Europe are privately pressing Japan and other more efficient exporters to limit deliveries to US and European markets on a "voluntary" basis, or face the prospect of something worse.

A recent study by the Secretariat of the General Agreement on Tariffs and Trade (GATT), which oversees world trade from Geneva, suggests that about 2-to-3 per cent of world trade, worth some $200-to-$300 billion a year, has been affected by new protective measures in the last two years. Of course, such measures are intended to safeguard jobs in the countries that take them. But, paradoxically, they also tend to prolong the very recession whose effects they are designed to fight—by restricting the growth of trade and subsidizing inefficient industries at the expense of the efficient sectors of the economy.

Yet a third reason for supposing the recession is becoming harder to break out of is that it has brought only disappointing progress so far in reducing inflation and correcting the big payment inbalances in the world. While Germany and Switzerland are now on the road to abolishing inflation altogether, elsewhere inflation seems to have become stuck at around 8-to-10 per cent, which is still high by past standards.

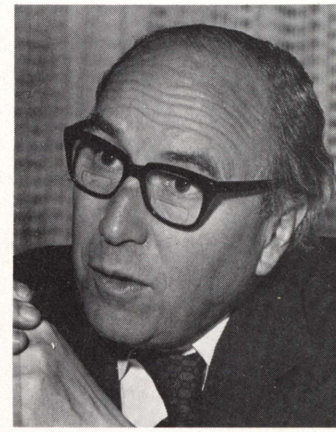
Just how much high inflation itself accounts for low business investment and slow growth is a matter of dispute among economists. But there seems little doubt that many Western electorates fear rising prices as much as, or perhaps more than, unemployment; and stubborn inflation thus inhibits their governments from taking reflationary action. Certainly Britain's Labour Government now gives top priority to fighting inflation and is weeping only crocodile tears over rising unemployment. In France the electorate decisively rejected the opposition's plans for a massive reflation of the economy in this year's parliamentary elections because it feared these plans would mean renewed inflation. Meanwhile, both the political left and right have joined forces in Italy, Portugal, and Spain to support austerity programs sometimes drawn up by the International Monetary Fund (IMF) and intended to reduce inflation and correct these countries' foreign trade deficits.

As regards the world payments picture, it is true that Britain, France, and Italy have all made good progress toward eliminating their deficits—so laying part of the foundation for renewed economic growth. But just as the US payments deficit is expected to widen further this year, reaching a new all-time record of some $24 billion, so too are Germany's and Japan's high surpluses likely to grow bigger still.

Currently the OECD expects Germany's surplus to rise from $3.5 billion last year to some $5 billion in 1978, while Japan's surplus is expected to increase from $11 billion to $16 billion. So long as these huge surpluses remain, other countries are restrained from taking reflationary action by the fear that this will just suck in more

Japanese Prime Minister Takeo Fukuda UPI

US President Jimmy Carter and German Chancellor Helmut Schmidt UPI



EC Commission President Roy Jenkins

imports they cannot hope to pay for by increased sales abroad and push them back into a fresh balance of payments crisis.

"WITHOUT EXPANDING WORLD MARKETS, many countries are inhibited from achieving their domestic growth targets," the EC Commission concluded in a recent report. Over the past few months most European governments and the Carter Administration have been working on a plan for a coordinated reflation of the major Western economies, intended to get economic growth going again before the self-perpetuating aspects of the present recession make it a built-in part of the Western economic scene.

The idea is that Germany, Japan, and the other better-off countries should take the lead in reflating their economies, sucking in more imports and reducing their big trade surpluses. But at the same time other less prosperous countries might also take more modest reflationary action, secure in the knowledge that expanding markets for their exports exist and that they can avoid new payments troubles. An added advantage of this coordinated reflationary approach is that if a number of countries expand their economies in step, the effect is magnified so that a comparatively small initial stimulus produces a much larger increase in overall demand. Thus the OECD Secretariat has calculated that if Germany, Japan, Britain, Canada, and Italy increase their total demand by between .25 per cent and .5 per cent this year, the effect next year will be to raise their combined rate of economic growth by between 1 per cent and 1.25 per cent. This will transform a 3 per cent growth rate into a 4+ per cent rate of expansion and stop any further increase in unemployment.

Of course, both Germany and Japan remain reluctant to give the lead for even a coordinated expansion policy of this type for a variety of reasons, both economic and historical. The Germans, who still remember how the great inflation of the Weimar Republic brought Hitler to power, fear inflation more than any other nation in Europe. As one of Europe's richest peoples, they also wonder whether they really can increase their imports more. For Japan, at the extremity of the Western industrial world and without armed forces of its own, a high trading surplus is a source of political security as well as economic welfare.

Nevertheless, in recent weeks both Germany and Japan have been alarmed by sharply rising value of their currencies on foreign exchange markets, which tends to make their exports uncompetitive, and by rising protectionism in the West, which also threatens to rob them of their export markets. Fears for their own economic future if they continue along their present course, as well as increased international pressure, thus combined to force both Germany and Japan to at least consider a package deal at the Bonn summit. In return for reflationary action to reduce their own trade surpluses, both countries wanted steps to promote greater currency stability in the world and to preserve free trade.

Even before the summit the Carter Administration had already begun intervening on the foreign exchange markets on a fairly large scale to keep the dollar stronger. Meanwhile, talks were underway among the EC countries on trying to associate the French franc and the British pound more closely with the German mark and the group of other European currencies that are pegged to its exchange rate under the so-called "snake" arrangement.

As for trade, all the Western powers were committed to concluding successfully and quickly the Tokyo Round of trade-liberalizing negotiations, after nearly five years of virtual stagnation. At the same time, the Germans and the Japanese were anxious that other industrial countries should agree to freeze and phase out more subtle forms of protectionism, such as government subsidies to loss-making industries and grants to create jobs that would not otherwise be economic.

As the Western powers are trying to forge a new and politically complex strategy for ending the world recession, there are signs the world downturn may be partially immune to the kind of stimulatory measures they plan. Some critics of the current reflationary effort say it will make little impact on a world economy caught in the downswing of the 50-year "long-wave" business cycle that a Russian economist claimed to have discovered. Others argue that the West's high labor costs make it difficult to restore full employment by boosting economic demand alone: If industrial investment does revive, it will tend to be in job-destroying machinery as businessmen find that machines are cheaper than men. Already an OECD survey of the electronics sector, where most new jobs have been created since World War II, found that while most companies planned new investments, none expected to increase its labor force.

Meanwhile, traditional Western industries will increasingly find themselves undercut by cheaper producers in the developing world. According to this viewpoint, the West will not experience full employment again until it has developed new industries that low-wage countries cannot imitate. Rather than boosting overall demand, therefore, Western governments should spend their money encouraging scientific research and the development of new high-technology industries that only the industrialized countries have the necessary skills to operate. Of course, arguments such as these strengthen the case of those who are opposed to the whole idea of a coordinated reflation plan—or at least those who believe such a plan's results may be more disappointing than many of its supporters are prepared to acknowledge.

"THE DISEASE OF PROTECTIONISM"

Does it have a cure?

FERNAND SPAAK, *head of the Washington Delegation of the Commission of the European Communities*

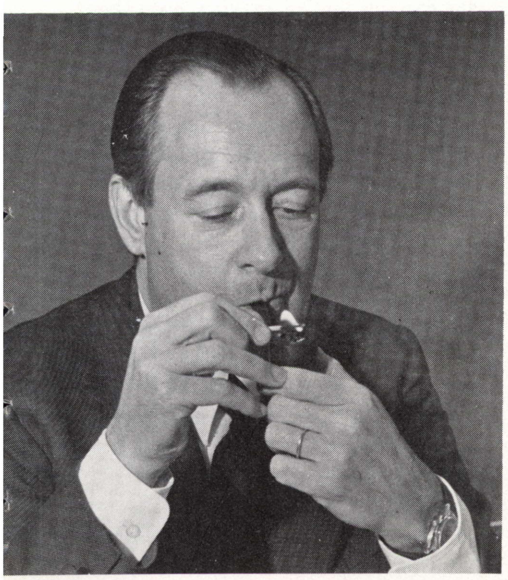
If there is one field in which history has an unfortunate habit of repeating itself, it is in that of international trade. In times of plenty, when growth is assured and prosperity seems certain, we are all free traders. Competition in the international marketplace is seen as natural, healthy, and beneficial. But as soon as things start to go wrong, as soon as we are faced with a recession, there is a tendency to practice no longer what we were preaching before. Demands by both labor and business for protection against foreign competition, be it fair or unfair, become increasingly insistent, if not obsessive. Import competition is then often claimed not only to be injurious but also to be unfair. If domestic manufacturers cannot face the competition, it is not, they argue, because they have failed to modernize or rationalize their production or not because they have failed to recognize new trading patterns and adjust to them. It is invariably because their foreign competitors are selling by unfair methods and at dumping prices on what they feel is first and foremost *their* market.

The wave of protectionist pressures that we have witnessed since 1975 has perfectly illustrated this now classical pattern. In 1974 and 1975 the world experienced the worst recession since the Second World War. It was followed by an uncertain and slow recovery in the United States with no significant improvement in the economies of Europe.

At the same time we were witnessing the emergence of new competitors in fields where the traditional industries of the developed countries were already struggling with structural problems. With few exceptions trade deficits piled up, partly as a result of the ever increasing cost of imported oil. The response to all that has been a flurry of requests and demands for protection, both in the United States and Europe, that surpasses anything since the Depression of the 1930's. And it is a tribute to the courage and good sense of governments on both sides of the Atlantic that they have to a large extent resisted those protectionist pressures.

Now, it may be true that imports have

played a part in the recent and present difficulties of some of our industries. But they are not the only, nor even the principal, factor involved. Very often they serve only to highlight much deeper and more serious problems in those industries. And trade laws designed to protect industries against injurious competition, whether fair or unfair, though they have a role to play, are not necessarily the most adequate, nor the only possible, remedy. Solving the difficulties that some of our industries face at present requires dealing with the problem at its roots. It is not just a matter of greater enforcement of law and order in the international marketplace. We have to tackle the causes of the threatened breakdown. The political will that existed formerly and still exists toward free trade in general must now be accompanied by an additional commitment to deal with the structural problems. And by structural problems I mean the overcapacity and lack of competitiveness that exist in such industries as steel, textiles, footwear, synthetic fibers, and shipbuilding—a list that could grow longer in the future.



Fernand Spaak

If such problems are allowed to persist, and are only dealt with by way of anti-dumping measures, safeguard clauses, countervailing duties, or "Section 337" investigations, in the long term nothing will be resolved. In fact, there is a very real danger that we shall only exacerbate tensions in the international trading system. These kinds of responses will invite similar responses from others; they could become more and more protectionist in nature and might ultimately threaten the free trade system that has been at the base of our common prosperity for the past 30 years.

To avoid such a disaster—and we have only to look back at the 1930's to know that it would be a disaster—our first aim must be to try and restore economic growth and stabilize exchange rates. But even if we are able to do that, the effects will not be immediate, nor will everything have been solved. For the commercial and industrial problems that will remain, governments must at the same time have at hand subtler tools than merely trade laws. In Europe we believe that governments should not be faced, as the US Government tends to be, with the stark choice: restrict imports or do nothing at all. They must also be equipped to deal with the real causes of the problem.

We do, of course, in the European Community still have at our disposal the conventional instruments to deal with injurious competition where it affects us. But we only use such instruments, where occasion demands, toward the outside world—and then, I would emphasize, with some reluctance. We have anti-dumping legislation and we have a safeguard clause.

Both our anti-dumping legislation and our safeguard clause follow the rules of the General Agreement on Tariffs and Trade (GATT), and are similar in purpose to US trade laws but they differ significantly in two ways. First, under our laws it is more difficult for firms to obtain relief from import competition. We employ stricter criteria in deciding whether the situation warrants such relief. In addition, each case has to be considered and acted upon at the highest political level—by the EC Council of Ministers. The other major difference is that our laws allow discretion to the EC Commission. In the case of dumping, the initiation of investigations is not automatic as it is in the United States. In addition, the Commission has the power to refuse to grant relief, if it considers that it would not be in the best interests of the Community to do so, even where the existence of dumping has been proved.

As a result, the number of investigations conducted by the Commission is, so far, much lower than that conducted in the United States. From 1970 to mid-1977 the United States investigated more than 200 cases of alleged dumping and around 70 countervailing duty cases. In the same period the European Community investigated less than 40 similar cases. Where the Commission turned down requests for investigations, it did so because it felt that such investigations would have been of more harm than help to international trade.

We have used our trade laws sparingly because our philosophy in dealing with these problems stems directly from our experience in managing free trade within the Community. In creating a single market where nine separate markets existed before, we have got rid of national safeguard legislation and anti-dumping laws which could have restricted the free movement of goods among our nine countries. We have also instituted an antitrust policy for the whole Community which is aimed at avoiding the distorting effects of subsidies and monopoly practices. But we haven't left it just at that.

WHAT WE HAVE ATTEMPTED to do in the Community is not only enjoy the prosperity that comes from a liberal trading system but also mitigate the effects of unbridled competition where they impinge on sectors and regions that are least able to withstand it.

Inevitably there will be casualties in the kind of totally free and open competitive situation that we encourage. But we are not prepared to sit and watch those casualties bleed to death without lifting a finger. Politically and morally that would be unacceptable. Nor would it do much to persuade people of the benefits of the free market system. What we try and do is foresee where the blows are likely to fall and take corrective action before the damage is done. Thus if a particular industry appears to be threatened by competition, we do not leave it to be wiped out nor do we preserve it in the aspic of protectionism. Our aim is to anticipate the problem and develop industrial policies that will make industry better able to face the realities of the marketplace.

That does not mean "Big Brother" telling industry what changes to make and how to make them. The final decisions lie with business, with the owners and managers of individual companies. What we *can* do is present a global view of the problems and, by throwing light on them, help a particular industry to see how it might adapt itself to changing conditions. At the same time our social policies—funds for retraining workers, for example—can make an additional contribution to the adjustment process by helping to ease the unemployment that will be inevitable.

To the extent that we make our presence felt in the marketplace, we do so for the sake of greater efficiency—in the name of more, not less, competition.

Similarly we have to be aware of the effects that an open trading system will have on the poorer regions of the Community. You cannot, for example, expect southern Italy, southwestern France, northeast England, or Ireland to face over night the economic challenges of Germany, Belgium, or Holland without some kind of support. And we give them support, financial transfers from the richer areas to the poorer, so that they can become full and equal partners in a common economic system.

The experience of dismantling trade barriers within the Community has confirmed our belief that free trade is a necessary condition of prosperity. But on its own it is not enough. For it to be wholly beneficial, for it to improve all our people's living standards, it must be accompanied by social, regional, and industrial policies that maintain some kind of economic balance among different areas and industrial sectors in the Community. And I make no apology for saying that all of this means that government has a role to play.

The crisis in the steel industry serves as illustration. Everywhere, including Japan, production has dropped and prices have sunk to levels below cost of production. Firms have suffered losses, plants have closed down, and thousands of workers have been laid off.

The European steel industry has been particularly affected. Traditionally a net exporter, it has had to suffer from the cumulative effects of a reduction in its internal demand, an increase in imports, and a reduction of its exports, which normally account for 15-20 per cent of production. As a result production, which had reached 155 million tons in 1974, dropped to 126 million tons in 1977. In these last two years European steelmakers have been operating at an average of only 62 per cent capacity. Prices on the internal market in 1977 dropped to 50 per cent or in some cases 75 per cent of their 1974 levels, bringing firms to the brink of bankruptcy. In the international marketplace, this crisis has led to cutthroat competition, further disrupting already badly affected industries. Pressures by industries on governments to obtain protective measures became greater and greater as the situation deteriorated. A truce had to be called to create the climate necessary to undertake the long-term effort of modernization, adaptation of production capacities to new market conditions, and rationalization.

That is the reason why the Community has engaged, since 1976, in a comprehensive program designed to deal with the short-term as well as the long-term aspects of the problem. To deal with the short-term crisis, the Commission decided in early 1977 to ask the European producers to freeze their present capacity and to agree voluntarily to reduce their output by assigning them given production targets. The idea behind this plan was to organize on a voluntary basis an orderly adaptation of production to the new market conditions, which would also help raise prices. At the same time producers agreed to respect guideline prices for the main rolled-steel products. Mandatory minimum prices were set by the Commission for one product, to which were added subsequently two others.

After a while it became clear that the discipline requested of the European producers would not have the required effect if a similar discipline was not exercised by foreign industries. To this end, the Commission instituted, at the beginning of 1978, a system similar to the US trigger price mechanism, which is now being gradually replaced by a series of bilateral agreements with our main suppliers.

Under these agreements the countries concerned agree to require their steel producers not to sell in the Community at prices lower than 4-to-6 per cent below the guideline prices, and, as a counterpart, their exports to the Community are guaranteed at levels that take into account the "traditional flows of trade." Our objective in taking these measures, which we see as temporary, is to help the steel industry find part of the resources needed for its modernization.

For the long term, national plans within the Community for restructuring the steel industry are already underway. For its part the Commission has the power to borrow funds on private capital markets to relend them to steel companies in the Community. This will help make it possible for those firms to rationalize and modernize and will also assist in relocation and retraining of workers affected by the closure of obsolete plants.

The Commission will also be closely monitoring the national restructuring plans to make sure that they do not lead to further surplus capacity nor to plants that are no longer viable being kept alive by government subsidy. This approach has meant developing new sets of relationships among government, industry, labor unions, and consumers.

BEYOND THE FRONTIERS of the Community the crisis in the steel industry will mean developing new types of relationships between the Community and its trading partners. The governments of the industrialized world have to start talking not just about reducing tariffs and other barriers to trade—the traditional stuff of commercial diplomacy. The crisis in an industry like steel is worldwide and structural. That is why we have to start talking about how, together, to coordinate both our domestic and external policies to deal with the problems we share in restructuring an industry that has outgrown itself and faces new market conditions.

Such a dialogue has already begun in the Organization for Economic Cooperation and Development (OECD) discussions on steel. In both these talks and future ones the Community has supported and will continue to support the idea of what we call "transparency" of the market—the collection and publication of the most comprehensive data possible on all factors affecting the world steel market. We also consider it essential that a better international coordination be established among governments so that their action, on domestic markets as well as externally, instead of being detrimental to one another, complements and strengthens one another.

As far as the developing world is concerned, there too the developed world has to strengthen the links of economic cooperation—and not out of a sense of charity or even guilt. The European Community has already started to do this—not only because of our colonial past but also because we believe the countries of the developing world to be our future markets. We already guarantee the raw material export earnings of 53 developing countries in Africa, the Caribbean, and the Pacific; we have also freely opened our market to those same countries without reciprocity, and we make development capital and technical assistance available to them. In the future this, too, will have to be managed in a way that is in the best long-term interests of all parties.

We are now negotiating the next phase of this economic cooperation agreement known as the Lomé Convention, and here again we are stressing the concept of "transparency." If there is a regular and periodic exchange of information regarding market opportunities and investment plans in sensitive products, it may be possible not only to avoid disputes but also to create an orderly growth in our trade with one another. Thus, for example, if trading partners in the developing world are fully informed about the problems we face in, say, textiles, they will be in a better position to judge the wisdom of making investments in such a sector. Conversely, by having detailed knowledge of sectors of our market where domestic supply does not exist, they will be able to plan accordingly. And although the machinery for these consultations will have been set up by governments, business and labor will participate, and the final choices in most cases will be theirs.

In all these areas—restructuring of domestic industries, trade relations among the nations of the developed world, and between them and the developing world—some might argue that all problems could be solved by leaving the job to the market. But at a time when expectations of future growth are low, free market forces alone have a habit of being particularly harsh. Moreover, as market forces would be doing their work—with all the social and industrial consequences that would involve—the political pressures for protectionism would grow so great as to be irresistible. The barricades would be up. Not only would the free trade system grind to a halt, so too would the process of restructuring those same industries. The incentive to do so, the spur of outside competition, would no longer be present.

That is why, in Europe, we believe that this process must be managed in a rational and humane fashion. In dealing with the problems of injurious competition within the industrialized world, and between it and the developing world, we are saying that prevention is better than cure. Prevention will mean some painful surgery, but we may otherwise not avoid the disease of protectionism—a disease for which there may be no cure.


EUROPE BEGINS WITH ME.
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Dubai
Baghdad
Dhahran
Teheran
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Another part of my job never stays the same: where it takes me.
You see, Sabena always begins Europe in Belgium. But we certainly don't end there.
From Brussels, you can take Sabena to a whole worldful of destinations. Wherever you're bound, my staff and I will lavish you with Belgian cuisine so elegant our food in first class has won the Club des Gastronomes Award – an honor that usually goes to fine restaurants on the ground. We serve dishes like Filet de Boeuf Grillé. Desserts like Black Forest Cake. And we never use food that's been frozen (we don't like it in Belgium, so we don't serve it on Sabena).
CLUB DES
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EUROPEANS IN THE US MARKET

The auto industry offers three major case studies

ON A SPRAWLING SITE NEAR NORFOLK, VIRGINIA, stands a $25 million European testimonial to how an ambitious US investment plan can go awry. What Sweden's giant auto-maker, Volvo, originally perceived as a major opportunity to crack the US market by on-site assembly has turned out to be a disappointment and a warning to others. A year-and-a-half ago Volvo postponed plans to continue building there—citing plenty of worldwide capacity, the energy crisis, and its own shrinking sales in the United States. Today the partially completed plant serves as a distribution center, where growing numbers of imported Volvos are readied for dealers, although company officials say that assembly plans may be revived at a later date.

Volvo's plight illustrates how European car-makers are now fighting for their lives in the United States. Why? The plain fact is that the US small car market—once the European's bread and butter here—is now dominated by the Japanese with the Americans themselves increasing their strength with home-built and "captive" import models like the Ford "Fiesta."

The Japanese, with an export-oriented auto industry that is aggressively seeking new markets, have expanded their sales dramatically in the United States during the 1970's. The leading positions of Toyota and Datsun, originally taken over from Volkswagen, have been challenged by Honda, Subaru, and Mazda—leaving the Europeans behind in the dust. In the first four months of 1978, for example, the big five Japanese companies sold 414,276 cars in the United States, compared to 186,775 for the top 15 European companies.

Faced with this onslaught, the Europeans have taken two main courses: Volkswagen and Renault have decided to slug it out on the small car market by building production plants in the United States or hooking up with established US companies. The other major European firms have decided to specialize in the larger car, high quality field, where European styling and gas-saving technology still provides some sales edge.

Many European firms such as Fiat, Alfa Romeo, and Renault admit they made major strategic mistakes in the United States in the past. The firms were so busy fighting for pieces of the home European market that they did not pay attention to US trends—leaving their dealers with poor selection and delivery schedules. While most European firms have revised their sales operation and models and believe they can gain back ground in the coming years, some, like British Leyland, still are in the doldrums because of reorganization problems at home.

At present the main problem for the Europeans in the United States remains the competition, not the law. There is little US protectionism against foreign autos either through tariffs or safety specifications. The only problem is small-volume importers, for whom testing to meet air pollution regulations is too costly. The continuing dollar devaluation is a headache, forcing substantial price rises yearly. But this also affects the Japanese, and the US manufacturers tend to put their prices up after import prices rise—preferring profits to squeezing the competition. The pending US legislation putting a tax on "gas-guzzling" cars will be a boon for the fuel-efficient imports, although another plan for a tax break for small car purchasers was thrown out.

At the same time, however, the Europeans have another fear: Japanese and even American competition on their own turf. The Japanese have been making progress in Europe for years, and a continued dollar slide, plus an increase in US small car know-how, could make US-built Fiestas attractive in Europe. While this might raise a call for protectionism in Europe, auto industry executives there believe a better answer is cooperation among European manufacturers, including parts exchanges, which would improve European-wide marketing services for all companies.

For the moment, however, immediate attention is focused on the American market—as the following case studies illustrate.

Paul Kemezis and Axel Krause

Volkswagen

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

In the 1960's the world was much simpler than now. Few Americans had heard of Toyotas or subcompacts or hatchbacks. Hondas were motorcycles, Subarus and Mazdas did not exist, and the only US car built abroad was the boxy old Opel. For all intents and purposes the two concepts of foreign car and small car meant only one thing to Americans—Volkswagen.

Starting in 1951, when the first "Beetle" was exported to America, Volkswagen created and then dominated the small car market in the United States. In 1970 the company reached its high-water mark, when 569,696 Volkswagens were sold in the United States—46 per cent of all US car imports and 6.8 per cent of the entire US market. That was the last year a dollar still got you four Deutchmarks and the average cost of a Volkswagen was $1,893.

Six years later, the position of Volkswagen in the American market had suffered a stunning reversal. In 1976 the company had to struggle to sell 200,000 cars. Volkswagen was actually losing money on each car sold and held back exports to the United States to the minimum needed to keep its dealership network intact.

The villains were the shrinking value of the dollar, rising German labor costs, the intense new competition in the United States from Japan, and the necessary change-over from the tried-and-true Beetle model to the new "Rabbit." Major problems in the proud firm's home operations, which produced a $336 million loss in 1974 after an unbroken record of profits, also contributed to the woes and brought a complete management shake-up in 1975.

In mid-1976, with no other alternative open, the Volkswagen executive team, headed by Toni Schmucker, played its last trump card to save the American market. Plans were announced to begin production of Rabbits in the United States as soon as possible. An abandoned Chrysler plant in Westmoreland County, Pennsylvania, was found; a strong team of US auto executives was hired, mainly from General Motors; and in April 1978 American Volkswagens started rolling off the new assembly line.

The gamble was a big one. Seen from hindsight the move, which cost an initial $250 million, was right because the dollar has sunk to new depths and market competition in the

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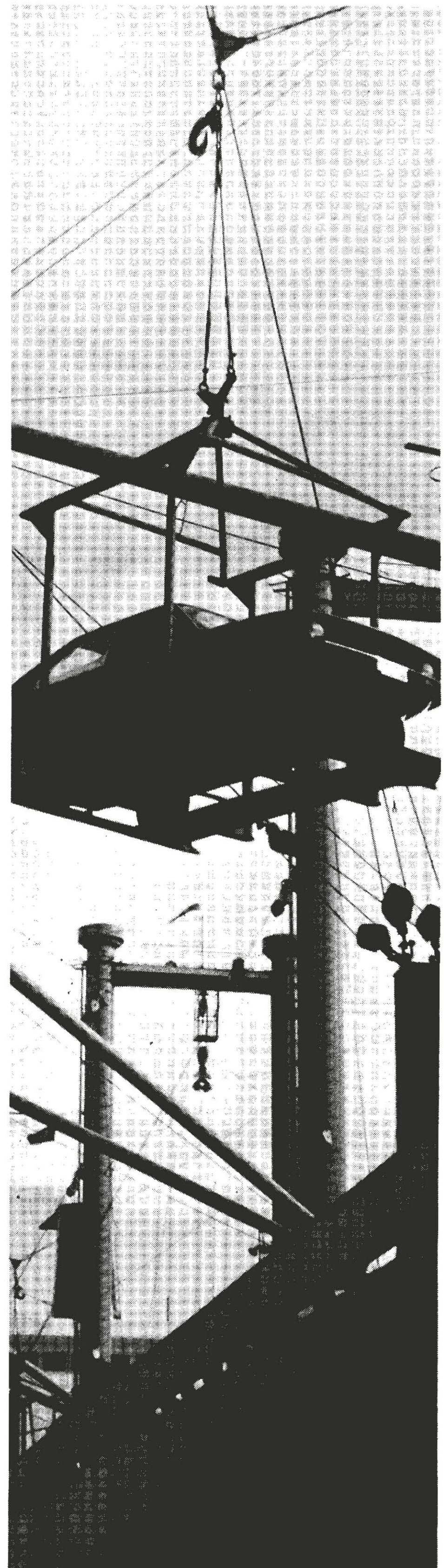

A scene from the past? As European auto-makers set up US production, they will consequently rely less on traditional exporting . . . such as this VW "Dasher" shown being unloaded at a US port from one of Volkswagen's specially designed ships. courtesy of Volkswagen of America, Inc., Englewood Cliffs, New Jersey

Renault and Michelin

AXEL KRAUSE, *a senior correspondent for* Business Week *in Washington, who previously covered Europe*

"For many Americans, our industrial products simply are not credible—France still is perceived in the stereotyped forms of wine and perfume." This partly whimsical observation comes from Pierre Herrmann, president of the US subsidiary of giant French auto-maker Renault, which is mounting the company's first and most ambitious assault on the US market since the late 1950's. "Our expanding efforts here should help change that image," he adds.

A dissimilar but equally determined prowess is reflected by Marc de Logères, who helps direct the audacious, far-reaching US operations of tire-maker Michelin. "If the standards of excellence are maintained," he recently declared, "mass production and the pressure of competition should almost inevitably bring new technical progress . . . and a decrease in prices."

Although they differ markedly in their purpose, style, strategy, and degree of success, both Renault and Michelin are examples of a new, determined "défi français" aimed at making inroads on the US motor vehicle market—largely through on-site manufacturing—as part of their worldwide expansion. Moreover, each company in its own way is battling for growth in what is the world's biggest and most fiercely competitive market with an arsenal of industrial weapons and French traditions. And these are already sending ripples—and more than a little nervousness—through US industrial circles.

"Neither Renault nor Michelin are number one worldwide, but they do embody solid technology and resources," says a seasoned Washington lobbyist for the US automobile industry. "Each could go big if their present efforts here materialize."

The efforts of Renault were launched in a period of European-wide pessimism. Three years ago in the executive suite of the company's gleaming new steel-and-glass Paris headquarters, Renault's secretary general, Marc Ouin, mused "whether the European automobile business will continue to be a profitable business at all"—noting that five of the nine major auto companies in the European market had been operating in the red. Forecasts gloomily predicted that European auto demand would probably not catch up with capacity until the mid-1980's.

Another consideration that still hauntingly colors Renault's strategy was the widely-conceded "Dauphine disaster" of the late

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VOLKSWAGEN
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United States has sharpened as foreign-built US subcompacts joined the Japanese in the fight for customers. If the plant had not been built, Volkswagen would have no future in America at all, but even with its US production the company faces a tremendous fight to hold its ground and rebuild even a part of its traditional market share.

After the debacle of 1976, Volkswagen made some progress in 1977 as 260,702 cars were sold in the United States, including 164,000 Rabbits. But 1978 has turned out to be another problem year. Production problems in Europe led to delivery delays, and a new surge in the Deutchmark's value drove Rabbit prices from $3,869 in September 1977 to $4,220 this May.

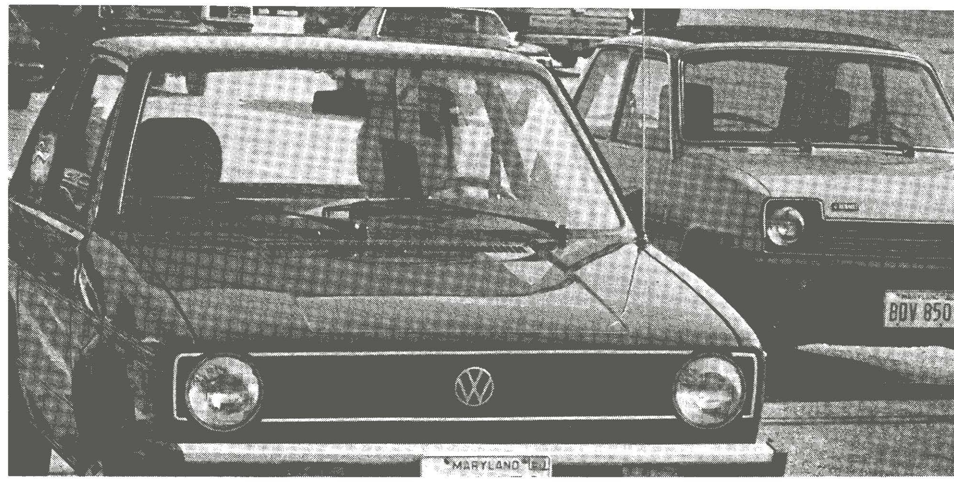
Executives at the Volkswagen of America, Inc. headquarters in Englewood Cliffs, New Jersey, believe that with the 1979 model year they can begin a new comeback. By then US production will be significant, which will mean a slowdown of price increases and better model availability for US dealers. The company hopes to reach full production capacity of 400 Rabbits a day or 200,000 cars per year at the Westmoreland plant by the end of 1978.

While the Rabbit has overcome start-up difficulties to catch on with US buyers, its great success worldwide has created an additional problem for Volkswagen—everyone is trying to copy it. The Ford "Fiesta," made in Europe for the American and European markets, the Chrysler "Horizon" and "Omni," many of the Japanese cars, and even Renault's "Le Car" are patterned more or less on the Rabbit. To add to the problem, the Chrysler products are powered by Volkswagen engines, the fruit of a major deal in the early 1970's that at the time seemed a good way to keep the company's engine works in Germany going at full speed.

As with the Beetle, the Rabbit has given Volkswagen a head-start on the world market, but this time the competition is right behind. Even the traditional edge over Detroit in small car development cannot be depended on any more.

There are many critics who argue that Volkswagen should have moved to American production much sooner. But Volkswagen executives in their headquarters at Wolfsburg, close to the East German border, argue that there were many reasons to delay the big step.

In 1974 the financial losses were too great to provide solid footing, even though Volkswagen has long been one of Germany's blue chip companies and a symbol of the postwar recovery. Also the company did not want to order full production of the Rabbit in the United States until the market for the new



"How will the public respond to an American-built Volkswagen after years of German craftsmanship?"
© Tenney Mason, Gaithersburg, Maryland

model was secure. Volvo had moved boldly with big production plans in the United States in 1975. But it found the market was not as large as hoped, and the planned factory in eastern Virginia has now become just a warehouse for imported vehicles.

WHAT NO ONE DOUBTS, however, is the vigor with which Volkswagen moved once the decision to locate in the United States had been made. Company officials courted offers from Ohio, Illinois, and Pennsylvania before deciding on Westmoreland County and Governor Milton Schapp's generous tax breaks and loans as the best all-around deal.

The state provided a $40 million loan to take over the plant site and help pay for turning the empty shell into a full assembly plant. Another $25 million was raised by bond issues for highway and rail connections; $6 million came out of the state employees and teachers fund. Volkswagen was able to cash in on its traditional prestige to borrow another $250 million on the US commercial market.

In July 1976 the mother company set up Volkswagen Manufacturing Corporation of America and started head-hunting for US executives. In September James McLernon, a 27-year veteran of General Motors, came over as president.

By February 1977 work crews had begun to pour concrete and assemble machinery in the plant, and hiring began for the work force, planned to reach 4,500 at full capacity. The company also acquired a metal stamping plant in Charleston, West Virginia, previously operated by American Motors and set up a headquarters in Warren, Michigan. The manufacturing company will operate separately from the sales arm, Volkswagen of America, Inc., with no single executive in the United States having control of the entire operation.

While the new factory appears headed for a smooth start-up, there are still a few flaws to the overall strategy that might counter the benefits. The factory is basically an assembly plant, and about 30 per cent of the parts, including engines, will still come from Germany. This means the Rabbit price in America will still feel some impact from currency changes. Also, all other Volkswagen models, about one-third of sales, will still be imported from Germany.

Also by building its plant, the first foreign-owned assembly plant in the United States, Volkswagen almost guarantees its chief rivals will do the same. Renault, Honda, Datsun, and Toyota are all actively reviewing similar plans.

Finally, because of earlier guarantees to German workers, made when the decision to relocate was taken, the export flexibility of the new plant is limited. The German unions demanded a guarantee that no US-built cars could be shipped back to the European market replacing German-made cars. Since Latin America and Africa are already covered by the large Volkswagen production operations in Mexico, Brazil, and Nigeria, the Westmoreland plant must stand or fall in its new home market.

One major unknown, which company officials dismiss as no problem at all, is how the American public will respond to American-built Volkswagens after years of attachment to German craftsmenship. Volkswagen has made a major campaign to ensure high quality at the new plant. But it basically thinks American consumers, most of whom believe the Lowenbräu they drink still comes from Germany, will not really care about this distinction.

Also Volkswagen, by a series of purchases, controls Audi and markets Porsche in America. Thus customers seeking high-precision European cars have a full range above the Rabbit to choose from. In fact, Audi's highly successful "meet our German engineering team" advertising campaign has been aimed directly at this audience.

Perhaps in the end it will be the German craftsmanship, or memories of it, that saves Volkswagen in the next stage of the battle for the US market. There are an estimated 4.3 million Volkswagens on the road in the United States today, including a lot of older ones with still satisfied owners. This durability may in the end be the best selling point against the American and Japanese competition that is getting tougher all the time.

RENAULT

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1950's, the company's first major export drive in the United States. Although the light, small, rear-engined auto had outsold Volkswagen's "Beetle" by 1959—Renault's best-ever year in the United States—the effort soon collapsed. "We learned a great deal from what happened to the Dauphine, even though we sold nearly 100,000 cars that year," Herrmann explains. "It was not designed for the American way of driving, spare parts were hard to get, and our dealers were not ready for it."

But the 1973 oil crisis, which had sparked a major, worldwide scramble for small and economical cars, had broken well for Renault: Only the year before it had introduced a small, stylishly boxy car that also was shorter in length than the Beetle—the "R5." And in an effort to extend its dazzling success in Europe to North America, Renault decided to rehabilitate its image in the United States and export the R5, but on a modest scale. Sales in 1974 were around 7,000, compared with Volkswagen's 340,000. Since then, however, Renault's dealer network has been more than doubled to around 330 outlets, as sales of the French subcompact known to Americans as "Le Car" soar to around 20,000 this year.

Although Renault still trails far behind Volkswagen and its Japanese competitors, the Frenchman in charge of US operations is far from being pessimistic today. Herrmann, who previously headed the company's operations in Germany, where Renault became the leading importer, and then directed establishment of a Renault plant in Iran, describes his task: "We must re-establish our name via a solid, trusted network of dealers and build sales on growing numbers of satisfied owners."

Right now a controversial, precedent-shaking plan is being shaped to accomplish just that with US auto-maker American Motors Corporation (AMC)—which, if successful, could greatly expand the worldwide position of both companies. When their agreement was announced last March, Renault and AMC executives emphasized it as an "arrangement" whereby each would help sell the other's line of cars—AMC's handling R5's in the United States and Renault's selling Jeeps in Europe—but they only hinted vaguely at other forms of cooperation.

"There was no successful precedent for this kind of deal, and the industry was impressed," according to Ralph T. Millet, chairman of the Automobile Importers of America, Inc., which represents foreign auto and tire companies doing business in the United States. "It seemed to signal clearly that Renault and Volkswagen were getting ready to slug it out."

But not everyone agreed. "Can putting together two weaknesses make a strength?" queried *Time* magazine in early April. Noting that "profit-pinched" AMC had been "openly" seeking a foreign partner for some time, the newsweekly reported that the R5 had not been selling "well" in the United States and predicted gloomily that they would not draw much traffic to AMC showrooms. Industry circles also were abuzz with rumors that Renault was losing more than $5 million a year on its US operation.

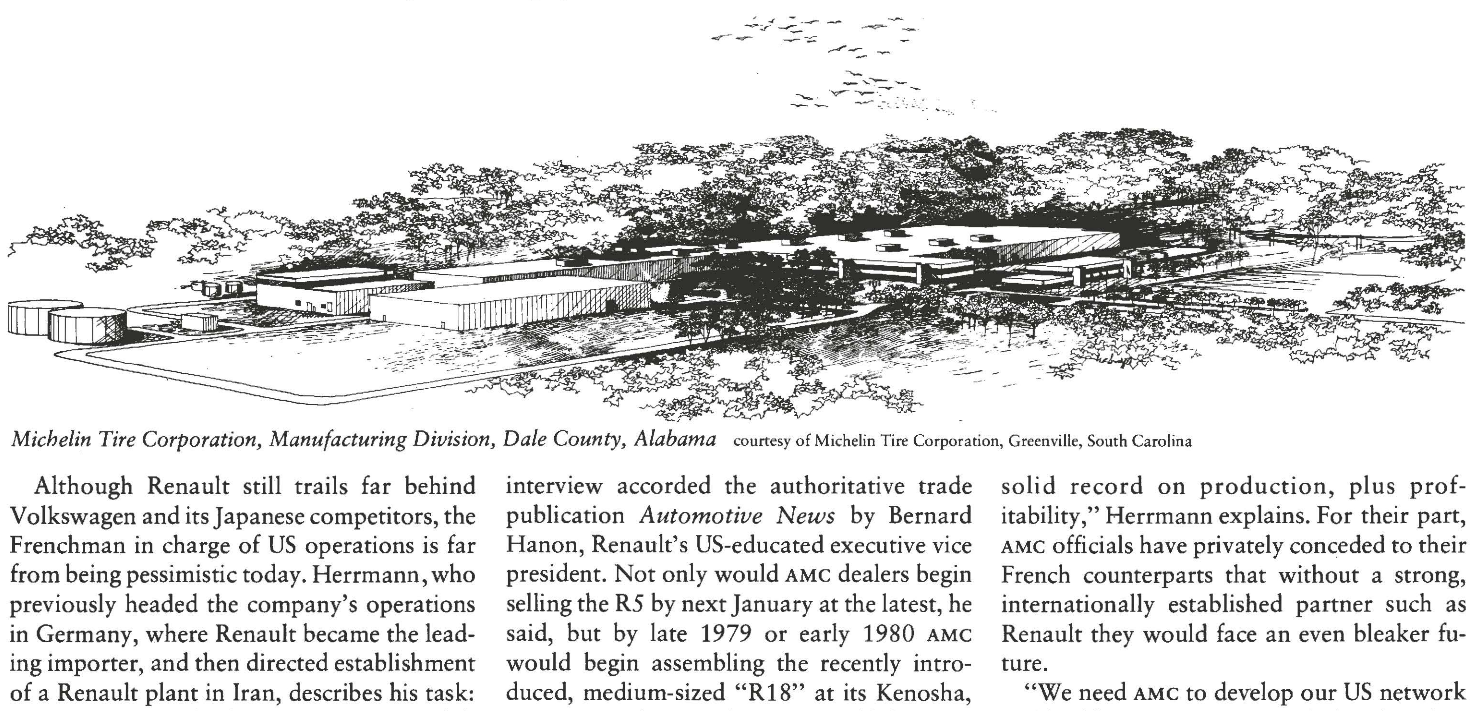
But by early June the word was getting around that the AMC-French connection would involve far more than simply a marketing operation. The first hint came in a detailed interview accorded the authoritative trade publication *Automotive News* by Bernard Hanon, Renault's US-educated executive vice president. Not only would AMC dealers begin selling the R5 by next January at the latest, he said, but by late 1979 or early 1980 AMC would begin assembling the recently introduced, medium-sized "R18" at its Kenosha, Wisconsin, plant. Both moves could dramatically expand Renault's position in the US market; Hanon said he was aiming for a doubling of R5 sales and was hopeful that by the 1980's the AMC plant could turn out up to 100,000 cars per year.

Even more startling was the disclosure that the French giant was prepared to extend its new partner credit which would help AMC retool its Kenosha plant for the French car. The amounts, Hanon told *Automotive News*, would be "in multiples of tens of millions of dollars," but he added, "not all of it at once."

Company officials also have since confirmed that considerable study is focusing on the question of what components to manufacture in the United States—if at all—versus imports from Europe. Indeed, the often heard comment that the "threshold" sales volume needed to launch a US manufacturing operation is 200,000 cars per year does not square with the decidedly Franco-American approach of these two companies. "It all depends on what you want to do—the whole car? Part of it? And what is the most profitable," explains Herrmann, who joined Renault in 1956 as the first employee of a newly formed export division. "We have a lot of worldwide experience on that score and, believe me, there is no magic number," he insists.

Although it is now widely conceded that AMC sought out the state-owned French company following the collapse of talks with a second foreign company, Renault says it was drawn by some AMC qualities generally overlooked in descriptions of the fourth US automaker, whose widely-publicized financial problems stem largely from falling sales. "AMC does, in fact, have positive sides—vehicles in circulation, a dealer network, a solid record on production, plus profitability," Herrmann explains. For their part, AMC officials have privately conceded to their French counterparts that without a strong, internationally established partner such as Renault they would face an even bleaker future.

"We need AMC to develop our US network and build our cars," Hanon declared. "They need Renault for product development—so there is mutual interest now." Asked more recently how he viewed the prospects of a Renault-AMC merger, Hanon more cautiously replied: "We are pragmatic on the issue."



Michelin Tire Corporation, Manufacturing Division, Dale County, Alabama courtesy of Michelin Tire Corporation, Greenville, South Carolina

LAST JANUARY A FIRE FORCED THE EVACUATION of several thousand employees of the three-year-old Michelin tire plant just south of

Greenville, South Carolina, and one man was seriously burned. As the story was told incredulously to a reporter for *The New York Times*, "They never called the fire brigade and preferred to deal with it themselves."

The explanation is simple: Michelin has an ironclad rule that no outsiders may visit its plants, irrespective of where they are. Concerning the traditions of secrecy at Michelin's headquarters in the provincial city of Cleremont-Ferrand in central France, a company employee recalled the visit years earlier of General Charles de Gaulle: "We politely showed him the sales room, then we politely showed him the display room, then we politely showed him the executive offices, and then we politely escorted him to the limousine in the parking lot."

The shy, paternalistic François Michelin, who has been running the world's third largest tire company since 1955, explained it this way: "You need 10 years to develop a machine and five minutes to understand it and thus copy it." And right now the company has a lot at stake—a roughly $1 billion gamble on succeeding in the United States tire market alone, quite apart from Europe, where the company is expanding its estimated third of the passenger tire business and one-half of the truck tire market.

Indeed, few European companies have the US presence or audacious approach of Michelin, aptly summed up in a flyer it distributes to potential US employees: "Yes, we are the *new* American tire company," it proclaims, "because now Michelin is manufacturing its steel-belted radials (of which the company is the world's first and largest producer) here in America . . . when you move to Michelin you become part of an international team of over 100,000 individuals in 12 countries."

This approach—vividly akin to that of US corporate giants seeking European talent for their Common Market operations—has proven highly successful. At the latest count, Michelin employed 3,500 persons at three tire plants in South Carolina, which will be gradually increased to 5,500, while an additional 1,500 persons will be hired for a new truck tire manufacturing plant scheduled to be operating in Alabama next year. And this is only a beginning, since it is no secret that this highly secretive industrial giant contemplates at least doubling its present number of plants within a decade.

But Michelin is bringing more to the United States than capital and determination to expand its share of the US tire market, which incidentally is estimated at around 4 per cent by industry sources. In France the national average of workers who are unionized stands at around 20 per cent, but only 8 per cent of Michelin's French workers belong to unions; and, not surprisingly, the company is promul-

Renault's Executive Vice President and General Manager Pierre Herrmann courtesy of Renault USA, Inc., Englewood Cliffs, New Jersey

gating that trend in the United States.

Not only is Michelin paying wage rates conceded as "pretty good for the area" by a United Rubber Workers Union official, but the company offers a wide range of fringe benefits that are generally rare for the region's traditional, equally conservative employer—the textile industry. In addition to such medical benefits as dental and prescription drug plans, plus educational assistance and holiday/vacation benefits, Michelin offers such things as French cooking lessons to its employees.

Maybe union officials are frustrated in their efforts to organize Michelin in South Carolina, but in Akron, Ohio—heart of the US tire industry—there is more than a little nervousness about the company's encroachment on its turf, which dates back to 1966, when the company began supplying radials to huge US retailer Sears Roebuck & Co. Totally contrary to the approach of Renault, for example, the very idea of forming a partnership with a US tire company would be unthinkable.

In a recent speech to the American Chemical Society's rubber division meeting in Montreal, Michelin's de Logères reminded his colleagues that in the tire business "the know-how is a basic element—jealously kept by each manufacturer as it is part of the patrimony of the enterprise . . . not protected by patents or industrial property rights."

"Their determination, backed with tremendously innovative technology, has forced everyone in the industry to make the radial tire," says an industry analyst who estimates the company should eventually wind up with roughly 10 per cent of the tire market in the United States.

This isn't to say that Michelin has had all smooth sailing. In 1973 Washington slapped a countervailing duty on truck tires the company was importing to the United States from Canada, where Michelin had obtained favorable government financing for several plants built two years earlier. The retaliatory tariff was originally set at 6.6 per cent, it was later cut to 2.5 per cent, but the question remains a source of annoyance to both US and Michelin officials. "It is still an active case, more or less," concedes a company official.

Meantime, while Renault considers establishing toeholds in the United States for its non-auto division—in the pleasure craft field, for example—Michelin appears steadfastly committed to the product first produced in 1894 by François' grandfather, Edouard Michelin. But there is a notable exception to the illustrious tire: Michelin's guides to hotels and restaurants plus sightseeing books and maps covering Europe and Africa, which over the years have proven a goldmine of publicity.

Its widely recognized green-colored handy guide to New York City was a recent addition and there may be other US offerings. "Nothing has been decided," said a Michelin official at the company's new head office for its commercial division in Lake Success, New York. "We are contemplating adding various regions in the United States," he further stated but politely declined to elaborate.

Since 1974 Renault's dealer network has more than doubled, and sales of Le Car soar toward 20,000 this year. courtesy of Renault, USA, Inc.

BUYING BANKS

"It's becoming fashionable"

MICHAEL BLANDEN, *banking correspondent for* The Financial Times *of London*

The agreement for National Westminster Bank (NatWest), one of the British "big four," to pay $300 million for a 75 per cent stake in the National Bank of North America may well foreshadow a rush by European and other foreign banks to acquire a stake in the New York banking market. The announcement followed closely the news that Hong Kong and Shanghai Banking Corporation, which though Hong Kong-based has close connections with London, is to take a 51 per cent interest in Marine Midland Bank. It is generally expected that a number of other banks from European countries including Belgium, the Netherlands, and perhaps Germany will be making efforts to buy their own way into the potentially rewarding US market.

The wave of interest being shown is a clear sign of a significant change in the pattern of European banking. For a considerable number of years now, the bigger banks and indeed many of the smaller banks have been developing their international activities, both through the operations of the mainly London-based Eurocurrency markets and through the establishment of growing branch networks around the world. In this effort the European banks have found until fairly recently that they were lagging behind the similar expansion of their US competitors. Now, however, many of the large European banks have reached a stage where they can entertain ambitions of becoming fully international operations, able to provide services to their own customers as well as to multinational corporations from other countries anywhere in the world.

The US market has a number of special attractions. It is, obviously, a large market for banking in which the foreign newcomer can quickly make a significant mark. It offers the opportunity to make contact with some of the biggest corporations in the world and to provide them with services, and at the same time the chance of developing potentially profitable retail branch operations in a country with a higher growth rate than much of Europe.

The United States has a second characteristic, though, that makes it even more important for European banks with international ambitions. Its big money centers are the home of the major US banks with which the Europeans are competing around the world, and particularly in the London-based international markets. The business they are after, and where they meet in head-on competition, is not the small retail lending activities but the international loans to countries, for project finance, and to the worldwide corporations.

The US dollar has a special role in relation to this business. It is, and is likely to remain, the major international currency as a means of exchange and as a reserve asset. Most important, it is by far the most important medium for international lending; the Eurocurrency markets are essentially dollar-based, and this gives a significant advantage to the US banks which have their own natural dollar resources.

This is the essential reason for banks such as NatWest to seek to establish their own retail dollar business. So far this bank has expanded rapidly in the United States, operating at present through branches in New York, Chicago, and San Francisco and offices in Los Angeles and Houston. Its business, however, has been largely confined to wholesale banking operations—borrowing funds in the open market in order to support lending to the big corporations.

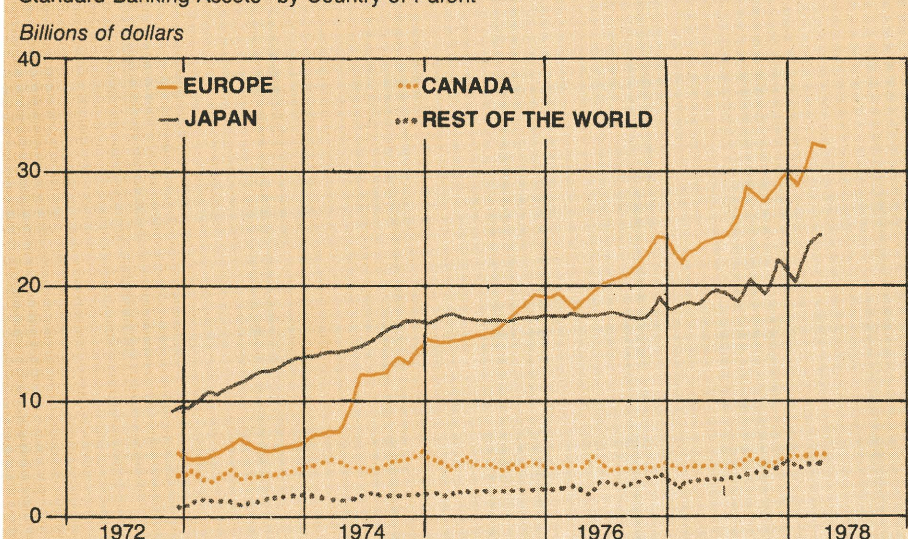
The NatWest set out some time ago to find itself a bank to buy in New York. The planned acquisition, the biggest purchase so far made by a British banking group, will give NatWest for the first time a substantial indigenous dollar base. This will provide the group not only with a retail banking business but the funds to back up its extensive and rapidly growing international business, which is mainly dollar-based.

After the deal goes through—this could take some time because of the various official permissions required—NatWest will have a branch network of 144 in the United States and total assets there of around $5.2 billion. This will put it ahead of its main British rivals, which until now had enjoyed the advantage. Barclays Bank has built up a branch network of around 89 and assets of some $2.5 billion, with around 50 branches in California and some 33 in New York. The growth of Barclays has been achieved through a combination of opening branches *de novo* and acquisitions of small- to medium-sized banks.

Lloyds took a route similar to NatWest's a few years ago, making a major purchase of the First Western network in California, and now has branches totaling nearly 100 in the United States with assets of some $4 billion. Midland Bank, the last of the British big four, has

US BANKING INSTITUTIONS OWNED BY FOREIGN BANKS

Standard Banking Assets* by Country of Parent



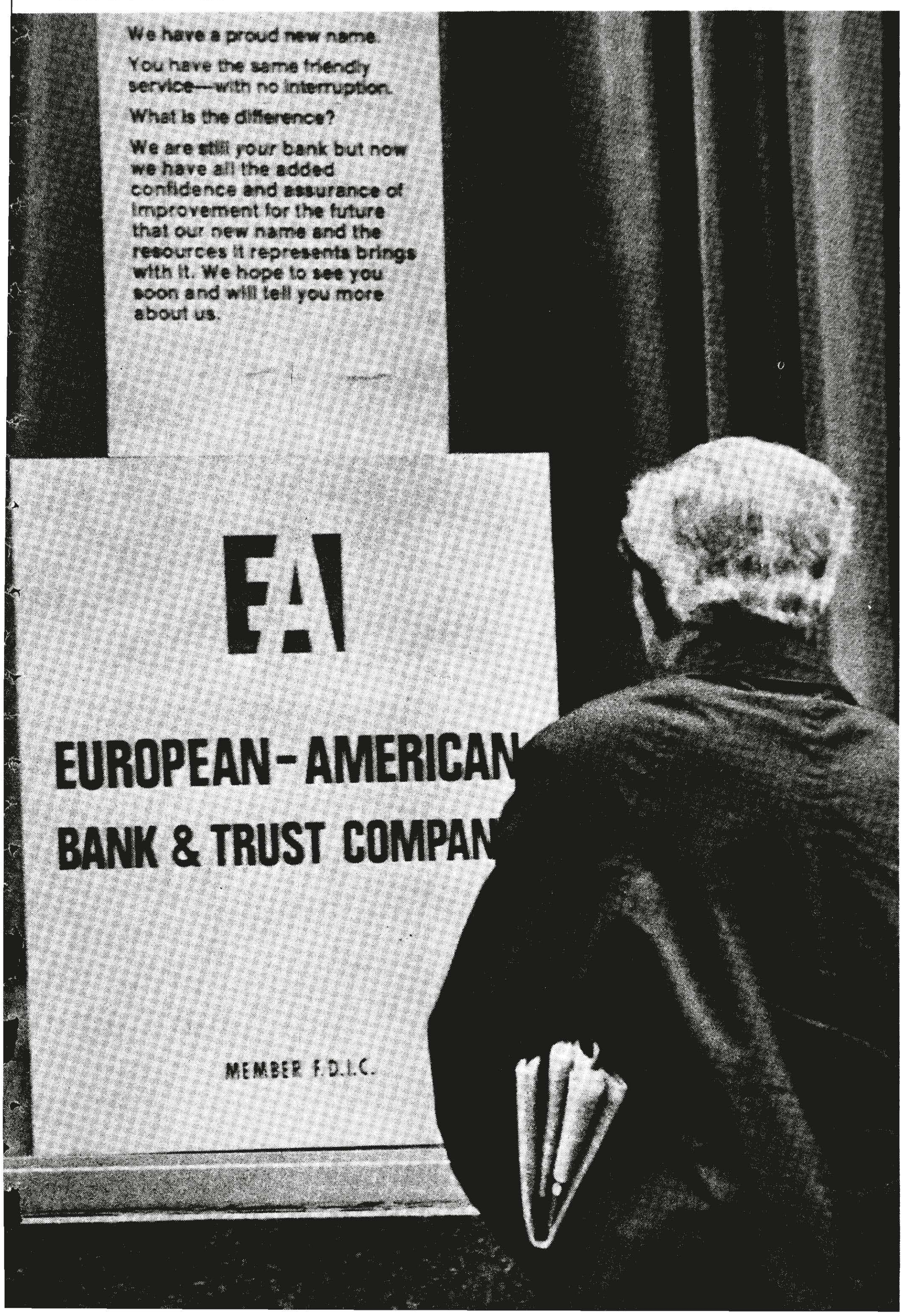
*Standard banking assets include loans, money-market assets, and securities, and exclude claims on related institutions and clearing balances.

courtesy of the Federal Reserve System, Washington, DC adopted a slightly different approach. It relies, so far at least, on its relationship with one of the European banking clubs, European Banks International Company (EBIC).

This grouping brings Midland together with a number of other major European banks, and in the United States they own together one of the biggest foreign-owned banking operations, European American. This bank, in which Midland holds a 20 per cent stake, made its mark in New York by buying, to the relief of the authorities, the residual liabilities and assets of the failed Franklin National Bank in 1974.

FOR ALL THE BRITISH AND OTHER LEADING European banks, international business is becoming increasingly important. In the past year or two their own domestic markets have not been very buoyant. With low demand for lending and, last year, a sharp fall in interest rates, they have found it difficult to do much more than stand still at home. The growth impetus has come from international operations, including both activities through branches abroad and London-based currency business, which, in the case of the big British banks, accounts now for around 30-to-40 per cent of profits.

European American, one of the biggest foreign-owned banking operations in the United States, "made its mark in New York by buying . . . the residual liabilities and assets of the failed Franklin National Bank in 1974." UPI



This represents a substantial and lasting change in the character of the business being done by European banks. They are no strangers to operating abroad; indeed, in many ways they have far longer experience than their US rivals. The colonial history of the European powers led many years ago to the creation of extensive branch networks abroad in the areas of influence of the particular countries involved, which have in many cases remained important in spite of the loss of empire.

This kind of operation is typified by the UK-based overseas banks. They include names such as Standard Chartered and Grindlays Bank, Bank of London and South America, and Barclays DCO; and their branches spread from Latin America through Africa to the Middle and Far East. In the old days these networks acted as a channel for capital funds from the mother country and were able to move resources freely around from one country to another as local needs changed.

Two of the British commercial banks owe a good part of their international size to ownership of the old-style overseas banking operations. Barclays DCO—a name which itself was redolent of the history, standing for "Dominion, Colonial, and Overseas"—was absorbed fully into Barclays and became Barclays International. Bank of London and South America was taken over by Lloyds, merged with that bank's own modest foreign branch network, and changed into Lloyds Bank International.

In any case, while the overseas banking business continues to be important, its character has changed. The freedom of operation that the banks enjoyed before the Second World War has become increasingly circumscribed by exchange control regulation; and the rise of nationalist movements has led to nationalization or the loss of control in a growing number of countries. These overseas branch networks, although useful to the banks, are no longer the same reliable long-term source of profitable growth.

They are, moreover, still essentially retail branch operations, while the real growth has been in the new form of international banking based on the major money centers of the world and on providing services to the big corporations. In this area of activity, there is no doubt, it was the US banks that led the way. Perhaps helped by the absence of long-established foreign networks, they moved out into the international business spreading their branches in selected centers around the world—the European capitals, the Far East, and the Middle East.

This form of competition worried many of the European banks that were not fully geared to participate in this new business. At one stage it was the US banks rather than the

Europeans that were prepared to treat the whole of Europe as a single market, offering services more or less independently of national boundaries—while the European banks, in spite of their commitment to the ideals of the European Community, remained limited.

IT WAS PARTLY A DEFENSIVE REACTION to this threat, as well as the prospect of closer monetary and economic integration within the European Community, that led to the formation of the European Banking clubs. EBIC, already mentioned, is one of the oldest and best-established, and provides an outlet for the member banks through an extensive range of joint ventures in a number of countries as well as a vehicle for close cooperation in a more general sense.

Another big grouping is Associated Banks of Europe (ABECOR), which includes Barclays among its seven full members. The Europartners group is a smaller collection of four Continental banks, having no British member, while the fourth grouping, Inter-Alpha, brings together a number of smaller banks including Williams & Glyn's in Britain.

The European banking clubs combine a number of different aspects of recent developments in banking. They certainly contained, at least in the motives that led to their initial establishment, a significant element of ideological belief in the European Community and a hope that in the long run their association could become even closer to enable them eventually to merge into fully European banks.

They also fitted in with the fashion a few years ago for the creation of consortium banks, enabling a number of banking shareholders to establish an offshoot which, operating more or less independently, could move into the relatively new Eurocurrency markets. They also include an element of an older tradition—the correspondent relationships, on which most banks, and particularly the Midland in Britain, historically relied to provide services for their customers in areas where they were not themselves represented.

Some of these reasons for establishing the cooperative arrangements no longer look as strong as they did. The European ideal has receded, and the consortium banking concept is no longer so popular. Most important, though, the individual banks have become much stronger in their own international activities. Barclays has for some time been a major international bank in its own right, so that its membership in one of the clubs has not precluded it or the other members from striking out on their own. Even EBIC, perhaps the most closely knit, is showing signs of change with some of the member banks starting to set up their own international branches rather than relying exclusively on the partnership.

The European banks, by and large, have outgrown much of their need for help in developing their international business. They are flexing their muscles in the major markets of Europe, the Far East, and the United States, and they have a special reason at present for wanting to establish a base in North America, besides the general advantages of having a dollar base.

They are aware of the pressures within the United States to restrict these advantages and of the possibility of legislation that might inhibit their further growth. European banks have, therefore, a strong desire to be on the spot before this happens. If they have to pay a fairly high price for entry—and both the Lloyds and the NatWest acquisitions have seemed to many analysts to be quite costly—then the European banks are prepared to accept this for an opportunity that may not be repeated. Buying a bank in the United States is becoming fashionable.

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April 28, 1978

"THE EUROPEAN CHALLENGE"

Foreign investors look to US acquisitions

Prepared by staff of Booz • Allen & Hamilton, Inc.

In the decade since Jean-Jacques Servan-Schreiber, "The American Challenge" has not only been challenged but in many cases rudely reversed. European businesses are today seizing growing worldwide market share in aerospace, general machinery, chemicals, pharmaceuticals, banking, insurance, and a host of other industries formerly dominated by American enterprises.

It is one thing for Europeans to confront the challenge on their home ground, or for them to further build on their past successes in Third World markets. But for them to now go beyond exports and establish a major presence in the United States is a significant development.

Not only are Europeans investing in the United States in greater numbers, but most of them are doing so in the most direct form of investment—acquisition. They are buying immediate market position, and committing their US earnings toward further growth in the United States. This suggests an aggressiveness and self-confidence that many American executives find surprising. These new European investors are far more optimistic about America than their American counterparts. Viewed from Europe, America is a haven for growth and opportunity.

A host of reasons explain why European companies are investing in the United States, but the most pervasive one is the size of the US market. When asked why his company had entered the US market, for example, a German executive explained: "The United States is the largest single market in the world for our products. It was a mistake not to be there, and I regret we waited so long before making our move."

Europeans are coming to the United States for both "defensive" and "aggressive" reasons. They are finding their home economies no longer offer the opportunities of the post-war Fifties and Sixties. The United States, with its huge and growing market unified by a common language and common consumer tastes, offers better opportunities. In addition, it offers a much more favorable investment and political climate. The United States seems—as one Sunbelt state advertised itself in the London *Financial Times*—"a stable investment in an uncertain world."

European Acquisitions of U.S. Manufacturing Companies

July 1977-March 1978
(announced transaction value of over $25 million)

European Company	U.S. Target	Transaction Value ($ millions)
Thyssen AG (West Germany)	Budd Co.	238
Bayer AG (West Germany)	Miles Laboratories	216
Portland-Zementwerke (West Germany)	Lehigh Portland Cement Co. (77% of stock)	66
Pirelli (Italy)	Electric-power cable manufacturing operations, General Cable	60
Turner & Newall Ltd. (United Kingdom)	Philip A. Hunt Chemical Corp. (Controlling interest)	59
Brown, Boveri and Company (Switzerland)	Gas turbine division, Turbodyne Corp.	50
Consolidated Goldfields (United Kingdom)	Hydro Conduit Corp. (from Marcor, subsidiary of Mobil Oil)	45
Bertelsmann (West Germany)	Bantam Books (51% Agnelli interest)	36
Agfa-Gevaert (Belgium/ West Germany)	X-ray manufacturing and distributing facilities, IPCO Hospital Supply	35
AGA AB (Sweden)	Burdox Inc.	31
Montedison S.p.A. (Italy)	Warren-Teed Pharmaceuticals (Joint venture with Hercules, a U.S. firm)	30
C. &. J. Clark Ltd. (United Kingdom)	Hanover Shoe, Inc.	27
Glaxo Holdings (United Kingdom)	Meyer Laboratories	27

Source: The Conference Board

Establishing a US presence also enables them to gain access to American marketing and management know-how. Baron Guy de Rothschild, testifying in support of Imetal's takeover of Copperweld in 1975, explained: "The idea of investing in America comes quite naturally to my mind, in fact to any European. I consider, and I think most Europeans consider, that for a company to have an investment in America is an upgrading of that company." For many international businessmen, active participation in the US market is a key indicator of whether a corporation is truly multinational.

LIKE AMERICAN COMPANIES IN EUROPE, European companies in the United States have become increasingly disappointed with joint ventures and licensing agreements. Many of them feel they do not adequately understand the legal aspects, do not receive fair compensation for their efforts, and get locked into agreements with no opportunity for additional growth. Since one of their primary objectives is to quickly attain market share, start-up ventures are not particularly appropriate either: The US market is too large. With the exception of service businesses that are basically branch extensions of current international operations such as banking, start-ups tend to be risky and time-consuming.

The most attractive form of direct investment, generally speaking, is acquisition. By going this route, Europeans can become insiders as rapidly as possible; achieve immediate geographic diversification of assets; obtain protection from currency fluctuations and changing tariffs, and yet avoid the risks of starting up a new business in unfamiliar territory. Moreover, acquisition provides access to American managerial talent while bypassing the delicate problems of control that arise in a joint venture. The acquisition route also happens to be extremely cost-efficient: With

Why Europeans Invest in the U.S.

Political & Economic

greater political stability

unions less politically-motivated

lower rate of taxation

lower rate of inflation

current strength of European currencies (particularly the Deutsche-mark and Swiss franc) against the dollar, thus making acquisitions cheap

prospect of mounting protectionism in the U.S.

Marketing

prospect of European-made products being priced out of the U.S. market because of the weakening dollar

market opportunities through production in the U.S.

lower prices for U.S. customers by avoiding U.S. import duties

elimination of trans-Atlantic shipping costs

reluctance of some U.S. customers to be dependent on imports, particularly for component parts

opportunity to crack the U.S. government, defense-related, and other "Buy American" markets such as communications and high technology

readier access to Latin American markets

US share prices hovering around book value if not below, acquisitions can be bargains compared to new capital investments.

The European preference is for companies with strong, well-established management teams. Only a few European companies have chosen to acquire American companies in trouble and send European managers to the rescue. The risks of such a course are acceptable only if the Europeans are expert in both the US market and the particular industry involved. One company that adopted this strategy, Creusot-Loire, bought a controlling interest in Phoenix Steel in 1976 and then substituted French executives for most of the old management. Within a year, however, only the French chairman and vice president of operations remained, and the company had raided US steel companies to replace the other French executives.

Though European executives frequently think of acquisitions as a way of channeling money into the United States, acquisitions can also serve as a channel for products of technology. The more common pattern is for an acquired American company to continue its former product lines with European products added into the mix when timely.

The popularity of acquisitions largely depends on the availability of candidates. The supply now is excellent because of low stock prices, the willingness of many US companies to sell off divisions acquired in the heyday of the conglomerate, and US antitrust laws that prevent many large American corporations from competing with foreigners in acquiring successful medium-sized companies. The bid for Marine Midland Bank in the Hong Kong and Shanghai Banking Corporation, for instance, could probably not have been made by a US bank.

Despite the appeals of the US market and the variety of business opportunities, European companies have significant problems to contend with. At home they have to deal with the reactions of governments and labor unions to investment abroad, and in the United States they have to adjust to an open and unusually competitive environment. European governments and labor unions by no means encourage direct investment in the United States. A few European nations that have favorable balance of payments (notably Germany and Switzerland) permit the unrestricted transfer of funds for investment abroad; but most, including Britain, France, Italy, and Sweden, do not have large dollar reserves and therefore have restrictive capital outflow regulations requiring investors to raise much of the needed capital in the United States.

A crucial concern of European governments is whether direct investment in the United States displaces European exports to that market. A recent study by Britain's National Economic Development Office concluded that no more than 35 per cent of direct foreign investment produces goods and services competing with British production, and went on to suggest that there may even be a net gain to the British economy from export stimulation. In fact, a number of similar studies conducted in the United States have found that overseas investment does stimulate exports. Nevertheless, labor unions have been slow to accept such findings.

European labor unions have the same objections to investment in the United States that American unions have long had to US investment abroad: They claim exporting production facilities invariably exports jobs. In Germany labor was able to use its considerable power to hold up Volkswagenwerk's plans for a US plant. It was only after several years of debate that the unions finally conceded that loss of US market share would endanger German jobs.

A final problem at home is strictly internal: ensuring that sufficient management strength is dedicated to the European market. At a time when companies worldwide are intensifying their efforts to attract, develop, and retain the best executives, the prospect of diverting the efforts of talented European executives to the United States—when they are needed in Europe—may not sit well with everyone at corporate headquarters. Moreover, a US subsidiary, operating in a rich and important market, may grow vast and powerful enough to challenge the control of its European parent.

European executives find the business environment in the United States quite different from that at home:

- stronger antitrust laws;
- more rapid innovation and shorter product life-cycles (though longer than they were a few years ago);
- completely different union structures;
- greater willingness to take risks;
- greater turnover among managers and white collar employees;
- greater openness among competitors in a given industry;
- more required disclosure to government agencies;
- more of an adversary relationship with government agencies;
- more extensive litigation.

Unlike the 1960's, when such a list of differences could have presented a formidable obstacle, European companies today are often experienced multinationals and therefore able to cope with these challenges. In many cases their experiences in the United States can better prepare them to compete elsewhere. They may even select their US investments as part of a worldwide strategy to improve their competitive skills. One large industrial food products company, for instance, developed a long-range strategy to expand into a new line of consumer food products. To prepare itself for the competition that it will eventually encounter at home, the firm decided to look first for consumer product acquisitions in the United States.

European companies, except in obvious cases of antitrust, tend to have few problems with the US Government. American policy toward all foreign direct investment is essentially an open-door policy that treats foreign investors like domestic ones. Restrictions are placed on foreign participation in only a few areas relating to national defense, transportation, communications, and banking; bills designed to further control and discourage foreign investment have found little support in

Congress in recent years. Moreover, many state and local agencies actively encourage foreign investment and may even go so far as to offer special concessions (as was done in the case of Volkswagen).

Foreign-owned business now accounts for 1.5 million American jobs. Other benefits to the US economy include the influx of additional capital, stimulation of competition, transfer of new European products and technologies, and increased purchases of US components. The Commerce Department in a massive 1976 study of foreign direct investment concluded that foreign investments in the United States have essentially the same economic effects as investments by domestic firms.

THE VERY SIZE OF AMERICAN BUSINESS in the world marketplace has tended to obfuscate major gains made by European corporations. According to *The Economist* the number of American firms among the world's top 12 declined in all 13 industrial sectors between 1959 and 1974; British firms stayed the same, and continental European firms increased in eight out of 13 industries. Since the early 1970's the total sales of large EC manufacturing firms outside their home countries have exceeded the American figure. A number of reasons account for the growth of European international companies, all of which pose competitive threats to American business.

European companies, many of which have their home government as a major shareholder, have tended to place high emphasis on government relations and avoiding an adversary relationship. In addition, they have developed close working relationships with labor unions. Translated into bottom-line business terms, the result has been considerable investment in worker safety conditions and local community relations.

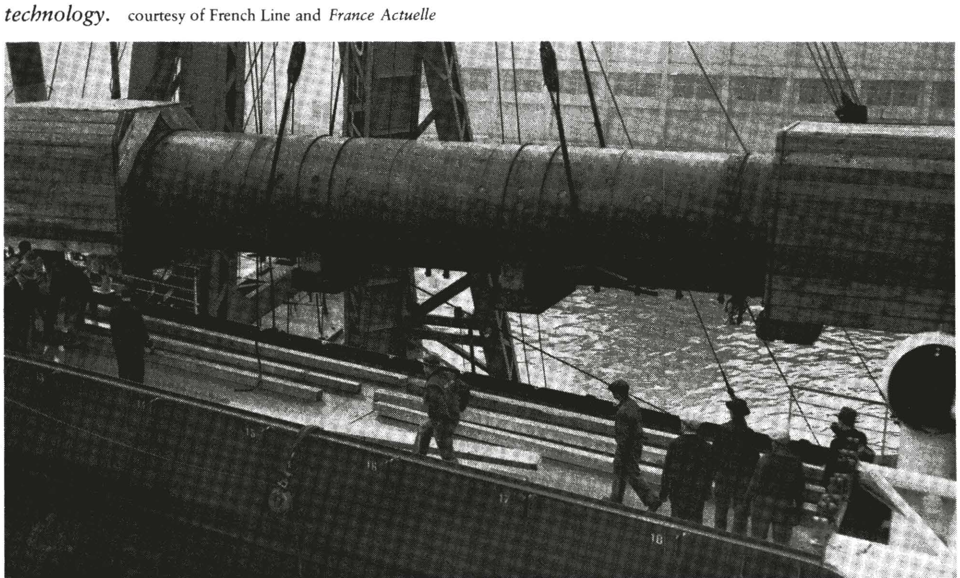
Lacking easy access to raw materials and cheap energy, European companies have had to place strong emphasis on researching and developing resource-efficient and top-quality (longer-lasting) products. Similarly, because of a shortage of land, European enterprises have had to develop advanced pollution controls and materials recycling methods. The catalytic converter, for example, was developed by Volvo, using technology invented by Engelhard Industries for Ford and General Motors, but which Ford and General Motors did not use. Europeans have also had to develop their nuclear and other energy technologies. In 1977, for instance, Babcock & Wilcox, the British power company, won a contract from the State of Ohio to design four revolutionary coal-burning boilers, and then proceeded to acquire an American engineering firm to facilitate the necessary transfer of technology.

American companies, on the other hand, accustomed to cheap and plentiful natural resources, are now faced with a massive restructuring not only of their physical plants but also of the products they offer. They now find themselves at a competitive disadvantage in serving increasingly resource-conscious world markets—not to mention their own.

Probably the most far-reaching European application of technological expertise has been in the area of quality control. Rather than focus on development of new replacement products, the emphasis in much of European industry has been on enhancing longevity. The new Volkswagen plant in Pennsylvania, for instance, requires American suppliers of brake linings to provide 500 hours of testing. American auto companies generally ask for only 24.

Because of their cash assets and strong currency position, European companies are in an excellent position to seize opportunities. They also have a key advantage over their American competitors because their accounting rules do not require them to write off goodwill. Nestlé recently paid $200 million over book value for Alcon Laboratories. If an American company had acquired Alcon at that price, it would have been compelled to charge at least $5 million a year against earnings.

Babcock & Wilcox, British manufacturers of the boiler drum being loaded here, contracted with Ohio to build coal-burning boilers last year, then acquired American engineers to facilitate the transfer of technology. courtesy of French Line and *France Actuelle*



For many years the major impediment to increased European investment was not the lack of cash or attractive acquisition prospects but hesitation to come into an enormous new market. Today this attitude has changed. European companies, successful in their competition with American companies both in Europe and in Third World markets, have become much more confident in the United States as a haven for their capital, as a base for profitable operations, and as a means for strengthening their competitive posture against American multinationals. Physical presence almost always follows exports. Having succeeded in increasing their exports to the United States, European companies are willing to pay solid prices for a market position that, in their view, offers considerably greater potential equal to if not greater than what they find at home.

European acquisitions in the United States will probably continue on the upswing for some years to come. Many of the very largest European multinationals have yet to establish substantial interests in the United States, while others have limited themselves to only one product line and relatively small market shares for the time being. And the medium-sized European corporations have only begun to penetrate the United States. Since the first acquisition is always the hardest, the establishment of a presence is significant.

Although the "undervalued" dollar is a factor, Europeans are not coming to the United States as bargain hunters. They are here for the long term. Utilizing their demonstrated management skills in technology, research and development, energy conservation, product quality, after-sales service, and other areas, they aim not only to earn a favorable return on investment but also to expand business. For years they were hindered in the international marketplace by unrealistic and overvalued exchange rates; now that this situation has reversed, they are in a much better position to compete.

For Europeans investment in the United States is a managerial decision as much as an investment decision. Freer markets, interdependence, and new ways of doing business all suggest to Europeans that not only are there opportunities in the United States but also that they can exploit them. Because the assessment of competition is a crucial element of corporate strategy, the significance of the current European acquisitions becomes clear: In the United States, as in most other markets, Europeans companies now feel they can compete and win.

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PEUGEOT

No one builds cars the way we build cars.

Member State Report Germany

ADRIAN DICKS, *Bonn correspondent for* The Financial Times

THIS SPRING AND EARLY SUMMER SEE GERMANY AT the center of international events to a degree that it seldom has been in the 29 years of the Federal Republic's existence. In May Bonn played host both to Soviet President Leonid Brezhnev and to British Queen Elizabeth II—events that, in their very different ways, served to mix with the ceremonial a reminder of all Germany has become since the war ended. Then Chancellor Helmut Schmidt addressed the United Nations on disarmament before going on to Washington to take his place at the heads of government meeting of the North Atlantic Treaty Organization. The beginning of July sees Bonn take its turn once more as president for six months of the EC Council of Ministers, while in the middle of that month Schmidt receives the heads of government of the other six leading industrial democracies for the third such world economic summit meeting.

For Germans, all these events are an occasion for quiet satisfaction at the weight their country now carries in the great issues of the day. In a country where, for understandable historical reasons, many people still turn their backs on politics in favor of private pursuit, there is nonetheless a strong interest in what the rest of the world thinks of Germany. There is sure to be pride taken in Schmidt himself, with his blunt if sometimes overbearing manner of pointing out home truths. If the world economic summit, in particular, is perceived as a success for the German Chancellor personally, it could give a new lease on life to the demoralized and tired-seeming coalition of Social Democrats and Free Democrats that he heads.

Success for Schmidt and his colleagues depends, however, on whether they are able to break what has become something of a vicious circle at summit gatherings—pressure on Germany and Japan, as the strongest economies, to accept targets for accelerated real gross national product (GNP) growth, followed by world attention to every hint of how growth is developing in the two countries, and then the inevitable disappointment when the targets turn out to have been unrealistic anyway.

This time around, the Germans are determined not to fall into the trap again. They don't want to expose themselves to the sort of reproaches from US Treasury Secretary Michael Blumenthal that followed last year's acceptance by Schmidt of a 4.5-5 per cent rise in GNP. Actual performance was only 2.4 per cent. In the preparatory weeks for the summit, two alternative lines of approach were articulated in Bonn.

First, there is the suggestion made to his fellow EC heads of government by Schmidt in Copenhagen in early April that they should consider a new plan to restore greater stability to currency markets. It is not yet clear what he means in detail. The existing, much depleted European "snake," which keeps the Deutchmark, the Danish krone, the Dutch florin, and the Belgian and Luxembourg francs within narrow bands of fluctuation, would still be too harsh a discipline for the Italian lira or British pound—leaving the French franc as the only Community currency that might re-enter the group floating arrangement as it now stands. Even if a larger "snake" could be constituted, perhaps with more generous fluctuation margins, the Germans believe that a wider zone of currency stability would be effective if it also included the world's leading problem currency—the US dollar. Bonn above all wants cooperation with the United States, not confrontation, in the monetary sphere.

A second theme that is very much in the minds of leading German officials is that of protectionism. German Economics Minister Otto Lambsdorff had prior to the summit called for the government leaders to draw up an understanding for the avoidance of protectionist measures. Within the Community, he also suggested, Germany might be prepared to undertake the further reflationary measures its partners have been urging on it. Indeed, opinion has been building up within Germany in favor of fresh action to support the faltering economic recovery, which can hardly now reach the 3.5 per cent in real GNP this year that the Government forecast in January.

But while the Germans are willing to continue pulling their weight and argue that they have done relatively more for international recovery than the United States has done, the question of trade is crucial. The fall of the dollar has hit Germany hard by making its export prices higher, while real and dangerous protectionist tendencies are discerned abroad. It is clear that the Germans will use their EC Council Presidency to continue the debate already begun in the spring. Lambsdorff also seems interested in bringing into it the diverse systems of state intervention in industry that stand no less solidly in the way of free trade.

The Germans' attachment to the market economy does not, however, prevent them from benefiting from some of the *dirigiste* measures taken in Brussels, and notably the Commission's steel price arrangements. Ironically,

German Chancellor Helmut Schmidt at the White House in 1976.
© Consolidated Photographic, Inc., Washington, DC

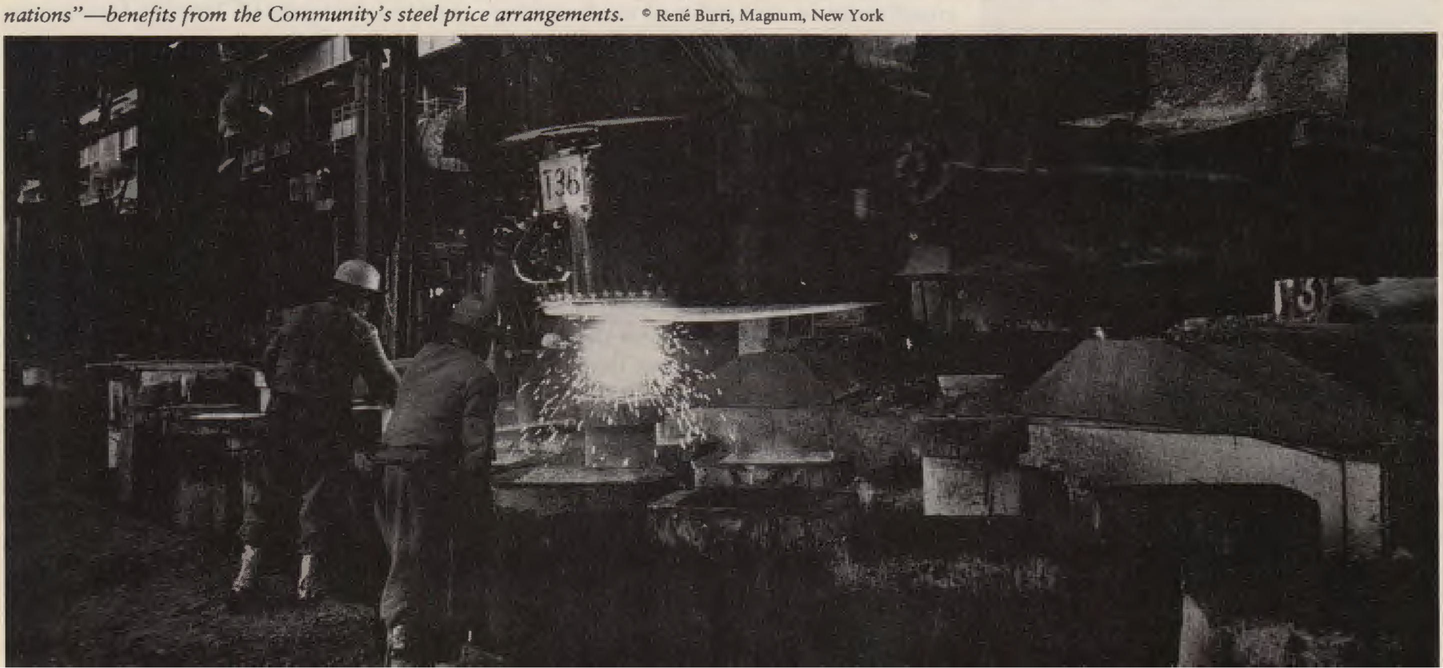
too, Lambsdorff announced his intention of making energy a central part of the Community's agenda under the German EC Presidency at almost the same time that Bonn was forced to draw up costly plans to help the coal industry, its only major domestic supplier of energy on any scale.

Bonn has other concerns at the Community level, such as the enlargement question, the future of EC institutions, the role of the directly elected European Parliament, and the common agricultural policy, where German Agriculture Minister Josef Ertl is currently in the midst of a blazing row with EC Budget Commissioner Christopher Tugendhat.

Yet in many ways the Community and its future, though central to German interests, is a less immediate issue than Bonn's other major external relationship—that with Washington. In the 18 months since the Carter Administration took office, the German Government has felt increasingly perplexed and exasperated with its major ally. There has been the continuing disagreement over international economic strategy, in which the Germans feel their arguments have not had a fair hearing, and which came to angry exchanges at the height of the run out of the dollar into the mark early this year. No less serious has been the virtual collapse of German hopes that the United States would at least make a reality of the "two-way street" in armaments. Too, there is the extreme care with which the Bonn authorities are looking for any sign of US protectionist behavior toward the purchase by airlines of the German-French European Airbus. And not least, there has been the extreme annoyance caused by President Carter's attempt to stop Germany from selling "sensitive" nuclear technology to Brazil—an incident that is officially closed but has bred mistrust in Germany over how reliable the United States is as a partner and supplier in the civil energy sphere.

As often as there have been open strains and recriminations, there have also been sincere and not ungenerous attempts on both sides to put these quarrels aside. Both recognize the need to rebuild at the political level a relationship which, at least from the German side, seems still warmer and more solidly based than most others the Americans enjoy with major nations.

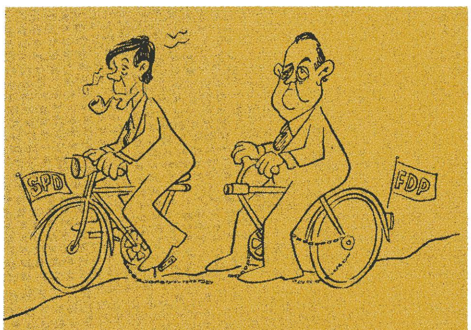
The German steel industry—one sector within an economy "more highly geared to foreign trade than any other among the major industrial nations"—benefits from the Community's steel price arrangements. © René Burri, Magnum, New York



Politics

Behind prosperity so enviable to the rest of the world, Germany still shows much evidence of being a country unsure of itself. There is enormous concern for what other nations think about Germany's first stable experiment with democratic government, and sometimes also a good deal of pessimism about how well rooted the Federal Republic's painstaking application of the rule of law really is. Not all Germans are convinced that the democratic state, still only 29 years old, will endure, while a few—typified by those who claim to see some cloak of political respectability for the terrorist movement—would argue that the Federal Republic is a deception anyway.

Yet the German State has endured several profound crises surprisingly well. Most serious has been the sour ending of the postwar *Wirschaftswunder* —that remarkable era of economic reconstruction and growth—in stagnation and unemployment; the full effects can no more be measured in Germany than in any other industrialized country. But so far the comprehensive, if costly, system of social welfare has cushioned individual hardship, while in party political terms there has been no repetition of the experience of the 1930's that turned millions of jobless and ruined people toward the Nazis.



"Germany" © Bas, *Tachydromos*, Greece

It is too soon to say that the evil ghosts of the Hitler period have been altogether stilled, and even today many Germans are uncertain how to come to terms with them. Politically, neo-Nazis are even less significant than the extreme left, involving small numbers of people who have attracted no political following at all. Even the relatively well organized National Democratic Party has never lived up to early fears of a decade ago, and today attracts a tiny fraction of 1 per cent of the nation's votes.

However, the Nazi era is attracting more interest than at any previous time since it ended, with a wave of films attempting the difficult task of objectivity, and the wide sale of recorded speeches, books, and memorabilia. Young Germans, often astonishingly ill-informed of the facts, seem genuinely curious about the recent past and dissatisfied with many of the answers their elders give them.

Dissatisfaction with what they perceived as the complacency and overbearingness of the older generation was the starting point of the German student unrest of the late 1960's and early 1970's, whose ghastly byproduct has been the terrorist phenomenon. For a few months now, terrorism has receded from the forefront of the German consciousness, as most of the activists have apparently fled abroad (though increased police cooperation with other European countries led to an encouraging series of arrests this spring). The nation has behind it, however, the traumatic experiences of 1977, with its wave of murders of public figures ending last October in the killing of industrialist Hanns-Martin Schleyer after the authorities had refused to deal with his kidnappers and had sent commandoes to overpower the hijackers of an aircraft seized to pressure them to negotiate. In an almost operatic finale, leaders of the so-called Red Army Faction killed themselves the same night in their prison cells. Germans were strengthened and cheered by the sympathy that came from many quarters, and from the recognition by many of their critics abroad that this was a democratic society openly challenged by violence, rather than the oppressive tyranny depicted by some left-wing apologists for the terrorist groups.

The short-lived feeling of solidarity brought about by the Germans' virtually unanimous outrage at the terrorists, however, has not really brought any more lasting sense of unity between right and left. The Christian Democratic opposition has scented what it thinks must be a winning electoral issue and goes on calling for still tougher law-and-order legislation against the terrorists. Social Democrats and their coalition partners, the Free Democrats, are already worried enough by the encroachments on civil rights of much existing legislation, and especially by calls for a national police agency that would conflict with the carefully decentralized powers set up by the constitution.

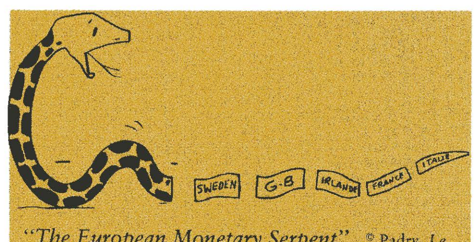
Liberals in all parties are concerned, too, at the effects of the so-called "radicals decree" *(Radikalenerlass)* that gives intelligence agencies the right to investigate the political views of people applying for any permanent job in the public service. There have been numerous well-documented abuses of this device supposedly intended to screen out East German spies, and some grounds for believing that authorities are not as keen in smoking out right-wing extremists as they are in unmasking Communists. Illegal bugging, too, has disturbed many Germans.

Given situations like these, the present coalition Government of the Social Democratic Party (SPD) and the Free Democratic Party (FDP) has had trouble rallying its uncomfortably small parliamentary majority on some issues, and has been blocked on others by the Christian Democratic Union's (CDU) control of the Upper House. Once again, the talk in Bonn is of a possible switch of the FDP's allegiance, leading it to form a new coalition with Helmut Kohl's CDU. Chancellor Schmidt might need not only a personal triumph from the Bonn economic summit, but the luck and good judgment to follow it up on the home front, if his Government is to muster the strength to continue until the end of its term.

Economy

Looked at from the outside, the German economy seems to offer a textbook example of making things right: Inflation has been reduced from 7 per cent in 1974 to just under 4 per cent in 1977, and during April dropped as low as 2.9 per cent. The country maintains a healthy payments surplus, even earning more from its exports to oil-producing nations than it pays them for the oil that accounts for over half its total energy. German reserves, at 93 billion marks, have reached a staggering level. And all this has been reflected in the strength of the mark against every other currency save the Swiss franc and the yen, so that in the period of nearly five-and-a-half years from the end of 1972 to the end of May this year, the German currency has risen 51 per cent against the dollar and 45 per cent against the combined average of the currencies of the country's 22 most important trading partners.

Yet the German economy's performance has been consistently disappointing, both to Germans themselves and to the rest of the world. It is easy enough for Germany's partners, led by the US Treasury Department,



"The European Monetary Serpent" © Padry, *Le Herisson*, Paris

to urge it to "do more" for the rest of the world or, as the current catchphrase has it, "to take its place in the convoy of nations steaming into calmer economic waters." There are several important reasons, Germans will argue, why this is less straightforward than it is often made to sound.

For a start, the German economy is more

highly geared to foreign trade than any other among the major industrial nations. The pattern started in the postwar years when Germany was still a relatively low-wage country, but it has been maintained and adapted so that, as lower-wage countries came to compete, first in third markets and then on the domestic German market, German exports were becoming ever more sophisticated.

Yet several factors during the present bewildering phase of the international economy have caused serious doubts whether the process of constant adaptation and refinement can work this time. For one thing, continuing weak demand in major markets in Europe and the United States has depressed orders for German goods. A second and still more worrying development has been the remorseless climb of the mark against other currencies, which German officials feel is now wildly out of line with the economic "fundamentals"—the differences in inflation rates and in cost pressures. Although German goods unquestionably enjoy a reputation on many markets for being worth a higher price, the differential in such fields as power-generating equipment has now reached 25-30 per cent or more in favor of some foreign competitors, a level no customer can ignore.

At the same time that the external factors have made life harder, German industry has faced difficulties at home. In addition to squeezed profit margins on export business, companies have had to contend with cost increases, from wages and other factors. There is growing competition from ever cheaper imports on the market that, with notable exceptions of cars and some household appliances, has shown German consumers to be almost as cautious as they were during the recession itself. Trade union arguments that higher wages would lead to higher spending have been confounded by many Germans' very high savings rates, still running at about 14 per cent of net income.

If that suggests that many ordinary Germans are, in terms of their spending behavior, still on their guard against a fresh turn for the worse in the economy, the same appears to be true of German business. No feature is more troubling to economists than the low rate of new investment by industry in plants and equipment. Despite interest rates lower than at any time since the middle 1960's, a public sector spending program worth 16.5 billion marks up to 1980 and a range of corporate and personal tax cuts totaling about 11.5 billion marks this year, business confidence remains depressed.

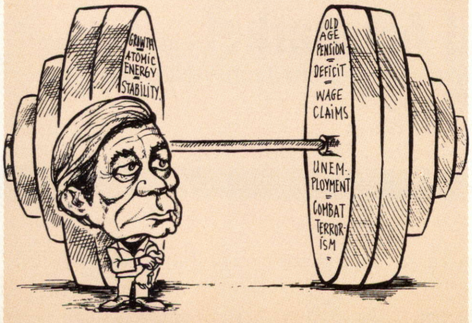
There is no shortage of explanations being advanced for this now seemingly chronic state of affairs. Currently, the squeeze on export profit margins caused by the mark's effective revaluation is seen as the single greatest threat—though this spring a surprisingly large number of individual companies were able to express cautious hope that foreign orders will hold up this year. The continuing, if now more muted, debate over the necessity and wisdom of nuclear energy has also frequently been cited as a factor discouraging long-term investment planning by German industry. The debate has also been a focus for the newly discovered power of citizens' and consumers' groups concerned more with the quality of life than with the assumption that the economy should just go on growing.

German officials and ministers seem increasingly at a loss to know how the underlying economic malaise ought to be tackled. Both Social Democrats, like Chancellor Helmut Schmidt, and Free Democrats, such as Economics Minister Otto Lambsdorff, speak of the need to help give business a sure prospect of making profits over a period of years. That cannot be interpreted by the German trade unions as anything but a warning that profits and dividends will be favored at the expense of wage growth. At a time when high unemployment and the undisguised ambitions of many industries to substitute machinery for people are threatening the unions' most fundamental interests, fresh strain is being placed on the social consensus, and on the good industrial relations so often taken for granted within the Federal Republic.

Where Germans differ from foreign critics like US Treasury Secretary Michael Blumenthal is in their frank disbelief that any country can spend its way out of a phase of uncertainty. Not that Bonn has not been trying: This year's budget deficit will reach a record 31.5 billion marks, a figure pushing close to the constitutional limit and raising fears that, even in a period when the banking system is awash with cheap funds, official borrowing may be so heavy as to squeeze out businesses in search of loan finance.

In Germany there is both a fundamental distrust of deficit public financing along, for instance, the British line, and still more important, a deep-seated fear of inflation, whose origins lie in the traumatic experience of the interwar years. If Schmidt could say a few years ago, "better a little more inflation than a high level of unemployment," few politicians in tune with the mood of the country could fail to come to the opposite conclusion.

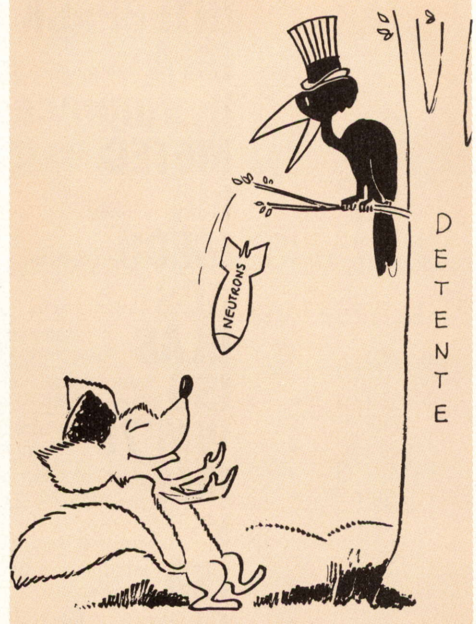
"Schmidt's Challenge: Lifting the Weights"
Bubec, *Heilbronner Stimme*, Germany



Defense

Germany's place in the defense strategy of Western Europe is a special one for two reasons. First, as the strongest economic power among the European members of the North Atlantic Treaty Organization (NATO), it provides the second largest contribution of money and manpower after that of the United States. Second, the fact that most current Western defense thinking assumes a conventional war between NATO and the Warsaw Pact would be fought on German territory has understandably tended to give a sense of immediacy to defense issues.

Yet in spite of its central place in the Western alliance, the Federal Republic remains unsure of itself in the defense sphere. The point can be illustrated by just looking at the eternal wrangling within NATO over contributions, with the Germans usually ending up by paying more rather than risking an open diplomatic breach. There is still enormous sensitivity over the whole fact of rearmament, emphasized by the pioneering lengths which the modern



"The Crow and the Fox" Padry, *Le Herisson*, Paris

Bundeswehr has gone in order to prove that its men are truly "citizens in uniform," untainted by the past. And with the retirement of a small group of senior officers this spring, the armed forces have now bade farewell to the very last generation that served under Hitler.

A more sophisticated example of the sensitivity of the German defense role is the recent dispute over the enhanced radiation warhead—the so-called "neutron bomb." In private, most German politicians (though not all, even within the ruling Social Democratic Party) accepted the generals' and experts' assessment of the weapon as a sound and relatively inexpensive means of checking on the battlefield the Warsaw Pact's ever increasing numerical superiority in armored vehicles. The neutron shells, it was thought, would be extremely effective in tactical situations, without causing great damage to civilians or to economically important sites. Yet Bonn, angered though it was by President Carter's indecision on production of the weapon, was also unable to say clearly that it would allow deployment

A long-term cooperation agreement was signed between Germany and the Soviet Union last May: (left to right) Soviet Premier Leonid Brezhnev, German Chancellor Helmut Schmidt, German Economics Minister Otto Graf Lambsdorff, and Soviet Foreign Minister Andrey Gromyko. courtesy German Information Center, New York

on German soil—because it did not want to be alone among European nations to do so. A public relations campaign from, of all places, Moscow was allowed to make surprising impact on German opinion against the weapon, and all in all it would be hard to say Schmidt and his colleagues came out of the incident much better than did Carter.

One consequence may be to encourage the Germans to think and act more confidently for themselves within the alliance. For what lies at the root of the neutron weapon affair is an old and still nagging doubt: How serious would be the commitment of the present-day United States to Europe if the crunch ever came? Would the United States, if war with the Eastern bloc broke out, be prepared for a conventional campaign, or would it in the last resort sacrifice part of Western Europe for the sake of maintaining a strategic nuclear ceasefire with the Soviet Union?

For some time now, Schmidt has been contemplating an initiative of his own within the Vienna talks on Mutual and Balanced Force Reductions (MBFR) in central Europe. He is not likely to press it until the conclusion of the current Strategic Arms Limitation Talks (SALT) between the United States and the Soviet Union. But whatever the outcome of the SALT negotiations, Bonn sees an increasing emphasis on strengthening conventional defense resources and on having to bear an increasing part of the burden itself, in what the weekly *Die Zeit*, in a wry reference to Vietnam, has called the "Germanization" of European defense.

Meanwhile, relations with the United States have not been helped by the proposed NATO standard main battle tank deal, where Bonn still believes it was outmaneuvered by the American defense industry lobby on Capitol Hill. German Defense Minister Hans Apel has tried to drive a harder bargain over the costly Airborne Warning and Control System (AWACS) and may, in return for Germany's contributing the lion's share of the system's $1.9 billion estimated deployment cost in Europe, win some Pentagon contracts for trucks, telephone equipment, and sundry items on the periphery of the alliance's needs. So much for President Carter's "two-way street" in weapons procurement.

Labor

If there is one enduring stereotype about Germans, it is that they work harder than other people. Statistically, at least, that is questionable, for shortened working weeks, numerous national and local public holidays, and steadily more generous vacations have all become a consistent feature of the increasingly high standard of living enjoyed by the average German family.

What is certainly true is that the Germans have become the world's most expensive people to employ. That is in part the result of a costly system of pension, unemployment, and health insurance—though no serious politician in Germany can be heard calling into question what has not become an indispensible pillar of social stability, cushioning the impact for the last three years of the once unthinkable average of 1 million people out of work.

A second reason for the extremely high cost of German labor in comparison to other countries has, of course, been the rise in the Deutchmark, particularly against the US dollar. As long as two years ago, when Volkswagen confirmed plans to assemble the "Rabbit" in the United States, it claimed that it would save a good $200 per car in wage costs alone. It would not be surprising if that figure had by now doubled. At any rate, the German Economics Ministry has calculated that average wage costs of 18 marks per hour now compare with a little over 16 marks an hour for the United States.

For an economy where, as Chancellor Helmut Schmidt is fond of pointing out, one job in four is dependent on exports, this is a serious state of affairs. It is not underestimated, either, by the German trade union movement, which represents about 7.5 million people, or about 30 per cent of the total number of Germans who hold jobs.

The unions are faced with an extraordinarily hard series of dilemmas. They are seen as one of the fundamental elements in Germany's enviable social and industrial stability, yet a price has been paid for their statesmanlike cooperation with business and government, in the shape of the expectation that their members' wages and fringe benefits would continue to rise. In the current bewildering phase of the world—and the German—economy, that is an expectation that can no longer be fulfilled.

So the unions' current generation of leaders, mostly men in their 50's and 60's brought up in the tradition of postwar consensus politics, have reacted by seeking first to defend what they have. That policy has been challenged aggressively by several younger leaders, such as Franz Steinkuehler of the Stuttgart region of the engineering union IG-Metall, and Detlef Hensche of the printers' union IG-Druck. Each of them was instrumental in goading the national leaders into insisting on important and precedent-setting job and wage security guarantees in the long and bitter strikes that led to this year's pay contracts in the two industries.

Germans have become "the world's most expensive people to employ" as a result of their pension, unemployment, and health insurance system. © Leonard Freed, Magnum, New York

Yet the guarantees have brought little peace of mind. The politicians, including the Social Democratic Chancellor himself, have instead supported employers' complaints that in the long run more jobs will be lost than saved if the unions set themselves against the introduction of labor-saving and productivity-enhancing machinery which—it is argued—is the country's only hope if it wants to stay internationally competitive. No less embarrassing is the fact that the unions have found themselves identified in the public mind with the "haves" in highly-paid jobs, when many thoughtful people in their own ranks feel they should be just as much concerned to help create new jobs for the 1 million "have nots" on the unemployment rolls.

Coming to grips with unemployment has proved no easier in the Federal Republic than in any other industrialized country. There is still a certain tendency on the part of officials to minimize the cost of unemployment when, for example, they stress that a high proportion of the jobless are "only" women seeking part-time work, handicapped people, elderly male office clerks, or school-leavers. Yet sadly, many skilled jobs are vacant, which the majority of those registered as unemployed seem unqualified to take. Others remain unfilled because of the reluctance of Germans to move around the country, despite various plans to make this easier.

And despite 1 million unemployed, Germany depends as heavily as ever on the presence of around 2 million foreign workers, among them Turks, Yugoslavs, Spaniards, Greeks, Portuguese, and Italians. The expectation that they would melt away in recession, or choose after a few years to return home anyway, has proved to be naive, for the "guest workers" *(Gastarbeiter)* have the same rights to unemployment benefits as anyone else, have in many cases been trained in valuable skills, and in other cases are needed to do the dirty jobs that even unemployed Germans scorn.

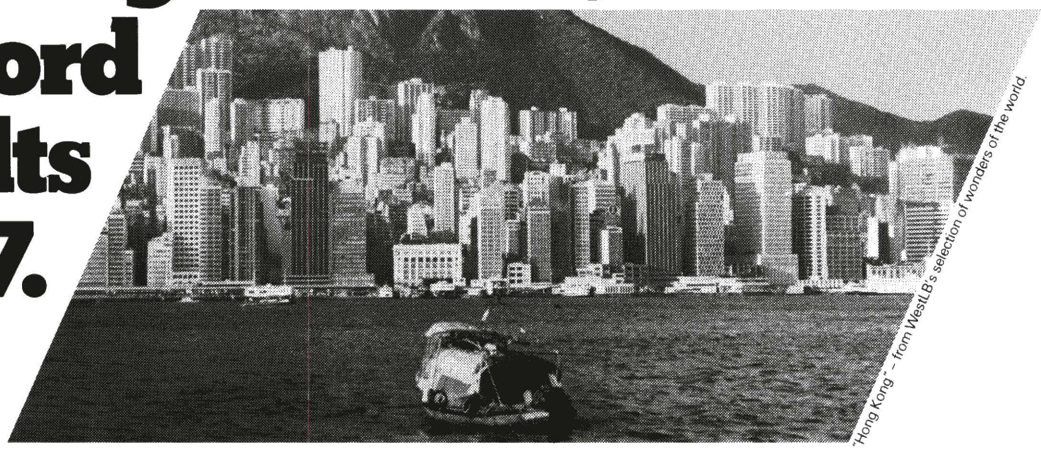
Historically a more homogeneous country than, say, Britain or France, Germany is slowly and painfully coming to terms with the idea that most of the "guest workers" have no intention of forsaking their high pay packets in order to return home. The town administrations, school systems, and welfare agencies are having to adjust to what looks like permanent problems of linguistic and cultural integration—problems that can only multiply if, as is gloomily assumed in Bonn, the inclusion of Greece, Spain, and Portugal in the Community attracts still more people to the magnet of the world's highest wage rates.

Social Issues

To anyone familiar with the overloading of the US welfare system or the delays in getting some kinds of treatment under the British National Health Service, it might seem incredible that Germans are currently so worried about the future of their own pensions, unemployment insurance, and health services. The German pensions plan dates back to the end of the Nineteenth Century, while the unemployment agency, the nonpolitical Federal Labor Office in Nuremberg can also point to a tradition of over 50 years.

The concern that surrounds the German social services is not over their quality but over their cost. Continuing recession and unemployment have hit revenue, which is proportional to workers' earnings, while at the same time outgoings have risen. For the un-

Westdeutsche Landesbank, a leading wholesale financing institute, achieves record results in 1977.



"Hong Kong" – from WestLB's selection of wonders of the world.

WestLB's service emphasis on wholesale financing, both at home and abroad, greatly strengthened the Bank's market position and brought excellent results for the 1977 financial year. The Bank's group balance sheet total advanced by 13.5 per cent to DM 82.7 billion, with an after-tax surplus of DM 172 million. The Bank's international facilities and participations, including its wholly-owned Luxembourg subsidiary, WestLB International S.A., contributed substantially to the overall success.

WestLB's leading position in domestic and international financing was again enhanced by the Bank's extensive refinancing capacity. The total flow of available funds increased by around DM 7.5 billion net to a total of DM 62.5 billion. Contributing to this were sales of own fixed interest securities, which rose to a record DM 6.6 billion gross and DM 3.7 billion net, as well as a net increase in deposits from industry, institutional investors, state agencies and banks totaling DM 4.2 billion. This includes certificates of deposit with WestLB branches, which increased by 42.7 per cent to US $ 665 million.

WestLB was manager for 45 syndicated loans to foreign borrowers as compared with 35 the previous year. The Bank was also in the management group of 24 other loans. The Bank's vital role as one of the foremost forces in the Euro-bond market was again documented by the fact that WestLB was lead or co-manager in 48 public offerings out of a total of 78 DM issues.

It also was in the management of 10 of the 42 private placements in DM. WestLB was in the management group of 51 public issues and private placements for Euro-issues in other currencies. The Bank also participated in 151 other non-DM issues, and in the US it was a member of the syndicate in 13 domestic US $ issues.

In addition, WestLB played a dominant role in domestic DM loans to international borrowers on a long-term, fixed interest basis. WestLB's strong commitment to sound personal advice in the field of money management accounted for a continued increase in the placement of fixed interest securities. International institutional investors are benefiting more and more from WestLB's pre-eminent position as market maker in fixed interest securities in an exceptionally strong currency.

Foreign exchange operations benefited from the Bank's client-oriented advice amidst increasing currency uncertainties. International commercial banking activities such as letters of credit, payment transfers and export financing increased substantially, reflecting high quality and rapid client services and close contacts with correspondents. Local cost-financing facilities through the Bank's international network were also used extensively. Domestically the Bank enjoyed a particularly favourable upturn in long-term financing to corporate clients. Long-term buyers' credits in conjunction with German export efforts also showed an above-average growth.

WestLB began 1978 by assuming complete ownership of the Hong Kong based merchant bank ASIAC. With its dynamic and flexible international capabilities, WestLB expects to further strengthen its position as one of the world's major wholesale financing institutes.

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In their vulnerable position between East and West, Germans are especially sensitive to the spread of nuclear technology. © Sipa Press from Black Star

employment plan itself, payments have unavoidably stayed at a high level. The health plan has had to contend with a cost explosion in almost every area, while the pension plan has seen a steep rise in the levels of payouts and the beginning of a demographic trend of the proportion of people aged 65 and over rising from 17 per cent in the mid-1960's to 25 per cent by 1979-80.

As Chancellor Helmut Schmidt was fond of reminding Germans during the 1976 *Bundestag* election campaign, the system is one of the most generous in Europe. People out of work receive for the first year some 68 per cent of their most recent net monthly income, and 58 per cent thereafter (though this is subject to a strict means test). Pension levels are determined by contributions linked to wages, yet the average net income of pensioners' households is within a few percentage points of the average for those people working.

The Social Democratic-Free Democratic coalition nearly split in December 1976 when it tried to go back on a campaign promise not to alter the schedule of old-age pension increases, which are linked to the rise of wages. The passions raised by the episode have abated somewhat, giving the Government its opportunity to introduce a series of reforms that should slow down the rate of pension increases, moderate the rise in doctors' bills and other health costs, and shift the burden of some payments from one system to the other. Yet it still is not clear that the pensions plan is truly back on the financial rails; there is fresh talk of a deficit of anything up to 15 billion marks by 1980 if there is no upturn in general economic conditions. A rise in total welfare contributions from the present 18 per cent of a worker's gross income—a sum that is matched by the employer's portion—would be highly unpopular with the electorate, and would be yet one more disincentive to business to hire more workers. Somehow or other Minister of Labor Herbert Ehrenberg has the unenviable task of trying to make ends meet and of convincing an understandably skeptical public.

If the social services' problems are largely still in the realm of bookkeeping, albeit on a grand scale, the German educational system is already going through a turbulent patch. There is increasingly bitter disagreement over the ending of the traditional system of "streaming" children, in favor of a plan known as the "general school" *(Gesamtschule)* in which all would mix together. Egalitarian educators, with strong support in some sections of the Social Democratic Party, point to the US public schools at their best as the system they would like to emulate. As it is, the division into the *Gymnasium,* leading usually to the university, the *Realschule,* and the catchall *Hauptschule,* is seen by reformers as unfair to many children who are selected too early, and as the perpetuation of social class differences.

Unfortunately for its advocates, the *Gesamtschule* concept has rarely worked well enough to convince the sceptics and has provided a good deal of ammunition to those who have always been hostile to it. In Hesse, the SPD-FDP coalition risks losing office in part because of the schools issue in this fall's election, while even the more cautious experimentation carried out in selected schools in North Rhine Westphalia, the most populous of the 11 states, has provoked a heated bumper-sticker campaign that also bodes ill for the local SPD-FDP coalition when it defends its record next year.

In the universities radical politics, the preoccupation of many German students a decade ago, has lost much of its appeal by comparison with the concern to achieve secure careers. Real frustration exists, nonetheless, over many facets of the system itself, for example, the so-called *numerus clausus,* a mechanism to limit student numbers in the most sought-after fields, such as medicine, that is widely felt to be arbitrary and unfair.

State governments, responsible for university finances, have also been feeling the pinch and have responded in a number of ways that have dispirited many in the academic community. For professors, endowed with virtually cast-iron tenure, little may change, but for junior teaching staff job prospects are increasingly difficult. A prospective decline in the number of school children in the next decade has caused authorities to cut back on recruiting for school and college jobs and to go to sometimes elaborate lengths to avoid giving tenure. Meanwhile, to reduce costs and to ease the pressure on places of the present demographic "bulge," it is being proposed for the first time to limit the number of semesters an individual can spend studying—a move that may cut down on the free-loaders, but which many students feel unfairly adds to what is already a high-pressure system.

Favorable Business Development Continues.

During 1977 Deutsche Girozentrale – Deutsche Kommunalbank – ("DGZ") again improved its overall performance. Business volume increased by DM 1.5 billion to a total of DM 20.7 billion. This growth was mainly attributable to further expansion on the wholesale banking operations.

With a banking tradition dating back to 1918, DGZ strengthened its position as a bankers' bank with special emphasis on domestic and international medium and long-term finance to corporate clients, governments, state agencies as well as central banks.

Underwriting operations again developed very favorably with the Bank participating in nearly all Euro-DM loans as well as in most other Eurocurrency syndicates and an impressive number of private placements. All in all, the Bank was a partner in 262 loans to foreign borrowers and in 14 equity issues.

The Bank's medium and long-term lending potential was greatly enhanced by the favorable situation on the German capital market on which DGZ places its own issues with a broad clientele of institutional and private investors.

Securities trading achieved again a considerable increase and a steady flow of newly acquired clients both at home and abroad played an important role.

Highlights from 1977	DM millions
Balance Sheet Total	19,934
Due from Credit Institutions	5,965
Debentures and Bonds	2,617
Receivable from Non-Bank Clients	10,222
Fixed Assets	115
Deposits from Credit Institutions	7,119
Deposits from Non-Bank Clients	709
Own Debentures in Circulation	11,280
Capital and Published Reserves	325
Surplus from Interest and Commissions	86
Personnel and Administrative Expenditures	30
Taxes	52
Net Profit	19

DGZ International S.A., a wholly-owned Luxembourg subsidiary, increased its business volume to DM 4 billion with the bulk of its operations in Euroloans and in the interbank money market.

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GETTING READY FOR LOMÉ II

A different emphasis for a proven success

PETER BLACKBURN, *British freelance journalist based in Brussels*

IN JULY NEGOTIATIONS OFFICIALLY OPEN FOR THE renewal of the world's largest regional agreement, the Lomé Convention, linking over 500 million people in the industrialized European Community and the developing countries in Africa, the Caribbean, and the Pacific (ACP). Actual talks start in September, 18 months before the present Convention expires on March 1, 1980. They will be conducted by single spokesmen for the nine EC countries and for the 53 ACP states.

The first Lomé Convention, signed in the Togolese capital on February 28, 1975, was hailed as a "new model" for relations between industrialized and developing countries. Based on principles of equality and economic interdependence and negotiated on a regional basis, it differed substantially from its predecessor, Yaoundé II, not only in the number of countries covered but also in scope and quality. To the 19 mainly Francophone African members of Yaoundé were added 21 Commonwealth countries, including some from the Caribbean and Pacific, as well as six independent African states. Revolutionary features in Lomé were the stabilization of export earnings (Stabex) system to insure ACP commodity exporters against the impact of bad years, and industrial cooperation involving the creation of a Center for Industrial Development and other measures to develop ACP industry.

The Lomé I Convention, packed in a cardboard box, goes home to Brussels following the 1975 conference in Togo. On right is then-EC Commission President François-Xavier Ortoli. Lomé II may be even heavier.

The Convention was also unique for the breadth of cooperation covered — trade, industrial, financial, institutional — and it was remarkable in managing to satisfy so many disparate interests from the giant, oil-rich Nigeria to the tiny, isolated Pacific island of Tonga. Lomé was also significant for its timing. Negotiated when the industrialized world was in the midst of an economic recession partly due to the oil crisis of October 1973, Lomé represented an important political as well as economic gesture by the Community to improve relations between developed and developing countries. Many of the ACP states were among those most seriously affected by the oil crisis. While heavily dependent on oil imports, they lacked the means to pay for them and their debts rocketed. But unlike the EC countries, they failed to benefit from the recycling of petrodollars or the lucrative new Arab markets.

Lomé meant that the Community went to the United Nations Seventh Special Session on Development and International Economic Cooperation with a concrete achievement in its pocket, which neither the United States, Japan, or the Soviet Union could match. Throughout the Paris Conference on International Economic Cooperation (CIEC) the Community was able to play a leading role in promoting the dialogue between the industrialized North and the developing South. Unfortu-

Aid, such as veterinary supplies, is provided by the Community to both Lomé associated and nonassociated developing nations in Africa.

nately the Paris Conference ended last June with few practical results, and efforts since then to continue the dialogue, notably within the framework of the United Nations Conference on Trade and Development's (UNCTAD) Integrated Commodities Program, have so far met with little success.

On the other hand, the Lomé Convention is functioning well according to Claude Cheysson, EC Commissioner responsible for aid and development. Although there have been some trade problems concerning sugar, beef, and veal (mainly from Botswana), rum, and bananas, ACP exports to the Community have benefited from the advantages offered under the Lomé Convention. ACP exports rose by 14 percent between 1975-76, and in the first eight months of 1977 were 26 per cent up on the same period the previous year. At the same time they enjoyed a trade surplus of 400 million units of account (UA) (one UA equals approximately $1.20 at present rates). About one-third of the UA 3.39 billion of aid available under the Lomé Convention has already been committed. The Center for Industrial Development is fully operational and has already helped conclude 24 contracts for UA 500 million of industrial investment in ACP countries.

No ACP country has withdrawn from the Convention since it came into force two years ago, and all are in favor of renewing it. Moreover, seven new countries have joined, the latest being the tiny former French department of Djibouti. And Mozambique could join the Convention—especially as talks for Portuguese membership in the Community get under way. Among the African countries eligible to join, only Angola stands aloof. The recent opening of an Angolan embassy in Brussels shows, however, that it is not totally disinterested.

BECAUSE THE LOMÉ CONVENTION has only been operating two years and in its view is working satisfactorily, the EC Commission is proposing to consolidate and improve it where necessary rather than radically revise it. Only a few innovations are therefore proposed. The most newsworthy of these is a reference to human rights in the preamble to the Convention. This is a point championed by Cheysson, who has taken up the cause so energetically pursued by President Carter. Cheysson considers it was a mistake to omit a reference to human rights in Lomé I, since the object of EC aid is after all to benefit the inhabitants of the recipient countries. He makes it clear that there is no intention of interfering in the internal affairs of ACP states or that EC aid should be used as a means of sanction. "It is man's place in society, the physical respect of man, his right to live," Cheysson explains.

It will be a delicate task for the Community to define what measures should be taken when an ACP state violates human rights, as has happened in Uganda, Cheysson says: "Flexibility will be needed as no two cases are identical." He suggests that the Community consult with the United States and other Western democracies to make any proposed action more effective. While he thinks the Community should not break links with an offending ACP state, he believes it should try to ensure that its aid reaches the people for whom it is intended and not be diverted for other, perhaps repressive purposes. Many ACP's are against any reference to human rights on the grounds that it is an unnecessary interference in their domestic affairs. They point out that EC countries would also have to respect human rights. Problems could arise, for example, concerning British immigration laws, German treatment of immigrant workers, or French social security terms for ACP workers.

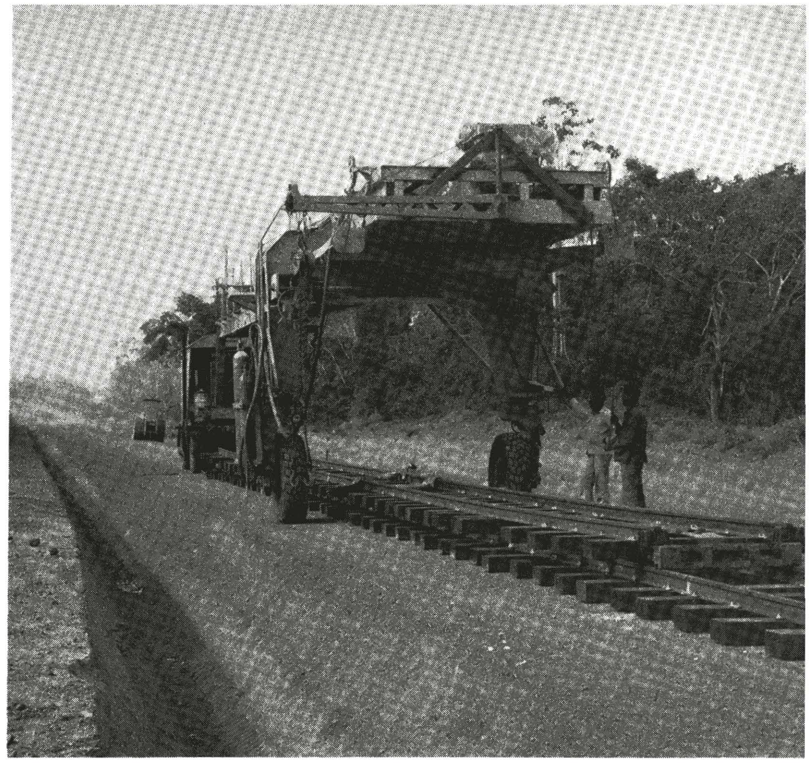
Trade and industrial cooperation could also be strengthened. The Commission considers that ACP exports are benefiting from the advantages offered under Lomé I. To avoid difficulties in certain sensitive sectors such as textiles, petroleum products, and shoes, the Commission suggests there should be periodic consultations involving both trade unionists and industrialists. The object would be to plan jointly for the future and examine the viability of envisaged ACP investments. For instance, it would be irresponsible to encourage the development of export-oriented textile and sugar-refining mills if the Community market was then closed to them. Last year the Community took safeguard measures against Moroccan and Tunisian textile exports, even though this was against both the aim and terms of the 1976 Cooperation Agreements. However, the Commission stresses that there is no question of going back on the principle of free access for ACP exports contained in Lomé I.

Another new idea put forward by the Commission concerns the protection of European investments in ACP countries. Because of the current climate of political uncertainty in developing countries, European investment has fallen sharply. This is most acute in mining, where the failure to invest is now threatening future supplies. The Community is particularly dependent on developing countries for key minerals such as copper, phosphates, tin, tungsten, and cobalt. In order to encourage investment, the EC Commission recently suggested three types of measures: agreements between the Community and developing countries on basic protection for investments such as codes of conduct; protection agreements for specific sectors; and financial guarantees against non-commercial risks.

Improvements to the existing Lomé Convention could include additional micro-projects for local roads or expanding water supplies.

The Community may also demand that the ACP states respect minimum working standards laid down by the International Labor Organization. European trade unions are concerned about issues such as working hours, child labor, and safety norms in ACP states. But this does not extend to salaries. The Commission considers that developing countries are entitled to enjoy the competitive advantage of cheap labor. All it is saying is that in return for benefiting from duty-free access to the EC market, the ACP's should respect certain basic norms regarding working conditions.

Another possible innovation in Lomé II is the introduction of a Fisheries Protocol. Since Lomé I was negotiated, international fisheries have substantially changed. Many



One of the new demands of Lomé II will be additional aid for transportation in landlocked countries that have to import and export goods long distances overland.

countries have introduced 200-mile limits as well as stringent conservation measures. Fisheries in the nine EC member states have become the responsibility of the Community. Although no common policy has yet been agreed on, contacts have been made with four West African states — Senegal, Mauritania, Guinea Bissau, and Cape Verde — and framework fisheries agreements could be negotiated shortly. In return for fishing rights, the Community will give financial compensation and aid in developing the local fishing industries.

In addition to these innovations, some improvements could be made to the existing Convention. For instance, the Community could ask that Stabex aid be used to help directly the workers concerned whether cotton pickers or hide curers. More aid could be given to small- and medium-sized companies, as these are the backbone of wide-scale employment. Micro-projects for local roads or water supplies could also be expanded, as they have proved successful at a grass-roots level. Projects co-financed with Arab funds and the World Bank could be better defined. These are especially important for large-scale regional projects such as the CIMAO (West African Cement) project involving Ghana, Ivory Coast, and Togo. The share of regional projects in total aid from the European Development Fund could be raised from 10 per cent to 15 per cent.

THE ACP STATES ARE CRITICAL about various features of the Lomé Convention. They are concerned that the economic recession and the growing international trend toward protectionism will lead the Community to withdraw some of its trade benefits; they are concerned about low prices for many raw materials, a steady deterioration in the terms of trade and huge debts; and they are concerned about the slow rate of transfer of technology and their continued dependence on Western know-how. The ACP's would like a big increase in EC aid, which in Lomé I amounted to only $2.5 per person annually, insignificant compared to their needs. Special aid for the poorest landlocked countries, especially for easing their massive debts, is also desired.

The ACP countries are worried that trade preferences granted under Lomé have been eroded by the Community's cooperation agreements with the Maghreb and Mashreq countries, improvements in the EC generalized system of preferences for the industrial exports from all developing countries, and the Community's proposal for tropical products in the GATT multilateral trade negotiations. They would like to be consulted before the Community makes further concessions and demand assurances that no safeguard measures will be taken against their exports.

As regards new features in Lomé II, the developing countries would like a special fund to develop new forms of energy, such as solar, which has great potential in their sun-drenched countries. They would also like joint scientific and technical bodies to be created to enable them to gain maximum use of European technology and to develop new techniques fitted to their special needs. They would also like help toward easing the heavy transport costs of landlocked countries that have to import and export goods long distances overland. In return for giving up part of their valuable fish resources, these nations demand substantial payments and aid in training fishermen, building modern trawlers, and processing factories. Finally, the ACP's demand that the rights and privileges of their workers in the Community, such as social security, be adequately provided for in the new Convention.

All these demands indicate that the emphasis will be on trade and industrial cooperation rather than aid. In return for raw materials and the lion's share in the expanding markets of developing countries, the Community must help the ACP countries industrialize. Thus, although no fundamental changes are expected in the Lomé Convention, there will be some tough bargaining over the next 18 months.

LOMÉ AND THE SNOWS OF THE KILIMANJARO

ROSE H. FALES, *Washington-based freelancer who recently visited Tanzania*

THE DIPLOMATS AND ECONOMISTS RESPONSIBLE FOR working on the technically tough and commercially sensitive details of Lomé II might take a break from their work and fly to Tanzania to see aid at work.

Poor though it undoubtedly is, with per capita income of less than $160.00, Tanzania appears to be the darling of foreign aid—a "most-favored-nation" of the underdeveloped world. Krona, marks, guilders, dollars, pounds, yuan, and Indian rupee spill out over the Masai steppes, the rain forests and the great game parks that cradle the birth of man. How to disburse efficiently the funds already on hand, rather than how to appeal for more aid, is the preoccupation of most Tanzanian officials.

Tanzania publishes no figures on aid. It needs the thread of Ariadne to follow the figures for development of assistance in Africa since the oil and drought rises of the early Seventies. However, one EC project actually in being is illustrative. It involves 12.7 million European units of account (EUA) ($14.6 million) of the total $125 million allocated to Tanzania for five years under the financial provisions of Lomé I. The project's aim is coffee grown on existing acreage by farmers in the five different geographic regions of the country where Arabica coffee grows, and in the one area, West Lake, where robusta coffee is grown. The five regions are: Kilimanjaro, Arusha, Mbeya, Ruvuma, and Tanga. Although the program is the same in all the regions, it has the greatest chance of success in Kilimanjaro because the center of the whole coffee industry is at Moshi, near the foot of the great mountain. Here are fewer problems of marketing, pricing, and transportation. The few remaining coffee estates account for 3,600 hectares in this district. This production is double that of the peasant farmers, who own 28,000 hectares but whose production dropped drastically since independence.

The Kilimanjaro coffee farmer is many cuts above subsistence. He owns approximately four hectares of land; on two, he grows bananas, beans, spices, and cotton. The other two hectares are in coffee trees probably

Tanzanian President Julius Nyerere during his Brussels visit in 1975, with former EC Commission President François-Xavier Ortoli (left) and Commissioner in charge of development Claude Cheysson.

planted by his father or grandfather, because the 35-to-60 year life of coffee trees is longer than his own present life expectancy of 45 years. He, his children, and his wives spend at least half a day throughout the year working the trees. The trees are kept short like bushes because the berries must be picked by hand. The Kilimanjaro farmer is taller than the tribes of the plains and coastal regions, but he is not as tall as the Masai, who range the savannah near his village. By Tanzanian standards he is very skilled, strong, and energetic. He has taught his sons to wield the curved panga to cut away the suckers from the trees, and he has taught his daughters to pick the berries only when they are bright red. To European eyes, the trees with their brilliant cherry-red berries and their shiny dark-green leaves look like some diminutive equatorial holly.

Each tree flowers for a brief 12 hours, and the heavy jasmine-like scent fills the air after the "big rains" that, in Kilimanjaro, come in October. The white of the blossoms seems to match the purity of the snow peaks of Mt. Meru and Mt. Kilimanjaro, which often emerge from the clouds. There is a nine-month growing season, and because the berries do not ripen at the same time, there is a six-week picking season. As the family bends to weed—in that double-jointed, stick-figure African way—and as they rise up to prune and pick, the proud set of the head on the straight back, the primary colors of their katangas and turbans make them look like brilliant birds of paradise among the rows of green trees.

In the Kilimanjaro district the farmer expects about 1,000 kilos of berries from his two hectares and hopes to get 260 kilos of beans after the pulp is removed. He may pick as much as 100 kilos a day. This is carried in baskets on the heads of the family to the village, usually four or five kilometers away, and there the beans are separated by a small hand pulping machine, then washed by hand, and brought back to the family mud house, where it is stored. Each day for approximately two weeks it is brought out in the sunshine and dried on sisal mats before the door of the hut. The beans are carried back to the village, this time to the "Buying Post," where they are registered in the farmer's name, weighed, and judged for quality. The farmer then gets his first cash advance. There are two more payments: one in September, when the price of coffee on the world market is known, and a final one in June of the next year, when the new crop is under way.

Baldwin Zimmer, agricultural counselor of the EC delegation, the German agronomist who came to Tanzania in May 1976 to finalize the program for EC signature, expects that the price this year will be such that the farmer will earn approximately $860.00 on the 520 kilos of beans he has produced from his two hectares—a fine amount. Zimmer also expects that this year will have seen a rise in production in this Kilimanjaro district of approximately 30 per cent. He is the first to point out that unusually good weather helped raise the figure, but it is evident that the careful planning and implementation of this Lomé project prove that production can be raised.

The project was well-chosen. Ninety per cent of Tanzanians are engaged in agriculture, farming small holdings on one-tenth of the arable land lying in densely populated areas. Agriculture represents 40 per cent of the gross domestic product and 70 per cent of exports. Coffee is the largest source of foreign exchange by far; it is the country's largest product and employs more than 10 per cent of the population. By teaching the farmer better methods of cultivation and by supervising his work, Lomé I hopes to increase foreign exchange for the country and give the farmer better prices for his crop. The heart of the project is to teach the teacher . . . to train extension workers for the Coffee Authority.

The Coffee Authority is fortunately one of the most effective of the 300 *Parastatals* (Tanzanian name for the Boards which run all nationalized industries). Efficiency usually depends upon the general manager, and Lawrence Rutakana, aged 54, Harvard University 1948-49, who manages CUT—a happy acronym—is known by all as a "Mzee," the local word for an honorable and superior man. He has delegated all authority for implementing the program to three expatriates, all experienced British farmers who speak fluent Swahili, which derives from a combination of Bantu, Arabic, and English.

It must be kept in mind, however, that the entire project is administered by CUT. The EC funds pay for 37 per cent of the program: the salary of the three Europeans, and costs of directing the three training centers where two-month crash courses are given for the extension workers. A few lorries and motor bikes have been bought as well as six road graders to keep the feeder roads open during the rains. Tools such as saws and pumps and fungicides and insecticides are also supplied.

The presence of Bent Pontoppidan, chief of the delegation of the Commission of the European Communities, plus his Brussels staff of seven and his local staff of 10 serve as a daily reminder to the Tanzanian authorities of the reality of the "Nine," and the meaning of Lomé I. Bilateral aid is under the diplomatic umbrella of the donor country; multinational aid is handled through flying visits by country teams; but day in and day out, papers flow from the first floor office of the delegation on the "kiplefti," the roundabout of the revolutionary Askari square, to the second floor office of the Ministry of Finance and Production on Madakara Avenue a few blocks away. "North/South Dialogue" is a reality of soggy signatures in Dar es Salaam, where the foreign ships wait in harbor, sitting like painted Coleridge cutouts on the iridescent surface of the Indian Ocean.

Tanzania, "the darling of foreign aid," received funds from the World Bank's International Development Association for its road building program. Pictured here is a ferry operation on the Mwanza-Musoma road. © Development Loan Fund, World Bank

Lots of papers don't get signed. Lots of projects, no matter how real they seem in the "committed" files of the European Development Fund, remain piles of paper on the desks of Tanzanian officials who do not have the manpower nor the materials to carry out the projects. Funds have been committed under Lomé I for a canvas mill in the Morogoro complex, for asphalting 150 kilometers of a Lake Victoria circuit road, and for increasing grain production in the districts of Iringa, Mufindi, Njombe, and Ludewa. On paper.

Stabex funds were no problem to disburse. "Happiness," said one European in Dar, "is being a Tanzanian farmer." Under the provisions of Lomé I, Tanzania has received EUA 7.052 million to compensate for losses in cotton production in 1975 and for sisal in 1976.

Beginning in 1976 the President Julius Nyerere's directives became more practical, and the coffee project fits well with his more realistic goals. It is based on the existing level of technology, thereby following the current philosophy of intermediate development: Why buy a mousetrap if you have a cat? Too many foreign aid programs are industrially unrealistic, and create what one old Dar hand calls the illusion of the smoking chimney. Moreover, the coffee project is decentralized and avoids concentrating on one region. It tries to equalize, in an egalitarian way, efficiency and production in one basic industry. And most importantly, it bears out Nyerere's belief that the village is both the economic and social core of African society.

Just because it fits so well into the present infrastructure of Tanzania, it suffers from the lamentable failures and problems of a disorganized society. There is a little point in getting more berries per coffee tree if the beans rot away in a leaky go-down, or sit in trucks unable to get through roads washed out through rain and neglect. There is no point training a man as an agricultural extension worker and then shipping him off to the city. A man who has been taught enough bookkeeping to run the village Buying Post should not be transferred to the village party headquarters. Furthermore, it is not yet clear whether the Government will plan for the lean years by returning revenue to the coffee industry during these fat years. Lomé I funds expire in 1980, and there is no movement to raise the coffee levy nor to revive the research so essential to the continuing success of any agricultural production. And weather is fickle.

"I would like to light a candle and put it on top of Mount Kilimanjaro which would shine beyond our borders . . ." said Nyerere in 1959. On the Tanzanian side of Kilimanjaro the border with Kenya is closed, but light is still getting through. Both countries are negotiating together on Lomé II.

EAST AND WEST IN AFRICA

What's at stake?

PETER YOUNGHUSBAND, *Cape Town-based African correspondent for* Newsweek

IT WAS INEVITABLE THAT THE SOVIETS AND THE CUBANS in their encroachment on Africa would go too far—that the stage would be reached where Western nations would have to act, in their own interests, to protect the stability of the Black Continent.

The Communist twosome, which had achieved remarkable success due to what many observers regard as a weak response on the part of the West, were following a noted Leninist principle—to "thrust in the bayonet until it meets steel." In May the bayonet, in the form of Katangese rebels who had slipped through Angola and Ethiopia with remarkable ease, encountered steel. It was not, as it should have been, the steel of the Zaire regular army—but that of the French Foreign Legion.

The Legionnaires, backed by Belgian paratroopers, were rushed in to put a stop to one of the most gruesome massacres in the history of modern Africa. Nearly 200 whites and more than 500 blacks were killed in or near Kolwesi in the Shaba Province of Zaire before the arrival of the European troops.

At a crisis meeting in Paris in June, four member nations of the European Community and the United States emphasized their determination to help defend Zaire and other black nations against further Soviet-backed takeover attempts. The conference, attended by top foreign ministry officials and African experts of France, Britain, Germany, Belgium, and the United States, was the West's first concerted response to the increasing Soviet-Cuban destabilization moves in Africa that climaxed in the bloody Kolwesi massacre. Even as the conference ended giant American transport aircraft began to fly Moroccan troops, spearhead of a pan-African force, into Zaire to replace withdrawing French troops—in what appeared to be the beginning of a joint effort by Western nations and pro-Western black states to stop the Marxist advance in Africa, and protect European and American interests.

The fight for Africa is on. It would be naive to believe that the main issue at stake is a humanitarian one. What is really at stake is control of the great wealth that is locked in Africa—wealth that is already being produced, and the greater wealth that has yet to be tapped. Without the mineral resources of Africa, major Western industries would come to a virtual standstill. Without the strategic minerals that are contained in Africa, the West would be at the mercy of the Soviet Union and its Communist allies.

This—and the loss of the strategic Cape sea route round the southern tip of the continent, by which the West receives most of its oil—is what it is really about.

Consider Zaire—scene of the recent conflict—for a start. The Shaba Province is a treasure chest of wealth. It has the world's largest single deposit of copper (reserves of 37 million tons, enough for 70 years at the current rate of production). It is the world's biggest source of industrial diamonds and supplies half the world's cobalt. It has exploitable resources of gold, uranium, tungsten, aluminum, nickel, lithium, and other metals. Only a fraction of the proven resources are being exploited.

Similarly, among Zaire's 2.35 million kilometers of territory are millions of acres of extremely fertile land. As with the country's mineral wealth, the agricultural potential has been barely touched. It is the biggest and richest country in central Africa. It had to be the point at which the West was obliged to draw the line at Soviet advancement.

To the south of Zaire lies Zambia, another of the world's major copper producers and also a country of tremendous food-producing potential. Like Zaire, Zambia is politically unstable; and whereas Zaire has a large but undisciplined army, Zambia has a small, undisciplined army. The fall of Zaire's pro-Western Government to Soviet influence would almost certainly have been followed by the fall of Zambia's pro-Western Government.

AND IT WOULD PROBABLY NOT STOP THERE. Strife-ridden Rhodesia and the trust territory of Namibia (still under South African control) are under attack by black nationalist forces equipped by Soviet Russia, and Cuban military advisors are apparently playing an increasing role in their training.

Rhodesia is another country of vast agricultural potential. Namibia is another wealthy producer of diamonds and copper—and has large uranium deposits. Angola and Mozambique are already under the control of Marxist governments responsive to Russian influence. Angola, in particular, is propped up by Soviet-Cuban support.

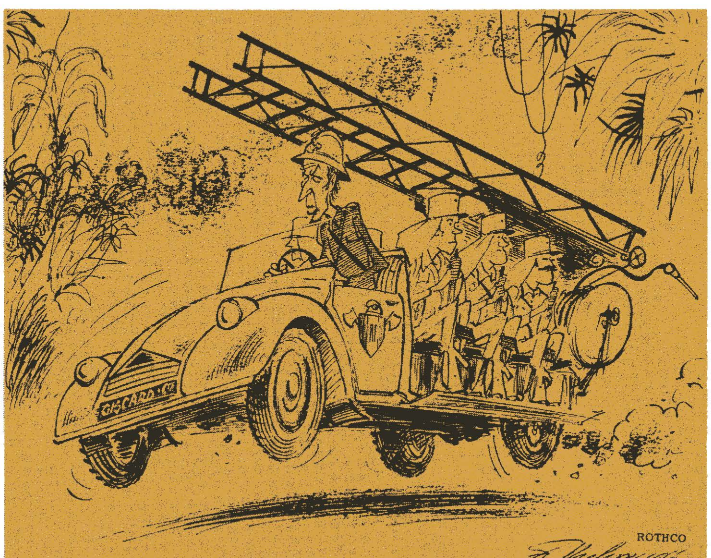
If Zaire, Zambia, Rhodesia, and Namibia also fell under Soviet control, the Russians would dominate most of the richest countries in Africa—and would be ready to take the Republic of South Africa, the "big apple" of the continent.

With only 6 per cent of the population of Africa, the South African Republic produces 25 per cent of the agricultural output of the entire African continent, supplies 44 per cent of its industrial output and 45 per cent of its mining industry. It is the continent's most industrialized nation—well advanced in nuclear development. It produces 99 per cent of the non-Communist world's platinum, 95 per cent of its vanadium, 85 per cent of its chrome, 85 per cent of its manganese, and 60 per cent of its gold—as well as a host of other minerals.

In a study *Bergbauliche Ressourcen im Sudlichen Afrika* ("Mining Resources in Africa") published by the Institute für Afrika-Kunde, Hamburg, Wolfgang Ulbrich writes: "Southern Africa has not only the largest or very significant resources of important minerals but has for years also been amongst the most significant suppliers of raw materials in the whole world and particularly in Europe." Ulbrich goes on to point out that South Africa is also one of the world's major producers of uranium.

The eminent South African industrialist Dr. Anton Rupert says: "It is not generally realized that the ideal OPEC of minerals would be a combination of South African and Russian resources. If the Soviet Union's resources are added to those of South Africa, between them they possess:

- 68 per cent of all the gold (SA, 49 per cent; USSR, 19 per cent);
- 84 per cent of all the chrome (SA, 83 per cent; USSR, 1 per cent);
- 99 per cent of all the platinum (SA, 86 per cent; USSR, 13 per cent);
- 93 per cent of all the manganese (SA, 48 per cent; USSR, 45 per cent);
- 97 per cent of all the vanadium (SA, 64 per cent; USSR, 33 per cent)—in the world."



"African Fire Brigade" © Behrendt, *Het Parool*, Amsterdam

Dr. Rupert adds: "The Soviet Union's uranium resources are not known but combined with that of South Africa should be well above 50 per cent of world reserves."

The above is sufficient to make the point that control of South Africa's mineral resources—quite apart from that of Zaire and the other central African states—would enable the Soviet Union to cripple the West industrially and strategically by depriving it of vital mineral supplies, while gaining for itself a virtual monopoly of these resources. The loss of South African chrome, alone, would bring the European stainless steel industry to a standstill. And a Marxist regime in South Africa would endanger the strategic Cape sea route—a major trade lifeline for the West, especially in oil supplies.

The importance of the Cape sea route has been repeatedly stressed by NATO commanders, including General Alexander Haig. The French Armed Forces Commander-in-Chief, General Guy Mery, is quoted in the current edition of the official monthly *National Defence Review* as saying that France has every intention of defending the Cape route, which he describes as "vital for our country." General Mery adds: "There are three main reasons why France must be strongly linked with Africa:

- France is adjacent to Mediterranean Africa and the continent is close to the straits of Mozambique, Mayotte, and Reunion Island;
- there are 250,000 French nationals working in Africa;
- but, above all, the sea routes around Africa supply France with most of its oil and raw material needs, and these are vital for our country."

The French connection with her former African colonies remains very close, and Zaire's closest relations outside Africa and the United States are with the European Community countries. There are 20,000 Belgians in Zaire providing much of the highly skilled manpower. Belgian financial and technical investment in the country is enormous. France, however, has been making an overt bid for a larger share of Zaire's minerals and industrial market—a fact that has caused some diplomatic strain between the two European countries.

Apart from the individual interests of the EC member states, close and generous ties were established collectively with African nations through the Lomé Convention and the Stabex (stabilization of export earnings) system. All this adds up to a great deal at risk.

"Objet Cache-toi" by Mario Merz courtesy of the Hirshhorn Museum, Washington

"EUROPE OF THE SEVENTIES: ASPECTS OF RECENT ART"

DAVID SCHAFF, *art consultant for the National Academy of Sciences and contributing editor for* Art International

"EUROPE OF THE SEVENTIES: ASPECTS OF RECENT ART," recently on view at the Hirshhorn Museum and Sculpture Garden in Washington, contains works by 21 artists from countries of the European Community, plus two contributors from Switzerland. The selection is an open confederacy: The essays in the catalogue do not always concentrate on objects in the show; and because of deletion of some pieces and addition of others, each museum where the exhibition is shown will have a slightly different view of these aspects of European art. The show opened at the Chicago Art Institute and after its March 16-May 7 sojourn at the Hirshhorn Museum, the exhibition travels to the San Francisco Museum of Art (June 23-August 6), the Fort Worth Art Museum (September 24-October 29), and the Contemporary Art Center in Cincinnati (December 1-January 31).

Selections for "Europe of the Seventies" have much in common with Minimal and Conceptual experiments in American art in the late 1960's and early 1970's. Perhaps too much. These trends characterize only a small part of current European art and often double back on the attitudes of Marcel Duchamp and Dada artists which initiated the American precedents. Generally, the pieces are not very avant-garde for Europe, or Washington, where during the Art Now '74 Festival Willem de Looper painted on the sky and Rochne Krebs trained laser beams from Roosevelt Island across the Potomac to the Kennedy Center. Many of the pieces are referential, didactic, and a bit obtuse; to see them requires time and a sense of humor. There is no traditional sculpture in the exhibition, and little that will be easily acknowledged as painting. Instead, these European artists have chosen to employ assemblage and photography.

The most intriguing of the photo-artists is the "literary painter" Jean Le Gac. His "The Painter and the Seaplane" is a mysterious juxtaposition of text and image. Fascination and fondness for Le Gac's images result from the connections between his snapshots and his supplementary narratives. Le Gac notes: "One thinks one can explain everything, but it isn't true. Texts function within themselves and don't explain anything . . . but if one looks for an explanation, one usually finds it." Much of the action is clearly off-camera. One could point to many prototypes for Le Gac's painted or photographed words, but few have his finesse and wit.

One of Le Gac's modes is the travelogue, which Hamish Fulton converts to the walk-log. His English critics may explain Fulton's work as sculpture, but on view it is beautifully executed photography whose techniques have affinities with those of Ansel Adams and Alfred Stieglitz. Fulton's aesthetic—"not to affect the landscape but to allow it to affect him"—is Wordsworthian and refreshingly straightforward, especially when considered within the contexts of Richard Long's nicely recorded but pompously conceptualized earthworks and Gilbert and George's dull, vast triptych recording their "body sculpture." Along with Jan Dibbets, Fulton and Long use the photographic medium as art as well as documentation.

The most complicated photography in the exhibition is the work of Ger van Elk, who combines standard developing procedure with airbrush and painting techniques. The results are his "Missing Person" and "Adieu" series. The latter presents a number of jokes on the history of painting. Beyond "Adieu III's" curtain, a device that goes back to Apelles, a painted landscape on an easel reveals the Dutch painter bidding farewell. The series of goodbyes extend to the Dutch and Barbizon traditions of painting, while the terms are the surreal, *trompe l'oeil* manners of René Magritte.

There are clear reasons for the selection of each artist within the broad range of photo documentation in the exhibition, but perhaps the most disappointing element is the absence of painting. Despite the cold, luminous presence of Gerhard Richter's "256 Farben," one is inclined to agree with the artist that he has succeeded in his stated goal "to eliminate the artist from painting." Given the successes of his earlier work, Richter might have pushed the arrangement of color rectangles, which ultimately derives from Mondrian and Lohse, to a new dimension. Instead, he is content with mechanization rather than innovation.

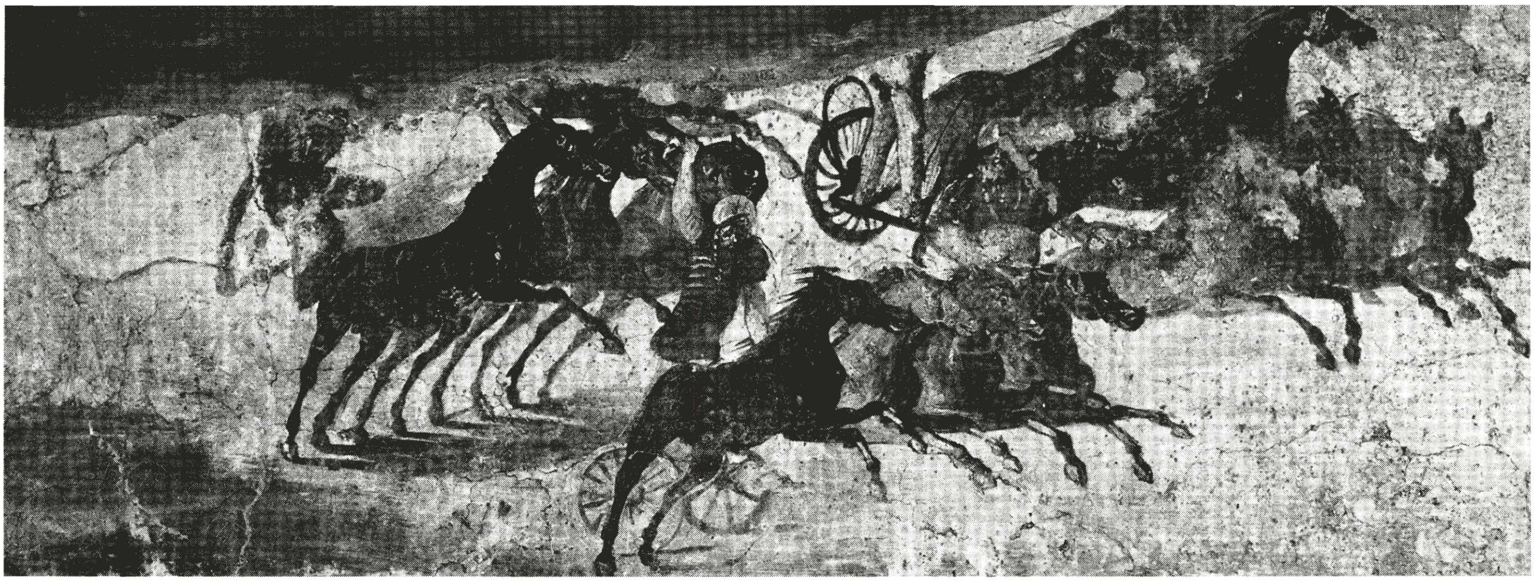
Similar attitudes prevail in a number of the assemblage and installation pieces, ranging from Stanley Brouwn's minimal "Strides" to Anne and Patrick Poirier's maximal "Construction No. V. Domus Aurea." In his "Un Jardin d'Hiver" Marcel Broodthaers is as lush and anachronistic in resetting a neo-1890's environment as Giovanni Anselmo is spare and avant-garde in "Particolare." Both works are amusing but too cluttered and too cute to achieve the consiousness-pointing effects for which they strive.

The two outstanding assemblages are Mario Merz's "Objet Cache-toi," and the Poiriers' "Construction No. V. Domus Aurea." The latter, also called "La Grande Nécropole Noire," presents a vaguely defined, grandiose, yet primary layering of images that are further refracted by the Poiriers' explanatory text. Like Defraoui's explanation of "Places of Memory," the text for the "Domus Aurea" obscures as it reveals; but unlike Defraoui's tract, the Poiriers' gloss maintains a narrative development. A surreal archaeology is the point of departure: Nero's Golden Palace, with its connotations of excess and calamity, becomes "la Montagne de Charbon," from which huge stairways and mausoleums have been cut. The necropolis is as Aztec as it is Roman or Near Eastern. In this construction the Poiriers have combined the approaches of archaeology, mythology, earthworks, and sculptures to define a modern archetype that is obsessive, whimsical, horrible, and finally enigmatic. The "Domus Aurea" becomes an even more successful paradox when one realizes that the construction seems to float in a black, coal-saturated pool of water.

Entirely different intentions are evident in Mario Merz's large sculptural dome, "Objet Cache-toi." But where might an object hide in this configuration of glass, iron framing, electrical cord, monitoring consoles, and neon? In constructing his igloo Merz has broken the glass sides, then reattached some pieces to unfractured surfaces. Inside the dome is the monitoring equipment and a wine bottle that attempts to hide by becoming empty. There are Duchampian precedents from Merz's construction, as well as parallels to works by Los Angeles sculptors Dan Flavin and Larry Bell, but "Objet Cache-toi" does not depend on any previous innovation for its impact. Quite original in Merz's piece is the balance of high and low styles, formal concerns and peripheral jokes, and positive and negative elements of each part of the composition.

A pair of "definition" pieces round out the exhibit. Daniel Buren has planned different pieces for each site but each installation will feature 8.7 centimeter-wide stripes, Buren's chosen signature. The compliment to Buren's piece is Niele Toroni's four scrolls with "imprints of a brush No. 50 applied at regular distances (30 cm.)." Each free hanging scroll features a different color-patch system. Both works exemplify a subliminal, almost Zen approach to art that initiates the viewer without imposing direction or content. By the installation of their signature "definitions," these minimal calligraphers also point beyond the execution of a work of art to an attitude that might become form.

"Europe of the Seventies" presents carefully selected aspects of current art being practiced in West European nations, and the organizers of the exhibition deserve praise for closely defining their ideas and contributors.



"Wall Painting of a Chariot Race" Photos courtesy of the Boston Museum of Fine Arts; art from the Naples Museum

"POMPEII AD 79" *On a one-year US tour*

CARON LE BRUN DANIKIAN, *freelance art critic based in Boston*

ON A SUNNY MORNING, AUGUST 24, AD 79, VESUVIUS blew up and a cataclysmic rain of lava, pumice, ash, and volcanic mud buried the flourishing towns of Pompeii and Herculaneum. When the billowing smoke and blazing fire had subsided, the legendary life-style of Pompeii was frozen in time, entombed under 12 feet of lethal volcanic debris. It was only 230 years ago that peasants uncovered the Temple of Fortuna Augusta, and Pompeii's subterranean secret became international excitement.

Once again Pompeii is making international news as Italy sends a rich array of treasures from that nature-made time capsule to the United States, for the first time, in the traveling exhibition "Pompeii AD 79." Hailed during the European lap of its tour, it was one of the most popular exhibitions of all time in Great Britain, where it attracted nearly 1 million visitors—topping the attendance of the "Treasures of Tutankhamen" show there. While at the Louisiana Museum in Denmark, it was the most popularly attended art exhibition in that nation's history.

When it launched its US tour in April, it opened with a bang—breaking all Boston Museum attendance records and requiring the museum to extend its visiting hours and stay open weekday evenings. As Associate Director Robert C. Casselman said, "Attendance for the first three weeks of the exhibition totaled 127,000, over four times the normally expected figures for the period."

The hitherto rarified atmosphere of museums is fast becoming an arena for the major-league entertainment through international exhibitions: Art-gazing is now a popular spectator sport. Millions of Americans have patiently waited in line to see such cultural exchange exhibitions as the King Tut show; "Treasures of Early Irish Art, 1500 BC to 1500 AD"; "Cézanne: The Late Work," organized by the Museum of Modern Art in New York and the Réunion des Musées Nationaux in France; "Monet's Years at Giverny: Beyond Impressionism," with paintings from the Musée Marmottan in Paris seen at the Metropolitan Museum of Art in New York and the St. Louis Art Museum from August to October. France is also sending a Henri Michaux exhibit from the Centre Pompidou to New York's Guggenheim Museum this fall, and the significant Chardin show will originate in Paris and be seen at the Cleveland Museum of Art and the Boston Museum of Fine Arts in 1979.

Although the full-scale exhibitions are the most visible of the US-European art exchanges, the life-blood of less conspicuous but vital programs is ever-circulating: loans of individual works of art; cooperation in stamping out smuggling; rapid flow of information on fakes, forgeries, and art thefts; mutual assistance in the constant program of restoration and conservation, as in the Venice Committee of the International Fund for Monuments, Inc. and Save Venice, Inc. in the United States; regulations to control scientific archaeological excavations; the constant stream of art experts, museum curators, and research findings; and the international market itself.

Recently the United States sent its major Bicentennial exhibit "Frontier America: The Far West," organized by the Boston Museum of Fine Arts, traveling to Zurich, The Hague, and Germany. There is also a constant traffic of smaller scale exchange exhibitions between Europe and the United States, including those sponsored by the cultural institutions of individual countries like the German Cultural Centers and the Goethe Institute. It looks like a bright future for these exchanges—what André Malraux called "museum without walls."

These interchanges visually illustrate the richness of our common artistic past and cultural interdependence,

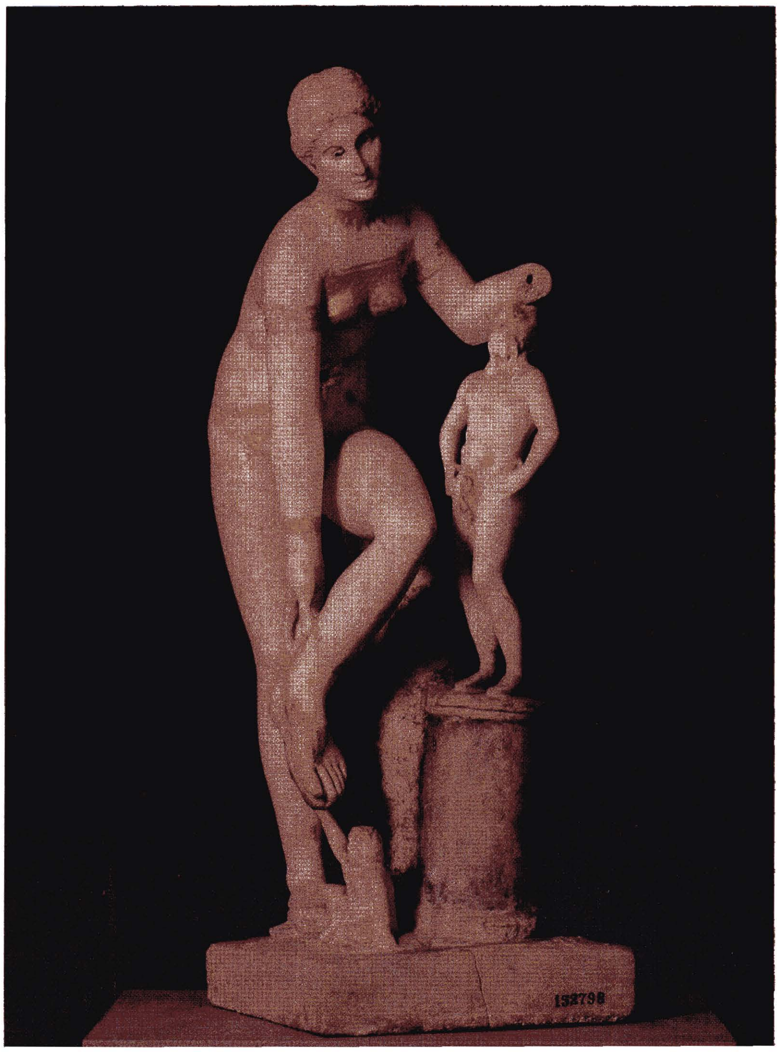
"Wall Painting: Medallion with Busts of Dionysus and a Maenad" from Herculaneum

"Painting of a Villa Beside the Sea" from Stabiae

and then go on to incorporate both into future exchanges on all levels—social, political, and economic. It is diplomacy through art. But the question of funding all this is a major concern. Governments and corporations are becoming the space-age Medicis as their cultural awareness and readiness to support these artistic "hits" escalates. In the United States, the Pompeii show was made possible through grants from the National Endowment for the Humanities ($101,000); a federal indemnity from the Federal Council on the Arts and Humanities; and further funding of $100,000 from the Xerox Corporation. At the Royal Academy in London, Pompeii was under the patronage of Her Majesty the Queen and sponsored by Imperial Tobacco Limited and *The Daily Telegraph*.

Joseph D. Duffy, chairman of the National Endowment for the Humanities, said at the opening of the American tour of "Pompeii AD 79": "This is our conception of the role of the museum—as an instrument for explanation of the world which we as humans have inherited." The American tour of the Pompeii exhibit was initiated by the Boston Museum of Fine Arts (usually Boston is edged out of the major international-circuit exhibitions by Washington and New York City). After Boston, "Pompeii AD 79" travels to the Art Institute of Chicago (August through November), the Dallas Museum of Fine Arts (December through March 1979), and New York City's American Museum of Natural History (April through July 1979).

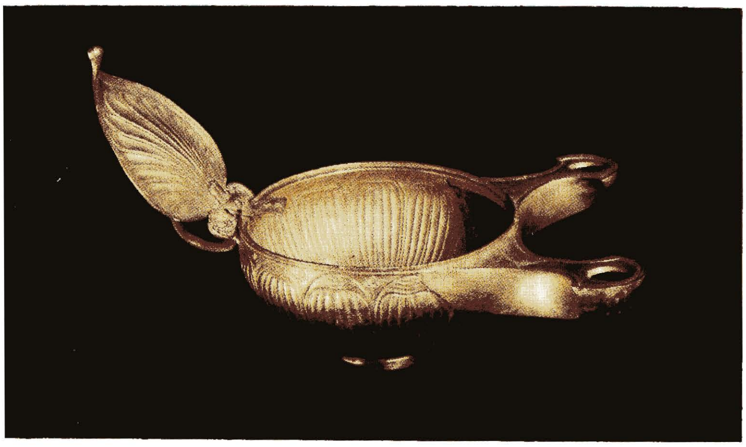
"Statuette of Aphrodite with Priapus"



"Fish Mosaic"

"Painted Portrait of a Man and His Wife"

"Gold Lamp with Two Nozzles" from Pompeii



Gold bracelet in the form of a snake (middle right); Gold bracelet (middle left); Part of a necklace with gold ivy leaves (encircling bracelets), from Pompeii

IF THERE IS ONE IMPRESSIVE THEME "Pompeii AD 79" leaves with the observer, it is the universality of the human experience. Objects 1,900 years old reveal daily activities that strike a familiar chord—ivory hairpins to fasten the fashionable tight curls made with hot tongs; ivory dice; advertisements on stone slabs; tools like a calliper, bronze compass, carpenter's plane, folding rule; a vessel used to strain curd cheese to make ricotta; a Pompeii-style samovar; an exquisite mosaic showing an assortment of Mediterranean seafood still caught and served today.

Each of the 300 artifacts from the Naples Museum and the Antiquarium at Pompeii is of the highest artistic or archaeological quality. These are not the golden trappings of kings as in the King Tut show, however. They are the accessories of daily life. As Jan Fontein, director of the Boston Museum, says, "We wanted Pompeii to really live again and give the viewer a feeling of walking through it . . . that the shopkeeper had just gone around the corner for a newspaper." This close encounter of the Pompeiian kind is people-to-people.

The time machine is turned on and transports us back to that fateful day 1,898 years ago, and the exhibit begins at Pompeii's finale. In the first gallery there is a 13-foot-tall column of the pumice and volcanic ash that buried Pompeii plus two plaster casts of a woman victim and a twisted dog. From then on, it is suspended animation in the galleries—a flashback to the living city, its people, gardens, houses, cults, trades, and leisure entertainments.

The exquisite and incredibly well-preserved wall paintings are worth an exhibit all their own. They trace the differing styles of several periods and prove the high level the Roman artists had achieved—impressionistic landscapes, vivid portraits, still lifes, scenes of villas, theatre tableaux, athletes, banqueting, erotica, gods and goddesses, chariot races.

A highlight of the show is a special addition made by the Boston Museum that probably will continue on the tour. A colonnaded garden courtyard of a seaside villa near Pompeii has been reconstructed using decorative wall frescoes from the Boston Museum's collection. You can also walk through a room reproducing, through photographic murals, a frieze rich in imagery from the Hall of the Mysteries. The original wall paintings with their nearly life-size figures are in a wealthy suburban residence in Pompeii. Ever since the discovery of these paintings in 1929-1930, their symbolism has been the subject of lively debate. Do they depict Dionysian rituals or an ordinary wedding?

Bronze head of a horse with traces of gilding from Herculaneum (top); Four terracotta figures of gladiators (bottom)

All that glitters here is not gold, although there are some splendid pieces of gold jewelry and a golden lamp that was a sensation of the 1863 excavation. There are visual masterpieces the likes of which, probably haven't been seen in America—in a replica of a household shrine (lararium) are authentic bronze statuettes of divinities; a white marble statuette of "Aphrodite with Priapus"; ritual objects from the temple of Isis; bronze and marble fountain statues; and two large, majestic bronzes from the Theatre at Herculaneum—a statue of Lucius Mammius Maximus and a head of a horse.

The actual unearthed artifacts are put in a realistic context with the use of visual aids like a large model of a Pompeiian atrium-peristyle house, The House of the Menander. The influence of the atrium in modern architecture is seen in hotels with glass elevators rising from a central core. A reproduction of one of the painted Second Style walls from the newly excavated (since 1964) villa at Oplontis, which is thought to have belonged to the wife of Nero, reminds us that there are many secrets and masterpieces still to be discovered in Pompeii.

A smash hit like "Pompeii AD 79" is a tempting drawing card on an international and local level—it stimulates visitors to think of visiting the exhibit's country of origin and lures thousands of first-time visitors to the host museum. "Pompeii AD 79" explains and educates as it goes along—in museum jargon, an "interpretive museum exhibition."

It not only is an Italian-American cooperative venture, but it also influenced an inter-museum program in Boston. For the first time the Boston Museum of Fine Arts and the Museum of Science coordinated complementing exhibits with the Museum of Science concentrating on the geological aspects of Pompeii. The Italian-American ties multiplied as a 2-to-3-ton piece of volcanic rock from the slopes of Vesuvius was sent to the Museum of Science.

Like gilding the lily, the treasures themselves are put in clearer perspective through an outstanding two-volume exhibition catalogue as well as lectures, slide tapes, and audio tour. Visitors leave the show with a fascination for Pompeii and glorious memories of the portrait busts, bronze statuettes, household objects, gladiator equipment. But long after the Pompeii exhibit has gone home, the enthusiastic cultural reaction that remains will no doubt set more and more governments, museums, and cultural institutions to think, "Let's put the show on the road."

"Science and art belong to the whole world, and before them vanish the barriers of nationality."

Johann Wolfgang von Goethe

*"All passes. Art alone / Enduring stays to us; /
The Bust outlasts the throne,— / The Coin, Tiberius."*

Théophile Gautier

A COMECON JOURNEY

Looking West from Eastern Europe

NORA BELOFF, *former political correspondent for* The *London* Observer *and author of* The General Says No *and other Common Market studies*

EC COMMISSION PRESIDENT ROY JENKINS' BOLD PROJECT for a Eurocurrency has, so far, received a cool reception from most leaders in the Community countries. But the proposal is ably—indeed keenly—defended by Dr. Janos Fekete, deputy-president of the National Bank of Hungary, I was startled to hear during my recent tour of the Communist capitals.

"Mr. Jenkins is quite right," Fekete told me when we met in Budapest. "The Europeans cannot develop a stable and expanding economy as long as they continue relying for their business on the widely fluctuating dollar." He conceded there could only be gradual progress towards his ideal of an internationally stable exchange market and suggested that meanwhile it would help to create six separate regional monetary zones: the Western hemisphere, the European Community, Japan, the Organization of Petroleum Exporting Countries (OPEC), the Third World, and the Council for Mutual Economic Assistance (Comecon)—that is, the Communist bloc which includes the Soviet Union, Poland, Czechoslovakia, Hungary, Rumania, Bulgaria, East Germany, Mongolia, and Cuba (the tour I completed included all the capitals except Havanna and Ulan Bator).

Then Rumanian Foreign Minister and acting President of the Comecon Council of Ministers Miahi Marinescu (left), with Belgian Foreign Minister Henri Simonet, said he was "snubbed" in Brussels last fall.

Fekete looked forward to a time when these separate systems would be linked "through a golden gate": that is through a fixed value calculated in gold. He was not suggesting going back to the old gold standard, when currencies could be converted into golden coins; only that gold should be the measuring rod.

This report on how the Comecon countries see the European Community thus starts with a positive declaration of approval, but I should make two immediate reservations. The first is that at the beginning of our talk Fekete insisted he was speaking neither for his bank nor for his Government, still less for the Communist bloc, which he did not need to tell me takes its lead from Moscow. On the other hand, mutual friends had told me that Fekete is a friend of Soviet Premier Aleksei Kosygin and that he frequently commutes from Budapest to the Kremlin. His colleagues at the bank told me he had turned down an offer to become the head of the Comecon International Investment Bank. But whether or not there is some private Soviet approval for Fekete's views, I found no indication that the Soviets were ready to loosen their direct control over their dealings with Comecon countries. Even if they agree with Fekete that this system "prevents the optimal level of trade" inside the group, they may well be willing to pay the price in order to preserve central control.

The second reservation I should make is that—in the whole of the six-week tour during which I visited the Comecon headquarters in Moscow (a taller, thinner, and cheaper looking version of the curved glass-and-steel building housing the EC Commission) and also discussed trade and finance in all seven capitals—the Fekete comment was the only favorable remark I heard about any Community initiative.

Comecon's modern headquarters in Moscow resembles the Community's Berlaymont. © I. Denisenko, courtesy USSR Embassy, Washington

There have certainly been basic changes in the Soviet-EC relationship since the 1960's. Then the whole subject was taboo: The Russians still hoped that if they withheld recognition the Community might wither away. Now they and all their partners recognize that the Community exercises big commercial clout and has serious political ambitions. Officially or unofficially, all Comecon countries have had to have dealings with Brussels, and it was over the fishery dispute that the Russians themselves ended their boycott. It is now agreed that within the next few months the two European groups should start negotiating formal arrangements.

BUT, THOUGH THE EUROPEAN COMMUNITY is admitted to be part of the scene, nothing can prevent its critics from writing their own scenario. At the offices of *Pravda,* the Soviet Union's only national morning paper, I was told that when the then Rumanian Foreign Minister, acting president of the Comecon Council of Ministers, had gone to Brussels last autumn he had been "insulted and humiliated." Foreign Minister Marinescu, who went to discuss opening official relations, had been received by the Belgian EC Council President and then, when he had wanted to discuss tariffs and quotas, he had been left alone with the senior members of the EC Commission. As I tried to point out to the *Pravda* editor in charge of informing the Soviet public about Western Europe, the governments of EC countries have signed a treaty transferring power over these subjects to a central authority. He was adamant: An official is a lower form of life than a minister. Marinescu had been degraded.

Once I got to Bucharest, the account of the Marinescu visit was quite different. None of the many officials who received me felt that their Foreign Minister had been in any way snubbed. Their major grievance against the Community was that they had been improperly rewarded for the fact that, even before the Soviets had authorized contacts, the Rumanians had been the first to initiate direct talks. "Our economic relations have developed favorably," said a senior member of the Foreign Ministry, "but our recent efforts to diversify and develop our trade have been very disappointing. It has certainly not reached its optimal level."

All the Comecon countries complained of increasing protectionism and said that the Common Market was increasingly inaccessible. Sudden interruptions in trade and impositions of bans were described as "brutal" and "catastrophic." In East Berlin there were protestations over paying 20 per cent more on imports such as glass, textiles, or engineering products.

Comecon does its internal trade in commodities rather than in money, and prices are generally fixed without regard to the costs of production. In this way quotas and discrimination are part of the system. Yet the members expect free and fair competition in their dealings with the free enterprise world.

I learned two lessons during my trip: first, that you cannot generalize about Comecon, and it is highly misleading to treat it as an economic community in the Western sense of the word; second, several Comecon countries object to being designated as part of Eastern Europe. This is a convenient label, but the Czechs particularly insist they belong to the Central, not to the Eastern, European tradition. My political bias had so superimposed itself on my geographical knowledge that I had to look on the map to remind myself that the Czechs were right: Prague is well to the west of Vienna.

My journey began in Moscow, which has a basic and logical enmity towards the Community, set up, as the Soviets remember, by Jean Monnet and the other "founding fathers" with the hope that it would prove a pole of attraction to the other parts of Europe. When the Soviets agreed to authorize a joint Comecon approach, it was principally because this was preferable to having individual Comecon members make their own contacts with the risk they might get sucked into the Western economic and political system.

The second reason for abandoning the boycott was the hope they might prevent the European Community from advancing towards its initial federal goal of a United States of Europe. Within the Comecon organization the Secretariat is specifically debarred from exercising any supranational power. If the EC Commission could be relegated likewise to the job of arranging meetings and carrying out orders—as some EC members might welcome—the Russians would have far less to fear.

Outside Moscow I found the hostility less pronounced. It was easy to imagine that in a militarily less divided world several East European countries might be candidates for EC membership. In practice this is of course impossible. And in Warsaw even critics of the regime argued that the Community which claims to be "European" is in fact hardening the division between itself and other equally European nations outside. Most of the smaller Comecon partners would like to transact at least half their business outside the Comecon group. They are wondering whether the Community will not shut them out of their most fruitful hard currency markets.

Things are particularly difficult for Poland. After the 1971 disturbances the Soviets authorized the Polish leaders to borrow heavily in the West in order to raise Polish living standards and appease the discontent. Now borrowing has become a habit, the debts have piled up, and some of them are coming to maturity. The Poles are sending out signals to the Community that unless the West provides more and longer-term credit, they may be forced into a seige economy and total dependence on Moscow.

Despite the essential differences between the two communities, there is a case for encouraging a bilateral arrangement. Hungarians, Poles, and Rumanians seem to think that the Russians might be persuaded to negotiate "an umbrella agreement" between the Community and Comecon, meeting at ministerial level and so clear the way for individual Comecon countries to do their business, in their own national interests, with the EC Commission.

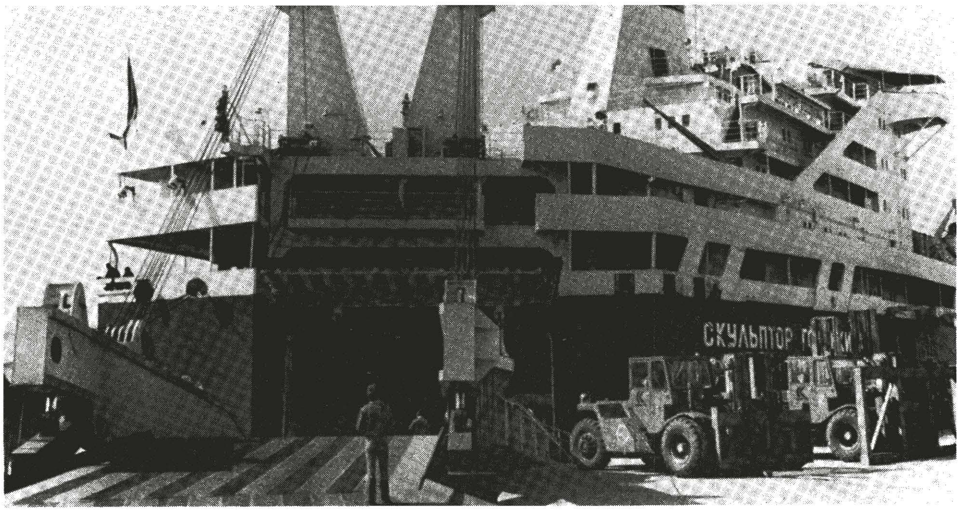
The Community also needs to consider offsetting the caricature of itself which appears in all the Communist press. Western radio is audible everywhere, and in several Comecon regions near the border people can, and generally do, tune into Western television. But the foreign services are mainly German, English, or American and fail to provide any information about the Community's social and overseas activities. In the Western news bulletins the European Community is only mentioned when there is a punch-up between its members or between itself and the Americans. This may seem unfair in Brussels. It must be a comfort to the Russians.

COMECON SHIPPING

Walking round the ports of Hamburg, Rotterdam, Antwerp, and London, one is struck by the number of merchant ships carrying the flag of Comecon (Council for Mutual Economic Aid) countries. In the dockside bars one is likely to find Russian sailors sipping vodka as well as Poles and East Germans. Similarly shopkeepers have added a few words of Russian to their already extensive vocabulary to cater to the growing number of customers from Eastern Europe.

The north German seaports have witnessed the biggest increase in Comecon shipping. Between 1970 and 1974 there was a 74 per cent increase in the amount of trade handled by Comecon vessels, mainly from the Soviet Union, Poland, and East Germany. Other Community ports further from the Baltic have received a steadily growing amount of Comecon shipping. Between 1975 and 1976 the amount of traffic handled by Comecon ships at Antwerp rose by 28 per cent from 5.2 million to 6.7 million tons. This was partly due to major grain exports to the Soviet Union.

The rapid growth of East European merchant shipping is seen as a major threat to EC merchant fleets, especially as regards European trade. Not only are Western shipping companies in danger of being forced out of business, but the Community could lose control of handling its foreign trade. The concern is all the stronger because it is claimed that the growing Comecon domination is due to unfair



European shippers aren't the only ones put out with Russian shipping companies. Here Maritime Union members, angry about the cheap Russian transport of 400 German buses to the United States, picket the Skulptor Golubkina *docked at the Port of Houston, Texas, last March.* UPI

trading practices, notably cut-rate tariffs that bear little relation to market conditions.

Although the Comecon merchant fleet still only accounts for 7.4 per cent of the world fleet, it already dominates bilateral trade with certain EC countries to an alarming extent. For instance, Comecon vessels carry 95 per cent of the bilateral sea trade with the Netherlands. Russian ships alone carry 83 per cent of the bilateral Belgian trade, 75 per cent of the bilateral German trade, and 64 per cent of the bilateral British trade.

Comecon shipping has also captured a large share of EC sea trade with third countries. For instance it handles 35 per cent of the freight transported between northern Europe and the Mediterranean and 25 per cent of the freight carried between northern Europe and South America.

In 1976 the Comecon merchant fleet totaled 27.6 million tons, of which the Soviet Union accounted for 20.7 million tons. The Polish fleet totaled 3.3 million tons; the East German fleet, 1.4 million tons. The Russians now have the sixth largest merchant fleet in the world, including the largest number of general cargo vessels. Between 1976 and 1980 the Russian fleet will be increased by 20 per cent with emphasis on specialized bulk cargo, container, and roll-on/roll-off ships.

What is the reason for the success of Comecon shipping? Basically it is due to systematic and large-scale price undercutting. By charging up to 40 per cent less, they have been able to capture a dominant share of the European shipping trade. This has been possible because of the fundamental difference between the communist and capitalist economic systems. Comecon shipping companies are state monopolies, and their rates are fixed according to political rather than economic criteria. The state pays the shipping insurance premiums and covers all losses. Sailors' salaries are also only about one-fifth of their Western counterparts, being little over $100 monthly. The state also covers most of the social security charges, a major burden in some EC countries. Other advantages enjoyed by Comecon companies are reduced port duties and both direct and indirect subsidies.

The political authorities in the Planning Ministries take all major pricing and investment decisions, and the role of the shipping companies is limited to market promotion, fleet deployment, and labor management. The Comecon shipping strategy has been to monopolize both the import and export trade and to capture the lion's share of trade between third countries so as to earn valuable foreign exchange. There are also strategic motives in guaranteeing the commercial independence of socialist countries as well as building up a fleet that may be converted for military uses.

It must, however, be pointed out that competition from Comecon shipping has helped keep cargo rates at a generally low level. Moreover, cheaper freight rates may also have encouraged Community exports. The Russians reject accusations of dumping and unfair competition—saying that the Community is using the current economic crisis as an excuse to take protectionist measures to eliminate unwelcome competition. They claim that their shipping companies respect Western trade conventions and that their success is due to the inherent superiority of the Communist economic system.

This has not prevented a number of EC countries, headed by Germany, the Netherlands, Denmark, and the United Kingdom, from expressing growing concern about the dangers of excessive Comecon shipping competition. EC Transport Ministers have agreed that the problem is steadily growing more serious; and as unilateral action by member states has so far proved ineffective, Community action would therefore be needed. At present although the Community has a common trade policy, it does not have a common shipping policy, and the success of the Comecon countries has been partly due to the division among Community shipping companies. Because of the basic difference in the two economic systems, countermeasures based on comparative cost advantages have been ignored. Instead, the emphasis has been put on political measures as the best means of protecting Community shipping interests and insuring a balanced growth in trade.

First, there are measures based on existing agreements with Comecon countries. Existing bilateral agreements could be coordinated and an agreement possibly concluded at Community level. As the most-favored-nation clause has proved ineffective, it could be replaced by a more precise clause guaranteeing equal treatment in bilateral maritime transport. This would cover freight allocation, commercially viable tariffs, and payment in convertible currencies. It would also cover all imports and exports—thus eliminating the inequality of the FOB and CIF system practiced by the Russians. The activities of Comecon shipping agencies would also be more strictly controlled.

Secondly, there are measures based on international agreements. Specific shipping clauses could be introduced in trade and cooperation agreements guaranteeing EC shipping companies a fair share of shipping trade. Although against the principles of free trade, it would be justifiable because of the basic difference in the two economic systems. The United Nations Conference on Trade and Development Code of Conduct for Shipping could also be implemented. This provides for a sharing of sea traffic on a 40-40-20 basis—the idea being that the two countries directly involved would have equal shares and the remainder would be reserved for ships from third countries.

Thirdly, various unilateral measures could be taken by the Community. Terms of shipment could be modified to enable Community importers to choose their shipping company. Comecon shipping agencies in EC member states could be made to respect a code of conduct covering both shipping contracts and tariffs. There would be no danger of retaliation, since there are no EC shipping agencies established in Comecon countries. Quotas could be introduced to limit the amount of Community trade carried by East European vessels. Such a system has already been introduced for air transport. An import levy on goods imported by sea could be introduced. Unlike most other EC industries, shipping is not protected by a common external tariff.

Finally, EC member states could coordinate national countermeasures. At the moment member states are cautious about taking unilateral action because they are afraid that traffic would be diverted to the ports of other member states. Joint action would also convince the Comecon countries just how seriously the Community considers the problem.

Peter Blackburn, British freelance journalist based in Brussels

around THE capitals

London

The "Mother of Parliaments" still isn't sure whether the live radio broadcasting of debates is a boon or a noose. Since the microphones were switched on this spring, the experiment's success has been qualified. Part of the problem is that many places in Britain cannot receive well, if at all, VHF transmissions. When the British Broadcasting Company (BBC) took over the medium-wave service of Radio Four, its primary nationwide network, for three hours of prime evening time to give live coverage to the Commons debate on a controversial nuclear fuel reprocessing plant, it was careful to advertise the switch. To no avail.

The listening public howled. Millions were furious at being unable to hear "The Archers," Britain's longest-running radio soap opera, or "The Monday Play." Even worse was the very first afternoon of live broadcasting, when the Prime Minister's question time bumped evergreen "Listen With Mother." The toddler tantrums are still ringing in Auntie Beeb's ears.

Newspaper pundits have dubbed the parliamentary broadcasts Radio Rhubarb—a swipe at the shallowness of many orations. From the members' perch, flaws abound. Many are unhappy that broadcasters seize upon their untoward and insulting remarks, which fly with some frequency in a Commons still searching for debaters in the mold of Fox, Pitt, or Churchill. One Conservative member of Parliament, John Stokes, thinks broadcasting has made "the greatest debating chamber in the world" into a mere branch of show business.

If radio is controversial, television is regarded with outright trepidation. Some members doggedly want to pull out all stops and bring in the cameras. Others retort they might expose a half-empty chamber and give voters the wrong idea about their elected representatives at Westminster. Members would have to watch their posture on the leather benches and keep their feet on the floor. Everyone would have to stay awake. A half-empty chamber, in fact, reflects good

attendance. More often it is less than 25 per cent full, its members not playing hookey but toiling in committee rooms or their offices.

The onset of summer in Britain has brought statisticians into bloom with reams of figures about the British figure. It seems the nation's eating and drinking habits have shifted well away from tradition over the past four decades. The average Briton is eating less bacon for breakfast, less roast beef at Sunday lunch, drinking more coffee and less tea. More wine and spirits are drunk proportionally than beer. The average British diet is far less starchy than just after World War II, and the energy value of daily food has slipped from 3,050 calories to 2,930. But total calorie level remains much higher than Britons need because the population is older and less active.

The United Kingdom now produces 54 per cent of its food requirements compared with about one-third before the war. Britons are eating only two-thirds as much fish, a reflection of rising prices, and 32 per cent less butter, a bow to health consciousness. Tea consumption fell from 4.2 kilograms per head in 1938 to 3.7 kilograms in 1977. Coffee consumption rose from 0.3 kilograms before the war to 2.1 kilograms two years ago. Beer consumption rose 11 per cent over 40 years to 117.8 liters annually in 1977, while spirits consumption increased 150 per cent to 6.3 liters per person and annual wine consumption trebeled to 6.3 liters a head. Britons are eating 16 per cent less roast beef than before the war but twice as much pork and five times as much poultry meat.

The spending power of Britain's children is now almost 300 million pounds a year, but inflation hasn't spared them. Before the war a shilling a week was considered reasonable pocket money for an 18-year-old boy. Now the average 16-year-old gets more than 1 pound a week—with some justification. Between 1974 and 1977 the price of a candy bar or an ice cream stick soared 66 per cent, the cost of a soft drink by almost as much, and the tariff for toffees, a British child's staple sweet, by fully 100 per cent.

—PETER J. SHAW

Copenhagen

There are signs that the attitudes of the young in Denmark are changing. Marxism is no longer the undisputed ideological vanguard, and Danish Marxists have in fact been forced to fight their first serious youth rebellion.

The rebels are not propagating traditional conservative values in all fields. But they are focusing on the individual, and especially the rights of the individual in a group. The most enlightening case was provided by the Tvind Schools. A few months ago, a small group of students wrote an article in a prominent left-wing intellectual newspaper, claiming that they were being manipulated by teachers at the school.

This was heresy of the first order. The Tvind Schools are by their own definition egalitarian socialist societies, with all decision-making on a group basis. Teachers and students have no private property, at least in principle, and life is also in other ways more reminiscent of religious than political fervor. Sex is discouraged, because it saps energy; food is vegetarian; letters are opened, and press coverage is discouraged.

The officially nonexistent leaders of the schools deserve the nickname "political Jesuits." They have turned the Tvind Schools into a highly successful business operation, a successful dabbler in alternative energy—they have just finished the largest windmill in Scandinavia—and until recently the schools were a successful Marxist training center, independent of the left-wing parties, but exerting considerable influence on and through them.

Press coverage was, until the recent student criticism, negligible. Partly because the

Tvind Schools accepted no visiting newsmen without group censure of their stories before publication. Partly because students accepted group decisions not to speak to the press. Now they do.

There are other signs that youth attitudes are changing, especially in Danish schools. Students who fail examinations in high school ask to be allowed an extra year of study to achieve the grades required by universities and other institutions. Pupils in the lower grades of Danish schools have complained that their homework is too easy, and they have demanded more challenging exercises. At the university students are now studying hard to get high marks. There still are remnants of the student rebellion of the 1960's, but they are no longer supported by the majority of the students.

One of the reasons for the change is obvious. To get an education, and to get a job, is an individual achievement today. For the first time in Danish history there is a general *numerous clausus* system—all university education is now regulated by a quota system. Students with poor marks have very little choice, if they get in at all.

On the labor market individual performance is also decisive. Most employers distrust the labor exchanges, and advertise on their own, when they need labor. And with the present unemployment, they can pick and choose.

—LEIF BECK FALLESEN

Luxembourg

If you are one of those people who think of Luxembourg as a cheap and congenial stopover on flights from Europe to the United States, you may be right—but you would miss a lot else. The tourist who does Luxembourg in a day sees a city of historic and scenic charm and no doubt wonders at its parade of banks, thinking perhaps that these are its major claim to international importance. They certainly matter, but what you will not see in the capital is the real sinew of this tiny, significant country—in a word, steel.

And in Luxembourg the word for steel is ARBED, an acronym for Aciéries réunies de Burbach-Eich-Dudelange. Look at a map of steel-making processes in Europe and you will see a thick belt stretching from southern Belgium to the German Saarland and embracing northern France and the whole of Luxembourg. At its heart is this extraordinary Luxembourg company, commanding some 90 per cent of its own country's industry and major shares in those of its neighbors as well. "ARBED is to steel what Gaston Thorn is to the Common Market," A Luxembourg politician recently said.

But to speak of ARBED is really, in a sense, to speak of Emmanuel Tesch, the 57-year-old former metallurgy and engineering student who now chairs the Luxembourg giant. Unlike Thorn, his country's Prime Minister, he is not a single-minded man. He is not a health freak, he does not take telephones on the beach with him, he does not confine his reading to industrial or political dossiers. He calls himself a "doer" though, and no one examining ARBED's achievements in the past few years would dispute that. As head of the world's tenth largest steel producer, he possesses perhaps the most aggressive and imaginative mind in the steel industry in Europe. Certainly the most outward-looking—but that goes without saying given the tiny capacity of his home market. More than any other country, Luxembourg has had to depend on exports for the survival and fitness of its steel industry.

So when the Germans found no apparent answer to the growing recession in the Saarland steel industry, it was Tesch who stepped in and bought out the half-share he did not already own in Rochling-Burbach backed by previous deals made with German steel and oil-trading groups. It was a deal that astonished European businessmen by its timing and neatness—and terms. He won financial backing from the local government in Germany and moral support from the EC Commission—neither of them a walkover.

Like all steel companies in Europe, ARBED is in trouble at the moment. It lost $142 million last year, three times as much as in 1976. Cynics in Luxembourg say that Tesch wants to export unemployment to his European neighbors. When you recall that his company employs some 23,000 in Luxembourg (15 per cent of the total economically active population) and that its turnover is roughly half of Luxembourg's whole gross national product, then you can sense the political pressures on him to keep the Luxembourgers at work. His collapse could ruin a country.

But the EC steel policy—to preserve minimum selling prices and limit cheap imports—is helping. Tesch is not frankly as worried by the short-term as he is by the industry's outlook for the 1980's. His record so far reassures his countrymen—and while they may be the least in number, they are not the last in understanding.

—ALAN OSBORN

Paris

French political pundits may have wondered where they would focus their considerable analytical energies when the left, to everyone's surprise, lost the recent legislative elections. Fortunately the French Communist Party has provided one answer. Within hours of the rout, believed by many to have been deliberately engineered by the Party leadership, Communist members began an earnest, then bitter, and increasingly open debate that has developed into the most serious crisis to hit the Party since 1956, when Nikita Khrushchev made his "de-Stalinization" speech before the Twentieth Party Congress and the Russians invaded Hungary.

The first inklings of discontent surfaced when the Communist Party weekly, *Paris Hebdo,* reported on a meeting of some Parisian militants who got together the day after the election to discuss the campaign. As the group was being read the routine leadership line, which placed the entire blame for the defeat of the left on the Socialist Party, a campaign worker suddenly blurted: "It's scandalous that comrades cannot express themselves here." The atmosphere became charged. In the rush of comment that followed this outburst, members vented their


Georges Marchais

frustration with the leadership practice of presenting the rank and file with the Party line without advance consultation, debate, or even warning. The dangers of reporting such incidents are clear. *Paris Hebdo* has since closed down because, it was explained, "of financial reasons." A few days later, at a similar meeting of the traditionally contentious Fifth Arrondissement section, the Party report was laughed at by listeners, and the speaker eventually broke into wide smiles himself.

The questioning of authority began well before the elections. At Paris cell meetings in early October, shortly after renegotiations between Socialists and Communists on common government programs, the membership was uniformly bewildered and demoralized. At first the Party's chief Georges Marchais acknowledged the dissidence by seeming to approve of it. "The entire Party is now going through an unprecedented debate, and I say, frankly, we welcome it." He has since changed his mind. The scope of the argument has widened, and the number of well-known Party figures involved has increased.

The most dramatic evidence of dissent has been a spate of articles by Party luminaries that appeared in *Le Monde* after the Party's own daily, *L'Humanité,* refused their publication. The first was a three-part series by the well-known liberal Communist intellectual Jean Elleinstein. The second was a four-part series (intellectuals in France, both right and left, tend to be windy) by the hard-line philosopher Louis Althusser.

They have taken issue with the Party direction on three main points. The first and most important is the lack of democracy in the Party organization. Althusser was particularly severe. "More than anything," he wrote, "the leadership today fears the exchange of experiences and analyses among its militants. More than ever it favors fragmentation, technique 'Number One' to suffocate the reactions of its followers." Marchais and his four or five closest collaborators are accused of rule by secrecy and fiat.

A second criticism is aimed at the continued unwillingness of the French Party to disown the Soviet Union's policies abroad and its undemocratic structure at home. Says Elleinstein, "The Soviet Union is not a model . . . of socialism, it is an anti-model." He adds, "Soviet foreign policy is only rarely criticized, in respect to Africa or China, for example." Finally, these critics point out, the Party has been unable to redefine itself to reflect the changed nature of France. Elleinstein notes that many French workers now own their own homes, even second country houses. They are better educated than their parents and are made uncomfortable by the "workers" language used by Party orators. They are also suspicious that the Party's insistence that "the rich must pay" is a return to a now inappropriate form of class warfare. Such outmoded tactics, adds Elleinstein, only serve to narrow the Party's electoral base and its appeal.

The Party's central committee meeting, held at the end of April to sum up the campaign results, barely mentioned the barrage of criticism. Instead, Georges Marchais insisted that the Party bore "no responsibility in the left's defeat." He went on to reject any possibility of internal reform or challenge to the principle of "democratic centralism." "To call it into question," he said, "would be the surest way to weaken the Party. One cannot initiate a sort of permanent discussion on everything in the Party and its press." He dismissed the intellectuals' attack as unrealistic: "It is easier to carry on a monologue behind a desk . . . sheltered from any discussion with comrades. . . ." Not surprisingly his three-hour report received the unanimous approval of the 120-member central committee.

Under the rules governing Party discipline, the vote should have ended all discussion. Nonetheless, the debate refuses to go away. *Le Monde* says that since the controversy began it has received over 1,000 letters, most of them critical of Party policy. Recently some 300 Communist intellectuals, teachers, trade unionists, and workers from cells all over France signed a statement again calling for more democracy in the Party's decision-making process. What made the document unusual was not the content but the fact that such horizontal contact between members of different cells is strictly prohibited by the Party.

The Party's stance has taken a certain toll. All year long in factory elections the Communist-led union, the CGT, has been losing as much as 10 per cent of its representation on worker committees. Cell meetings are reportedly poorly attended, and the traditional May First parade was a straggling flop.

During previous periods of crisis the Party has retreated into a seige mentality to wait for internal disputes to die down. In 1956 and in 1968, after the Russian invasion of Czechoslovakia, several outspoken critics were read out of the Party. This could happen again. There is also speculation that Marchais might be replaced, but so far no chief in French Party history has ever been forced out of office. More likely, the Party will find itself either too slow or too divided to adapt to the evolving nature of French politics. The recent elections demonstrated that the French voter is not interested in the ideological extremes of right or left. Thus it is probable that, barring some severe economic crisis, Party strength will continue the gradual but steady decline it has registered since the end of World War II.

—PATRICIA H. PAINTON

The Hague

You'd think a country with one of the strongest currencies in Europe, no balance of payments worries, and an enviable 6 per cent inflation rate could find something to smile about at the moment. But not a bit of it. I put the point to a Dutch banker recently and got a Calvinistic scowl in reply. "Try telling that to my daughter, who can't find a job six months out of secretarial school," he said.

The new Dutch curse, in short, is unemployment or, perhaps more truthfully, the threat of it. Holland's jobless total has been relatively high in recent years, but the impact has been cushioned by the country's sophisticated and comprehensive social security system. But now the Dutch have a Government sworn to halt, if not undo, the lavish national benefits established by years of socialist administration.

The mixture of sluggish economic growth, growing numbers of school-leavers, and limited social cushion could, in the opinion of some Dutch commentators, become explosive. Wage agreements so far this year have proved unusually troublesome. The governing coalition has yet to prove its fortitude in the face of a serious crisis. All along, the real trial of the center-right coalition Government has been seen in the arena of trade union relations.

Holland's historical social patterns feed into the situation. Women's lib came later here. Only fairly recently have women begun to demand jobs, but the pattern of the Dutch economy has made it difficult to produce jobs. There is Philips, of course, which can presumably employ part-timers on mass production as efficiently as in Taiwan or Korea or anywhere else. But on balance one has the impression that a natural gas-based economy does not offer the scope for mopping up otherwise unemployed that do more conventionally based systems.

A clear and obvious response awaits the Government, namely domestic reflation. The Dutch have been urged to pursue it by the Organization for Economic Cooperation and Development in Paris. In Brussels the EC Commission believes that the Netherlands comes second only to Germany in its scope for economic expansion.

Dutch cynics say that the Government will act only when it can do so under an EC umbrella, thus lending a Community gloss to actions it would almost certainly have to take anyway. Certainly the Dutch have said they will reflate their economy this year. But if they can be seen to be doing so as a spurt to a concerted EC reflation effort—why, what kudos they might gain: At this time of writing the Germans are still proving stubborn over reflation in the interests of the Community, and a Dutch initiative could work wonders. It surely is only a matter of timing.

—ALAN OSBORN

Bonn

In the first test of German public opinion since October 1976, when Chancellor Helmut Schmidt's coalition of Social Democrats (SPD), and Free Democrats (FDP) was narrowly returned to office, two state elections in early June have upset and possibly even overturned the comfortable *modus vivendi* of the political parties.

In Lower Saxony and in the city-state of Hamburg, the voters deserted the Free Democrats in such numbers that the Party not only lost its place as partner in the coalition government in each state, but the Free Democrats did not even manage to secure 5 per cent of the popular vote—the threshold below which no political party in Germany can qualify for "list" seats in the state parliament or in the *Bundestag* (and FDP candidates seldom manage to win direct election, the second method under the split German voting system of getting into legislative office).

German policemen honor three colleagues killed by terrorists during kidnapping of Hanns-Martin Schleyer. UPI

Although the state election results do not directly affect the federal standing of the FDP or its value to Schmidt and the Social Democrats as coalition partners in Bonn, the rebuff is still hurting. The party leader—the normally buoyant Hans-Dietrich Genscher, who serves as foreign minister—has scarcely bothered to hide his dismay. For his party has achieved its singular record in German politics, of coalescing with Social Democrats and Christian Democrats alike as the opportunity arose, mainly by nimble footwork.

As a result, the "liberal" title that the Party proudly claims has had to mean all things to all men, and the Free Democrats are now seen by most Germans as more opportunists and pragmatists than idealists. One of its more lofty-minded leaders, Interior Minister Werner Maihofer, suffered badly in office by having to carry the can for illegal intelligence agency activities, hated by true liberals, as well as for the bungling by the police of a hot tip that might have rescued Dr. Hanns-Martin Schleyer from his kidnappers—a failing bitterly attacked by the entire political spectrum. And thus Maihofer resigned on June 7.

On June 4 it clearly struck many as anomalous that while FDP candidates in Hamburg were appealing for a coalition with the Social Democrats (as on the federal model) to be renewed, their colleagues across the state line in Lower Saxony were campaigning for re-election at the side of the Christian Democrats. Small wonder, perhaps, that many voters in Lower Saxony, especially, who felt strongly about the proposed location of a nuclear waste dump in salt caverns in the state, should have given their support in protest to the environmentalist "green" parties which conducted an effective one-issue campaign (though they failed to top the 5 per cent mark and have thus won no seats in the new assembly).

With a longer record of holding office in Bonn than either of the two big parties, has the FDP's long streak of good luck broken? Genscher and his party colleagues are now looking nervously at the next two state elections, that in Hesse on October 8 and that in Bavaria a week later. Failure to reach the 5 per cent threshold in either could be calamitous, though especially so in Hesse. There the FDP shares power with the SPD and is committed to fighting with it for reelection against a right-wing state Christian Democrat leader, Alfred Dregger, who has hopes of heading his party in the next federal election if he can win office in his home state.

Chancellor Schmidt, though he has often had his differences with Genscher, can only be alarmed at the FDP's discomfiture. The Party has often been a useful counterweight for the Chancellor against his own left-wing colleagues. And the FDP representatives in the Lower Saxony government used to act as a mediating force in the *Bundesrat*, or federal Upper House, in which the Christian Democrats now have a clear and unalloyed majority. That can only make it harder for the Bonn Government to get legislation past the Upper House. Helmut Kohl, the moderate national leader of the Christian Democrats, may also suffer for having advocated that his party ought to aim at coaxing the Free Democrats away from the Social Democrats and into the federal coalition along the lines of that in Lower Saxony—an option that will hardly tempt the doubters in the Christian Democratic Union now.

Yet it would be unwise to write off the FDP, for it has often shown amazing powers of recovery. German voters tend to be leery of extremes, hence the success with which the liberals have often presented themselves as a "brake" on whichever major party they happened to be allied with at the time. What the FDP now seems to need is a pause—and it can't be a long one—in which to rediscover what it wants to do with power, apart from hold on to it.

—ADRIAN DICKS

Dublin

Education in Ireland, in spite of its great importance, has tended to be politically "off limits." It features in few political debates, it has not been the subject of any legislation for almost a decade, and it has provoked no reformist zeal in any elected representative of any of the three main parties.

The reason is simple: Education is an area of human activity where the arm of the Catholic Church is long and muscular. And while the bureaucrats in the Department of Education grind away, ostensibly administering the huge machinery of primary, secondary, and third level education, the real power is elsewhere. And it would be a foolish minister for education who challenged this status quo.

In this respect John Wilson, now completing his first year as minister, is not foolish. In the opposition he went through the necessary explosions of fire and brimstone about what needed to be done. In power, though he is still colorful and noisy, the zeal for change has melted away. Even though he pays the piper a current educational bill of 350 million pounds, other voices call the tune.

There is growing challenge to this, however, and it came out pointedly at the end of May to coincide with a major parliamentary debate on education. It was Dale Tussing's "Report: Irish Educational Expenditure, Past, Present and Future." And it may well become the force that drives an Irish education minister, for the first time, to take unprecedented administrative control of a system that up to now has always turned to the Church for major decisions.

The Tussing Report, as its title suggests, is about money. And it talks of "explosive" growth in educational expenditure, with first, second, and third level education all doubling in cost in the 12-year period, 1974 to 1986.

Even this could turn out to be a conservative estimate. Educational expenditure in 1978 showed a 20 per cent increase over the previous year, at a time when general inflation had fallen back to 7 per cent. Dark threats of cutbacks in education have been made, on the grounds that educational expenditure is not employment creative, but these have to be countered by the fact that public demand for the sustaining of present levels across the board, with additional demands for improvements in specific areas, will be extremely difficult to ignore.

The outcome must be some form of confrontation between the State and the Church in order that the deployment of public money throughout the system be maximized. It has already begun in one area: that of community schools, a small-scale equivalent to the British comprehensive, where groups of much smaller independent secondary schools have come together to amalgamate into larger, more economically managed units.

Obviously, the key question of management structures came up, with parents and teachers asserting greater rights and the Catholic Church responding with behind-the-scenes pressure aimed at retaining control. This specific issue is still unresolved. It has been with us since the early Seventies, but none of the three ministers for education have so far wished to take on the Church and assert real political and secular authority.

Community schools are symptomatic of much deeper challenges that will also have to be taken up. The present minister, John Wilson, though he was vociferous when in opposition, is showing a marked reluctance to come to the real battleground. Most understandable, too. But the Tussing Report has marked out economic trends that cannot be ignored, and will not go away. The force of finance may well become more painful than the more traditional belt of the bishops' crosiers.

—BRUCE ARNOLD

Rome

Only weeks after the murder by the Red Brigades of Aldo Moro, President of Italy's Christian Democratic Party and one of Italy's most prominent politicians, most Italians are once again talking of soccer and vacation plans. The name of Moro is rarely heard. But politically the country is still reeling from the shock.

The impunity enjoyed by the terrorists—and, by implication, the inefficiency of the police, who during the two months of Moro's abduction failed to produce results in the biggest manhunt Italy has ever known—was driven home when the Red Brigades with grisly humor parked the small Renault containing the murdered politician in a side street in downtown Rome barely 100 yards away from the headquarters of Italy's Communist Party. Calling for increased vigilance to maintain law and order, the Communists, supporting the Government, appeared especially anxious to present an image of respectability.

The timing of Moro's murder came just five days before administrative elections which were to take place in some 250 cities and towns. The elections, which represented 10 per cent of the Italian populace, were considered a good sampling of the public mood in the wake of the Moro kidnapping.

As expected, the Christian Democrats, who for years have been losing ground to the left, surged ahead; with 42.7 per cent of the vote, they had gained nearly four points compared with their showing in parliamentary elections two years ago. The Socialists also gained four points, to obtain 13.3 per cent. The outcome for the Communists was less certain; nevertheless, they dropped back a dramatic 9 points from the national elections two years ago in which they won a whopping 35.6 per cent. Paradoxically, the Communists, despite their law-and-order platform, paid most of the price in public trust in these local elections; paradoxically, too, the other party to lose votes was the neo-Fascist at the other end of the political scale.

All other parties gained ground; the Socialists whose percentage shrank to 9 per cent two years ago, as voters were polarized between Christian Democrats and Communists, gained ground apparently from former Communist supporters disgruntled with the party's rubbing elbows with the Christian Democrats, as well as from backers of the Socialists' own lone stand in favor of saving Moro's life even at the expense of releasing a number of jailed terrorists.

If the Christian Democrat victory had been foreseen, the Communist defeat—or at least the extent of it—had not been. The Communists themselves admitted their surprise and attributed their poor showing not only to visceral feelings of the public toward the left in general caused by the Red Brigades' action, but also to lack of Christian Democratic loyalty in recognizing on a public level the support they had gotten from the Communists on the law-and-order issue. In a wave of self-criticism, they conceded that the main reason had been their own failure to explain the party's strategy clearly enough to the rank and file.

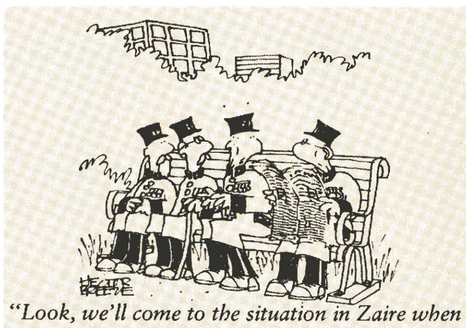
Security measures in Rome during manhunt for Aldo Moro's kidnappers. © Luigi Volpe, Sipa Press from Black Star

The future of the delicate balance of power between the two big parties is difficult to foresee. The administrative elections seem to have showed that the Christian Democrats have not been damaged by the support given them by the Communists. But whether the Communists themselves have lost credibility among their traditional, militant supporters by flanking the Christian Democrats may be another matter. Especially since the Christian Democrats no longer have the figure of Aldo Moro, the man who in many ways engineered the opening to the left.

—CHRISTINA LORD

Brussels

It used to be called the Belgian Congo, and Belgian schoolchildren are brought up on stories of intrepid Brussels-trained nuns venturing into the Congo's darkness to win the hearts and minds of primitive African tribes. Their successes are inscribed on the walls of churches throughout Belgium and on the memories of the ageing survivors of that distant colonial time.



"Look, we'll come to the situation in Zaire when we've finished talking about Mons." © *Punch*, London

Now its called Zaire, and many of its children have made Brussels their home and Belgium their country—by any standards their assimilation into European society has been remarkably smooth and trouble-free. Yet as the stricken refugees from Kolwezi unfolded their horrifying accounts at the Brussels airport in May, one could sense the barbârities of the past living again in the minds of countless Belgians.

But Belgium is linked to Zaire today by more than historical and emotional ties, powerful though they may be. The colonial relationship has blossomed into a far-reaching economic kinship. Virtually all the money and expertise that gave Zaire its industry came from Belgium. And the precious copper that results from it almost wholly lands in the Belgian port of Antwerp. Damage Zaire and you render an injury to Belgium itself.

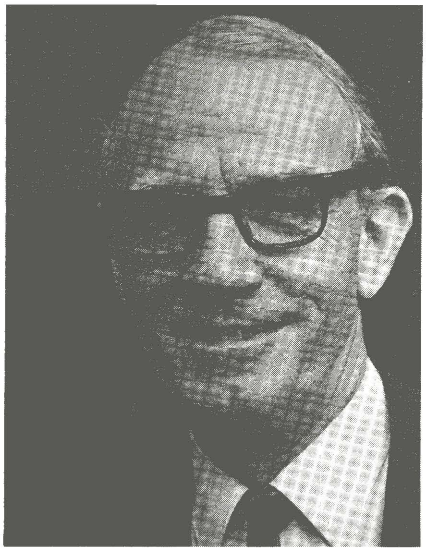
So runs the conventional view. And so you would think that if anybody was braced for the Shaba crisis it would have been the Belgian Government. The early rattle of gunfire must have resounded at the highest political levels in Brussels. If so, it must have been drowned in the noise of parliamentary infighting. The crisis, in short, took the fragile coalition of Prime Minister Leo Tindemans by surprise. He personally seemed willing to take the risk of prompt and decisive intervention to rescue the Belgians and allow the matter of implicit support for the Mobutu regime to be decided afterwards. But his Socialist coalition partners bridled. Any action the Belgians took should be wholly coordinated with that by other countries, they insisted. In other words, Belgium should not be seen as the lackey of Mobutu.

The result was a delayed and limited rescue operation that ran further adrift when the Belgians discovered they did not possess the necessary physical equipment to mount it in any case. There were further snags over the route. But by this time the French had moved, and the world was witness to the mortification of Belgium. The Government's claim to have put "humanitarian" aspects above all else was shamed by the lavish praise the returning Belgian refugees themselves bestowed on the French paratroopers.

The episode occurred after a string of disagreements between Tindemans and his Socialist partners over economic and industrial policy, and commentators were already beginning to wonder how long the coalition could last. The wires began buzzing with speculation about the resignation of Henri Simonet, the Socialist leader and foreign minister. But the time for that may have passed, at least on this particular issue.

—ALAN OSBORN

THE EC PRESIDENCY



K. B. ANDERSEN, *Danish foreign minister*

On July 1, it became the turn of the Federal Republic of Germany to assume the Presidency of the EC Council a term that will continue for the last six months of 1978. Here follows an assessment of the Presidency, held by Denmark, during this year's first six months.

The European Community involves cooperation of nine European nations, in other words, a broad regional cooperation, and it is therefore positively wrong to convey the impression that this cooperation can be split into six-month periods each bearing the stamp of its particular member state Presidency. So quite deliberately we did not strive for an explicitly "Danish" EC period from January 1 to June 30, 1978. What we wanted was to move the European cooperation another step forward.

Fortunately for Denmark, one of the small member states, progress in regional cooperation will usually be beneficial to our country as well. Obviously a small nation faces a number of problems, not least economic, that can be solved only through regional cooperation.

When we took over the Presidency, we made it our task to set priorities for certain issues and in that way contribute to their solution. To those who might consider this a modest goal, we would reply, first, that it is a realistic one and, second, that it is progress per se to stick to the regional European cooperation at a time when all countries are sorely tempted to adopt national emergency measures that are, however, no solutions at all.

The battle against unemployment was given top priority. For this reason, preparations for the April meeting of the European Council in Copenhagen aimed at adoption of a common strategy to reverse the unfortunate trend prevailing in the economic and social affairs of EC member states. Determined follow-up efforts have since been made, within such fields as economic, monetary, energy, and trade policies, in order to prepare for the next meeting of the European Council under Presidency of the Federal Republic of Germany.

Before assuming the Presidency we stated our intention to conduct an analysis of official subsidizing plans that tend to distort competition, within the Community itself as well as third countries with which the Community has concluded agreements. In response to a Danish request, the EC Commission compiled a report that was carefully reviewed at the meeting of the Council of Ministers in early June. The German Presidency has promised to pursue this matter assiduously.

The Community has been encouraged by the fact that one of the first acts of the three new democracies in southern Europe—Greece, Portugal, and Spain—was to proclaim their wish to become members of the Community. Democratic Europe obviously had a political interest in accepting their applications, although no one was blind to the economic problems involved. The Danish Presidency was able to achieve substantial progress in negotiations with Greece. At the June meeting of the Council of Ministers, the application of Portugal was approved, while Spain's application will be approved before the end of 1978.

Direct elections to the European Parliament have been on the agenda for several years. At the April European Council in Copenhagen it was agreed to hold these elections in June 1979. Thus a solution has been found to yet another major problem.

Concerning relations with third countries, negotiations were held with Japan with a view to expanded and more balanced trade. An important agreement was signed on the mutual trade between the Community and the People's Republic of China. Finally, at the June meeting of the Council of Ministers, initial talks were held on the premises on which the "Nine" will negotiate their new agreement with 53 developing countries, scheduled to enter into force in 1980.

The advances made by the international trade talks in recent months are in large measure the result of the efforts of the Community. A positive outcome of the talks will mean a serious blow to the protectionist trends the world over, which are clearly a threat to production and employment, notably in a small country like Denmark, which is heavily dependent on foreign trade. In this matter, as well as in several others, we have maintained the point of view that European cooperation must not be allowed to cause any confrontation with the United States.

Cooperation in foreign policy has also made headway during the Danish six-month term, although foreign policy cooperation falls outside the scope of the Treaty of Rome and its institutions. It is a cooperation of nine governments with complete independence for each country, but where all have recognized the greater possibility of international influence when allowed to speak with one voice.

The main topics of the foreign policy talks of the past six months were:

- The Belgrade follow-up meeting of the Conference on Security and Cooperation in Europe was the subject of excellent cooperation among the governments of the Nine. The Danish Presidency was able to create the basis of a final document in which all 35 participating states reconfirmed the Helsinki Final Act of 1975.
- Developments in Africa are a recurrent item on the agenda for the meetings of the EC foreign ministers. During the Danish term we continued studies of what economic and noneconomic measures may be agreed on with the aim of inducing the South African Government to abandon its inhuman apartheid policy. Other African items on the agenda were Namibia, Zimbabwe, and the Horn of Africa. There is universal agreement among the Nine that it is important not to link African issues to a particular East-West situation.
- As for the Middle East, the Nine have maintained their common posture, based on Security Council Resolution 242 of 1967. This posture was reaffirmed most recently in

the Danish Prime Minister's statement following the April meeting of the European Council.

- During the Danish six-month term we have discussed how the three new applicant countries—Greece, Portugal, and Spain—may progressively join EC political cooperation. We have also stressed the importance of not letting the Community's enlargement have any deteriorating effect on relations with third countries. At present this precaution is especially significant for the relationship with Turkey.

I have often been asked whether I find six months to be the right length of a Presidential term. To the best of my conviction the answer is "yes." With a shorter period it would not be possible to push ahead in the fields that the Presidency considers vital both for itself and for European cooperation. At the same time, however, the Presidency imposes such an enormous workload on the home-based staff of the member state's foreign service that it cannot be successfully handled for a longer period.

By and large, we think progress has been made in EC cooperation. Some may find that European cooperation is moving ahead at a rather slow pace. On the other hand, hardly any retrogression has been noted. And it should be recalled that it is a cooperation of nine independent states, some of which have twice in this century been pitted against each other in European conflicts that ultimately exploded into world wars. Against this background we must truly appreciate the fact that the very same countries are now seated around the negotiating table in a concerted effort to make a European contribution to the solution of today's and tomorrow's problems.

Direct Elections

Transcending "the Irish Problem"

JOHN HUME, *political advisor to Commissioner Richard Burke and candidate for the European Parliament*

Reactions to the overwhelming "yes" vote in the British referendum on entry into the European Community missed one very interesting and potentially hopeful factor that emerged from the results for one of Europe's most intractable and age-old divisions—the Irish problem. In that referendum the people of Northern Ireland for the first time ever had broken with their old, divided voting patterns and had united on the issue of European entry. In spite of strong opposition by traditionally powerful figures like Reverend Ian Paisley and other Unionist leaders, members of the majority Unionist group joined together with minority voters to say "yes" to entry into the European Community. The people of Northern Ireland had found common ground on the larger European stage. It is this fact that leads some of us to believe that the European Community has a major contribution to make towards a solution to the Northern Ireland problem.

One of the aspects of the Northern Ireland problem that has contributed most to the intractability of the divide has been its size. The citizens have always been divided on how it is to be governed. There have never been larger issues that could cross the divide and provide the opportunity to work together and build the trust necessary to ultimately heal the divisions that disfigure Northern Ireland society. Yet because of this divide and the serious upheaval, violence, and destruction resulting from it, Europe has in a sense passed by the people of Northern Ireland. There is fairly widespread ignorance of European issues and the effects and possibilities of European Community membership. This has been natural for a people preoccupied with immediate matters of life and death.

Now, however, the people of Northern Ireland are to go to the polls again on the European question. All the electors of the nine member states will vote on June 7, 1979, in the historic first European election. The people of Northern Ireland will be electing three members to represent them in the European Parliament. Unlike the British, the system of voting will be proportional representation, a system accurately reflecting the voters' intentions and ensuring representation of minorities.

The electoral campaign not only will be a major opportunity to educate and involve the voters in Northern Ireland in "larger" European problems but also will provide issues for the voters, traditionally on different sides, to unite. Agricultural problems, regional problems, the social fund, and many other issues so heavily influenced by EC policies are problems affecting both sides of the divide. Farmers, whether they be Catholic or Protestant, have the same problems and seek the same answers. The example of political leaders, elected to the European Parliament, dealing with issues of major importance and interest to the well-being of both sections of the divide, is bound to be part of a healing process. The working of common ground is one of the most effective ways of ending the old divisions.

The whole process will be greatly assisted by the provision of a European Community Information Office in Belfast. The decision to open one before the end of the year, welcomed by both sides in Northern Ireland, was recently announced by EC Commission President Roy Jenkins.

All of this will be in addition to the positive and constructive steps already taken under the aegis of the European Community, which provides a framework within which both the British and Irish Governments can jointly tackle the economic problems of border areas in Ireland without arousing the traditional suspicions about political subterfuge. The areas on both sides of the border in Ireland are among the most deprived and heavily unemployed in Europe. It makes sound common sense that border regions for the purpose of economic development should be treated as regions irrespective of the political frontier separating them.

Both Governments have agreed that a major part of their policy will be such economic cooperation, and already important first steps have been taken. Preliminary studies funded jointly by the Community and both British and Irish Governments have already taken place and important recommendations made. This process will be further enhanced, developed, and speeded up by a directly elected European Parliament with members from both parts of Ireland who will be anxious to work together to develop common policies to tackle common problems.

The European ideal was born out of the desperate conflict of two world wars, out of the desire to ensure that by building common institutions, European conflict will be ended forever. We in Northern Ireland have the same lesson to learn.

NEWS OF THE COMMUNITY

EXTERNAL

Venezuelan Office Opens

A new EC Commission office was inaugurated in Caracas, Venezuela, this spring.

EC Commission Vice President Wilhelm Haferkamp underlined the importance of the facility by journeying to Caracas for the occasion. He noted that Venezuela is a key nation for many reasons.

First, it is a functioning democracy and a leader in the economics and politics of both the Latin American continent and also in the complex of developing countries within the "North/South Dialogue." In addition, it is a leader in the Organization of Petroleum Exporting Countries (OPEC).

US-EC Consultations

It was decided during the latest round of semiannual US-EC consultations in late May to expand their scope by launching a new program of technological and research cooperation.

As in the past, the two sides covered several issues including energy, economic and monetary affairs, relations with developing countries, international trade, and various bilateral commercial topics.

At a follow-up press conference the two delegations' leaders said they had spent considerable time discussing preparations for the Bonn summit in July. They also discussed the Tokyo Round of trade and tariff negotiations drawing to a close in Geneva.

A main bilateral issue involved stabilizing the international steel market. Talks also touched on the problem of the US halt in issuing enriched uranium export licenses to the Community and Community plans to establish crisis-sector cartels.

The American delegation was led by US Undersecretary of State for Economic Affairs Richard Cooper and the EC delegation was headed by External Relations Commissioner Wilhelm Haferkamp.

EC-Japanese Banking Ties

The Community and Japan held several days of talks in early May aimed at seeking closer cooperation in banking and finance.

EC Commissioner Christopher Tugendhat asked Japanese authorities to ease existing restrictions on the operations of foreign banks in Japan. Although Japanese authorities said they could not respond immediately to the proposal, the matter would be studied.

During his five-day visit to Japan, Tugendhat also discussed closer monetary cooperation and consultation.

Chinese Deputy Visits

Deputy Vice Prime Minister of the People's Republic of China Ku Mu visited Brussels in mid-May.

Ku Mu is the highest-ranking official to visit the West since the installation of the new Chinese Government following the death of former Chairman Mao Tse Tung. It is also the first major follow-up to the recent commercial accord between China and the Community.

Ku Mu's visit to Commission headquarters was part of a stay in Belgium midway in a trip that also took him to France, Denmark, Germany, and Switzerland.

Mandate for Negotiations

A draft mandate for the early June negotiations with Australia took the position that many of the outstanding issues between the Community and Australia should be discussed and possibly resolved during the Tokyo Round of multilateral trade negotiations.

But the Commission also felt it was important to look beyond the Tokyo Round results in the nonagricultural sector and aim for longer-term cooperation. In recent months EC-Australia relations had been strained by controversies over agricultural, steel, and other industrial products.

New Shoe Import System

Shoe imports will be monitored under a new, short-term system called an *a priori* system, the EC Commission has announced. This "all permits granted" system will allow information about shoe imports to be more rapidly collected.

A more flexible system not requiring the previous grant of a permit before importation, such as that used for textiles, will replace the *a priori* system in October.

The new system came about because of the rapid increase in shoe imports since 1972—19 per cent to 30 per cent last year. There is also concern that closing some markets in other industrialized countries could cause a major diversion of Asian-made shoes to the Community. The Commission has begun talks with the nations concerned.

Reducing Japanese Surplus

Japanese Foreign Trade Minister Nobuhiko Ushiba met in Bonn with EC Commission Vice President Wilhelm Haferkamp in early May.

It was reported that Ushiba said Japanese trade statistics for the first quarter indicated a trend that could eventually lead to a reduction of Japan's trade surplus over the Community.

Ushiba also said the Japanese Government was preparing an improvement of its tariff reduction offer to the Community in the Tokyo Round of trade and tariff negotiations in Geneva. And he said a Japanese airline would give a reply soon on the possibility of purchasing airliners of European manufacture.

Earlier, in late April, Japanese officials and businessmen toured European capitals—as Japan's trade surplus continued to mount dramatically. In The Hague, Ushiba had issued a strong appeal for European business to make a serious effort to penetrate the Japanese market, which, he said, would not disappoint them.

Fourth Meeting with ASEAN

Plans were laid for further contacts during a meeting held between EC Commission officials and representatives of the Association of Southeast Asian Nations (ASEAN) in Bangkok in mid-May.

In addition to reviewing international negotiations, including those involving commodities, the ASEAN side expressed concern about protectionism in the Community. The Commission delegation pointed out that ASEAN exports to the Community countries had trebled in the last few years.

It was agreed to schedule a joint conference on industrial cooperation, in Jakarta in February 1979, and to hold a seminar on the transfer of technology, in Kuala Lumpur in October. The Commission also indicated it would step up its training program and assistance to ASEAN regional projects, and a number of studies would be undertaken for ASEAN in the future.

Report on Yugoslavia

In a report on his visit to Yugoslavia, EC Commissioner in charge of social affairs Henk Vredeling told the Brussels press in late May that there were two main issues between the two sides:

Although Yugoslavia has been the Communist country with the closest commercial and institutional links with the Community for a number of years, said Vredeling, there has been a traditional balance of trade deficit on Yugoslavia's side. Secondly, the status of Yugoslavian migrant workers inside the Community is a problem.

Vredeling admitted that the Yugoslavian trade deficit of $2.5 billion was "quite large." He also said the Commission hoped to obtain equal treatment for the some 450,000 Yugoslav workers in the Community, since this status had already been granted to other countries.

Ecevit Visits Community

Turkish Prime Minister Bulent Ecevit visited Brussels in late May to discuss his country's future relations with the Community.

After a meeting with EC officials, he said strains between the two sides had been discussed. He added that two meetings were planned over the summer to pave the way for political decisions by autumn.

Ecevit, who recently assumed his second term as Prime Minister, told the press his suggestions to the Commission for helping Turkey out of its deep economic crisis were not designed as "dramatic requests for radical change."

He joined other associated countries in urging the Community to restore the benefits of association and asked for more favorable treatment of Mediterranean agricultural products and of Turkey's workers in EC member states. The Turkish official also requested joint economic undertakings.

AGRICULTURE

EC, US Agriculture Linked

The United States' biggest farm customer and biggest competitor—the European Community—is doing its share to reduce world farm surpluses, EC Commission Vice President Finn Olav Gundelach wrote in a speech presented on his behalf May 18 in Kansas City, Missouri.

Gundelach said 20 per cent of all EC food imports come from the United States, and last year the Community bought nearly $7 billion worth of US farm produce, six times what the United States bought from the Community.

But the United States and the Community are becoming more competitive in the world market, said Gundelach. "You sell us a lot and you want to sell us more. We on the other hand," he added, "are alarmed at the one-sided nature of US-Community farm trade. We do not want our farm deficit with the United States to get any bigger."

The Agriculture Commissioner said he believed these "apparent conflicts" could be resolved in the multilateral trade negotiations in Geneva by focusing on three areas: establishing internal agricultural policies "so that we do not pass the whole burden of agricultural adjustment to other countries," avoiding erratic price fluctuations on world markets, and working to guard against unnecessary border restrictions.

Wine Duty Illegal

The legal sequel to the 1975 "wine war" that saw France and Italy at odds over imports of Italian wine ended this spring when the European Court of Justice ruled the French wine duty illegal.

France had justified the duty on the basis of Article 31(2) of the Treaty of Rome, which allows countries to take protective measures until the Council of Ministers considered the market settled.

The French measure was contested at the time by both the Commission and French importers of Italian wines. The Commission withdrew its court challenge after France dropped the 12 per cent duty. The importers were seeking reimbursement for duty they had paid while the tax was imposed.

EC, Sugar Producers Talk

Sugar producers that are signators of the Lomé Convention began new price negotiations with the Community in late May. The talks broke up in two days, however, after sugar producers expressed disappointment with the Community's offer of a 2 per cent increase in prices.

Commission officials pointed out that the Community offer represented the same percentage increase granted to domestic sugar producers at the recently concluded agricultural price negotiations for 1979. In addition, they commented that the offer of 27.81 units of account (UA) per 100 kilos of sugar was considerably higher than the UA 12 prevailing on the world sugar market.

Talks were expected to resume by the end of June.

Farm Agreement Reached

After weeks of suspense and traditional late-night marathon sessions, the EC Council of Agricultural Ministers has reached agreement on prices and other policies for the 1978-1979 growing season.

Prices agreed on May 11 were considered moderate ones that would generally help in the fight against inflation in the Community. The ministers also agreed to continue work toward the elimination of monetary compensatory amounts, which the Commission has sought in order to establish more realistic price comparisons between member countries.

Concerning the troubled dairy sector the ministers agreed on policies aimed at seeking to reduce overproduction and to encourage consumption. Among these measures the Council accepted the continuation of the policy of the Milk Marketing Board in the United Kingdom.

The Council also agreed on a number of decisions for special aids to the Mediterranean region, the Benelux, and the wine sector. The entire accord, however, was still subject to a technical reservation lodged by the Italian minister, who felt that one point had not been resolved to his Government's satisfaction.

The way was cleared in mid-May for the implementation of the 1978-1979 agricultural price and policy package with the lifting of Italy's reservation.

EC Agriculture Commissioner Finn Olav Gundelach noted that the accord paves the way for a major program of assistance to agriculture in the Mediterranean region. This would amount to expenditures of some 1.5 billion units of account (UA) over the next five years. He added that this effort should in no way be considered as concessions to countries in that region but as an essential measure for Community balance.

Gundelach also said that measures providing for reforestation of certain dry regions of the Mediterranean area, which provoked the Italian reservation, would be pushed by the Commission in the Council of Ministers. These would require some UA 330 million.

AID

New Grants and Loans

Several new grants and loans to members of the Lomé Convention have been approved recently by the Commission following the advice of the European Development Fund Committee.

The Central African Empire was granted 765,000 European units of account (EUA) to set up a board for promoting small- and medium-sized businesses; EUA 4 million was granted to Benin and Niger to improve the Sabongari-Gaya road; EUA 2.5 million was awarded to Gabon for improvement of the Owendo port, and EUA 80,000 to Grenada for a training program.

For well construction, Niger was granted EUA 2.1 million; to develop the Lower Mangoky River, Madagascar got EUA 2 million, and for a training program, the Bahamas received EUA 43,000.

EUA 2 million went to Lesotho for development of Mphaki's area, and EUA 2.1 million was granted to Sudan for development studies in the Jonglei canal region.

Emergency Fund Contribution

The Community and the International Development Association (IDA) in May signed an accord establishing and managing the EC contribution to a special $1 billion fund for emergency needs in developing countries.

As originally envisaged during the "North/South Dialogue," this fund was to be part of an overall plan including participation by oil-producing countries, but some countries have elected different forms of assistance to the developing world, such as canceling debts. The Community ended up being the largest contributor to the special fund.

Under the terms of the accord between the Community and the World Bank-affiliated IDA, the IDA will manage the EC contribution in keeping with geographic and other standards and in consultation with the Community.

The Community wants the bulk of the funds to go to the least developed countries and the most seriously affected by outside economic factors.

Aid Programs Adopted

Programs for food assistance and aid to nonassociated, developing countries were adopted by the EC Council of Ministers at its meeting in late April.

The food aid program includes not only the regular shipments of EC milk powder and butteroil, but also a showcase project in India known as "Operation Flood," designed to help establish a functioning dairy industry capable of feeding millions in urban areas there. The food aid program in 1978 involves 150,000 tons of milk powder and 45 tons of butteroil.

As for aid to nonassociated developing countries, there was still a split among participants between those wanting more emphasis on assistance to countries that are not former colonies or otherwise associated in the Lomé Convention, and those who believe the Community should concentrate its efforts on a regional basis such as the Lomé operation.

In the end, the Council agreed to 70 million European units of account (EUA) for 1978, compared to EUA 45 million spent in 1977.

ECONOMY

Steel Still an Issue

The ailing European steel industry continues to draw attention as EC Commission officials have moved to plug up a crisis plan loophole permitting certain imports to skyrocket in recent months.

Suppliers in other countries had taken advantage of an omission in the plan allowing them virtually clear field in "semi-finished" steel products. The Commission had not included these imports earlier because it felt EC producers were competitive with those on the outside. However, the wave of imports has altered the situation, the Commission found in early May.

In addition, Commission experts noted recent alterations in the US trigger or minimum prices on steel, and pointed out that the US plan adopted earlier this year did not seem to have improved the stability in the steel price situation. Disparities in prices on the Pacific Coast and those in the Great Lakes region that tend to discriminate against EC shipments in favor of Japanese steel still exist, the Commission said.

It also was noted that although the US Administration had indicated earlier that the new trigger price system would wipe out earlier anti-dumping actions against imports, there were still some cases pending in the US courts.

EC negotiators have reached an arrangement in steel with Australia, it was announced, as the latest in the series of talks with major suppliers attempting to restrain shipments into the Community.

In earlier action, in April, the Commission adopted new projections for production targets for the second quarter of 1978 and held a round of negotiations with Italian steel producers of the Bresciani region to further stabilize market conditions. The Commission also announced it had taken anti-dumping measures in several cases and was on the verge of reaching a bilateral steel shipment accord with Spain.

Industrial Statistics

Recently released industrial figures show the textile and footwear industries to be among the economically hardest hit, according to the EC Commission.

Surprisingly, however, the textile industry, which is in a dramatic slump in most member states, showed an increase in employment in the United Kingdom and Denmark. The same pattern also accounted for an increase in jobs in the footwear sector in the Community as a whole.

Virtually all industrial sectors in the United Kingdom showed a varying range of increased employment in 1977, while a number of industries in Denmark and Italy also showed positive results.

A net loss of 1.9 per cent in industrial jobs for 1977 was the overall Community picture with dramatic plunges in certain industries. Metal manufacturing, and mechanical, electrical, and instrument engineering registered the high of 32.3 per cent of industrial employment, followed by 32 other manufacturing industries with 30 per cent, and building and civil engineering with 18 per cent.

The sectors showing the highest level of female employment were footwear, clothing, textile, and leather industries.

Corporate Cooperative Proposed

"European cooperation grouping" is the name of a new operation proposed by the EC Commission, which would facilitate cooperation between small and medium companies in different member states.

The Commission had previously indicated it wanted to establish this type of corporate cooperative arrangement without actually requiring mergers between the companies involved. The cooperation would be limited in nature and time and would not exceed 500 persons employed.

It would be designed to assist companies to share the costs and benefits of cooperation in areas that would have been inaccessible without a partner. Under the terms of the regulation, the grouping would not constitute an independent corporate and economic entity separate from its parent companies.

A previous system had been criticized for not being adequately concerned with the welfare of the employees in such groupings. The new regulation would seek to correct that position by setting forth certain rules for the grouping in case of dissolution of the joint cooperative venture. In the latter case there would be a requirement to inform affected employees, negotiate with them and, in case of failure, to apply the rules of the member state concerning the rights of employees.

ETUC Meets with Commission

Representatives of the European Trade Union Confederation (ETUC) met with EC Commission officials this spring to discuss improving employment in the Community.

On the same day millions of workers staged demonstrations to show their concern about the current economic climate and its impact on employment.

The Commission said the problem of employment was a principal motivating factor in economic proposals, particularly in relaunching the idea of economic and monetary union.

Summit Follow-up

Finance Ministers meeting in Luxembourg in mid-April briefly discussed the major economic and monetary decisions taken at the Copenhagen summit. These initial deliberations revealed difficulties ahead in preparing for the Bonn summit in July.

Although the Copenhagen summit agreed that the Community would aim for a 4.5 per cent rate of growth by mid-1979, the ministers in Luxembourg foresaw difficulties. Sources there said German officials indicated that such an overall Community economic growth target would imply a 6 per cent German rate, which seemed unrealistic.

British officials also indicated that their country would not be in a position to consider any new stimulation until after the July summit. The current rate of growth in the Community is held to be at below 3 per cent, and the 4.5 per cent target was indicated as the only way to bring about a reduction in unemployment.

Lag in Growth Rates Seen

A report prepared by Commission experts shows that although each 0.8 per cent of budgetary growth in a nation's expenditures would stimulate economic growth by 1.7 per cent, the impact of this growth would be reduced as much as one-third if the country acted on its own.

The growth target of 4.5 per cent for mid-1979 pledged at the Copenhagen summit would probably not be achieved unless more coordination is introduced in EC economic plans, the report said. Output may increase only by 2.5-to-3 per cent, the paper observed, a figure that would be insufficient to significantly reduce Europe's record unemployment.

Germany, the Benelux countries, and France, which have emerged somewhat more solidly from the international economic crisis, are in a better position to undertake measures to stimulate their economies, the document indicated.

EC Crisis Operations

Without seeking to make the Community "a hospital for ailing industries," EC Commissioner Etienne Davignon told the Federation of German Industries in late May that the Community must play a role in assisting such industries adjust to the crisis situation now existing.

Davignon emphasized the need for the Community to assist industries in difficulty to preserve the liberal economic order. He also noted that thus far the Community's involvement in crisis industries has been selective and limited to steel, textiles, and shipbuilding. He added that the Community as the world's largest trading entity has too much to lose from a policy of protectionism.

The Community must use the tools at its disposal, said Davignon, to assure open competition by controlling to a reasonable level the dispensing of financial aid by national governments to public or other industries. He noted a number of sectors such as aviation, data-processing, and public purchasing that should receive closer Community attention.

July Summit Preparations

Meeting halfway between the Copenhagen and Breman EC summits, economics and finance ministers discussed in late May preparations for a joint EC program.

Loan instruments, stimulative actions to be taken to achieve higher growth rates, and management of the "snake" system of joint currency floats were discussed.

EC Commission Vice President François-Xavier Ortoli, who is in charge of financial matters, presented a document concerning the new 1 billion unit of account (UA) loan facility, and some discussion centered on the role of the Commission and the Parliament in this matter.

Various options available on monetary stability, including the possibility of target zones for exchange rates, were outlined.

Shipbuilding Plan Outlined

In the plan for the restructuration of the shipbuilding industry submitted to the Council, the Commission indicated that because of the anticipated continuing recession in the shipbuilding sector, some 4.6 billion units of account (UA) would have to be devoted to connected problems.

The Commission foresees that 75,000 out of a total of 165,000 jobs in shipbuilding will be lost. While some 15,000 are expected to be voluntary departures because of retirement or transfers, about 60,000 others will have to be retrained or shifted to other useful occupations.

Industrial Affairs Commissioner Etienne Davignon, calling the Commission proposal "the first methodical and structured document on an industrial problem where we don't have a legal base like steel," said in early December that EC countries spend about UA 600 million per year t help their national shipbuilding industries. Such aids should not only be coordinated, he said, they should also be limited to grants that will be productive.

Davignon said a coherent policy would have to include an effort at EC shipbuilding specialization, an upgrading of the EC fleet, and certain safety and environmental standards on ships entering EC ports. The measure sent to the Council requested the establishment of a shipbuilding committee to deal with the crisis. Another aspect to be dealt with as part of this policy would be the problem of shipping rate "dumping" by Communist countries.

He also noted statistics that showed the Community share of the world shipping fleet had dropped from 25 per cent in 1970 to 20 per cent in 1976.

SOCIAL POLICY

Work-sharing Considered

The EC Standing Committee on Employment met in mid-May to consider proposals aimed at spreading employment out among the labor force during the current unemployment crisis.

Special proposals in the work-sharing program, said Commissioner Henk Vredeling, include the possibility of adopting a Community instrument designed to discourage or restrict overtime, if necessary by instituting paid compensatory time off; possible control of temporary employment agencies; development of training programs for youths and others, including the possibility of expanding the concept of training leave and continuous training in industry.

In addition, it was proposed that a meeting be held of participants in industries where shift work is prevalent to discuss the possibility of reduction in hours worked in order to introduce a new shift. A similar gathering should examine work-sharing in crisis industries, and the Commission would study the willingness of both sides of industry to discuss reducing the annual work volume per worker.

In the medium term, Vredeling said, the Commission would study the impact of social security systems on work-sharing and part-time work and the impact of the increased numbers of women on the job market.

Social Fund Priorities

Guidelines giving member states suggestions on what types of programs and requests for aid are most likely to receive favorable consideration by the EC Social Fund have been adopted by the EC Commission.

As expected, the Commission put emphasis on relieving unemployment and the economic slump. It also decided to concentrate on regions that have persistent and traditional development problems. These include the South of Italy, Northern Ireland, Ireland, Greenland, and the French overseas territories.

Priorities for funding will go for retraining or training programs in regions and sectors that most need it and toward areas deemed the most likely to produce employment opportunities. Priority will also be given to the handicapped, migrant workers, youths, and workers leaving fishing or the textile industry.

Social Report Issued

Eradication of the record unemployment in the Community was the main goal stated in the latest report on the social situation.

The eleventh annual report attributed this historic crisis to the fact that the overall increase in economic production was below 2 per cent in real terms for the year.

The Commission report indicated that the other main goal of the social program will be to reduce social inequalities and the improvement of living and working conditions.

Actions planned include a forthcoming "green book" on the development of policies in favor of low-income groups, research into ways of improving income differentials, improvement of working conditions by a directive on night work and a report on team work, the establishment of minimum standards for social protection, programs on health education and possibly a Community health card, and a proposal obliging firms to consult their employees on a regular basis.

Baby Boom Hoax

When a serious and highly respected European weekly devoted considerable editorial space to an alleged Commission proposal to shore up the lagging Community birth rate through a series of artificial subsidies, mini-explosions—but not baby booms—went off in some member countries.

The article told in *The* [London] *Economist* of a plan drafted by an outside consultant with the unlikely name of Guy N. Ecologist to counter the decline in fertility in EC countries. Such a slumping birth rate, it said, would result in continuing economic stagnation, and Europe was urged to battle against this erosion of manpower.

The Commission was alleged to be preparing to dramatically increase family allowance payments throughout the

Community in order to encourage larger families. This increased budgetary outlay was to be financed by a stiff tax on birth control devices.

The story was carried in a leading Irish paper, and political debate ensued in that country. A number of Dutch newspapers picked up the story without double-checking with their Brussels correspondents. This in turn provoked a couple of Dutch parliamentarians to question Commissioner Henk Vredeling, who is in charge of social policy, about the plan. A feminist group in Holland known as "Red Women" wrote a protest letter to Vredeling on the plan.

All of those who commented straight-facedly on the story failed to notice it was published dangerously close to April 1.

Aid to Youth Employment

A new program to help reduce unemployment among under 25-year-olds has been announced by the Commission.

The program will provide two kinds of aid, both drawn from the European Social Fund. The first involves premiums for firms taking on new young workers valued at 15 European units of account (EUA) per person per week for 26 weeks.

The second is in the form of subsidies to employment programs of general interest in the amount of 30 EUA per person per week for a maximum of 52 weeks. Both kinds of aid are 50 per cent of a wage calculation approved by the Commission.

This program will be used in regions with high rates of youth unemployment and in five special hardship regions—Greenland, the overseas departments of France, Ireland, Northern Ireland, and Italy's Mezzogiorno—where the Community's contribution may amount to 10 per cent more.

Worker Protection Proposal

A proposal aimed at protecting workers when their employer goes bankrupt has been adopted by the EC Commission.

Institutions for settling wage and benefit claims upon bankruptcy and for evaluating requests for payment would be set up under the proposed directive. These institutions would have priority in settling claims regardless of assets left in the business and bankruptcy proceedings. Limits could be imposed on liability.

Although organization and financing of the institutions would be left to member states, two principles would govern: Assets of the institution would be separated from the employer's working capital, and the workers would not be the only ones to contribute.

Workers' losses in the United Kingdom are estimated at 4 million pounds a year, and losses to German workers at 20-to-50 million deutschmarks per year.

ENERGY

Nuclear Measures Planned

As a result of the open hearings on nuclear energy held last December and January, the EC Commission adopted several conclusions in a recent communication to the Council of Ministers.

Although nuclear energy is inevitable for the Community, it should only be considered as one form of energy, said the Commission. It should not, therefore, be given an excessive role in energy thinking. Safety requirements must remain the subject of scrutiny, and more research should be undertaken to find new sources and to exploit available ones that are currently uneconomical.

Siting of nuclear power stations, the Commission noted, should be decided through a democratic process. The following measures were also decided: development of energy sources will be accompanied by an explanation of other measures in that sector, particularly research; a request for the Council of Ministers to re-examine its proposal on energy saving, including demonstration projects, alternative energy sources, and waste treatment; new proposals related to transport of radioactive substances, information, and participation; and a measure to draw the Council's attention to potential advantages of better representation of the environmental lobby in the EC Economic and Social Committee.

Nuclear Studies Proposed

Two new projects in atomic power have been proposed by the EC Commission. The proposals sent to the Council this spring cover the dismantling of old nuclear power plants and the security of thermal water reactors.

For the first, a budget expenditure of 6.38 million European units of account (EUA) is envisioned. A request of EUA 8.8 million is sought for the second project. The two new programs are seen as five-year efforts, part of a multiannual research program into nuclear safety which amounts to EUA 81 million.

Oil Exploration Aid Proposed

The EC Commission has proposed that the Council approve Community financial support for several petroleum exploration projects in zones where experts say geological conditions are appropriate for oil deposits.

These areas both on land or on the continental shelf are regions that present special problems for exploration, and the Commission has foreseen costs of 48.7 million units of account (UA) for these operations. Subsidies to encourage exploration have been proposed.

The regions designated for these projects are the western Mediterranean basin between Spain and Greece under EC jurisdiction, the continental shelf southeast of Greenland, and ultra-deep zones in the ground in southern Italy near Brindisi, southwestern France in the Languedoc and Aquitaine regions, and the entire territory of the Netherlands.

Of the total costs, some UA 15.3 million would be for geophysical reconnaissance and UA 33.4 million for exploratory wells. The Commission proposes participation of 75 per cent for surveys and 40 per cent for the exploration. This would amount to a total of UA 24.8 million.

JET Project Approved

The Council of Ministers adopted at the end of May a proposal to establish the first joint enterprise nuclear project, the Joint European Torus (JET), to be constructed at Culham in the United Kingdom.

Joint enterprise status, which can be granted under Article 45 of the Euratom Treaty, means a project will be exempted from some of the taxes and charges imposed on national enterprises.

The project is of great importance to the long-term energy supply. Its object is the construction, operation, and exploitation, as part of the Community fusion program, of a large torus facility and its auxiliary facilities. The Community hopes the project can develop a nuclear fusion prototype reactor before the end of the century.

JET will be managed by a council in which Euratom, national nuclear fusion organizations, and the governments of Luxembourg and Ireland will participate. It will employ approximately 350 people.

The first half of the construction phase will cost the Community 102.4 million units of account, with the host country and associated groups bearing 10 per cent of the expenditure.

ENVIRONMENT

Plan to Combat Oil Spills

A package of measures to combat future oil tanker spills, such as the recent Amoco Cadiz disaster along the coast of Brittany, has been introduced by the EC Commission.

The measures include several aimed at seeking EC application of international anti-pollution accords. Others are to improve EC information about ships that are potential sources of pollution; improve the cooperation and capabilities of national rescue teams and experts; and improve research in means to combat pollution. In addition, the Commission would undertake a study of ways to assist the construction of a fleet of high-speed anti-pollution vessels and a better system of tugs to tow ships in danger.

The Commission had already proposed three measures on information-sharing, cooperation, and research in 1977, as a result of the Ekofisk oil platform blowout in the North Sea. The Council, however, had not enacted these proposals by the time of the latest oil spill.

HARMONIZATION

Tachograph Rule Enforced

The EC Commission has asked the United Kingdom in February to comply with a 1974 regulation to install tachographs in some trucks. It gave the United Kingdom two months to take action or else court action would be considered.

A tachograph is a device for measuring and recording speed, mileage, and time. The instrument, required in most goods vehicles over three-and-a-half tons laden weight and in larger passenger vehicles replaces the logsheet lorry drivers were required to fill out before.

Because excessive driving hours and speeding show up on the graph, it has been called "the spy in the cab." But it can be used as a record if an accident occurs to show what the driver was doing at the time and whether, perhaps, he was responsible for the accident. Replacing the logsheet does not affect the legal limits on hours worked, which are the subject of a separate EC regulation. But cheating is more difficult.

Tax Fraud Proposal

In an attempt to come to grips with tax fraud and evasion in the Community, the Commission has proposed greater cooperation among national authorities.

The draft directive, which covers value-added taxes and is virtually identical to a direct-tax measure adopted in late 1977, would not only lead to increased contacts between tax authorities in the member states, but would also institute regular exchanges of information, assistance in investigations, and in some cases the participation of officials from one state in activities of another member state. This is already in effect concerning direct taxes.

Commission officials said a problem was perceived because of schemes to evade payment of value-added taxes or in some cases to collect reimbursement for fictitious goods reported as exported out of the country of origin.

Consumer Committee Meets

A resolution approving the proposed directive on advertising of pharmaceuticals was adopted by the EC Consumer Consultative Committee in late May.

In weighing the proposed directive on pharmaceutical products, the committee noted that pharmaceutical products could not be considered in the same way as other products and that the consumer should have objective information from an independent source that would in the long run replace advertising. The committee also proposed a number of amendments designed to improve the directive.

The group, meeting for the first time since the adoption of this year's agricultural prices, said it would study the prices, their impact on the consumer, and the proposed farm structural changes adopted. They also discussed the Commission's general approach to consumer action and supported a proposal by the Commission Consumer Service to establish a Community information service on accidents caused by products in the home.

New Insurance Directive

An insurance directive adopted by the Council of Finance Ministers this spring will make it easier for co-insurance contracts to be made at the Community level between insurers from different member states.

The measure, which only applies to major insurance coverage such as the risk of pollution, provides for a minimum degree of coordination of laws, regulations, and administrative provisions. It applies to classes of direct insurance other than life insurance where the size of the risks covered requires a number of insurers. At present some countries allow co-insurance only at the national level.

Experts indicated that although no ceilings or floors are involved in the risks covered, the directive is intended only for major risks in the industrial or commercial field. These include railway operations, civil liability in certain disasters such as major pollution accidents, airline cargo, and other accidents.

The Commission pointed out that this measure might help break the deadlock that has existed for years in the insurance sector, paving the way for directives in the life insurance field.

Auditor Requirements

The eighth directive affecting company law has been proposed by the EC Commission—a directive setting forth conditions for auditors of corporate accounts. Commission experts noted that specific requirements already exist in some member states but not in others.

The new directive would affect qualifications required of a person appointed either by a court or other authority to check bookkeeping and annual statements prepared by company accountants.

Secondary and superior education requirements prior to professional training would be left up to the member states. The directive would, however, require a special theoretical and practical examination and would allow the state to accredit professional associations as well as individuals.

Other directives in the series of proposals affecting company law are still pending: Those involving accounting are the fourth, which requires auditing of corporate accounts; the seventh, which affects group accounts, and the fifth, which specifies that only persons duly accredited can audit company books.

Saccharin Limits

Limiting saccharin consumption without waiting for the adoption of Community measures has been recommended by the EC Commission. The recommendation was based on findings by the Scientific Committee on Human Food Consumption concerning the presence of saccharin in commodities. The Commission suggested member states act immediately.

Saccharin in food for young children should be banned altogether, the Commission said, and its presence should be adequately advertised on labels. Warnings should be on saccharin sold in tablets, and member states should, in particular, take measures to ensure daily consumption of saccharin does not exceed 2.5 milligrams per kilogram of body weight.

The Scientific Committee studied the results of Canadian tests showing rats fed large doses of saccharin developed bladder cancer. The US Food and Drug Administration has undertaken an 18-month study to determine if saccharin can also cause bladder cancer in humans.

ENLARGEMENT

Reflections on Enlargement

Completing months of reflection and discussion, the EC Commission has adopted its conclusions on the enlargement issues. The final document, forwarded to the Council of Ministers this spring, also outlines new concepts about the integration of Greece, Spain, and Portugal into the Community.

Speaking to the press in Brussels, Commissioner Lorenzo Natali said that Community development of economic and monetary union plans was a precondition to successful integration. Only in this way would the Community have the resources and stability to successfully carry out enlargement for both existing and new members. This would also have to go hand-in-hand with a streamlining of the EC institutional mechanism to avoid a paralysis inside the enlarged Community.

Natali also pointed out that there would have to be a substantial transfer of resources from the Community to new members to accomplish this transition. Although he said that to quantify this amount in budget terms was nearly impossible, it would have to involve assistance to both the industrial and agricultural sectors. He added that the countries involved "must start thinking of a Community of twelve."

The Commissioner also said the enlargement process should be completed in 10 years. While acknowledging that enlargement presented challenges and problems, Natali highlighted the political importance and benefits. He said the addition of three new Mediterranean countries would give another dimension to the Community and new links to Latin America. Successful enlargement would also aid the democratic systems in the three countries.

Negotiations already underway with Greece, said Natali, should be expected to lead to entry by 1981 for that country.

Portuguese Minister Confers

Portuguese Foreign Minister Victor Sa Machado, visiting Brussels this spring to confer with the Commission, noted that his country was in a difficult financial situation, but that it was anxious to increase its ties with the Community in order to solidify its emerging democratic form of institutions. Sa Machado said EC membership was one of the important priorities of his country.

In this light he touched on the difficult negotiations the Lisbon Government was conducting with the International Monetary Fund over the possibility of a crucial loan to Portugal.

Sa Machado told a press conference that Portugal was ready to make the adjustments recommended by the Commission, such as cutting back investments in such sensitive sectors as shipbuilding, textiles, and steel. He also indicated that the 10-year transition period recommended by the Commission should suffice for Portugal to integrate into the Community.

Opinion on Portugal Adopted

The EC Commission adopted in mid-May its opinion on Portuguese entry into the Community and recommended that negotiations begin as soon as possible.

With the tremendous economic problems involved, the Commission said some of Portugal's structural difficulties must be tackled before entry or there would be a risk that accession of a weak Portugal would further aggravate the regional disparities existing in the Community.

INSTITUTIONS

Budget Increase Proposed

A budget request of 14.6 billion European units of account (EUA) for 1979 was approved by the Commission and sent to the Council of Ministers in late May.

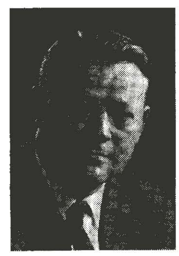
The increase from the 1978 budget of 15.5 per cent is more than the 12.1 per cent increase in 1978, and over the 12.5 per cent hike the Commission had originally proposed.

As in the past, agricultural programs represent the largest share of the budget at 65.4 per cent of the total, although the relative weight of the farm sector is somewhat smaller in the 1979 budget.

Increased spending is requested for industrial policy, development aid, social and energy policy, and the regional fund. There is, for instance, a 228 per cent increase in requested appropriations for energy, with alternative and domestic sources such as coal getting the highest priority along with energy-saving programs. A 49 per cent increase in social funding is requested, including EUA 110 million for aid to young persons.

On the revenue side, the proposed budget should result in a Community assessment of 0.75 per cent in the member states' value-added tax collections to finance the budget. The EC request amounted to 0.84 per cent of the gross national product of the nine member countries.

IN MEMORIAM



Jens Otto Krag, 1914-1978

Jens Otto Krag, former Danish Prime Minister and head of the EC Commission's Washington Delegation, died June 21 in Denmark. Leader of his country's Social Democratic Party, he served as Prime Minister 1962-68 and 1971-72, during which he led Denmark's application and entry into the European Community. The 1972 Danish referendum overwhelmingly approving EC membership climaxed his career as Prime Minister, from which he then resigned. Subsequently, in 1974-75, he served in Washington as the EC Commission's representative to the United States. In recognition for his contributions to European unity, he received the Charlemagne Prize in 1966 and the Schuman Prize in 1973.

"Treaty" Takes Third

Seven months after starting out on a 27,000 mile trek, the "Treaty of Rome" sailed into Portsmouth harbor last month to finish third in the last leg of the around-the-world sailing race.

The yacht, smallest of the competition, sailed under the EC flag and was manned by a crew comprised of EC staffers, journalists, and member state nationals. The venture was funded by numerous EC government officials and European corporations.

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.

The European Community and the Third World. Commission, Brussels, 1977, 48 pages ....free
Brochure describing the Community's policies toward developing countries including trade, financial assistance, food aid, and emergency financial aid.

Latin America and the European Community. *Europe Information No. 3/78,* Commission, Brussels, 1978, 12 pages ....free
Note on bilateral relations between the EC and countries of Latin America, EC development cooperation policies affecting Latin America, and trade between the two.

The European Community and ASEAN. *Europe Information No. 2/78,* Commission, Brussels, 1978, 16 pages ....free
Note on EC links with ASEAN and EC trade with each ASEAN member.

The European Community and the Arab World. *Information No. 169/78,* Commission, Brussels, 1978, 29 pages ....free
Discussion of the trade and political relations between the EC and the Arab League countries. Covers the cooperation agreements and the Euro-Arab dialogue.

Euronet: The European On-Line Information Network. Commission, Luxembourg, September 1977, 13 pages ....free
Second edition of a pamphlet on the on-line data base network started under Community sponsorship.

Review of the GATT Multilateral Trade Negotiations: The Situation Up to 1 February 1978. *Information No. 170/78,* Commission, Brussels, 1978, 20 pages ....free
Status report on the MTN negotiations. Covers tariff negotiations, non-tariff barriers, agriculture, safeguards, sectoral approach tropical products, and the problems of developing countries. Includes the Declaration of Ministers, approved at Tokyo, September 1973.

Report on the Position of the European Communities in Public International Law. *Working Document No. 567/77,* European Parliament, Luxembourg, March 8, 1978, 66 pages ....free
Report by Léon Jozeau-Marigné on behalf of the Legal Affairs Committee. Examines, from a legal point of view, the ability of the Community to act officially on the international scene and to be party to international agreements.

Public Opinion in the European Community. *Eurobaromètre No. 7,* Commission, Brussels, July 1977, 92 pages ....free
Eurobaromètre, No. 8, EC Commission, Brussels, January 1978, 106 pages ....free
Results of two public opinion polls conducted in the member states in April/May 1977 and October/November 1977, respectively.

EC and Japan Issue Joint Statement on Trade. *Background Note No. 6/78,* EC Information Service, Washington, D.C., April 5, 1978, 6 pages ....free
Text of the statement on EC-Japan bilateral trade issued on March 24, 1978.

European Council Agrees on Joint Economic Moves and Sets Date for Direct Elections. *Background Note No. 8/78,* EC Information Service, Washington, D.C., April 26, 1978, 6 pages ....free
Text of the European Council's conclusions at the meeting in Copenhagen, April 7 and 8, 1978.

Seventh Report on Competition Policy. Commission, Brussels, 1978, 260 pages $7.00
Overview of developments in competition policy in 1977. Covers application of antitrust regulations to companies, state aids, adjustment of state monopolies and public enterprises. Includes a section on the development of concentration in the Community and a list of the rulings of the Commission and the Court of Justice.

Elections to the European Parliament by Direct Universal Suffrage. European Parliament, Luxembourg, July 1977, 158 pages $5.00
Volume of the major recent documents relating to direct election of the European Parliament.

Catalogue and Classification of Technical Safety Standards, Rules and Regulations for Nuclear Power Reactors and Nuclear Fuel Cycle Facilities. *EUR 5849 e,* Commission, Luxembourg, 1977, 591 pages. $42.00
List of documents relating to safety standards, rules, and regulations for nuclear power reactors and fuel cycle facilities.

Labour Costs in Distributive Trades, Banking and Insurance 1974. Statistical Office, Luxembourg, 1977, 230 pages $11.00
Methodology and detailed results of the 1974 survey of the labor force, number of enterprises, average hours worked, wages, salaries, and labor costs by employee in wholesale and retail distribution, banking, and insurance.

European Agricultural Guidance and Guarantee Fund (EAGGF): Importance and Functioning. Commission, Brussels, 1978, 86 pages ....free
Booklet on the features, extent and functioning of the EAGGF and the financial mechanism which underlies the common agricultural policy.

The JET Project: Scientific and Technical Developments 1976. *EUR 5791 e,* Commission, Brussels, 1977, 660 pages $28.70
Report on developments in the JET (Joint European Torus) fusion project since publication of the design proposal in 1975.

The Consumer Organizations and the Public Authorities 1977. Commission, Brussels, 1977, 60 pages $2.35
Directory of private organizations and member state government agencies concerned with consumer protection and legislation.

Report on the Development of the Social Situation in the Communities in 1977. Commission, Brussels, April 1978, 204 pages $7.00
Outline of the main activities in the social field during 1977 at the Community level and in each member state. Covers employment, vocational training, industrial relations, incomes, housing, family affairs, social welfare, social security, and industrial safety.

Community Law. Commission, Brussels, 1978, 34 pages $4.00
Extract from the 11th General Report on the Activities of the Communities in 1977. Summary of the main legal developments, including fundamental rights, the budgetary powers of the Parliament and rulings of the Court of Justice.

Vocational Guidance and Training for Women Workers. Commission, Brussels, 1976, 65 pages $2.00
Final report, prepared by Mme. Claude du Granrut, on a seminar held in Paris, November 24-28, 1975 on the problems of vocational guidance and training for girls and adult women.

Apprenticeships in the United Kingdom. *Social Policy Series No. 30,* Commission, Brussels, 1976, 199 pages $4.20
Study on training for skilled craft occupations and apprenticeships for technician, student, graduate and commercial trainees. Work of national joint apprenticeship bodies set up by collective agreement is described in detail.

Hog Cholera/Classical Swine Fever and African Swine Fever. *EUR 5904,* Commission, Brussels, 1977, 802 pages $41.50
Papers and proceedings of a seminar held at Tierärztliche Hochschule Hannover, FRG, September 6-11, 1976.

Permanent Directory of Energy Information Sources in the European Community. *EUR 5425 e,* Commission, Brussels, 1977, 196 pages $14.00
Second edition of a directory of organizations publishing or storing information on energy. Part one lists the organizations, with particulars on publications and documentation services. Part two is an index by energy sector and principal activities.

Report on Economic Relations Between the European Communities and Nordic Countries. *Working Document No. 184/77,* European Parliament, Luxembourg, July 1, 1977, 60 pages ....free
By Jens Maigard for the Committee on External Economic Relations. Discusses Nordic cooperation arrangements and the EC free trade agreements with the Nordic countries.

Statistical Yearbooks

The following list of yearbooks updates and enlarges the list published in European Community No. 206.

Geonomenclature 1978. Yearbook 1978, 168 pages $12.30
Country nomenclature for the external trade statistics.

Tax Statistics 1970-1976. Yearbook 1977, 150 pages $12.30

Government Financing of Research and Development 1970-1977. Yearbook 1977, 122 pages $9.20

Prices of Fruit, Vegetables and Potatoes 1975-1976. Yearbook 1977, 130 pages $5.60

Fishery: Catches by Fishing Region 1964-1976. Yearbook 1977, 226 pages $15.50

Gas Statistics 1976. Yearbook 1977, 54 pages $2.80

Iron and Steel Yearbook. Yearbook 1977, 122 pages $19.00

Overall Energy Balance-Sheets 1963-1976. Yearbook 1977, 70 pages $5.60

Regional Statistics: Population, Employment, Living Standards 1975. Yearbook 1976, 362 pages $8.25

Annual Investments in Fixed Assets 1973-1975. Yearbook 1977, 224 pages $14.00

Yearbook of Agricultural Statistics. Yearbook 1977, 312 pages $7.20

Demographic Statistics 1960-1976. Yearbook 1977, 120 pages $8.30

University Studies on European Integration No. 9-1977. Office for Official Publications of the European Communities, Luxembourg, 1977, 296 pages $14.00
Prepared by the Centre for European Studies, Catholic University of Louvain. Register of doctorate theses and other university studies on European integration completed since 1973 or in progress in the first term of the academic year 1976-77.

Programme of the Commission for 1978. Commission, Brussels, February 1978, 56 pages $1.80
Address by Roy Jenkins to the European Parliament, February 14, 1978 and memorandum on the 1978 work program of the Commission.

Report of an Enquiry Into the Current Situation in the Major Community Sea-Ports Drawn Up by the Port Working Group. Commission, Brussels, 1977, 200 pages $7.00
Results of a survey covering 77 port authorities responsible for 112 ports. General summary and detailed analysis by member state of the legal bases, forms of organization, division of responsibility between public and private sectors, operational conditions, and financial and taxation situation of each organization.

The Customs Union. *European Documentation No. 5/77*, Commission, Brussels, 1977, 23 pages ....free
Booklet on the establishment of the customs union, commercial policy, policy towards developing countries, and the effects of the customs union.

The European Community's Environmental Policy. *European Documentation No. 6/77*, Commission, Brussels, 1977, 32 pages ....free
Brochure on the EC policy and legislation for environmental protection.

A Selective Study Guide to the European Community. EC Information Service, Washington, D.C., 1977, 24 pages ....free
Brief selection of the literature on European integration and related subjects in English.

Recent Books

European Community periodically lists books dealing with Community and Atlantic topics. Prices are also given when known. This presentation does not indicate approval or recommendation of these publications, which can be purchased or ordered from most booksellers.

World Environmental Directory. Volume I. Edited by B.E. Gough. Business Publishers, Inc. Silver Spring, Maryland. Third edition, 1977. 927 pages with index. $39.00.

Listings of personnel, companies, government agencies, educational institutions and organizations in the United States and Canada working in the environmental area; Volume II, in preparation, will cover the worldwide environmental community.

The Economics of World Grain Trade. By Thomas Grennes, P.R. Johnson, and M. Thursby. Praeger Publishers, New York, 1978. 129 pages with index. $14.50.

Analysis of the determinates of grain prices and the pattern of international grain trade; emphasis on how the structure of world grain demand responds to predetermined fluctuations in supply.

The Lomé Convention and a New International Economic Order. Edited by Frans A.M. Alting von Geusau. A.W. Sijthoff, Leyden, 1977. 249 pages. $26.00.

Papers and proceedings of a conference held in Tilberg, December 1975; analysis of the Lomé Convention and its most important provisions: trade cooperation, Stabex, industrial and agricultural cooperation, financial aid, and the problem of raw material supplies.

The Eurodollar System. By Paul Einzig and Brian Scott Quinn. St. Martin's Press, New York. Sixth edition, 1977. $16.95.

An extension of Einzig's first study on the Eurodollar market and its impact on monetary markets, foreign exchanges and trade financing, and the banking system; explores the question of the Eurodollar market and world inflation, the Eurobond market, the oil crisis, and the economic consequences of the market.

Foreign Policy Making in Developing States: A Comparative Approach. Edited by Christopher Clapham and William Wallace. Saxon House, England, 1977. 184 pages including index. $18.00.

One of three volumes on the comparative analysis of foreign policy-making; considers domestic, regional, and global influences on policy and the decision-making process in analyzing of foreign policy-making in the developing countries; special emphasis on Southeast Asia, the Middle East, Sub-Sahara Africa, the Commonwealth Caribbean, and Latin America.

The International Allocation of Economic Activity. By Bertil Ohin, et al. Holmes and Meier Publishers, Inc., New York, 1978. 572 pages with index. $42.50.

These proceedings of a Nobel Symposium held in Stockholm, June 8-11, 1976, present different approaches to analyzing international trade; emphasize the close connection between commodity trade, movements of labor and capital, and changes in technology and development; give special attention to the effects of taxation, social conditions of production, and the location of natural resources.

Christian Democracy in Western Germany. By Geoffrey Pridham. St. Martin's Press, New York, 1977. 371 pages with index. $19.95.

Analysis of the development of the CDU/CSU as a political force in Germany since the Second World War, with special reference to its role both in government (1949-1969) and opposition (1969-1976); considers how it was instrumental in the formulation of government policies.

Tariff Preferences in Mediterranean Diplomacy. By Alfred Tovias. St. Martin's Press, Inc., New York, 1977. 153 pages with index. $13.95.

Analysis of special tariff preferences, as opposed to generalized tariff preferences, in the Mediterranean diplomacy of the European Community; discusses EC difficulties of formulating a Mediterranean policy; examines US reactions to Community preferential arrangements.

The State of Food and Agriculture. Food and Agriculture Organization of the United Nations. Available in the United States from UNIPUB, New York. 157 pages. $11.50.

World and regional review of agricultural production, stocks, demand, trade, food supplies and consumption, small farm output, consumer prices, agricultural policies, and development assistance; includes a special section on energy in agriculture.

Europe: The Quest for Unity. Edited by Leith McGrandle. Ranelagh Editions, London. 1978. Large format, with etchings. $300.00.

Commemorates the founding of the European Community and its recent expansion; speeches and writings on the theme of European unity 1943 to 1973 by Churchill, Monnet, Schuman, Adenauer, Kennedy, Macmillian, etc.; limited edition of 475 leatherbound copies. Can be ordered directly from publisher: 95 East Hill, Box EC, London SW 182QD.

Comparison Advertising. A Worldwide Study. By J.J. Boddewyn and Katherine Morton. Hastings House, Publishers, Inc., New York, 1978. 256 pages. $12.50.

A study of comparisons in advertising, exploring the legality, fairness, efficacy, and disadvantages; covers most EC nations; describes the strategies and campaigns of many multinational corporate products; attempts to reach conclusions regarding a set of guidelines for use of comparison advertising.

FAO Commodity Review and Outlook. *Beginning with 1976-1977.* Food and Agriculture Organization of the United Nations. Rome, 1977. Available in the United States from UNIPUB, New York. 113 pages. $15.00.

Explanatory text on the general commodity situation and short-term commodity outlook; covers production utilization, trade, prices, and stocks for commodities such as rice, wheat, fats and oils, coffee, citrus, meat, and hard fibers; includes a special chapter on the effect of high fructose corn syrup on the sugar market.

A Behavioral Study of Rural Modernization: Social and Economic Change in Thai Villages. By Charles A. Murray. Praeger Publishers, New York, 1977. 133 pages with notes, tables, and bibliography. $16.50.

An attempt to answer why some rural societies respond positively to modernization efforts and other societies are demoralized by modernization; analyzes statistically, linking modernization with various behavior characteristics of Thai villagers.

The Social Policy of the European Communities. Edited by Paul J.G. Kapteyn. A.W. Sijthoff, Leyden, 1977. Reprint, hard cover edition of 14 *Common Market Law Review*, 1977, 373-520. 146 pages. $13.50.

Discusses EC social policy in the context of the legal base provided by the Treaty of Rome; covers free movement of workers, social security rights of migrant workers and their families, the European Social Fund, employee participation, measures for the protection of workers against dismissal, and migrant workers from third countries in the European Community.

Corporate Competition Law in the European Communities. By R. Haughwout Folsom. Lexington Books, Lexington, Massachusetts, 1978. 160 pages with index. $15.00.

Designed to serve as a teaching tool in law schools, business schools, and college departments with programs in economics or international relations; discusses Articles 85 and 86 of the EC treaty.

Bibliography on European Integration. By Karl Kujath. Europa Union Verlag, Bonn, 1977. 777 pages with index.

Considers international and supranational European organizations and all aspect of European integration; bibliography in three languages, introduction, explanatory notes, and classification.

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