NOVEMBER-DECEMBER 1980 NO. 222

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EUROPE

Magazine of the European Community

Luxembourg's Thorn: President for a New Season

Publisher's Letter

There is always a strong sense of anticipation when, every four years, there's a change in the Presidency of the EC Commission, and the imminent arrival to that hot seat of Gaston Thorn is no exception. As Alan Osborn's lively profile of him makes clear, this Luxembourger—currently foreign minister of that tiny nation and formerly its Prime Minister—is an "internationalist" of considerable stature and a long-standing friend of the United States. Thorn takes up the Commission Presidency on January 1. By fortuitous circumstance, Thorn well might be the right man in the right place at the right time.

Whatever else Thorn has to deal with, the relationship between the French, British, and Germans will have a powerful bearing on the way the Community evolves; Lord Chalfont discusses the potential of closer relations among those countries in "Triad of Influence," pointing out that the imperative for such a development has never been more urgent.

To a large extent, of course, the way nations behave on the international scene is determined by the health or otherwise of their economies. In Europe the recession has been deeper and longer than it has in the United States—and this is particularly the case in the United Kingdom—so it is useful to have an analysis of Margaret Thatcher's dramatic and lonely experiment in monetarism. The jury, Peter Riddell says, has not yet had enough time to reach a verdict on her policy.

A variety of other topical issues are also dealt with in this Europe*: For example, is the Community any nearer to achieving a common fisheries policy? A close focus on this is presented by Axel Krause in the wake of strike action last summer by French fishermen.*

David Bell reviews the possibilities of a fully integrated European transport system—a dream of the Community's founders which has still to be realized. And talking of transport, anyone who thinks Detroit's current troubles are unique will be interested to read Jasper Becker's close-up on Europe's ailing automobile industry.

Finally, the story of how the Irish Development Authority has claimed success notwithstanding economic woes.

Andrew A Mulligan

Andrew A. Mulligan

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Cover (front): Gaston Thorn portrait. See page 4. ©Armel Brucelle, Sygma

Cover (back): English trawler at night. See page 12. ©Harry Gruyaert, Woodfin Camp

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Au revoir, Walter

For seven years Walter Nicklin has edited this magazine. During his tenure the magazine has evolved from an esoteric "in house" bulletin called EUROPEAN COMMUNITY *to the polished and respected magazine* EUROPE *is today.*

Nicklin is a Virginia original. He came to the European Community by way of UPI *, a Masters thesis on the British Press and Britain's entry to the European Community, plus an interest in politics from the Virginia Congressional campaigns of Clive Duval and Murat Williams.*

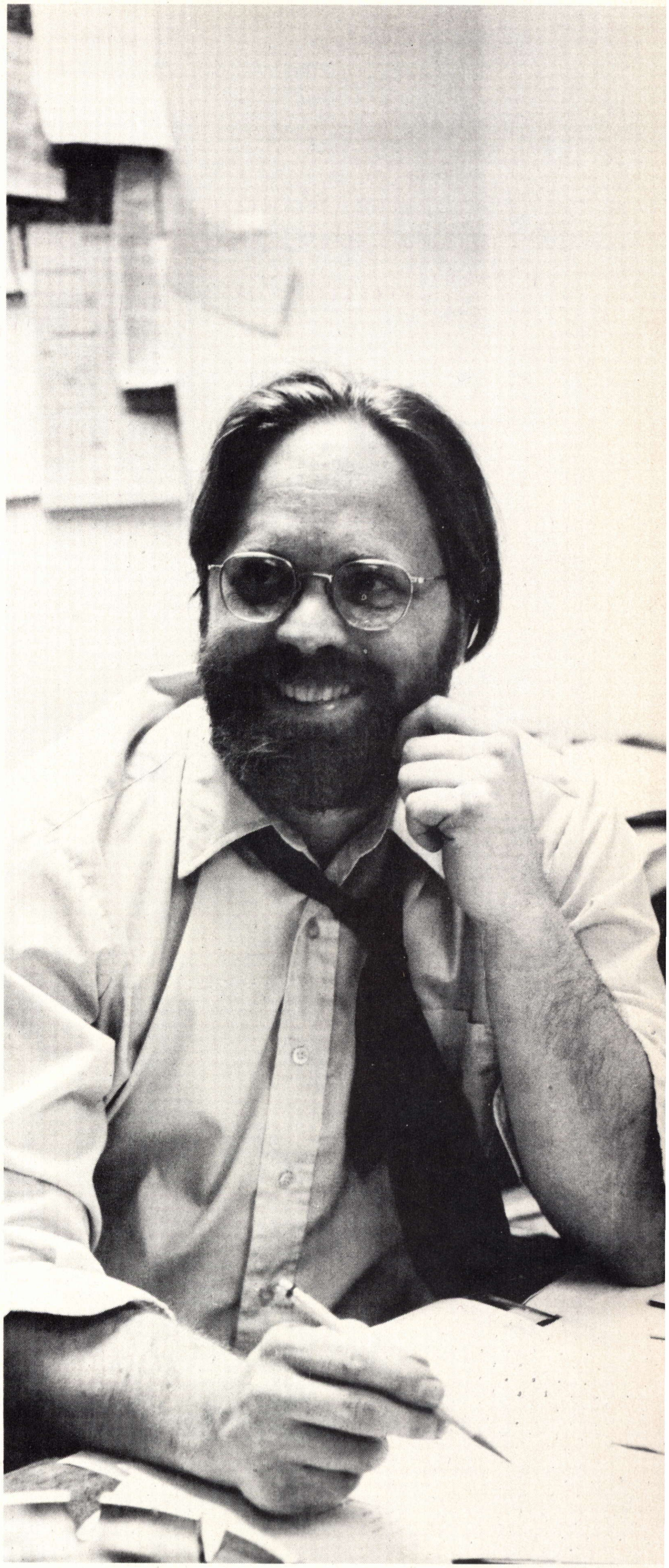
Walter did it his way. He was never a clean desk man, and his filing system consisted of small pyramids of paper on every conceivable ledge or flat space in his office. Comfortably lurking in his paper forest, he would set about the task of editing EUROPE *with a fastidious eye for detail and true editor's sense for the newsworthiness of a story, for length, grammar, and accuracy. Never a believer in the posher watering holes of Washington, Nicklin has shown amazing confidence in the nutritional value of Pepperidge Farm cookies washed down with vintage Pepsi.*

With a strong humanitarian streak, and Jeffersonian ideals, he led our small team—Candace Denning, Sarah Trott, and Webster Martin—through the minefields of going professional, developing a paid circulation, and the introduction of advertising. His tiffs at layout with our design team Hubert Leckie and Susan Lehmann, are in the proper tradition of creative conflict.

Walter's first enthusiasm has always been his beloved Virginia. It was therefore hardly surprising that he would wish to apply his knowledge of publishing to his own magazine COUNTRY *about the mountains and the bay that he knows so well. For one will remember days with him at Rappahannock races, and there are many surprised Eurocrats who have helped him in the laying of stones and rafters of his cabin overlooking the Blue Ridge Mountains.*

He and his beautiful wife Jane and two daughters take our best wishes for the future success of COUNTRY. *But we will keep our memories of his chuckling villainous sense of humor and the ridiculous. What he gave to* EUROPE *is there for all to see on the shelves of time.*

ANDREW A. MULLIGAN



Luxembourg Foreign Minister Gaston Thorn will take over as President of the EC Commission in January.

GASTON THORN: A PORTRAIT

The next EC Commission President might be most effective

ALAN OSBORN, *Benelux correspondent for* The Daily Telegraph

Watching Gaston Thorn hold a press conference is rather like watching a great conductor at work. The half-moon spectacles flash; the hands chop and stab to emphasize a point; the answers shoot out in rapid-fire bursts. The control is perfect: It is difficult to believe he has ever missed a cue or hit a wrong note.

"The secret of Gaston Thorn is that he is a pure political creature," explains a Luxembourg colleague. "To cut him off from politics would be like stopping his supply of oxygen." In January Thorn will take over as President of the EC Commission, and there are many who believe that this shrewd, dynamic lawyer could be the most effective leader Brussels has yet seen.

At 52, Thorn has been the dominant figure in Luxembourg public life since the war and is by any measure in the front rank of those European politicians who have charted and piloted the evolution of the EC institutions. Of course, the effort required to reach the top in a country of less than half a million people cannot be compared with that in countries the size of Britain, Germany, or France. But it is surely just as fair to make the point that if you do come from Luxembourg, then the effort required to put your mark on EC policy is correspondingly greater.

The first surfacing of Thorn's political independence came in 1943 after the Germans had annexed Luxembourg and introduced Nazi propaganda in the schools. Thorn was among many youths in the resistance who refused to accept it and were imprisoned in an indoctrination center, Stahleck. After the war he joined the *Groupement*, a new political party composed mainly of resistance fighters with policies that fell roughly midway between those of the Christian Democrats and the Socialists. Thorn was elected to the Luxembourg Parliament in 1959 and in 1961 became chairman of the Democratic Party, the successor to the *Groupement*. Under Thorn's leadership the Democratic Party evolved into a genuine Liberal Party, and when he entered the European Parliament in 1951, he became vice chairman of the Liberal group. He has been president of the Liberal International since 1970 and president of the Federation of Liberal and Democratic Parties in the European Community since 1976.

Thorn entered the Government in Luxembourg for the first time in 1968 as foreign minister, minister for the civil service, and minister for sport—he is a strong advocate of physical fitness and a keen tennis player. In 1974 he became Prime Minister, heading a coalition of Liberals and Socialists—in the process ousting the Christian Democrats from power for the first time in nearly 50 years. After last year's elections the Christian Democrats formed a government with the Liberals and Thorn became foreign minister, his present position. This catalogue would be incomplete if it did not also refer to his record three terms as chairman of the EC Council of Ministers. Of course the list exaggerates Thorn's achievements to the extent that Luxembourg politics are close-knit, even club-like, and the number of persons able and willing to form a government is not large. But enough has surely been said to sustain the claim that Thorn is the most variously experienced hand around at the moment in EC politics and many people indeed find it hard to believe he has not already been an EC commissioner.

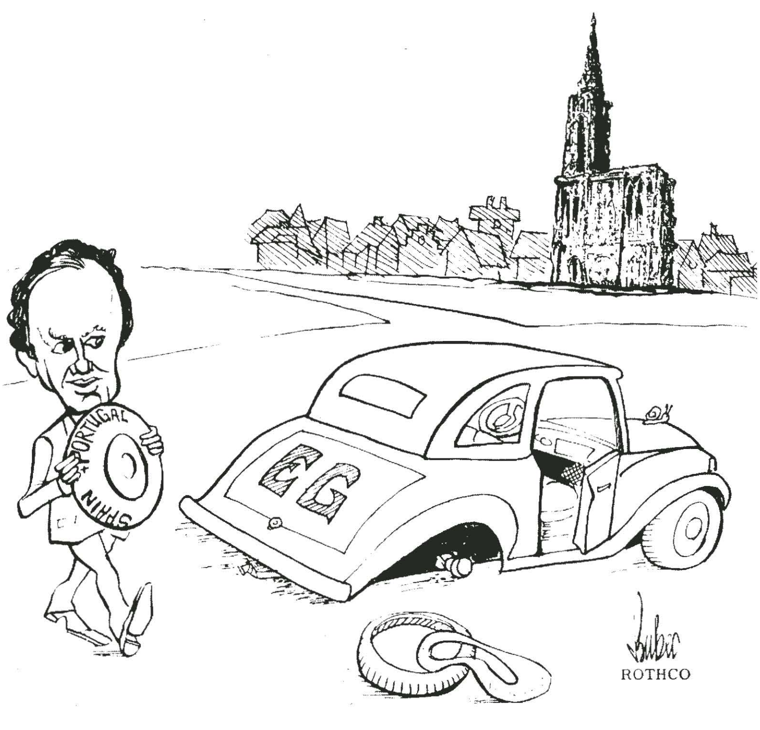
A family picture taken of Gaston Thorn as Prime Minister, his wife, Liliane Thorn-Petit, and their son, Alain.

That is now going to be remedied and if, in retrospect, there seems a sort of inevitability about the appointment of Thorn as Commission President, that was not always true. Indeed it was widely reported that when the EC heads of government met in Venice in June and discussed

Gaston Thorn speaking to the European Parliament last July in Luxembourg.

the identity of Roy Jenkins' successor, French President Giscard d'Estaing opposed Thorn's nomination.

Various reasons were advanced for this, but the most plausible seems to be Thorn's reputation as a "federalist." The French, it was argued, would not wish to see in power in Brussels a man whose political philosophy ran to the overriding of national sovereignties by a high-powered Community executive. But if Thorn ever held such views, he appears to have moderated them in recent years. There is no doubt that he is a passionate believer in and defender of the idea of Europe, but he is also a realist. Recent speeches and interviews show him drawn to the idea of a flexible Community with an à la carte character. Thus not all countries need necessarily join in all EC policies to the same extent—Britain's decision to remain outside the European Monetary System is an example of this in practice. Thorn is unlikely to find such ideas intellectually very satisfying but he knows that given the wide variations in economic performance between the existing nine and the coming entry of Greece, Portugal, and Spain, there simply may be no alternative.



"Gaston Thorn." © Bubec, *Heilbronner Stimme*, Germany

ALL THIS SUGGESTS that there will be no revolutionary changes when Thorn takes over in Brussels—especially given that half or more of the present Commission will be returning for another four-year term. On the other hand, the scale of the challenges facing the Community in the near future—of which the restructuring of the budget, and the economic/unemployment problem are the most conspicuous—does mean that the scope exists for making historical changes in the functioning and character of the Community.

In particular the new Thorn Commission will have to tackle the issue of the balance of powers between the major EC institutions including what seems to be a steady attrition of the authority of the Commission itself. It is now seen as inevitable that unless something radical is done soon to streamline the Commission, its procedures could become so cumbersome that its effectiveness is severely compromised. It is paradoxical that this should be brought about in part because of the entry of three small countries that traditionally have the biggest interest in having a strong Commission to balance the weight of the large countries. Thorn can certainly be expected to take the lead in moves to fortify the Commission, but given the fact that he was picked for his job over French opposition and given the less than heavyweight pull of Luxembourg in EC circles, it is going to take all his skills and tenacity to bring about much success.

To solve the problem of Community financing will be even tougher. Some time next year the automatic flow of finance to the Community from member countries will fall short of outgoings. Thorn believes that member governments should agree to hand over a higher proportion of their value-added tax to the Community, but Britain and Germany have stated they will refuse. At the same time a fundamental restructuring of the budget has been pledged in the context of Britain's excessive contributions. This is looming as the most divisive and fraught problem for the Thorn Commission with perhaps historical repercussions for the character and direction of the whole Community.

Meanwhile, Thorn is doing the thing he likes best—international politicking. As President of the EC Council of Ministers, he has headed the mission to the Middle East charged with determining the scope for a peace initiative by the Community. However, as the end of the year draws near, Thorn will be able to devote less time to this and will have to switch his attentions to the problems of the identity of the new commissioners. By the end of November he will already have launched negotiations directly in all EC capitals. It is far from clear how much weight will be given to Thorn's views by the national governments when deciding on their choices for the next Commission, but he is not a man to put up with tokenism.

As to his personal role in the next Commission, colleagues believe he will take a close interest in foreign affairs, aid, and the Community's relations with the Third World. His taste for travel is legendary; *un voyageur infatigable* is how an associate describes him. He also believes strongly in the value of the Nine's international diplomacy, officially described as "political cooperation." In a recent interview he said this had been one of the Community's success stories of recent years. On the Middle East, Zimbabwe, South Africa, and on relations with the United States, the Communist countries and the developing world, "too many people only notice the last-minute haggling over language and miss the point of our basic agreement on almost all main international issues," he said.

It is probably Africa that exercises the greatest fascination for him, however. During his 10 years in the European Parliament, he traveled extensively throughout Africa, earning himself the sobriquet "Gaston l'Africain." He is on nickname terms with many African leaders today having built up a log of personal contacts that is likely to serve the Commission handsomely in this area in the next four years.

Admiration of Thorn's style and ambition are not universally shared in Luxembourg, but there is no doubt that those who think he overdoes it are in a tiny minority. Most Luxembourgers take reflected pride in his presence on the world stage. Talking about him is a major occupation. What he will do after Brussels in 1985 is anybody's guess, but at 56 the last thing he would want to do is quit. In Luxembourg he lives in a modest bourgeois house enjoying an active social life with his wife Liliane Thorn-Petit, a journalist who was once the Luxembourg correspondent for the Associated Press and is honorary president of the Luxembourg journalists association.

Thorn on Europe's View. . . .

In his September speech to the United Nations General Assembly, Luxembourg Foreign Minister Gaston Thorn, in his capacity as President of the EC Council of Ministers, stressed the following points that confront the international community:

Africa: "The solution to the Zimbabwe crisis represents a very positive step—thanks to the joint action of all the interested parties, it has been possible to reach a peaceful solution. The nine EC countries congratulate again this country for its entry into the United Nations [UN], an entry we expected with impatience for many years. They are convinced that the process which started in Zimbabwe shows that it is not utopian to conceive of a multi-racial state in Southern Africa, a state based on equality for all citizens. They express the hope that this solution will serve as an example, in particular with regard to the granting of independence to Namibia and the abolition of "apartheid" in South Africa. . . . the Nine strongly condemned this system which is based on institutionalized racism and regret that it is being preserved in an authoritarian way in spite of universal disapproval and opposition."

Kampuchea: "The Nine call for the withdrawal of Vietnamese troops that occupy Cambodia. This is a necessary condition for a solution to the Cambodian problem. Such a solution, according to the Nine, should be based on the existence of a neutral and independent Cambodia with a truly representative government and friendly relations with all the countries of the area."

Gathered in New York at the home of UN Secretary General Kurt Waldheim in September (L-R): French Minister of Foreign Affairs Jean François-Poncet; Waldheim; US Secretary of State Edmund Muskie; and Luxembourg Foreign Minister Gaston Thorn. © UPI

Afghanistan: "The Nine express the firm hope that it will be possible to avoid the indefinite prolongation of this particularly cruel war by finding a solution conforming to the 1980 resolution of the United Nations. This solution would guarantee the withdrawal of the Soviet troops and the free exercise by the Afghan people of their right to self-determination."

Iran: "Confronted with the continued detention of the US hostages, the Nine, like other countries, have been led to translate into concrete measures the profound opposition they feel before this flagrant violation of international law.

"At a time when the Iranian Islamic Republic is giving itself democratic institutions and when its Government has just assumed its functions, the Nine, and I think, the whole international community, hope that this problem will find a solution and that the hostages will be freed and Iran will respect all the principles of international law, in particular the one that ensures the protection of the foreigners who live in that country."

Middle East: "At the root of the Middle East problem lies the necessity to reconciliate the two essential realities which are the State of Israel and the Palestinian people and to make them live together. Therefore, the recognition of the right to exist for Israel and the exercise of self-determination for the Palestinian people will be at the foundation of the negotiations that will lead to a global peaceful solution. Israel must, therefore, end the territorial occupation it maintains since 1967. In this respect, the Israeli settlements represent a grave obstacle to the peace process. The Nine consider that these settlements, together with the demographic and land property changes operated in the occupied Arab territories, are illegal with respect to international law.

"Given also the particularly important role that the Jerusalem question plays for everyone involved, the Nine do not accept unilateral initiative with regard to changing the status of that city and emphasize that any agreement in this respect should guarantee the free-access to the holy places. . . . A solution to the Middle East problem naturally entails the adhesion and cooperation of all the parties concerned. The principles I have outlined apply to all of them without exception and therefore to the Palestinian people and to the Palestinian Liberation Organization which will have to participate in the negotiations."

TRIAD OF INFLUENCE?

An opportunity for British-French-German statesmanship on the world scene

Lord Chalfont

LORD CHALFONT, OBE MC, *a member of the House of Lords and former defense correspondent for* The Times *of London*

There was some years ago a cartoon in an American newspaper that depicted General Charles de Gaulle reclining in a suitably magnificent bed: At the window of the bedroom stood a liveried manservant with his hand on the curtains, saying, "The sun is ready to rise, General, when you are." This disobliging comment reflected Anglo-Saxon attitudes toward the French which have not been entirely dispersed by de Gaulle's disappearance from the world scene. In fact, so far as Anglo-French relations are concerned, it is difficult to discern any notable improvement.

When the French fishermen went on strike last summer, and thousands of British tourists were left milling like refugees around the Channel ports of France and Belgium, feelings ran predictably high. The "bloody French"—already in deep disfavor on account of their atrocities in the matters of sheepmeat and apples—began to regain, in British demonology, the place temporarily usurped by such amateurs of the game as the Ugandans, Andrew Young, and more recently the Iranians.

Nor apparently, was the sentiment unilateral. Articles in French newspapers regularly castigate the British for condoning starvation in Karamoja, complaining about the common agricultural policy, and failing to come to terms with the fact that the British Empire no longer exists. The most provoking accusation of all is that Britain's attitude toward the European Community is that of a man who applies to join a club, is accepted, and then declines to abide by the rules. For a nation that invented the gentlemen's club, this is too much to bear with equanimity.

When British Prime Minister Margaret Thatcher set out to achieve a fundamental change in the club's subscription rates, her tactics, which might fairly be described as robust, did nothing to improve matters, and many a *polytechnicien* and *inspecteur de finance* was to be heard uttering elegantly anglophobe sentiments at diplomatic gatherings. The matter was summed up with masterly Gallic understatement at a reception held in the magnificent refectory at the Abbey of Fontevraud, after a concert by the European Community Youth Orchestra. A senior French politician, asked about the growing intimacy of relations between France and Germany as opposed to the somewhat tattered condition of the *entente cordiale* between France and Britain, observed sadly that it was "much easier to communicate with the Germans than with the English."

These are the outward and visible signs of the recent decline in Anglo-French relations to a level as low as they ever reached when General de Gaulle was frustrating British attempts to join the European Community in the 1960's. Yet it is arguable that we are entering a period in which cooperation and understanding among

At the June Venice economic summit (L-R): German Chancellor Helmut Schmi[...] Cossiga; US President Jimmy Carter; and British Prime Minister Margaret Thatch[...]

the great powers of Western Europe have never been more important.

It has become commonplace to regard the 1980's as an especially dangerous decade—a judgement that derives in large part from the predictions of strategic analysts who calculate that for a brief but significant period in the second half of the 1980's, the Soviet Union will have achieved a clear superiority over the United States in nuclear weapons, creating a dangerous gap that could not be closed even if the American President were to embark tomorrow on a massive rearmament program. It is, however, not necessary to accept this alarming proposition and its more apocalyptic implications to be persuaded that the next 10 years will be years of turbulence, uncertainty, and possibly even of war. There is much more to the challenge of the 1980's than the crude threat of Soviet imperialism. The pattern of world politics is itself undergoing a fundamental transformation. Many of the familiar landmarks by which we have become accustomed to order human affairs are disappearing.

The upheaval in Iran has introduced into the international community a regime of fanatics and obscurantists for whom the civilized conduct of international relations has no meaning. In dealing with them, neither

© Bas, *Tachydromos*, Greece

the traditional practices of diplomacy nor the threat of overwhelming military power is likely to be effective. Their citizens are encouraged to act almost with impunity as destabilizing influences wherever, in the free world, it seems expedient or attractive to them to do so; and any citizen of the free world who is rash enough to remain in Iran lives in constant peril of being thrown into prison, usually on some vague charge of espionage, at the whim of those who are, in theory at least, in charge of that country's affairs.

nch President Valéry Giscard d'Estaing; then-Italian Prime Minister Francesco
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MEANWHILE, AT A MUCH DIFFERENT LEVEL, the received wisdom about détente and the East-West relationship is being radically undermined by events in Poland. No one who remembers 1953 in Berlin, 1956 in Hungary, or 1968 in Czechoslovakia doubts the determination of the Soviet Union to guard against any disposition toward dissidence on the part of the Warsaw Pact allies. Movements of national liberation and resistance against imperialist oppression are not encouraged so close to home, and the modest degree of liberalization with which the Polish leadership sought to deal with its strikers is already under threat. The somber fact is that the Soviet Union, unlike the United States, will have no inhibition about using its massive military strength if it considers its interests to be at risk or its authority to be defied.

Elsewhere in the world the evidence of a changing order is too conclusive to be ignored. The countries of the Third World have served notice that they intend to take a "tough line" in the North/South Dialogue. This will presumably include an intensification of the procedure by which the industrialized world is already held to ransom by a cartel of oil-producing nations. In China further changes in leadership are paving the way for whatever programs are eventually decided upon to fulfill the declared aim of bringing the People's Republic into the front rank of world powers by the end of the century.

Finally, the explosion of violence between Iraq and Iran has taken the Middle East into a new dimension of instability. This is not simply a matter of the disruption of world oil supplies. A fight to the death between two of the most powerful military establishments in the Islamic world could have repercussions throughout the area and might even drag in the superpowers, however determined they might be to not become directly involved.

Lord Bryce might have been writing of the 1980's rather than the 1880's when he observed in *The American Commonwealth* that "a cloud bank was on the horizon and now no longer distant, a time of mists and shadows, wherein dangers may be concealed, whose force and magnitude we can scarcely conjecture." It will be a time for political leadership of a high order. In the long term, as Henry Kissinger has said, there can be no peace without equilibrium and no justice without restraint. Yet these are the two qualities most conspicuously absent from the emerging international scene.

There is therefore an especially imperative need for understanding and wise statesmanship in Western Europe. As the European Community has so far been a profound disappointment to those who saw it as a catalyst of political unity, it is upon the three major powers—Britain, France, and Germany—that the responsibility now lies. The flourishing Franco-German rapprochement has shown what is possible. In the dangerous 1980's France and Britain cannot afford the luxury of the mutual suspicion and mistrust that has characterized their relationship for so long.

There have been signs of a modest improvement in the climate. When Thatcher visited Paris last September, the atmosphere, if not exactly cordial, was at least relaxed. Some of the instinctive antipathy that seemed to exist between the British Prime Minister and President Giscard appeared for the moment to have been dissipated, and they discovered common interests over a wide range of international problems. At about the same time, however, French Prime Minister Raymond Barre demonstrated that there was no cause for complacency when he delivered a somewhat sour address to one of those curious "Konigswinter"-type conferences convened in Bordeaux to promote better Franco-British understanding. It is clearly going to take a good deal more than summitry in Paris and banqueting in the claret country to mend the dilapidated fences. German Chancellor Helmut Schmidt, who has now been given an unequivocal mandate for a further period of his special brand of Social Democratic Europeanism, is having much more success in his dealings with President Giscard.

Iraqi soldiers guarding the Iranian border in September after the outbreak of violence. This new dimension of instability in the Mideast makes imperative "understanding and wise statemanship in Western Europe." © UPI

Meanwhile, the British Labour Party conference has committed a future Labour government to withdrawal from the European Community. It is, of course, arguable that however seductive this policy may be to a substantial section of the British electorate, other developments in the Labour Party have made their accession to power in the near future a remote contingency. Whether this is true or not, it is clear that Western Europe faces a dangerous crisis of leadership, purpose, and vision. Whether it will survive that crisis or not will depend in large measure on whether Britain can succeed in converting what is at present a Franco-German axis into a powerful and cohesive triad of influence within the European Community.

COMMON FISHERIES POLICY?

But traditional fishing rights are "the nub of the issue"

AXEL KRAUSE, *economic correspondent for the* International Herald Tribune *in Paris*

It was a sultry day in mid-August, and France was gripped by a blockade of its major ports caused by the nation's 25,000 fishermen protesting layoffs as well as falling prices for their fish. Tens of thousands of British tourists stranded in the dispute were among those hardest hit as the *Times* of London dryly quipped, "Once again people with a grievance have chosen to hit the August holiday-makers in order to advance their demands."

But among those also embittered by the strike—fishermen, trawler operators, port authorities, French union and government officials—few summed up the mood better than Paul Reburs, manager of a small hotel in Le Havre. "Look," he said, gesturing to a slab of imported frozen ray fish he had just pulled out of his refrigerator. "I bought this American frozen variety for 14 francs a kilo, compared to 39 francs charged for fresh ray downtown. . . . Why should we taxpayers be asked to pay more to help the fishermen?"

Angered by the loss of business caused by the blockade, Reburs concluded, "This fishing controversy may be settled, but the economics of this business in France and elsewhere in Europe—compared to mine anyway—simply do not make sense."

That viewpoint is shared by a wide body of economists, government, industry planners, and politicians on both sides of the Atlantic, who over the past few months have come to the conclusion that the Western world's fishing industry, having evolved into a chaotic, stagnating way of life, probably cannot survive without government subsidies and other forms of aid.

One major consequence may well be the enactment of a common fisheries policy within the European Community, which would implement a far-reaching scheme for the careful sharing and conserving of fish resources within the Community, while also cutting total catching capacity. In the early fall it appeared doubtful that EC ministers and Brussels-based planners would meet their self-imposed deadline to have such a policy formulated by December 31, and some observers predicted that even if a policy emerged during 1981, it would not solve any basic problems.

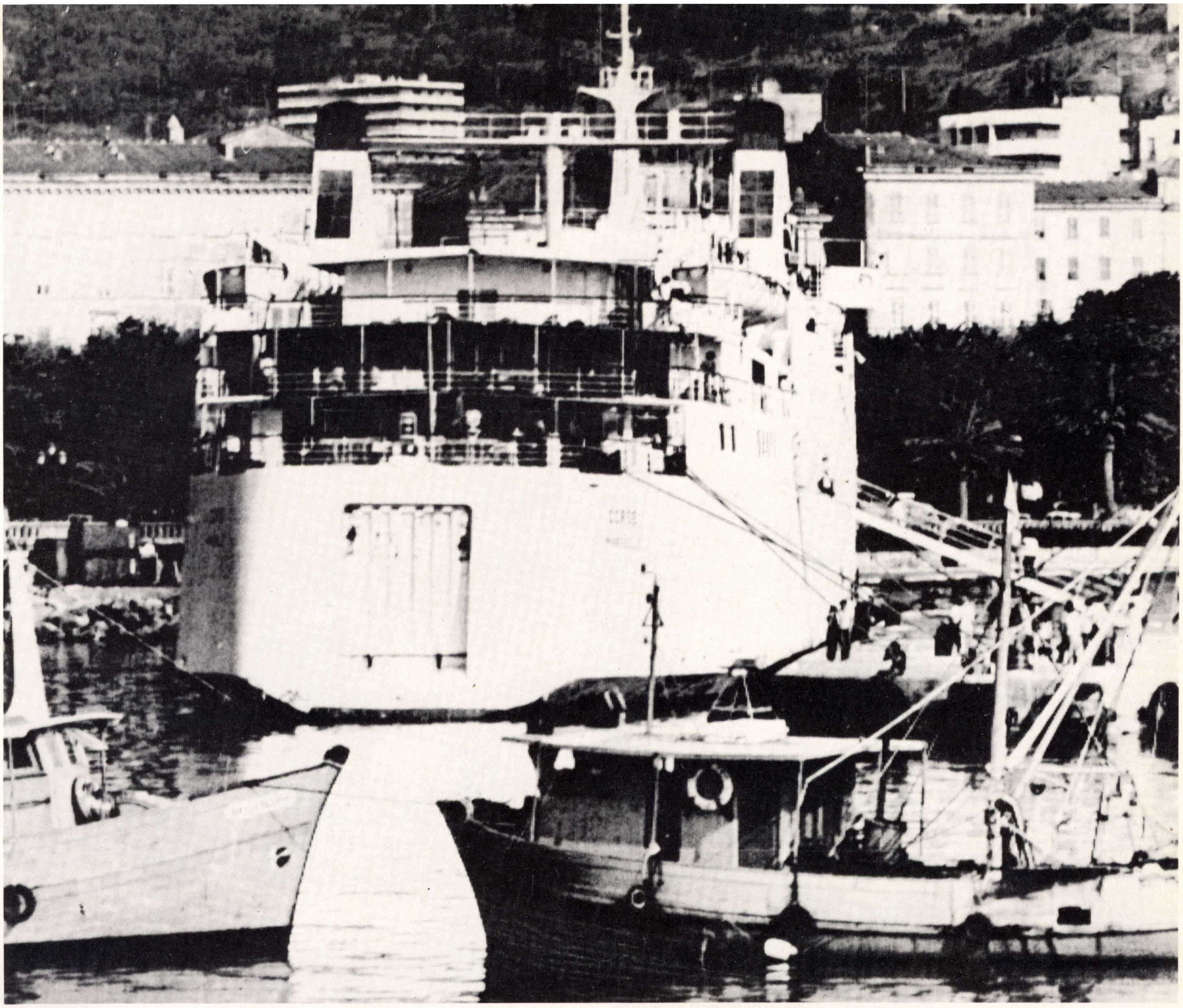
"A little EC aid will be provided to soften the blow, but no miracle rescues," said *The Economist,* adding with a heavy dose of skepticism, "All the Community can offer is protection of a common resource from common greed, a tidier framework for planning and investment, and a few ideas for fishermen on new ways of making money."

Looking at the fishing industry in a world context, however, the EC scheme looks far better—and more promising—than *The Economist* suggests and indeed may provide an example for others. "We are all watching the EC efforts, since it could represent the first major step towards some form of internationalized approach to the industry in which virtually nothing is regulated worldwide, particularly prices," said a senior official of the Organization for Economic Cooperation and Development (OECD) in Paris.

THE PLIGHT OF THE WESTERN WORLD'S INDUSTRY stems from a combination of forces and factors—soaring fuel costs; depleted supplies; too many men and vessels; a recent, unexpected drop in consumption in the United States due to the recession; plus new, low-cost frozen fish shipped from Latin America, the United States, and the Far East and, which incidentally, kept French customers satisfied during the strike.

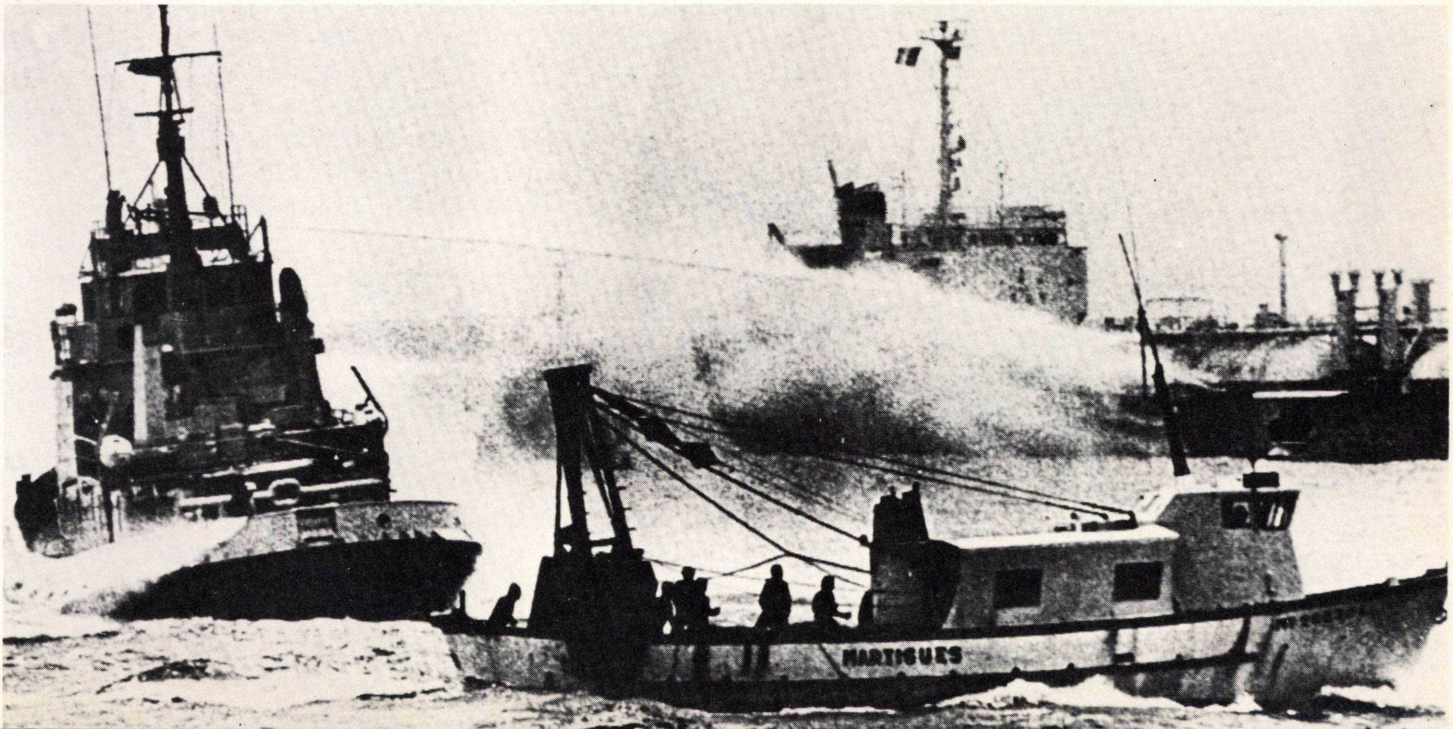
In most of the 24 OECD nations—comprising North America, Europe, and Japan—the fishing industry has become depressed and in many cases is on the verge of bankruptcy. In a recent survey of the fishing industry, the OECD concluded that "a gloomy view is taken of a future in which activities will be reduced in varying proportions to complete extinction."

In most industrialized countries fishermen account for less than 1 percent of the total labor force and their numbers are slowly dwindling as well. In the past decade within the Community, for example, their total in eight member countries shrunk to 140,000 from 154,000. The biggest plunge came in France—10,000 fishermen left the business since 1970, while in Britain and Italy the numbers held steady at around 22,000 and 62,000 respectively.



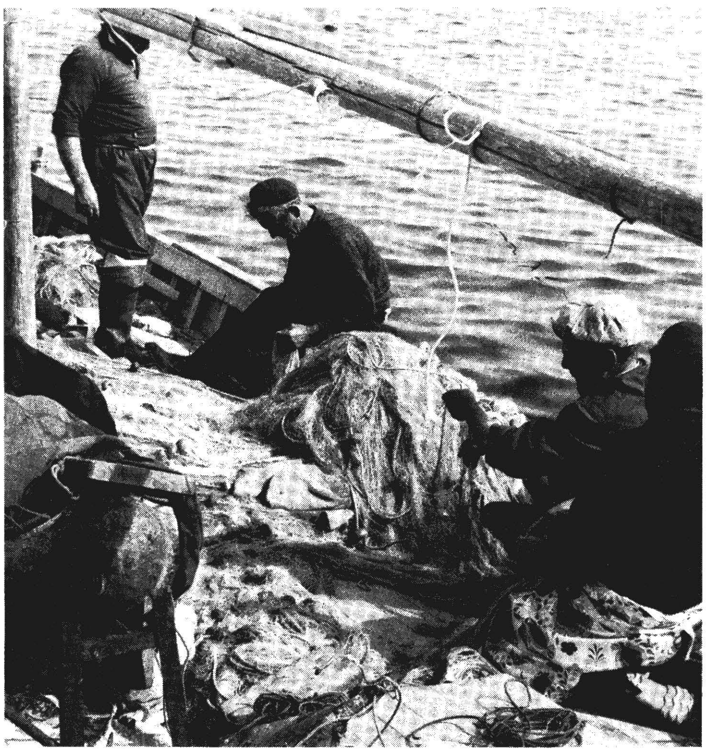
Two fishing boats block passage of a ferry in the port at Bastia in northern Corsica as the French fishermen's strike spread last August. © UPI

A french Navy tugboat uses its fire hose to blast a trawler blocking the entry of Port de Bouc. © UPI



Despite their relatively small numbers fishermen are not without political and economic clout, for as an EC official put it during the height of the French blockade: "In global terms fishermen do not amount to much, but regionally and locally, they account for a helluva lot, as the events in France are proving."

Echoing the views of other experts, the EC official noted that quite apart from their potential ability to block strategically important ports and other waterways, fishermen often live in high unemployment areas and their earnings provide a welcome multiplier effect. *The Economist* in a recent survey of the industry reported that a study of Shetland's economy has suggested that



This tough, noble way of life "probably cannot survive without government subsidies and other forms of aid."

each pound sterling spent by the fish processing industry there creates another 2.82 pounds, whereas a pound spent in oil development creates only 1.40 pounds.

The crucial, politically explosive question raised by striking French fishermen is this: How should government subsidies and other forms of aid be used? Of course, compared to agriculture and other sectors of economic life, the amounts involved are small. The total value of production in OECD countries during 1978, the latest period for which figures are available, grew slightly to just more than $10 billion, according to the OECD. Government subsidies probably do not account for more than 20 percent of that total; the Community's annual budget averages roughly $15 million, which in the words of one EC official is "peanuts compared to our farm spending."

Among the OECD producers Japan ranks first with a volume of $3.5 billion, followed by the United States with $1.8 billion; France, $775 million; Canada, $731 million; Norway, $515 million; Italy, $482 million; Britain, $474 million; and Denmark, $359 million.

"Given the fact that worldwide prices fluctuate without regulation and are now stagnating, states and international bodies, such as the Community, must get involved," said an OECD official. "Otherwise, there will be more failures and the ending of a tough, noble way of life."

In an effort to meet its year-end deadline, the EC Commission circulated the draft version of a policy-guidelines paper to member governments in Brussels in

The fishing industry's plight is the result of several factors—soaring fuel costs, too many men and vessels, and low-cost frozen fish imports.

late September; this document was intended to become the focal point of Community deliberations over a fisheries policy. Its basic purpose, in the words of Eamonn Gallagher, EC Director-General of Fisheries, is to assure that "fish within the EC area come onto the market at prices interesting for the housewife and, at the same time, give fishermen a decent living." But as Gallagher readily concedes, getting agreement among EC members on specifics of such a policy will not be easy, if for no other reason than the Community's determination to avoid the creation of anything akin to the common agriculture policy.

"In terms of what we are seeking to develop, there certainly will *not* be any move towards establishing mountains of stinking fish," Gallagher said, adding that although there are price-stabilization figures in the EC proposals, the Commission is avoiding any linkage with heavy subsidies and surpluses. "The Community is not endorsing extreme views," he said.

Among the EC proposals are schemes to aid fishermen by overhauling pricing within the Community in such a way as to permit catches in relationship to the market supply. Tackling the highly sensitive issue of imports, the Community wants "a system more flexible comprising several stages and procedures of commercial protection," but does not specify exactly what it has in mind. And finally, the Community is proposing that producer organizations stengthen themselves and that member countries be prepared to spend more on subsidies to support producer and processing industries.

Consumers want reasonably priced fish products; fishermen demand a decent living. Shown here is a fish market. © Richard Massey, London

"I think we will be getting an agreement this winter," Gallagher said, adding quickly that the EC policy will be essentially organizational—and structural, as the economists are fond of saying—which means, among other things, more casualties. "The industry is in a very uncertain state," he said, noting that frozen fish within the Community now accounts for nearly 50 percent of all sales volume, causing additional pressures, as Reburs in Le Havre noted last summer.

Or, as a senior industry official in Brussels put it: "The fish is pouring in from everywhere—Taiwan, Indonesia, the Soviet Union, Argentina, Chile, and Peru . . . and the substitution rate is incredible with over a thousand different varieties of fish, compared to only 10 varieties of meat, such as beef or lamb."

ONE OF THE MOST DIFFICULT ASPECTS of developing an EC fisheries policy will be resolving political differences, mainly between France and Britain. In mid-September, France's transport minister, Joel Le Theule, released a wide-ranging background paper in Paris spelling out French demands, which include "free access" to all fish resources within the Community's 200-mile limit.

What this means is that French fishermen are seeking the right "to fish right up the beaches within the Community . . . a major sticking point with the British," an EC official said, noting that Britain has always demanded an exclusive 12-mile zone. The EC Commission is proposing that the existing 12-mile coastal zones be extended beyond an original 1982 deadline, providing that traditional fishing rights within those zones are negotiated bilaterally. An example: Bretons fishing off Cornwall.

"This is the nub of the issue," said Gallagher, noting that negotiating those rights will be what he terms "a cause of tension" in the months ahead. Failure to resolve the fisheries question could impede progress on such issues as Britain's contribution to the EC budget overall, he said. "Fishing is by no means an isolated issue," added another senior official in Brussels.

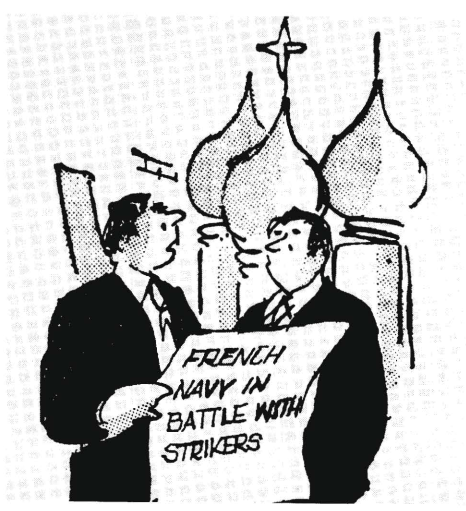
Britain's Prime Minister Margaret Thatcher during a one-day visit to Paris in mid-September told newsmen that Franco-British relations had reverted to their normal, friendly state and that in her talks with top French officials, including President Valéry Giscard d'Estaing, "good progress" had been made on fishing. Diplomatic observers interpreted her statement as a positive sign that compromises were in the works, although they quickly noted that any EC agreement would hardly revitalize the industry.

As the EC deliberations moved ahead, French officials were determined to continue pursuing what they term *le plan,* which triggered the strike last August in the first place. Similar to the reorganization of France's steel industry and reflecting the austerity policies of Prime Minister Raymond Barre, the plan promises the industry new subsidies, totaling roughly $7.5 million, but on the condition that it first "rationalize" operations.

According to the industry, this involves cutting the total number of French fishermen to 8,000 from the present 25,000 by 1985; allowing domestic sales to drop by around 50 percent over the next five years, while encouraging a substantial increase in imports. By the same token, however, Le Theule's proposals call for tightening restrictions on fish imported into the Community, notably from Canada, Iceland, and Norway, and to block what the French allege to be dumping.

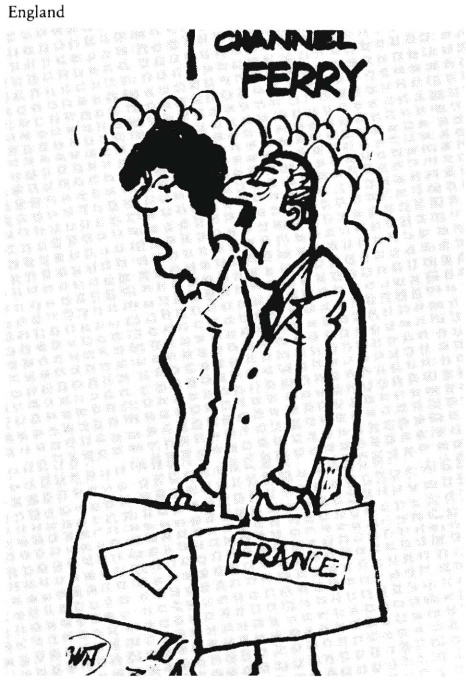
"There is an election coming in France, and it may help some of the proposals being floated," said a seasoned Western diplomat, noting that the French Government also does not want a repeat of last summer's blockade in which Barre mobilized naval ships to clear oil harbors immobilized by trawlers. Although the Government's swift, tough response was widely denounced by French labor unions and leftist opposition groups, any further political fallout seemed unlikely. "The Government has kept the upper hand by force," added the diplomat.

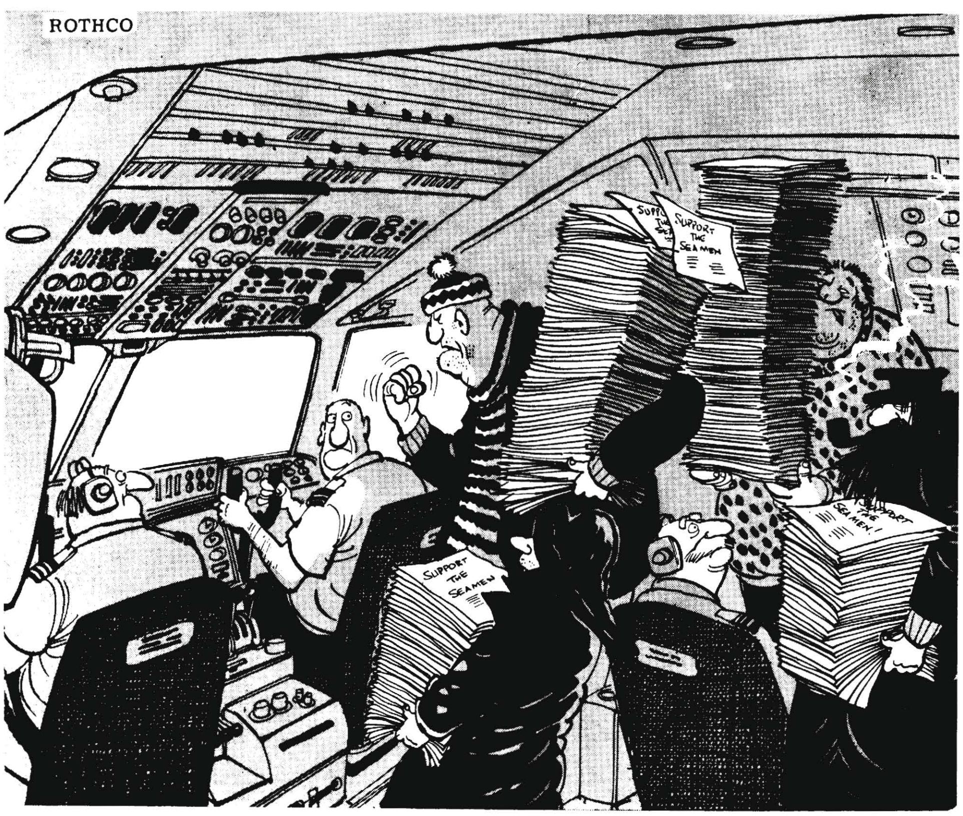
This was not to say that the fishermen were giving up. A 35-year-old fisherman relaxing near a 19-ton trawler docked in Le Havre provided an insight into the feeling of his profession in the Western world. "I am dedicated to this way of life, having started in Newfoundland 14 years ago . . . I don't know what I would do if I had to leave it," he said. But he added, "I have trouble living on what I sell, and I feel I am entitled to some help to make ends meet—just like the farmers."



"Do you think we'd get away with it, comrade?"
© Holland, *Daily Telegraph*, London

"The travel brochures didn't mention anything about having to have a Dunkirk spirit." © Gurbutt, England

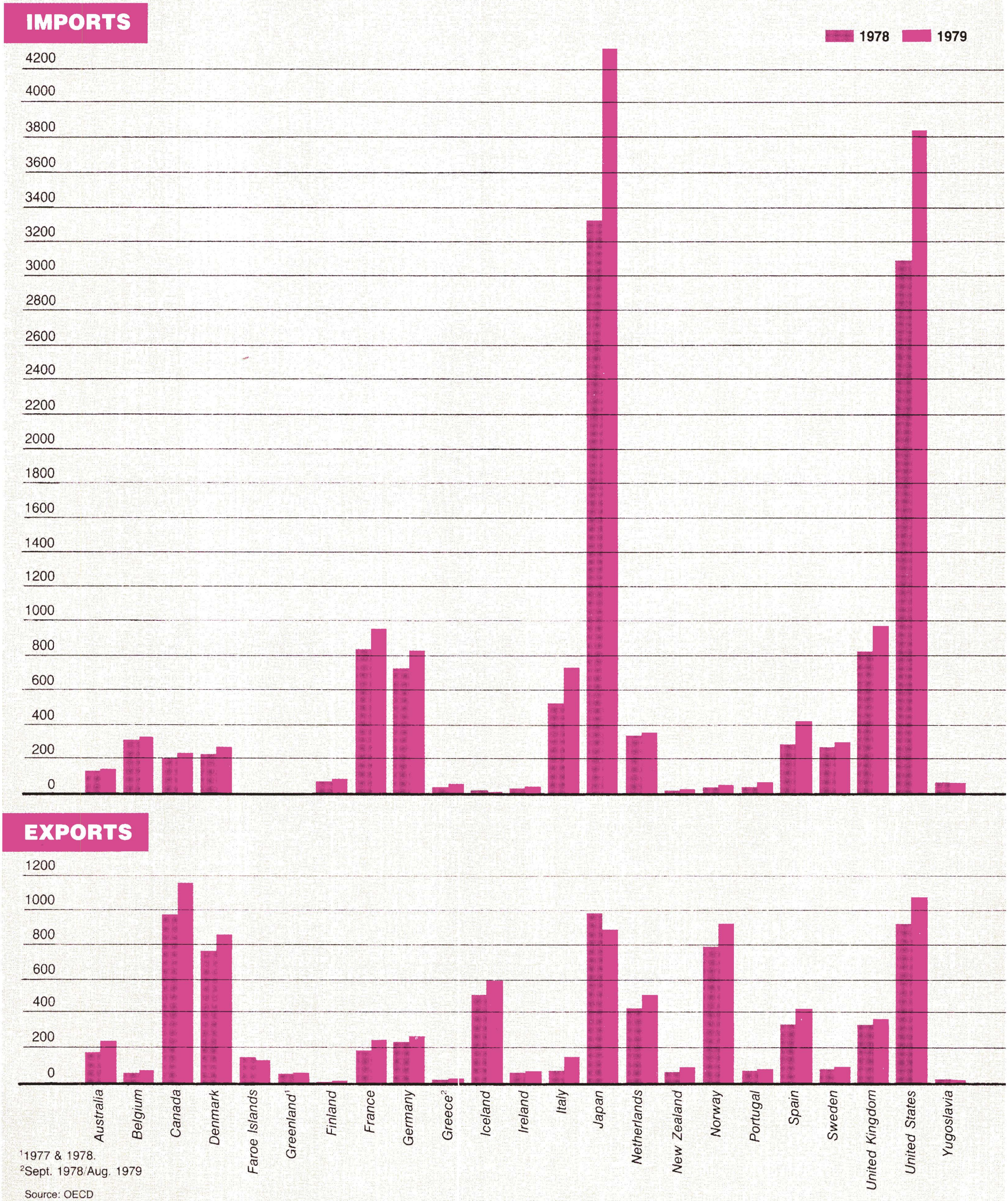




"You heard! National Union of Seamen. Now open the windows and fly over London." © Mac, *Daily Mail*, London

Imports and Exports of Fish and Fish Products by OECD Member Countries

(in millions of dollars)



[1]1977 & 1978.

[2]Sept. 1978/Aug. 1979

Source: OECD

TRANSPORTATION CHALLENGE

Integrating Europe's Road, Rail, and Air Systems

DAVID BELL, *news editor of the international edition of the London* Financial Times

Sir Freddie Laker, hero of cut-price air travelers on both sides of the Atlantic, is fighting a new fares war in Europe. So far his attempt to win the right to issue new low-price, standby fares on some 600 new intra-European routes has been rejected out of hand by European governments. Now he is taking the fight to the European Court of Justice—arguing that the current, cozy inter-airline agreements in Europe are against the Treaty of Rome, under which the European Economic Community was established in 1958.

What Sir Freddie wants is wholesale deregulation, more or less on the American model. As he will tell anyone who cares to listen, it is manifestly absurd that it costs the same to fly the 400 miles from London to Glasgow as it does to fly 3,000 miles from New York to California. But his new assault on Europe's airlines raises issues that go well beyond air travel alone. They go to the heart of a problem in the Community.

The next stage of the integration of Europe depends on a whole variety of factors. But none is more central than the transport systems—road, rail, and air—that bind the continent together and which have changed so dramatically over the past 20 years:

- The European divided highway network is nearing completion. An "interstate" network now connects almost all the major European capitals, and long-distance trucks are as common a sight in Europe as they are on the interstate system in the United States.

- Money has, meanwhile, been poured into European rail systems. Fast, comfortable Trans European Express passenger trains link the major cities providing a service which is the envy of many American travelers who may have been irritated by the uneven service provided by Amtrak. Inter-European freight services are also highly developed.

Bicycles provide transportation for many Europeans, as shown here in Amsterdam. © Patrick Ward, Woodfin Camp

• Canals, linked in with the major rivers of northern Europe, continue to play a vital part in the moving of heavy goods. The new canal now being built to link the Rhine with the Danube in Germany will provide the final part of a 2,000-mile navigable waterway stretching from Rotterdam to the Black Sea.

• And, by no means least, there has been an enormous increase in air traffic and services since the 1950's.

Yet, for all the progress, Europe's overall transport policy is still far from an unqualified success.

The nine EC members are divided on airline deregulation, truck deregulation, and long-distance road haulage policy. They have been unable to agree on a common customs and immigration procedure to reduce irritating frontier delays. And individual countries still either protect or subsidize their own transport undertakings in order to keep foreign competition out.

The picture varies considerably, of course. Europe's rail systems are highly integrated, even if there are very wide differences in the way they are operated and financed. And the long-distance truck network is winning an increasing share of the total freight market despite the obstacles in its way.

What follows is an examination of the European transport scene, sector by sector, at the start of what promises to be another decade of argument about how it might be altered further to realize the dream of the founders of the Community. This was a unified transport network which would once and for all transcend the differences between member states.

Railways

Europe's rail system is currently enjoying something of a renaissance. But most of the Community's state-owned national rail organizations have effectively abandoned the idea that they should actually run at a profit. And some of them remain remarkably inefficient. The principle that railways should be run as a public service was accepted in Europe long before its recent—and only grudging—acceptance in parts of the United States. This was partly because of the war that did so much damage to the network, damage that could only be repaired with government financial aid.

But also because the principle was accepted, it made more organizational sense to merge into one unit the smaller independent companies that had built the network. The economies of scale—some of which have never actually materialized—would help cover the costs of some of the less economic routes that needed to be kept going as a public service.

The result is certainly a system that is overmanned and whose productivity record varies widely. But it has the great advantage that, in comparison with the ailing railroad system in the northeastern United States, it has not been starved of investment. Nor has it been starved of passengers. In the years when the major US railroad companies turned their backs on passenger traffic, Europe's rail network welcomed it. Large sums were spent to relay track in continuously welded rails allowing higher speeds and a more comfortable ride. This in turn helped freight traffic which has been able to travel faster than it can in the United States. The crippling lack of investment by many US rail companies in the past allowed track maintenance standards to slip, markedly by comparison with Europe.

Now, particularly in France, even more money is being poured into high speed trains. The French are building new special high speed lines to allow 150-mile-per-hour trains to link cities 250 and more miles apart. And in Britain new High Speed Trains operating at 125 miles per hour now connect an increasing number of major cities. Inter-city passenger traffic has been climbing steadily.

European railwaymen have never understood why the United States, which has the same sort of population densities in the Northeast and parts of the Midwest as in Europe, did not earlier see the advantages of the train. Some of them now argue that parts of the US system have gone beyond the point of no return.

Keeping the railways healthy is expensive, however. The British Government, for example, is currently having a public row with British Rail which is arguing that the Government is not giving enough assistance to invest in new locomotives and passenger cars. And the Germans are extremely concerned at the mounting cost of the Deutsche Bundesbahn.

Almost all the rail organizations in Europe depend on their governments for at least 40 percent of their operating and capital investment costs, according to a new study recently

A Trans European Express passenger train in Germany.

completed by the University of Leeds in Britain. The only exceptions are Sweden, where the state only funds 11 percent of the cost, and Britain where the Government meets only 29 percent of network expenses. In Italy the Government meets a staggering 68 percent of the cost of keeping the rail system going, while in France the state pays for 45 percent of the country's network. In Germany the state meets 40 percent of the running costs.

The result of this is that in many European countries fares can be kept artificially low. Exact comparisons are difficult because of exchange rate fluctuations, but it is clear for example that Italy's average rail fares are half those of British Rail, which is the most expensive network in the system. Not surprisingly, low fares equal a higher share of the overall market. The rail systems of France and Italy both have over 10 percent of the total passenger (by road, air, and rail) kilometer market. Britain and Germany, by contrast, have only just over 6 percent.

In the freight side of the business, the story is much the same. British Rail's freight business is in very bad shape and the cost of shipping by rail is high. France, Belgium, and Germany on the other hand operate preferential price systems to encourage firms to ship by rail and also benefit from the huge increase in transhipments by rail right across the continent.

Freight costs are also influenced by the relative cost of shipping by road. Taxation on heavy trucks in Germany is very high and both France and Germany have a system of quantity licensing that is designed to encourage greater use of the rail system. Thus nearly half of French and German steel goes by rail, whereas in Britain the railways carry only 10 percent of the country's steel output. And nearly 60 percent of German fertilizers go by train compared with only 8 percent in Britain.

From time to time the EC Commission has dreamed of a unified pricing structure that would iron out all these disparities and the various advantages they mean for companies operating in countries where freight and passenger rates are subsidized. But there are not many analysts who believe that it will ever be possible to create a single fare structure, because different countries have such different views of how the railways should be financed.

In some countries, also, it is clear that the railways continue to be overmanned because governments cannot face the political costs of slimming them down. Italy has 708 staff per million train kilometers traveled compared with the Netherlands which has 255 staff per million. Germany—whose efficiency in the private sector is legendary—operates one of the most overmanned networks in Europe with 571 staff per million train kilometers. France is somewhat better with 477, and Britain checks in at 413.

Here, however, the overall figures hide the fact that Britain and Italy are by far the least efficient at running their freight operations. Both countries require more than twice as many men to run their freight services as other, more efficient railways.

Overall, then, Europe may be counted lucky because it has kept its rail system more or less intact. The high degree of electrification (everywhere but in Britain) has also softened the blow of continually rising diesel fuel prices. On the other hand the cost of operating the system—or, more accurately, the cost of subsidizing it—is very high. Labor costs account for around 60 percent of total costs in most countries and are rising sharply. This is bound to mean that the need for improved productivity will become steadily more acute.

Yet the basic commitment to the rail network is there. The railways are winning back passengers from the airlines on short haul routes and from the roads on long distance freight schedules. These are trends that seem likely to continue. And it is not for nothing that British Rail is currently running an expensive advertising campaign with the slogan, "This Is the Age of the Train."

Highways

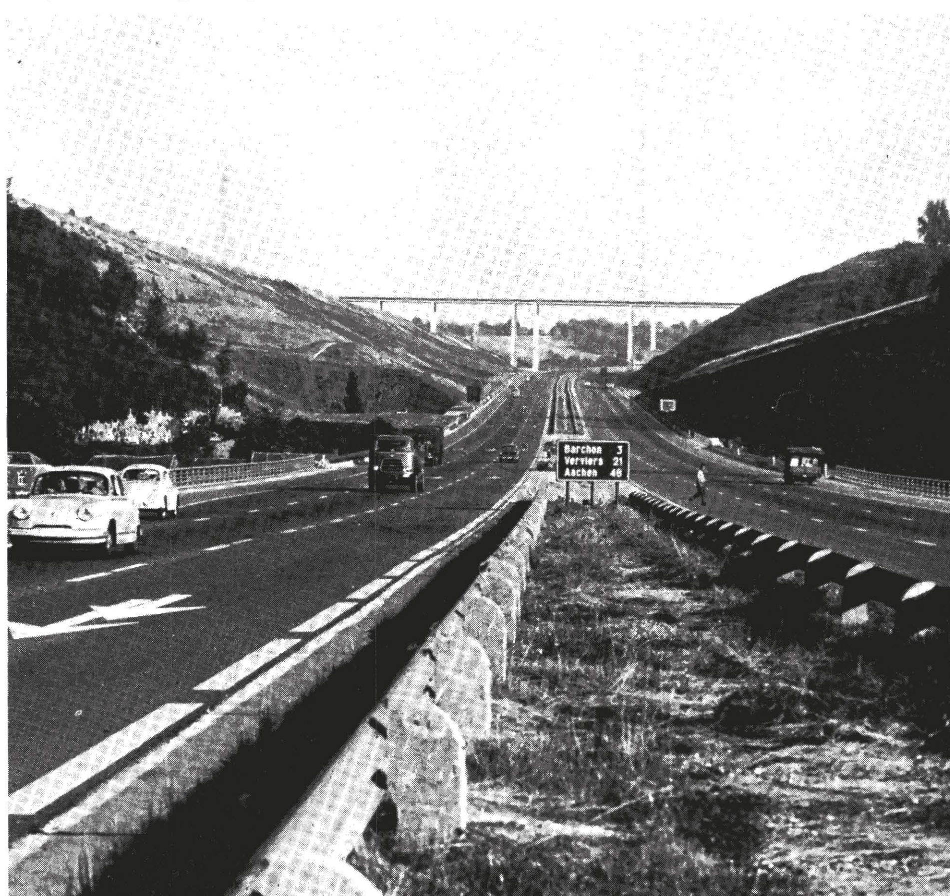
It has taken a long time to build the European equivalent of the US interstate highway system. But the network is now almost complete, allowing high speed driving on divided highways almost without interruption from Copenhagen in Denmark to Alicante in Spain or from Hamburg to Naples.

These new highways have already had an enormous impact on Europe. They have, for example, made the south of France much more accessible from all over the continent with the result that this summer the autoroute to Nice and Marseilles was, at times, overwhelmed by the flow of cars and caravans traveling south.

At some weekends traffic jams more than 10 miles long built up at key highway junctions. And the impact on the coastal resorts themselves was dramatic. They have now reached saturation point—there was no room for many of the campers who made the journey—and angry clashes took place at several crowded camping sites.

The heavy summer traffic again threw into sharp relief some of the deficiences in the European network. Many of the older French autoroutes, for example, are toll roads built in the Sixties by private companies in a hurry.

The European inter-country highway system is almost complete from Copenhagen to Alicante, Spain, and from Hamburg to Naples.



Often they are only two lanes on each side, which means that they are already nearing their design capacity.

In parts of Germany the problem is the same, but for rather different reasons. Here the basic autobahn network was designed in the Thirties primarily to allow rapid military movements. Then it was far ahead of its time. Now some routes are showing their age and badly need widening to at least three lanes on each side.

In Britain, meanwhile, the system is still not extensive enough. In particular, London is still without a proper orbital road, and the motorway planned to circle the city is not expected to be completed before 1986 at the earliest. Many of the early stretches of highway, built in the early Sixties, are now falling apart—meaning that in Britain, as elsewhere in Europe (and the United States), road repair bills are mounting alarmingly.

Part of the reason for this is that the motorways were badly constructed. But the real reason is that all the estimates of likely traffic flows have turned out to be wildly inaccurate. The key route from London to Birmingham, for example, is already carrying much more traffic than it was expected to be carrying in 1990.

This enormous expansion in traffic—particularly heavy truck traffic—has already precipitated a major row within the Community.

EC truck regulations are strict, but the Commission has been ready to allow much larger trucks, with correspondingly large axle weights, to operate within the Community.

European long-distance truck drivers, meanwhile, are only allowed to work a specified number of hours a day at the wheel, and their driving time is monitored by a "tachograph," a machine which automatically keeps a check on miles driven and hours worked.

British drivers objected furiously to what they called a "spy in the cab" and for a long time refused to have anything to do with it. However, tachographs are now being introduced into cabs even if only slowly.

The British Government, meanwhile, has been fighting a powerful rearguard action against heavier trucks, arguing that the damage which they do to the roads is so great that they will churn up vast parts of the British road system, which was simply never designed to take their weight.

A recent study by the Batelle Research Institute in Geneva lent some weight to this argument. It showed that heavy truck traffic accounts for a remarkable 85 percent of road wear in Europe and that taxes on long-distance truck operators actually only meet half the cost of building and maintaining the road network.

This is an old argument, which has its counterpart in the United States. It is compounded by the fact that truck license fees and truck usage taxes vary enormously from country to country. In some parts of Europe, for example, trucks do not have to pay tolls in return for keeping out of cities and staying on the autoroutes. A recent decision in Nice to start charging tolls after waiving them has caused an outcry among truck operators.

German truck taxes are high, whereas in Britain they are considered very low. One of the consequences is that, despite its inadequate road network, Britain ships more of its goods by road than any other major EC country. Still, if it's any consolation to the British, they are the safest drivers in Western Europe, though not as safe as their counterparts in the United States.

In the long term, there is no doubt that it will be the motor routes that remain Europe's primary arteries. The increase in the price of gas has made little difference to driving levels, partly because European cars have become steadily more fuel-efficient and are likely to get more efficient still.

Here, too, of course, the Community's dream is of a time when immigration and customs checks have been abolished at all European borders and drivers can move as easily from Amsterdam to Rome as they can from New York to Denver. That dream is still some way from being realized. But the roads are now almost all in place, and it would well be that their very existence—and the ease of travel—will help bring the dream closer to reality.

The Airlines

Operating an airline in Europe, at first sight, is not all that different from running one in the northern half of the United States. Short- and medium-haul, high-density routes link major population centers. Business traffic is heavy; and, in winter, both systems can be thrown into chaos by fog, snow, and ice.

In practice, however, this is where the similarity ends. Each of the nine EC countries has responsiblity for air traffic control within its airspace—providing endless opportunities for friction. Fares and schedules between capitals are fixed by member governments, each jealously protecting their own state-owned carriers. Customs and immigration checks slow up embarkation procedures and baggage handling.

The result of all this is a system that creates massive frustration not only for Americans, who compare it unfavorably with their own domestic network, but also for the thousands of harassed European executives who have to rely on it.

All this frustration has been crystallized in the argument about air fares, now the subject of a special EC investigation.

The pressure to cut European air fares has

Each country is responsible for traffic control within its own airspace—providing endless opportunities for friction. Shown here is the Shannon airport in Ireland.

Only taxis and buses are permitted in this busy shopping district in London. © Richard Massey

come principally from Britain, partly because it is the home of Sir Freddie Laker, but also because it is the only large European country with major independent airlines operating side by side with a state-owned flag carrier.

Laker, British Caledonian, and Air UK—the three independents—have all applied to the British Civil Aviation Authority (CAA, rough equivalent of the US Civil Aeronautics Board) for permission to operate cut price service on a host of routes from Britain to cities in Europe. On average the fares they propose would be 50 percent less than present levels.

The CAA has rejected all their applications—arguing that they are too far-reaching, that the European airline industry could not survive this kind of instant deregulation, and that, in any case, it could never get its counterparts in the rest of Europe to agree to such revolutionary proposals.

The latter point is certainly true. Dr. Umberto Nordio, the chairman of Alitalia, emphasized it succinctly in a recent interview. "No European government will allow their own airlines to suffer serious losses of traffic to third parties because their air transport industries are vital for their economies. In a free-for-all the sufferer in the long-term will be the customer and the taxpayer. We are not evil protectionists. We are all in the same boat and are all fighting for survival."

France, Germany, and Italy are all opposed to any kind of airline deregulation at this stage. And since all routes and fares have to be negotiated government to government, there is very little that any one airline, on its own, can do.

Sir Freddie hopes to short-circuit this process by questioning the principle under which fares and routes are fixed. He is thus pinning his hopes on the European Court. It promises to be a long struggle.

The irony is that the current excess of regulation is itself very expensive. The International Air Transport Association (IATA) said in September that airline costs in Western Europe are between $1.5 and $2 billion higher than they need be largely because of deficiencies in the air traffic control system.

Eurocontrol, the body which links the individual air traffic control systems of each country, is planning to increase its charges by up to 40 percent next year. It will then be collecting around $1.2 billion from the airlines using the space for which it is responsible.

The IATA study showed that if Western Europe had the same system as that operated in the United States by the Federal Aviation Administration—and was not also governed by strict rules about avoiding military airspace—airlines could save up to 600 million gallons of fuel, worth about $800 million. And they would be able to cut out some 240,000 hours of unnecessary flying time.

A key element in the Laker argument is that European airlines ought to have the right to start and finish flights outside their own country. For example, he says, Air France should be able to operate a route from Milan to Frankfurt and back if it feels it can justify the service.

In the air industry this is known as the "fifth freedom," but almost all European governments are adamantly opposed to granting it either to Sir Freddie or to anyone else.

The reason is simple. Most state airlines depend on a core of services from their own country to the rest of Europe. Competition from a whole range of airlines would eat away at this core and force them to adopt what they believe would be hopelessly uneconomic fares. And, the airlines argue, it would then rapidly become a vicious circle: Low fares would mean fewer services in the end because airlines could not sustain current flight levels.

While the Community takes a close look at fare levels, it is also attempting to do something about customs and immigration procedures. These vary enormously within the Community and can be the source of enormous frustration.

Entering Germany or France, by air, is relatively simple. On the other hand, it can take quite a long time to get through the checks in Brussels, and London's Heathrow airport can be infinitely frustrating.

Altering this situation, as in finding an acceptable way to reduce fares and increase competition, is going to take a long time.

The airlines argue that it is all far easier said than done. Both they, and the governments that sponsor them, are clearly determined to fight to the finish.

Canals continue to play a vital role in the European transportation picture. Shown here is barge traffic in Belgium.

All of these securities having been sold, this announcement appears as a matter of record only.

NEW ISSUES

European Investment Bank

$100,000,000 12¾% Notes Due October 1, 1988

$100,000,000 13½% Bonds Due October 1, 2000

Merrill Lynch White Weld Capital Markets Group
Merrill Lynch, Pierce, Fenner & Smith Incorporated

Salomon Brothers

Lehman Brothers Kuhn Loeb
Incorporated

The First Boston Corporation

Lazard Frères & Co.

Morgan Stanley & Co. Incorporated
Goldman, Sachs & Co.
Atlantic Capital Corporation
Bache Halsey Stuart Shields Incorporated
Basle Securities Corporation
Bear, Stearns & Co.
Blyth Eastman Paine Webber Incorporated
Dillon, Read & Co. Inc.
Donaldson, Lufkin & Jenrette Securities Corporation
Drexel Burnham Lambert Incorporated
E. F. Hutton & Company Inc.
Kidder, Peabody & Co. Incorporated
L. F. Rothschild, Unterberg, Towbin
Shearson Loeb Rhoades Inc.
Smith Barney, Harris Upham & Co. Incorporated
UBS Securities, Inc.
Warburg Paribas Becker A. G. Becker
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Dean Witter Reynolds Inc.
Arnhold and S. Bleichroeder, Inc.
EuroPartners Securities Corporation
Algemene Bank Nederland N.V.
A. E. Ames & Co. Incorporated
Amsterdam-Rotterdam Bank N.V.
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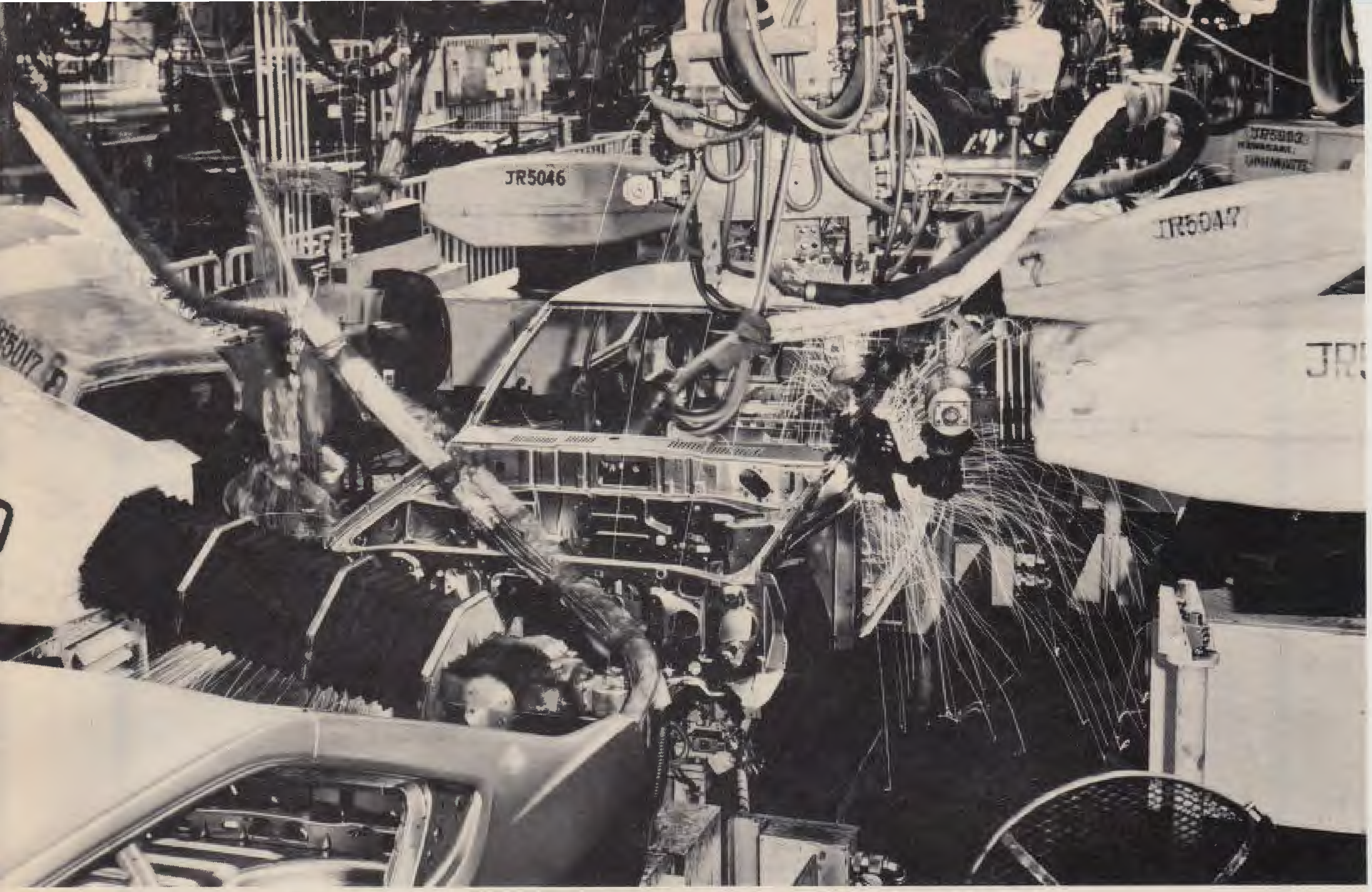
Banque Internationale à Luxembourg S.A.
Banque Nationale de Paris
Alex. Brown & Sons
Caisse des Dépôts et Consignations
County Bank Limited
Crédit Commercial de France
Crédit Communal de Belgique S.A.
Creditanstalt-Bankverein
Daiwa Securities America Inc.
Dominion Securities Inc.
A. G. Edwards & Sons, Inc.
Robert Fleming Incorporated
Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft
Hessische Landesbank —Girozentrale—
Hill Samuel & Co. Limited
Hudson Securities, Inc.
IBJ International Limited
Kleinwort, Benson Incorporated
Kredietbank S.A. Luxembourgeoise
Ladenburg, Thalmann & Co. Inc.
McLeod Young Weir Incorporated
Morgan Grenfell & Co. Limited
Moseley, Hallgarten, Estabrook & Weeden Inc.
New Court Securities Corporation
The Nikko Securities Co. International, Inc.
Nippon Credit International (HK) Ltd.
Nippon European Bank S.A.
Nomura Securities International, Inc.
Oppenheimer & Co., Inc.
Orion Bank Limited
Wm. E. Pollock & Co., Inc.
Société Générale de Banque S.A.
Thomson McKinnon Securities Inc.
Tucker, Anthony & R. L. Day, Inc.
Vereins- und Westbank Aktiengesellschaft
Westdeutsche Landesbank Girozentrale
Wood Gundy Incorporated
Yamaichi International (America), Inc.



Robotized production in a Datsun plant in Japan. courtesy Nissan Motor Corporation in USA

Europe's Auto Troubles,

The United States is not alone

JASPER BECKER, *freelance journalist who writes for* European Report

Predictions that the European car industry, like that in the United States, is facing imminent decline and fall seemed to reach fever pitch in recent months. The car industry is viewed as a gauge of the virility of all European industry. In all its facets the industry employs more of Europe's population than any other commercial activity. More than this, the car is a shiny symbol of society, the ultimate consumer good, the product of the latest expensive technology, and the father to the ills of our mobile society.

The root cause of the crisis is the more than quadrupling of the price of oil. The US industry has discovered that it should have changed from producing gas guzzlers to small, front-wheel drive cars long ago, and now it has even turned to the state for support. Europe's industry is undergoing a belated restructuring program and is campaigning for a restriction of Japanese imports. Meanwhile, the Japanese are capitalizing on their competitors' short-sightedness.

But it is not just the Japanese who are worrying the Americans and Europeans. Every economic forecast from the Organization for Economic Cooperation and Development (OECD) brings fresh news of declining demand, rising inflation, and a specter of unemployment equal to that of the Thirties. In Europe, which has witnessed the decline of many of its staple industries, the fear is that after shipping, textiles, and steel, the car industry will be next. Britain's car industry's collapse is seen as a horrifying precedent. Many other major industries—steel, chemicals, rubber, paint, and a host of service and component industries—rest on the shoulders of the automobile industry.

For the first time in history, Japan made more cars than the United States—5.46 million compared to 4.27 million—in the first quarter of this year. Japan's exports to the Community continue to break records as its market share increases by leaps and bounds. Exports to the Community in the first half of 1980 jumped 24.6 percent, including a 43.3 percent rise in Germany and a 14.6 percent increase in the United Kingdom. The proportion of sales to Germany was 15.5 percent, while in Britain Japanese manufacturers took 12.3 percent of the market.

Dealing with Japan's success depends first of all on keeping a firm hold on the domestic market, but maintaining exports is also important. Daimler Benz, for instance, exports 50 percent of its cars, since the market outside Europe is growing, and the European market is reaching saturation point. The challenge is a tough one, and for both the Americans and the Europeans it is a question of holding out until the introduction of a new range of models. At the moment the Japanese have the right product at the right time, at the right price, and just about everywhere.

By comparison with America and less so with Europe, Japan is a small and densely populated country. It relies almost totally on imported energy supplies. The Japanese have, therefore, always favored small energy-efficient cars. Japan's industries are modern and have had to be energy conscious. Wages are low, although now creeping closer to European levels; social harmony and structures create excellent labor relations; and the work force is well educated and disciplined. Although the home market is reasonably large and stable (population is around 100 million), Japan has always realized that financing its energy imports is impossible without massive exports of manufactured goods. The burgeoning trade deficit has in turn led to an undervalued Yen, which has helped to give its car prices the edge over rivals.

But there are other factors too. Japanese car manufacture is limited to the production of small cars—99 percent are under 2,000 cubic centimeters—and they are made in conformity with the car regulations in their export markets. Compared with Europe, Japan's industry has invested heavily in automation and the assembly plants are much more robotized. There has been a greater emphasis on quality control that has led to less waste and better reliability.

The European car industry realized after 1973 that it must rationalize and regroup. The Americans responded with a worldwide car strategy involving investments on an international scale, which will eventually lead to components being assembled in different factories to take advantage of the benefits of each location.

The Japanese have already made self-restricting agreements. Imports onto the British market are limited to 11 percent, and Japan has agreed to restrict exports to Italy to below 2,200 units and to 3 percent of the French market. There are no restrictions on imports into Germany, but Germany has now joined in the chorus demanding import controls. Japanese car imports already have to pay a 10-11 percent duty, and under the General Agreement on Tariffs and Trade (GATT) free-trade rules, there are no real grounds for taking further actions.

EUROPEAN CAR MAKERS have realized that not only are small cars beautiful, but bigger companies are better. In order to keep up with the Japanese and American giants, European producers have sought a multinational dimension, buying subsidiaries abroad, cooperating on research and development projects, ordering from independent specialist suppliers, and becoming partners with the Japanese.

Volkswagen in 1973 established a plant in the United States and is now starting work on a second. In Latin America it is reorganizing its operations after the purchase of the former Chrysler businesses in Brazil and Argentina. Similarly, Fiat is spending $5 billion integrating its Spanish, Italian, Polish, and Brazilian facilities.

The brand new British Leyland Mini Metro, launched in mid-October, is considered crucial to the survival of Britain's state-owned car company. © Richard Massey

Renault, meanwhile, has acquired 22.5 percent of the American Motors Corporation (AMC). AMC is the smallest of the four US manufacturers, but the deal gives the French group access to a much wider dealer network in the United States and paves the way for eventual assembly of Renault models on American turf. Renault also has an agreement with the Portuguese Government to develop that country's car industry, giving it a strong base in southern Europe. And to the north Renault recently signed a deal with the car division of Volvo, which could lead to its taking a 20 percent share in the Swedish manufacturer and will certainly lead to the two groups cooperating in the design and production of components.

© Bas, *Tachydromos*, Greece

There is a steady increase too, in the number of facilities owned jointly by several car companies. For example, Renault, Volvo, and Peugeot are already joint owners of a high-technology, six-cylinder aluminum engine manufacturing plant at Douvrin in northern France.

Cooperation has extended to the Japanese too. British Leyland and Honda are shortly to start building a car in Britain, of which 60 percent will be British and the rest imported from Japan. The Italian Government has just given its tentative blessing for a similar project between Alfa Romeo and Nissan. Both companies have had troubles for a long time and an infusion of capital, know-how, and Japanese management expertise might do much to breathe fresh life into them. For the Japanese such deals are a way of expanding without breaking the self-restricting agreements. Accusations of exporting unemployment can also be refuted, if they rechannel profits into their competitors' countries. Failure to do so may do more than create bad blood, and in any case an unemployed customer can afford no car at all.

The Council for Mutual Economic Assistance (Comecon) bloc has also greatly expanded its car manufacturing industry, producing over 2 million vehicles last year. Another 2.5 million vehicles were produced in Latin America and Africa, but these were chiefly made by European or American subsidiaries. Although the potential is perhaps greater in Latin America and Africa, the threat from Eastern Europe is causing more concern. European companies, such as Fiat or Volkswagen, have helped build factories as part of buy-back deals. Components or cars are built at prices lower than in the Community and then exported back for sale on the European market. The East European's own cars, although recognized as much inferior to Western cars, are cheap and often made solely for export in order to win much needed Western currencies. The exports of cars, such as Lada, have been successfully directed at a particularly narrow market range. EC exports to Eastern Europe are negligible.

Whatever the technological innovations, the financial constraints, or the research breakthroughs, the most crucial economic consideration in car manufacture is manpower. Labor costs vary considerably and Japan has a clear advantage in this area. The average cost of keeping a car worker employed is almost half as much in Japan as in Germany. At the same time the amount worked annually in the German motor industry has fallen to less than 1,600 hours per worker, compared with around 2,000 in Japan. The number of days worked a year in Germany total 201, compared with 275 in Japan. Comparisons with other European countries are even less flattering. Absenteeism is practically nonexistent in Japan, but in Europe it reaches 10-15 percent. Much the same could be said about strikes. But Japanese competition and the threat of bankruptcy are beginning to have an effect: Absenteeism in Italy has in recent months dropped to around 3-4 percent.

Terms of employment also differ greatly. In Japan 50 percent of the car workers have jobs for life, and the four major car companies subcontract 70-80 percent of the final product to small, independent subsidiaries, where the incentives to work hard are much stronger. Compared to the Japanese and Americans, the Europeans suffer from certain kinds of ethnic or trade union inflexibilities, which prevent the full advantage of varying production—such as swing shifts, Saturday work days, part-time work—so that it is difficult to adapt when orders are slack.

The dramatic cutback in car production has led to rising unemployment. These unemployed workers queued in London try to avoid the photographer—showing the social stigma job loss still carries.
© Richard Massey

In the latest assembly plants, human labor has been replaced by the robot, which has removed much of the drudgery but only at the expense of jobs. For unions this trend poses difficult decisions. If they stop the introduction of robots, the companies may go bankrupt; but if they agree to it, they must ensure that government and management accept responsibility for finding alternative employment. The prerequisite for change, the unions feel, is a coordination of industrial, labor, and employment policies with Community-wide consultations with workers and unions. If jobs are lost in one industry, the government must create the conditions for jobs in a new industry.

National governments agree; but in a recession—and that is when it counts—it is hard to tell if they are successful. Management argues that new jobs are created in the companies that make the robots, and that if productivity is increased and costs reduced, they should be able to make more and cheaper cars. But if they make more cars, they must find new markets.

THE EMPLOYMENT SITUATION is worsening this year: In Italy 78,000 Fiat workers went on a four-day week during June and July; in France Peugeot-Citroen closed down for five days in spring and was scheduled to do the same in the summer, while Talbot (formerly Chrysler) planned to stop production for eight days in the autumn; in the United Kingdom, numerous plants shut down completely (MG for instance); and even in Germany, Opel announced plans to cut its work force by 6,000. A recent long-term study by the Essener Institute predicted that in Germany 450,000 jobs might be lost in the coming decade.

The massive restructuring and rationalization inside the industry may be happening too late, and the dynamic rate of Japanese penetration seems to be painful evidence. "The European car industry is a consequence of history. It is highly fragmented, its components suppliers are prevalently national, and little rationalization has been done. In spite of the setting up of the European Community, the persistence of competing, incompatible national industrial policies continue to stand in the way of restructuring," Fiat Chairman Giovanni Agnelli said this year. He added, "A market cannot be united if export financing capacity, in terms of duration and interest rates, differs widely from one country to another. A market cannot be united if companies troubled by the militant unionism of the Italian variety have to compete with others sustained by unions of the German comanagement type. A market cannot be untied if public administration attitudes and efficiency are an encouragement for some and a brake on others."

The Germans and the French, both with healthy industries, have less to gain from a more unified European market and have been holding back. On the other hand, France has also had its fair share of industrial unrest, and its car industry has asked that "the administration facilitate the initiatives taken by the automobile manufacturers to obtain more efficient utilization of their installations."

The EC Commission has come under great pressure to restrict Japanese imports. In July the Committee of Common Market Car Manufacturers wrote a public letter to the Commission pointing out the rapid increase in imports. The Commission admitted that its policy toward Japan needs overhauling and that the national voluntary restraint negotiations need harmonizing, if the market is not to be distorted. A policy document on the subject contains the vague outlines of a plan, but the wording is equally tantalizing: "In the case of major difficulties, it may be necessary to seek between the Community and Japan, agreement for the temporary restraint of Japanese exports while European industry restructures." These exceptional cases would only occur in the following circumstances: when they concerned a product where serious industrial and social difficulties would otherwise occur as a result of Japanese competition; the restraint was for a limited period (normally two to four years); the protection was accompanied by restructuring measures of the Community's industry as determined in appropriate procedures; the Community undertakes to proceed to liberalization on an EC-wide basis, within a specified basis.

The Community is expected to harmonize the voluntary restraint arrangements and then use the Community's joint bargaining powers to extract some concessions from the Japanese. The industry had taken some other initiatives of its own when in May six major European car manufacturers collaborated on long-term, high-technology research. The EC Commission gave its blessing, despite the thought that this might break the competition rules, and recommended that research and development should receive double the 3 percent of turnover currently devoted it. British Leyland, Fiat, Peugeot-Citroen, Talbot, Renault, Volkswagen, and Volvo all pooled their resources to look into combustion technology, corrosion, surface treatment, computerized engineering methods, and the properties of raw materials.

Although the Commission has shown no signs itself of providing any funds, it is active in regulating pollution and energy standards, reducing technical barriers, and through its social and regional policy harmonizing taxation, and it is continually striving to create a common market. Nevertheless, there are glaring differences in the degrees of state and subsidies and regional aids, credit availability (many cars are sold on rent-purchase schemes), and different transport policies. The French industry has always berated its government for failing to develop the national road system in the way the Germans have. Fiat complains that the Italian Government's fiscal and welfare structure penalizes domestic producers because welfare charges (drawn exclusively from domestic added value) constitute a higher proportion of outlay than in other European countries. Lastly, the most obvious evidence of the differences is that on average the same car can vary in price throughout the Community by as much as 30 percent and sometimes by as much as 100 percent.

What the car industry has definitely not welcomed is the idea of taxing oil imports in order to pay for research and development of new energy sources. EC Energy Commissioner Guido Brunner has bravely been promoting this strategy almost single-handedly.

New small, fuel-efficient American models are being introduced to compete with the influx of foreign cars onto the US market. Shown here is the Ford Escort which made its debut in early October. courtesy Ford Motor Company

The popularity of small foreign cars has shown the US industry that "it should have changed from producing gas guzzlers to small, front-wheel drive cars long ago." © Tenney Mason

MEMBER STATE REPORT

BRITAIN'S ECONOMIC EXPERIMENT *The results are still out*

PETER RIDDELL, *economics correspondent for the* Financial Times *of London*

The British economy is now in the middle of an unusual experiment. The Conservative Government elected in May 1979 is attempting to change the direction of economic behavior and performance. Its attempt has intrigued economists and policymakers throughout the world. In the words of the Basel-based Bank for International Settlements, the central banks' bank, "There is now for once the possibility of observing an experiment akin to those always available in the natural sciences."

Yet the shift is not just in the details of economic policy. It represents a fundamental change in political direction from the approach adopted not just by the previous Labour Administration but also by earlier Conservative administrations since the last war.

Nigel Lawson, financial secretary to the Treasury and one of the main advocates of the new approach, has described it as a conscious rejection of the false trails of the last 25 years. His view is that during the earlier period, the Conservative Party embraced the delusions of social democracy, with its profound faith in the efficacy of government action and its deep commitment to the notion of equality.

The new conservatism of the present Government has involved a return to monetarism, in contrast to what has become known as Keynesianism, and an emphasis on the operations of the free market, in contrast to state intervention and central planning. The essence of the monetarism is a reliance primarily on the control of the money supply to bring down the rate of price inflation and thus to create the conditions for sustainable economic growth. Formal monetary targets and a high priority on fighting inflation, rather than achieving full employment, were also prominent features of economic policy under the last Labour Government from 1976 onwards. What is different now—and from what is happening in the rest of Europe—is the degree of emphasis placed on monetary control and the absence of any general or statutory limits on the level of pay and price increases.

The parallel plans to reduce significantly the levels of public expenditure and of income taxation also represent a clear break with previous policies, as does the desire to cut back on the Government's detailed involvement in the economic and industrial life of Britain. Both the objectives and the implementation are very controversial. "Monetarism" has become a term of abuse in political and economic debate within the United Kingdom, and this makes it more difficult to judge the success or otherwise of the experiment.

The record so far is certainly patchy. The rate of monetary growth has generally been well above the upper end of the official target rate of increase while the rates of both wage and price inflation accelerated between May 1979 and summer 1980 to a peak of about 22 percent. At the same time output has fallen sharply, as the United Kingdom has suffered a more severe recession than the rest of Europe, and unemployment has soared.

It is easier to point to results in the promotion of freer markets. Wage, price, and dividend controls have been abolished and, perhaps most significant of all, the 40-year-old exchange controls on the movement of money out of Britain have also been completely removed. The high rates of tax for top income earners have also been reduced in order to provide an incentive, but the total tax burden has risen. This is because of higher indirect taxes and local property levies (known as rates). There have also been a series of measures aimed at reining back public spending though, even after adjusting for inflation, expenditure this year is still likely to be higher than three years ago.

THIS RECORD HAS PROMPTED some of the Government's critics, of which there is no shortage, to pronounce the experiment a failure. But this verdict seems premature, not least because the policy is specifically set in terms of a medium-term financial strategy stretching forward to 1983-84. Moreover, it has always been admitted that there would be transitional costs—possibly large ones in terms of unemployment—as inflation was squeezed out of the economic system.

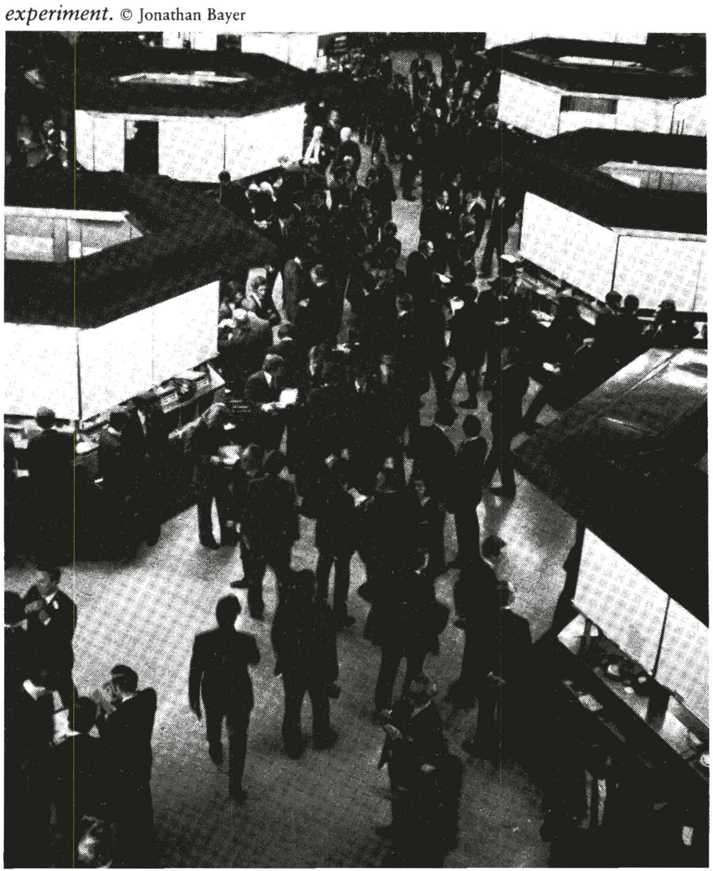
Problems have occurred so far partly because the experiment was launched at a time when the British economy faced strong and unpredictable forces of both a favorable and unfavorable kind. In particular, North Sea oil was beginning to have a major impact on the economy. Last year North Sea oil and gas production was equivalent to about 2.25 percent of total output, and the share could rise to 4 percent in 1981. But its contribution should not be exaggerated. Even in the mid-1980's, the share of total output coming from oil and gas will be less than, say, from construction or agriculture, and in the same period government revenues from taxes on North Sea operations will be equivalent to less than 7 percent of total receipts.

The British economy is, nevertheless, much better off with North Sea oil than without it. And that is the view that foreign investors and the exchange markets have been taking. One of the main effects of the oil so far has been on the level of sterling. The pound has risen sharply against most other major currencies. This has happened both directly via the impact of a favorable trade balance in oil and indirectly via capital flows attracted to London by sterling's status as a petrocurrency.

The increase in oil prices was one of the main—and insufficiently appreciated—influences at work when the Conservatives came to power. There were also other unmistakable signs of accelerating inflation. The Labour Government's pay policy had broken down after the end of 1977, and the 12-month rate of retail price inflation was already heading back toward double figures by the election.

The result was that the economy was already under strain before the experiment started. The Government's

London Stock Exchange—one barometer of Britain's economic experiment. © Jonathan Bayer



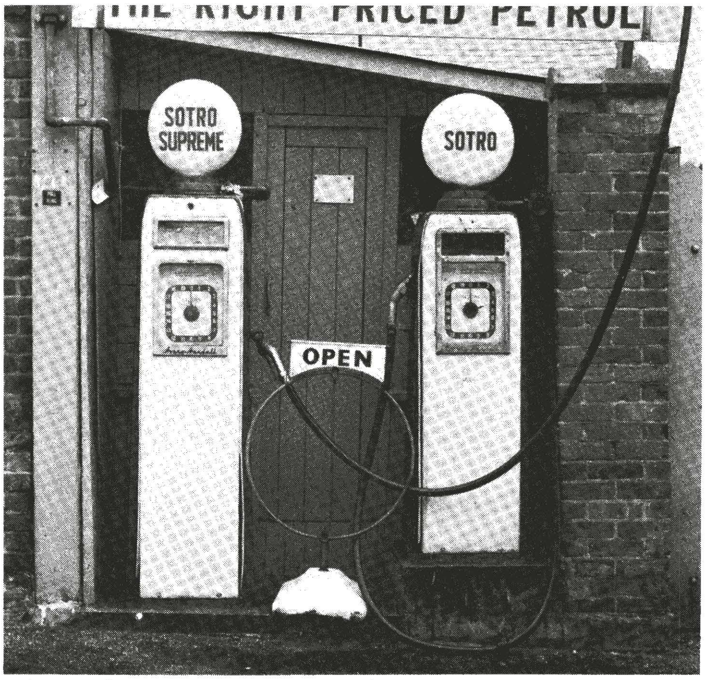
"When the pie opened, the birds began to sing. . . ." © Garland, *Daily Telegraph*, London

initial actions compounded these difficulties. The first budget implemented an election pledge to finance a large cut in income tax by raising indirect taxes and other public sector charges. This pushed up prices in the shops by nearly 4 percent in a single month and also raised the level of pay rises expected by trade unions during the following year.

The resulting acceleration in inflation collided with the attempt to tighten the monetary screw. Something had to give. In the event monetary growth and public sector borrowing (the budget deficit) have both remained well above desired levels. Yet, paradoxically, there has still been a tight squeeze. The explanation is the strong pound. High interest rates in London (a product of monetary policy) relative to returns available overseas attracted even more money into sterling at a time when investor attitudes towards Britain were anyway becoming more favorable. This was because of the rise in oil prices, because of North Sea oil, and, not least, because of the election of the Thatcher Government.

The strength of sterling may have helped to take some of the edge off the rise in oil and other commodity prices. But the rise in the pound's external value also contributed to a large erosion in the competitive position and profit margins of British industry at a time when domestic costs were already accelerating. By the summer of 1980, the competitive position of British manufactured products had deteriorated by 30 percent in a year.

On top of all this came the world recession. Faced with the twin pressures of a strong pound and falling demand, industrial output and profits have declined by unprecedented amounts. Companies have cut back in order to survive.



"The British economy is much better off with North Sea oil than without it"—causing the pound to rise sharply against other currencies.
© Jonathan Bayer

THERE IS A MORE POSITIVE SIDE of the picture, even if it is hard to see now. The very factors, such as the strong pound, which have hit manufacturing industry have helped consumers. The strong pound has reduced the cost of imported goods and contributed to a sharp rise in real incomes. It is often forgotten within the United Kingdom that average living standards, as measured by real personal disposable incomes, rose by 15 percent between 1977 and 1979 and are unlikely to show much overall change in the recession years of 1980 and 1981.

Moreover, the tight squeeze on industry and retailing is helping to limit price rises. The underlying rate of retail price inflation has slowed down substantially since the late spring, as shown by extended price cutting campaigns on the High Streets of Britain. Almost the only shops not offering special sales are undertakers and banks.

The Government's hope is that a slowdown in price inflation, in combination with the recession, will affect wage bargainers who were notably unaffected last year by the announcement of tight monetary targets. This is called old-fashioned deflation by some. But whatever the label there are already signs of some moderation in the size of pay claims in the more vulnerable areas of manufacturing industry. The key test will, however, come during the winter in the public sector that employs roughly a third of the labor force and that has been a pacesetter in pay deals in the last two years.

"Price cutting campaigns" by retailers reflect the slowing down of inflation. All items in this Oxford Street shop in London are imported.
© Richard Massey

The question still to be answered, however, are whether the reduction in the rate of price inflation over the next year—possibly to 12 percent against nearly 22 percent last June—is sustainable, or is merely the product of exceptional competitive pressures. Furthermore, there is the worry, expressed increasingly often by industry, that any reduction in the inflation rate can only be achieved at the cost of a socially and politically unacceptable level of unemployment and with permanent damage to Britain's industrial base.

The leading British economists—Brian Reddaway and Robin Matthews of Cambridge University—argued recently in the Midland Bank review that the criterion for the success or otherwise of the experiment should be whether there is a reduction in the inflation rate by 1983 to something well below the 10 percent rate that prevailed when the Government was elected and a satisfactory rate of sustainable growth of output in the ensuing years.

They were not optimistic about the chances of success. "There remains a substantial possibility of failure, either in the sense that the policies will prove impossible to adhere to long enough for them to yield fruit or that the fruits will be very disappointing even though the policies are maintained until 1984."

The two economists were worried that four years of low demand, poor competitive power, and low profits would leave a poor legacy for the period after 1984. There might well be a shortage of plant and of skilled labor to meet any growth in real demand. At the same time the drive to improve economic performance through a freer market and the creation of enterprising small firms might also be hindered by the economic environment.

Many monetarist economists are, however, still hopeful that the experiment can work, provided that the Government does not relax its monetary policy and its drive against inflation. Perhaps the most balanced view of the British economy came in the recent Brookings study ("Britain's Economic Performance"), which argued that "policymakers could do a better job of living within the [productivity] constraint implied and convincing the people to do likewise. It is bad enough to endure relative impoverishment; it need not be made worse by inflation."


EC Bonds on US Markets

Current success brings visions for future programs

TIM CARRINGTON, *Washington correspondent for McGraw-Hill's Securities Week*

Europe's Money, America's Interest

The first anniversary for EMS

DIRECT INVESTMENT

THE SPARTANBURG EXAMPLE

How an old Southern town became "Euroville"

FRANK VOGL, *US economics correspondent for The Times of London*

MORE THAN 40 EUROPEAN COMPANIES HAVE INVESTED in excess of $1.8 billion in Spartanburg, South Carolina. More than 1,500 Europeans are believed to live in this what he wanted in Winterthur in Switzerland. With orders from his firm and with his encouragement, both the Swiss Rieter company and Sulzer Brothers of Winterthur

A NUCLEAR DIFFERENCE

At stake is Europe's energy supply and/or the future of mankind.

SARAH MILLER, *Washington editor for McGraw-Hill's Nucleonics Week*

THERE IS NO SHORTAGE OF SUBJECTS ON WHICH THE US desire to promote European unity clashes with other American political or economic goals, particularly where worldwide availability of material easily made into nuclear bombs. Nearly two and a half years ago work began in the Senate on a bill to deal with this situation, with

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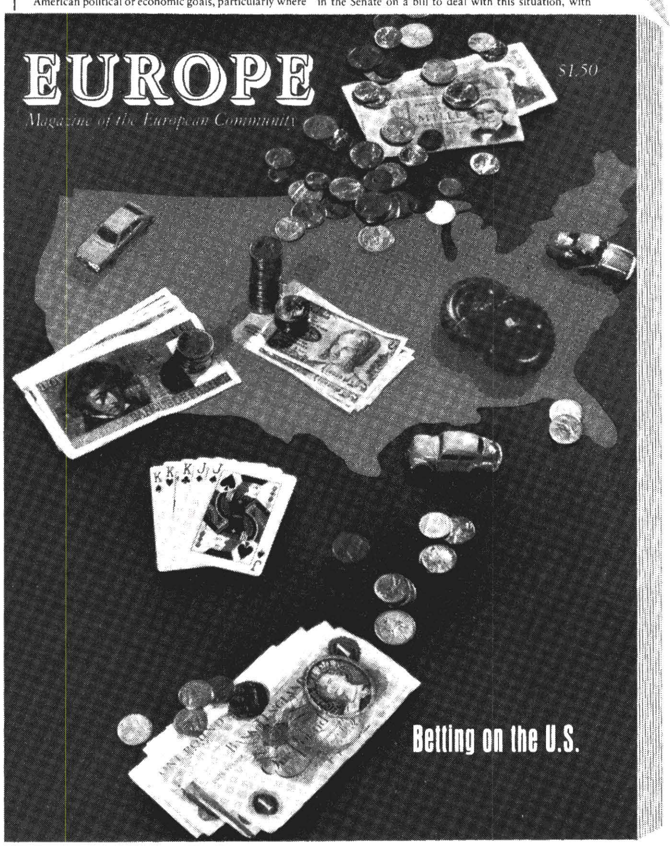

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EC-ROMANIAN ACCORD

East-West economic bridge over political tensions

DAVID FOUQUET *American freelance journalist based in Brussels*

In Bucharest's Victory Palace last summer, the first full accord on trade in industrial products was signed between the Community and Romania, a member of the Council for Mutual Economic Assistance (Comecon) Communist bloc. The pact is regarded by both sides as economically important and politically symbolic. A second agreement setting up a joint committee on trade was also signed.

The trade accord along with earlier sectorial agreements in textiles and steel cover 85 percent of the Community's imports from Romania. Under the new five-year nonpreferential accord, the Community agreed to eliminate or suspend a number of existing quotas or restrictions on imports from Romania and to explore other ways of enlarging trade. Romania accepted in principle to expand its imports from the Community at a rate that was comparable to other members of the General Agreement on Tariffs and Trade (GATT), of which Romania is also a member.

At the signing ceremony Romania's Deputy Prime Minister and Minister for External Trade Cornel Burtică said the accord should lead to a strengthening of ties and confidence between Eastern and Western Europe and that it could also pave the way for development of concrete results, such as joint business or industrial ventures.

EC Commission Vice President Wilhelm Haferkamp, a member of the EC delegation along with Luxembourg Foreign Minister Gaston Thorn (then President of the EC Council of Ministers), sounded a note—repeated later by Romanian President Nicolae Ceauşescu—when Haferkamp expressed the wish that this pact between differing ideologies and economic systems be emulated by others. Ceauşescu said that he would seek to encourage an agreement between Comecon and the Community as a follow-up to the Romanian pact. Negotiations between the Community and Comecon toward a cooperation accord have been agonizingly slow for years and stymied by differences between the two.

Relations between the Community and Romania have always been closer and more relaxed. The Romanian Government—which has carved out a role for itself as the most independent and outward looking member of the Communist bloc—has for years developed links with the Community, while other countries following the Soviet Union's lead refused to recognize or have dealings with the Community.

Romanian contacts with the Community began in 1972 when Burtică first explored the possibility of Romania benefiting from the EC system of generalized tariff preferences for developing nations. The country has received these tariff concessions since 1974 and is now the seventh ranking beneficiary of this system. In 1976 the then commissioner for external relations, Sir Christopher Soames, visited Bucharest to confer with authorities. Specific accords were subsequently negotiated to cover trade in textiles and steel, an example that has been followed by some of the other Comecon countries.

A new and important step was taken in 1978 when Romanian authorities proposed the conclusion of a general accord covering industrial trade and the establishment of a joint commission to discuss trade relations between the two, leading to the current agreement. That same year Romania conducted 19 percent of all its trade with the Community, and the Nine represented 52 percent of its commerce with Western industrialized countries.

One aim of the recently signed trade accord is to establish a more even trade balance. In recent years Romania has run a sizable trade deficit with the Community. In this regard a representative of Romania's Institute for International Economics noted that his country was anxious to acquire additional technology from the Community to speed up its industrialization process, but that this would only be possible if it acquired the necessary hard currency by expanding its exports to the Nine.

After striking off on independent industrial development rather than following the Soviet Union and Comecon plan—which foresaw Romania's role primarily as a supplier of agricultural commodities for the bloc—the Romanian economy grew at a rate approaching 10 percent surpassing most other Comecon countries in recent years. But while the country has oil deposits that once assured its self-sufficiency, last year it imported about 400,000 tons of oil from the Soviet Union and additional amounts from other countries. This year its purchases are expected to be over one million tons.

Romania's role in the agreement is seen as part of a delicate political and economic balancing act the country has conducted for nearly two decades. In addition to striking off on its own independent economic course, the Government of Nicolae Ceauşescu adopted other policies that distinguished it from its fellow Comecon members. The country joined a number of international organizations, such as the GATT, the International Monetary Fund, and the Group of 77 developing countries. It also criticized the Soviet invasion of Czechoslovakia, maintained ties with Israel and China, and refused to go along with plans by the Warsaw Pact to increase military spending.

Nevertheless, this traditional independence has been the subject of increasing speculation in recent months amid signs that while Romania is still interested in maintaining ties with the West, it is also under pressure to come closer to the Soviet Union and Comecon. The purchases of Soviet oil are seen by many in the West as such a signal. Another is Romania's recognition of the Soviet-backed regime in Afghanistan. There also were reports from Bucharest earlier this year that Soviet Foreign Minister Andrei Gromyko, during a visit there, had strongly urged Romania to loosen its bonds with independent-minded Yugoslavia, cease backing countries at odds with the Soviet Union, and more closely coordinate its policies with the Comecon group.

Experts in Romania have indicated that the country, as the least developed in the Comecon, needs to maintain good relations with both the Eastern and Western camps in order to achieve its economic goals. These include important investment in industrial and energy development. The aim is to achieve the level of a medium-ranking industrial society by 1985 and to become self-sufficient in energy by 1990.

Signature of the EC-Romanian trade agreement (Seated L-R): EC Commission Vice President Wilhelm Haferkamp; President of the EC Council of Ministers Gaston Thorn; and Romanian Deputy Prime Minister and Foreign Trade Minister Cornel Burtică.

The new accord also underlines the Community's willingness to normalize relations with countries of different regimes—as was the case earlier with both Yugoslavia and China. Such ties could help solidify the independence of these countries through increased trade and cooperation with the Community. It is hoped that the new accord with Romania will serve as an example to bridge the gap between the Community and the rest of the Comecon grouping.

THE IRISH SUCCESS STORY

The U.S. is the largest single source of new projects

HOWARD BANKS, *San Francisco-based correspondent for* The Economist

Irish charm—plus skillfully packaged and generous incentives—have wooed a greater proportion of inward investment into Ireland than into any other single country in the Community over the past few years. In fact, half of all new greenfield industrial projects in the Community during the Seventies, officials from the country's Industrial Development Authority (IDA) claim, were built in Ireland. The projects range from a capital-intensive alumina plant built by Canadian Alcan Aluminum, to a whole range of food processing plants and particularly to factories making the latest electronics equipment, like the computer-on-a-chip.

The Irish success was mounted on the back of a highly favorable tax-break package which, by special arrangement with the EC Commission, the Irish could retain upon accession to the Community. The provisions of this tax deal are simply that profits arising from the sale of goods manufactured in and exported from Ireland are completely tax-free until April 1990. Profits from the sale of goods in Ireland carry a 45 percent tax burden.

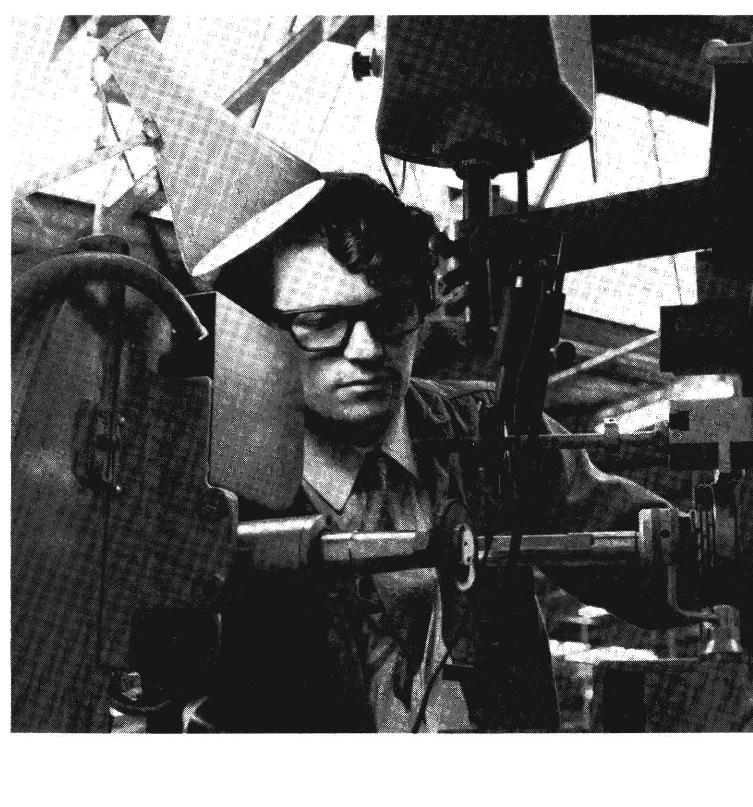
The Irish have proposed a new tax program effective January 1, 1981, that will see a reduction in the corporate tax rate from 45 percent to 10 percent for all tax-paying manufacturing firms. This change will not affect companies currently enjoying complete freedom from taxation on export profits until the 1990 cutoff date. Companies that reach the 20-year limit on export-profits relief during the 1980's will qualify for the new 10 percent rate, or if they choose, may opt to change over to the new program at an earlier date. Overseas companies agreeing to establish manufacturing plants in the Emerald Isle before the end of 1980 will continue to qualify for the export profits tax break until April 1990. The new 10 percent tax program has been guaranteed by the Irish to remain constant until the end of this century.

The Irish maintain that with the accelerated capital allowances—100 percent of the investment in the year the funds are committed—which will continue to be available under the new tax code, manufacturing companies locating plants in Ireland will effectively be tax-free.

The Irish, with their characteristically optimistic blarney, believe that this new tax deal will be even more handsome than the one it replaces. In 1980 the IDA will have negotiated more US Industrial projects than in any other year of its history. The pipeline of industrial projects for 1981, when the new program becomes effective, is in better shape than it has ever been. During the transition period from the old to the new tax program, US corporations with investment projects for Ireland must have specific plans approved by the IDA by year end.

The Irish success in winning new jobs to Ireland involves much more than just a special tax rate, however generous. Like all other areas of the world trying to attract inward investment, the Irish offer cash grants for plant and equipment, soft loans (tied to equity), training grants, cheap or free ready-made factories, and general government assistance, such as in making sure that water

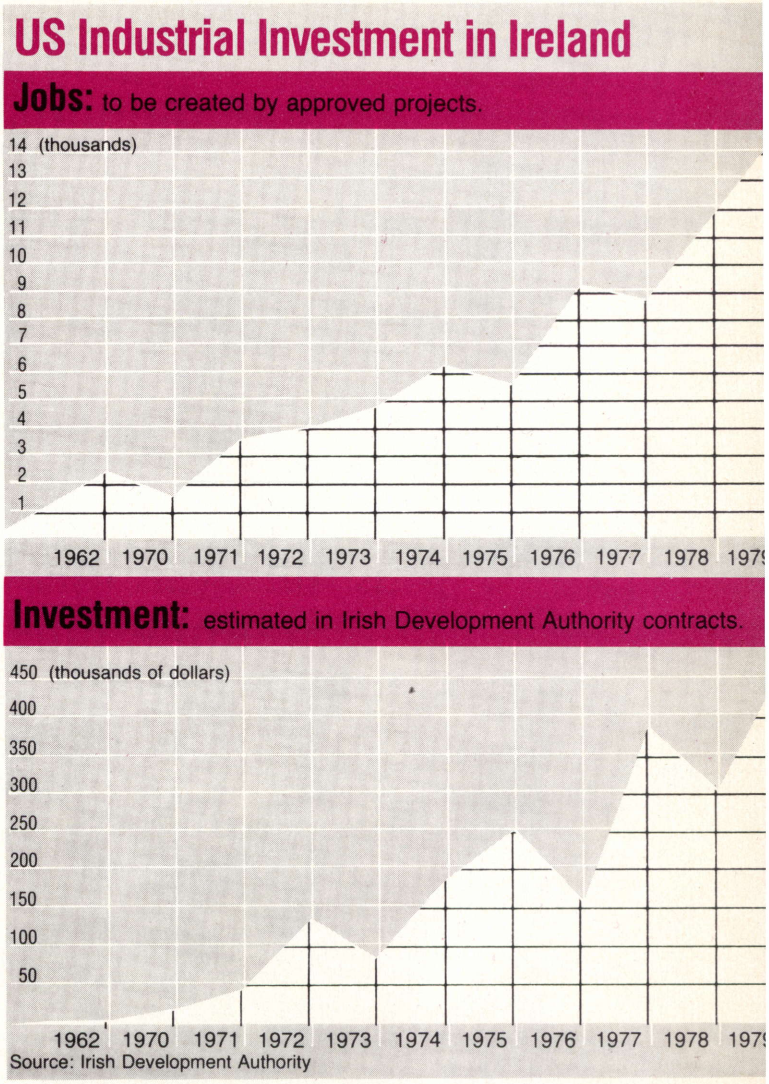
Inside the American-owned Beckman Instruments plant in Galway, makers of electro-medical instruments. photos courtesy of Irish Development Authority



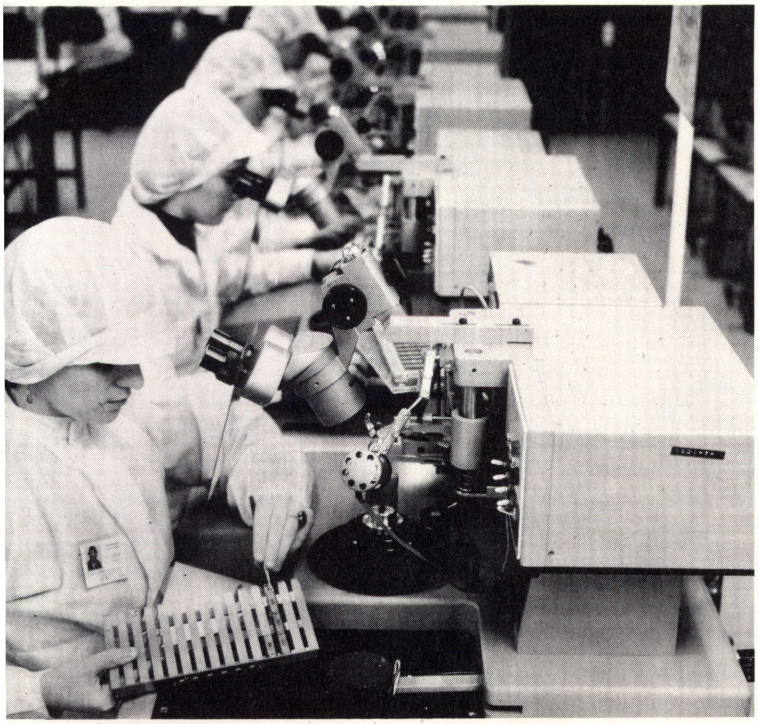
is available. In total, the Irish are perhaps more generous than others in the Community. Up to 50 percent (and up to 60 percent in special, high-unemployment areas) of the capital investment can be provided by the Government. On average the Irish paid around one-third of the $32,000 total investment per projected new job in 1979. (As with all job creation schemes, the totals quoted give the number of jobs expected when the project is fully realized—in Ireland's case five years from the time the project is approved).

PART OF THE COST OF IDA'S SUPPORT of new investment comes from Brussels' coffers. The European Social Fund has provided over $12 million for training grants for the three years, 1977-79, and has committed more than double that amount. The European Regional Development Fund paid around $85 million during 1979 to the Irish Government to help defray the cost of building advanced factories ready for new investment projects. During last year 119 projects were helped in this way, 49 of them sponsored by the IDA. So far, the Regional Development Fund has paid over $210 million for this purpose. Earlier this year the European Investment Bank approved a loan of approaching $75 million for the IDA to use to build factories, the first installment of loans to build over 4.5 million square feet of factories ready for new projects to walk into.

The largest single source of new projects in 1979 was the United States, with 40 projects from the total of 105. But the Community (German, 17; Britain, 15; France and the Netherlands, 6 each), collectively totaled more



Japan's Nippon Electric Company plant at Ballivor produces integrated circuits.



One of four plants in Ireland operated by General Electric.

A machine tool plant in Athlone, which employs 500 people, is operated by Gulf and Western Industries of the United States.

projects. Ireland has become a center for new electronics projects. In 1979, it attracted a wafer fabrication project from Texas-based Mostek, one of the industry leaders. And Wang, which makes word processors, decided to build a major plant near Limerick. Among many others, magnetic tape maker, Verbatim, announced a project for Ireland. Progress this year has been maintained, including projects from Japan (Fujitsu) and from personal computer maker, Apple (expected to be one of the "hottest" new stocks to hit the New York Stock Exchange in many years when it is launched later in 1980). It is, however, not always straightforward in the business of winning new projects. Japan's Nippon Electric Company made it clear that its possible investment in an electronics plant in Ireland was dependent on getting a slice of the country's major telecommunications contract. When it did not, its investment proposal disappeared too.

The Irish have made an art form of keeping a unified and universally welcoming front when it comes to dealing with companies abroad—and nowhere is this more true than in the United States. There is not the internal rivalry that splits the British into Scottish, Welsh, and half-hearted English camps. There is neither the nationalistic approach of the French, nor the "do not come here unless you can afford it without help," of the Germans.

The IDA, which is now 10 years old, has eight offices in North America and around 35 staff in the country. Most of the Irish expatriates have had experience in the United States before joining IDA, many had at least some education in the country. The IDA's new managing director, Padraic White, is no exception: Earlier this year he spent four months traveling around America as an Eisenhower fellow.

The way they present Ireland's cause—and the 29.9 percent return investment of American manufacturing concerns in the country for 1974-78 (US Commerce Department figures, which for comparison say that the EC-wide average was around 14 percent)—has overcome many natural disadvantages. Ireland has a relatively small pool of available skilled labor and is trying, with a bounty, to persuade Irish people to come home. It has also had many lengthy and disruptive strikes (banks and telecommunications among others). And recently, strikes have begun to hit immigrant companies.

Nevertheless, the flow of new jobs into the country helped it to achieve a net increase in manufacturing jobs in 1979 of almost 4 percent, compared to an EC-wide average decline of around 1 percent. Even for Ireland. There will not be sufficient new jobs this year to do more than stem the reduction in the total number of manufacturing jobs. With inflation earlier this autumn running at almost 19 percent, pulling once low-wage costs up to (and possibly past) the British level, the big question now facing the Irish is: Will their incentive package continue to work? Will the well-orchestrated presentation of Ireland as the gateway to the Community continue to outweigh the serious economic problems that face the country?

THE PRESIDENTIAL PROCESS

A View from Abroad

ROBERT JACKSON, *member of the European Parliament and student of American politics*

In any European discussion of the US Presidential race it is commonplace to remark upon the poverty of the political choice presented to the American people. There is growing doubt about the effectiveness of the American system of government and about its capacity to bear its international responsibilities in the future. Until the weakness of the Carter Administration in handling the problems of energy and inflation became apparent, Europeans were inclined to believe that the political turbulence surrounding the Vietnam war and Watergate was temporary. Now there is a feeling that some essential spring in the mechanism of power in the United States may have been broken. Leadership from Washington is still a necessity—but not much can be hoped from it.

This perception underlies the rapprochement between France and Germany, which is becoming the dominant diplomatic fact in Western Europe: a rapprochement between a Germany seeking European reassurance for American weakness, and a France that sees, flowing from the slackening of American power, both the necessity and an opportunity for French leadership.

The weakness of American government has long been remarked by Europeans. As Walter Bagehot put it in 1867, "The English constitution, in a word, is framed on the principle of choosing a single sovereign authority, and making it good; the American, upon the principle of having many sovereign authorities, and hoping that their multitude may atone for their inferiority."

Fifty years later the English constitutional historian, A.F. Pollard, argued that the separation of powers was "the reason why American efficiency, so marked in private concerns, has been so fettered in government," and why "American politics are so unattractive to many American minds." Woodrow Wilson, steeped in this European critique of the American system, would have liked to move America toward the parliamentary model. Another powerful President who came unstuck in the Congress, Richard Nixon, believed—mistakenly—that this had in fact happened. The historical truth is that American government was designed when government was weak, and it is this truth that is now reasserting

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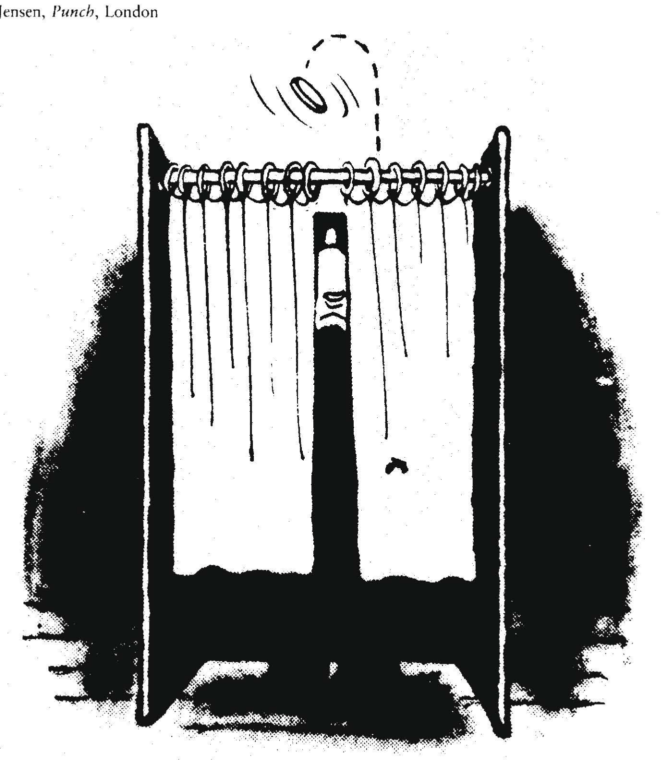


itself in politics after three and a half exceptional decades of the mid-Twentieth Century "imperial Presidency."

The European states in the Nineteenth and Twentieth centuries, faced by the pressure of wars and internal class divisions, developed unified sovereignties, centralized bureaucracies, and representative legislatures dominated by the executive. (This is why building the European Community is so difficult in the face of the European states.) During the same period America was able to apply the energies of a relatively classless society to the exploitation of its vast hinterland without having to cope with external pressures. The constitutional arrangements of the late Eighteenth Century were conceived in revolution, designed for a society without strong governmental capabilities or ambitions, and derived from constitutional assumptions of the England of the Tudors that were already antique. ("Americanisms in politics, like Americanisms in speech, are apt to be Anglicisms that died out in England but survived in the new world": Henry Jones Ford.)

These constitutional arrangements have displayed astonishing staying power. Through two centuries of relentless innovation in every other walk of life, Americans have clung to the truths revealed by the Founding Fathers: Like each of the 38 state constitutions, those of Alaska and Hawaii, drafted in the 1950's, differ only in detail from that of Massachusetts, drawn up by John Adams in 1780. Political practice may bend and twist these basic forms; but it has never broken them. And, so long as the forms stand, they have a way of imposing themselves and their fundamental logic upon the practice of politics.

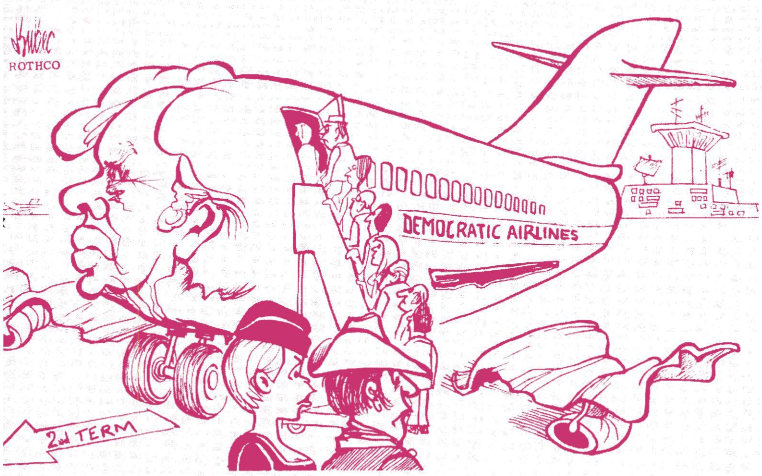
The main innovation in American politics was the mass party system. Political parties in America were the informal element that enabled the formal elements to function successfully. The constitutional system separated a Presidency, whose function it was to prosecute the national interest, from a Congress whose function was to represent localities. This inherently—and deliberately—problematical division of functions was made to work by the parties which informally integrated the command of the Presidency and the command of the Congress. Even when different parties were dominant at the same time in the executive and the legislative branches, competing interests could be brought together, and the conflict between the different organs of the government could be overcome by the same parties operating within each organ.

". . . Now that's what ah call a baaad joke!" © Licot, Belgium

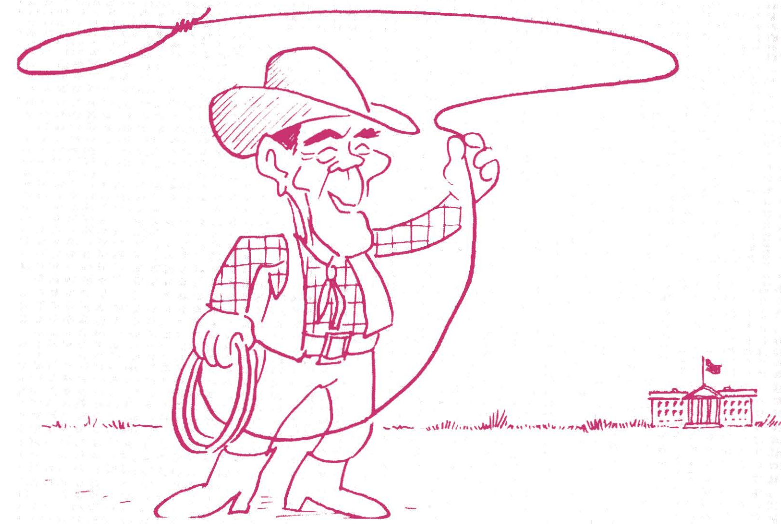
THE POLITICAL PARTY IN AMERICA has become one of the clichés of American political science that over the period since Roosevelt the development of society in the United States has deprived the party system increasingly of its substance. And the enduring significance of the American political crisis of the late 1960's and early 1970's may turn out to be the damage done by the war, Watergate, and the subsequent reforms to the basic mechanisms which underpinned the party system—resulting, perhaps, in a permanent enfeeblement of American government.

In one respect the political party in America has been the victim of its own success: The Roosevelt coalition laid the framework of the welfare state and the professional bureaucracy that have drained the wellsprings of party patronage. Other developments had been external to politics—notably the rising influence of television, the growth in education of the electorate, and the increasing sophistication of campaign techniques as a by-product of commercial life.

Television brings the candidate into focus: It leaves the party in the background, and—as it did with Jimmy Carter in 1975-76 and John Anderson today—it may create reputations with astonishing speed. Education makes for ticket-splitting, it produces suspicion of "machines," and it fosters one-issue movements. It also promotes participation and creates demands on the representative and his staff. At the same time the sophistication of campaign techniques—exploitation of the media, direct mail, polling—strengthens the hand of the political enterpreneur independent of party. The resulting competition in shrillness and gimmickry in a media-saturated and hyper-commercial culture produces a pattern of manipulation that leads to alienation—with the inevitable consequence of growing impatience and fickleness in an electorate whose every whim is monitored by the pollsters.



"You must have confidence in his ability to fly!" © Bubec, *Die Rheinpfalz*, Germany



"Mr. Reagan." © Bas, *Tachydromos*, Greece

Political reforms following the crisis of the early 1970's strengthened voter participation—but also at the expense of the party. In 1968 there were Presidential primaries in eight states. In 1972 there were 17, and in 1976 there were 30. This year has seen 38. This dramatic development promotes contact between the people and the candidates; but at the same time it more than ever forces candidates to develop their own organizations before they can capture what is left of the party machine; and it confirms the importance of the media and the new campaign techniques. Reforms in campaign financing, and in the organization of the Congress, have also undermined the role of party.

The "smoke-filled rooms" had their bad side, and the modern changes are in many respects for the better. But there is real danger in the tendency to apply the market approach to politics. Whether you are in Congress, work in the media, or work in the bureaucracy, the principle is that if everybody pushes as hard as he can for his interests or for those he represents, a political equivalent of Adam Smith's "invisible hand" will inevitably produce the "correct" outcome in terms of the public weal. The Presidency alone stands out as the only institution in the American system whose primary task it is to define, articulate, pursue, and represent a view of the national interest as a whole. And yet, in the absence of strong party links between the Presidency and the other organs of government, the President himself becomes only another actor in the political marketplace—competing, with apparent lack of success, to assert the wider national and international interest against the sectional concerns that are pressed with growing force and vivacity on every side.

Since the 1960's America has been passing through a multiple crisis—of defeat in war, the civil rights revolution and almost unprecedented social tension, the exposure of corruption at the highest level in government, and the worst peace-time inflation in US history following the deepest recession in 40 years. Many causes beyond the mechanics of politics and the constitution have led to the enfeeblement of American government which is universally complained of in Europe. But these multiple problems—especially in the economic sphere—have been made harder to solve by the political difficulties stemming from the decline of party in the separation of powers system. Meanwhile, the battle between Carter, Reagan, and Anderson has provided no evidence of any new ways of mending what seems to be the broken mainspring of American politics: The Carter-Kennedy clash and the Anderson secession displayed the disintegration of both of the established parties, and Anderson's campaign showed how it is possible to become a serious candidate for President without any party organization at all.

Pessimism? Yes. Impertinence? No. For 35 years Europeans have shaped their basic security and economic well-being on a strong America. The United States cannot be blamed if Europeans have taken too much for granted. For its own sake as well as for Europe's—and the world's—America must find once again the right path between freedom and power: Meanwhile, exactly the same might be said with even greater force of Europe today.

Letters to the Editor

The Why's of Wye

I was delighted to see the article, in your September-October 1980 issue, on the US-EC media seminar at Wye Plantation last July.

Your generous attention to my remarks at the seminar is enough to discourage hairsplitting over the exact choices of words in the article. But I thought it worth pointing out to you that I did not "predict" that the Soviet Union would eventually pacify Afghanistan, "turning it into another Mongolia." What I did was to hold up that prospect as a Soviet goal and an outcome that might well result if the West lacked unity and gave insufficient attention to the broad challenge thrown before us by the Soviet invasion of Afghanistan.

The thrust of my message was that the Western nations, and the world community generally, have to face up to the need for strong and united responses to the Soviet challenge. If we do so, it is within our power to prevent Afghanistan from becoming another Mongolia. Certainly the Venice communiqué, with its simple declaration that the Soviet occupation of Afghanistan is "unacceptable," testifies to the general solidarity among our governments on that point.

Matthew Nimetz, Under Secretary of State
Washington, DC

Language Learning

We read with interest the article by Ina Lee Seldon on "Foreign Language Ignorance." Her conclusions certainly coincide with the findings of a survey of the international executives of the 1,000 leading US industrial corporations, which we recently completed with our client, Egon Zehnder Indernational.

Once again, congratulations on a fine article. We are new subscribers and enjoy the magazine.

John Bliss
New York, NY

Proper Participation

My perception is that some Europeans, having noted recently two US party conventions and the results thereof, may be as apprehensive as I.

My hope is that this observation will increase their determination to build better European institutions so that they can participate on a fair basis in selecting the free world's leader and improving its institutions. Presently they are confined to a second-class status which is neither fair nor wise. Anyone who doesn't understand this should read Alvin Toffler's *The Third Wave.*

Since my survival is at stake as well as theirs, I urge them to make haste. Proper European participation in power would increase hope markedly.

Herb Frank
Lakeport, CA

Dignified Style

In the "Around the Capitals" column of your July-August issue under the heading Paris, the writer, Alessandra Stanley, made an unfortunate comparison of Pope John Paul II's mass in front of the Notre Dame Cathedral, stating that it was "dignified and sober," and "nothing like the circus-like services John Paul II holds back home at St. Peter's."

A magazine like yours, in a way representing the Old Continent in the United States, should request a more dignified style from its writers, a style which would not be hurtful to any of the main Christian and other religions in this country by an unfortunate choice of words.

This unfortunate comparison may have been a slip of the pen on behalf of the writer, but the editor should be more careful that such slips not get into *Europe.* You do enjoy such a high esteem and prestige in our country that this fine level should always and under all circumstances be preserved.

Béla Kapótsy
New York, NY

Your magazine is improving all the time. Please interview Strauss and Otto Von Hapsburg.

Harvey Burns
Lavina, MT

Two Capitals?

As an avid reader of your magazine, I would just like to say that *Europe* is great!

I am just a little puzzled as to why you list The Hague as the capital of The Netherlands in your section "Around the Capitals." Although The Hague is the seat of the parliament or where the parliament meets, Amsterdam is the capital of the Netherlands. Would you clarify this for me?

Ed Ferris
Binghamton, NY

A Congressional welcome to Washington: House Speaker Thomas P. O'Neill, Jr. (right) greets the new head of the EC Commission's US Delegation, Roland de Kergorlay.

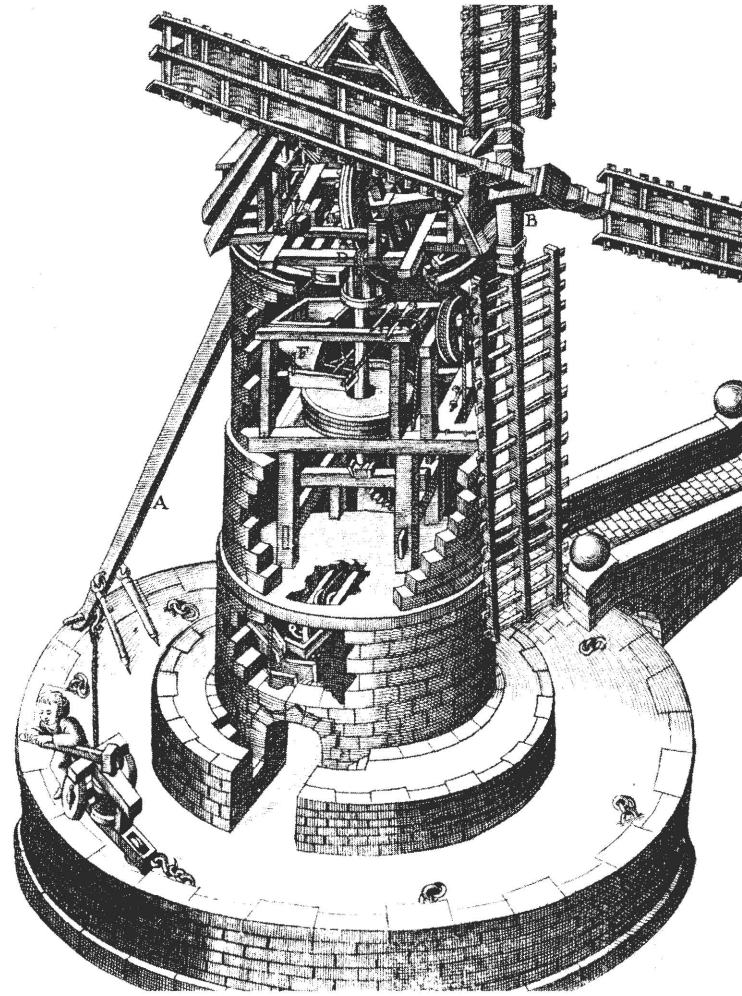
Cheers, Not Tears

The general tone of James Hansen's article (July-August 1980) on Europe's baby bust bemoans the fact that population is declining in the United States, Western Europe, the Soviet Union, and Eastern Europe. These facts call for *cheers,* not *tears.*

Hansen's fear that there will not be enough young workers to keep the economy running is purely imaginary. Europe and the United States can't now give jobs to all the Mexicans, Yugoslavs, West Indians that want them. If anybody is worried about population shortages, there is always India and Africa.

Robert H. Whealey
Athens, OH

One of three experimental windmills on Lake Victoria in Kenya; it supplies water and energy to a nearby village. World Bank photo by Kay Chernush



A medieval windmill for grinding corn. © The Bettmann Archive

ENERGY

Wind Power

British aerogenerators break the cost barrier

THOMAS LAND *author and foreign correspondent based in London*

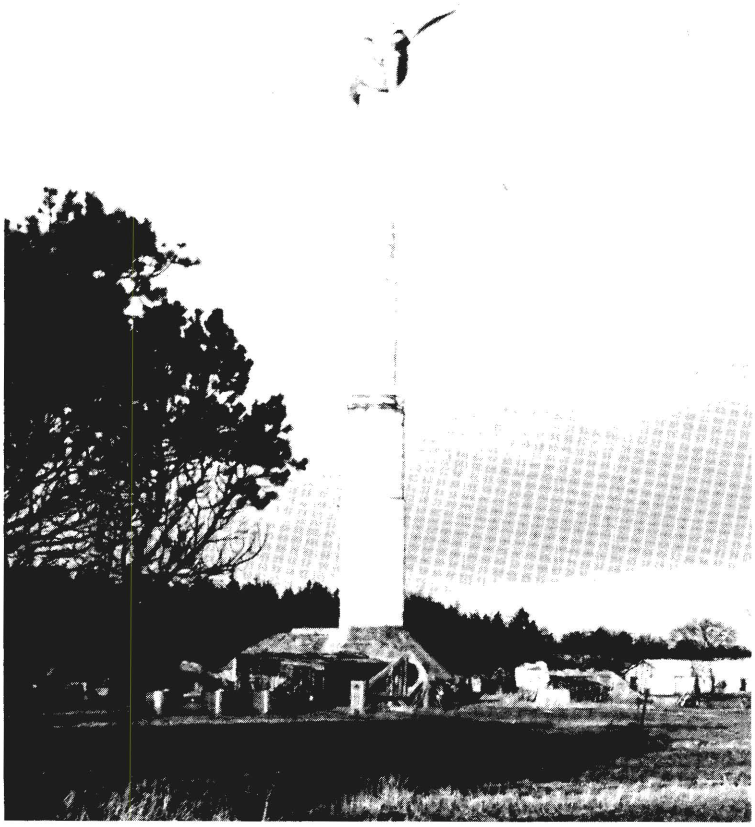
Before the end of this year, many farming communities in the remote Orkney islands, north of Scotland, are to receive electricity supplies generated commercially by wind. Further south, Britain intends to install perhaps hundreds of aerogenerators offshore in the stormy North Sea; the first, planned with 100-foot blades to be mounted on a 150-foot tower and generating 1 megawatt of electricity, may well be erected within five years.

Dismissed until recently as the toy of environment-conscious idealists, the technology of wind power has broken the cost barrier of conventional energy sources. The big wind machines are to produce power at a price comparable to that of nuclear energy generation. The more modest units already under construction in the Scottish isles are to beat the prices of the existing local diesel oil generators.

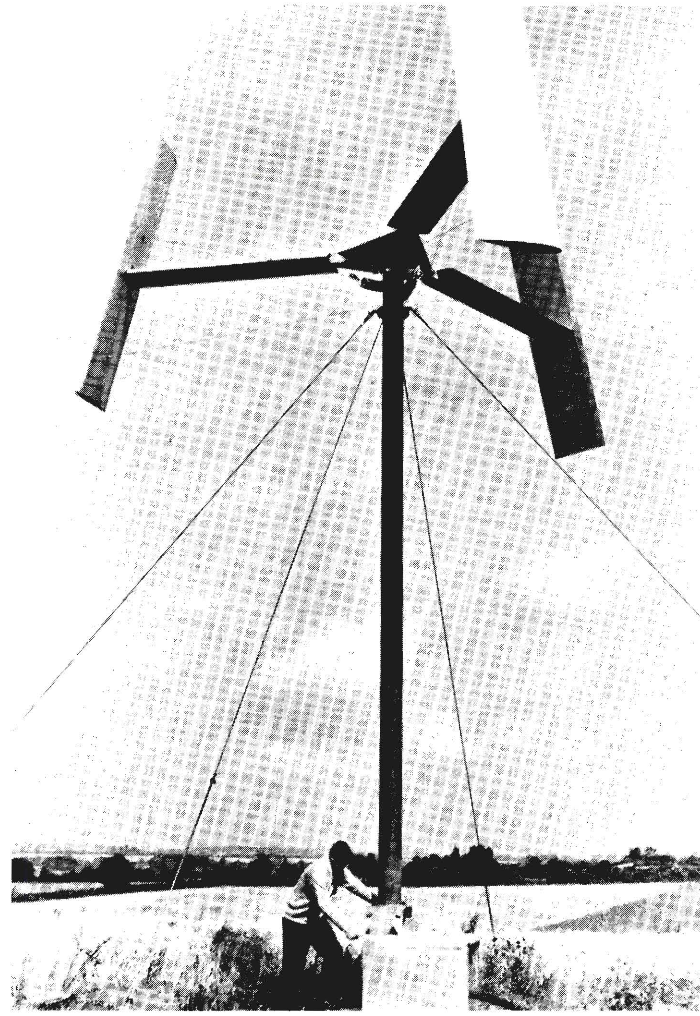
According to conservative estimates, the new industry could well supply something like 20 percent of the world's energy requirements by the turn of the century. The implications are enormous, given the crippling effect of the rising oil prices, particularly on the fragile economies of the developing regions.

A conference under the auspices of the United Nations Food and Agriculture Organization (FAO) recently agreed on the establishment of farming settlements throughout Europe that would rely entirely on new and renewable energy supplies, partly to cut costs and partly to create models to be studied and adapted to the needs of agricultural co-operatives in the developing countries. The global use of renewable energy supplies, including wind power, is to be considered at a world conference in Nairobi next year.

The big wind machines are planned by Britain's Central Electricity Generating Board (CEGB). Glyn England, its chairman, cautions, "An aura of romance still surrounds the subject of wind power in the minds of many people who think in terms of the picturesque



A modern windmill in the Netherlands seems little different from its medieval predecessor.



Called a variable geometry vertical axis wind turbine, this British windmill can be used for electrical generation or for water pumping.

windmills of former centuries. But reality is in stark contrast. Consider the design of a 3.7 megawatt wind generator produced for Britain's Department of Energy. It has two blades, slightly longer than the wings of a jumbo jet. Another design resembles a 10-story tower block with a propeller on top. Some designs are very like transmission towers, about the same size as our largest."

Aerogenerators are noisy and unattractive, and they produce electrical interference. Nevertheless, a discussion paper published by a panel of specialists preparing for the Nairobi conference considers their adverse effect on the environment minor compared to that of the existing power stations. It recommended their urgent deployment in the developing countries. The United States is soon to launch a $1 billion development program based on third-generation aerogenerators now under construction. Sweden, Germany, and Denmark have already launched ambitious wind power programs. Britain will overcome the environmental effects of aerogenerators by planting its "wind farms" of dozens of machines each off the coasts.

"There, they would be much less obtrusive," observes the CEGB chief. "Admittedly, it will be more difficult and costly to build and maintain the machines offshore than on land. There will be the extra expense of getting the power ashore. And they could be a hazard to fishing vessels. But wind speeds are higher there than over open land, although not quite as high as on the best hilltop sites."

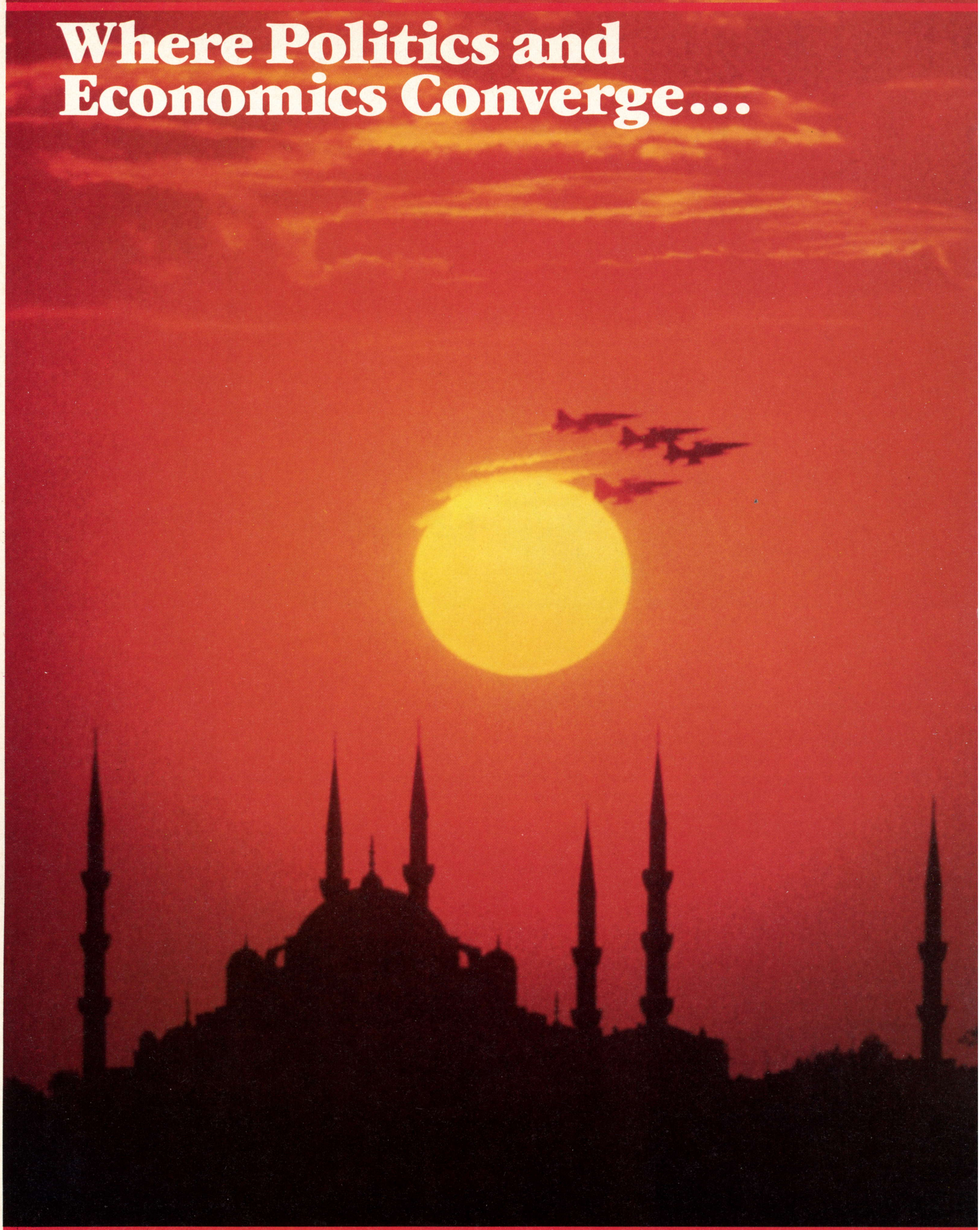
MOST OF THE BIG AEROGENERATORS so far are based on the horizontal axis model (reminiscent of traditional windmills or aircraft propellers). But Britain may well opt for the vertical axis principle, copied from windmills used in the Middle East for hundreds of years, because it can utilize winds approaching from any direction.

The big drawback is that wind does not blow at all times. Even the new aerogenerators planned for the Orkney, Shetland, and Western isles—probably the windiest places in Europe—will substantially complement but not entirely replace conventional power generation that can be relied upon in any weather.

Hence the agreement of the European Commission on Agriculture, at a meeting organized by FAO, on the need to create at least 15 model farms or villages self-sufficient in energy, relying on an integrated system of renewable power generation from wind, sunshine, local water falls, hot springs, and biomass. In the long term the project would lead to food production entirely independent of energy imports throughout Europe.

Small-scale wind energy conversion encompasses the needs of farmers and rural communities, especially for well pumping, cattle water, irrigation, and domestic electricity supplies. Such systems were widely used by many technologically advanced countries until the advent of low-cost, mass rural electrification during the past 30-40 years. But the specialist panel preparing for the global conference comments that the new, small-scale wind machines are often unpopular in many developing countries now because of the relatively high price of the imported units and their poor reliability.

Yet these could be no more than the growing pains of the young industry. The direction of the future may well be demonstrated by experience in Kenya and Tunisia. There, machines of local manufacture have proved their usefulness in rural areas where they are adequately serviced and promoted. The world conference is likely to magnify the call of the specialist panel for extensive training facilities in the rich countries for technologists from the developing regions in order to make the benefits of the industry globally available.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FINANCIAL TIMES

NEWS SUMMARY

Saudis bar UK envoy in film row

Sterling up 2.7c; Tokyo at new high

Interest rates fall as U.S. 'enters a mild recession'

Partial EEC deal on budget possible

Iran negotiates oil deal with East Europe

Soviet Union 'arranges $1bn loan for Warsaw'

West 'can withstand' further crude cutback

Exxon earns record $1.9bn

Poland in DM 500m order for German machine tool equipment

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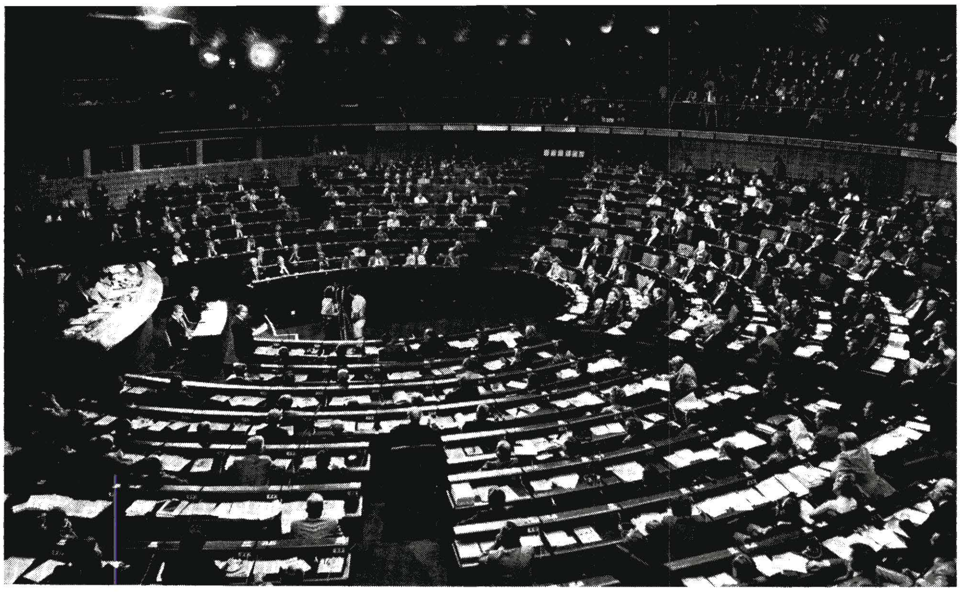


Parliamentary Notebook

DAVID WOOD *columnist for* The Times *of London*

You can say, as both friends and critics do, that the powers of the directly elected European Parliament, now more than a year old, are so limited that it cannot bear comparison with the national assemblies of the nine countries in Western Europe that send 410 members to it. Above all it cannot legislate. Its substantial powers are practically unusable ultimate deterrents, like the total rejection of the EC budget, or the total dismissal of the EC Commission.

Use the deterrent powers and you are left with paralysis or desolation. The power to propose law lies with the Commission; the power to dispose lies with the Council of Ministers recruited from the constituent national governments, or increasingly in practice with the summits, the meetings of the nine heads of government that have no validity at all in the basic Treaty of Rome. In other words, the European Community is still evolving, and evolving organically rather than on a blueprint, as is the West European fashion.

But leave power aside. The European Parliament increasingly has influence, and some members would say more influence in the outside world than on the national governments and the peoples of the Nine. The 410 members of the first multinational parliament represent 250 million people, or more than 110 million voters, just as they represent a total economic and industrial power at least comparable with the United States and Soviet Russia.

It is parliamentary influence, then, that explains the significance of the Parliament debate in mid-September on world hunger based on a report from an Italian Communist, Bruno Ferrero, and supported with reservations of detail by every party group in the Parliament. What mattered more than the report itself, for all its merits, was a half-hour keynote speech from parliamentarian Willy Brandt, former German Chancellor and chairman of the commission reporting last year on international development and the North/South Dialogue. Brandt, a member of the Socialist group, speaks sparingly in his new forum of the European Parliament, but when he speaks he commands a full house and an attentive international audience. He wears gravitas and authority like a Savile Row suit.

Brandt, a member of the Socialist group, brought out vividly some of the Community's own paradoxes. The Nine overproduces food under the common agricultural policy (CAP), creating butter and sugar mountains, while the undeveloped countries of the world suffer famine and starvation. The advanced nations pour out treasure on armaments, but do pathetically little to remove such a cause of tension and instability as widespread hunger. There was an uncontested and incontestable duty in Western Europe, Brandt said, to alleviate the tension in the world caused by hunger and famine, although any aid given must not be seen as a convenient means of getting rid of subsidized European food surpluses. He drove home the point that for the first time, mankind had the technical possibility of exterminating itself by arms, and also the technical means of eradicating hunger.

Apart from some center-right and center reservations about the political connection between arms expenditure and food aid in a time of Soviet expansionism, the Brandt theme carried the European Parliament's overwhelming support, and EC Commissioner Claude Cheysson, in charge of development, promised to study the effects of the restrictionist CAP on international trade in food and of EC agricultural exports on world markets and developing countries.

Meanwhile, the European Parliament once again begins to apply itself to budgeteering. Last December for the first time, a cross-party coalition formed to reject the 1980 budget on a month-to-month or hand-to-mouth basis. Now the 1981 budget, as sent forward in preliminary draft by the Commission and then slashed by the Council of Ministers, has turned up. Parliament will give it a final reading in December, according to the usual time-table.

A majority of parliamentarians will be angry about the Council's butchery of Commission proposals. Parliament demands that more spending should be switched from the sacred cows of the CAP to social and regional policies over which they have some budgetary control. The Council says no; CAP is to continue sacrosanct. In 1981 or 1982 the Community will exhaust the 1 per cent of the Nine's value-added tax (VAT) take, its staple source of buoyant revenue. Then what happens? Germany, France, and the United Kingdom, for domestic reasons as they fight inflation, refuse to concede a higher rate of VAT. Consequently, unrestrained CAP expenditure will hit the ceiling, and other policies will be stunted or abandoned.

The Commission publicly disowned the budget for 1981 as it had been amended by the Council of Ministers. The European Parliament, painted with a broad brush, feels equal outrage. But very few parliamentarians see much hope of recreating this December the cross-party coalition that led to the rejection of the 1980 budget a year ago. There are German and French members, particularly Christian Democrats, Gaullists, and Giscardians, who feel tender toward their farmers; and there are 78 British members who know that Margaret Thatcher's renegotiation of the United Kingdom contribution to EC coffers is bound up in the 1981 budget.

National interests are at work behind the scenes. First, if the Council is arrogant or clumsy in its handling of the budget before the Parliament, a new coalition could arise for rejection in December. Secondly, Parliament is still a little humble about the climb down it had to make after rejecting the 1980 budget and then accepting it six months later. As EC Commission President Roy Jenkins put it: "The Parliament had the strength to take the big jump last year, but it hadn't the ankles for the landing." Parliament's ankles look more fragile than they were.

around THE capitals

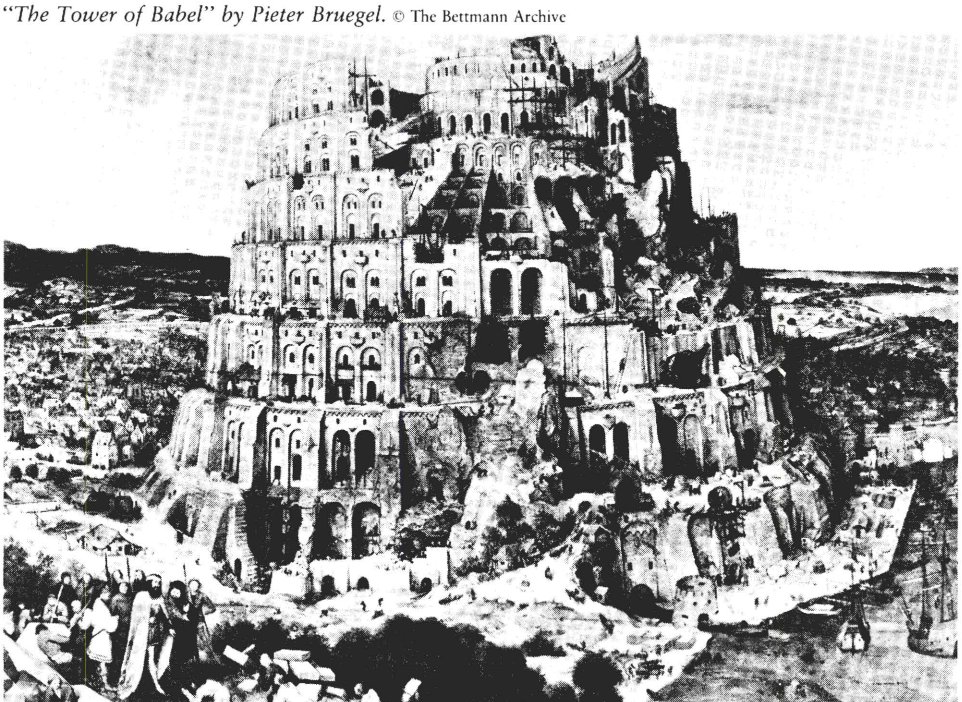
Brussels

The best-selling poster in Brussels this autumn looked from a distance like the rendering of a giant bee hive. Closer up it is a fearful tower at whose foot Biblical and legendary scenes are acted out by human and animal caricatures. It is a reproduction of "The Tower of Babel" by Pieter Bruegel the Elder, the patriarch of a dynasty of Flemish painters whose work has been most spectacularly collected here as part of the big European arts festival known as "Europalia." Asked if he did not think it ironic that the big seller in Brussels—the home of the EC Commission, other Community institutions, and itself bilingual—should be a depiction of linguistic chaos, an organizer of the exhibition told a reporter, "Perhaps it shows we do have a sense of humor."

The exhibition itself promises to be one of the most successsful ever staged here even though the number of originals that have finally been put on show is disappointing. Bruegel was born in 1525, however. Much of his work quickly left Belgium, and 400-year-old canvasses do not travel well. The arrival of another of his masterpieces, the "Two Monkeys," from Berlin was a matter of tension right up to the last minute. The scrupulous air conditioning and heavy glass screens that protect these pictures from human mischief is a telling measure of their value and fragility.

Bruegel, the Elder, can be compared only to Johann Sebastian Bach in the way he fathered a family of artistic talent, though, as with the composer, Bruegel's original level of inspiration was never to be repeated. Much of the work of one of his sons, Pieter the Younger, comprises repaintings of the father's original work. And it was not long before Bruegel's unnerving depictions of manic peasants and prancing skeletons gave way to the lush flesh tones and religious allegory of an even more famous Belgian painter, Peter Paul Rubens.

"The Tower of Babel" by Pieter Bruegel. © The Bettmann Archive



But there is no doubt this exhibition has captured the public imagination even if many of the most famous masterpieces appear only in the form of faithfully processed photographs. The exhibition itself is in the great sprawling Palace of Fine Arts—the handiwork of another Belgian genius Victor Horta. It comprises the centerpiece of "Europalia '80" which is a kind of cultural olympics with each EC country taking its turn to occupy center stage. Belgium's moment is fortuitous for this is also the year to celebrate the one-hundred-fiftieth anniversary of the creation of the Belgian state, and the festival has become in part a national rejoicing.

It is a commonplace to say that Belgium's major artistic achievements have been through its Flemish painters. Most people now recognize the Liége-born composer César Franck as an important figure in Nineteenth Century music, but few would place him among its greatest. Belgian poetry and literature are distressingly meager to readers outside the country.

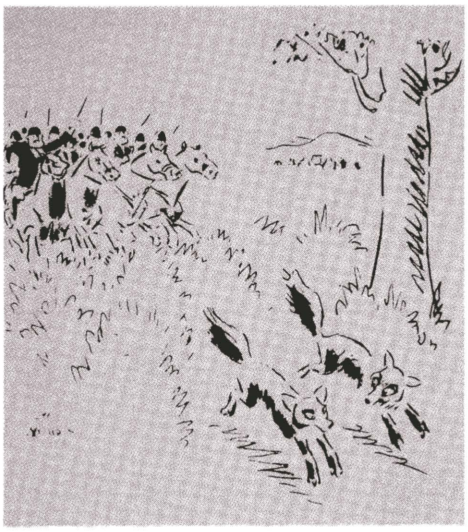
Perhaps "Europalia '80" will help correct this. We are promised seminars on the work of Belgian authors, concert tributes to Franck, performances of Belgian plays and films. But this will not be just Belgium's show. Heavyweight contributions from Britain, France, Germany, and Italy are scheduled. Many think the most arresting exhibit could be the Irish display of pure gold jewelry and ornaments dating back to 2000 BC. There are surely things to discover in Belgian arts, but one strongly doubts that there will be much this year to alter the view that the country's greatest claims lie in that series of remarkable paintings from the early Sixteenth Century to the beginning of the Eighteenth.

—ALAN OSBORN

London

French and English growers are jousting for the British buyer's favor with spheres of Golden Delicious and Cox's Orange Pippin. The English enemy is the French apple called Golden Delicious. It is longer-lasting and cheaper than the pride of the English apple orchards, Cox's Orange Pippin. But, argue the English growers, their apples have superior taste.

The battlefront is built upon market economics. The French growers' strategy is to flood the British market with apples priced below the home-grown varieties. The British orchardists are counterattacking with a "buy British" campaign that stresses quality over cost and plucks a patriotic nerve.



"My God! I used to laugh and say, 'Knock it off, Dad, teach us modern stuff like how to deal with high tension wires, DDT spray, habitat loss, chemical dumps . . .'"

Apple orchards are an English symbol, a familiar feature of calendars and travel posters. Yet they are fast shrinking in number, and not just because of this island nation's inhospitable climate. Marketing of British apples has not been very efficient and others have been quick to step in. Apple imports increased over 40 percent in Britain during the 1970's. Last year the French export drive, aptly called *Le Crunch,* sent in the equivalent of two-thirds of Britain's own apple harvest.

British apple orchards have often been allowed to grow too old, resulting in declining yields. They have been uprooted as uneconomical to the point where during the past decade the number of apple orchard acres shrank from 96,000 to 72,000. The country's total apple crop has fallen by 150,000 tons since 1970. Imports have risen by 110,000 tons.

The English apple growers worry that unless things improve in a few years, southern France and Italy will be the only source of apples from the current EC member states. They would like the EC Commission to impose limits on imports of the French Golden Delicious, arguing its rapidly rising sales are threatening English varieties having much lower yields. They also say the EC price support system does not help by encouraging French apple growers to overproduce in the knowledge they can't lose.

Before the French competition, English growers could afford to be lax. Now they cannot, facing a French apple industry that is younger, better structured, keen on cooperatives, and helped by a drier climate. For all that, the French apples still can't beat British ones for flavor, and this is being exploited heavily by the English growers. This fall they launched Kingdom Cox, their first big "buy British" campaign. It aims at persuading British housewives to purchase the best tasting apples, even if they do cost a little more. Growers have handed out thousands of free apples to convince the British consumer they're fresher and tastier than French ones.

Politicians have taken the campaign across the Channel. British members of the European Parliament recently distributed bags of English apples in the Strasbourg assembly. They handed out Cox's, Granny Smiths, and Worcesters to protest, they said, the unfair competition from the French Golden Delicious. One French member of the assembly allowed after much munching that the English apples were surprisingly tasty. He diplomatically suggested an EC body should be set up to ensure that all varieties of European apples were preserved. . . .

The League Against Cruel Sports says two-thirds of the British public wants the royal family to boycott fox hunting. Both Prince Charles and Princess Anne have occasionally joined hunts. The league called fox hunting "a squalid piece of behavior on the part of human beings" and said the royal family should not set "dubious" examples. It acknowledged that Charles and Anne go hunting because it is a sport with a long heritage and not because they might wish to "inflict pain on foxes."

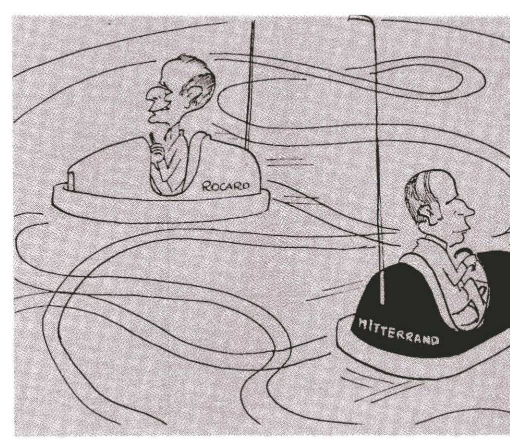
Record postwar unemployment and continuing double-digit inflation are not helping Prime Minister Margaret Thatcher's popularity. A poll taken after her first 500 days in office showed her Conservative Party trailing opposition Labour by nearly 10 percent in voter favor. Just a month earlier, the Labour lead was only 5 percent. Thatcher insists her economic policies are right. Britons are gritting their teeth and hoping she's right, too. —PETER J. SHAW

Paris

Just before the 1968 *mai événements* one of France's most astute observers, the late Pierre Viansson-Ponté of *Le Monde,* wrote *"la France s'ennui."* That observation of a national mood, part boredom, part collective irritation, has since been given as one explanation for the student-worker upheaval. If correct, 12 years later President Valéry Giscard d'Estaing may have reason to worry. Obviously, the same circumstances are not repeating themselves, and no one is predicting similar disturbances for France in 1980. (No one did then, either.) But boredom mixed with irritation is the pervasive feeling in the country this fall.

One reason is that fully six months from the 1981 Presidential elections, most everyone who can contain his bias believes that Giscard will have no trouble winning. And this despite polls that show him in a neck and neck race if the Socialists pick Social Democrat Michel Rocard as their candidate, a choice that is by no means sure for, once again, the Socialists are riven by internal quarrels.

The deep divisions among Socialists, which pit the Rocard forces against those of warhorse and First Secretary François Mitterrand, are reason enough to give Giscard odds. To them must be added the callumnious campaign that the Communists have incessantly waged against the Socialists since the break-up of the Union of the Left before the 1978 legislative elections. At the grass roots, Socialist and Communist members of mayors' councils around the country are at loggerheads, frequently paralyzing municipal governments. At the top there has been no let-up in the Communist Party leadership's criticism of François Mitterrand. Mitterrand himself appears to have finally given up any hope of an electoral agreement with the Communists without which, he has always believed, no Socialist Party Presidential candidate stands much chance of winning.



On the right Giscard's own coalition partners and severe critics, the Gaullist *Rassemblement pour la République* (RPR), who once posed a challenge to the President's authority, are in equal disarray. The management of the party's destiny was taken over four years ago by Giscard's former Prime Minister, Jacques Chirac, who left the Government with the sole purpose of staking out his own claim to the Presidency. His aggressive tactics and his errors of judgment since then have alienated virtually all the old barons of de Gaulle's era.

One of the most legitimate of these Michel Debré, has just announced his candidacy for the Presidency. Debré appeals to older voters who respond to his mystic sense of France's national destiny and his call for a strong central government. Polls show him getting a mere 6 percent of the vote should he stay in the race through the first round. Though Chirac's supporters insist that the Gaullists have steadily lost electoral support since the General's death, and the current split is witness that the RPR has finally become a party *comme les autres*.

The lack of suspense on the election outcome would not be so bad if the public at large were genuinely enthusiastic about the winner. But this is not the case. Giscard is expected to get only 26 percent of the vote on the first round, hardly the score of a popular president. On the foreign policy front, for the first time in his Presidency, Giscard has been subjected to respected and sometimes withering criticism, most particularly for his subdued reaction to the Russian invasion of Afghanistan. These are small erosions and probably not enough to undermine his political position.

Domestically, Giscard has escaped a certain amount of unpopularity resulting from his economic policies. The dirty work of austerity has been handled by Prime Minister Raymond Barre who has managed to keep incomes rising at a rate equal to inflation and increase the gross national product by an honorable 3.4 percent this year.

In the end, says Alexander Sanguinetti, a peg-legged old Gaullist whose tart comments frequently enliven the dull political debate, Giscard will get the margin he needs from Frenchmen who will vote from "fear and Conservatism." Contemplating the prospect, a pro-Giscard banker recently interrupted his train of thought to comment: "Seven more years! France will die of boredom." Which may be just what Viansson-Ponté meant 12 years ago.

—PATRICIA H. PAINTON

"Talking with the other side . . ." © Behrendt, *Het Parool*, Amsterdam

Copenhagen

Coined by the international press, the catchword "Denmarkization" was studiously ignored by the Danish Government and most of the media for months. But as it became imperative to decide on the level of defense expenditure in the next budget, the opposition parties made the word their own. And at the autumn congress of the governing Social Democratic Party, the prime and foreign ministers acknowledged the existence of the word, but redefined it positively, or rather, tried to do so.

To most NATO partners, Denmarkization is the refusal to honor commitments to the alliance, specifically the NATO agreement to implement a real growth in defense expenditure in the wake of events in Afghanistan. The consequences of such a refusal are subtly, but clearly, implied by the verbal analogy to "Finlandization," in Europe synonymous with living at the mercy of the Soviet Union. Though the word was not used, this was also the essence of the personal message of the US Secretary of Defense to his Danish counterpart, first published here in September.

Not so, says the Danish Government. Denmarkization is maintaining the dialogue with the Soviet Union despite Afghanistan, simultaneously condemning that invasion, but refusing to escalate the arms race, and helping the developing countries. By adding development aid to the military expenditure, the Danish Government claims that its total commitment to international security compares favorably with most NATO countries.

The Danish opposition parties to the right of the Government and the Danish generals are more concerned about the security of Copenhagen and the adjoining islands. The generals claim that the zero growth in real defense expenditure envisaged by the Government is in fact negative growth, and that defense of Copenhagen and the island of Zealand must be abandoned in advance of hostilities. It is doubtful if military plans have ever seriously contemplated defending Copenhagen and Zealand, only minutes from Warsaw Pact rocket and air bases, but the political force of the argument is obvious. Nobody likes to feel undefended, and the debate is now bogged down in technicalities, with the Government still sticking to its guns.

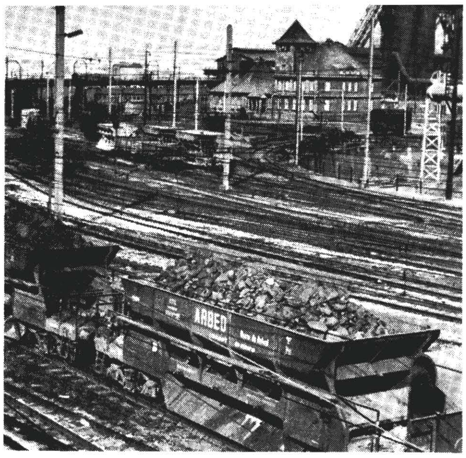
The defense issue may still precipitate a general election, though most political observers here believe that it will not. Far more popular controversy is generated by the virtual collapse of work in the new terminal building of the Danish post office, built at enormous cost but unable to process mail at anything like the rate of the old buildings. The postmaster general is becoming desperate and has asked for the political support of the responsible minister to arbitrarily fire the employees not working according to regulations. The minister has refused, implicitly accusing the postmaster general of not doing his job. Most observers expect that the postmaster general will soon receive a coup de grâce—but not through the mail.

—LEIF BECK FALLESEN

Luxembourg

Last summer an American customer of Arbed, the giant Luxembourg steel firm, rang the company to give a friendly warning that business conditions were turning grim. "We were grateful but not wholly convinced," said an Arbed official. "It looked to some of us that the low point had already been reached." A few weeks later the Americans substantially cut their orders and the protectionist alarm bells started ringing. In a nutshell that is what has happened to the whole EC steel industry this year—a brief flaring of hope followed by ruthless pruning of orders. But here the new visitation of the recession has been especially cruelly felt. Both in the extent to which the economy depends on steel and the extent to which that steel trade depends on exports, Luxembourg is far and away at the top of the world league. Hence the almost obsessive interest now being taken here in Community moves to push through a new EC steel rescue plan.

Arbed is an acronym for the remarkable multinational group that dominates steelmaking in the vital industrial belt stretching from the Saar in western Germany across southern Luxembourg and northern France to Belgium. You see little of this from the city of Luxembourg itself, and most tourists are astonished to discover how important steel is to the Grand Duchy. The facts are nevertheless that Arbed is the fourth largest steel producer in Europe and the tenth largest in the world. And if this is somewhat misleading in that much of the company's operations really form part of the French, German, and Belgian steel industries, the fact remains that the company directly pays the wages of two out of every



five industrial workers in Luxembourg. A glimpse of the company's stately headquarters—almost like a seat of parliament—leaves you with no mistake of the importance and gravity of the concern.

What has come as a nasty shock this fall is that this shrewd and powerful combine is yet no match for the worldwide steel recession. The discovery is painful because for some time it had looked as if Arbed might get by unscathed. Its ingenious plans for diverting otherwise redundant employees to outside work meant that in spite of the country's huge dependence on steel, Luxembourg was still able to come through the Seventies with virtually no increase in unemployment.

But the new turn in the recession makes it look as though this delicate balance may come seriously undone. The company has informed the Government that because of its sales losses in the US market and the recession in Europe, the costs of its major restructuring plan have gone up by 50 percent to more than $1 billion. The plan provides for a phased reduction in the work force from 25,000 in 1974 to 16,500 by the end of 1983.

If the job cuts have to be made much earlier than scheduled, then the Government will face a tough challenge on both political and financial grounds. Arbed is not a state-owned company, and everyone concerned wants to keep it that way. Moreover, even if the will to help were there, the extra sums being talked about—over 10 percent of the entire gross national product—could drain the treasury.

Yet every 1,000 workers that Arbed sacks represent a potential increase of 1 percent in the unemployment rate—indeed there are not many more than 1,000 out of work in the whole country at the moment. Hence the Government's anxiety. But the headache would be greatly eased if there were to be progress on the Community anti-crisis plan in Brussels. That would mean extra production cuts being pressed on Arbed, but it could also mean the eventual freeing of major EC resources for the restructuring plan. —ALAN OSBORN

The Hague

After defense against the treacherous North Sea proved inadequate and gales and springtide combined in February 1953 to cause dikes to collapse resulting in 1,850 deaths and vast loss of livestock and farmland, the Dutch agreed that must never be allowed to happen again.

The Delta Plan was devised at an estimated 3 billion guilders, involving the closing off of four unpredictable sea inlets. But for environmental reasons, the cost rose to 6.7 billion guilders. Major civil engineering projects now protect the southwestern low-lying Delta through which the Scheldt River, and Europe's two main arteries the Rhine and the Meuse, flow into the North Sea. The projects also involved separation and control of fresh and salt water.

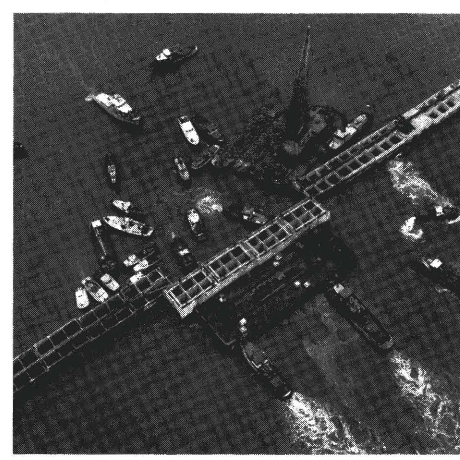
Six of Holland's leading engineering and hydraulic construction firms formed a single board for the purpose of completing the Delta works a quarter of a century ago. They now prepare for completing the last and most difficult chapter, closing the fourth sea inlet, the widest and deepest, the Eastern Scheldt. The 1958 Delta Act provided for a conventional dam. But after completion of the first three inlets, arguments gradually began to be raised in favor of keeping the Eastern Scheldt open to the sea, maintaining ebb and flow of the tide to preserve the natural environment of this area, which is a nursery for rare species of fish and birds. Nature conservation and safety had to be combined.

The Dutch Parliament approved the construction of a storm-surge barrier at the mouth of the Eastern Scheldt. The nine-kilometer-long dam will thus consist of two dams—one five-kilometer-long and a second one-kilometer, interspersed with 66 piers with 63 steel sluice gates between them. The new scheme raised not only the cost by about 3 billion guilders, but was so ambitious and unprecedented that the stress has come to lie more than ever on research in drawing office, hydraulic laboratories, soil mechanics, and environmental science. Also, a host of experts among biologists, physical geographers, and chemists has studied how to preserve the environment. The barrier must not only serve to prevent floods, but also preserve the 200 million guilders worth of mussel, oyster, and lobster industry.

Study and research will culminate around 1985 in a 3,200-meter-long storm-surge barrier whose gates will remain open in normal conditions and the tide will flow in and out as usual. But when a storm threatens, they will be closed against the swelling sea. A power station with a capacity to supply a city of 30,000 will have a control room from where the 63 sliding gates can be automatically opened or closed.

Late last month the construction of the first of 66 concrete piers was completed. A proud team of engineers showed it to the press. Each pier is 45 meters tall and looks like a middle-sized church tower. They are hollow but when sunk will be filled with sand while the base is to be embedded firmly in stone. Only 12 meters will remain above water level. Before sunk into position, the soft and shifting sand on the seabed will be "compacted" and later covered by special matting. The seabed between the piers is raised by sills and threshold beams in the 63 openings. Special matting has been laid over an area of 4.5 million square meters on both sides of the barrier and fixed by imported rocks to avoid shifting of the piers.

For centuries the Dutch have been in a life and death struggle to drive back the sea. Since the Thirteenth Century, 2,200 square miles have been reclaimed. Without this human activity, the lower part of the Netherlands would not exist. Natural sea dunes came into existence along the North Sea coast through waves pounding the shallow sandy bottom. Dunes are constantly watched and strengthened at vulnerable spots so as to protect the densely populated west with its big industrial cities like Rotterdam and Amsterdam.



courtesy Embassy of the Netherlands

In 1932 the most northern sea claw, the Zuiderzee, was pushed back by building the Zuiderzee dam, transforming the former Zuiderzee gradually into a freshwater basin called the IJssel lake. Four polders of reclaimed land, covering a 165,000-hectare area, are now inhabited by land-hungry farmers, while the Dutch Government earlier this year announced that the last and fifth polder, the future Markerwaard (41,000 hectares) will be reclaimed beginning next April. —NEL SLIS

EC COMMISSION BRINGS EUROPEAN FILM FESTIVAL TO AMERICA

The first European Film Festival will be held at the Kennedy Center in Washington, January 27 to February 23, 1981. It is jointly sponsored by EC Commission and the American Film Institute.

About 14 feature films selected from eight of the EC "Nine" will be shown. Luxembourg, which has no feature film production, will present a short film instead. The program is made up of films of outstanding artistic quality and significant social value. Together they illustrate European cultural trends in cinema. Following is the tentative schedule.

Jan. 27, 8:30 pm **Jan. 28, 6:30 pm**	"Ratataplan" (Italy, 1979, 90 mins. Directed by and starring Maurizio Nichetti.) Plus: "Two Decades of Europe" (European Community, 1979, 15 mins.)
Jan. 30, 8:30 pm **Jan. 31, 6:15 pm**	"The Glass Cell" (*Die Gläserne Zelle*) (Germany, 1978, 100 mins. Directed by Hans Geissendörfer. Stars: Helmut Griem, Brigitte Fossey.) Plus: "Europe of Prejudices" (European Community, 1967, 34 mins.)
Feb. 2, 8:30 pm **Feb. 6, 6:30 pm**	"Other People's Money" (*L'Argent des Autres*) (France, 1979, 105 mins. Directed by Christian de Chalonge. Stars: Jean-Louis Trintignant, Catherine Deneuve, Michel Serrault.)
Feb. 5, 6:30 pm	"Exposure" (Republic of Ireland, 1978, 48 mins. Directed by Kieran Hickey. Stars: Catherine Schell, T.P. McKenna.) Also: "Criminal Conversation" (Republic of Ireland, 1980, 48 mins. Directed by Kieran Hickey.)
Feb. 7, 5:00 pm	"Johnny Larsen" (Denmark, 110 mins. Directed by Morten Arnfred. Stars: Allan Olsen, Frits Helmuth.)
Feb. 9, 9:00 pm	"A Private Enterprise" (Great Britain, 1974, 78 mins. Directed by Peter K. Smith. Stars: Marc Zuber.) Plus: "20 Centuries After" (European Community, 30 mins.)
Feb. 11, 8:15 pm **Feb. 14, 6:15 pm**	"The Terrace" (*La Terrazza*) (Italy, 1980, 160 mins. Directed by Ettore Scola. Stars: Marcello Mastroianni, Ugo Tognazzi, Jean-Louis Trintignant.)
Feb. 12, 6:30 pm	British film to be announced.
Feb. 15, 5:00 pm	Greek film to be announced.
Feb. 17, 6:30 pm	"Melancholy Tales" (The Netherlands, 1974, 107 mins. Directed by Bas van de Lecg, Guido Pieters, Ernie Damen, Nouchka van Grakel.)
Feb. 19, 6:30 pm	"Home Sweet Home" (Belgium, 1973, 90 mins. Directed by Benoit Lamy. Stars: Claude Jade, Jacques Perrin.)
Feb. 20, 6:30 pm **Feb. 21, 7:30 pm**	"Sisters, or the Balance of Happiness" (*Schwestern oder die Balance des Gluecks*) (Germany, 1979, 95 mins. Directed by Margarethe von Trotta. Stars: Jutte Lampe, Gudrun Gabriel.)
Feb. 23, 8:30 pm	"Solemn Communion" (*La Communion Solemnelle*) (France, 1976, 105 mins. Directed by René Ferret. Stars: Claude-Emile Rosen, Claude Bochery, Yveline Ailhaud.)

EUROPEAN PERSPECTIVE

A weekly radio forum in which the Washington correspondents of Europe's leading news media join with former CBS correspondent Martin Agronsky to explain how their readers, the people of Europe, feel about the same issues that concern Americans. Here are some of the topics explored in recent weeks . . .

The Soviet Invasion of Afghanistan

Jurek Martin, Financial Times, London
Thomas Keilinger, Die Welt, Bonn
Charles Lambroschini, Le Figaro, Paris

Boycotting the Olympics

Stephen Barber, Daily Telegraph, London
Dick Toet, Netherlands Newspaper Syndicate, Amsterdam
Valeska Von Roques, Der Speigel, Hamburg

Consistency in the Carter Foreign Policy

Michel Tatu, Le Monde, Paris
Leslie Finer, The Spectator, London & The Daily News, Athens
Fabrizio del Piero, ANSA/The Italian News Agency, Rome

Yugoslavia: What After Tito?

Harold Jackson, The Manchester Guardian, England
Christian Winther, Danish Radio, Copenhagen
Carola Kaps, Frankfurter Allgemeine, West Germany

Election '80 – A European View

Denis Poncet, French Radio & Television, Paris
Marino De Medici – Il Tempo, Rome
Edmund Fawcett – The Economist, London

Israel & The West: Changes in the Wind?

Claude Moisy, Agence France Presse, Paris
Yve Laudy, La Libre Belgique, Brussels
Patrick Brogan, The Times, London

Is America Still the World's Economic Leader?

Dr. Jan Reifenberg, Frankfurter Allgemeine, West Germany
Henry Brandon, The Sunday Times, London
Marcello Spaccarelli, Il Popolo, Rome

Iran: Where Are America's Allies?

Ulrich Schiller, West German Broadcasting System, Munich
Henk Kolb, G.D.P. – The Netherlands Press Association, The Hague
Clive Small, British Broadcasting Corporation, London

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Columbia, Missouri KBIA • Columbus, Ohio WOSU • Denver, Colorado KDEN • Fort Lauderdale, Florida WHRS
Fort Wayne, Indiana WIPU • Hanover, New Hampshire WDCR • Harrisburg, Pennsylvania WMSP
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Notre Dame, Indiana WSND • Omaha, Nebraska KIOS • Pensacola, Florida WMEZ • Phoenix, Arizona KTAR
Pittsburgh, Pennsylvania WQED • Portland, Oregon KEX • Providence, Rhode Island WEAN
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Translating Machines. . . .

"Eurotra"—an advanced language translating system—is being planned by the Community. In early June the Commission passed on to the Council of Ministers a proposal for a research and development program for such a machine translating system. The communication also outlined a second action plan for improving information transfer between European languages.

The first action plan was launched at the end of 1976. One of the most promising possibilities of it seemed to lie in introducing computer technology into multilingual activities and automating the translation procedure as far as possible. The Commission now has a terminology bank, "Eurodicautom," for instance, and machine-readable dictionaries for computer-aided or human translations.

When the "Euronet" network was set up earlier this year, the Commission began experimenting with a machine translation system, "Systran," to see to what extent technical and scientific translations could be handled by machine. A first, experimental version in the English-French language pair was tested in 1976, and a second test, on specialized agricultural texts, in 1978. After revision, it was found that the intelligibility of the machine-translated texts was exactly the same—98 percent—as for the same texts translated by hand.

The old joke about the machine translation of the famous saying, "The spirit is willing, but the flesh is weak" that came out, "The alcohol is a volunteer, but the meat is flabby" still holds some truth. Revisers found it difficult to follow the logic of mistranslations made by the machine, and this meant that the cost in time needed for revision was much higher for machine translations.

Perhaps the most encouraging aspect of Systran was the scope revealed for improvement: Between the first evaluation and the second, the average intelligibility of machine translations rose from 45 percent to 78 percent. Though Systran will continue to be available through Euronet in the scientific, technical, and transfer of know-how areas where it is most useful, it is too limited for the Community's wider needs.

Experience with Systran encouraged the Commission to proceed with its more ambitious project—Eurotra. A group of experts brought together by the Commission in 1978 decided unanimously on the need to create and operate at Community-level a truly European machine translation system.

NEWS OF THE COMMUNITY

US-EC RELATIONS

Antidumping Levy on Yarn

A provisional antidumping levy on certain polyester yarn from the United States was announced in early September by the EC Commission.

The duty is to remain in force until the end of the year when the Council of Ministers will have passed a definitive measure. The provisional levy affects textured and nontextured yarn, which have significantly increased their penetration into Community markets in recent months at selling prices deemed below production costs.

The dumping margins were said to vary from 9 to over 15 percent, and in some cases US companies involved refused to provide information requested by the Commission during its investigation into the charges.

Imports of the polyester yarn rose from 4 percent of the Community market in 1978 to about 10 percent last year. Countries most affected by the surge in imports were Britain and Italy.

Action on Steel

President Jimmy Carter's recent announcement concerning the new American steel policy was seen by the EC Commission as a return to the international agreement accepted in 1977 by major industrialized countries in the Organization for Economic Cooperation and Development.

The US move also resulted in the dropping of the US Steel Corporation's antidumping charges against EC steel shipments and led to a resumption of the trigger price mechanism setting a minimum price for steel imports into the United States.

The EC Commission also sought in late September an agreement from the Community steel industry to proposed cutbacks in production for the coming year in view of the probable drop in demand. Following a meeting between the European steel group known as Eurofer and Industrial Affairs Commissioner Etienne Davignon, the Commission announced there had been unanimous agreement that immediate steps to stabilize the market should be taken. The Commission indicated it would prepare such proposals for an upcoming Council meeting.

Push for Investment in Italy

The Italian Government has mounted a major marketing program in North America to encourage investment by US and Canadian firms in the Mezzogiorno region of southern Italy, it was announced in early October.

An office will be set up in New York with branches in Los Angeles and Montreal, a special delegation told the press. The mission is backed up by technical staff.

Already, 76 US manufacturing companies have direct investments of $2.4 billion and employ 37,000 workers in the region. The Mezzogiorno covers about two-thirds of Italy and encompasses 20 million people. Financial incentives were seen as a prime magnet for foreign investment there, including cash grants of up to 40 percent of fixed investments, soft loans, a wide spectrum of tax reliefs and allowances, and no-cost technical assistance and personnel training.

EXTERNAL

Brazil-EC Accord Signed

A new cooperation agreement was signed in mid-September between the Community and Brazil.

The framework accord is designed to encourage the expansion and harmonious development of commercial and economic cooperation between the two parties. It also sets up a joint committee to oversee and promote such activities for a period of five years.

Trade between Brazil and the Community has increased five times in the last 10 years, and now Brazil is the Community's largest trading partner in the developing world.

In addition to this new agreement, the Community has also concluded an accord with Mexico and is discussing one with the Andean group of Latin American nations.

Views on Turkey, Mideast

A declaration urging the new military government in Turkey to restore civilian rule as soon as possible was issued by the Council of Foreign Ministers during its meeting in late September.

The statement said that the Community would watch closely events in Turkey and urged authorities to guarantee the human rights of all the political and trade union leaders detained since the bloodless takeover in mid-September. The ministers did not take any action concerning the association agreement between the Community and Turkey.

Concerning the Middle East, the ministers expressed their preoccupation about attacks on the territory and sovereignty of Lebanon and asked that restraint be used in the region to allow the United Nations forces to exercise their peace-keeping role.

It was also decided to grant a new negotiating mandate for talks with Zimbabwe over the newly independent country's accession to the Lomé Convention.

Talks With India Resume

The second round of negotiations between the Community and India on a new trade and economic cooperation agreement began in Brussels in mid-September. Both sides indicated they hoped the new pact would be concluded before the end of the year.

Indian commerce minister, Pranab Mukherjee, had visited Brussels a week earlier to discuss bilateral commercial issues with Commission members.

Mukherjee also held a meeting with Indian commercial representatives in Europe to help them develop a new strategy to increase the country's exports to the region. At both gatherings the Indian minister stressed the need for diversification of India's exports. He also noted the increase in protectionist tendencies in Community and other industrialized nations.

It was noted that about 47 percent of India's exports are destined for Germany and Great Britain and that 65 percent are included in eight products: textiles and garments, leather and leather goods, tea, diamonds, oil cakes, tobacco, carpets, and coffee.

Thorn Completes Mission

Luxembourg Foreign Minister Gaston Thorn completed his last round of visits in the Middle East in late September.

Thorn's mandate from the Community was to investigate the possibilities for an EC peace plan for the troubled region. The first phase of the visit took Thorn to Israel and then consultations with Palestinian leaders.

The second phase of the visit involved contacts with Israeli Prime Minister Menachem Begin as well as several Palestinian leaders. Thorn emphasized the Community position that settlements to the disputes would best be achieved with the participation of the Palestinian peoples rather than through the Israeli and Egyptian negotiators alone.

Begin, however, maintained his Government's steadfast objections to such an arrangement and added that the real source of conflict in the Middle East was Arab rivalry.

Ties With Japan Discussed

Statistics showing deterioration of the EC trade deficit with Japan this year brought a renewed discussion of Japanese relations in a September EC Commission meeting.

Figures for the first seven months of the year showed an increase of 65 percent in the Community deficit. They also indicated that Japanese exports to the Community had increased by 65 percent while European shipments to Japan had grown by only 2.7 percent during that time. The discussion focused on the need to persuade the Council of Ministers to adopt the recent Commission proposal for a new negotiating approach with Japan.

The new proposal, the subject of a preliminary discussion in the Council in July, called for an end to numerous national restrictions against imports from Japan and a common front for seeking restraint from Japan in its export policy.

ASEAN Accord In Force

The tempo of relations between the Community and the Association of Southeast Asian Nations (ASEAN) was stepped up in September as a result of the exchange of ratification documents on the cooperation treaty that was signed in March and would go into force October 1.

Officials from both groups met in Brussels at that time to form working groups in the three priority fields of cooperation visualized in the accord—trade, economics and development, and services and technology. They also planned the late November meeting of the joint committee set up in the pact.

EC Statement on Gulf War

Meeting in a special session in New York in late September at the gathering of the UN General Assembly, the EC Council of Ministers issued a statement calling for a halt in fighting between Iraq and Iran. It noted the need to keep the conflict from assuming "a larger dimension" and underlined the importance to world economies of free navigation in the Gulf.

The EC Commission meanwhile released figures on the weight of Iraq and Iran in the EC oil supply. The two countries supplied 12 and 8 percent respectively of the Community's 1979 oil imports, but their share dropped to 10 and 4 percent in the first part of 1980. Iraq supplied about 20 percent of France's and Italy's crude oil imports. The total imported from producers in the Gulf area amounted to about 58 percent, said the Commission.

The statement also indicated that EC stocks of reserve oil added up to 120 days' consumption in case of a cutoff in Gulf traffic. It was underlined, however, that about half of Iraq's oil could be transported toward the Mediterranean via land pipelines rather than through the Gulf.

Customs Talks Proposed

Negotiations on a customs union between the Community and Cyprus were proposed by the EC Commission in late August.

The talks would cover the timetable and details of a full customs union to be in place by 1990. The dismantling of tariffs under the 1973 association agreement with Cyprus, which provided for the creation of a full customs union, would begin in 1981. Elimination of remaining tariff barriers and adoption of the EC common customs tariff by Cyprus would take place during the period 1984-90.

The negotiations would also treat elimination of quantitative restrictions, coordination of trade policy, rules of competition, taxes, and economic legislation. The present association agreement has granted Cyprus duty-free entry for industrial goods into the Community and specific reductions on agricultural goods, which constitute 75 percent of the island's exports to the Community.

ENERGY

Funding for Energy Projects

Funding for projects in energy savings, geothermal demonstrations, and uranium prospecting were recently announced by the EC Commission.

Over the next five years the Commission will help finance about 60 projects designed to demonstrate new techniques in energy savings. The Commission's contribution totals EUA 27 million.

Up to 40 percent of project costs will come from Commission sources. The undertakings range from research and demonstrations in heat conversion and recovery to testing new modes of transport. This funding brings total EC spending for energy-saving projects to about EUA 55 million since 1978.

EUA 10 million in financial aid for demonstration projects in geothermal energy was also earmarked for the period 1980-85. The grants will cover up to 40 percent of project expenses, largely in drilling for untapped geothermal energy to be used for heating purposes.

Uranium prospecting in the Community will benefit from EC financing of EUA 9 million. Twenty grants will cover 30 to 70 percent of total costs for projects in Germany, Ireland, Italy, and Britain. The biggest project in Italy, receives EUA 3 million.

Oil Recycling Conference

The important connection between recycling used oil and conservation of scarce energy resources, along with preservation of the natural environment, was underlined at the second European conference on recycling used oil in Paris in early October.

EC Commission Vice President Lorenzo Natali, in charge of environmental policy, observed that a 1975 directive on processing used oils was the first measure adopted by the Community environmental action program. He also noted that currently only about 50 percent of used oils in the Community were collected and others were still discharged into the environment. While these represent only a small portion of pollutants, they are an important economic waste, he said. Natali also mentioned that the 1975 directive had not been evenly applied throughout the Community.

Oil Imports Down

Import figures for crude oil and oil products were down for the first eight months of this year by 12.5 percent over 1979, Energy Commissioner Guido Brunner announced in early September.

He called the record a "striking success" for the Community. Imports totaled about 313 million tons through August 1980, 44 million tons under the same period a year ago. Brunner added that on the basis of the present figures, the Community should easily import less than its goal for the year of no more than 472 million tons. This should not be a signal for relaxation, he warned, as the ultimate goal is a reduction from the present 54 percent dependence on imported oil to about 40 percent by 1990.

ENVIRONMENT

Asbestos Standards Proposed

Standards and limits on the exposure of workers to asbestos were recommended to the Council of Ministers by the Commission in mid-September, the second in a series of measures designed to protect the health and safety of the working population.

The measure seeks to harmonize national rules and standards and follows an earlier proposal to combat lead poisoning. Certain uniform standards limiting exposure to asbestos and requiring regular medical examinations and other safety precautions at the work place are also included in the proposed directive.

Asbestos has been known to be associated with a number of ailments and tumors, yet its use in construction and other industries has become widespread, and some workers are regularly exposed to the substance. This proposal follows the adoption of a framework directive on protection against potentially harmful chemical substances. Directives against other substances such as mercury, cadmium, and arsenic are expected to follow.

AID

Review of ACP Relations

The first review of relations since the signature of the Lomé II Convention was held in late September when more than 100 members of parliaments from Community and African, Caribbean, and Pacific (ACP) countries gathered in Luxembourg.

Discussions covered virtually all aspects of the Lomé agreements and bilateral relations, as well as broader issues, such as the North/South Dialogue. It was noted that trade relations had not dramatically improved and in fact had deteriorated for many ACP nations, although those countries as a group had moved back into an overall surplus with the Community.

European Parliament President Simone Veil observed in her opening speech that EC efforts under Lomé would have to be increased and that emphasis would have to be placed on aiding the poorest ACP countries and on reducing or eliminating hunger.

EC Commissioner Claude Cheysson, in charge of development, discussed specific finance programs and portions of the Lomé Convention, such as the sugar protocol and the Stabex system. He also emphasized the need to help Zimbabwe in its drive to become an independent nation.

Aid for Refugees, Disasters

East Africa and the Caribbean were designated in early October to receive emergency assistance from the Community.

EUA 1.2 million was allocated to Kenya to help overcome the effects of a drought; and for neighboring Uganda, EUA 500,000 was recommended to help the victims of fighting in that country. EUA 200,000 had been allocated last summer for the population of Karamoja in Uganda.

Additional aid for islands hit by the

July Hurricane Allen in the Caribbean included allocations for Dominica, St. Vincent, and St. Lucia. In addition, an emergency food aid grant of about 200 tons of powdered milk was allocated for Grenada. Jamaica, Haiti (the island worst hit), Barbados, Guadeloupe, and Martinique had earlier been allocated emergency aid. Relief totaling EUA 1 million had also been granted under the Lomé Convention aid program.

The Commission over the summer also allocated aid of EUA 5 million to assist refugees who had fled Ethiopia for Somalia. EUA 200,000 was granted to help Germany with the cost of outfitting a ship to transport refugees from Vietnam. About 2,000 persons have been accepted by Germany in the last year. The Commission also granted EUA 150,000 for regions hit in late July by an earthquake in Nepal.

EIB Loans Granted

The European Investment Bank, the Community's bank for long-term finance, recently granted a loan of EUA 5 million to help finance small and medium-scale industrial and tourism ventures in Malawi.

For improvements to cobalt production facilities in a plant at Chambeshi, Zambia, the bank lent EUA 8 million. The loan goes toward investment worth about EUA 17 million in a vacuum refining facility to produce a higher grade of industrial cobalt with improved filtering equipment to reduce metal losses in the production process.

The loans were advanced at 8 percent interest for periods of 12 to 10 years respectively.

ECONOMY

Aid to Shipbuilding Sector

A proposal setting new guidelines for aids to the shipbuilding industry was approved by the EC Commission in early September.

The new rules were designed to replace an earlier program and will coordinate diverse national aids into a Community pattern. Such a plan will avoid competitive underbidding by governments seeking to assist their domestic industries.

The guidelines, which would be effective for 1981 and 1982, would allow production aids associated with restructuration programs and would permit aids granted to save a particular firm; aids to ship owners; and financial assistance to compensate for losses and generate capital, among others.

Electronics Industry Plan

Steps to stimulate the European electronics and telecommunications industry were stepped up in September. During the month the Commission released full details of a plan to encourage the sector, and Industry Commissioner Etienne Davignon addressed an industry trade fair to seek support for the Commission's program.

The plan forwarded to the Council of Ministers emphasized the need for cooperation on the European level to open up markets and harmonize standards. The thrust of the new drive is to promote the EC micro-electronics and telecommunications industry to a position where it can challenge American and Japanese competitors for a fairer share of the Community and world markets.

The Commission noted that for many products, EC member states represented about 25 to 33 percent of the world market while the Community industry only covered 10 percent of this demand. In his speech Davignon stressed the need for European society to adjust to the rapid changes in technology. He said this might require modifications in education and occupations.

Marriage Bureau Reports

The Business Cooperation Center, or "marriage bureau," recently reported that its activities during the past two years had led to 36 bilateral and multilateral cooperation agreements.

The center indicated special interest in sectors such as banking; subcontracting; fairs; medical, hospital, and hotel equipment; and bronze founding. It warned that small and intermediate-sized banks will increasingly fall under the control of large international bank groupings unless they organize in cooperation across national boundaries.

In other areas the center observed that it would have to increase its work with companies from Greece and the other EC candidate countries, but it recommended that exchanges of information be discontinued with other countries outside the Community.

The center was established several years ago to serve as a clearing house for information about companies interested in cooperative ventures or mergers.

Steel Output Seen Dropping

A steel production forecast released in early September indicated an expected drop of about 13 percent below the fourth quarter last year.

While the EC Commission pointed out that the figures were preliminary predictions, a sharp deterioration in the industry's statistics was noted for recent months. Declines in the construction and automobile industries were said to be sharp. World market conditions are also down thereby decreasing the prospects for exports from EC producers.

The forecast will probably require the Commission to make new proposals for social measures for the steel industry, it was reported.

Production Slump Expected

The expected slump in industrial production gathered momentum in the second quarter of 1980, according to a report released by the EC Commission in early September.

The regular survey showed production figures for June at 0.1 percent below the same period last year. For the third consecutive month, short-term growth was indicated at or below the zero mark. It was noted that overall, intermediate goods industries had weakened; consumer goods production was sharply down; and capital or investment goods output was erratic.

The report also said that Italy was the only country of the eight reporting (Ireland's reports were absent from the calculation) which did not register a downturn. Its production was up 2.1 percent. At the other end of the scale were Denmark and Britain with figures down by 4.3 and 3.5 percent respectively.

COMPETITION

Plywood Imports Restrictions

Twenty Dutch firms involved in importing plywood from EC member states were ordered by the EC Commission in late September to cease certain restrictive practices.

The firms concerned were 11 importers and nine exclusive agents which together with other firms had a restrictive agreement known as the IMA (Importeurs/Agenten) Rules. The rules set up exclusive relationships among member importers and agents in the Dutch plywood import trade. In addition, restrictive conditions were laid down for admission to the cartel, to keep small firms and newcomers out of the trade.

The Commission found that the exclusive obligations among the IMA members were an infringement of EC competition rules and ordered the participating firms to terminate the infringements within two months of notification.

Nissan-Alfa Deal Eyed

The Nissan-Alfa Romeo proposed venture will be scrutinized by the EC Commission for conformity with EC competition rules, the Commission announced in late September.

EC Commissioner Etienne Davignon, in charge of industrial affairs, said the Italian Government had imposed the condition that the agreement be compatible with EC policies. The accord was endorsed by then Prime Minister Francesco Cossiga following months of debate and hesitation by the Government and industry.

Under the arrangement Alfa Romeo and Japanese Nissan Motor, which makes Datsuns, will jointly produce a new small car in southern Italy. The new plant will turn out about 60,000 cars a year and is expected to create 3,500 new jobs in the depressed area. The deal was controversial because industry critics of the pact said Japanese autos already had taken over too much of the European market, and the accord would permit even more penetration. The agreement states that half of the output be sold in Italy and half be exported.

The Commission said the deal will have to be evaluated for its impact on the international distribution of value added, on trade balance, and on the Italian and EC markets.

Court Rejects Appeal

The European Court of Justice rejected in mid-September an appeal by a Philip Morris Company affiliate in Holland against an EC Commission decision. The Commission had prohibited Dutch Government financial aid for modernization and expansion of the company's facilities on the basis that the aid reenforced the firm's competitive position inside the common market, which is prohibited in the EC competition rules.

The Commission felt that the grant would unfairly distort competition in favor of a firm representing 50 percent of cigarette production in Holland and which probably did not need the assistance. When the company appealed, the Court sided with the Commission. The ruling could have a major impact on similar, pending cases.

AGRICULTURE

Action on Sheepmeat

Agriculture ministers meeting in late September reached agreement on organizing the sheepmeat market and on taking action against the potentially harmful use of hormones to fatten calves.

Agreement on a Community sheepmeat system was seen as perhaps putting an end to the "lamb war" between France and Britain involving the import of lamb into France. The accord also covered the amount of imports to be admitted from other countries, such as Australia and New Zealand.

Taking steps to restrict the application of hormones in calves followed an upsurge of recent attention in the press and consumer boycotting of veal in some countries. The agreement reached in the ministers' meeting was, however, on the principle of taking action, and concrete measures are yet to come.

Fishing Conservation Agreed

A prelude to a possible common fishing policy was sounded in late September when ministers reached an accord on fishing conservation measures.

The agreement concerned technical and detailed measures to help preserve the stocks of fish in Community waters. These included the size of fishing nets, seasons for catching certain varieties of fish, and the size of fish harvested.

It was agreed to put these into effect until the end of the year without awaiting agreement on quotas for each type of fish for each national fishing fleet.

The accords also involved agreement on restrictions in conjunction with other countries, primarily Norway, over a North Sea zone for fishing of Norwegian pout.

During the recent French fishing blockade French fishermen made several demands. One of the main ones was for additional government aid to absorb the increased cost of fuel for their boats. Such subsidies have been under scrutiny in the past by the EC Commission to see if they constitute infractions of EC rules on state aids.

ENLARGEMENT

Jenkins Visits Madrid

During EC Commission President Roy Jenkins' early October consultations with high Spanish officials, discussions focused on the terms of Spanish entry into the Community and the possibility of a delay in the timetable for accession.

Jenkins conferred with the King of Spain, Prime Minister Adolfo Suarez, and others.

Regional Funds for Greece

Greece should be allocated 15 percent of the grants in the Regional Fund, once it becomes an EC member, said the Commission in late September.

The proposal was made to the Council of Ministers for their approval following a study of economic and social factors in Greece. As a result, Greece would get about EUA 228 million of the 1981 funds, placing it as the third largest recipient behind Italy, Britain, and before France.

Because of recommendations made earlier in regard to Regional Fund distribution in the 1981 budget, there would be no reduction in actual funds received by other member states following Greek entry, although the countries' percentages of total funds would be reduced by dividing the quota 10 ways instead of nine.

INSTITUTIONS

More Budget Conflict

The 1981 draft budget was slashed by about EUA 800 million by the Council of Ministers in late September, thus setting the stage for another budget clash between Community institutions. The Commission's draft budget received substantial cuts in requests for the Regional and Social Funds, energy programs, and assistance for nonassociated developing countries.

Following the Council's action, the Commission said it "disassociated" itself from the Council action, and the Parliament's budget committee leader said the action was "a major political challenge to the Parliament and a threat to the future viability of the Community and its institutions." Consultation had been held, however, between members of the Parliament and the Council before the actual Council session on the budget.

As a result of the Council's action, it was considered likely that a conflict similar to last year's budget fight would ensue.

MONETARY

Recyling Petrodollars

EC finance ministers meeting in late September discussed the international problem of recycling the vast sums accumulated by oil-producing countries and the possibility of establishing an EC loan fund to finance oil deficits of EC and developing countries.

The fund could amount to $10 billion and be raised on the international capital markets or directly from oil-producing countries. It would use the new European currency unit as the vehicle for borrowing and would impose conditions on borrowers to take measures to bring down their oil import deficits. The fund would probably replace the smaller Ortoli Facility designed to assist Ireland and Italy.

The ministers also agreed on a Community position for the meeting of the International Monetary Fund held in Washington the following week, at which time recycling petrodollars was expected to be raised. The group further agreed that although the new European Monetary System had been working well, it would be unrealistic to enforce the deadline for establishing a European monetary fund.

REGIONS

Fund Helps Create Jobs

The European Regional Fund distributed EUA 962 million for 2,835 projects in 1979, it was reported in early September. These contributions directly helped to create an estimated 79,000 jobs throughout the Community.

A total of 28 percent went for industry and service projects, where the 79,000 jobs were created. The remaining 72 percent went for infrastructure operations, such as roads and power systems.

Regional Funds Awarded

Six EC member states received nearly EUA 200 million in grants under the Regional Fund for projects in their countries, it was announced in late September.

The awards in this third allocation for 1980 included 40 percent financing to two major water-supply projects in Italy and for 10 major infrastructure undertakings in Ireland.

The total was EUA 44.5 million for 154 projects in the industrial and service sectors and EUA 148.2 million for 460 infrastructure projects. The three countries not receiving grants this time were France, Holland and Luxembourg.

This year, the Regional Fund has spent EUA 596 million for projects throughout the Community, and during its five years in existence, the total contribution for regional development is more than EUA 3 billion for 10,374 projects.

HARMONIZATION

"Consult and Inform" Plan

The EC Commission proposed in early October that multinational companies and other firms be required to consult and inform their work forces about important corporate decisions.

The measure seeks to make into Community law the voluntary codes on rules of conduct for multinational companies adopted by the Organization for Economic Cooperation and Development and the International Labour Organization. It would also extend to firms requirements for worker consultation already contained in EC directives on mass dismissals and mergers.

The new proposal would require firms with branches in more than one country or purely domestic firms with more than one branch in the same country to regularly report to workers on subjects such as the work force, investment plans, and other matters of interest to the labor force.

In addition, management would have to alert employees 40 days in advance of major decisions affecting them and seek their views within 30 days. Firms headquartered in a non-EC country would have to designate an affiliate in the Community to act as its information center.

Automobile Insurance

The EC Commission recently proposed a new directive on automobile insurance. The proposal would coordinate national legislation on minimum civil liability coverage.

Minimums of EUA 350,000 per victim of an accident and EUA 500,000 per accident were set in the proposed directive. It was designed to correct the differences that exist among national coverages and follows a Community directive of 1972 prohibiting member states from continuing to require the "green card" insurance paper from foreign motorists.

(EUA: *1 European unit of account equaled $1.40 in early October.)*

Eurydice Network Begins

"Eurydice," the Community's new educational information network, began operations in mid-September.

The new education transmission system will at first connect designated official educational organs in each member state as well as EC Commission offices. Its services will be available to educational policy-makers to aid in the coordination and information gathering processes. It will also be opened to the other member countries of the Council of Europe.

The first phase of operations will focus on four priority areas in the Community's educational action program: transition from school to working life, teaching and learning foreign languages, education of migrant workers and their families, and policies and conditions of admission of students to higher education.

The system was authorized in 1976 as a means of improving the exchange of ideas and information between the different specialized authorities in the member states. Later the system will be accessible through the Euronet electronic data bank inaugurated earlier this year.

RESEARCH

Euronet Development Plan

An EUA 16.5 million program for the development of the new Euronet data communications network over the next three years was proposed by the EC Commission in early October.

The program would increase Euronet's processing capacity to meet expected rapid growth in demand and to assure that it is linked to other networks. Action would also be taken to train users and intermediaries, to improve access of small and medium-sized companies, and to stimulate export of European information products and services.

The Euronet system is an interconnection of data banks and bases useful to all types of organizations. The system inaugurated earlier this year is expected to be fully operated by the national post and telecommunications administrations by 1983.

Report on Research Funds

In a report sent to the Council of Ministers in August, the EC Commission proposed that most of the Community's research funds go to specific sectors for the next five years. These sectors are energy, raw materials, the environment, agriculture, and certain industrial sectors. The remaining 20 percent of funds, said the Commission, should go to sectors such as medical research, textiles, urban development, and fisheries.

In rearranging Community spending in research, the Commission hopes to see science and technology spending in major priority sectors leading to multiannual programs that will not require Council decisions on every activity, as is now the case. The Commission also strives for continuity in programming from one multiannual plan to the next and for coordination between projects.

SCHOLARSHIPS, GRANTS, CONFERENCES

Investigative Journalism

A new program of grants from the Fund for Investigative Journalism, financed by the German Marshall Fund, was recently announced.

Incorporated in 1969, the Fund for Investigative Journalism has awarded some 450 grants, largely to freelance writers covering a broad spectrum of topics. Application should be made in the form of a letter to the executive director, Howard Bray, describing the proposed investigation, its significance, and other details, including an itemized budget.

For further instructions, contact The Fund for Investigative Journalism, Inc., 1346 Connecticut Ave., NW, Washington, DC 20036 (202/462-1844).

Employment of Aliens

A seminar, "Immigration and the Employment of Aliens: Avoiding Excessive Delays and Undue Restrictions," will be held December 2-3 at the World Trade Center in New York.

Sponsored by the World Trade Institute, the meeting will be of value to those involved in the task of securing both immigrant and nonimmigrant visas for alien workers in this country. Also, foreign-based companies increasing operations in the United States will obtain precise information about immigration requirements.

For information and registration, contact Registrar, The World Trade Institute, One World Trade Center, 55W, New York, NY 10048 (212/466-4044).

International Marketing

The University of Michigan will present five-day seminars on international marketing management March 23-27 and June 1-5, 1981.

Seminar topics include developing international market strategy, market intelligence, market entry, distribution channels and logistics, product policy and pricing, and advertising.

For more information and registration, write Gail Benninghoff, Division of Management Education, The University of Michigan, 1735 Washtenaw Avenue, Ann Arbor, MI 48109.

Recent Books

Europe 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.

The Politics of East-West Communication in Europe. By Karl E. Birnbaum. Saxon House, Westmead, Farnborough, Hants, 1979. Available from Renouf USA, Inc., Brookfield, VT. 182 pages including index. $27.00.

A study elucidating official policies and perceptions relating to the dialogue between Eastern and Western Europe, concentrating on East Germany, West Germany, and Poland; enunciates central policy requirements which must be met in order to achieve progress in East-West communications.

Foreign Investment in Southern Real Estate: Methods and Trends. Georgia World Congress Institute, Atlanta, 1980. 121 pages. $10.00.

Proceedings of a conference held in October 1979 on foreign investment in the southern United States; participants represented the areas of finance, real estate, law, and government; includes executive summary, speeches, and discussion.

Europe in the Twentieth Century. By Roland N. Stromberg. Prentice-Hall, Inc., Englewood Cliffs, NJ, 1980. 500 pages including index. $12.95.

A history of Europe from 1900 up through the 1970's; includes short section on the birth of the European Community.

Tenth Annual Institute on International Taxation. Edited by Arthur H. Kroll. Practising Law Institute, New York, 1979. 774 pages. $20.00.

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The Feasibility of a Standardised Command Set for Euronet. INSPEC. Oxford Microform Publications, Ltd., Oxford, 8 pages and 3 microfiches.

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