

# EUROPE

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A photograph of an Ariane rocket launching vertically against a blue sky with scattered white clouds. The rocket is white with black and grey sections. At the bottom, a large, bright yellow and orange plume of fire and smoke from the engines is visible, extending downwards. The rocket is positioned on the left side of the cover, pointing towards the top center.

## ARIANE: CHALLENGE FOR U.S. IN SPACE

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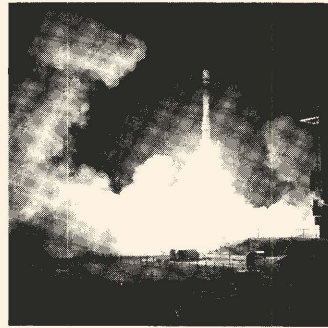
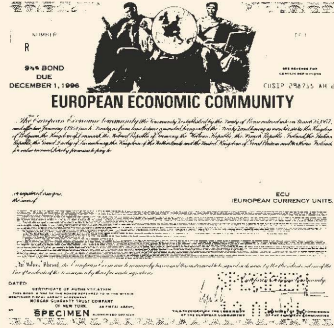
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# EUROPE

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# PUBLISHER'S LETTER

**N**ot long ago, satellites were nothing more to most people than tiny little pinpoints of light they had to squint to see in the night sky. Today satellites are big business. We are becoming increasingly dependent on them for delivering everything from our nightly news broadcasts to trans-Atlantic telephone calls. In our cover story in this issue of *Europe*, we take a look at the European-built Ariane rocket, presently one of the most popular means for sending today's increasingly sophisticated satellites into earth orbit. How does Ariane stack up against its U.S. arch-rival, the NASA space shuttle? What's the future for Ariane? David Dickson, European correspondent for *Science* examines the question and provides a special update on the latest race to wring profit from space.

In a major article this issue, E.C. Commission Deputy Director-General Paul Luyten offers a timely analysis of protectionist pressures on the trading system.

While successes like Ariane should give Europeans grounds for optimism, speculation on Europe's future has seldom been as fertile a topic of conversation as it is today. Where is Europe headed? In the near term it is headed for enlargement. This is especially so since E.C. leaders reached an agreement in their Dublin summit last month on a compromise designed to break the deadlock on stalled E.C. accession negotiations with Spain and Portugal. But what's in store for the E.C. over the long haul? John Wyles, foreign news editor for London's *Financial Times*, tackles that question in this issue. Wyles reports on the efforts of Europe's best and brightest to reshape Europe to the needs of the future.

Many European leaders recently have tried to breathe new life into the long-dormant Western European Union (WEU). Ian Davidson of *The Times* of London looks at some of the forces at play in this new push for closer defense coordination among the seven WEU members.

On page 49, we publish the names of the new Members of the E.C. Commission and their portfolios. In our next number, we will profile the new Vice Presidents and Commissioners individually and examine the responsibilities they have been assigned for the next four years.

Our member state report in this issue features the United Kingdom. Malcolm Rifkind, U.K. Minister of State for Foreign and Commonwealth Affairs writes on why a stronger E.C. is indispensable for his own country, for its European counterparts and for the United States as well. Peter Jenkins, political columnist for *The Guardian*, looks at the British miners' strike and at how this and other confrontations between Britain's Government and the more radical of its labor unions has shaped the United Kingdom politically and economically.

Former E.C. Commission President Roy Jenkins writes our guest column this issue. He identifies the challenges facing the Community—the most daunting being enlargement. He warns that the E.C. must revert to taking decisions by weighted majority and must abolish the use of the veto if the Community of 12 is to move forward.



Each week, UPI State Department correspondent Jim Anderson explores major news stories from a European Perspective. Top European journalists on Washington assignment probe new East-West moves . . . visiting world leaders explain their people and politics . . . broadcast lines opened to European capitals bring on-the-scene reports.

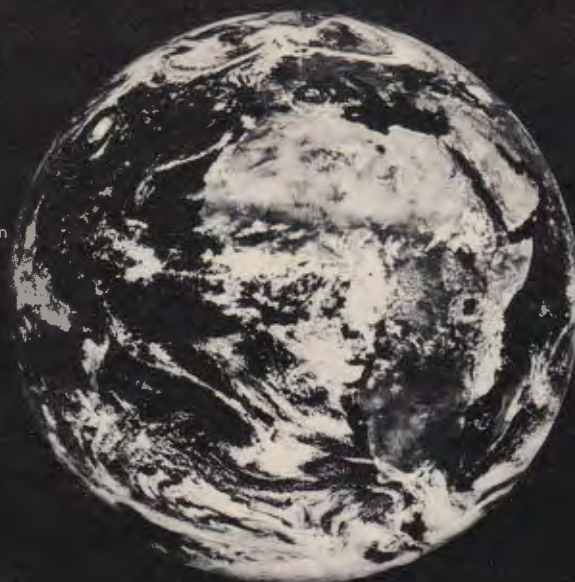
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# AROUND THE CAPITALS

## AMSTERDAM

### Learning The Language

There are some 4,600 foreign students at Dutch universities. Many study hydraulic engineering at Delft University, as the Dutch are the champions in bridge building and land reclamation. Others follow courses at Wageningen Agronomical University because Holland traditionally has great expertise in that field also due to the country's former colonial empire. In addition, some 1,600 postgraduate students from 20, mainly developing countries follow annual courses at the 18 institutes of the Netherlands International Education Program, organized in the early 1950s.

These courses are given in English, French and Spanish. The students usually have help with grants from the Dutch government, a United Nations agency or their employer. Courses include pure and applied sciences, social sciences, agriculture, medicine and related sciences. But these students are living in the Netherlands and they have to be able to get around in daily life.

Apart from the obvious difficulty of pronunciation, learning the language of the Netherlands can remain a double-Dutch proposition for years. The students complain the Dutch talk too rapidly and are hard to understand. "The most difficult thing is their word order," a foreign journalist notes. "To understand the beginning, you must know the end as the verb invariably turns up at the end of the sentence."

Because of the language handicap, two young professors at Delft University five years ago began to develop an easy method for learning the Dutch language. Results of the "Delft method" are called "amazing." A group of Chinese students that had to learn enough Dutch in six months to study at one of the technical departments of Delft University prompted professors Abondio Sciarone and France Montens to develop the method. It is published by the Amsterdam editor of Boom/Meppel.

After two weeks, the students already can form sentences on simple subjects, said Montens. "We chitchat with them on family matters, holidays, children and other such



© University of Wageningen

**Degrees of excellence: word order and pronunciation are mastered when foreign students receive their Dutch degrees.**

familiar things," Sciarone said. This way, the students learn about one hundred new words each day.

"We do not insist on grammar," Montens said. "It is not like arithmetic, where you cannot afford mistakes. You must encourage the students and give them the feeling all is going well," Sciarone said. "The

students have to do the work and we accompany, encourage and check them." The "Delft method" book includes only six pages of grammar.

The method is also a breakthrough for migrant workers, teachers claim, enabling them to fill out forms and defend their interests in Dutch.—NEL SLIS

## LUXEMBOURG

### Bankers Hit The Limelight

It was odd to see a small regiment of British newspaper reporters standing outside a Luxembourg bank. The bank was not impressed: "Our clients' positions are private. We are unable to help you," an official said. But the reporters were not put off as easily as that. They stayed, and in the end they got their story.

The tale was basically about the deposit of some \$6 million of British mineworkers' union assets in Luxembourg. The union had been subject to a sequestration order by a London court following its refusal to pay a £200,000 fine for contempt of court. Afraid that its assets would be seized if left in

Britain, the union moved earlier in the year to spend its money abroad—first to New York, then Switzerland and finally Luxembourg. A demand for the money by London accountants charged with taking over the miners' funds was turned down by a Luxembourg district court. "Legal decisions taken in London are inadmissible here," concluded a judge.

These events have somewhat embarrassed the Luxembourgers. They are proud of their banking expertise and it was pleasing that the court endorsed the trust placed in Luxembourg banks by the British miners. But bankers generally do not relish publicity and it's doubtful that they have ever had more of it. "Who are these Luxembourgers to brush aside British law in a case wholly involving British interests?" demanded a London newspa-

per. The British Foreign Office is now reported to be actively exploring a European Community Convention for the Mutual Enforcement of Civil Judgments dating back to 1972 as a result of the court ruling.

This particular case may not change life very much for Luxembourg bankers, but it has served to put a spotlight on their quandary. For 15 years now, banking has been the supreme Luxembourg growth industry. Over this period, the number of banks established in the Grand Duchy has multiplied more than four times to around 120 and the total assets held in the city have soared from \$20 billion to about \$1.2 trillion.

This growth has all been based, however, on the rise of the Eurodollar business—a recondite art involving the deposit and relending of dollars

held outside the United States in which the Luxembourgers excel. By common consent, this activity is now past its major growth. The opening of new banks in Luxembourg has fallen back to a mere trickle and the rise in deposits has even suffered a reverse.

Thus there is constant talk of a need to diversify the banking activity and the only practical way of doing this seems to be a move into the "retail" sector—in other words, the setting up of a service for private customers that would offer both competence and secrecy in the handling of individual accounts. The British mineworkers' case has proven the integrity of the Luxembourg banks in this respect, but they face more serious disadvantages perhaps in the competition with Switzerland, the time-honored experts in banking.

The main drawback must be Luxembourg's membership in the E.C. It cannot offer tax or other perks that go beyond E.C. rules. Ultimately, the idea would be that all E.C. member countries apply exactly the same regulations. A second obstacle must be Luxembourg's relative lack of portfolio-management experience. Switzerland and London have both been in the game far longer. To know Luxembourg is to admire the enterprise and energy of its bankers, but even their warmest admirers must concede that a repetition of the growth rate of recent years is extremely doubtful.—ALAN OSBORN

## BONN

### The Financing Of Politics

The continuing investigation of payments by Friedrich Flick and other German big businessmen has obscured from voters the fact that most of the parliamentary parties receive about half of their income from the state. Most of the parliamentary leaders are probably happy that this is so.

The parliamentary parties pay themselves from tax revenues on grounds they have a constitutional charge. Article 21 of the basic law adopted for the new republic in 1949 says that "the political parties shall participate in the forming of the political will of the people. They may be freely established. Their internal organization must conform to democratic principles. They must publicly account for the sources of their funds."

One would have to search through the minutes of the constitutional convention and its committees to determine whether in fact the founding fathers of the Federal Republic were assigning a constitutional role to the political parties or simply assuring the citizenry the right to form associations to represent their views. Whatever the original intention, the parliamentary parties soon decided that they had been charged with a role similar to that of other state organs with, among other things, a responsibility to educate the people politically. It followed, therefore, that these activities also should be financed by the state.

Here and there, a lonesome voice has been raised to ask whether any party financed by the state is truly democratic. But it soon is drowned in a chorus of protest from the parliamentary parties, which claim their system is preferable to one in which parties depend on anonymous private donors who may have ulterior motives. As

we now know, however, the parties have been having it both ways for years—voting themselves increasing amounts from the state's tax revenues, while soliciting bequests from private contributors with promises of at least anonymity, perhaps more.

The parties' statements of account for 1983, published in October, showed that Chancellor Helmut Kohl's Christian Democrats received 49 percent of their income from the state, while their Bavarian sister party, the Christian Social Union, received 52 percent of its income from that official source. The Social Democrats received 54 percent of their financing from the state.

Foreign Minister Hans-Dietrich Genscher's Free Democrats look much better, with only one-third of their income coming from the state. But the Greens, the new ecological party that tends toward fundamental opposition to anything connected with the state, suffer an embarrassment of riches—in 1983, 69 percent of their financing came from the state.

Long ago, the parliamentary parties voted themselves an income from the state, based on a fee for each vote a party won in either a national or European parliamentary election. One of each was held last year, and the parties paid themselves 4.50 Deutsche marks (about \$1.50) per voter. For the next election the payout has been raised to 5 Deutsche

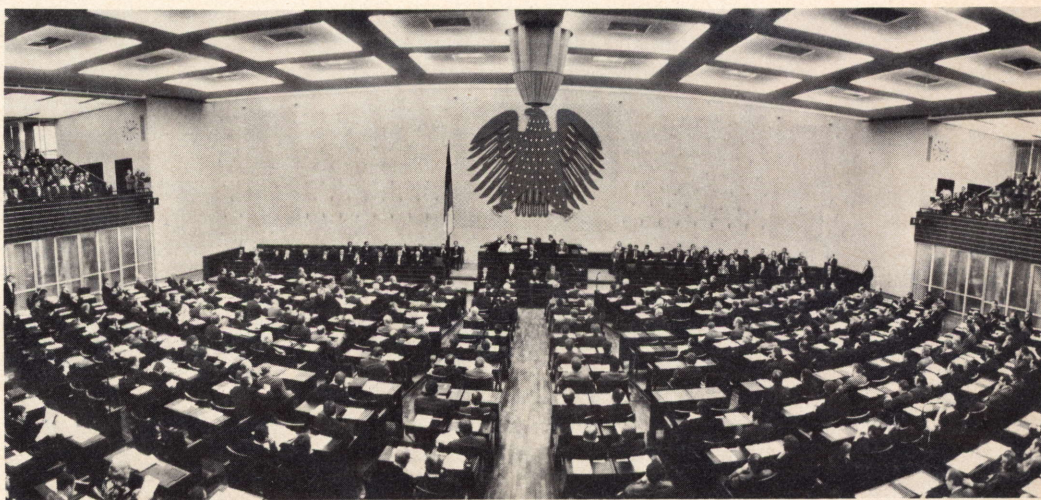
marks per head. But with public curiosity about party financing whetted by the scandals, party managers began feeling some discomfort. They also passed a law in 1984 that the state's contribution may not exceed 50 percent of a party's total financing.

This limitation could put a severe strain on the parties, because some of the private sources on which they also once relied have at least temporarily dried up. These donors were willing to give only so long as they could deduct their contributions from taxable income while at the same time remaining unidentified in the parties' annual public accounting. Neither is now possible. Imaginative politicians are considering a law to treat parties as charitable, non-profit organizations, contributions to which could be deducted. The trouble is they are not at all certain that the constitutional court will approve.—WELLINGTON LONG

## DUBLIN

### The Irish Generosity

The "plain people" of Ireland, as Irish politicians like to describe them, have in the space of several weeks contributed almost \$5 million to aid famine victims in Ethiopia. It is said to be the highest per capita figure in Europe. Not bad for a country in the middle



German political parties get half their finances from the state.

Courtesy Embassy of the Federal Republic of Germany

of a recession characterized by record unemployment and crippling tax and foreign-debt burdens.

The response to the first harrowing glimpses of the starving Ethiopians which flashed on Irish television screens toward the end of October has been extraordinary. Perhaps the folk memory of the terrible famine which wiped out half the population in Ireland in the 1840s and from which the poorer western seaboard has never recovered had something to do with it.

Children fasted and gave up their pocket money to the Ethiopian relief fund. Families in well-off areas of the Dublin suburbs skipped lunch and took a bowl of soup instead at a designated neighbor's house,



handing over the cost of their lunch to the fund. Farmers donated sacks of grain and other foodstuffs worth \$200,000. Workers in a Dublin factory gave up their time off to produce 18 tons of cookies suitable for starving babies.

Cork, the country's second largest city which is stricken by a series of factory closures, raised \$350,000 in a few weeks in response to an appeal by local radio. The stories of generous actions were endless. The various relief agencies could hardly cope with the flood of cash donations which overwhelmed them.

Irish journalists traveled to Ethiopia on one of the first relief planes and sent back graphic reports and film of the plight of the Ethiopians in the refugee camps. Ethiopia became a household word in Ireland, where few knew how to find it on a map.

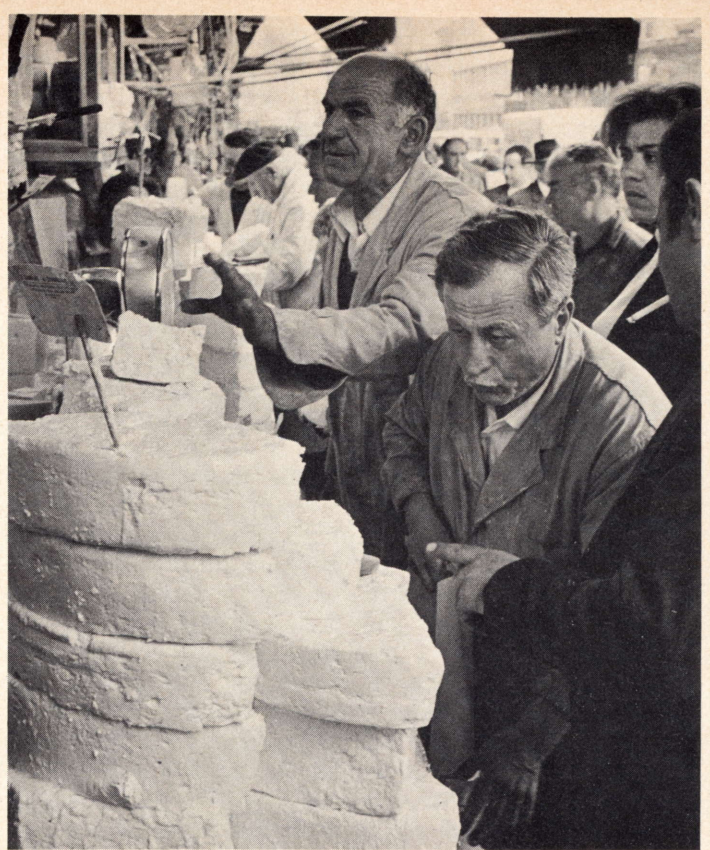
At government level, Irish ministers played a dual role. Wearing their national caps

they voted special funds in emergency aid. In Brussels, they lobbied hard as occupants of the E.C. Council of Ministers presidency to persuade the Commission and other E.C. countries of the urgency of the famine situation. This culminated in the strong appeal at the Dublin E.C. summit for the Community to furnish 1.2 million tons of grain, to which the other states agreed.

Jim O'Keefe, Minister of State at the Irish Foreign Ministry, flew to Ethiopia as the representative of the E.C. to assess the famine at first hand and report on how food supplies were being distributed. He was astonished to see a familiar face adorning a mural in the Coptic Holy Trinity Cathedral in Addis Ababa. It was that of former Irish President Eamon de Valera. The mural depicted Emperor Haile Selassie at the League of Nations in Geneva in 1936 appealing for help to resist the Italian invasion. De Valera was then the representative of Ireland at the League, hence his presence in the mural which was based on a photograph of the occasion.

The Irish relief agency, Concern, has been working in Ethiopia for several years. The work being done by the Concern volunteers was highlighted two years ago when two Irish nurses were among the group of relief workers kidnapped by the Tigre secessionist forces in the north of Ethiopia.

Ireland's readiness to respond generously to poverty and famine abroad is sometimes contrasted to increasingly visible signs of poverty at home. Tourists are often shocked to find barefoot children begging in Dublin's main street. A wry joke doing the rounds at present has one of these waifs hailing a passerby: "Hey, Mister, give me some money for the starvin' children of Utopia." Another distinguished Dubliner, Jonathan Swift, author of "Gulliver's Travels" and a champion of the poor and the underdog, would have approved the irony.—JOE CARROLL



The charm of Italy's small stores: slower shopping, but an intimate haven for local news and small talk.

## ROME Tax Plan Eyes Shopkeepers

Shopping in Italy is not quite the same as it is in the United States or even northern Europe. In America, a weekly expedition is usually made to the supermarket to stock up with a mountain of provisions. In Italy, shopping is done every single day of the week by calling at a good half dozen little shops, buying fresh provisions and passing on the gossip at every one.

For foreigners, the plethora of little shops is one of the charms, as well as one of the frustrations, of living in Italy. It means that the shopkeepers know their customers and their tastes intimately, but it also means that shopping can be a slow and laborious business. For Italy has about 1 million small shopkeepers, plus a further quarter of a million registered street traders (not to mention the unregistered ones). That means twice as

many shops as in the Federal Republic of Germany, which has about the same population. Supermarkets are a rarity.

This state of affairs has come about partly because the Italian shopkeepers form a powerful political lobby which in the past was able to persuade the politicians to pass a law allowing the establishment of supermarkets only in the most exceptional circumstances. Also, shopkeepers pay very little income tax.

In 1983, shopkeepers declared average incomes that were little more than half those declared by their employees—about 6 million lire, or \$3,500 a year. They are able to do this because they can usually avoid issuing receipts, and do not always receive invoices from their suppliers. In addition, being family businesses, they can spread the income from the shop around several members of the family so that most of them remain outside the income tax brackets altogether.

Now, however, this happy system is under dire threat, and the shopkeepers are furi-



ous. A Finance Minister of iron determination and uprightness, Bruno Visentini, is pushing through a reluctant parliament a bill which should result in shopkeepers, artisans and self-employed professionals paying far more tax. Rather than rely on a shopkeeper's declaration of income, the taxman will be able—if the law is passed—to assess his income on the basis of his turnover and assume a certain profit margin on which he will have to pay tax. And no longer will the boss of the business be allowed to split up his income for tax purposes. He must assume responsibility for 51 percent of it himself.

Needless to say the shopkeepers are not taking this lying down. They have already closed down their shops for a whole day in protest and are planning to do the same for a half day just before Christmas. They have issued thinly veiled warnings to the five-party coalition Government of Bettino Craxi that it will lose votes in forthcoming regional elections if it persists with its bill. They fear, probably rightly, that some of them will go out of business altogether. The warnings have been noted, and some majority members of parliament have come out against the bill. But it looks as if the measure will get into the statute books in some form and this for two reasons.

Firstly, Visentini, who is 70 and has always been somewhat aloof from other politicians, is quite happy to resign if his bill does not go through. Normally, if a minister resigns, the Government falls. Present circumstances, however, are such that the fall of the Government would be highly inconvenient for all the Government parties. So Visentini may get his way.

Secondly, the bill should pass because the members of parliament have to remember not just their shopkeeper and self-employed constituents, but also the many more of their electors who live on fixed incomes which are taxed at source. It is these people, from whom the Italian state has

been squeezing out ever-higher taxes in the past few years, who are no longer prepared to tolerate the large-scale tax evasion of their neighbors.

The defenders of tax evasion argue that the black or untaxed economy, of which the shopkeepers and artisans form part, is an essential and lively part of the Italian economy that provides millions of unrecorded jobs. But Visentini rejects that argument. He regards the black economy as outdated and unworthy of a modern European country.—JAMES BUXTON

## BRUSSELS

### Modern Art Museum Opens

**F**or art lovers, 1984 has been a vintage year in Brussels. It wasn't just because of the unparalleled string of exhibitions of work by vigorous and imaginative new artists. Nor was it the wealth of new research on the old Flemish masters and the wider showing of their masterpieces. Nor even, really, was it the sudden awakening of interest in classic art nouveau and the restoration of the astonishing Hotel Solvay, the most complete existing testament to the work of the Belgian architectural genius Victor Horta. Overshadowing all these has been the opening last fall of the Museum of Modern Art and the tantalizing glimpse this has offered of the treasures that still lie largely unseen in the vaults of Brussels.

For more than 20 years, the idea of building a new museum wholly devoted to modern art has obsessed a handful of aficionados and intrigued countless others with little more than a passing interest in painting and sculpture. I can recall an American writer on art who visited Brussels in 1975. He lavished praise on the Ancient Arts Museum, the great Oriental and African displays, the wonderful stone pageantry of the Grand Place. Yet he concluded with some disappoint-

ment: "Why is there no modern art to be seen outside of the galleries and private houses?"

When you think of the thrilling contributions Belgium has made to 20th-century art in the work of people like René Magritte, James Ensor and Delvaux, it seems extraordinary that such a question would be asked. It will not be any longer. The new Museum of Modern Art answers it in compelling fashion. The art critic of a leading British newspaper described the opening as "one of the most challenging and rewarding developments to have taken place in the museum world in recent years." The new museum, he said, was "one of the great museums of the world" and the ideas which it generated "will, I believe, have an influence far beyond Belgium."

The building itself is little to look at from the outside, being essentially an underground extension of the Ancient Arts Museum. The 20 years that stood between its inception and its realization involved more than a squabble over finance. The two competing Belgian linguistic and cultural communities, Flanders in the north and Wallonia in the south, fought for the location. The choice of the city of Brussels in between them satisfied neither, though it must have been inevitable from the start.

Within Brussels, there was a faction calling for a clean new modernistic building which would have to be put up, for financial reasons, outside the center. But the feeling in the end was that the present site, in a handsome urban landscape looking down on much of the city, was both financially and aesthetically appealing. The design was entrusted to Roger Bastin, the Belgian architect who had associated himself with the project from the beginning and patiently revised his ideas year by year.

His idea was to extend the present imposing Ancient Arts Museum underground so that there now is a kind of glass-enclosed well dropping eight

floors below the surface, never entirely losing daylight, yet making the most imaginative use of neon to achieve spectacular effects of illumination. "The effect is that of a modern European Guggenheim," said an American visitor.

There is not universal approval of the design in Belgium. "What is a museum without a face?" said one art critic. It has been called a tomb by more than one other. The architecture has been called "at least 15 years out of date" by a newspaper. But in Belgium, at least, the critics are fulsome in their praise of the exhibits, possibly because such a large proportion are by national artists.

Certainly you will see here a marvelous distillation of the work of the major Belgian painters of the 20th century. The British moderns like Henry Moore, Francis Bacon and David Hockney are also well represented. There are a number of important contemporary American works. The French moderns are, on the other hand, not conspicuous. This may explain the somewhat snifty attitude the Paris critics have taken to the opening. But as the museum officials have pointed out, what is on display is just one third of the great hoard of paintings that Belgium possesses. "This is not an exhibition, it is the start of a new following for modern art in Belgium. In time, everything that is worthwhile will be represented."—

ALAN OSBORN

## ATHENS

### Reconstructing Ancient Ships

**O**ver the next two summers, naval historians from Greece, the United States and the United Kingdom will be setting sail in the Aegean Sea to test long-held theories about ships and seafaring in ancient Greece, both at war and in peace. A reconstructed ancient merchantman, a faithful copy of a 4th-century-B.C.

ship excavated and then raised from the seabed of Cyprus, will be launched here next spring.

At the same time, Greek shipwrights will start work on a full-size replica of an ancient trireme, the warship that the Athenians used to destroy the Persian fleet at the battle of Salamis in 480 B.C. It was last year that nautical archaeology in Greece took an experimental turn, when a British explorer, Tim Severin, built a replica of what a swift passenger galley probably looked like in the late Bronze Age, around 1300 B.C.

Severin and an international crew of oarsmen sailed the 54-foot open vessel on a 1,500-mile voyage from Volos in central Greece to the mouth of the river Rhion on the Soviet Union's Black Sea coast. They wanted to show that the legend



of Jason and the Argonauts' quest for the Golden Fleece had a basis in fact—the voyages of the first Greek sailors who explored the Black Sea coast.

It took the modern Argo, powered by a single square sail and 24 oarsmen, less than two months to cover the distance in early summer, the most favored sailing season among ancient mariners.

In its wake this year comes the Kyrenia ship, named after the broad-beamed vessel that traded through the Aegean islands in the time of Alexander the Great and sank off the northern coast of Cyprus around 400 B.C. More than two thirds of the vessel's wooden

hull was preserved, along with its cargo of more than 400 amphorae that once held wine.

Some meticulous detective work by Michael Katzev, the American director of the excavation, revealed that the craft sailed through the Dodecanese islands before picking up its cargo of wine at Rhodes and heading for Cyprus. It may have been sunk by pirates and its four-man crew—numbered from sets of crockery found in the wreck—sold into slavery.

The Kyrenia ship is under construction at a boat yard near Athens by craftsmen using ancient methods of shipbuilding. Made of pine and oak like its ancient predecessor, the ship's timbers are held together by mortise-and-tenon joints instead of nails. The vessel will have a linen sail and be steered by two long stern oars. The modern crew, to be composed of both scholars and seamen, will sleep and eat on top of their reconstructed cargo—like the ancient seafarers—as they retrace the ship's final voyage.

Meanwhile, another Greek yard will be constructing a 119-foot trireme ordered by the Greek navy, which has taken over supervision and financing of a \$500,000 project launched by three British naval historians two years ago. Former Defense Ministry naval architect John Coates, retired banker Frank Welsh and Prof. John Morrison worked with naval architects in the Greek navy to prepared detailed plans of the 5th-century-B.C. warship.

Using historical accounts and illustrations on classical vases and carved stone reliefs, they designed a slim, fast vessel that will be powered by 170 oarsmen. It will also be fitted with a bronze-sheathed ram at the prow, designed to hole enemy ships beneath the waterline. Scholars have argued for years over the arrangement of oars and rowers that enabled ancient triremes to travel at speeds of up to 10 knots, the fastest known method of transportation in classical times.—KERIN HOPE

## COPENHAGEN

### Discussing Tax Reform

According to official OECD statistics, Danish workers pay more than a third of their gross earnings as income tax, more than twice the average of U.S. workers and second only to Turkey within the OECD area. Comparative tax statistics are often difficult to interpret, because national tax-relief systems are Byzantine. But the broad consensus view is that the Danes are among the most heavily taxed people in the world. And now the Danes are discussing the most far-reaching tax reform in modern Danish history.

The cost of the welfare state and the accumulated public debt excludes any major reduction of the average tax rate. But the political parties in the

liberal-conservative coalition Government and the opposition Labor Party agree on a number of decisive principles. Tax deduction of interest paid on all loans, private and commercial, has reduced the real rate of interest—after tax and inflation—to zero for high-income groups. The marginal tax rate at present is 73.2 percent, and it is operative from the income level of 179,000 kroner (about \$16,500) per year.

If the Government has its way, the marginal tax rate will be slightly reduced, to 68 percent, a change critics have labeled symbolic. The real news is that the tax rate on all capital income will be a flat 48 percent, reducing the taxation of dividends and interest-bearing portfolio investments for the high-income group.

At the same time, all tax deductions and all tax relief will have the same cash value, 48 percent, reducing the incentive



The tax reform has led to heated debate in the Danish parliament, above.

to borrow money, and eliminating a number of complex tax-evasion schemes. The Government claims that 94 percent of the taxpayers will end up paying the same or lower taxes, while 6 percent will have to pay higher taxes.

Critics note that the 6 percent are the high-income wage-earners that have traditionally been conservative voters, giving credit to the contention that it takes a conservative to take away benefits from another conservative, if you want to get away with it without too much fuss. The more historically inclined remember that the last time taxes were raised substantially, there was a strong political reaction in the form of the anti-tax progressive party. Its founder, the tax lawyer Mogens Glistrup, is now serving a sentence for tax fraud. The party survives, though barely, and some political observers believe that if the Government moves too far to the left, the party will have a renaissance.

That is not yet in the cards, and the Danish economy has done extremely well in 1984, with a growth rate of nearly 5 percent, surpassed only by the United States and Japan among the major industrialized countries. But 1985 is the crucial challenge to the economy, with the bi-annual wage rounds as the key to continued stability.—LEIF BECK FALLESEN

## PARIS

# Making a Bid for '92 Olympics

Paris won't have its worldwide party in 1989, but plans are afoot to play host to the world in 1992 instead, for the summer Olympic Games. They involve a bit of eleventh-hour bargaining between different levels of government. On Nov. 28, two days before the International Olympic Committee deadline, Paris, the regional government and the

national government agreed to a formula to fund the games, giving life to the Paris bid for the 1992 Olympics.

Paris is up against six other locations and was the last to enter the race. It has already staged two Olympic events, the summer games of 1900 and 1924. And the games would be expensive in Paris because of the number of installations that would have to be built. But there was a tremor of hope and national expectation when the bid was finally and officially announced.

France retreated a year ago from its request to hold a World's Fair in 1989 on the centenary of the Paris Fair that spawned the Eiffel Tower. The government said the fair would be too expensive in a period of austerity and the Olympic bid came as a consolation prize. The idea was the brainchild of the Communist Party which boldly suggested the French bid shortly after the Moscow Olympics. The Socialist Government carried the ball, and, finally, after months of negotiations, the city government under Paris Mayor Jacques Chirac, jumped on the bandwagon, making an unusual alliance of all ends of the political spectrum.

The projected cost of 8 billion francs (\$851 million) would be shared 25 percent each by the city and regional governments and 50 percent by the national government. If held in Paris, the games were projected to lose 2 billion francs (\$213 million). Should the happy Los Angeles experience recur, the profits would be shared by the levels of government in the same proportions.

Site maps were published widely in a spate of excitement following announcement of the bid. Events would be staged at the string of stadiums around the city, including the spanking new Palais Omnisports de Bercy built under a grass-covered mound. There would be rowing and canoe events on the Seine. Shooting would be held near the Palace at Versailles. The Olympic village

would be at the international university campus in southern Paris. A new stadium would be constructed at the huge Vincennes park in the east end and an international press center would go up in downtown Paris. The sites would be linked by the Paris Métro and the super-efficient suburban train system.

The idea sparked anticipation in Paris. The day after the bid was announced, newspapers ran stories under banner headlines. One even constructed the scene as the runner carried the Olympic torch down the Champs Élysées eight years from now. Most

newspapers grudgingly editorialized that Paris was behind Barcelona in the running and was late in its bid behind Brisbane, New Delhi, Belgrade, Amsterdam and the Ruhr Valley. But there is a chance.

It was, after all, Frenchman Pierre de Coubertin who revived the Olympic Games for modern times a century ago. Seventy-four percent of the French population, according to a 1982 poll, wanted France to host the Olympics in 1992. And, as one newspaper said, "Paris is, of course, Paris. The prestige of the French capital is one of our greatest strong points."—BRIGID JANSSEN

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# REVIVAL OF W.E.U. MAY BREAK ICE ON EUROPEAN DEFENSE

30-YEAR-OLD GROUP COULD BE FORUM  
FOR NEW POLITICAL COOPERATION ON  
SECURITY.

IAN DAVIDSON

Ever since World War II, statesmen and commentators on both sides of the Atlantic have wrestled with the dilemma of Europe's defense dependence on the United States. As long ago as 1962, President John F. Kennedy encapsulated what he saw as the solution to the dilemma, when he called for a stronger European "pillar" in the Atlantic alliance. Yet, while many echoed his aspiration, nothing changed on the ground.

European Governments were not merely reluctant to spend the kind of money necessary for greater self-defense and greater independence. They also feared that European self-reliance would simply encourage the Americans to go home and withdraw the protection of their strategic nuclear guarantee.

Periodically, and repeatedly, American voices were raised in protest that the Europeans were getting a free ride. But when it came down to it, the problem seemed too difficult to solve without an unacceptable degree of trans-Atlantic conflict—indeed, when it came down to it, not everyone *wanted* to solve it. A certain degree of European weakness (but not too much) ensured the American presence and American leadership of the alliance. The American presence in Europe provided Russia with a guarantee against German revanchism, and legitimized the presence of Soviet forces in Eastern Europe. The dilemma was not entirely comfortable, but it seemed frozen solid.

Today, however, it begins to look as if the ice may be beginning to crack. It would be premature to imagine that the dilemma is about to be painlessly solved. But it is hard to believe that we are not moving into a new phase in trans-Atlantic relations. On the one hand, we have the insistent pressure of Senator Sam Nunn (D-GA) calling for a phased reduction in U.S. troops in Europe if the European

allies fail to step up their own defense contributions. His Senate amendment in the summer of 1984 was defeated, but few doubt that he will return to the charge, and this time he may succeed.

Nunn is not, of course, the first to try to bring Congressional pressure to bear on the recalcitrant Europeans. Former Senator Mike Mansfield (D-MT) made a similar attempt several times in the late 1960s and early 1970s and failed. But there is an important new ingredient in the political ferment: To an unprecedented degree, Americans are now aware that the North Atlantic Treaty Organization's (NATO) weakness in conventional defense, and its dependence on nuclear weapons, pose terrible potential danger for the guaranteeing superpower. The public argument may still be conducted in terms of burden-sharing and equality of budgetary effort, but I believe the underlying tension derives from perfectly rational anxieties over the nuclear dilemma.

On the other side of the Atlantic, we are witnessing a remarkable upsurge of interest on the part of some key European Governments in greater defense cooperation, culminating in the autumn of 1984 in a relatively spectacular effort to resuscitate Europe's own indigenous defense treaty organization, the Western European Union (WEU). This organization was set up 30 years ago by the United Kingdom, France and the three Benelux countries as a vehicle for sanctioning the rearmament of the Federal Republic of Germany and Italy and their admission to NATO.

No sooner was this political task accomplished, however, than the seven member states delegated all operational defense responsibilities to NATO, and the organization was allowed to sink into a profound snooze. Just what its reawakening will amount to is anyone's guess. But it seems clear that the process which has started is more in the nature of a broadly based exploration of the political options

facing Europe, rather than the rapid assembling of a package of quick-fix measures.

The reason there will be no quick fix is that there *can* be no quick fix. Since the late 1970s, the European members of NATO notionally have been committed to increasing their defense spending by 3 percent in real terms after inflation. But in practice, as a result of prolonged recession, rising unemployment and their sustained budget-cutting fight against inflation, they have all fallen below this target. Even British Prime Minister Margaret Thatcher's redoubtable Government has abandoned any intention of increasing defense spending after 1986.

This budgetary stringency provides one of the impetuses for closer defense cooperation in Europe. Every new generation of defense equipment becomes much more expensive than the last, and at a far faster rate than the ordinary pace of inflation, to the point where it becomes increasingly difficult for any individual European country to sustain its own defense production industries.

Until now, European governments have tried to escape from this inflationary vise through occasional collaboration in ad hoc projects. But as often as not, the attempts have been stymied by national vested interests, national bureaucracies or the idiosyncracies of national military doctrines. These obstacles remain as formidable as ever, but there seems to be a growing realization that a concerted political push is required to overcome them.

Until quite recently, the French Dassault airplane maker bathed in the complacent assumption that if it did not get a cooperative arrangement in Europe on its own terms, it could build a new French fighter on its own. Now the choice is much more stark: a European fighter or an American fighter. The five-nation European fighter project, in which France is participating, may prove a harbinger of things to come. And several Governments, including the British, are increasingly conscious that defense-procurement collaboration in future must be a matter of programming on a broad front, rather than selective "ad-hocery."

However, budgetary stringency and the need for more arms collaboration in Europe are not the only, nor even the main, reasons for the WEU revival. If that had been the only issue at stake, it could have been accomplished within NATO, in the Independent European Program Group, whose sole purpose is arms collaboration. No, the chief rationale for resuscitating the WEU is to provide a fo-



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The Western European Union members seek greater coordination. Above, NATO maneuvers.

rum for the key European countries to sort out, and if possible coordinate, their *political* views on the defense and security of Europe.

All seven WEU members have been at pains to insist that there is nothing anti-American in the revitalization of the organization. The problem, as the Germans are fond of repeating, is not that the Americans are too strong, but that the Europeans are too weak. Yet the truth of the matter is that the WEU would not be on the agenda today if it were not for profound disenchantment with the America of President Ronald Reagan.

In his first term, Reagan presided over a deterioration in East-West relations. His rhetoric provoked fears of a nuclear war and set in train an upsurge of anti-nuclear protests which split the precarious defense consensus in Europe. His attempts to sanction the European allies over the Siberian gas pipeline and the transfer of technology and his public-relations gestures in the direction of arms control revealed deep political divergences with the Governments of the European allies over the right balance of

policies toward the Soviet Union.

Against this background, the recent WEU meeting can be seen as only the latest in a series of exploratory moves to strengthen the European defense dimension. In 1982, one year after his election, President François Mitterrand of France activated the long-dormant military chapters of the 1963 Franco-German treaty, so as to promote systematic discussion between the two key Continental powers of essential security interests. In 1983, France announced the planned creation of a Rapid Action Force whose manifest purpose was to make it more possible for France to fight alongside its allies in the forward defense of Germany. And Mitterrand has repeatedly argued the case for stronger European defense cooperation.

Needless to say, the Germans, as the people most exposed on the front line of a divided Europe, have responded most eagerly to France's belated interest in the defense of Europe. Also needless to say, the British, who have mishandled their relations with Europe so many times in the past, at the start characteristically were skeptical of the attempt to re-

awaken the long-dormant WEU. Yet the surprising thing is that the British Government seems at the last minute to have discovered that there are indeed major political issues affecting the security of Europe which do need discussing, and that, in practice, the WEU is the only appropriate forum in which they can be discussed.

It goes without saying that the problems of Europe's defense dependence on the United States are as difficult as ever they were. For that reason, they may well remain unresolved. But the breadth of the agenda adopted by the seven for their WEU discussions—European-American relations, East-West relations, arms collaboration, arms control and disarmament and Europe's response to crises outside the NATO area—suggest that they are embarking on a long-term rethinking of some of the problems which have bedeviled the alliance for over 30 years. €

Ian Davidson is the political editor of the London *Financial Times*.

# IS PROTECTIONISM AS WIDESPREAD AS EVERYONE CLAIMS?

NOT REALLY, ACCORDING TO THIS ANALYSIS OF PRESENT CONDITIONS.

PAUL LUYTEN

**N**ostalgic references are made nowadays to the liberal era of the 1960s and the early 1970s. It is claimed that the open international trading order has been disintegrating slowly over the past five years or so. Protectionism allegedly has increased so much that parallels are drawn with the early 1930s.

All this is hardly justified. During the Great Depression, trade contracted by over 25 percent in a few years. The fall in world trade volume in 1982-1983 has been around 2 percent. World production has contracted much more. This year, world trade is rising strongly again.

In reality, the "ideal trade conditions of the 1960s" never have existed. The international economic system always has had numerous warts and blemishes. Balance-of-payments import restrictions and exchange controls for long have been the norm rather than the exception, and central planning has been widespread.

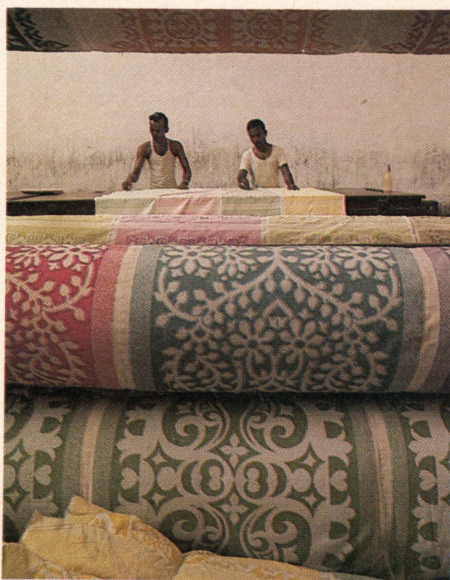
In the trade-policy field, for several decades there have been restrictions and distortions in a number of areas: textiles and clothing since 1962; steel, with export restraints by the E.C. and Japan vis-a-vis the United States from 1969 to 1974 and by Japan vis-à-vis the E.C.; specialty-steel quotas in the United States in the 1970s; restrictions against Japanese cars and shipbuilding subsidies.

Up to the end of 1967, i.e. before the beginning of the staged implementation of the tariff cuts agreed to in the Kennedy Round of multilateral trade negotiations, customs duties in most developed countries were comfortably high. A few simple examples: Customs duties on passenger cars were 35 percent in Japan, 22 percent in the E.C., 6.5 percent in the United States and 17.5 percent in Canada. On polyethylene, they were 20 percent or over in all these countries. On silk ties, the corresponding figures were closer to

30 percent. This in itself made it easier to dispense with non-tariff barriers.

While trade liberalization has made progress in the less important agricultural products and processed foodstuffs, trade in the major agricultural products of the temperate zone has largely escaped the liberalization progress. In the developing countries, trade policies have always been highly protectionist, with less than a handful of countries following liberal policies.

Today, industrial countries have reduced tariffs to unprecedentedly low levels—indeed, staged tariff cutting under the Tokyo Round continues until 1986—and they have gone even further in the framework of the Generalized System of Preferences. A number of codes such as those on customs valuation and government procurement and subsidies and countervailing duties were negotiated in 1979 to supplement the rules of the General Agreement in Tariffs and Trade (GATT), thereby tightening up the obligations of the signatories.



The growing flow of textiles from the NICs shows that world markets are not as closed as is frequently asserted.

Other provisions such as those dealing with dispute settlement, balance-of-payments difficulties and less developed countries have been clarified. In the regional context, free trade has been achieved in Western Europe in industrial products and the E.C. has gone a long way to grant full, free access to the developing countries linked with it through the Lomé Convention and substantial tariff disarmament to practically all the Mediterranean nations.

The "great recession" and the behavior of exchange rates have in recent years imposed enormous strains on the trading system. The world trading order has withstood the pressures surprisingly well. It has not disintegrated. Creeping protectionism has been eroding the progress achieved in some areas, but modest liberalization in other areas has worked the other way, thereby compensating somewhat for the regression elsewhere.

Where has slippage into protectionism occurred and what form has it taken?

The picture of the textiles and clothing sector needs to be carefully analyzed. Total imports from the developing world into the industrial countries have continued to grow at a significant pace notwithstanding the fact that both the commodity coverage and, even more so, the exporting country coverage of the restrictions applied under the Multifiber Arrangement have expanded.

Steel is another trouble area with a wide and broadening variety of gimmicks interfering with the free flow of trade. A downward trend in steel consumption in the developed world combined with recession and new steel plants in a number of newly industrialized countries (NICs)—which for the time being, because of the recession, have export availabilities—is forcing painful contraction and modernization of the steel industry in the industrialized world. But world trade in steel is still rising, and production capacity in the developed world, together with employment, have been shrinking fast.

The shoe industry is another case of a shift in comparative advantage which has led to both open and hidden protectionist measures. One might note, however, a number of cases where governments have refused additional protection to their producers. Here again trade continues to grow rapidly.

In the automotive sector, the restrictions are practically concentrated against exports by Japan. Disregarding inflation, passenger-car exports from OECD countries have risen from \$4.3 billion in 1965 to \$59 billion in 1982.

Finally, there are a number of other sectors, *inter alia* in the consumer electronics area, where new restrictions have been introduced, but not in as systematic a way as in textiles or clothing, nor against the same background as in steel. International trade is expanding by leaps and bounds.

In agriculture, the picture has not really changed over the last decade. The degree of trade tensions in the area of temperate agricultural products fluctuates with the overall supply/demand situation.

A meaningful quantification of *all* these restrictions is practically impossible, not so much because of the lack of transparency, as is all too frequently asserted, but much more because of the very complex and diversified nature of the measures. It is clear, for example, that the amount of trade suppressed in the case of Japanese car exports is substantial, but in other areas, when the restraints involve so-called "weather forecasts" or other kinds of export-restraint promises, the restrictiveness depends on the precise nature of the undertakings, the degree to which they are respected, trade conditions in the importing country, and so on.

Although voluntary export restraints and organized marketing arrangements have multiplied in recent years, they mostly only have slowed the progress of foreign penetration in the importing markets or altered its pattern. Either other suppliers have taken the place of those directly affected, or the penalized exporters have succeeded through selling up-market products and have gained in price terms part or all of what they were losing on quantity. Considering further that export restraints tend to raise prices charged by exporters, the real burden of such limitations is falling largely on the consumers of importing countries rather than on the exporters.

Contrary to the 1930s, flows of trade have seldom been actually cut back from levels reached. The "Maginot lines" set up by importing countries frequently have been no more successful than their namesake, not because the authorities of the importing countries failed to realize that the protection was not watertight, but because they considered that the degree of restraint thus introduced was enough to keep the domestic pressures they were subjected to at bay.

Many measures have been a kind of placebo to operate on the psychology of the pressure groups. The criticism of those affected nevertheless remains valid when one looks at the situation in terms of the "fair" trade that might have taken place in the absence of these measures,



Protectionist measures are being directed particularly against Japan's automotive sector. Above, Toyota cars are unloaded in the U.S.

but an objective analysis would hardly conclude that markets have been closed.

Many exporting countries, including a number suffering from great indebtedness problems, have hardly been affected by the recent protectionist trends, although several of them have been hard hit by a spate of stiff anti-dumping and countervailing duties to resist unfair trade practices. But claims about the terrible impact of new protectionism can frequently be attributed to the universal tendency of politicians to find external scapegoats for domestic ills. And there is also the understandable dramatization of the recent trends by those responsible for maintaining liberal trade in order to heighten resistance to protectionism—in the words of Arthur Dunkel, director-general of GATT: "frightening people for their own good."

This analysis, that the recent drift into protectionist measures has not been so intense as is often claimed, seems to be supported by one fact. While no major liberalization measures have recently been taken—though one could merely mention in passing the application on January 1, 1984, of the fifth of the eight cuts of Tokyo Round tariff reductions—the volume of world trade in the first half of 1984 was running 9 percent above the first half of 1983, a rate of growth well above that of world output. As the 1984 GATT report states, it was external demand which was the main, often the only, stimulus to output in 1983 in industrial countries other than the United States, the Federal Republic of Germany, the United Kingdom and in several developing countries.

What has happened since World War II is that world trade has been growing much faster than the rate of growth of

world GNP. The share of trade in the economies of almost all industrialized countries has doubled since 1973, the year of the launching of the Tokyo Round. This has been made possible by trade liberalization, by lower transportation costs, by improved communications which have lowered barriers and by increased receptivity to foreign goods. Foreign trade has now become highly sensitive to changes in national and international economic conditions.

In sum, the trading environment has changed, from a persistent trend toward freer trade until the late 1970s, to a situation of strong protectionist pressures and a number of protectionist measures, more particularly directed against Japan and, to a lesser extent, against some of the NICs. Most of these countries maintain highly protectionist policies themselves, even in areas where their export performance is strong. In fact, international trade rules apply only to industrialized countries, while all the others, regardless of their stage or rate of development remain substantially and, apparently, indefinitely free of international disciplines.

What then are the causes of the heavy strains on commercial policies? Among the more general reasons for this trend, one can mention that in democracies today governments have come to be regarded by their electorate as responsible for economic welfare. Indeed, in recent years, results of elections in democratic nations have increasingly been influenced by economic growth and employment performance. This affects the behavior of politicians and thus of governments.

High levels of unemployment are an extremely important source of protectionist pressures. The recent record lev-

els of unemployment in the developed world have contributed greatly to new protection.

Unemployment, apart from its impact on the outcome of elections, also constrains budgetary policies, because of the heavy cost of unemployment allowances and the loss of taxation and social security income.

The increasing openness of the economies of developed countries further reduces the scope for effective macroeconomic demand management at the national level. Except in the United States, general expansionary policies lead almost immediately to rapidly unsustainable current-account deficits. This induces governments to prefer sectoral, regional and industrial policies to preserve growth and employment. Hence the deep-seated temptation to resort to state intervention and, more specifically, to direct and indirect subsidization and measures at the border.

There is another development which complicates the handling of commercial policies. It has to do with the changing nature of "comparative advantage," where some quiet shifts have been taking place. No longer do endowments in land, mineral resources, labor and capital determine a nation's comparative advantage to the degree they once did. Even agriculture and fishery have become more "industrial." Rather, it is the ability to adapt and use technology for the development of new products and new methods of production of goods and services. Technology, scale of production and specialization increasingly influence international trade competitiveness.

There is now a greater convergence in the potential structure of production in the more advanced countries so that natural factors are less successful in determining competitiveness and in insulating countries from foreign competition. Comparative advantage, instead of being "natural," has become largely "acquired." In a world where, for a broad range of products and services, allocation of comparative advantage has become more arbitrary and more rapidly shifting, the struggle for each country to maintain for its industries its share in world trade has heightened and the tendency to intervene has increased correspondingly.

In the last decade, disorderly behavior of the exchange markets has become another, major source of protectionist pressures. Financial and monetary tensions have been putting great stresses on the world trading system. Major movements in real exchange rates, only partly or not at all related to shifts in balances of payments, have changed radically the com-

petitiveness of some countries' goods relative to those of other countries.

Monetary flows nowadays dwarf trade and services flows and thereby affect exchange rates in decisive ways. Nothing much can be done about it, certainly not in the short term. Central-bank intervention at the most can discourage slightly the ardor of speculators. Capital controls or taxes such as interest-equalization taxes on loans are not practicable.

The difficulty in tackling this issue stems in part from the fact that trade and financial issues are addressed largely in isolation from each other, both within governments and at the international level. While institutions such as the International Monetary Fund and the World Bank feel free to prescribe "desirable" trade policies, the GATT by and large so far has failed to grasp the crucial importance of exchange rate misalignments for trade policy.

## The real threat for the future comes from the temptation to use increasingly complex safety, health and environmental regulations for protectionist purposes.

Finally, pressure for protectionist relief also stems from the rising number of NICs, which have succeeded in developing export industries and in establishing themselves on world markets. Exceptionally rapid growth of exports of these countries, often in sensitive sectors, has continued unabated. Take the examples of South Korea, Hong Kong and Taiwan. Expressed in U.S. dollars with a base year of 1975 for 100, the 1983 export index in value, disregarding inflation, stood at 481 for South Korea, 368 for Hong Kong and 471 for Taiwan.

This is in itself evidence that world markets are not as closed as is too frequently asserted. What has happened is that along with the rising cost of labor associated with industrialization, the protectionist measures adopted against these countries have prompted them to diversify their exports.

In sum, the agitation about protectionism in trade, particularly as it is voiced by those responsible for monetary affairs and macroeconomic policies, is partly misdirecting the attention to a symptom, while failing to attack the malady itself.

The real, rather more permanent, threat for the future comes not so much from the classical and less classical measures such as export restraints. The danger comes from the temptation to use the increasing complexity of regulations imposed on safety, health, environmental and other justified grounds for protectionist purposes. This also applies to the services sector. Traditional regulation will make it difficult to deal with obstacles in this field. How does one distinguish between restrictions which are perfectly justified from those that are just there for protectionist reasons?

Then, in addition to state trading and state monopolies, which tend to remove trade from any internationally agreed rules, there is also the rapid growth in the size of government procurement, not only in the military area. Experience shows that genuine competition in this field requires not simply international regulation and discipline, but, more importantly, a change in the behavior of human beings. That is much more difficult.

What also has characterized the recent past is the proliferation of subsidies to support ailing firms. In Western Europe, these mainly come straight from the state budget. In some other countries, the subsidization often has been indirect, through generous investment-tax credits and, in particular, tax systems which permit money-making firms to reduce their tax bill by taking over tax credits from money-losing firms, thereby allowing both to improve their financial situation.

The subsidization, however, is subject to constraints, and that for two reasons. Firstly, with the present unsustainable budgetary deficits, public funds are running out in most countries. Secondly, pressure against subsidies is building up from competing firms which do not benefit from the state aids. In subsidization, the worst is probably behind us.

What are the specific macroeconomic problems which beset the European Community and which have added to the protectionist pressures?

The present predicament of Europe, more particularly of the E.C., mainly stems from wrong economic and budgetary policies in the 1970s. Generous social security made labor markets rigid to a degree that has contributed to high unemployment. The major fault during that period was a general tendency to be too optimistic, to assume that the economic conditions of the previous decades would continue indefinitely. Interest rates were low or even negative; access to cheap capital was easy. Labor priced itself out of jobs. Investment and profits flows were



sacrificed to the benefit of consumption.

In Europe, there is excessive "cradle-to-grave security." In the United States, on the other hand, given its wealth, there may be somewhat too much of a "hire-and-fire" mentality, which gives rise to social hardships for those who cannot stand the extreme contest of "survival of the fittest." In the E.C., certainly there has to be a better balance between the twin requirements of economic growth for society and economic security for individuals.

Europe's recent modest economic recovery has taken place despite tight fiscal policies and the foreign account is in small surplus. America's takeoff has depended partly on unsustainable growth of the federal budget deficit.

Painful restructuring or, more bluntly, contraction, of traditional industries has been going on. The steel, textile and clothing and shoe industries have been adjusting downward. This has translated into frightening figures for unemployment—roughly 12 million people or 11 percent of the E.C.'s work force.

In textiles and clothing, employment fell between 1973 and 1982 by 39 percent for textiles and 37 percent for clothing. This fall continued in 1983 when textile employment dropped a further 3 percent and clothing production another 2 percent from 1982 levels. In absolute terms, that means that textiles and clothing employment in the E.C. fell from roughly 3 million people to 1.8 million people at the end of 1983.

The E.C. shoe industry also saw a significant decline in terms of employment, at a rate of about 2 percent a year. In steel, the figure has been 6 percent to 7 percent per year. In shipbuilding, there has been a contraction of about 50 percent in 5 years. In agriculture, the total loss between 1970 and 1983 was 33 percent. The E.C. has not been going on, as has sometimes been said, with its merry ways.

In the E.C., progress is being made to lay the foundations for sustained growth. Inflation and budget deficits are down. But Europe is not immune to the effects of policies of the others. Of particular concern at present are the excessive real interest rates which are directly affecting economic activity, producing distortions of exchange rates and capital flows and exacerbating indebtedness problems.

On the whole, the E.C.'s performance in the matter of protectionism during the recession stands up well. It is true that the particular problem in trade relations with Japan and the E.C.'s enormous bilateral trade deficit with that country have necessitated certain corrective mea-

sures. The same kind of problem, of course, has arisen in the United States and some other countries. But apart from this there has been relatively little recourse to additional protection.

There are no grounds to be complacent about success in opposing protectionism. Nor are there grounds for pessimism. The "rising tide" of world trade is far stronger than any "rising tide" of protectionist measures. I do not share the view, which the annual GATT report seems to imply, that "trade policy discipline has deteriorated to a point at which protection becomes easily available to almost any industry anywhere."

## Claims about the terrible impact of the new protectionism often can be attributed to a tendency among politicians to find external scapegoats for domestic ills.

In the developed world at least, national administrations dealing with trade policy are generally composed of men who know what David Ricardo said. Many of them, according to *The Wall Street Journal*, wear Adam Smith neckties. There is also a large basis of mutual trust between the major actors on the world trading scene which has prevented and will continue to prevent disputes from escalating into serious trade wars.

In recent years, at the OECD, at Western economic summits and in other fora, there has been a long series of solemn communiqués and lofty commitments to a standstill on protectionist measures and to liberalized trade. These declarations serve a useful purpose in that they can be quoted back to protectionist lobbies. But it would be highly desirable that action be more compatible with the words—and if that is not possible, then the advice should be to refrain from repeating so often aspirations that are in stark contrast to what is feasible and realistic.

Not only is the credibility of those who subscribe to these statements at stake, but, what is worse, the strengthened resistance to protectionist measures which is expected to result from such collective commitments fades away. The most desirable and effective kinds of international undertakings are those which go somewhat further than governments consider they can achieve so that they may influ-

ence behavior. At the same time, commitments which go so far beyond what is realistic that they end up lacking credibility and therefore effectiveness should be avoided.

More important than statements is collective action in macroeconomic policy-making and systemic changes in the monetary and financial fields to support the recovery. That is a basic requirement for world trade to expand in a healthy way. Economic growth facilitates the adjustment process in the developed world. This, in turn, helps the developing countries to expand their export receipts. Sustained growth will require that protectionism be kept under control and that further efforts be made to liberalize trade.

The recent increase in "managed trade" may have been inevitable and even sometimes helpful during the recession to avoid more serious havoc to the trading system. But the time has come to counter protectionism by initiating preparations for new trade negotiations—not necessarily one massive big round of the earlier kind, but perhaps through other formulas.

The process of multilateral negotiation being by its very nature complex and time-consuming, the preparations should start so that when the world economy regains its health and strength and when the financial and monetary situation improves, negotiations are not delayed by a lack of preparation. Common efforts to liberalize trade will then provide a counterweight to protectionist pressures and thus should help to keep world markets open, thereby contributing to the convalescence of the patient. In such a new round, a substantial input will be required on the part of the successful NICs.

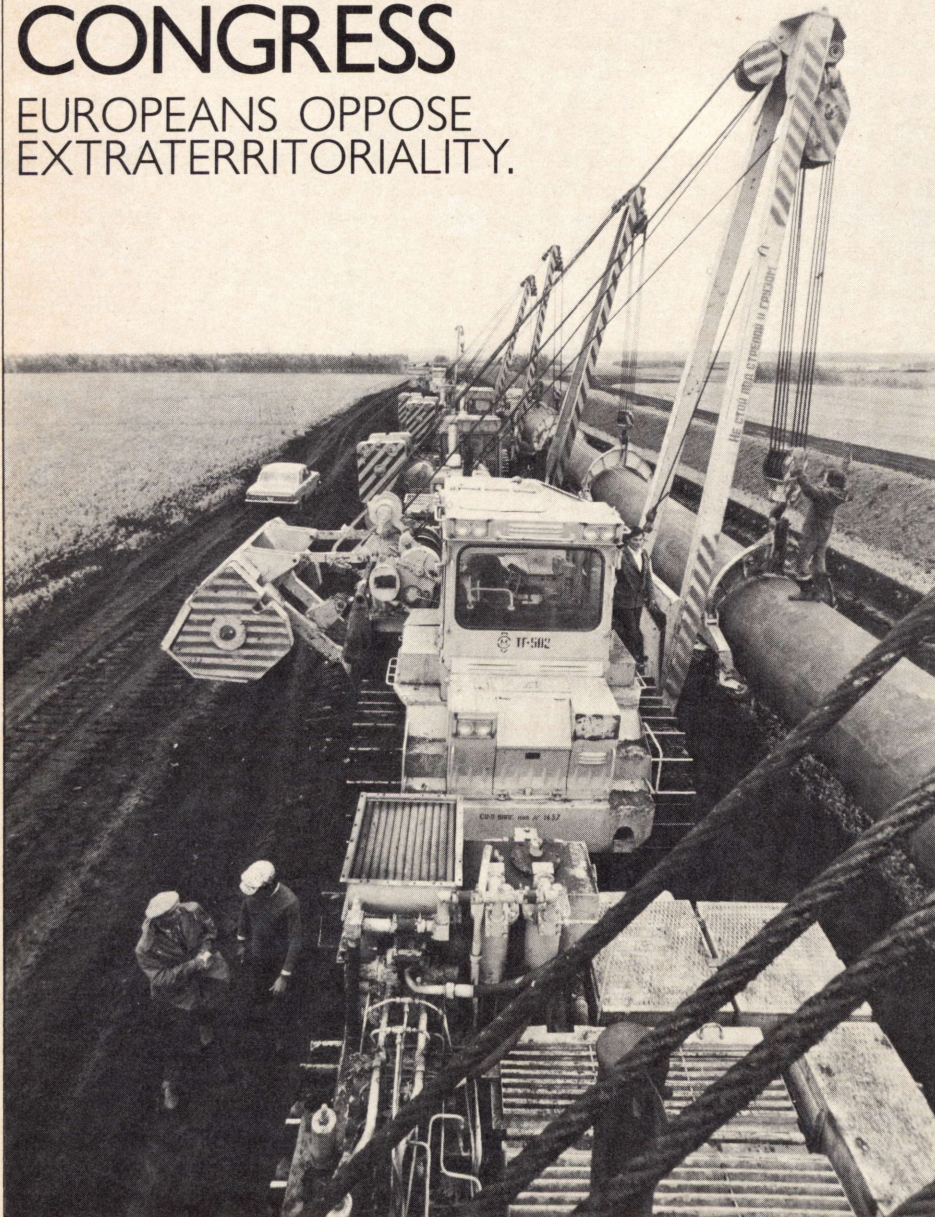
Finally, there is a broader consideration: Free trade is not an end in itself, but rather a means toward increased welfare—and not just in material terms—all around. It is this objective which is fundamental, and, when deviations occur, they should be kept at a minimum with the basic consideration of human welfare as a guideline.

This statement should not be construed as a defense of the recent trend to protectionism. It is merely an attempt to set the record straight. The resistance that has been offered to the pressures augurs well for the future. But this statement is intended to be a warning. If macroeconomic policies do not improve and exchange rates continue to behave in grossly distorted ways, the worst could still happen. €

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# EXPORT POLICY FACES NEW CONGRESS

EUROPEANS OPPOSE  
EXTRATERRITORIALITY.



The participation of European firms in the construction of the Siberian gas pipeline made the application of American sanctions a heated issue.

STEVE HIRSCH

In 1985, Congress will try to formulate a coordinated U.S. policy on controlling exports to Communist countries and nations where the United States has foreign-policy problems. It will be the second attempt to revamp the policy which is contained in the 1979 Export Administration Act, a law authorizing most U.S. controls on exports—aside from arms—which has had increasing importance lately in U.S.-European economic relations.

Although the debate over limitation of militarily useful technology exports has been going on for some time, it has taken on new significance since President Jimmy Carter imposed controls on exports to the Soviet Union after the Afghanistan invasion. It has taken on more significance since the Reagan Administration expanded oil- and gas-related controls over the crisis in Poland. These included imposition of the controls on overseas subsidiaries and foreign licensees to hinder construction of the Siberian gas pipeline. This inclusion of foreign-

based firms embroiled the Administration in court battles and diplomatic fights with Europe over whether Washington had overstepped its policymaking rights.

Largely because of the pipeline-controls dispute, the question of whether Washington should be able to apply export controls to companies beyond its borders and the issue of whether it should be able to interfere with existing contracts through controls became hot issues as the last Congress tried to reauthorize the act. Other issues were important to U.S. allies, including congressional proposals to limit imports as well as exports, but it was the extraterritoriality of controls and the sanctity of existing contracts which attracted the most attention from European capitals and from multinational companies.

Allies of the United States expressed concerns about these provisions at various points, including a series of letters in March 1984 just before the beginning of the House-Senate conference committee to come up with a common version of the bill. The European Community called American extraterritorial claims "contrary to the principles of international law," urged language on contract sanctity, and expressed concern about the import control proposals, hinting that Europe might take retaliatory action if the pipeline problems recurred. Also writing in similar veins were the Ambassadors of France, the Federal Republic of Germany, the U.K., Denmark and Australia and the Japanese chargé d'affaires.

Efforts during the last Congress to renew the act failed in the final hours. In the end, the House and Senate deadlocked over issues other than contract sanctity and extraterritoriality. Members of the House-Senate conference committee had reached agreement on both issues as part of intricate compromise packages. But because the new Congress will start from scratch on renewing the law in 1985, decisions and agreements from the last two years are no longer binding and extraterritoriality and contract sanctity are again wide-open issues.

Once again, the fight will be between those people most interested in strengthening controls to prevent the Soviets from acquiring militarily useful technologies and commodities and those who chiefly want to eliminate what they see as unnecessary restraints on business, leaving only those controls which are truly needed. It may seem that the ideas need not be contradictory, but the differences between what hardliners believe must be controlled and what the moderates feel

can be safely decontrolled have accounted for most of the disputes over proposals to loosen constraints on trade with the Eastern bloc.

The pipeline-controls controversy did more than cause problems between the United States and Europe. It made the domestic dispute over limiting controls relevant to U.S.-European relations because the controls seemed to be aimed at Europe and because the controls were on oil and gas technology, not military technology.

Against the background of the dispute with Europe, House and Senate conferees did reach agreement on the issues of most interest to Europeans. On extraterritoriality, the House side had wanted to limit the President's authority to impose non-strategic controls to exports from the United States of U.S.-produced items. Senate conferees wanted to keep old language allowing controls on exports of items subject to, or exported by parties subject to, U.S. jurisdiction. This was the language which had been used to justify the pipeline controls. On contract sanctity the Senate side had backed a broad prohibition on imposition of controls interfering with existing contracts, but the House had a much weaker provision, although it had started with stronger language. Last Oct. 2, the House side agreed to Senate provisions in both areas.

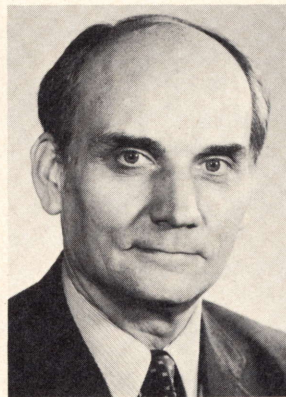
The Senate also had proposed authorizing control of imports from violators of American or Western strategic trade controls and authorizing import controls in tandem with non-strategic U.S. controls (such as the pipeline controls). Agreement was reached informally to retain the former, but kill the latter.

It is not clear how quickly action will be taken in the next Congress, although the probability of quick agreement on a bill does not look high. For a new act to pass in 1985 or 1986, deep divisions within and between the Administration and Congress must be resolved. Each end of Pennsylvania Avenue has hawks and doves and the executive branch has the added problem of divisions and turf battles among its export-control agencies.

The congressional players probably will not change much; none of the key committee members lost their seats in the election. Although several might switch subcommittees, they would probably continue working on the bill, having already put two years into it. Nor are the key congressional players likely to turn around on the issues which are most important to them, including in many cases extraterritoriality, contract sanctity and import controls.

For the pro-trade faction, contract

sanctity and extraterritoriality are important because they are at the core of their efforts to insert into the legislation consideration of business' needs and the economic importance of exports. For hardliners, the issues are important as bargaining chips to gain stiffer national-security provisions. For others, limitation of any contract-sanctity language is important because they see non-strategic export controls as an important foreign-policy tool which should not be weakened for business' sake. The import-controls issues are also important, particularly the national-security import controls, because they would be a new enforcement



**Senators John Heinz (R-PA), left, Jake Garn (R-UT), center, and Rep. Don Bonker (D-WA) are influential players on Capitol Hill regarding a new Export Administration Act.**

tool and U.S. controls enforcement has come under much criticism in recent years.

Congressional committees with primary jurisdiction over the legislation are the Senate Banking Committee and the House Foreign Affairs Committee. The three managers of the legislation were, and presumably will be, Senate Banking chairman Jake Garn (R-UT), Senate Banking Subcommittee on International Finance and Monetary Policy chairman John Heinz (R-PA), and House Foreign Affairs International Economic Policy and Trade Subcommittee chairman Don Bonker (D-WA). They expressed quite different views on what should be in a bill last time around, and, although they and other conference members reached agreement on virtually all of the issues before, the agreements and compromises were not easily reached. It is unclear just how the issue of South Africa would affect the bill; black members of the Foreign Relations Committee could push hard for certain provisions.

Administration divisions are also deep and complicated, most plainly the rift between such hawks as Assistant Secretary of Defense for International Security Policy Richard N. Perle and moderates such as Undersecretary of Commerce for International Trade Lionel Olmer. The

Pentagon seems largely inhabited by hawks, while most of those at the Commerce Department appear to be more moderate, and the State Department is a mixed bag.

The Reagan Administration came in hawkish on this subject, early on releasing an intelligence community report on Soviet technology acquisition efforts, and the hardliners show no inclination to leave. The Heritage Foundation recently made a number of tough East-West trade recommendations, and whether the Administration embraces those ideas could be a barometer of what has happened to the hawks' fortunes. Meanwhile, Admin-

istration moderates do not appear ready to throw in the towel, and the planned January trade delegation to Moscow may indicate that they are holding on, too.

The Administration also had major disagreements with Congress during the last round, particularly on extraterritoriality and contract sanctity. Although the Administration had an undistinguished record of influencing the legislation until the end of the Congress, if it can get its own house in order, it may be able to exert more pressure to get the kind of bill it wants and speed passage of legislation.

There was a lot of talk at the end of the last Congress about quickly moving to pass a new bill in 1985, but that really does not seem likely to happen. There is a lot of pressure for a new law, for solid legal and policy reasons and because the issue already has taken up so much time. At the same time, differences between the Administration and Congress remain sharp. So, while it seems likely that the 99th Congress will pass a bill and produce a policy, it will take a while. And the fight, if not as bloody as it was in the 98th, probably will be a difficult one, with just as much at stake for Europe as before. ☛

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# EUROPE'S ECONOMIES: FORECASTS DIFFER

## GROWTH SEEN INSUFFICIENT TO CUT UNEMPLOYMENT SIGNIFICANTLY.

JAMES DAVID SPELLMAN

**E**conomic forecasts for the European Community show a mature economy experiencing only moderate growth which is insufficient to cause significant declines in unemployment. The first turning point comes next year when most economists expect a decline, followed in 1987 by a recovery that is tepid to moderate depending on the forecast consulted.

Outlined below are shorthand summaries of forecasts by Data Resources, Inc., Wharton Econometric Forecasting Associates and Chase Econometrics. A number of imponderables, however, seem almost certain to cause the forecasts to go awry—politics, fiscal and monetary policies, commodity prices and investor psychologies are just a few. But the medium- and long-term trends offer some good insights into Europe's economic future for the rest of this decade.

### Data Resources, Inc.

Economic recovery in the E.C. is expected to peak in early 1986, according to DRI's middle-range forecast published last August/September. Industrial production among the six E.C. members DRI uses in its projections (Federal Republic of Germany, Belgium, the Netherlands, France, United Kingdom and Italy) is forecast to climb by 3.2 percent this year, before sliding to a 2.0-percent growth rate in 1986. Unemployment, inflation and hourly wages will increase marginally during this period.

Beyond 1986, the general DRI outlook for the six countries calls for moderate growth—industrial production increases an average 2 percent annually—accelerating somewhat by 1992, before declining mildly until 1995. After 1986, economic growth is forecast as stronger than during the 1970s, but still "far below" the 1960s pace.

Exports and investment are the "main

sources" behind the expansion, as a strong dollar continues to enhance Europe's competitiveness abroad and as more corporate profits are pumped into capital. Consumer buying will remain sluggish. Personal savings will increase from the current recovery's low rates (which stem from small wage hikes), higher borrowing costs and cuts in social allowances.

Productivity will improve until 1990, when it will steady at a rate above the 1970s, but never close to the boom years in the 1950s and 1960s. Tight monetary policies and strictly limited government spending are assumed to continue. Oil prices are forecast to slide 2 percent annually until 1988 and then climb, first, 3.5 percent on average each year between 1989 and 1992 and, then, 2.5 percent until 1995. Two barometers of inflation, the consumer- and wholesale-price indices, heat up by 1990, before cooling somewhat until 1995. Both indices' increases are seen as moderate, averaging between 7 percent and 8 percent each year.

DRI projects that France will be the fastest growing among the six major E.C. members for four reasons. Firstly, corporate investment will surge ahead at rates higher than during France's past 10 years.

Secondly, French government spending policies are assumed to continue running against the grain of austerity that most other European nations will likely follow, providing stimulus. Thirdly, private consumption is not expected to weaken despite smaller gains in real incomes. Fourthly, exports will expand vigorously at roughly 5 percent each year until 1995—about the same forecast for the Federal Republic of Germany.

The Federal Republic of Germany is marginally behind France's growth, but DRI sees "no boom ahead." This forecast is based on the assumptions that money supply accommodates economic expan-

sion without fueling inflation, that government spending slows down significantly and that wage costs do not outrace the present pattern of moderate climbs. Real growth will average 2.3 percent annually until 1995, somewhat above the 1.7-percent rate during the past 10 years.

In the United Kingdom's future, DRI underscores two factors: the impact of declines in North-Sea oil production and whether the pound's depreciation, the privatization of companies, productivity improvements and moderate gains in wages combine to improve the country's competitiveness abroad. Industrial output is seen as lethargic after this year, but recovers beginning in 1990 and peaks in 1992 at a vigorous 4.7-percent pace.

The dollar is projected to tumble, but still stay well above its exchange rate of the late 1970s because the attractiveness of investments in other currencies will not match dollar-denominated ones. Behind the dollar's fall is the likelihood that the interest-rate differentials that lured foreign investors cannot be sustained as the economy's growth slows. For Europe, "the continued existence of the EMS provides relative stability within the European currency block, although it should also prevent exchange rates from moving as much as pure purchasing power parity would command."

### Wharton Econometric Forecasting Associates

The service's medium-term forecast, published in October, shows Europe's growth stalling at 2 percent this year, falling to a negligible 1 percent next year and then recovering at 2.5 percent in 1987-1988. This rate of slowdown almost matches that of the United States, which is expected to continue outperforming Europe. Throughout the projected growth period, Europe's expansion lags behind the world's, which is expected to hit 3.6 percent in 1987 and then slide to 2.9 percent in 1989, a firm, but not roaring, pace.

Constraining Europe's growth will be the stagnating U.S. economy in 1986 since Europe's economies lack enough drive to counter this. Even during periods of greatest expansion, growth is below the 3-percent minimum Wharton sees as necessary to lower unemployment below the forecasted 11.7-percent average. Higher productivity and moderate climbs in wages due to high unemployment will hold down inflation.

Last year's metalworkers' strike in the Federal Republic of Germany sapped

some of the country's expansion last year and this. Growth is seen as faltering in 1986, before recovering mildly in 1987 and then setting a slow pace in 1988-1989. "Exports will sustain growth over the next two years, as volume rises by 8 percent in 1984 and 6 percent in 1985," Wharton says. "After a falloff in exports in 1986, export-led GDP growth averaging 2 percent should resume in 1987."

In the United Kingdom, "higher interest rates, slower growth abroad, a rise in the personal savings ratio and a tighter fiscal stance should generate a slowdown in growth next year. Wharton predicts a small recession in mid-decade." The pound's recovery is forecast, peaking at \$1.8277 in 1988. Inflation will remain roughly in line with that for developed countries.

Italy will post one of the healthiest recoveries in Europe this year, before slumping in 1986, the result of higher interest rates and poor U.S. economic performance. Then, again, its growth will be one of the strongest in Europe, as its GDP growth rate is forecast to peak in 1988 at 3.4 percent before slowing to 2.8 percent by 1989. "Policy constraints on domestic demand over the forecast period imply that external demand must assume a major role in sustaining growth. The outlook is fundamentally dependent on a decline in labor costs to contain inflation and maintain external competitiveness."

Wharton projects slower expansion for France than DRI, expecting only marginally greater growth than that for Europe. Inflation will remain slightly below Europe's levels, but ahead of the Organization for Economic Cooperation and Development (OECD) members. Unemployment will remain below 9 percent.

### Chase Econometrics

Chase expects Europe "to continue to expand at about the same rate in 1985 as in 1984, supported by the momentum of a recovery that is six to nine months behind the United States and some monetary reflation as negative pressures build against the dollar. . . ." The E.C.'s GNP is seen as expanding over the next five years at more than double (2.2 percent) the pace achieved in the first half of the decade, but the E.C. still will lag behind the United States' expansion (2.9 percent). Another barometer, growth in Europe's industrial production (Chase defines Europe to include the United Kingdom, the Federal Republic of Germany, France, Italy, the Netherlands, Belgium, Spain and Sweden) will peak at about 3.6 percent this year, plummet next year (1.5 percent), and then recover to at least a

## EXCHANGE RATES

	1985	1986	1987	1988	1989	1990	1992	1995
<b>DM/\$</b>								
Chase	3.022	2.700	2.587	2.511	2.429	2.353	2.241	2.084
DRI	2.529	2.280	2.138	2.110	2.099	2.051	1.976	1.808
Wharton	3.021	2.632	2.398	2.159	2.137	N.A.	N.A.	N.A.
<b>FF/\$</b>								
Chase	9.682	9.286	9.343	9.522	9.663	9.677	9.982	10.138
DRI	8.088	7.640	7.511	7.481	7.531	7.545	7.617	7.413
Wharton	9.174	7.874	7.299	6.757	6.849	N.A.	N.A.	N.A.
<b>\$/£</b>								
Chase	1.24	1.24	1.18	1.16	1.14	1.13	1.09	1.04
DRI	1.407	1.464	1.490	1.465	1.446	1.416	1.370	1.268
Wharton	1.378	1.613	1.721	1.823	1.810	N.A.	N.A.	N.A.

moderate 2.5 percent throughout the remaining decade.

Europe's consumer-price-index increase rises gradually from 7.1 percent to 7.7 percent by 1990, a trend similarly expected for the United States (from 4.6 percent now to 6.0 percent by 1988) and the industrialized countries generally (from 5.5 percent now to 6.6 percent in 1990). Only in Germany, among the eight European states, does employment fall significantly and then only by a percentage point by 1988. Growth in merchandise export volume for Europe is projected to collapse by 60 percent this year compared to last year's pace, fall another notch next year (3-percent growth), before increasing to stay above 4 percent from 1987 to 1990.

The Federal Republic of Germany is expected to weather a sharp recession next year, before experiencing a strong recovery in 1987-1988 (3.7-percent climb in industrial production) that matures and slows in 1989-1990 (2.5 per-

cent). Inflation will be more than half that foreseen for Europe. Unemployment there will be the lowest in the Community.

The United Kingdom's industrial output is forecast to explode this year (5.2-percent growth), before plummeting to negligible growth next year, a healthy recovery in 1987, and then three years of marginal expansion (1.7 percent to 1.1 percent) which is nearly half that expected for Europe. The strong expansion in U.K. merchandise exports is evidently not enough to revitalize the economy.

France's future is less spectacular in Chase's estimate than in DRI's. Industrial production growth rises moderately this year (2.8 percent compared to 4.19 percent for OECD countries) and falls slightly next year (to 2.2 percent) while the rest of Europe endures a tougher recession. Then, it continues to grow (3.0 percent) until 1990. Unemployment barely moves (from 11.2 percent now to 10.6 percent in 1990).

The common theme in all three forecasts is slow economic growth for the E.C. This prophecy poses some major challenges that will shape debate among the 10 E.C. member countries into the next decade. Will high unemployment continue to be tolerated? Or will government spending be increased dramatically to trigger greater economic expansion? Will the interdependencies between the E.C. and the United States strengthen as trade and other economic transactions broaden? Or will the E.C. and the United States both turn protectionist, each economic block depending more on domestic demand and other foreign markets for stimulus? These and other fiscal, monetary and social questions clearly put the E.C. at the turning point of another phase in its economic history. €

### OBTAINING THE FORECASTS

Each of the services provides a bewildering range of services for their clients, from monthly bulletins to detailed, customized forecasts. Subscription rates vary, from \$2,000 to \$15,000 depending on the complexity of services ordered. All three firms provide a support staff that work directly with the client. For more information, contact the marketing divisions of the companies below:

Data Resources, Inc.; 24 Hartwell Ave.; Lexington, MA 02173; (617) 863-5100.

Chase Econometrics; 150 Monument Rd.; Bala Cynwyd, PA 19004; (215) 667-6000.

Wharton Econometric Forecasting Associates; 3624 Science Center; Philadelphia, PA 19104; (215) 386-9000.

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# FIRST ECU BOND ISSUE ON U.S. MARKET

OFFERING IS DENOMINATED IN A BASKET OF 10 EUROPEAN CURRENCIES.

JOLY DIXON

**A**merican investors were given their first opportunity to buy European Currency Unit (ECU) bonds in the United States in early December. The offering is also believed to be the first non-dollar denominated offering in U.S. public markets.

The 200-million ECU bond issue by the European Community, which was handled by a group of underwriters headed by the First Boston Corporation, Bear Stearns & Co., and Morgan Stanley and Co., met with a very favorable market reaction. As E.C. Commissioner Ivor Richard said at the dinner in New York to commemorate the issue: "This success not only holds out the prospect of a promising future on the U.S. market, it is also confirmation of the confidence that U.S. investors have in the European Community."

Initially, a smaller, 150-million-ECU offering had been considered, but because of strong demand it was decided to increase the amount. The bonds carry an interest rate of 9 $\frac{7}{8}$  percent and are due December 1, 1996. The bonds were priced at 99 $\frac{1}{2}$  percent plus accrued interest from December 6, 1984.

Payment for the bonds must be in ECU, and principal and interest on the bonds will also be payable in ECU. This poses no difficulty because an exchange rate between the ECU and any currency can be simply calculated as is explained below. Consequently, from the investor's point of view it is exactly like any other foreign currency. A growing number of banks are

prepared to handle the necessary transactions, and the ECU exchange rate is published in a number of financial newspapers.

Proceeds from the sale of the bonds will be used by the E.C. to provide loans for investment projects in E.C. member states under the "New Community Instrument" program (Ortoli facility). These loans are aimed at reducing regional economic imbalances within the E.C., particularly in the energy, industry and infrastructure sectors.

Since the first ECU bond was issued in March 1981 by the Italian state telecommunications company, the market has expanded rapidly, as the table below shows. The ECU is now the third most utilized currency for the issue of bonds on the Eurobond market.

### Growth of ECU Bond Market

	Number of Issues	Amount (Million ECU)
1981	5	190
1982	17	722
1983	33	1935
1984*	46	2381
<b>Total</b>	<b>101</b>	<b>5228</b>

\*Up to September 30, 1984  
Source: E.C. Commission

### What is the ECU?

There is no ECU equivalent to a dollar bill

and so it is not possible to go into the store and buy something with an ECU. The ECU is therefore not a currency in the normal sense of the word. Instead, it is a bundle (or basket) of the 10 currencies of the nations which are members of the Common Market. The box on next page shows the composition of the basket and how its dollar value on a particular day can be calculated.

Hence, on November 30, 1984, the dollar equivalent of one ECU was 72 cents. Its value in any other currency can be calculated in a similar way using the exchange rates between that currency and the currencies of which the ECU is composed. It is important to note that the amounts of each of the component currencies in the basket normally remain unchanged. They are reviewed every five years and have only been changed once since the ECU was created. Exchange rates, however, vary all the time, which means that the equivalent of the ECU in dollars or any other currency varies from day to day.

Over the last few years, the dollar equivalent of the ECU has declined, because the dollar has been strong against all the currencies in the basket. The ECU is now worth only 72 cents, whereas it was worth \$1.37 on average in 1979 and at one stage in 1980 it was worth as much as \$1.45.

### Why Invest in ECU?

Given the decline in value of the ECU against the dollar, why would any American investor want to hold an ECU bond? The obvious first answer is that what goes up must come down. Some investors may feel therefore that the dollar will not continue to be as strong for much longer. In this case, the ECU would again appreci-

## ECU Composition and its Dollar Equivalent.

Currency	Currency Amount	Dollar Exchange Rate 30 Nov. 1984	Dollar Equivalent
	(1)	(2)	(3) = (1) : (2)
German mark	0.719	3.11	0.231190
French franc	1.31	9.525	0.137533
British pound	0.0878	0.835	0.105150
Italian lira	140	1919	0.072955
Dutch guilder	0.256	3.503	0.073080
Belgian franc	3.71	62.5	0.059360
Danish krone	0.219	11.186	0.019578
Greek drachma	1.15	126.7	0.009077
Irish pound	0.00871	1	0.008710
Luxemburg franc	0.14	62.5	0.002240
			1 ECU = \$0.718872

ate against the dollar and investors in ECU bonds would make an exchange gain.

Most investors, however, probably do not take such a definitive view on currency movements, as exchange rates are notoriously difficult to forecast. For this reason, many investors hold portfolios diversified over a number of currencies. This is common practice for investments in the stock market. Because of the uncertainties, investors do not hold all their wealth in the stock of one company. They spread their investments over a number of companies and also a number of sectors. This can be done either by buying a lot of different stocks or by buying into a mutual fund which holds a well diversified portfolio.

The ECU provides a unique form of currency diversification. It works for currencies in the same way as a mutual fund does for stocks. It allows an investor who has chosen to hold some part of his currency portfolio in non-dollar assets to hold a composite currency representing the Common Market. The investor then does not have to take a view on whether it is

more likely that, for example, the Dutch guilder will appreciate or depreciate against the French franc. The ECU diversifies away this risk.

The ECU also gives another unique advantage. It is the "currency" which is representative of the European Monetary System (EMS) whose aim is to establish a zone of monetary stability in the E.C. Part of monetary stability is to limit exchange rate fluctuations, and all the E.C. countries except Greece and the United Kingdom participate in an exchange-rate mechanism. This mechanism prevents their currencies from varying by more than 2¼ percent on either side of what are called central rates, which may be changed from time to time but only by agreement of all participants.

This system has had remarkable success in achieving exchange-rate stability in Europe since 1979, especially when compared with the fluctuations that have been seen in the dollar's exchange rate. Although there have been seven changes of central rates, movements have reflected economic fundamentals; there have been no reversals in direction and total cumulative changes have been comparatively moderate.

A zone of monetary stability, however, means more than exchange-rate stability. It means price stability and the E.C. has

been successful in reducing its rate of inflation over the last few years. In 1979 the inflation rate in the E.C. was close to 11 percent. It is now about 5 percent.

By buying an ECU-denominated bond, investors are purchasing a unit which is backed by Europe's deep commitment to monetary stability. Price stability without economic growth, however, is not sufficient. There has been a lot of talk recently about "Europessimism" and "Eurosclerosis." If Europe really was on its knees with no chance of revival, an ECU investment would not be a very attractive long-term proposition. A quick glance at economic history, however, suggests that this is unlikely.

It is true that Europe has recovered only slowly from the recent recession, and this compares unfavorably with the spectacular performance of the United States since the end of 1982. Much of the difference is caused by the fact that the recession was much deeper in the United States than in Europe. Taking a longer-term view puts things into perspective. In the five years up to 1983, Europe grew by 1.6 percent a year on average whereas the United States grew by 1.3 percent. Both were dismal performances. Over the 1970s, the growth rate in Europe and in the United States were about the same, but productivity and investment were higher and unemployment on average lower in Europe. This is not to say that Europe does not have any problems. Its growth is increasing, but is still insufficient to reduce unemployment which is unacceptably high. There is, therefore, no room for complacency, but the pessimism has probably been exaggerated by those who rely too heavily on a comparison of the performance of the United States and Europe over only the last two years.

Europe has been working hard over the last few years to improve its economic performance. Many difficult adjustments have already been made. More remains to be done. The E.C. Commission recently presented its Annual Economic Report, which recommended a broad program aimed at creating a more favorable macro-economic policy framework, encouraging competitiveness and expanding employment. The first fruits of success from past efforts are already being seen as growth is picking up. Given these trends, the ECU's attractiveness will increase. €

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LOU JANESKO

# ARIANE CHALLENGES U.S. ON SATELLITES

AFTER EARLY SETBACKS, THE LAUNCHER HAS FULL ORDER BOOKS AND BIG PLANS.



Ariane 3, with a maximum payload of 2,560 kilograms, is the most powerful ESA-developed rocket yet. Above, the launch of Ariane 3 in November 1984.

DAVID DICKSON

There must be few rags-to-riches fairy tales to match the story of Europe's efforts to become a major rival to the United States and the Soviet Union in the field of space technology and, in particular, to develop its own Ariane satellite-launching rocket.

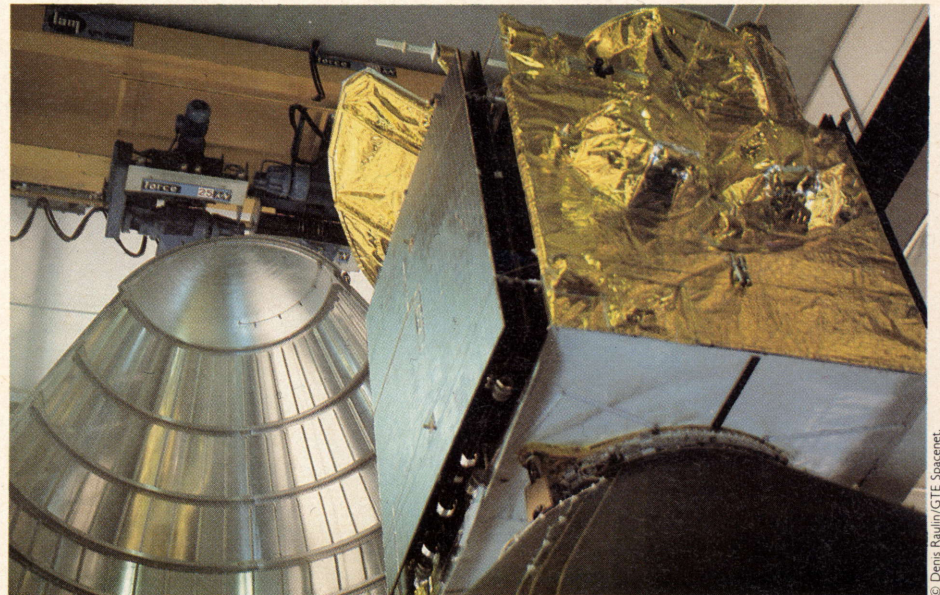
A little over 10 years ago, attempts by the Europe Launcher Development Organization (ELDO) to build a rocket based on Britain's Blue Streak missile, which had just been abandoned as a military project, disintegrated in technical failure and acrimonious argument between the four countries which had each agreed to build a separate stage—the United Kingdom, France, the Federal Republic of Germany and Italy. Also disintegrated were many hopes that Europe would ever be able to rival the U.S. space effort.

Out of the ashes of ELDO, however, soon arose the 11-member European Space Agency (ESA). One of its leading members, France, set out to rethink the rocket project from scratch, convinced that Europe could only create a success-

ful space industry and benefit from the commercial and scientific promises this offered if it developed a launch capability that would give it complete independence from the United States.

The result was the Ariane program,

approved by ESA on December 28, 1973 and so far costing over \$750 million. Sixty-four percent of the funding has been provided by France, whose National Center for Space Studies (CNES) was selected as prime contractor and has there-



The GTE Spacenet II satellite, above, is installed on the launch vehicle.



fore been responsible for most of the design and development work. Germany provided another 20 percent of the funding and the rest was divided between the other ESA members.

Like any good fairy tale, the story of Ariane has not been without its darker moments. After the euphoria of its first successful test flight in December 1979, for example, the second test five months later ended in setback when one of the first-stage engines failed to ignite and the two satellites on board were lost. A period of intense remedial work followed, terminating in the successful launch of an ESA meteorological satellite and an Indian communications satellite in June 1981. The test series of qualification launches was completed with another success in December of the same year.

Yet ESA still was not out of the woods. The first flight of Ariane's promotion series, arranged to demonstrate its capabilities to potential customers, took place in September 1982 and also was a failure. The turbopump in the third-stage engine malfunctioned and, again, two satellites were lost in an accident that led insurance companies to raise their premium significantly.

Since then, however, Ariane has enjoyed a record of 100-percent success. The three remaining launches in the promotional series have been followed by three fully commercial launches, the last at the beginning of November. All have taken place from ESA's launch site at Kourou in French Guiana. Any technical concerns that Europe might not have been able to meet the U.S. challenge seem to have been finally put to rest. And Arianespace, the company which was set up by CNES with financial support from 39 European banks, aerospace companies and finance houses to ensure the production and commercial operation of the launcher, now has full order books stretching several years ahead, with customers coming from all over the world—including many from the United States.

Having successfully fulfilled the task that they set themselves 10 years ago, the member countries of ESA are now looking toward the future. In particular, they are discussing eventual collaboration on an entirely new type of Ariane which would become available by the end of the 1990s, capable not merely of putting satellites into orbit, but also manned space vehicles and thus perhaps servicing a European space station.

So far, Ariane has been produced in four versions, each essentially a modification of the first three-stage rocket, Ariane 1, which was used for all the early flights. Ariane 1 can carry a payload of

1,750 kilograms into geostationary orbit with a high degree of accuracy. This is one of the advantages that it currently claims over NASA's space shuttle. It is 47.4 meters long, and weighs approximately 210 tons on lift-off.

Since 1978, ESA has been developing two slightly more powerful versions, Ariane 2 and Ariane 3, which were both successfully launched for the first time in 1984. Both contain a significant number of technological modifications allowing them to carry heavier payloads than Ariane 1. Ariane 2 is able to boost one or two satellites weighing a total of 2,200 kilograms into orbit, while Ariane 3, which had its first launch in November, is virtually identical apart from the addition of solid propellant strap-on boosters, enabling it to increase its maximum payload to 2,560 kilograms.

Currently under development is a considerably larger version, Ariane 4, which was approved by ESA after preliminary studies by CNES in January 1983. Due to come into service in 1986, Ariane 4 will come in six different forms, depending on the precise nature and orbit requirements of the payload being launched. The biggest will be able to place 4,200 kilograms in geostationary transfer orbit. Each of these first four versions of Ariane has made use of relatively conventional launcher technology first developed in the 1960s.

Looking to the future, however, Europe's space planners feel that the current Ariane series has several limitations. The first is that its weight capacity is likely to be insufficient to meet the launch requirements for large communications satellites that are anticipated in the late 1990s or for the components of a modular space station. A second reason stems from a relatively new enthusiasm in Europe for manned space activities, spurred in particular by the exploits of the U.S. space shuttle and the way in which experience with Spacelab—developed by ESA, but launched by the shuttle—has shown the value of a human presence in dealing with unexpected events, such as the malfunction of equipment or scientific experiments.

So far, the Ariane series has not been designed to carry men or women into orbit, a choice reflected, for example, in the relatively narrow safety margins used in some aspects of the design. To carry out manned launches successfully and safely will require a completely new approach. Ideas about what this new version of Ariane should look like have been under discussion in CNES for several years. Various configurations were considered. The first was little more than a greatly

expanded version of the standard Ariane series and the second was an adaptation of this with two, rather than three, stages, each with much more powerful engines. The design which has recently been settled on, however, is one in which the initial lift-off will be powered by two large solid-fuel boosters strapped on either side of the main booster stage, a configuration similar to that which is currently used to launch the U.S. space shuttle.

ESA already has agreed to provide initial funding for what is likely to become a central component of Ariane 5, a totally new, high-thrust cryogenic motor known as HM60. Preliminary designs of the motor will be carried out under the auspices of CNES over the next two years, and it is hoped it will enter full development in 1986, aiming for the first test launches in 1993-94. Final agreement between the ESA member countries on whether to proceed with the development of Ariane 5 will depend on the outcome of a ministerial meeting in Rome in January.

Just as the initial program was supported as part of a broader package in the early 1970s, in which programs on Spacelab (led by Germany) and on telecommunications satellites (led by the United Kingdom) also played an integral part, so the decision on Ariane 5 (which would be led, as before, by France) is likely to depend on the ministers' ability to put together a similar package for the next decade. This time, the new developments in launcher technology represented by a commitment to Ariane 5 would be balanced, on the one hand, by an agreement to participate in NASA's plans for a space station—building on the experience of Spacelab—and, on the other, a significantly expanded program of space science.

The major stumbling block is likely to be money. Each of these programs is expected to be considerably more expensive than its predecessor. Taken together, they will require European governments to increase the joint commitment to space technology by at least 50 percent over the next decade, at a time when each country is trying to place firm limits on public spending. However, faced with the obvious success of what they have been able to achieve over the past decade, the ministers are expected to find some way of leveraging the necessary funds out of their respective treasuries, and it is generally felt that Ariane 5 eventually will crown a project that started in such inauspicious circumstances 10 years ago. €

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# DEBATE HEATS UP ON THE COMMUNITY

THERE HAS NEVER BEEN MORE DISCUSSION AND SPECULATION ABOUT THE FUTURE OF THE E.C.

JOHN WYLES

**A**t no time in the European Community's history has there been a greater ferment of discussion and speculation about its future. This past autumn, academics, journalists, civil servants and politicians were scurrying from one conference to another dedicated to examining possible developments in policies and institutions.

At the same time, and in parallel, E.C. member Governments themselves actually have been trying to raise their eyes above the level of day-to-day problems in an attempt to identify and grapple with the requirements and issues of the future. In confirmation that this really *is* a time when the E.C. may be edging "back to the drawing board," there exists even an informal group of "top people" modeled on Jean Monnet's Action Committee for the United States of Europe founded in 1955 and dedicated to finding a way forward.

Why all this sudden concern to chart a more certain way forward for E.C. policies and institutions? Dissatisfaction with what currently exists is certainly part of the explanation. Member states have been through a very tough 10 years, with little or no economic growth and certainly not enough to reverse the rising tide of unemployment. The E.C. has not supplied that special ingredient which has enabled Japan and the United States to create millions of new jobs and to establish the new technologies of the future. Yet no member state believes that it can achieve salvation by its own efforts. The feeling is, therefore, that the E.C. has to be made to respond better to economic and technological requirements.

This is only one element, however, in the search for a better future. Another is the realization that the enlargement of the E.C. to include Spain and Portugal will weaken rather than strengthen the E.C.'s quest for more effective common

action unless something is done.

The difficulties over the past five years of reaching agreements on Common Agricultural Policy reform, on development of the internal market, on a common transport policy and on environmental issues have revealed the E.C.'s decision-making procedures to be semi-paralyzed. The survival of the unanimity principle in the E.C. Council of Ministers bears a lot of responsibility for this, though the absence of sufficient political will and trust is also part of the explanation. When the 10 E.C. members become 12 and current economic and social diversities are magnified, the paralysis could become total.

Dissatisfaction with the working of the E.C. institutions also obviously embraces a desire in many member states to do something about the European Parliament. As a fully elected body with few significant powers over legislation and policies, it is an anomaly in the Western democratic world. It may not only breed popular cynicism about the E.C. and its political processes, but also a great deal of internal mayhem as the Parliament's frustrated members search for weapons with which to influence the true center of legislative and political power: the Council of Ministers.

Another factor breeding desire for positive development is the very real progress made this year in attacking very urgent and unavoidable agricultural and budgetary problems. A solution has been found to Britain's budgetary imbalances, a tighter grip will be exerted by the Council on future E.C. spending, a start has been made on controlling agriculture's surplus production and new own resources will be provided for the E.C.'s budget from the beginning of 1986. These solutions have taken fully four years to reach, and, now, many capitals wish to bury popular memories of constant division and acrimony by bringing a new sense of purpose and direction to E.C. affairs.

For the moment, it seems that the most important work on reshaping the E.C. is being done in the so-called Dooge committee—the committee takes its name from its chairman, Senator James Dooge of Ireland. Given the task of reviewing the E.C.'s procedures and institutions at the Fontainebleau summit of E.C. Heads of Government last June, the committee was essentially the conception of French President Francois Mitterrand and German Chancellor Helmut Kohl who have professed growing enthusiasm throughout this year for more decisive progress toward European union.

The Dooge committee is comprised of personal representatives of Heads of Government, and, in December, it presented an interim report to the Dublin summit. This suggested that the Ten are divided into two camps. A majority of seven member states favor an attempt to negotiate a supplementary treaty to the Treaty of Rome establishing the E.C. at an intergovernmental conference next year. This would clearly affirm that European union is the objective of all and would clearly establish that all issues covered by the Treaty of Rome could be decided by majority voting.

The seven also want to see extended powers for the European Parliament, further development of the European Monetary System, a strengthening of political cooperation through the creation of a secretariat and closer cooperation on defense and security issues, especially in the manufacturing and procurement of weaponry.

The minority of three—the United Kingdom, Denmark and Greece—is not directly opposed to developments in any or all of these areas, but its members are clearly more skeptical about the desirability of a new treaty. They are particularly wary of abandoning the right of national veto in favor of majority voting and of sharing legislative powers with the Parliament.

The Dooge committee will continue its work with the aim of producing an agreed recommendation to the next summit in Brussels in March. There must be real doubts, however, as to whether a consensus can be established which would hold out the prospect of real change. Some of these doubts center on the representativeness of the committee and whether the enthusiasm for European union displayed by Maurice Faure, the French member, is really shared by the top French bureaucrats.

Other doubts point to the general intransigence of the Danes on the subject of



institutional development and enhancing the powers of the Parliament. The present Government in Copenhagen is immensely more in favor of strengthening the E.C. than the policy it actually pursues—a policy forced upon it by the powerful E.C. committee of the Danish Parliament on which the opposition has a majority. The Dooge exercise might more easily find a consensus if there were to be a general election in Denmark early this year which yielded a clear majority for the Liberal-Conservative coalition.

A third important factor is the attitude of the U.K. Government. Its approach to the Dooge committee's work has been skeptical rather than hostile, but ministers and senior officials in London are beginning to wonder whether it might not be wise to rethink their approach. They are conscious that, for nearly 30 years, the United Kingdom has tended to lag behind in thinking and enthusiasm for European developments and has failed, therefore, to exercise as much influence

as Britain wished.

Those in London who believe that the majority seven really are determined that this latest exercise in European union should succeed (unlike the abortive Genscher-Colombo initiative of 1980 and the Tindemans report on European union of the 1970s) argue that the British Government should be active in molding the Franco-German initiative. The greatest obstacle to a more positive approach comes from British Prime Minister Margaret Thatcher herself who is suspicious of the term "European union," temperamentally averse to the Eurorhetoric espoused by Mitterrand and Kohl and, finally, worried about the reactions within her own Conservative Party to any leap toward greater integration.

And yet the British, indeed all E.C. member states, are in closer agreement about priorities for the rest of this century than at any other time in the last 10 years. They would not greatly quarrel with the conclusions of a group of aca-

demics, officials and politicians from Europe and the United States which met for a weekend conference at Ditchley Park, near Oxford, in November. They said the E.C. must improve the working of its institutions, remove the remaining barriers to completion of the internal market, develop the European Monetary System so that it is based on a single currency, achieve much closer collaboration in high technology and strengthen foreign policy and defense cooperation.

Whereas 10 years ago this agenda might have been dismissed as the idle dream of Eurofanatics, there is now a keener sense than ever before in many Governments that the decline in Europe's political and economic importance may not be arrested without such a "qualitative leap" toward European integration. ◻

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# E.C. SIGNS NEW LOMÉ TRADE-AND-AID PACT

## AGREEMENT WITH 65 AFRICAN, CARIBBEAN AND PACIFIC NATIONS SPEEDS DEVELOPMENT

JANE MORRICE

**T**he Lomé Convention has survived the strain of the world economic recession. The successful conclusion of negotiations on the renewal of this unique trade-and-aid contract in Brussels on November 23, 1984, marks the beginning of a new era in relations between the European Community and 65 developing countries in Africa, the Caribbean and the Pacific (ACP). Signed in the Togolese capital on December 8, 1984, the third Lomé Convention will come into force in March of this year with a guarantee to lead new, improved E.C.-ACP cooperation into the 1990s and reconfirm the treaty as the vanguard of North-South relations.

When the Lomé renewal negotiations opened in Luxembourg in October, 1983, few expected the going would be so rough. But to conclude a contract which would directly affect the livelihood of nearly 350 million people in the Third World over the next five years is no easy task. There is no doubt that throughout the negotiations, both sides were well aware of the enormous commitment they were making.

In a powerful display of the North-South dialogue in action, the E.C.-ACP states spent a total of 413 days and six ministerial meetings carving out their future together. No stone was left unturned. The intricacies of the E.C.-ACP trade regime, from the amount of ACP strawberries the E.C. could import to the definition of an ACP fish, were debated to the last detail. Moral issues, such as respect for human dignity or cultural identity were discussed at the highest level and the overriding question of financial assistance was a source of heated debate in the closing months of the talks.

In the end, however, there were no regrets. "It is a matter of great satisfaction that such an important negotiation has been concluded", said Irish Minister of Foreign Affairs Peter Barry. (Ireland

held the presidency of the E.C. Council of Ministers for the second half of 1984.) "Each party made an effort to meet the other half way", he added, noting that there was confidence and hope for the future. The ACP Council of Ministers president, Minister of Foreign Affairs of Papua New Guinea Rabbi Namaliu, was just as positive. Although he admitted that the ACP group had wanted better trade-and-aid provisions, he agreed that "overall we have a well-balanced convention, more rational and streamlined with greater thrust, and devoid of many of the dangers we feared when we commenced our negotiations".

The results, for many, may have been disappointing. But both sides knew full well that, although the ACP needs are boundless, E.C. resources are limited. With the effects of economic recession still biting deep, the E.C. made the best offer it could. And, within days of the final negotiating session, even agreed to increase its aid offer, proving that, despite its empty coffers, the E.C. could muster up the political will to recognize and cement the privileged position occupied by the ACP states in its relations with the outside world.

The third Lomé Convention, nevertheless, will have a great deal new to offer the ACP states. Its funds have been boosted from 5.5 billion European Currency Units, or ECUs, (currently about \$4.13 billion) to 8.5 billion ECUs, representing a nominal increase of 60 percent of the funds earmarked for Lomé II. It may be argued that this figure reflects no more than a 10-percent increase in real terms. But it is, nevertheless, far superior to the efforts made by aid donors in other international fora, such as the International Development Association, whose funds have actually been reduced. "The ACP needs and the E.C. resources have been reconciled," said former E.C. Commissioner for Development Edgard Pisani and the ACP president agreed. He

admitted that the ACPs wanted 10 billion ECUs to cover their increasing development needs over the next five years, but added that the offer made by the E.C. "was arrived at in a spirit of compromise" and was acceptable to the ACPs.

Efficiency will be the overriding aim in Lomé III. Well aware that no matter how much money is offered, it would never be enough, the E.C. member states have committed themselves to improving the quality of Lomé aid. The name of the game will be to make sure that every penny counts. To achieve this, contact, coordination and cooperation will be vital at all levels. The grand design of this new "dialogue" to be incorporated into Lomé III is to ensure that the development goals of the ACP states are supported fully by E.C. funds. The key to achieve this is the entirely new, ambitious programming process which marks a "world of difference" between the old system of financing individual projects to the new system of supporting development policies.

However, this dialogue does not stop at the North-South vertical. South-South cooperation also will be important in Lomé III and cooperation at the regional level will be encouraged as far as possible. And, to complete the dialogue, North-North cooperation also will be essential. It is a recognized fact that collaboration between aid donors within the E.C. or in the international arena, is an indispensable but sadly lacking ingredient in E.C.-ACP cooperation to date. The new convention aims to put that situation right.

Food is another vital priority on the agenda of the new-look Lomé. Added impetus will be given to agricultural development in the ACP states, with the search for food self-sufficiency through food strategies, food security and food production, the all-important factor. Experience has taught both the E.C. and ACP states that, although emergency food aid operations are essential, measures must be taken to guarantee long-term food security especially in the Sahel region of Africa. As Pisani said, "the logic governing previous development policies which believed that ACP states must first industrialize in order to develop has been turned on its head. The world now realizes that agriculture is needed for survival," . . . and this "gives a completely new ring to the Lomé Convention."

Also in this context, the E.C. member states have agreed, for the first time ever, to work out with their ACP partners the best ways in which supplies of E.C. farm surpluses can be made available for ACP food-deficit countries on a long-term

basis.

Lomé's new approach to fighting hunger in the world intends, however, to go beyond traditional farming into an area which is relatively unknown in E.C.-ACP relations. The innovation in this field is the decision to include a new chapter on E.C.-ACP fisheries cooperation in Lomé III. The aim will be to develop ACP fishing industries using compensation paid by E.C. fleets which fish ACP waters. Six bilateral fisheries agreements of this type have been signed between the E.C. and ACP states, and it is hoped that, with added emphasis placed on fisheries in Lomé III, a new wave of agreements will follow.

Another new concept for attacking the very root of the food-shortage problem will also be introduced in Lomé III. Referred to as "thematic actions," these regional projects are designed to combat vast environmental problems which transgress national frontiers, such as desertification, deforestation or drought.

The human factor in E.C.-ACP relations is yet another important new element in Lomé III. Proof of the new E.C.-ACP commitment to man at the center of development is the decision to include, for the first time ever, a chapter on socio-cultural cooperation in the Lomé Convention. The aim will be to ensure that the cultural identity of ACP populations both in the ACP region and those currently residing in the E.C. member states is safeguarded. Support will be given to enhancing ACP human resources and increasing ACP creative capacities. "The convention, concerned as it is with development, sets the human person—men, women and children—at the center and sets out to advance his right to self-reliant development, within his cultural milieu, and to protect his dignity," said the ACP President. "In this vein," he continued, "we have improved the treatment of students and migrant workers and emphasized the role of women in development."

A central part of this new emphasis on man is the commitment both sides have given in Lomé III to the respect of human rights. Lomé III will ensure that in all countries human rights are allowed to flourish under the protection of the law, said Pisani. He also stressed the fact that, as requested by the ACP states, the link has been established between human dignity and the economic and social development of ACP populations. Yet another first for Lomé, in this context, is the condemnation of apartheid which both sides have vigorously voiced in the text of the new convention.

Another element of "great significance," according to Pisani, is the movement in Lomé III toward encouraging



Signed in the Togolese capital on December 8 above, the new treaty comes into force this March.

increased private investment in the ACP states. "We call upon E.C. industry to get involved in ACP economies," he said. Once again, this is an innovation in the North-South context in that both sides never before have agreed to accord investors fair and equitable treatment to encourage or create clear, stable conditions conducive to investment. A joint commitment has also been made to maintain a predictable, safe investment climate.

In addition to these new ingredients, improvements have been made to the overall trade-and-aid package in several areas. The SYSMIN system for maintaining mineral production capacity in the ACP states has been extended to include important ore producers such as Niger, Botswana and Zimbabwe. The agricultural vocation of the STABEX system for stabilizing ACP export earnings has been confirmed, new products have been added to the list receiving aid and the funds have been boosted. And, in the industrial sector, the Lomé origin rules have been relaxed and simplified and special measures have been introduced to take account of the difficult problem as regards the origin of ACP fish.

Finally, the accession of Angola to the Lomé fold will certainly give an added boost to E.C.-ACP relations. The entry of

this important south African state will swell the Lomé ranks to 76 countries from the north and the south of the globe, representing almost half the member states of the United Nations General Assembly, and will extend the E.C.-ACP sphere of influence to all independent black African countries.

It is true, as pointed out by Pisani, that "there are no revolutionary changes" in the new convention. But both sides admit that to have forced Lomé to charge off into vast new areas of cooperation without first correcting the errors of the past would have been foolish. The first Lomé Convention was an exercise in diplomacy, a political step forward in North-South relations, and it succeeded handsomely. The second Lomé Convention was intended to put politics into practice, but the economic recession exacerbated its teething problems. With economic recovery on the horizon, it is hoped that this new, streamlined version which aims, above all, at assuring the effectiveness of E.C. aid for the benefit of ACP men, women and children will finally get down to what Pisani has called "real development." €

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# FOREIGN WORKERS: HOW EUROPE COPES

U.S. COULD LEARN FROM THE CONTINENT'S EXPERIENCE WITH IMMIGRATION.

JOHN STARRELS

**T**he United States and Western Europe have become, for all their historical and social differences, havens of immigration for millions of people from less developed countries. Until recently, that was just fine, because these new entrants were arriving on the borders of buoyant, fast-moving economies which needed the manual and semi-manual skills brought by workers from places as far removed from each other as Mexico and Turkey. But times have changed. And what once was an open invitation to settle in the United States and Europe has now become an increasingly insistent push for restricting the inflow—or, at the very least, putting a damper on the enthusiasm of new groups seeking access to the strapped economies of the industrial North.

One interesting aspect of this joint U.S.-European experience is that the United States “got there first,” so to speak. The traditional European pattern was one of populations leaving for greener pastures, usually in the United States, rather than serving as a focus of mass immigration. The global upheavals of the 1960s and 1970s, however, altered the pattern somewhat. Now both Europe and the United States are centers which attract many, many people. This new situation, in turn, inevitably raises the question of whether these two partners can share insights on how best to cope with what has become a common drama.

Before exploring those areas of experience which might help Americans to learn from Europeans, some observations on the European situation are in order. Between 1960 and 1974, when the Continental demand for foreign workers was at

its height, European governments and private agencies assiduously wooed nearly 12 million people from the Middle East and southern Europe (including Turkey and Yugoslavia) to come and live in their countries. In the United Kingdom, the pattern varied a bit in that most of its immigrants came from the former British empire in Asia and sub-Saharan Africa. The result for all European countries, though, was the same. By the mid-1970s, they had become places of residence for a new generation of people, most of whom were drawn from developing countries.

And make no mistake about it, these immigrants were very much in demand. As the London *Economist* wrote a couple of years ago: “In Western Europe, immigrants have benefited their host countries mainly by holding down unpleasant or low-paid jobs that native-born people prefer not to do. In Germany, boring work on motor-car assembly lines is mostly done by Turks. In France, heavy construction work is a Moroccan specialty. . . . In Britain, the existence of the dying textile industry was prolonged for a decade by low-paid, hard-working Pakistanis. Germany alone had 600 labor recruiting offices in the Mediterranean area.”

Even today, in the midst of an economic downturn in most of Europe, those immigrants continue to be needed. Nevertheless, the recessions of the 1970s prompted host governments on the Continent to “close the era of immigration,” as two specialists recently put it. By



One French plan to encourage out-migration in the ailing auto industry is to offer cash grants averaging \$10,000 to foreign workers willing to return home. The response, however, has not been overwhelming.

1980, however, the number of foreign residents had reached 4.2 million in France, 4.5 million in the Federal Republic of Germany, 538,000 in the Netherlands, 422,000 in Sweden and about a million in Britain. The fundamental question, then, is not whether Europe is going to eventually become emptied of immigrants, but rather, how the Continent approaches a long-term "structural" challenge, involving (perhaps) new approaches to labor-market management which in various ways involve those millions of foreign workers who have chosen to make Europe their home.

The challenge is complex, but the Continent has responded in several important ways. First, it has attempted to encourage a return of individuals who may desire to relocate in their home countries. This has proven to be a complicated task. Immigrant communities throughout Western Europe are in a serious quandary: Though they might resent the practice of unofficial discrimination which is sometimes used to deny them jobs and social benefits, returning home hardly represents a better alternative.

This unhappy dilemma is, if anything, exacerbated for second-generation foreign residents who have adapted their ways to the expectations of their host cultures. Typical are these comments of a Moroccan factory worker who lives in Paris: "My children were born here. They go to school here. They can't read or write Arabic. How are they to adapt to such a change?" Existing research suggests that they won't adapt very well. But even if the returnee (and his family) adapts well to the homeland, their governments are usually not pleased to have them back. That is hardly surprising in view of the billions of francs, Deutsche marks, guilders and pounds which the immigrants every year send back to their families in the developing countries.

Nevertheless, European countries have adopted policies designed to encourage foreign workers to go back home. One medium is cash. A case in point is the Federal Republic of Germany, where about 300,000 foreign residents have accepted repatriation terms offered by the Bonn government. The German offer includes a cash grant of about 10,500 Deutsche marks (\$3,500 at present exchange rates), plus 1,500 Deutsche marks for each child for certain categories of work. In addition, the Germans offer returnees rebates on their social-security contributions.

The French also have come forward with money schemes designed to encourage out-migration. One proposal, put forward in mid-1984, involves an agreement

put together by the government, along with companies and unions, on cash grants for foreign workers who will leave their jobs in the ailing auto industry. Such grants average \$10,000, but only a few workers have accepted the offer. In other instances, European countries have dangled tantalizing trade packages before countries which have substantial numbers of their citizens residing there. The Helmut Kohl Government in Germany, for instance, wants the Ankara Government to be more accommodating with the repatriation of Turks. In exchange for this readiness, Bonn has promised construction of a nuclear-power station and delivery of Airbus planes.

The major thrust of Europe's immigration policy in 1984, however, involves efforts to "integrate" the 15 million or so foreign residents into the fabric of sociopolitical life. And the Europeans have engineered some enlightened approaches to the problem which could interest the United States. The core consists of well established outreach programs, designed to provide needed services to immigrants. On top of that comes a serious commitment on the part of European governments to bring guest workers into the mainstream of society. Here are some results of those efforts:

- In Sweden, immigrants (who make up 9 percent of the population) are required by local authorities to enroll in language classes soon after they arrive, with the result that the vast majority of new entrants learn the host language in record time.
- In Germany, immigrants get on-the-job training as part of a comprehensive labor-market policy. Such programs—their popularity is high among immigrant groups—are administered by the various *Länder* (state) governments.
- In the Netherlands, considerable success has been achieved in helping foreign workers and their families find housing.

On top of this, of course, is the European Community's common approach to immigrant issues. A key element of that approach are provisions to ensure foreign workers from E.C. member countries or from third countries with equal opportunities to compete for jobs. Moreover, under the auspices of the European Social Fund, foreign families have been provided with language and occupational-skills training. Noteworthy too are recent E.C. efforts to further specify the legal rights and status of foreign workers. Such undertakings are designed to harmonize national legislation with E.C. statutes and to provide affected groups with a means for redressing documented instances of prejudice.

For the present, it remains an open question whether the United States can fashion a similar, broad-gauge approach to the question of foreign workers. In the meantime, though, there is something to be learned in the area of illegal immigration. Although the level of illegal immigration throughout the E.C. is relatively small compared with the United States, the problem is hardly unknown there. This is why some U.S. specialists are focusing attention on European practices.

In the first place European countries enjoy certain advantages over the United States in attempting to control the flow of illegal immigration. For one thing, most Continental societies are homogeneous, which means that it's relatively easy to spot people from other countries. Another European advantage over the United States is the tradition of centralized bureaucracy. In practice, "this means that foreign workers are typically required to register with the local police authorities soon after their arrival," explains a U.S. government specialist. None of these apparent advantages, however, are able completely to stem the flow of illegal immigrants. In France alone, there are some 400,000 of them.

But European problems with *illegal* entrants remain very small in comparison with those facing America. According to Mark Miller, a professor at the University of Delaware, there is one fundamental reason why this is so: employer sanctions. As he said before a U.S. Senate committee which was considering an immigration bill several years ago: "Employer sanctions are the key component in West European efforts to curb illegal alien employment and residency." Miller describes the system whereby these governments use laws to punish employers of illegal aliens with fines and/or prison. Moreover, if convicted, an employer may also be obliged to pay back wages and social-security taxes that routinely would have to be paid if an alien worker had been legally employed.

So where does this leave the United States? Faced with its own, somewhat different immigration problem, the United States, with its tradition of decentralized government and voluntarism, will have to come up with its own answer. But the European approach to "integration" could lend itself to the specific circumstances facing the United States. Or, at the least, it certainly makes sense for the United States to begin thinking about how its own problem fits into a larger context. And what more appropriate context can be found than in Europe? ☛

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# EUROPE'S COURSE: A BRITISH VIEW

A STRONG AND CONFIDENT EUROPE IS  
IN AMERICAN INTERESTS.

MALCOLM RIFKIND

**T**he message from the U.S. presidential elections was clear. America is in buoyant mood, facing the next four years with abundant confidence. Europe has much to gain from this. Continuing economic recovery in the United States benefits us all. We have common interests also in a vigorous promotion of Western values and freedoms. My Prime Minister, Margaret Thatcher, summed this up succinctly in a speech last March. She said that the world needed "a Europe which works in partnership with the United States, that great guarantor of Europe's liberty—which works to defend and promote the values and beliefs which lie at the heart of Western civilization."

A year or so ago, many people in the United States were questioning whether Europe any longer had the stomach to play its full part in this Western partnership. Critics alleged that Europe was in political disarray and economic decline. They pointed to the European Community's apparently incessant rowing. They argued that European economies had lost competitiveness and been left behind in the new technologies.

This "Europessimism", as it was labeled, was not, I believe, justified at the time. Today it certainly is not. Increased output, lower inflation and sustainable growth have put Europe in a strong position to play its proper role in stimulating global recovery, though worries remain about U.S. budget deficits and the consequent high interest rates. On the political front, E.C. Heads of Government agreed at their meeting in Fontainebleau in June 1984 a series of budgetary and financial reforms of the utmost importance. These have put the E.C. on a firm foundation from which to build a stronger, more effective Europe. We need now to harness the energies released by the Fontainebleau agreement. Our focus should be on longer-term objectives and on re-

sponding to the needs and aspirations of our 270 million people.

## Europe and the Wider World

A strong and confident Europe is in American interests as much as it is in European countries' own interests. Apart from bringing mutual economic benefits, the West as a whole will gain from Europe playing a more effective political role in world affairs. The more the E.C. speaks with one voice, the greater will be its world influence.

The E.C. must show the political will to take political cooperation beyond declarations of common positions to effective joint action. Such action should be concentrated where our leverage is the greatest and our interests most closely involved, for example the Middle East and Africa.

There is scope for the E.C. to extend its influence over the management of the world economic and trading system. The E.C. should, in conjunction with our trading partners, promote further liberalization of international trade. We should work to extend the open trading system through a well-prepared new GATT round. This would bring developing countries more effectively into the world trading system and help persuade the more advanced among them to take greater responsibility for its good management.

I must mention an important matter which deserves all our attention. This is the management of disputes arising from American claims to enforce its legal authority in the territory of other countries, as happened for example when the United States attempted three years ago to prevent European firms from supplying equipment for the Siberian pipeline. Both sides have made strenuous efforts to improve mutual understanding and find practical ways of dealing with these issues. I was in Washington just over a year ago for talks with Deputy Secretary of State Kenneth Dam on this subject. Since

then we have achieved some success.

In July 1984, agreement was reached enabling the United States to obtain documentary evidence in the Cayman Islands relating to offenses connected with the traffic in drugs. And in November, we put in place arrangements for consultations in any future cases like the Siberian pipeline dispute. But in addition to establishing practical mechanisms, the talks have generated much greater consciousness in the U.S. Administration of the political dimension and the importance of seeking practical accommodation. All of us in Europe hope that other extraterritorial problems can be managed in a similar spirit of political awareness, mutual trust and cooperation.

## Defense and Security

The United States' strategic commitment to Europe remains an irreplaceable guarantee of Western security. To preserve American willingness to continue this vital commitment, it is essential for European Governments to demonstrate their determination to strengthen the European pillar of the alliance and to improve European defense cooperation. The decision of European Foreign and Defense Ministers in October 1984 to revitalize the Western European Union as a means of giving political impetus to greater European defense cooperation was an important step in this direction.

Europe's contribution to Western security is, in any case, already greater than I think is generally understood in the United States. The figures speak for themselves. Between 1971 and 1983, European defense expenditure increased by 25 percent in real terms. In the same period, U.S. expenditure registered zero growth. Since 1969, the European share of defense spending in NATO has increased by some 40 percent. Of the available forces in Europe, Europe contributes 80 percent of the combat aircraft, 90 percent of the manpower (3 million men) and 95 percent of the armored divisions and artillery.

Furthermore, European Governments make significant contributions to the maintenance of peace and stability in the wider world:

- through their participation in international peace-keeping forces like UNFICYP in Cyprus, the Multi-National Force in Lebanon, the Sinai observer force and the recent mine-clearing operation in the Red Sea;
- through military assistance and training programs, for example in the United Kingdom's case in some 30 countries



worldwide, including Belize and several Caribbean Commonwealth states.

### Creating a Genuine Common Market

Abolition of barriers to free trade is the central aim of the Treaty of Rome, which established the E.C. Yet it has never been fully achieved, especially in regard to trade in services. The potential benefits are enormous, for example:

- harmonizing national standards and removing other hidden barriers would allow our industries to benefit from the economies of scale available in a home market of 270 million (the world's largest single industrialized market);
- simplifying border formalities and reducing consequent delays could cut £600 million a year off Europe's haulage bills; and
- European industry could save an estimated 5 percent of its insurance bills (or £600 million each year) if national restrictions were removed.

The British Government believes that removing these and many other obstacles to free trade would have dramatic effects. Competitiveness would be improved, investment encouraged and jobs created. This is why we attach such importance to creating a properly integrated common market in Europe.

### Industrial Competitiveness

In Europe, the development of new technology industries has lagged behind that in the United States and Japan. This is not because we lack research skills in pure science. Our weakness has been the lack of cooperation on a European scale. Working singly, our industries have been unable to match American and Japanese rivals in turning scientific innovation into profit-making new factories. This is why we believe that there is an urgent need to look at whether more can be achieved by action on a E.C. basis than on a national scale.

Better cooperation in research and development can help avoid wasteful duplication. The European Airbus, the ESPRIT program on information technology, the JET nuclear fusion program and the European Space Agency have shown what governments can do to encourage industrial activity. There may be scope for E.C. programs in telecommunications and biotechnology. Our approach must focus on removing impediments to risk-sharing and investment and facilitating collaboration at the industrial level.

A sustained effort is needed to simplify and speed up customs and other border formalities. We should draw on experience in the United States in deregulating



The 10 E.C. Heads of Government, at the European Council summit in Dublin last month (above), approved a plan to regulate E.C. wine production, a key issue in negotiations on enlarging the E.C. to include Spain and Portugal.

air services and increasing competition. Conditions in Europe are different, but our aim should be to enable our citizens to travel as freely and cheaply as Americans can.

### The Common Agricultural Policy

This is an area of E.C. policy which rightly concerns our trading partners. The Common Agricultural Policy (CAP) has achieved remarkable increases in agricultural productivity. But it has also produced distortions in the form of massive surpluses, notably of dairy products and cereals. Storage and disposal are costly. They complicate trading relations with our OECD partners. Important first steps have been taken to control surpluses. The British Government's approach emphasizes the need for rigorous price restraint to bring E.C. prices more into line with world levels, to achieve a better balance between production and demand in the E.C. and to release resources for other purposes. This will necessitate an effort sustained over several years.

I should like to correct one common misapprehension about the CAP which exists in the United States. It is simply not

the case that subsidies to European farmers are giving them unfair advantages over U.S. agricultural exporters. Price subsidies in the E.C. are proportionately of no greater scale than those in the United States. In 1983, the E.C. spent some \$16 billion on the CAP, less than 1 percent of Community GNP, while U.S. agriculture was subsidized to the tune of some \$19 billion, plus another \$9.4 billion for the payment-in-kind program. The support that is necessary for Europe's farmers need not damage U.S. interests. It should not be made the scapegoat for all the difficulties of American farmers; some of their difficulties have causes nearer home.

There is much that can and must be done to strengthen Europe for the benefit of the West as a whole. The Fontainebleau agreements offer an opportunity to make significant advances in the directions I have outlined. Britain is playing her full part. ☺

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# UNITED KINGDOM

MINERS' STRIKE HAS DOMINATED POLITICAL LIFE SINCE LAST SPRING.



The Houses of Parliament.

© Dick Durranne/Woodfin Camp.

Everything has been dominated by the miners' dispute. The strike, which began in March and at the end of the year showed no sign of finishing, has overshadowed all other political issues, including the continuing growth of unemployment. It is as if everything else is in abeyance until the struggle of the Titans is resolved.

The significance of the strike reaches far beyond the future of the coal industry. Ostensibly it is about the modernization and rationalization of a loss-making nationalized industry in which the costs of production range from £28 per ton to £89 per ton. Rationalization, involving substantial labor-shedding, has taken place in the steel and shipbuilding industries, both publicly owned, and across most of the private manufacturing center.

The appointment of the Scottish-born, but American-domiciled, Ian McGregor as chairman of the National Coal Board signaled the Government's intention, after Prime Minister Margaret Thatcher's triumphant reelection in June 1983, to do something about the coal industry, even at the risk of confrontation with the miners.

The miners have a very special resonance in British politics. They are the heroes of labor history, for the trade union movement what the Brigade of Guards is to the army, celebrated still in the folk memory for their refusal to give in after the fiasco of the 1926 general strike. More recently they are credited with the downfall of a Government. That was when Edward Heath went to the country in February 1974 asking "Who rules Britain?" He lost.

The emerging hero of those struggles, the young Bonaparte, was the Yorkshire

militant, Arthur Scargill. In the earlier strike of 1972, he won a famous battle at the Saltley coke depot in Birmingham using the new technique of mobile mass picketing which he had developed in local Yorkshire disputes.

This history is necessary for understanding the significance of the dispute in the eyes of the Thatcher Government. In 1972, and, even more dramatically in 1974, an elected Government was bested by the superior force of a trade union. In 1981, considering a pit-closing program, Thatcher herself had looked the miners in the eye and beaten a hasty tactical retreat. When the battle was eventually to be fought, it was imperative to win and reassert the authority of the state against extra-parliamentary challenge.

This is not to suggest that the Government provoked or deliberately engineered the current show-down, although it has been accused of doing so. The program the Coal Board announced in March involved the closing of some 20 pits and the loss of 20,000 jobs. That meant a production cut of no more than 4 percent and unprecedented, generous voluntary-redundancy terms were offered, together with job guarantees for all miners who chose to remain in the industry.

Whatever the Government's intentions or calculations may have been, Scargill took this to be a declaration of war. He adopted a position, from which he has not since budged, that there was no such thing as an uneconomic pit and therefore no pit could be closed on grounds other than of geological exhaustion. Thus the dispute was about more than the scale and pace of rationalization, it was about the Coal Board's right to manage and, by proxy, about the Government's right to govern.

The strike soon became an issue also of law and order. From the outset, the National Union of Mineworkers was divided. By complicated maneuvers, Scargill had contrived to call a national strike without a national ballot which he probably would have lost as he had on two previous occasions. Some coalfields decided to ballot their members nonetheless and, in all but one, there was no majority for the strike.

In several of them, some or most of the pits continued to work, the chief of which was the important Nottinghamshire coalfield. Scargill's tactics therefore were to use his "flying pickets" to attempt to close the working pits. The result was confrontational violence.

One of the lasting consequences of the strike may be the un-British images, made familiar by nightly television, of the

police equipped with Continental-style riot gear, sometimes suffering a hail of rocks and metal bolts, sometimes advancing with visors down and banging their shields like macabre medieval warriors. In many of these incidents, the battles have been fought over the right of a mere handful of working miners to enter the colliery gates through a mob howling insults at them.

These images of violence have served to sharpen other divisions within the nation. The public has ranged itself firmly on the side of the police against the pickets and the opinion polls have recorded diminishing sympathy with the miners as Scargill has refused to disown or condemn the violence on the picket lines which he attributes entirely to what he denounces as a "police state."

Nevertheless, the bitterness of the strike and the hardships suffered by the families of many miners have increased unease about the patent divide between north and south and about the persistence of unemployment at more than 3 million people, a total still growing. Among those who have spoken out in conscience have been the Archbishop of Canterbury and other churchmen of all denominations.

But while the strike has symbolized in some degree the social issue—what is to happen to these mining communities in a sea of mass unemployment?—it has at the same time served to mask unemployment as a political issue. With what is virtually a war going on, this time on the home front, the ranks of the Conservative Party have closed more than might otherwise have been the case and the Government's high standing in the opinion polls, in spite of the unemployment issue, suggests that the "Scargill factor" is doing for Thatcher what the famous "Falklands factor" did for her in 1982.



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Prime Minister Margaret Thatcher: personalized style.



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The SDP's political ally: David Steel and his Liberal Party.



**In a country moving right, Neil Kinnock's Labor Party faces political dilemma.**

The Government's lead in the opinion polls, 18 months into its second term, is the product also of the damage inflicted by the strike on the Labor opposition. *All* strikes are bad news for the Labor Party in Britain because trade unions and strikes are unpopular, not least among trade union members, and because the Labor Party, through its institutional and historical links with the trades union movement, is vicariously held to account.

But this strike has a more profound significance for the Labor Party as it struggles to recover from its electoral debacle in June 1983. It has reopened and exacerbated the ideological divide between the "hard" left and those who recognize the party's need to broaden its electoral appeal, it has cast a cloud of ambiguity around the party's attitude to lawlessness and violence, and it has abruptly ended the honeymoon of the new young leader, Neil Kinnock, who has writhed helplessly in the grip of a no-win situation. If he leans one way he splits his party, if he leans the other way, he offends the voters.

This predicament reflects Labor's fundamental dilemma. Kinnock leads a party which has moved sharply to the left at a time when the country has moved to the right. Not only that, its traditional working-class base is suffering the erosions of material advance, occupational change and social mobility. Not even with 3 million unemployed can Labor look like winning a general election in the foreseeable future.

Matters are made worse by the existence of a third force in the field. The Social Democratic Party-Liberal alliance has failed to advance since last year's general election in spite of the virtuoso parliamentary performance of the SDP

leader, David Owen, but it nevertheless holds the allegiance of some 20 percent of the electorate. This split on the left of British politics makes a continuation of Conservative Government probable for as long as it lasts, that is unless the alliance can overcome the formidable disadvantages that all third parties suffer under the British electoral system.

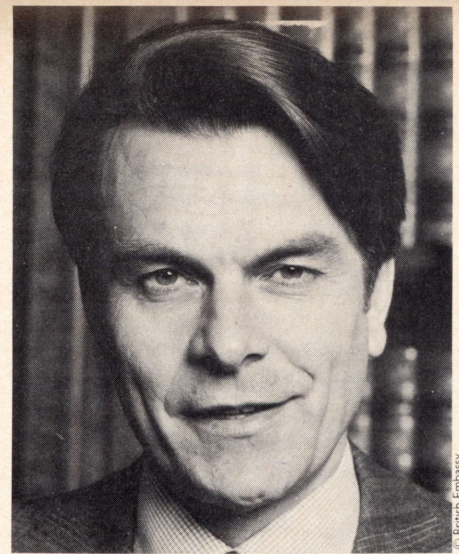
This deadlock on the left of British politics which results in a dispirited and ineffectual opposition in the House of Commons, has consequences for the Government too. Its huge and overweening parliamentary majority has bred a certain arrogant complacency among ministers. It leaves a large number of under-employed backbenchers to fret about the Government's lack of strategic direction or tactical aplomb and to complain about failures in communication. This disgruntlement has exploded into a series of backbench revolts which have had no coherent theme, but which, in aggregate, reflect upon the highly-personalized, dogmatic and somewhat dictatorial style of the Prime Minister herself.

## The resolution of the miners' strike may force political changes that are still bubbling under the surface.

Underneath it all is a persisting, indeed a growing, doubt about the Government's economic policy. The Chancellor of the Exchequer, Nigel Lawson, has struck resolutely and unapologetically to his strategy of firm monetary control, no growth in public expenditure, and direct tax reductions as the elixir of the economic growth which will eventually, he insists, bring down the level of unemployment.

But, as cut is piled upon cut, in order to remain within the borrowing and spending targets, and as the jobless total continues to rise, impatience and doubt are growing and a cross-party consensus is beginning to form in favor of a program of capital investment in public works as a swifter and surer way of reducing unemployment than the tax cuts favored by the Chancellor and Prime Minister.

Amid these preoccupations, little time is found for foreign affairs although, with the tiresome wrangle over the British contribution to the E.C. budget now at



**David Owen, "virtuoso" leader of Britain's Social Democratic Party.**

last resolved, the intention of the Government is that Britain should now play a more constructive role in E.C. affairs. The activities of the peace movement have subsided somewhat with the first batch of cruise missiles now deployed in Berkshire. Public opinion on this question is likely to await the resumed dialogue between the superpowers, but if nothing should come of that, anti-nuclear sentiment may quickly revive.

Northern Ireland is as intractable as ever. The combined effect of the IRA bomb in Brighton which blew up the Grand Hotel during the Conservative Party conference, nearly killing the Prime Minister and members of her Cabinet, and of the Prime Minister's preoccupation with Arthur Scargill contributed to the failure of the recent Anglo-Irish "summit" at Chequers.

All of these other matters may open up when the miners' strike is ended. So will the basic underlying debate about unemployment and the economy. The outcome of the strike is hardly in doubt in the sense that the Government has fuel stocks enough to see the winter through without serious power cuts. The police have the upper hand over the pickets.

Its broader and longer-term political and social consequences are less easily predicted. It will leave scars certainly, especially in the mining communities themselves, but it will perhaps come to be seen as the ending rather than the beginning of something. In the way that war has been said to be the midwife of social change, it may be that this last violent spasm of class war will serve as midwife to the political changes which are struggling to be born in Britain. €

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# ECONOMIC UPTURN CONTINUES IN 1985

## YET UNEMPLOYMENT KEEPS RISING DESPITE TURNAROUND.

SARAH HOGG

As Prime Minister Margaret Thatcher's ministers like to remind us, the United Kingdom has now seen four years of an economic recovery. And inflation, the scourge of the 1970s, is now down to the European average. Prices have been rising by just under 5 percent. For 1985, the Treasury's official forecast of still higher growth and even lower inflation in Britain is at the optimistic end of the range of private and public forecasts. But there is precious little disagreement among private forecasters with the official view that growth will continue in 1985, while inflation remains—by British standards—moderate.

There is plenty of disagreement, inevitably, as to whether this represents triumph or failure, because unemployment has continued to rise, almost without a single month's break. Has Thatcher's economic strategy dragged the British clear of their old, stop-go ways? Or will 1985 see only the trivial extension of a recovery so long-drawn-out and feeble as to be hardly worth the name?

According to Britain's Finance Ministry the present recovery is "anything but weak." If the Treasury's forecast for 1985 proved correct, he claimed recently, gross domestic product will have risen 12 percent, in real terms, in the four years of recovery since 1981. Britain's postwar "best" was a score of 15-percent growth during 1962-66.

By today's low European standards, too, this looks more than respectable; in the four years between 1981 and 1985, the output of the 10 present E.C. members is likely to have risen only about 6 percent. These comparisons ignore the exceptional severity of the British recession in 1979-80. But there is one advantage in looking at 1981-85 as a whole: It at least avoids the distortions to year-by-year figures caused by the miners' strike.

The Treasury's latest forecast suggests 3.5 percent real growth in 1985. But at least 1 percentage point of this "growth" merely reflects the assumption that Britain's coal mines return to full production in 1985. This same coal strike is reckoned to have depressed Britain's growth rate in 1984 from 3.5 percent to 2.5 percent. Thus the underlying growth rate is not speeding up, as the unadjusted figures would suggest, but instead slowing down.

History would lead one to expect a downturn in the cycle in its fifth year, but

this cycle is abnormal. Britain's progress along the boom-slump switchback in the past has been much affected by change in inventories, or stocks. Destocking played a particularly dramatic part in Britain's headlong dive into recession in 1979-80. But during the subsequent recovery, inventories were rebuilt very cautiously.

This means, in turn, that the economy is no less likely to be precipitated into a further recession by sharp destocking in response to a mild slowdown in demand. Indeed, the Treasury is actually forecasting a build-up of inventories in 1985, after some destocking in 1984.

This, again, mainly reflects the assumption that Britain's coal mines are working at full strength; but it certainly distinguishes 1985 from the normal tail-end of a British recovery. There is another significant difference: Wage settlements are not accelerating.

This is not to say that pay increases have been modest in Britain. Indeed, it is a constant complaint of the Thatcher Government that they have been rising far too fast—a cumulative 9 percent above the rate of inflation during the three years 1982-84. But on past cyclical history,



Despite a raging miners' strike and rising unemployment, Government forecasts for economic recovery are optimistic.

wage settlements could have been expected to rise, as recovery finally reached the point of increasing employment. Instead, pay inflation may actually be slowing down.

There are three reasons for nurturing this hope. First, "real wages" have risen rapidly in Britain at least partly because inflation fell unexpectedly fast—far faster than most forecasters predicted, even including the Government's. Wage negotiators, on both sides of industry, therefore overestimated the pay increases needed to protect workers' standard of living. But now that inflation appears to have stabilized, there will be less reason for error.

Secondly, most businesses have responded as far as they can to the recovery in demand by increasing overtime rather than taking on new workers. Thus earnings have risen much faster than wages (by about 7.5 percent in 1984 for the economy as a whole, and about 9 percent in manufacturing). Eventually, businesses must run out of scope for extracting more hours of work from the same employees.

The Government has been hoping for this second-stage effect since 1982; but employment did not begin to rise until late 1983. And even then, the statistics tend to exaggerate the improvement. By the middle of 1984, Britain's employed labor force was estimated to have been 300,000 higher than at the employment trough in March 1983; but the gains were largely in self-employment (where the Government is relying on "guesstimates" rather than hard evidence) and part-time employment in the services sector.

Partly because of Britain's rules for social-security payments, which discourage those on benefits from taking part-time jobs, most of these were filled by married women who had not featured in the unemployment statistics. Thus this modest rise in employment coincided with a further rise in unemployment. The number of adults on the dole amounted to 12.9 percent of the workforce by the end of 1984.

Several of these features of Britain in the mid-1980s—rising output and real wages, moderate inflation, slow growth of employment and high and rising unemployment—are connected with a remarkable surge in productivity. Since 1980, labor productivity in British manufacturing has increased over 20 percent. In part, this was a kind of "negative" productivity, the statistical result of closing down a number of factories where output per head was low. But the continuation of this trend does suggest the British economy has moved on to a faster potential growth track.

This may be a measure of government success; but also, paradoxically, of government failure. For Britain's recovery does not look so strong when measured against this faster potential. This paradox is neatly illustrated by the Government's own forecasts. On the whole, the Treasury has proved remarkably good at predicting the path of output; but—as Government ministers have been forced to admit—persistently overoptimistic about unemployment, having underestimated the speed at which productivity would increase.

Of course, faster productivity is a

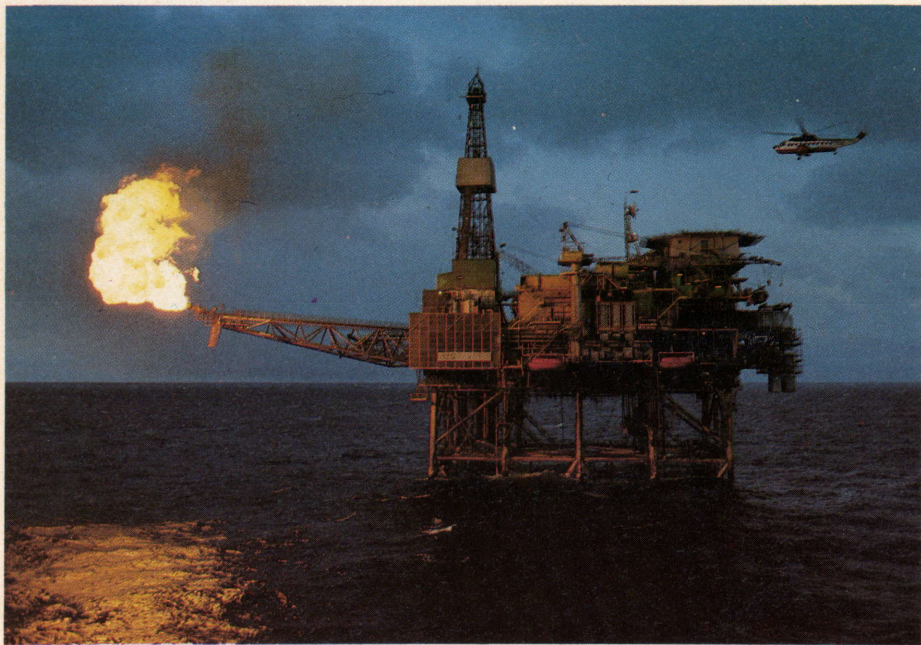
blessing, not a curse; the key to growth, not the cause of the dole lines. But it suggests that growth needs to exceed 3.5 percent in 1985 if employment is to rise, still more if unemployment is to fall. For one percentage point of that growth is assumed to be provided by back-to-work miners, who have not featured in the dole lines and the remaining 2.5 percentage points are less than the trend rate of growth of productivity.

It may be that this trend will slow a little, as employers reach the limits of overtime. But the Government has been caught out in such wishful thinking before. Now, therefore, its energies are directed to trying to alter the capital-labor mix in Britain's output growth by exhorting wage restraint and (less obviously) shaping policy to encourage a faster rate of growth of effective demand.

Government ministers have been busy making the argument that rapid real-wage growth in Britain has been destructive of employment. Productivity gains have spelled big pay increases for some, but (because of the rigidities in the British labor market) have priced others out of a job. Slower wage growth would, argue ministers, encourage employment; the depressive effect on real incomes and consumer demand could be counteracted by tax cuts and lower interest rates.

A gentle decline in monetary targets was intended to allow for sustained falls in interest rates (which the Treasury increasingly believes have a powerful impact on output). The Government has taken some risks with the exchange rate to try and bring interest rates down. And a lower public-borrowing target was intended to allow the benefits of growth to flow out in tax cuts, both to stimulate further growth and to redeem Thatcher's election promises.

The "enterprise culture" that (with eyes on the United States) the second-term Thatcher Government wants to create in Britain is being nurtured with other weapons than fiscal policy—employment law, competition policy, the sale of state enterprises and the encouragement of wider share ownership. But tax policy is intended to play its part, particularly in the encouragement of employment. Nigel Lawson made his mark as a tax-reformer in his first budget; much is riding on his second, this coming spring. €



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North Sea oil production has been an important factor in refueling Britain's lagging economy. The Treasury sees 3.5 percent real growth in 1985.

Sarah Hogg is economics editor of *The Times* of London.

# DOCKLANDS AREA OF LONDON SEES REDEVELOPMENT

## SUCCESSFUL REAL ESTATE PROJECT IS ATTRACTING HIGH-TECH FIRMS.

DAVID S. HARVEY

London's docklands are staging a comeback. Once the great heart of Britain's imperial commerce, in recent years they were rendered drab and desolate by inflexible labor practices and the onrush of the container revolution at other ports in Britain.

This time, commercial real estate, not ships, is supplying the impetus for development. Throughout an eight-square-mile area of the once bustling Port of London a major redevelopment program is now underway. Its aim is to draw in a mix of residents and new businesses, many of them "high-tech" in nature, which need advanced facilities and quick access—a 20-minute "tube" ride—to the City of London.

The redevelopment program, which got underway in mid-1981, is proving a success. The London Docklands Development Corporation (LDDC), the "overlord" of the scheme, reckons that for every pound invested by it, commercial sources are now putting in up to nine times as much capital in some places. For that, London is getting a whole new commercial area, bringing jobs and a much needed vitality back to the capital.

Few visitors could fail to be impressed by the scale of activity going on, by the sense of achievement already in the air. Visitors are taken first to the hub of development, the Isle of Dogs, to one of the Thatcher Government's vaunted enterprise zones. Here, the name of the game is "waterscaping," as new businesses jockey for position as close as they can afford to the more attractive features which the docks and Thames River offer. Across the river, for instance, is one of the best views in London, the Royal Greenwich Observatory. Next to it is the *Cutty Sark* clipper sailing ship.

One of Britain's largest television and entertainment companies, Limehouse Studios, has been in business in the dock-

lands for a year or more. Its employees eat and entertain on a converted sloop. LDDC reports that over 80 firms are now established within the Isle of Dogs enterprise zone. New and attractive housing units, many of which would fit right in to American home-design schemes and which carry reasonable (though accelerating) price tags, fringe the southern area.

The LDDC was aware from the start that if the region was to be successfully "sold," it would have to have improved links to the major centers of London which lie to the west. Also seen as important were improved communications with the rest of the United Kingdom and Europe.

One plan, which recently received preliminary approval at both the local and national level, is for a short takeoff and landing (STOL) airport in the Royal Docks section at the eastern end of the development. Approval so far has been given for

only one specific type of aircraft, the Canadian DHC "Dash-7."

A new Light Rapid Transit railway—looking like a shrunken version of London's famous subway trains—will start running in 1986 and eventually will form a web connecting most of the area. It will link up with the existing London subway. Special buses also have been started, and there is talk of a fast "river bus" which would stop at various points on either bank. Improvements are also planned for the road system. One plan now under study calls for a link with London's new M-25 beltway system.

Docklands, as the development scheme is now widely known, aims to do two things. It offers new arrivals a unique chance at spare land on the eastern fringes of London's financial center, up until now a rare opportunity indeed. The plan also seeks to establish London as Europe's "port" of entry for the coming boom in information technology.

Since development began three years ago, about 5 million square feet of vacant space have now been spoken for in one form or another. When the LDDC took over, there were some 15 million feet available. It elected to follow a pump-priming principle, putting in money to get the process going. This involves land purchase, reclamation, infrastructure services and so on. As soon as a property is ready, it is sold or leased to buyers.

The financial aspects are going well. According to Christopher Benson, the LDDC's chairman, the corporation has committed some \$170 million of public



Limehouse Studios, a British television and entertainment company, is one of over 80 companies that have moved into the Docklands.



“High-tech” industry, not shipping, is the driving force of the new docklands.

money to the scheme. For this it is receiving some attractive financial returns. On the Isle of Dogs enterprise zone, for instance, \$20 million of public investment has already yielded about \$178 million in private investment.

Investors are being offered special concessions as part of the enterprise-zone scheme. Property taxes will not be applied until 1992. Capital allowances are set at 100 percent for tax purposes. There are no development land taxes, and there are special customs and planning procedures designed to reduce bureaucratic red tape. Rental rates are much lower than in central London. In the enterprise zone, they range from as little as \$4.40 per square foot to around \$12.70.

There is one snag, however. Investors are required to sign leases for 20 years. Many are questioning this, and are finding ways around it. Says Martin Ebbs, a development consultant attached to LDDC: “This stipulation will change with market forces as time goes on.” Nevertheless, the rates compare favorably with commercial rental prices in downtown London approaching an average of \$50 per square foot.

This is only half the story. From the start, Docklands has been planned to be attractive to a particular type of investor, the “high tech” user of computerized data. The developers have looked at aspects of the information revolution which is expected to lie ahead and have planned accordingly.

“What we want to do is to make Lon-

don the most attractive data terminal for Europe. There’s no reason why anyone with data links to the rest of the world and the need for a base in Europe shouldn’t see the Docklands as the ideal solution,” says Ebbs. He produces figures to show that London already has the largest concentration of telecommunica-

tions users outside the United States.

About 40 percent of the telephone traffic between Europe and the United States originates or terminates in the United Kingdom, but some 60 percent of all leased circuits in Europe as a whole are located there. According to British Telecom International (BTI)—Britain’s about-to-be privatized post office telephone company—it is the preferred hub for multinational businesses.

Docklands residents will have access to two of their own satellite earth stations, allowing data to be carried on satellite links to both the United States and Europe. One of these is run by BTI, but the other is being provided by Mercury, a competing business being set up as part of the United Kingdom’s telecommunications deregulation.

Is the Docklands development attracting the kinds of businesses envisaged? Ron Dane of the LDDC points to the numbers of firms which have already set up shop as an example of how the idea steadily is taking hold. He also has the job of updating the LDDC video film. It’s a full-time job, apparently, so fast are things changing in an area that, until recently, was known mainly for its Chinese restaurants and riotous soccer fans. €

David S. Harvey is editor of the *International High Technology Report* newsletter in Washington, D.C.

## BRITAIN LEADS EUROPE IN ELECTRONICS INDUSTRY

### GOVERNMENT POLICY HAS ENCOURAGED FOREIGN INVESTMENT.

ROGER WOOLNOUGH

In a modern laboratory building at Martlesham, in eastern England, British Telecom’s (BT) research engineers are working on a development that could revolutionize communications. Building on the established technologies of fiber optics, in which messages are transmitted by sending pulses of laser light down hair-thin strands of glass, the BT researchers are preparing for the next giant step.

They are studying a technique called coherent transmission. Instead of sending laser pulses, as at present, the light output is constrained to a very narrow band of frequencies. By using very precise lasers and highly sensitive receivers, much greater capacity and much longer path lengths can be achieved. And that is not

all. Current techniques are able to make use of only a small part of the optical bandwidth available in single mode fibers. Coherent transmission could unlock this bandwidth, and release new frequencies.

This is only a single example of the leading edge research being carried out at the British Telecom Research Laboratories, and the company is just one of Britain’s high-technology enterprises. During the past few years, there has been an upsurge of activity in telecommunications, computing, semiconductors, and the entire sphere of information technology. “More is happening in the electronics industry in Britain than anywhere else in Europe—both in production and applications,” claimed Kenneth Baker, until recently Minister for Information Technology.

The production of microchips more



than trebled in the United Kingdom between 1978 and 1983, and, according to Texas Instruments, Britain is now the largest and fastest growing semiconductor market in Europe. Britain, of course, is not a newcomer to high technology. Throughout the industrial revolution and during the first few decades of this century, the United Kingdom was often the originator or test bed for new developments. But in the years following World War II, the leadership in the innovation and exploitation of high technology seemed to pass to the United States and Japan.

Today, the situation in Britain is transformed. Partly as a result of government policies, and partly because high technology has become an attractive investment for the financial community, the natural inventiveness of the nation has started to flourish again. In the past, it was often said that Britain was never short of ideas, but fell down woefully when it came to turning them into commercial products. That criticism too is a thing of the past. Bright ideas are now being picked up eagerly from the university laboratories, and are forming the basis of highly successful new companies.

The computer laboratory at the University of Cambridge, for example, has been a source of new developments that have helped to create Britain's microcomputer industry. One result was the formation of the Acorn Computer Group, which makes the BBC microcomputer chosen to accompany a series of instructional programs on television. So far, 350,000 of this type of unit have been sold, and turnover in the last financial year was more than £93 million. Yet Acorn was formed only in 1978.

Just as successful in the low-cost home-computer field has been the Boston company Sinclair Research, founded in July 1979 by Sir Clive Sinclair to conceive, develop and market new consumer electronics products. In the computer market, Sinclair's total sales now exceed three million units, and monthly production exceeds 150,000 units.

Government policy also has encouraged foreign investment in electronics, and many leading companies have based their European operations in the United Kingdom. In many cases they have taken advantage of regional development grants to locate in areas where older industries have declined. Scotland has been particularly successful in attracting major companies, first from the United States, and more recently from Japan. Today, the Scottish Development Agency (SDA) can claim not only that Scotland is the leading producer of personal comput-

ers, but that it makes more semiconductors per head of population than any other country.

According to the SDA, Scotland's so called Silicon Glen—roughly the area between Edinburgh and Glasgow—has the highest concentration of volume semiconductor wafer fabrication in Europe. There are six semiconductor companies in the area—Motorola, National Semiconductor, NEC, General Instrument, Hughes Microelectronics and Burr-Brown—and they are said to produce 79 percent of the British output and 21 percent of that of the whole of Europe.

Scotland obviously suits many of the companies established there, because they keep investing in further expansion. The American company, Digital Equip-

## Attractive investment prospects and government policies once again have made the U.K. a "test bed" for new developments.

ment Corporation, started final assembly and computer testing in Scotland in 1976, and is now to spend a further £15 million in the high-volume manufacture of small computers and the testing of semiconductors. NEC Corporation of Japan decided to put an additional £75 million into its Scottish semiconductor operation, less than two years after it first went into production in the new town of Livingston. National Semiconductor, which has already invested £75 million in Scotland, has now announced plans for a £100-million project to boost production and create 1,000 more jobs.

Honeywell, another U.S. company, recently celebrated its 21st anniversary of computer manufacturing in Scotland by announcing that production at its Newhouse plant is to be increased by 30 percent in value terms.

One of the most recent United States companies to move into Scotland is Apollo Computer, which is a fast-growing manufacturer of professional work stations for engineering and scientific applications. The company chose Livingston as its European base because there is a skilled electronics labor force available, an infrastructure of support, and access to good road, sea and air communications.

Wales started a little later than Scot-

land in setting out to attract inward investment, but has a creditable record. Among Japanese companies, both Sony and Matsushita have television factories in south Wales. Inmos International, the British manufacturer of advanced memories and other semiconductor devices, established its volume production facilities in Newport. So successful has this been that it recently announced plans to expand there, transferring its final assembly operations from the Far East.

Meanwhile, a long established Welsh company, the AB Electronic Products Group, has expanded and diversified. The company's sales are currently running in excess of £100 million a year. Originally a manufacturer of passive components, AB Electronic is now also active in thick-film microcircuit production and in subcontract assembly for the computer industry. Its customers include IBM, Acorn Computer and Sinclair Research.

In Northern Ireland, STC Telecommunications is a major employer. Its parent company, Standard Telephones & Cables, has shown its commitment to the community by taking a stake in the Ulster Cablevision Consortium, which has been provisionally granted an operating franchise for new cable television services.

Successful though Britain has been in attracting inward investment in electronics, there could be a danger of it gaining a reputation as Europe's offshore assembly island. In fact, efforts now being made to develop technologies for the future will allow Britain to continue making original contributions to semiconductors, computing and communications.

Under the Alvey Program, government and industry are spending £350 million on developing advanced information technology over the next five years. Alvey is concentrating on the key "enabling technologies" of very large-scale integration, software engineering, man-machine interfaces and intelligent knowledge-based systems.

Although it calls for cooperation between companies that are normally rivals, the indications are that the Alvey Program is working, no doubt because everyone involved realizes how important it is for the country's future. "No one can guarantee success," said Patrick Jenkin, Secretary of State of Industry when Alvey was launched in 1983, "but the government is convinced that this program will ensure for British industry secure access to the new technology and to the products and processes on which our future prosperity depends." ❧

Roger Woolnough is a free-lance writer specializing in electronics who contributes to major publications, including *The Times* of London.

# THE ENGLISH TRAVELER IN THE 1500s AND 1600s

EXHIBIT IN WASHINGTON, D.C.  
CHRONICLES EARLY GLOBETROTTERS

LAETITIA YEANDLE, ROSALIND KELLY, LARRY and MARGARET LASCH

In a world where rapid transport has drastically reduced the apparent size of the globe and where tourism has taken much of the mystery out of travel, it is exciting to contemplate an era in which globetrotting was still a pioneering endeavor. The first-hand accounts of the journeys of 16th- and 17th-century English men and women on view in Washington, D.C. at the Folger Shakespeare Library's current exhibition offer some valuable insights into experiences as travelers that differ significantly from those of our own day.

Perhaps equally arresting is the reminder of mankind's perennial urge to explore the unknown, whether it is the world about him or the firmament above

him. The aspiration of Icarus and the mettle of Ulysses, which have culminated in today's Skylabs and space shuttles, were as evident in the 16th and 17th centuries as now. That daring and inventive strain runs strong, not only through the navigational feats of Sir Francis Drake, but also through the imagination of Francis Godwin who pictured man borne skyward by swans.

The English travelers represented in the Folger exhibition escort viewers on many an intriguing and unpredictable journey through the unfamiliar landscapes of a bygone era. The monarch and nobleman, the ambassador and merchant, the explorer and pilgrim, the sailor and soldier, the teacher and student, the player and entertainer, the beggar and vagabond, the sick person seeking a cure, all traveled. Some stayed close to home; others ventured to the ends of the earth.

Many, "having a desire to seek into all arts and sciences," have left vivid descriptions of their experiences and of the "humour and temper" of the people they met. The work of many artists who have left us their visual impressions is included in the exhibition.

Not all praised the benefits of travel; some were more wary than others, arguing that most people could learn more by traveling through the world of books at their own firesides. As one writer observed in 1664, "We are very happy nowadays, since Printing is so much improved, that the meanest person need bestow no more pains than a few hours reading to take that view of the world which hath cost others many years traveling." The stout-hearted, however, carried the day. A significant number of travelers emphasized the benefits of personal experience, agreeing with Francis Bacon's eloquent exhortation to the young traveler to "sucke the Experience of many" and to "prick in some Flowers, of that he hath Learned abroad, into the Costumes of his own Country."

Travel during the Tudor and Stuart periods was fraught with hazard. On the road, the English traveler faced innumerable obstacles and inconveniences. Signposts and milestones did not exist in England until the 18th century. Roads were poor, coaches bumpy, robbers common, inns uncomfortable and weather often bad. As the "Act" of 1555 and "A Guide to the Surveyors of the Highways" indicate, attempts were made to improve the conditions of the roads, but most met with only limited success.

People traveled around the British Isles for many reasons, but pleasure was seldom one of them. They visited fairs to lay in supplies of food and household goods or to sell their wares; they went to spas for their health; they attended courts of law in various capacities; they staged plays in different towns; they pursued their antiquarian interests by investigating the curious or picturesque remains of a bygone era.

Useful information on tides, the length of the days throughout the year, the properties and effects of the planets, the regional years, the names of the Oxford and Cambridge colleges, the law days, the dates of fairs, the distances between towns and other facts were gathered together and published in handy editions.

Travel on the high seas posed its own particular perils. Seafarers often set out on arduous oceanic voyages with just a few months' provisions, usually consisting of salted fish, salted meat, peas, bis-



Courtesy of the Folger Shakespeare Library

cuits, cheese and ale. When the provisions were gone, the crew had to rely on fishing and on friendly and not-so-friendly coastal countries for fresh supplies. If a seafarer did not starve to death, then his life might be taken by diseases such as malaria, bubonic plague, or scurvy. He also had to face the ever-present possibility of being attacked by pirates. It was no wonder the government had to resort to press-gangs in order to man the navy.

The desire for wealth and for overseas trade routes prompted many English adventurers to sail the uncharted seas. The English looked on with envy as Columbus returned to Spain in 1493 with news of unknown lands and untold riches. When the newly expanded known world was divided shortly afterward between Spain and Portugal by Pope Alexander VI, the English King Henry VII decided that it was time for his country to discover its own new lands. Accordingly, in 1496, he issued a patent to the Italian John Cabot to find unclaimed lands for England.

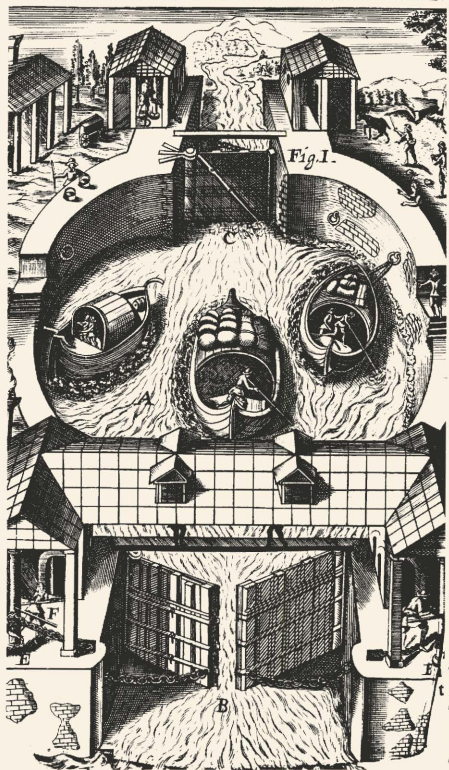
In 1497, Cabot set sail in a single ship to find the northwest passage to China, "Cathay" as it was named by Marco Polo. He never reached China, but found Labrador, Newfoundland, Nova Scotia and Cape Breton Island instead. This voyage of discovery was the forerunner of many more that were to follow in the Tudor and Stuart periods.

During Queen Elizabeth's reign, seamen such as Sir Francis Drake and Sir Walter Raleigh started raiding Spanish and Portuguese ships and territories. They were nicknamed the Seadogs. Part adventurer, part pirate and part privateer, these marauding bands raided the Caribbean and other parts of the world in search of instant wealth. As privateers the Seadogs either financed their ventures or commanded them themselves with the unofficial sanction of the Queen.

During the Tudor and Stuart periods, English merchants, adventurers and emigrants alike braved the hardships of oceanic voyages to travel throughout the world. The immediate and almost inevitable result of English exploration was the establishment of permanent English factories (or trading posts) and settlements throughout the world. These two centuries witnessed the development of powerful joint-stock trading companies which traded English goods on many continents.

The Muscovy Company was established by royal charter in 1555 and was responsible for trade with Russia and Persia. The Levant Company, chartered in 1592, operated in the Mediterranean and helped to establish English power

GATES FOR A LOCK TO KEEP UP THE WATER ANY RIVER FOR THE VSE OF NAVIGATION



there, while the famous East India Company, chartered in 1600, spread English influence to India, China, Japan, the South Seas and parts of the Middle East. Other prominent companies, to name a few, were the Virginia Company, the Hudson Bay Company and the Royal African Company. Hand in hand with this commercial activity, the development of trade routes and the establishment of permanent colonies laid the foundations of the future empire.

The importance of ceremony and "Punctilioes of State" was apparent when Tudor and Stuart monarchs traveled. Examples include the carefully orchestrated reception of Henry VIII's bride, Anne of Cleves, in 1539; the triumphal wedding journey from London to Heidelberg in 1613 of James I's daughter with the Elector Palatine; the studied greeting of Marie de Medici by her son-in-law, Charles I, in 1637; and the tumultuous welcome of Charles I by the people of London in 1641. All these and many other occasions of pomp and circumstance were statements of a sovereign's status and of his subjects' loyalty.

Ambassadors with their retinues presented imposing spectacles as they traveled. While the English government often used merchants settled abroad as agents to look after its interests and those of its citizens, it would assign ambassadors or envoys to the courts of the chief ruling princes on a permanent basis or appoint special ambassadors for a special mission. These representatives were expected to

send home regular reports, whether the news concerned affairs of state or the comings and goings of private individuals. This interest was an expression of the paternalistic spirit with which Tudor and Stuart monarchs regarded their subjects. It was also a form of informal spying.

While figures such as Drake, Cavendish and Hawkins come to mind when English Renaissance travel is mentioned, not all travel was expeditionary or official. During the Elizabethan period, the English gentleman began to travel to Europe, Asia and Africa for education, culture and occasionally enjoyment. Public interest in this kind of travel is underscored by the popularity of the published travelogues of these travelers—most underwent several editions—and by the birth of the guidebook. The enthusiasm of this first generation of English tourists is reflected in Ben Jonson's words about Thomas Coryate: "The mere superscription of a letter from Zurich sets him up like a top: Basil or Heidleberg makes him spinne. And at seeing the word Frankford, or Venice, though but in the title of a Booke, he is readie to breake doublet, crack elbowes, and overflowe the roome with his murmur."

Foreign travel had widespread impact at home, that is, on England and the English. Literary works inspired by an author's own travels or by the tales of other travelers included such masterpieces as "Paradise Lost" by John Milton, "Gulliver's Travels" by Jonathan Swift and "Robinson Crusoe" by Daniel Defoe. New commodities were introduced from abroad, either for the first time or in larger quantities than previously. Coffee, tea, pepper, potatoes and tobacco became staples of everyday life. Silk and cotton and certain furs, especially beaver, were much in demand. And the exotic pineapple, though rarely seen, began to appear as a decorative motif.

In the world of architecture, the influence of the Italian Renaissance was of paramount importance. The Folger exhibit highlights two such structures, both still standing: The Queen's House at Greenwich which owes much to Andrea Palladio, and St. Paul's Cathedral in London, its famous dome the first to grace a church in England. In the world of science, exploration of the earth led inevitably to a desire to determine the exact size of the earth and its distance from the sun and other heavenly bodies. Likewise, in the late 17th century Edmund Halley's expedition to St. Helena produced the pioneering "Catalogus" of the stars of the southern hemisphere. ☪

The authors are curators at the Folger Shakespeare Library in Washington, D.C.

# TUNE IN TO EUROPE VIA SHORT-WAVE

MANY COUNTRIES BROADCAST ENGLISH-LANGUAGE RADIO SHOWS TO NORTH AMERICA.

G. L. DEXTER

Every day in European capitals, announcers sit before microphones and offer, in English, the latest news, features and information to a worldwide audience via short-wave radio. Listeners may be taken to a jazz festival, visit an unusual restaurant or be treated to a course in wine appreciation. There is news the U.S. networks have ignored; there are interviews with leaders in government, science, industry and the arts. There are human interest stories and often national music.

Most of the countries of Europe offer a daily broadcast directed to North America during prime evening listening hours. And most Americans don't know it's happening. For people with an interest in the world around them or an affinity for a particular area such as Europe, short-wave radio offers a means to keep in touch on a regular basis, a way to get a daily fix on what's going on there.

Short-wave begins where ordinary AM radio stops, i.e., above 1,600 kilohertz (1.6 megahertz). The same natural laws which allow short-wave stations to be heard at great distances also make the medium less dependable than AM or FM radio. Some stations can be heard clearly and regularly, others are more difficult to receive well.

Transmitter power, choice of time and frequency also contribute to how well a station can be heard. Some of the major broadcasters overcome this to a degree through the use of relay stations positioned closer to the target area, allowing a clearer, stronger and more consistent signal.

Today's advanced short-wave radios make tuning in many broadcasts about as easy as making a long distance phone call. Some major names in consumer electronics have added short-wave radios to their product line in recent years, among them Sharp, Panasonic, Sony, General Electric,

Uniden and Grundig. Prices range from around \$100 up to thousands of dollars for professional models.

Many of these new sets feature digital frequency readout which allows the user to know exactly where he is when tuning for a particular station. Many of the sets are lightweight and portable—easily taken along on trips. The built-in antenna on the portable models usually provides very satisfactory reception.

Short-wave is an involved subject. The first-time, short-wave listener should realize that it is very different from ordinary radio. Reception isn't always perfect. Stations change frequencies to compensate for changing atmospheric conditions. Most large stations do offer free program schedules to help their listeners stay in tune with their moves. Mailing addresses for schedules are usually announced on the air.

Here is a summary of broadcasts from Western Europe which are beamed to North America in English. Times listed are Eastern Standard (although most short-wave broadcasters use the 24 hour GMT or UTC time system). Frequencies are in megahertz. Both times and frequencies are subject to change.

**Austria** "Report From Austria" is one of the popular features of Austrian Radio's half-hour broadcasts to North America, aired at 8:30, 10:30 and 11:30pm. The first two broadcasts are on 5.945 and 9.770, the later one on 5.945 and 11.665.

**Belgium** The 45 minute English programs of Belgian Radio and Television are under the umbrella title "Brussels Calling" and are aired daily at 9am on 17.610 and 21.810 and at 7:30pm on 5.910 and 9.925.

**Finland** Radio Finland International is appreciated for its "Northern Report," a daily roundup of news from northern Europe which is featured in most transmissions. Twenty-five-minute broadcasts are aired at 7, 8 and 9am on 15.400 and

17.800 and at 10am on 15.400 and 21.475. Times vary slightly for the 10am Sunday broadcast.

**France** English broadcasts to North America are a relatively new addition at Radio France International, part of a mammoth expansion in programming and facilities. At present "English from France" consists of 15-minute newscasts at 10:15 and 10:45pm on 6.175, 7.135, 9.545, 9.790 and 11.670. The shows are also broadcast at 11:15 and 11:45pm on 7.135, 9.535, 9.545, 9.550, 9.790 and 11.880.

**Federal Republic of Germany** The Deutsche Welle (Voice of Germany) puts strong signals into the United States thanks to its relay facilities in the Caribbean. Two 50-minute broadcasts are aired nightly, with "Microphone on Europe" a main feature. Programs are scheduled at 8pm on 6.040, 6.085, 6.145, 9.545, 9.565 and 11.785. Also at midnight (to the West Coast) on 5.960, 6.120, 9.545, 9.690 and 11.705.

**Greece** The Voice of Greece mixes Greek and English into its North American broadcasts, providing news of Greece, features and Greek music. Aired at 7 and 9pm on 9.420, 9.865 and 11.645. Also at 7am on 9.815, 11.645 and 15.635 and at 10am on 9.815 and 15.635.

**Italy** The lady on the air to North America from Radio-Televisione Italiana is sometimes hard to understand, but there's some benefit in that the newcomer gets a little practice in adapting to the different sound of short-wave. Rome's 20-minute broadcast is mostly news, aired at 8pm on 9.575 and 11.800.

**The Netherlands** The country may be small, but it has one of the bigger short-wave broadcasters in Radio Netherlands, easily heard here thanks to a relay station in the Netherlands Antilles. Broadcasts are aired daily at 9:30pm on 6.165, 9.590 and 9.895. Also at 12:30am on 6.165, 9.715 and 9.895.

**Norway** Radio Norway International broadcasts in English only on Sunday. "Norway This Week" is the title of these half-hour broadcasts heard at 9am on 15.175, noon on 9.565 and 11.865, 7pm (Saturday night) on 9.585 and 11pm (Saturday night) on 9.610.

**Portugal** Radio Portugal has two 30-minute broadcasts each day, at 10pm on 6.060 and 11.925 and 12:30am to the West Coast on 6.075 and 9.575.

**Spain** Spanish Foreign Radio triples the output of its neighbor with a two-hour broadcast at 7pm on 9.630 and 11.880 and an hour at midnight on the same frequencies.

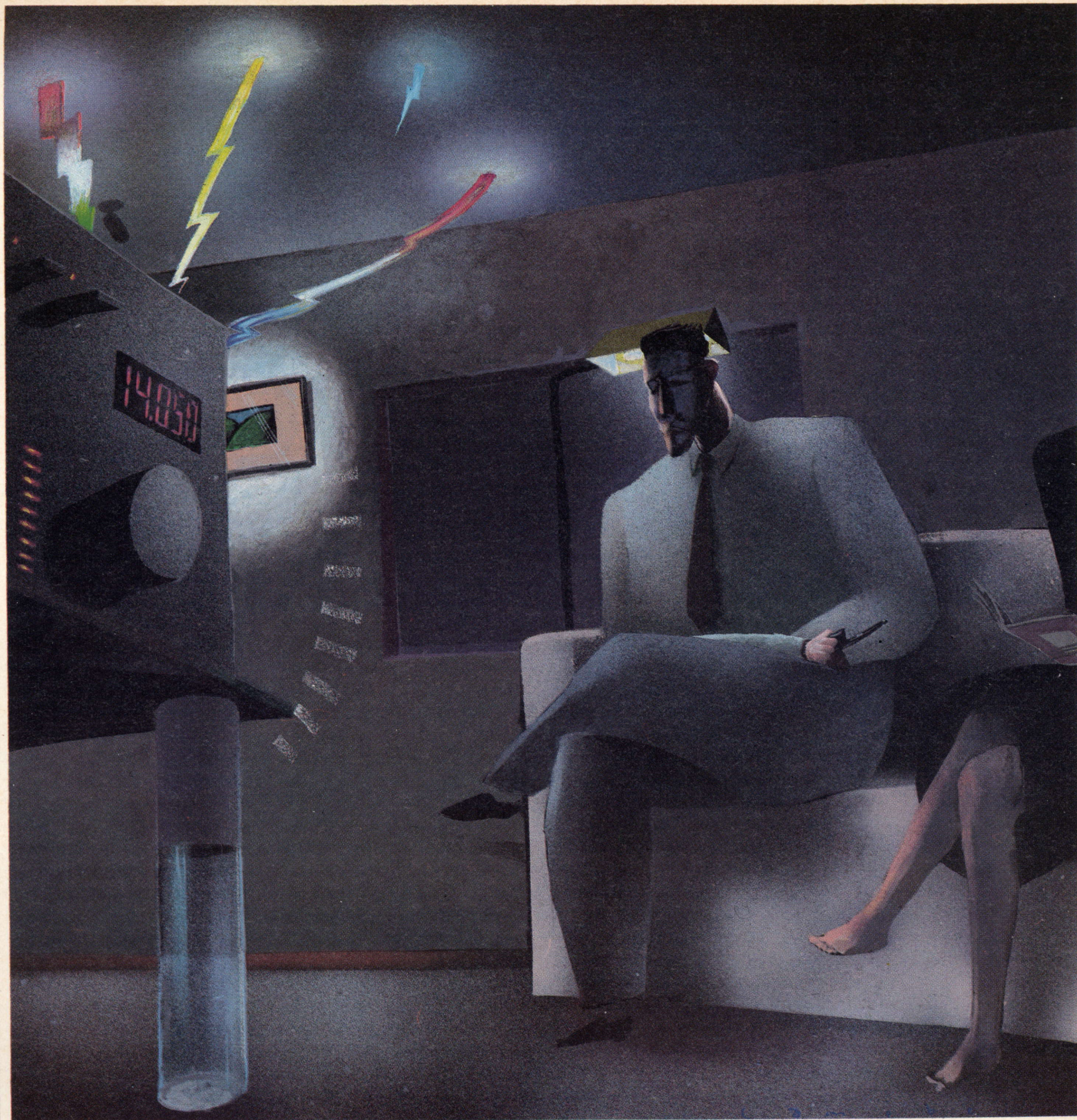


Illustration by Scott Campbell

**Sweden** For technical reasons associated with its geographical location, Radio Sweden International's half-hour broadcasts are not heard as clearly as one would wish. They air at 6pm on 9.695, 9:30pm on 9.695 and 11.705 and 10:30pm on 11.705.

**Switzerland** A Swiss chronometer gives the correct time as Swiss Radio International opens its half-hour North American broadcasts daily at 8:45pm on 6.135, 9.725, 9.885 and 12.035. It's also heard at 11:30pm on 9.725 and 12.035, and at 8:15am on 17.765.

**United Kingdom** The giant British

Broadcasting Corporation claims 100 million listeners worldwide every week. World news, "News About Britain," "Radio Newsreel," and others offer a feast for the news addict, but news is just a part of the overall variety offered by the BBC. The World Service schedule is too lengthy to present here but during late afternoons and into the evening it can be found on 5.975, 6.120, 6.175, 7.325, 9.515 and 11.750.

**Vatican City** The Vatican has one daily, 20-minute broadcast to North America, at 7:50pm on 6.015, 9.605 and 11.815.

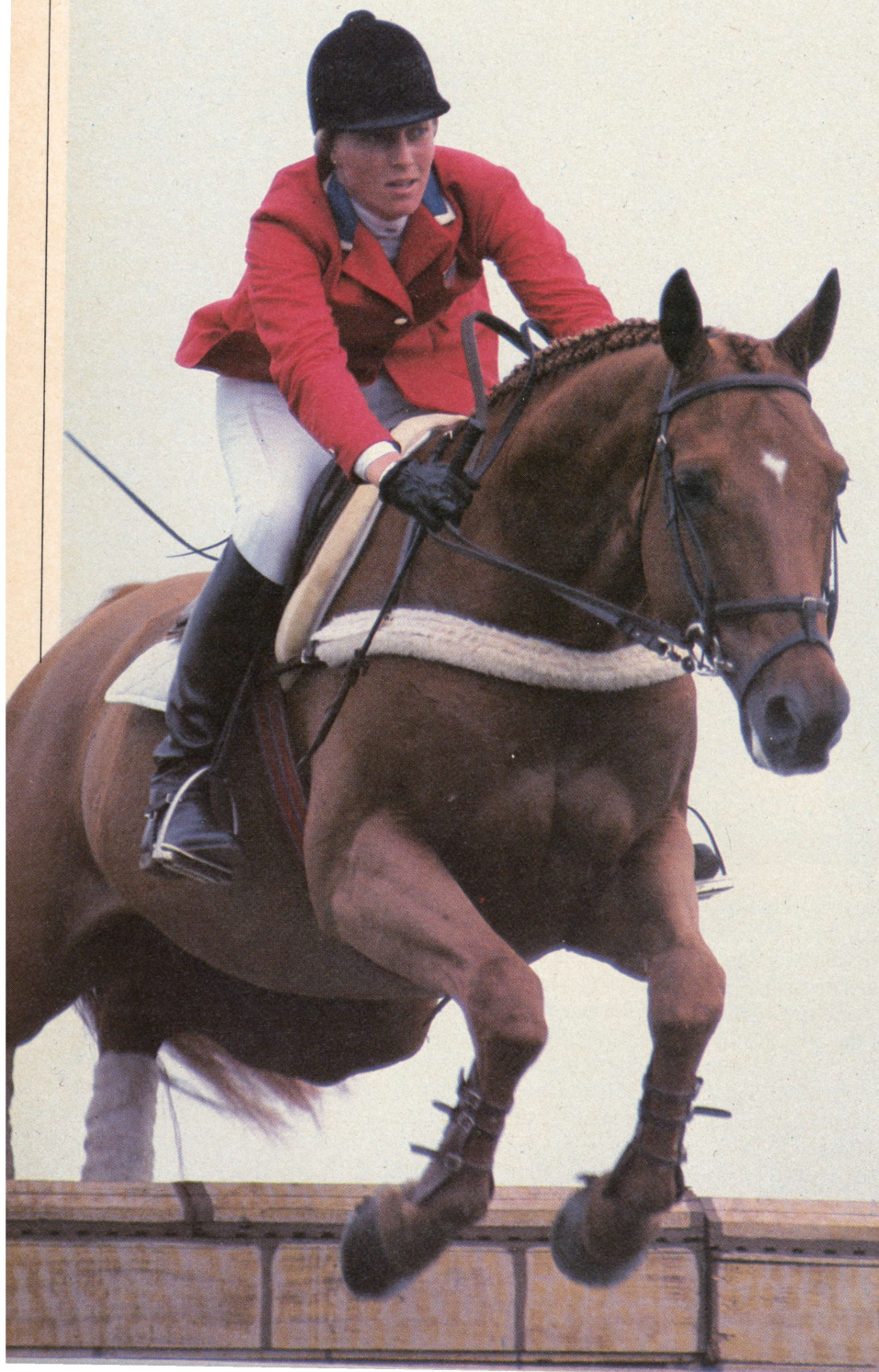
Broadcasts to North America also come from the Soviet Union (several hours per day) and all of the Eastern bloc countries to a lesser extent.

Short-wave radio is an electronic passport that makes visits to Europe a daily event. A relatively modest expenditure for a receiver coupled with a little learning and adapting to the intrinsic difference of short-wave is all it takes to be in touch! €

G. L. Dexter is a free-lance writer specializing in communications subjects and short-wave broadcast editor of *Popular Communications* magazine.

# RIDING

A GUIDE TO SOME WORLD-CLASS EUROPEAN EQUESTRIAN CENTERS.



## ALEX BRANT

**S**trength is a great advantage in almost any sport, but its benefits lie as an adjunct to technique, not as an alternative. The world's strongest non-riding man cannot force a Grand Prix dressage horse to perform a piaffe. Yet by understanding the use and order of aides, a 97-pound equestrian can, in harmony with horse, perform all sorts of splendid movements. Technique and sensitivity are all.

As Bill Steinkraus, who won America's only individual gold medal in Olympic showjumping in 1968, says: "Why waste thousands of hours in trial and error to discover that which is already known?" Nowhere is this more important than in equestrian sports where one is dealing not only with one's own brain and body, but also with that of one's equine partner.

Warendorf is the national center serving equestrian sports in the Federal Republic of Germany. Many famous riders have been students at the Deutsche Reitschule, including Hermann Schridde, silver individual medalist in Tokyo in 1964, and Alfons Lütke-Westhues, team gold medalist in showjumping at the 1956 Olympic Games and others. All aspects of riding—show jumping, combined training and dressage—are given equal importance at this school, except for students in short courses who are particularly interested in one area of specialization.

Clinics normally last between two weeks and two months. Amateurs and professionals are welcome to attend, and there are courses specifically geared to training instructors. Harry Boldt is the dressage master here, himself an individual Olympic medal winner and the coach of the German national equestrian team for dressage. Deutsche Reiterliche Vereinigung, Frhr.—von Langen-Str. 13, 4410 Warendorf, Federal Republic of Germany.

Typical of the German dressage masters (see following list), though actually Romanian by birth, George Theodorescu sets high standards for himself, his horses and his students. Selected U.S. riders from the Olympic short list and others, travel to Theodorescu's Gestüt Lindenhof (4414 Sassemborg 2, Federal Republic of Germany, Tel. (05423) 3336), near Warendorf to train with him.

Theodorescu, coach of the U.S. team and rated as one of the top dozen dressage riders in the world, has coached teams from other countries in the past including Belgium, Canada, France, the Netherlands, Italy and Japan. And while

himself a member of the 1956 Romanian Olympic squad and winner of a number of coveted Grand Prix competitions, he is most pleased with this unique achievement: He, his wife and his daughter have each won the Hamburg Derby.

He has made many Grand-Prix horses, over 20 in the last 15 years or so. Normally, when he is not giving clinics in the United States for the long-list hopefuls, he has four or five students in training in Germany. The students usually come "for one month to a year, sometimes longer." When asked what level of student he prefers to work with, his reply is direct: "advanced is better."

Another excellent German dressage master is Eugen Wahler, Klosterhof Medingen, 3118 Bad Bevensn, Federal Republic of Germany, Tel. (05821) 7089. He is a charismatic, old-fashioned dressage master. He takes on a few special students in a highly regimented, strictly disciplined program. It is a working-student program, and students pay for the privilege. The first step in riding with Wahler is to contact Bernardo Piskors in the United States—(212) 832-1711 business, (914) 764-4824 home—who is a good friend and sometimes acts as go-between for Wahler and Americans who may find it difficult to understand Wahler on the phone.

The Cadre Noir at Saumur in France is steeped in tradition, and many Olympians, including gold medal winners and other names of renown in equestrian, have studied there. The Cadre Noir was formed by Louis XVIII in 1814. Its original purpose was to train military riding instructors. The name is derived from

their black uniforms. Two quadrilles exist at the Cadre Noir, one for the performance of dressage movements and a second to school high movements such as the courbette, capriole and croupade, sometimes referred to as airs above and on the ground.

The chief trainer today is Col. Pierre Durand, who competed in the Rome Olympics as an eventer and on the showjumping squad in Munich. The French have always believed in producing well-rounded horses and riders. At least some members of most Olympic teams have been associated with the school including J.J. Guyon, 1968 individual gold medalist.

At Saumur, combined training, dressage and showjumping are taught. The most important course of instruction is for the instructor's certificate. To be accepted into the program, students must hold the certificate of assistant instructor, and they generally need a letter of recommendation from the USET, AHSA or equivalent national organizations. Students ride four horses a day under supervision for a total of five hours.

Short refresher courses (approximately two weeks) are offered for instructors and assistant instructors. Each student, under the tutelage of three instructors, rides four horses during the course. Programs of all manner and lengths are conducted. For example, there are specialized dressage courses where students may bring their own horses or use school horses.

Le Breil, a neighboring estate owned by Saumur, has a jumping arena, a cross-country course, a steeplechase and nu-

merous, large indoor and outdoor rings for dressage and for jumping. A second estate nearby has a cross-country course with over five hundred jumps where all levels of event riders and horses can school, and other facilities for combined training (i.e. a steeplechase). Ecole Nationale d'Equitation, 6 rue Ancienne Messagerie, 49400 Saumur.

Most of the world's best dressage coaches are in Germany. Any of the following men, like Theodorescu, are capable, given students with talent and dedication, of making Grand-Prix riders and horses. For those who look forward to 1988 or 1992 or 1996 Olympics, these are the men to contact.

Reiner Klimke  
Auf dem Draum 93  
4400 Münster  
Tel. (0251) 8153  
or 543233

A world-famous dressage rider, Dr. Klimke trains minimally to maintain FEI amateur status.

Willi Schultheiss  
Velden 40  
4410 Warendorf  
Tel. (02581) 7150

Former coach of the German national equestrian team; today chief instructor for advanced riding.

Walter Christensen  
Stall Tasdorf  
Busdorfer Weg  
2351 Tasdorf  
A top instructor and rider.

Herbert Rehbein  
Hof Groenwold  
2071 Hof Groenwold  
bei Trittau  
Tel. (04154) 5116  
or 5253  
State-appointed instructor; highly regarded professional riding instructor.

Georg-Otto Heiser  
Gestüt Branderhof  
Dockenhuser Chaussee 188  
2083 Halstenbek  
Tel. (04101) 4239  
or 2358  
Highly regarded professional riding instructor.

Paul Stecken  
Steinfurter Strasse 103  
4400 Münster  
Director of the Münster Riding School in Westphalia; trains professional riding instructors. €

Alex Brant is the editor of *The Hunting Report*.



Technique and sensitivity are all: In perfect harmony, horse and rider can perform splendid movements.

# EUROPEAN MUSIC YEAR SET FOR 1985

SPECIAL EVENTS IN 22 NATIONS WILL CULMINATE JUNE 21.

SARAH FOOT

**A**re folk and funk your love, or do you fall for jazz and Gregorian chants? Can electronic and chamber music strike a chord, or do harmonicas and big bands turn you on? Whatever your musical fancy, look at the program of the European Music Year that has been declared for 1985. A repertoire including bell ringing and opera should indulge the most eclectic of musical tastes.

The keynote of European Music Year is to encourage all forms of music. The range is exciting. Baroque, however, will feature particularly highly as 1985 is the tercentenary of the births of Handel, Scarlatti and Bach. The United Kingdom is setting up a permanent international

baroque training orchestra; the Dutch 18th Century Orchestra is going on tour.

The Vienna Philharmonic Orchestra's New Year concert officially opens European Music Year. Listened to by millions, it provides the introduction to a year which, in the words of Belgium's Queen Fabiola at a press conference in Brussels, will contribute to the "building of fraternal links between peoples."

The idea of European Music Year has been adopted by 22 countries following an initiative of the European Parliament. It was supported by former E.C. Commission President Gaston Thorn who, in citing music as an international language, captured the hopes of its organizers. Walter Scheel, the chairman of the European Organizing Committee and a former

President of the Federal Republic of Germany, said that their aim was to develop music education at both professional and amateur levels, to improve musicians' career prospects and to promote young professional talent and all musical creativity.

The plans are ambitious. Thirty multi-lateral and 850 national projects have been arranged. The European Community Youth Orchestra is making several tours, and a "musical train" will travel through Europe with an orchestra set up by the European Music Schools' Union. A television gala evening aimed at popularizing opera will be held on Eurovision. Musical conferences will deal with such subjects as music's influence on art and literature and its role in medicine.

The economic implications are great given the significance of the music industry. Its turnover was more than twice that of shipbuilding and aeronautical industries in Germany in 1982. European Music Year should give the music business an extra boost. Also on the economic note, European Music Year will investigate piracy production of records and cassettes.

It is June 21, however, which will epitomize the spirit of European Music Year. This is "Music Day," when musicians throughout Europe will play in streets, parks and squares. €

Sarah Foot is a free-lance writer based in Brussels.



All forms of music will be encouraged during 1985's European Music Year, which will be opened officially by the Vienna Philharmonic Orchestra (above).



# NEWS OF THE E.C.

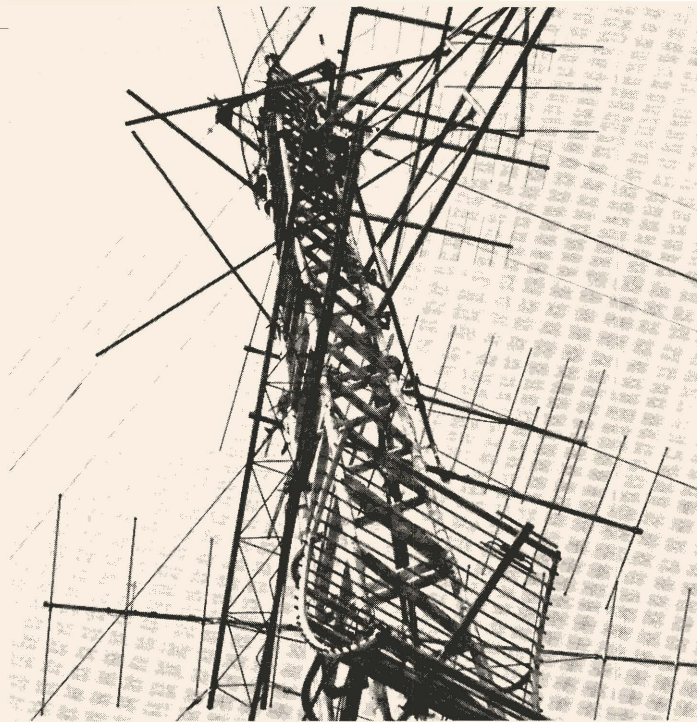
## E.C. SEEKS TO FREE TRADE IN TELECOMMUNICATIONS

Will the European Community eventually develop a common market for telecommunications equipment similar to the one it already operates for most types of goods? Recent actions by the E.C.'s Council of Ministers, the E.C.'s top decision-making body, spell progress in that direction.

E.C. Industry Ministers meeting in Luxembourg in October adopted two recommendations on establishing E.C.-wide technical norms for telecommunications equipment and on opening up public telecommunications markets. The ministers agreed to commit \$5.4 million over the next two years to support efforts at standardization and cooperation in research and development in the telecommunications field.

With the exception of establishing technical norms, the program should be completed within two years. The E.C. is expected to come up with uniform technical norms for telecommunications devices such as computers sometime in 1985. After 1985, computer hardware and software increasingly will be required to conform to norms that will be recognized throughout the E.C.

The ministers also called for an opening up of public markets for telecommunications devices, which have been jealously guarded national preserves until now. Under the new recommendations, national telecommunications authorities would have to allow



Recent E.C. actions would pave the way for a Common Market in communications equipment.

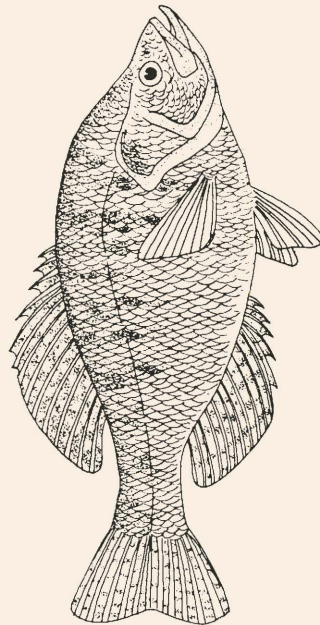
firms from other E.C. countries to bid on providing new telecommunications systems and traditional systems for which there are accepted norms. They also could bid on equipment and supplies for existing systems for which there are no existing norms. These national authorities would have to open at least 10 percent of their markets to foreign suppliers.

Information exchanges between industrialized nations have taken on more and more economic significance in recent years. These exchanges have begun to generate revenues comparable to trade in physical goods. The economic importance of telecommunications is expected to grow considerably over the next decade.

E.C. policymakers fear that the present compartmentalization of the E.C.'s telecommunications sector into 10 individual national markets will make it difficult for E.C. telecommunications firms to compete for sales at world level. Trade in telecommunications devices within the E.C. has been hampered by so-called technical barriers. The most irksome of these barriers has been the lack of recognized, Europe-wide technical standards for computers and other devices.

## MINISTERS APPROVE U.S.-E.C. FISHERIES ACCORD

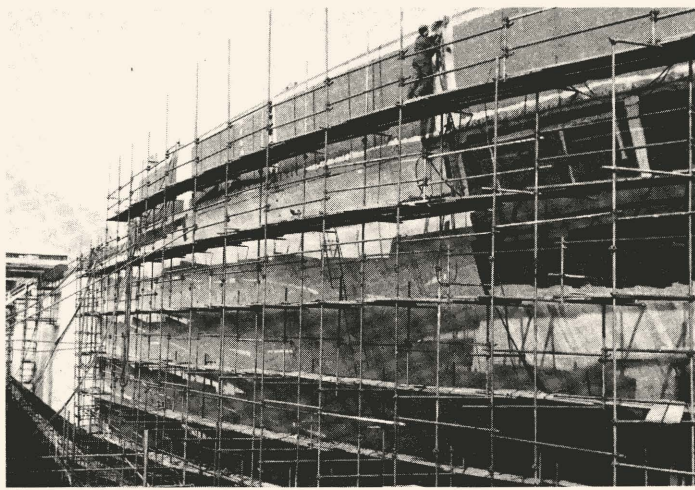
The E.C.'s Fisheries Ministers have approved a U.S.-E.C. agreement that would give Europe's commercial fishermen continued access to U.S. territorial waters in exchange for technical assistance to the U.S. fishing fleet. The five-year accord would allow E.C. fishing vessels to continue operating within the 200-mile "economic zone" off both U.S. coasts. Vessels from three E.C. coun-



tries—the Federal Republic of Germany, Italy and the Netherlands—presently fish in U.S. waters.

The agreement, initialed by U.S. and E.C. officials in June, has been submitted to the U.S. Congress for approval. E.C. Fisheries Ministers ratified the accord in September. The pact replaces the E.C.'s first fisheries accord with the U.S., which expired earlier this year. As part of the new agreement, the E.C. agreed to share its expertise in applying modern fishing methods, to facilitate the transfer of new fish harvesting technologies to the U.S. industry and to cooperate in increasing U.S. fisheries exports to Europe. The E.C. also pledged to promote joint venture fishing arrangements between U.S. and European fishermen.

The new pact is designed to ensure that U.S. fish stocks are conserved and managed wisely so that they continue to provide a livelihood for both the European and American fishermen who depend on them. The E.C.'s original fishing accord with the U.S., signed in 1977, was the E.C.'s first fishing agreement with a non-E.C. country. However, the E.C. has since concluded a number of bilateral fishing accords. Community vessels also have been granted the right to fish in Canadian waters in exchange for tariff reductions on some Canadian fish exports to the E.C. The E.C. also has negotiated fishing agreements with several developing countries. In exchange for fishing rights in their waters, the Community has agreed to help these developing countries build up their own domestic fishing fleets.



In 1983, E.C. shipyards accounted for only 11 percent of world orders. Employment in shipbuilding fell 9 percent.

## FOREIGN COMPETITION THREATENS TO SINK EUROPE'S SHIPBUILDERS

Japanese and Korean shipbuilders are thriving at the expense of their European counterparts, according to a recent E.C. Commission report on developments in the E.C.'s shipbuilding sector. In 1983, E.C. shipyards accounted for only 11 percent of world orders, falling below the 17-percent mark for the first time in history. Employment in the shipbuilding industry fell by 9 percent as a result, the Commission said.

Over the past decade, Europe's shipping industry has faced a depressed world market. In the past five years,

cargo volume has shrunk by 16 percent and the size of the world's cargo fleets has declined by an average 25 percent. Literally hundreds of tankers and bulk carriers once used to carry raw materials have been moth-balled.

The 10 E.C. member states have made a strenuous effort to keep their shipyards afloat by cutting back on shipbuilding capacity and adapting production to new markets, including offshore industry. Since the beginning of the recession, ship production in the E.C. has been halved, in line with the drop in employment in that industry. However, the Commission now says that the E.C. restructuring efforts have been largely thwarted by a Japanese and Korean price-cutting offensive. Between them, Japan and

South Korea account for about 65 percent of the world market. The Commission's report said that this large market share virtually enables them to dictate price levels.

Between 1982 and 1983, Japan's share of the world shipbuilding market rose to 50 percent from 42 percent, the Commission said. Korea's share rose to 14 percent from 9 percent. Meanwhile, shippers have been forced to further reduce their fleets. In 1983, more ships were laid up or sent to the scrap heap in Europe than elsewhere.

## RECOVERY REACHES E.C., BUT UNEMPLOYMENT PERSISTS

An economic recovery is under way in the European Community, but unemployment nonetheless will remain a growing problem at least through 1985, the E.C. Commission said recently in its annual economic report for 1984-85. The report said that the E.C.'s economy is expected to grow 2.3 percent in 1985, up slightly from the 2.2-percent growth rate posted in 1984.

By contrast, economic growth in the E.C.'s 10 member states averaged only 0.6 percent in 1982 and 0.9 percent in 1983. Inflation in the Community is expected to continue to moderate, averaging only 4.1 percent in 1985, compared with 5 percent in 1984 and down from 11 percent in 1980.

On the employment front, the report recommended concerted E.C. action to reverse the growth in Europe's unemployment rate. The report said unemployment in the E.C. will average 11.5 percent in 1985, up from 11 percent this year and 10.4 percent in 1983. Among the E.C.'s member countries, employment levels between 1983 and 1985 are expected to increase only in Denmark, the United Kingdom and Italy.

With the election of a new European Parliament last June

and a new Commission poised to take office in January, "conditions are now particularly appropriate for intensifying a collective effort to turn employment trends in a far more positive direction," the report said.

Unemployment problems have been particularly acute among Europe's young people and women and long-term unemployment has increased substantially. Although the millions of jobs that have been created in the service sector in recent years have partly offset job losses in industry, many of the newly created jobs have been in the public sector. The Commission said this trend cannot be sustained under present budget constraints.

Furthermore, the Commission said the E.C. states should lighten tax burdens that discourage businesses from expanding production and creating jobs. It said these burdens included rising social-security charges on employers and income and social-security taxes on employees that increase pressure in wage negotiations for higher pre-tax salaries. It also recommended reviewing regulatory requirements that unnecessarily hamper business.

## E.C. PROPOSES BAN ON PCBs

The E.C. Commission has proposed a Europe-wide ban on the production and sale of polychlorinated biphenyls (PCBs) and polychlorinated terphenyls (PCTs), saying that less severe measures have failed to reduce the amounts of these carcinogens found in the environment.

PCBs and PCTs are synthetic substances whose stability and heat and flame resistance initially won them widespread use as hydraulic fluids and as insulators in such electrical devices as transformers. However, scientific findings labeling both compounds as potential human health threats prompted the E.C. to adopt two directives in 1976 restricting their use.

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posal of waste PCBs. The second barred most uses of PCBs, except in mining equipment and in closed system devices such as transformers, inductors and condensers.

The Commission's new proposal would prohibit these remaining uses, but it would not require the disposal of existing PCB-containing equipment on the grounds that forced disposal could create a bigger environmental hazard than the equipment's continued use.

The Commission's decision to propose the new ban was prompted by new scientific evidence that previous PCB use restrictions had failed to reduce the level of PCB residues found in foodstuffs and that mother's milk in many parts of the E.C. contained unacceptably high PCB levels.

In addition, the Commission said that the advent of safer and effective alternatives to PCBs and PCTs in recent years had removed the economic and technical justifications for their continued use. Only one factory in the E.C. presently produces PCBs. The United States generally banned production and use of PCBs in 1979.

## MINISTERS MOVE E.C. TOWARD UNIFORM CUSTOMS DOCUMENT

European leaders have long sought to develop a single customs document for shippers to transport their cargoes across national borders anywhere within the E.C., but the proposal has been slow to take shape. However, such a document came one step closer to reality in October when E.C. ministers agreed on a range of technical details on the amount of information that document should contain. Officials agreed to reduce the number of items on the proposed form to 58 from 70. Five other items were also identified as likely to be scrapped, officials said.

The single customs document, which has been on the negotiating table for over two



A common customs document would drastically reduce red tape at E.C. borders.

years, would drastically reduce the red tape truck drivers, tourists and others encounter at border crossing points within the E.C. It would also be a boon for business by cutting the transit time on international shipments of commercial goods. Frustration with present border procedures came to a head earlier this year when truck drivers blocked a number of Europe's main border crossings to protest the delays they often encounter in clearing customs.

The E.C. Commission says it hopes that a uniform E.C. customs document could come into use as soon as 1987. But the Commission would like to see the amount of information required by that document to be trimmed still further, as would several E.C. member states. The Commission pointed out that a Benelux customs form, introduced in July to cover shipments of goods between the Netherlands, Belgium and Luxembourg, calls for just 17 items of information.

E.C. Internal Market Commissioner Karl-Heinz Narjes used the October meeting to remind E.C. ministers that agreement needed to be reached soon on the three priority initiatives listed by E.C. leaders at their June 1984 summit in Fontainebleau, France. In addition to the single customs document, these priorities also include mutual recognition among E.C. members of academic qualifications

and a cutback in customs and police formalities.

## PROGRAM TO COUNTER "BRAIN DRAIN"

In a recent report to the Council of Ministers, the E.C.'s chief decision-making body, the Commission said that national initiatives taken by E.C. member states to stimulate scientific and technical research had not always produced the desired result.

As a result, the Commission proposed an action plan designed to stimulate scientific and technical research within the E.C. Under the proposal, the E.C. would set up a wide-ranging program of grants and other financial incentives to encourage scientists from E.C. member countries to extend their research efforts across their nation's boundaries.

## E.C. PRESIDENT DISTRIBUTES RESPONSIBILITIES FOR NEW COMMISSION (1985-1989)



Jacques Delors.

On Dec. 7, E.C. Commission President Jacques Delors announced the following responsibilities:

Jacques Delors (France): secretariat-general, legal service, spokesman's group, joint interpreting and conference service, security office, monetary affairs, coordination of structural funds.

Lorenzo Natali (Italy): co-operation and development, enlargement.

Claude Cheysson (France): Mediterranean policy, North-South relations.

Karl-Heinz Narjes (Federal Republic of Germany): industrial affairs, information technologies, research and science, Joint Research Center.

Frans Andriessen (The Netherlands): agriculture and fisheries

Lord Cockfield (United Kingdom): internal market, customs union service, taxation, financial institutions.

Alois Pfeiffer (Federal Republic of Germany): economic

affairs, employment, credit and investments, Statistical Office.

Grigoris Varfis (Greece): regional policy, relations with the European Parliament.

Willy De Clercq (Belgium): external relations, commercial policy.

Nicolas Mosar (Luxembourg): energy, Euratom supply agency, office of official publications.

Stanley Clinton Davis (United Kingdom): environment, consumer protection, nuclear safety, forests, transport.

Carlo Ripa di Meana (Italy): institutional questions, problems concerning the "people's Europe," information policy, culture, tourism.

Henning Christophersen (Denmark): budget, financial control, personnel and administration.

Peter Sutherland (Ireland): competition, social affairs, education and vocational training.

## E.C. STEPS UP AID TO ETHIOPIA

The E.C. recently intensified its relief efforts for Ethiopia and 29 other drought- and famine-stricken countries in Africa by launching a new \$42 million relief program to supplement its previous allocations of emergency aid to that region. The package, unveiled in November, included \$24 million to be made available immediately to buy locally grown food and to support medical and nutrition programs in the affected areas.

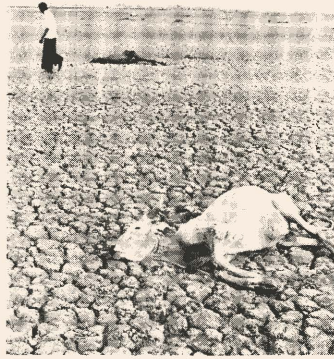
As those funds were set to be released, the E.C. Commission estimated that some 9 million Africans were beset by famine. About half of the aid slated for immediate release was earmarked for Ethiopia, with the remainder going to Mali, Niger, Burkina Faso (formerly Upper Volta), Senegal, Mauritania, Chad, Sudan, Kenya and Mozambique.

The balance of the new aid package—\$18 million—was set aside to provide for about 100,000 tons of grain to bolster food supplies in the affected African countries through January 1985.

The new package of relief measures brought total E.C. food and emergency aid to the hungry in Africa through November 1985 to \$206 million. That figure included \$50 million in emergency-aid funds and \$155 million of food aid.

Although drought and famine are endangering large segments of the population of the Sahel and the Horn of Africa, Ethiopia has become the focus of most of the international attention, both because of the seriousness of the situation there and as a result of disturbing film footage of Ethiopia's drought victims shot last fall by a BBC film crew. The footage was shown in television news broadcasts in Europe and elsewhere.

Through October 1984, the E.C. had already donated almost \$60 million worth of cash and food aid to fight hunger in Ethiopia. It had also provided



The E.C. has launched a \$42-million African aid program.

\$3.9 million to finance food distribution and other programs. E.C. member states on their own also have allocated a total of 30,000 tons of grain to Ethiopia and have provided a total of about \$1.7 million in financial assistance.

In November, the E.C. Commission estimated that about 6 million Ethiopians were affected by the famine. It said the country would need about 55,000 tons of food each month for famine relief. Local harvests and food aid from the E.C. and other donors were expected to cover most of Ethiopia's food requirements through January 1985. The Commission also said Ethiopia was expected to receive 170,000 tons of grain between December 1984 and February 1985, including 47,000 tons from the E.C. and 34,000 from E.C. member states.

The Commission said some 2 to 3 million people in the Sahel, or sub-Saharan region of Africa, were threatened by famine. It said the situation remains especially critical in Niger, Mali, Mauritania and Chad. Those countries together will require about 81,500 tons of food each month, the Commission estimated. However, it said the situation in the four countries in the Sahel would be far less dramatic than in Ethiopia. Those countries are expected to have received about 183,000 tons of grain between December 1984 and February 1985, including 35,000 tons from the E.C.

In outlining its latest relief

plan, the E.C. stressed that present commitments by Africa's aid donors would not meet the needs of the drought-stricken areas beyond March 1985. The E.C. scheduled a coordination meeting with its member states in December to determine whether supplementary measures would be required to help famine victims at that time.

Meanwhile, the Community has taken steps to improve the amount of advance planning of its African relief measures and to increase coordination between the Commission, E.C. member states and private relief organizations. E.C. Commission officials met in November with representatives of the member states to discuss the specific needs of the drought-stricken countries and the logistical problems of getting food aid to its destination.

Under a plan approved by E.C. Development Ministers that same month, there will be aid-coordination meetings in the fall of each year to take stock of the food situation in regions regularly hit by drought. If an emergency situation exists, the E.C. and its members would outline a plan of action and coordinate their aid deliveries to prevent bottlenecks at ports and other shipment points. Such bottlenecks have plagued past relief efforts, primarily because of limits on the cargo-handling capacity of many of the ports through which aid shipments must be routed.

## AID ROUNDUP

The E.C. Commission recently announced that it had authorized the following emergency or development-aid projects. (One European Currency Unit, or ECU, equals about \$0.74)

**Emergency Aid—Ethiopia:** 3 million ECU to aid the nearly 7 million people in that country estimated to be affected by famine. The money will be used to purchase food, transport equipment and medicines. It will be channelled through the International Committee of the Red Cross and

the Commission's delegate in Addis Ababa. . . . **Cape Verde:** 200,000 ECU to provide aid for 2,000 families left homeless by torrential rains that devastated the Cape Verde Islands. . . . **Cambodia:** 250,000 ECU to provide medicines, blankets, food, clothing and other necessities for 1 million people whose crops and homes have been destroyed by severe flooding.

### Aid to Non-Associated Developing Countries—

**Nepal:** 5 million ECU to help finance a permanent location for the Nepal Administrative Staff College, a facility for training civil servants. . . .

**Central America:** 140,000 ECU for a project to upgrade food and agricultural product packaging technology. . . .

**Andean Pact:** 600,000 ECU to help provide technical training for prospective business students and to promote exports produced by Andean Pact member countries. . . .

**China:** 350,000 ECU to help finance improvements in photographic advertising techniques as a means of promoting Chinese-made projects in world markets. . . .

**Philippines:** 500,000 ECU to help Philippine pottery makers mount an export drive that will involve improvements in quality control, design and presentation of their products. Another 350,000-ECU program will help finance a similar effort on behalf of makers of rattan furniture. . . .

**Peru:** 500,000 ECU for a project to help the country expand production and export of prawns and 150,000 ECU for a similar effort on behalf of the country's leather and fur trades. . . .

**China:** 1.7 million ECU for a project designed to help in flood forecasting and management on the Beijiing River. The project is aimed at reducing the damage to farm lands, villages and towns caused by the river's frequent flooding. . . .

**Colombia:** 3.9 million ECU toward a reconstruction effort in two districts damaged by earthquakes in March 1983. . . .

**Laos:** 1.2 million ECU for a project to improve water supply systems in peasant villages. €

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# BOOKS IN REVIEW

**Competition Law: Antitrust Policy in the United Kingdom and the EEC**, by Robert Merkin and Karen Williams, Sweet and Maxwell, London, 492 pages, £22.50.

JONATHAN TODD

**D**uring 1984, the European Community's antitrust policy really showed that it has come of age. After several years of negotiations, the E.C. Commission finally managed to succeed where the U.S. antitrust authorities had failed: It came to an amicable settlement in its long-standing case against IBM

for alleged abuse of monopoly power in the main-frame computer market. More recently, the Commission imposed the largest fines ever in an E.C. competition case, a total of 9 million European Currency Units (some \$6.57 million), when it busted a cartel on the E.C.'s hydrogen peroxide market operated by a group of five European chemical companies.

Not surprisingly, an increasing number of U.S. lawyers and businessmen want to improve their knowledge of E.C. competition policy, so as to avoid running afoul of the Community's trust-busters themselves. Perhaps they should turn to this recent book by two British specialists,

Robert Merkin and Karen Williams. It gives comprehensive details concerning legislation, policy trends and jurisprudence in the field of antitrust law in Europe.

The authors begin their analysis of E.C. antitrust policy by outlining the underlying philosophies of the Treaty of Rome itself, which established the Common Market in 1957. A fundamental principle of the E.C., as they point out, is the creation and maintenance of a unified common market, so that much of the treaty is concerned with removing obstacles to trade between E.C. member states by the abolitions of tariffs, quotas and all measures having equivalent effect. The primary task of the E.C.'s competition policy, they continue, is therefore to forestall and suppress agreements and restrictive practices between companies that seek to divide up the Common Market amongst them.

The E.C.'s competition policy is therefore a major element in the unification of a wide variety of national markets, and this distinguishes it not only from the antitrust laws of the individual E.C. member states, but also the antitrust policy of the United States. This helps to explain why the Commission has clamped down so heavily on market-sharing cartels (such as the hydrogen-peroxide arrangement mentioned above) and on attempts to prevent trade between E.C. member states (such as the ban on exports imposed by the Japanese consumer electronics company Pioneer).

Another fundamental principle of the Treaty of Rome, the authors continue, is the maintenance of a free-market economy in which economic resources are allocated by the normal forces of supply and demand. They point out that the Commission itself has explained that "competition is the best stimulant of economic activity since it guarantees the widest possible freedom of action to all," and that the E.C.'s competition policy makes it easier for the supply and demand structures to adjust to technological development. From this free-market point of view, the E.C.'s antitrust policy can be said to be more comparable with its U.S. counterpart.

The Commission has itself emphasized

COMPETITION LAW:  
Antitrust Policy in  
the United Kingdom  
and the EEC

Robert Merkin  
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three aspects of fair competition, notably equality of opportunity for all firms operating within the E.C. and the disapproval of financial or other government assistance to particular firms, the adaptation of competition rules to allow small and medium-sized enterprises to cooperate and thereby to compete with dominant firms outside the E.C. and the need to ensure that, if competition is to be restricted, users, consumers and workers receive a fair share of any resulting benefits.

The authors conclude their introductory remarks by describing the exact articles of the E.C. treaty that lay down the basic competition rules. From the point of view of business, the most important of these are Article 85, which forbids all agreements and concerted practices with the object or effect of limiting competition within the E.C. and adversely affecting trade between the member states, and Article 86, which prohibits the abuse of a dominant market position within the E.C. or in a substantial part of it by one or more companies.

The authors then move on to describe the respective roles of the different E.C. institutions as regards the E.C.'s antitrust policy. Competition policy is one area of E.C. activity where the Commission plays a major role in implementation, and it has extensive powers not only to investigate potential infringements—either on the basis of a complaint or on its own initiative—but also to decide whether an infringement has indeed taken place and what penalty is appropriate. The E.C. Council of Ministers, consisting of ministers from each member state, plays the dominant role as regards the vast majority of E.C. activities. However, it does not play a day-to-day role in the implementation of E.C. competition policy and merely adopts implementing regulations enabling the Commission to undertake the general administration of the policy.

The E.C.'s Court of Justice, on the other hand, does act as a counterweight to the Commission's extensive antitrust powers. Companies may make individual appeals to the court for competition-policy decisions of the Commission to be declared void, and the Court also gives interpretations of E.C. competition law when requested to do so by national courts in the E.C. member states. In fact, as the authors point out, the court has made a particular contribution to E.C. competition law because of its willingness to make statements of general policy in its judgements, aimed at the Commission and the national courts, adopting a dynamic interpretation of the E.C. treaty.

Since E.C. competition law is directly applicable in the member states, national competition authorities can also administer and enforce the E.C. antitrust rules and may be requested by the Commission to undertake investigations for possible infringements on its behalf. National courts also play an important role in applying E.C. competition policy and can rule on the application of Article 85 or 86 (but do not have the right to grant exemptions to Article 85). Individuals can therefore bring prosecutions before national courts against companies for breach of contract or for intellectual property right infringements, for example, on the basis of the treaty's antitrust rules.

Merkin and Williams devote considerable attention to the detailed application of the competition law of the United Kingdom and the E.C.—with numerous references to important test cases—concerning specific types of antitrust infringements. These infringements can include horizontal arrangements between companies such as market-sharing and price-fixing cartels (with examples of the Commission's policy on granting exemptions to certain agreements), market dominance, vertical arrangements concerning the distribution of goods and the supply of services from the manufacturer or supplier to the ultimate consumer (such as exclusive distribution agreements and resale price agreements), mergers (where E.C. policy is rather underdeveloped) and practices related to intellectual property rights (such as patents, trademark rights and copyright). Details are also given of the enforcement of competition-law infringements by state-owned industries.

The authors then turn their attention to the procedures followed in the application of E.C. and U.K. competition law on monitoring business conduct, preliminary inquiries, investigations and proceedings, before examining the remedies that are available to the U.K. and E.C. authorities. In the case of the Commission, a case can be settled either by adopting a formal decision or, increasingly frequently, by issuing a "comfort letter" in cases where the Commission is of the opinion that there is no infringement but it wants to avoid the long procedure that a formal decision requires.

Regarding fines, the Commission has the right to impose a penalty up to a sum not exceeding 10 percent of a company's turnover in the previous financial year. Although even the recent record fine on companies involved in a hydrogen-peroxide cartel does not approach this limit, the Commission has nevertheless started to impose larger fines recently in order that

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they should have a greater deterrent effect. The Commission may also impose interim measures before it reaches its final decision. The authors then examine the possibilities that exist for private enforcement of E.C. antitrust law and how the Court of Justice can overturn or

amend a Commission antitrust decision if there is an appeal.

The final section of the book is of particular interest to readers in the United States as it deals with the international aspects of E.C. competition law, particularly the Commission's powers to

act against any company suspected of committing an infringement within the Common Market, irrespective of its domicile or principal place of business. €

Jonathan Todd is editor of *Multinational Service* in Brussels.

## 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 recommendations of these publications, which can be purchased or ordered from most booksellers.

**Quality of Working Life in International Perspective.** By Yves Delamotte and Shin-ichi Takezawa. International Labor Office, Washington, D.C., 1984, 89 pp. \$8.55, paper.

Analyses in an international context issues in the quality of working life, including, health and safety, job security, fair treatment and career advancement. Considers the roles of management, employees and political and labor movements in the problem-solving process. Includes tables and figures.

**The Troubled Alliance-Atlantic Relations in the 1980's.** Edited by Lawrence Freedman. St. Martin's Press, New York, 1983, 165 pp. \$25.00.

A compilation of papers delivered at a conference in the Joint Studies on Public Policy series. Focuses on the extent to which divergent North American and West European monetary and trade policies threaten future prosperity. Also considers the effects of these differences on the NATO alliance. Redefines the problem of security in light of Third-World instability, addresses the issue of nuclear parity and provides an historical background of the NATO alliance.

**The Annual Register: A Record of World Events 1983.** Edited by H.V. Hodson. Gale Research Co., Detroit, 1984. 543 pp. \$90.00.

A detailed profile of the year 1983, this reference volume contains articles covering: events in each of the nations of the world; activities of the United Nations, the E.C. and other international bodies; developments in science, religion, law, the arts and sports. Also includes texts of the year's key documents, a chronological record of principal events, and a section of economic and social statistics for the period from 1978 to 1983.

**International Who's Who 1984-85, 48th edition.** Europa Publications Ltd., London, 1984. Available from Gale Research Co., Detroit. 1,583 pp. \$140.00.

A biographical dictionary of over 15,000 individuals who have achieved international recognition in all fields, including diplomacy, science, business, the arts and sports. Among facts listed are birth date, nationality, education, career history, honors and awards, publications, leisure interests and current address.

**Inward Investment: Policy Options for the U.K.** By Michael Brech and Margaret Sharp. Routledge & Kegan Paul, Boston, 1984, 112 pp. \$10.00, paper.

Considers the importance of inward investment for the British economy. Details the government's policy on inward investment and compares it to the policies of other nations. Looks at both micro- and macroeconomic effects of direct inward investment and investigates the experience of inward investment in two industries—pharmaceuticals and consumer electronics.

**U.S. Deficits, the Dollar, and Europe.** By Olivier Blanchard and Rodger Dornbusch. Center for Policy Studies, Brussels, 1984, 30 pp.

A paper which concentrates on the role of the U.S. budget deficit, the U.S. long-term real interest rate, and the international value of the dollar in world macroeconomics. Reviews key controversial issues such as the relationship between deficits and interest rates and the costs and benefits of a strong dollar both to the U.S. and to the rest of the world. The characteristics of a fiscal-policy-led U.S. recovery are examined, as well as policy options open to Europe.

**The Impact of the Seventh Directive.** By Ernst & Whinney. Financial Times Business Information, Marketing Dept., 102 Clerkenwell Rd., London EC1M 5SA, 1984. 111 pp. \$38.00.

Focuses on the salient points of the E.C.'s Seventh Company Law Directive on consolidated accounts. Addresses the aims of the E.C. Commission in adopting the directive, and evaluates its potential impact on companies both in member states of the E.C. and other countries. Includes selected commentaries on the directive from French, British, Italian, and German executives.

**Essays in Contemporary Economic Problems—Disinflation.** Edited by William Fellner. American Enterprise for Public Policy Research, Washington, D.C., 1984, 324 pp. \$19.95 cloth, \$10.95 paper.

Focuses on the effects of recent disinflation in international and domestic spheres. Examines the role of disinflation in money, financial, housing and labor markets. Also considers the impact of disinflation upon resource utilization, industrial relations and the fed-

eral deficit. The international ramifications of U.S. disinflationary policy, including pressure on foreign interest rates and appreciation of the dollar, are addressed as well.

**Taxation, Inflation and Interest Rates.** Edited by Vito Tanzi. International Monetary Fund, Washington, D.C., 1984, 247 pp. \$15.00, paper.

Provides an overview of interest rates and tax treatment of interest income and expense. Discusses both domestic and international aspects of the relationship between taxes, inflation and interest rates. Considers inflationary expectations, taxes, and the demand for money in the United States, as well as the impact of taxation on international capital flows. Surveys recent literature on the subject.

**The Nuclear Debate: Issues and Politics.** Edited by Phil Williams. Routledge & Kegan Paul, Boston, 1984, 81 pp. \$10.00, paper.

An account of the breakdown of Intermediate Range Nuclear Force disarmament talks in November 1983, which led to the deployment of cruise and Pershing II missiles in Western Europe. Explores the ramifications of the controversy, including potential impact on East-West relations and the evolving political climates in both the United States and Europe. Provides insight into the British and European peace movements and considers their impact upon domestic political processes.

**Italian Aussenpolitik.** By Giuseppe Vedovato. Europa Union Verlag, Bonn, 1984. 203 pp. 36 Deutsche marks.

An analysis of Italian foreign policy from 1848 until the death of Aldo Moro. Describes the structure and organization of the Italian Ministry of Foreign Affairs and provides a detailed chronology of the main events in Italian foreign relations. Discusses Italy's search for European solutions to that nation's internal instability and apparent lack of national solidarity, and emphasizes Italy's frequent role as mediator among its European and Atlantic partners.

**Crisis in Economic Relations Between North and South.** Edited by Norman Schofield. Gower Publishing Co., 1984, 439 pp. \$35.00.

A series of papers addressing problems characterizing postwar North-South economic relations. Studies the ramifications for LDCs of the GATT multilateral trade negotiations and the persistence of non-tariff trade barriers. Examines both the E.C.'s Lomé Convention and the establishment of Stabex, and includes three case studies

of trade and export-earnings stabilization under Lomé. Addresses the difficulty of negotiating international commodity agreements through investigations into trade in four commodities—copper, aluminum, rice and coffee.

**In Search of a Common Fisheries Policy.** By James Elles and John Farnell. Gower Publishing Co., 1984, 213 pp. \$33.95.

Explains the origins and development of the E.C.'s Common Fisheries Policy (CFP) from the early 1970s to the debate over fishing rights concluded in January 1983. Reviews the political, economic and legal aspects of the debate, discusses technical difficulties that face negotiators of both external and internal E.C. fisheries policy, and describes the role of the various E.C. institutions in the formulation of the CFP to date. Concludes with an assessment of the prospects for the E.C. fishing industry under the CFP.

**Conventional Deterrence.** By James R. Golden, et al. Lexington Books, Lexington, MA, 1984, 245 pp. \$27.00.

An in-depth discussion of deterrence, in theory and practice. Provides an overview of deterrence issues relating to both conventional and nuclear forces. Considers political prerequisites of alliance strategy as well as domestic coalitions and offense policy-making. Assesses current Soviet security policy in Europe and attempts to gauge Soviet reaction to NATO defense strategy.

**Industrial Relations in the Future—Trends and Possibilities in Britain over the next decade.** By Michael Poole, et al. Routledge and Kegan Paul, Boston, 1984, 148 pp. \$16.95, paper.

A look at the future of British industrial relations in both political and economic contexts. Examines in detail the main industrial relations groups and notes important trends in industrial relations such as worksharing and employee participation, quality of working life programs and managerial human-resource strategies.

**Road Haulage Licensing and European Community Transport Policy.** By K.J. Button, Gower, Brookfield, VT, 1984, 127 pp. \$32.95.

Details specific problems associated with international road-haulage movements within the E.C. and puts them into the wider perspective of the E.C.'s Common Transport Policy (CTP). Traces the development of the CTP and considers the control of entry in the road-haulage sector.



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**Europe: A Time to Choose—Elections June 1984.** *European Parliament, Luxembourg, February 1984, 47 pages.* Brochure outlining the major social, economic, agricultural and foreign issues facing Europe. Prepared for the direct-election campaign held in June 1984. **Free**

**The European Community As a Publisher 1984/85.** *Commission, Brussels, 1984, 75 pages.* **Free**

**The European Parliament: Bibliography 1983.** *European Parliament, Luxembourg, 1984, 24 pages.* **Free**

**The Regions of Europe: Socio-Economic Situation and Development of the Community's Regions.** *European File No. 15/84, Commission, Brussels, October 1984, 10 pages.* **Free**

**Vade-Mecum of Contract Research.** *Commission, Brussels, 1984, 68 pages.* Guide to the research programs funded by the Community as of May 1984 and the procedures for the award of research contracts. **Free**

**The Community and the Car Industry.** *European File No. 16/84, Commission, Brussels, October 1984, 11 pages.* **Free**

**The European Community Budget.** *European File No. 18/84, Commission, Brussels, November 1984, 11 pages.* **Free**

**The Institutions of the European Community.** *European File No. 17/84, Commission, Brussels, November 1984, 11 pages.* **Free**

**Europe-South Dialogue.** *Commission, Brussels, 1984, 59 pages + map.* Set of four booklets plus a map covering North-South trade and financial interdependence, the history of E.C. relations with the Third World, the Lomé Conventions, and Mediterranean policy. **Free**

**Europeans and Aid to Development.** *European Consortium for Agricultural Development (Milan) and Commission, Brussels, May 1984, 134 pages.* Results of an opinion survey on attitudes on aid to developing countries,

conducted in November-December 1983 in the E.C. member states. **Free**

**The Law of Collective Agreements in the Countries of the European Community.** *Commission, Brussels, 1984, 47 pages.* Survey on the nature, role, negotiation, and contents of collective bargaining agreements in the E.C. member states. **\$4.50**

**Reliefs from Taxes Granted to Imports Made by Private Persons: Situation at July 1, 1984.** *Commission, Brussels, 1984, 71 pages.* Explanations and legal texts on tax-free allowances for travelers and on tax exemption for small consignments, for permanent importation of certain goods, and for temporary importation of certain means of transport. **\$5.50**

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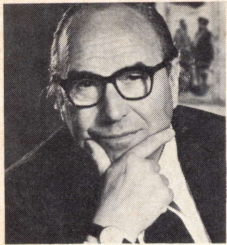
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## THE PERILS FACING EUROPE

Only 16 years remain of the 20th century—a century in which, until 1945, the European nations would have been at the top of any league for mutual slaughter and for involving the rest of the world in their internecine wars.

It is now more than 30 years since the first tentative steps towards the establishment of a European Community were taken. And in spite of apparently endless recent bickerings within the Community and some serious squabbles with our allies, it is a certainty, whatever other perils may await us, that we shall see out this century without one E.C. country taking up arms against another.

The second half of the century, in sharp contrast with the first, will have witnessed a Western Europe which is one of the most stable and peaceful areas in the world. Given our history, that is a considerable achievement. What some regard as less certain, though I would be prepared to put more than a few European Currency Units (ECU) on such a prediction, is that the E.C. in roughly its present form will survive well beyond the year 2000. It is stagnation I fear, not disintegration.

What are the perils which confront us? There are three challenges which, if we fail to grapple with them before the end of this decade, threaten Europe's future.

The first of these challenges is that of the enlargement of the E.C. In the first 15 years, the original six member states achieved what was probably the biggest surge in prosperity ever seen in the recorded history of the world. The only possible rival achievement is the creation of massive industry in the United States after the Civil War. The original Six know very well how much they owe to that initial 15 years of the E.C. Britain was not a member at the time, largely through its own fault, and did not participate in the surge. It joined, together with Denmark and Ireland, only in 1973. That difference of experience goes a long way to account for the different and less favorable perception of the E.C. in Britain compared with that in the Six.

The Community is now one of 10 member states, Greece having joined in 1981.

Spain and Portugal are now due, after several postponements, to join in 1986. There are those who argue that if the 10 member states already have such difficulty in reaching agreement on even minor issues, what hope can an E.C. of twelve ever have of making any progress. Spain and Portugal, they suggest, should therefore be denied entry. There is a certain superficial attraction in that argument. But I believe that it is dangerously wrong. First, because Spain and Portugal are fully qualified for membership. They are European. They are now democratic. And they want to join. Any further postponement of their admission could jeopardize the stability of the recent, and therefore inevitably fragile, democratic regimes. This would be very much against the general European—and indeed Atlantic—interest.

There is a sad irony in seeing Greece, the most recent member of the E.C. which attached great importance to an early date for its own entry, threatening to delay further the admission of two other Mediterranean and relatively poor member states. This may however drive home in the other countries, including particularly Britain, a valuable lesson. It has drawn attention to the impossibility of continuing, even in an E.C. of 10 members, with a system of unanimous decision making. Under the Treaty of Rome creating the E.C., nearly all decisions were to be taken by a "weighted majority." That, in practice, has degenerated since the so-called Luxembourg Compromise of 1966 into the habit of the constant use of a one-country veto. I believe that major peril awaits the E.C. if a decision is not soon taken to revert to the original system. Without such a change a Community of Twelve could indeed be a recipe for a stagnant Community.

The second area in which lie both peril and opportunity is that of the monetary role of the E.C. Europe, after the collapse of the Bretton Woods system in 1971, suffered much more gravely from the currency fluctuations than did either the United States or Japan. For our two main competitors, the fluctuations were external. For Europe they were internal. It is as though in the United States there has been a New York dollar, a San Francisco dollar, a Chicago dollar, an Atlanta dollar, each moving violently and often irrationally against the others. Under such conditions, the United States, I believe, would have enjoyed a much less robust

economic performance.

In 1979, the E.C. put together the European Monetary System (EMS). It did it quickly, little more than a year from conception to birth. It was, alas, the last major E.C. initiative. The EMS did not aim, and should not have aimed, at producing completely fixed exchange rates between the eight fully participating currencies. However, it did produce a greater degree of exchange-rate stability than there has been hitherto.

I do not believe that we can recreate the Bretton Woods system, great though were the advantages which flowed from it. I am concerned, however, that the major economic powers should not endeavor to protect the world from the damage to trade and investment which comes from excessive and often irrational fluctuations in exchange rates. We need a tripod of greater stability based on the dollar, the yen and the ECU.

The third area of peril for Europe is that of its performance in the new technologies. There is an element of irony in the fact that while the members of the E.C. have spent so much time and energy in grappling with the minutiae of creating a single market, our competitors have overtaken us in exploiting its advantages. Thus, of every 10 personal computers sold in Europe, eight were manufactured in the United States. Of every 10 video-recorders, nine were made in Japan. As recently as 1975, the E.C.'s balance of payments in the area of information technology was positive. By 1982, it was in deficit to the tune of \$10 billion. This is an area which requires vast resources of brain power, in which the E.C. is rich.

Europe has recently been too obsessed with accountancy. Value for money is important, but so is a sense of proportion. The total of the E.C. budget is only 2 percent of public expenditure in the member states. Rather more than that is lost each year through frontier delays. Far more than that is lost through our failure to exploit the advantages of a unified market of nearly 300 million people for the new high technology industries. We must get our head out of the groceries and regain the vision, nerve and perspective of those who 30 to 35 years ago created both the European and the Atlantic Communities. €

Rt. Hon. Roy Jenkins is a Member of Parliament, former President of the E.C. Commission, former deputy leader of the Labor Party and former leader of the SDP.

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