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EUROPE

AN E.C. OF 12: IMPLICATIONS FOR THE U.S.

EUROPEAN INDUSTRY'S UPHILL STRUGGLE

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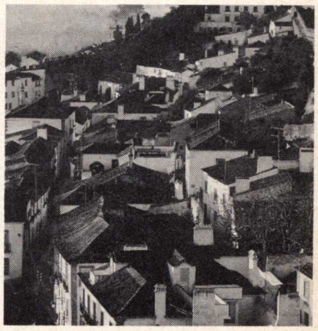

COVER: How will E.C. enlargement affect the United States (p.12)? Illustration by Gary Yealdhall/Eucalyptus Tree Studio.

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PUBLISHER'S LETTER

Putting together a continent is no task for the easily discouraged. The years of preparation that went into the approaching enlargement of the European Community were often years of difficulties and disputes, years of complex negotiations whose success was never assured and frequently in doubt. And yet, in the end, the goal was won. The entry of Spain and Portugal into the Community this January will mark a political triumph of historic proportions for the people of Europe, and an important advance in strength and security for the West. The two young Iberian democracies will find Community membership politically and economically stabilizing, Spain's continued membership in the alliance has been given support, and Europe itself has become a more powerful member of the Western family. These are accomplishments whose importance cannot—and should not—be taken for granted.

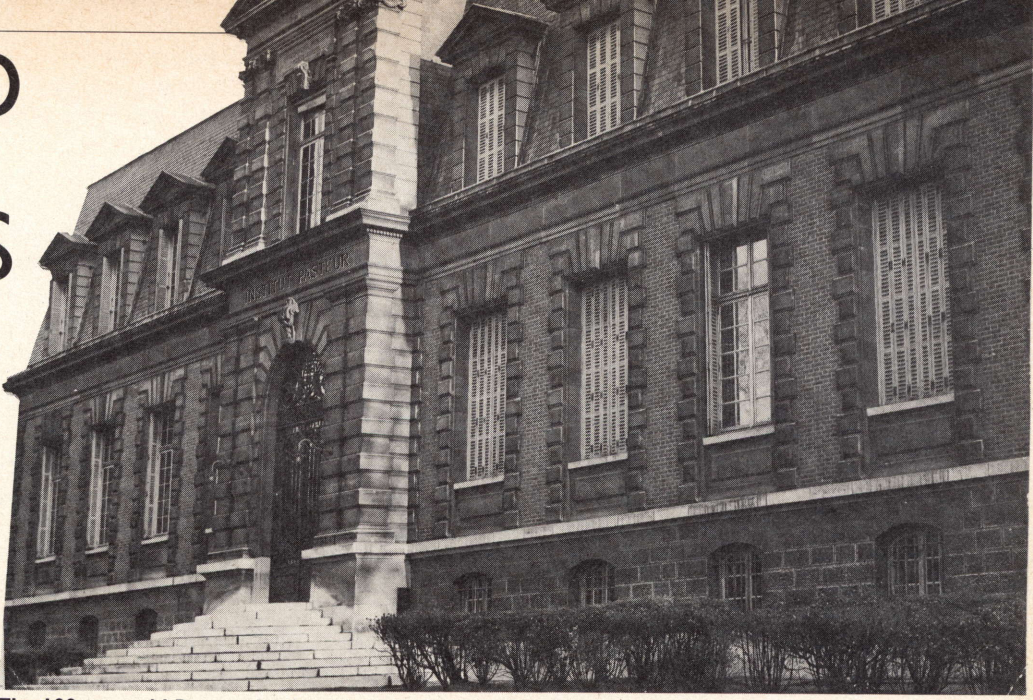
There will, however, be an inevitable and probably difficult period of adjustment, not only within Europe, but also between her and her trading partners. American traders are concerned that markets in Spain and Portugal will be lost with the expansion of the E.C., and that European industry will gain an unfair advantage.

These are legitimate concerns, which will be addressed next year in the General Agreement on Tariffs and Trade (GATT). GATT rules provide a procedure where negotiation is engaged any time a customs union is enlarged, so that the balance of advantage for third countries in terms of GATT commitments can remain the same. In other words, the E.C. is determined that, although specific adjustments will have to be made on every side, stable levels of trade will be maintained. And, as most of the changes will be introduced gradually, serious shocks to trade will be avoided. A fair and open world trade system is, after all, in the European interest too. Bringing Spain and Portugal into the democratic Community of Europe, while it may mean a few temporary trade headaches, ultimately means a stronger and more secure world. Something to remember during the coming trade negotiations.

H. Peter Dreyer of *The Journal of Commerce* explores some of the possible effects of the enlargement on U.S.-E.C. trade in our cover story this issue, and looks at what the most contentious issues are likely to be. Also in this issue, Philips president and chairman of the board of management W. Dekker discusses European industry's uphill struggle and urges an agenda for action; and the *International Herald Tribune*'s Axel Krause profiles what has been referred to as an "alliance within an alliance": Franco-German cooperation.

Long-time readers of *Europe* have watched it grow and expand over the years, from the first thin issues in 1959 to the widely-read journal on European affairs it is today. We're pleased to report that, as a result of rising circulation, we will be increasing publication in January to 10 issues a year from the current six—allowing us to keep our readers more fully informed and up-to-date on the new Community of Twelve and its relations with the United States.

AROUND THE CAPITALS



COURTESY FRENCH EMBASSY PRESS & INFORMATION DIVISION.

The 100-year-old Pasteur Institute is famous for its pioneering work in medical research.

PARIS

Pasteur and AIDS

In late July, the classic tall, dark and handsome actor Rock Hudson collapsed in a posh Paris hotel and was admitted to the American Hospital here. The 59-year-old Hollywood hero of the 1950s and 1960s had become gaunt and haggard. Initial reports said he had liver cancer. But later his assistant confirmed he had been diagnosed for AIDS and was in Paris to consult with specialists from the Pasteur Institute.

This year is the centenary of the institute founded by Louis Pasteur as an independent research facility. It is an anniversary that is being observed with a great deal more prominence than most of the 500 researchers at the institute might have expected only a few years ago. The reason is the institute's pioneering work in AIDS.

In May, 1983, the Pasteur Institute published the first description of the virus that causes AIDS. Last February, the institute reported preliminary success in use of the drug HPA-23 in controlling the AIDS virus. And this April, the Pasteur Institute developed an AIDS detection kit that could be used to check for the disease in blood transfusions.

The advances are in the purest tradition of Pasteur's research that led in 1885 to the first inoculation of a human with anti-rabies vaccine. Pasteur's philosophy was to conduct medical research unhampered by political constraints. So he funded the institute with private donations and the profits from manufacturing vaccines through a facility attached to the institute. But as top-quality research in Pasteur's tradition bears fruit, in the breakthroughs in AIDS, the institute itself faces just the kind of political wrangling its founder sought to avoid.

On the AIDS research itself, there have been battles with American scientists over who discovered what first. The Pasteur Institute and the National Cancer Institute in Maryland both did groundbreaking work on AIDS after it first started appearing in Western countries in 1980. But squabbles broke into the press about which group had actually discovered the virus. Now there is a seemingly irreconcilable difference between the two groups over the origins and nature of the AIDS virus. The Pasteur Institute was portrayed—even in France—as pulling away from cooperation in a huff and the American and French groups no longer even exchange information.

Then there was the question of treatment for the disease which attacks the immune system and makes victims of AIDS susceptible to infection. After publishing that it had achieved early success in curtailing the virus, the Pasteur clinical testing arm was swamped with requests from Americans wanting to be treated in Paris. Rock Hudson was just one of the many seeking the as yet unfound cure to AIDS. The institute has done everything short of turning down most requests, partly because doctors say it is better to be treated near to one's own home and partly because there is resistance in France to Americans taking up the scarce resources provided to AIDS treatment. It all posed another dilemma for the institute.

And even Pasteur's innovation of a testing kit to detect the presence of the AIDS virus in blood has drawn debate in France. The Government recently announced a 200-million-franc program to make the AIDS-detection test obligatory for all blood donors. Similar programs are being introduced in Belgium, the Netherlands and the Federal Republic of Germany. The move will, naturally, make for a safer blood bank. But analysts point out that the kit only tests for the appearance of antibodies that build up when the AIDS virus is present, but has no method of identifying whether the blood donor actually has AIDS.

Many commentators observed that a donor could be tested positive by the kit, but not have AIDS at all or have only a dormant form of it. Less than 10 percent of carriers will ever have the disease. "What do you tell a donor who registers positive," asked one weekly magazine. "Do you tell him and burden him with anguish when he has better than 9 out of 10 chances of never contacting the disease?"

And finally, in a split with the mechanism for independence established by Pasteur himself, the institute has sold off the vaccine-manufacturing arm to two pharmaceutical corporations, leaving the biomedical research facility reliant on the Government for close to 50 percent of its budget. After 100 years, even the Pasteur Institute has not found the potion that mixes advanced scientific endeavor totally compatibly with the nitty-gritty of everyday politics.—BRIGID JANSSEN

LONDON

Catering to Tourists

It is all too often a deflating experience whether you are a visitor to Britain or a resident. You have been to the theater or cinema, and, like the panting hart yearning for the cooling stream, you feel the urge to head for that hospitable institution, the British pub.

Once there, you discover for the umpteenth moment of chagrin that you must gulp down your favorite tipple because alcoholic drinks cannot be served after 10:30 or 11 P.M. Even greater torture is that after several hours of diligent but thirst-creating sightseeing in the afternoon, a cold glass of uplifting beverage is not available for an hour or more.

The British are well adapted to, although not universally comfortable with, their licensing hours. Although the drink laws were relaxed in Scotland in 1976, even now they are only slightly less onerous than when they were first introduced by the then Liberal Government in 1914. The purpose then was to limit the time that the working classes were spending in the public houses at the expense of the war effort. In 1918, the war was duly won, but over the years the brewers, the temperance movements and the innate conservatism of the British have prevented easing any restrictions on public alcohol sales.

Maintenance of such curbs on the social drinking of alcohol is but one example of the indifference with which the British have viewed the question of making their country a more attractive center for tourism. "Why should we do more when London teems with historical fascination and the provinces hold the last word in scenic beauty?" appears to have been the prevailing attitude.

But this is now changing as the sheer economic benefits of tourism in Britain become so palpable. Total earnings from tourism last year were $19.6 billion—bigger than the entire output of mechanical and electrical engineering and larger than agriculture. Clearly, this is a not insignificant contribution to national wealth and its employment value—currently 950,000 permanent jobs—is immensely important at a time when national unemployment is hovering around the 14-percent mark.

The tourist offices for England, Scotland and Wales, all very modestly funded by the Government, have been campaigning for years for a greater effort to develop the country's tourist potential. The English Tourist Board (ETB) claims that another 400,000 jobs could be created by 1990 if the industry's development were nurtured by a proper mix of policies. No industry has done better at creating jobs, yet no industry has been less well supported financially, says the ETB.

Prime Minister Margaret Thatcher's Government is not anxious to discover new spending opportunities, but it has become aware that tourism could be developed at minimal cost to the Exchequer. Earlier this year, she ordered an investigation by her Minister without portfolio, the ambitious and able Lord Young.

COURTESY BRITISH TOURIST AUTHORITY

Licensing hours were first introduced in British pubs in 1914 to limit time spent in bars at the expense of the war effort.

His efforts, however, bore only slender fruit when his report was published in July. One of its more perceptive, but hardly original, observations was that tourism and leisure are "one of the United Kingdom's success stories—but one which is still not fully recognized."—Like a civil servant, Lord Young urged the strengthening of liaison between Government departments on tourism policy and the need to attach greater importance to leisure traffic when considering the national road program.

But moves which might smooth the rough edges of Britain for tourists whose enchantment with the country may be less than total received much more guarded treatment from Lord Young. He reminded people that Britain's licensing hours were already being reviewed by the Government and called for research into ways of speeding customs and immigration procedures and for relaxing museum and art gallery opening hours.

Lord Young's caution may well have been underpinned by the attitude referred to above. London is already clogged with bus traffic in summer, why make it worse? There is enough drunkenness as it is, why encourage more by keeping the pubs open longer? Why, indeed, risk further compromising the quality of life by sucking in more tourists?

The idea that people might not want to expand a profitable activity is difficult for Americans to grasp, but in Europe in general and Britain in particular, the awareness is widespread that wealth creation involves individuals and nations in tradeoffs which might actually make life less worth living. It partially explains the strength of environmental movements and often limits the effort which individuals will make to earn more money and advance professionally. The foreigners, it seems, will have to take us as they find us.
—JOHN WYLES

BONN

Promoting Babies

Citizens of the Federal Republic of Germany are a dwindling people, a circumstance that influences almost every political and social decision taken by Government and Parliament. The boys and girls born during the "baby boom" years of the 1960s are now entering the job market or filling the universities to overflow. But the "baby boom" ended abruptly in 1972, and, ever since then, the numbers of Germans who die have outnumbered the number who are born.

The latest figures generated by the federal statistical office show that the German population of the Federal Republic again decreased in 1984, by 91,000 or 0.2 percent, to 56.733 million. The population loss was greatest in the Protestant northern provinces, least in the predominantly Catholic southern provinces.

The Bonn Government already has taken note of the situation as it affects the strength of the Bundeswehr (armed forces). In order to maintain the peacetime strength of the Bundeswehr at 480,000 officers and men, the Government has declared that it will soon have to extend the period of national service from 15 to 18 months, while relaxing physical requirements so that more young men will be considered fit for military service.

Although the low birth rate is not the only reason, it contributes to the renewed attempts by Chancellor Helmut Kohl's Christian Democratic Union to blunt some of the effects of the legalization of abortion more or less on demand pushed through Parliament by the previous Government of Social Democrats and Liberals. Specifically, the Christian Democrats are working themselves up to a suit before the constitutional court, to argue

Concern over the decreasing German population has sparked Government proposals aimed at encouraging more women to have more children.

that it is a violation of the Republic's basic law for the national health insurance schemes in which membership is mandatory to pay for abortions performed for social reasons.

In addition to the usual medical grounds, the reformed law says that "social indications" also may justify an abortion. "Social indications" are subject to much interpretation, but generally are said to apply in cases where the woman is unmarried, a birth would interfere with her career, the current pregnancy follows too closely on the one preceding it, the woman already feels she has too many children or the family feels it cannot afford the child.

The Government also has proposed several more positive measures aimed to encourage young women to have children. One is that all mothers be credited with one year of employment for each child, so that a woman who worked for three years and then quit to raise two children would meet the minimum five years of employment necessary to qualify for an old-age pension.

A parallel measure is a proposal approved by the Cabinet just before the summer recess that all working mothers be granted a maternity leave of, initially, 10 months and later 12 months, with the state paying them 600 marks (about $230) monthly during that period. Employers could not dismiss such women during their maternity year, but could give them the long-term notice usual under German law only after they return to their jobs.

The federation of employers says this measure will backfire, because most medium-sized and small firms no longer will be willing to hire young women. The Government countered that by pushing through a measure which permits employers to hire some persons on term contracts rather than under the usual conditions of notice. Heiner Geissler, Minister of Family Affairs, argues that this will provide tens of thousands of temporary jobs to women who will be filling in for those pregnant. He adds that, as experience has shown that about half of the working women who become pregnant never return to their jobs, thousands of the "temps" will wind up with permanent positions.

Many critics from all parts of the political spectrum doubt that all of these "baby bonuses" will actually increase the birth rate. They contend that money rarely is the decisive factor when a woman or a couple decide on an abortion. The Government will have no problem getting its proposals through Parliament. It will then be another year or two before the effects show up statistically. But they will turn up politically in the results of the next national parliamentary election, now tentatively set for late in January, 1987.

—WELLINGTON LONG

DUBLIN

Festival in Cork

Cork 800, the joke goes, refers to the 800 people in Ireland's second largest city who still have a job. It's a joke with a bitter edge.

This year, Cork, a handsome city in the south of Ireland straddling the river Lee where it enters the Atlantic Ocean, celebrates the 800th anniversary of receiving its city charter from Prince John, son of King Henry II of England. The idea of celebrating the anniversary came as the "Rebel City," renowned for resistance to past invaders, was experiencing an economic hurricane.

In 1983-84, three of the city's biggest industrial firms shut down, throwing 2,000 workers out of a job. Their wages represented about $20 million annually in purchasing power. First it was the Dunlop tire manufacturing plant. Next came the biggest blow, when the Ford car-assembly plant, the first Ford factory to be established outside the United States almost 70 years ago, was closed. Then it was the turn of the Verolme shipbuilding yard.

This summer Cork was bracing itself for yet another catastrophe as a fourth major industry, Irish Steel, accumulated further massive losses, threatening the livelihood of another 650 Cork workers. Of a working population of 140,000, an estimated 14,000 are now jobless and some areas have an unemployment rate of 21 percent.

It was against this gloomy economic background that the Cork 800 celebrations got under way last January. Some critics objected to the city plunging into almost an orgy of cultural, entertainment and sporting events while the specter of unemployment and deepening recession was hitting so many Cork homes and families. But the organizing committee of local businessmen went ahead collecting funds to finance the celebrations. By June, most of the target of $500,000 had been collected.

Hardly a day passes but a Cork 800 event takes place. The rest of Ireland has entered into the spirit of the celebrations. Political parties have held their annual conferences in the city; football teams, artists, bands, theater groups, academics, yachtsmen, even clergymen have been congregating in Cork to show their solidarity.

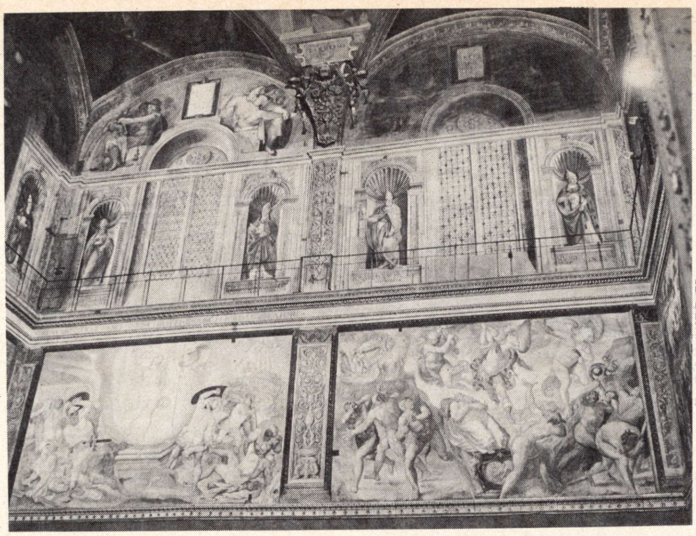
The spacious harbor, the finest in Ireland, is receiving numerous visits from foreign naval vessels, including the American clipper, "Pride of Baltimore." A tragic note was struck, however, when the city hospital became a temporary morgue for the victims of the crash off the south-west coast of the Air India jumbo jet. The city and Corkonians received tributes from the Canadian and the Indian Governments for their kindness and hospitality to the grieving relatives who traveled to Cork to help in the identification of the victims.

Thanks to Cork 800, the city in recession has given itself a face-lift. A local paint manufacturer offered free paint to brighten up buildings in the city center. It was a colorful success. Two new road bridges have been built to ease the traffic problems of a city with its heart on an island of a fast flowing river. A system of ring roads is almost in place linking the city with its lower harbor where much hope for the future depends on the recently established free port and industrial estate at Ringaskiddy.

U.S. investment is being actively sought for the Ringaskiddy zone in which the Irish Government has spent $60 million in infrastructure. Dianne Feinstein, the Mayor of San Francisco with which Cork is twinned, visited Cork during the summer as part of the Cork 800 celebrations. Conscious of the large Irish-American population in her own city and suburbs, she discussed how San Francisco could help channel investment for new industries in Cork. Feinstein and the head of the Irish Development Authority, Padraic White, agreed to set up a committee to raise $1 million in American venture capital for new industries in Cork. Prince John would have approved.—JOE CARROLL

COURTESY IRISH TOURIST BOARD.

The Irish city of Cork is celebrating its 800th anniversary this year.



COURTESY ITALIAN CULTURAL INSTITUTE.

Restoration has revealed Michelangelo's original works of art.

ROME

Restoring the Sistine Chapel

The popular image of Michelangelo at work on the ceiling of the Sistine Chapel has the painter reclining on a tower-like scaffolding, applying his colors with painstaking care. It is a romantic notion which has found favor with persons as diverse as William Butler Yeats and Charlton Heston. But this and many other myths connected with the Sistine ceiling are destined to disappear, together with the grime that has obscured the true nature of Michelangelo's frescoes for centuries.

The Vatican recently finished the first stage of the 12-year program of restoration, which will see the whole of the ceiling and Michelangelo's Last Judgment returned to the state in which the painter left them. Even at this early stage, the results have been spectacular, and promise to revolutionize our appreciation of Michelangelo and one of his best known works.

The focus of attention for the past four years has been the 14 lunettes of the ancestors of Christ, which Michelangelo painted concurrently with the more famous Old Testament scenes on the vault of the ceiling from 1508-1512. Until recently the lunettes and ceiling conveyed a somber and muted appearance, and it was generally held that Michelangelo painted both with an identical technique.

But the restoration has refuted both points, showing that the lunettes were painted in a highly idiosyncratic manner and with astonishing bravura. The prime reason for these mistaken conclusions lay in a thick layer of animal glue applied to Michelangelo's work as early as the 17th century. The glue was probably applied to conserve the frescoes and to mask early restorations that had gone wrong. But, over the centuries, the glue attracted dirt and darkened through candle smoke.

Now that the lunettes have been cleaned, two remarkable discoveries have been made about the artist's technique: Michelangelo did not employ cartoons for the lunettes, but conceived them virtually in terms of color alone. Working swiftly and with great economy of design, he executed preliminary drawings for his figures freehand in dark colors, and then applied pure color to convey form and movement. In this way he managed to paint some six square meters of wall each day, generally finishing a whole lunette in three days.

Michelangelo's colors are equally remarkable. The ancestors of Christ emerge from a background which can now be seen as mauve, not grey; and they are dressed in robes of apple green, reddish orange and yellow. Sometimes the juxtapositions are violent, in other cases more harmonious. But the total effect is of an iridescence that finds a direct correlation only in the work of Michelangelo's younger Florentine contemporaries, the mannerist painters, Rosso and Pontormo.

The first phase of the ceiling's restoration has also solved another problem: what kind of scaffolding did Michelangelo use? Holes have been found in the walls just below the lunettes, and it seems that they held large wooden trusses on which a bridge-like scaffolding was constructed. This confirms contemporary accounts, which state that Michelangelo's scaffolding had no floor supports and covered half the ceiling. Michelangelo painted the lunettes and lower parts of the vault from the steps of the bridge, and the large narrative panels while standing on the platform above.

This helps to explain one major difference between the lunettes and the ceiling proper: Michelangelo could paint the former freehand because they were flat surfaces, which he could see from some distance; with the ceiling he could not see his work from any distance until the first half was unveiled in 1511. Consequently, the ceiling involved more time-consuming preparatory phases not required for the ancestors of Christ.

Now attention has shifted to

the vault itself, with a complete restoration expected by 1988. For this phase, the Vatican restorers have designed a bridge-like structure along the lines of Michelangelo's. It can be moved along a steel track, and will cover approximately one fifth of the ceiling at any time.—BRUCE BOUCHER

AMSTERDAM

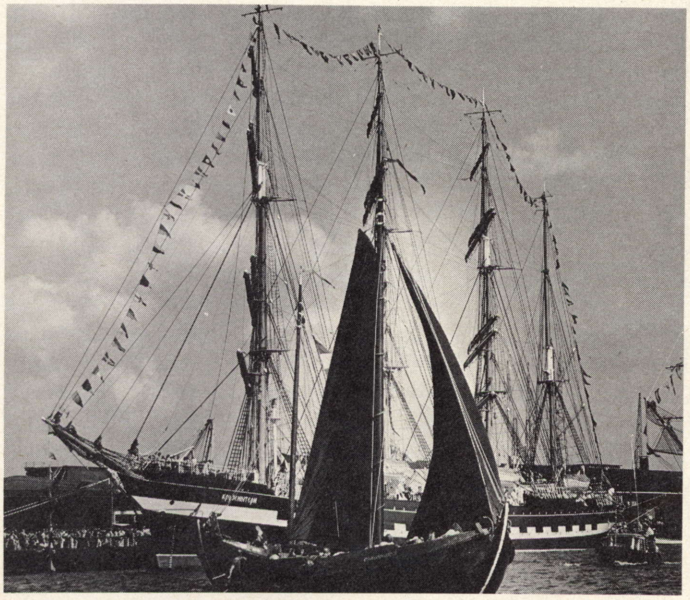
Welcoming Tall Ships

Some 5 million visitors converged on the Dutch capital in the first week of August for "Sail Amsterdam," an event which takes place every five years. Sail Amsterdam has grown into a truly international nautical show since originating with the 700th anniversary of the Dutch capital in 1975. The first sailing week was organized then by the city fathers to recreate the golden age of the 17th century, when Amsterdam was the main gateway to the Continent.

This year the tourists came from all over Europe to see tall ships from seven countries sail up the river into the port of Amsterdam. Training ships from the Soviet Union, Columbia, Italy, Mexico, Poland, Argentina and the Federal Republic of Germany were welcomed by flags, fireboats, a horn-and-flute concert and a round of salutes.

Holland's only woman Cabinet member, Transportation Minister N. Smit-Kroes, hosted dignitaries and foreign diplomats on a vessel moored in the harbor. They saluted the tall ships with champagne while some 2,000 smaller sailboats welcomed the tall ships to Amsterdam. The week-long program included a mock sea battle, fireworks, a sailing drill of tall ships, a jazz festival, as well as an "aquashow" of flowers.

Amsterdam Mayor Ed van Thijn said the event attracted "a record number of tall ships, representing half of the world fleet, and a record amount of nationalities participating." He said Sail Amsterdam recalled the days when Amsterdam and the Netherlands were a center of navigation. "Of course, these times are over now," he said. "But a lot of Amsterdam characteristics have remained the same. Amsterdam is not only a historic city. It is very modern as well. As before, Amsterdam is leading the way in the technology revolution. In the old days, we built the most modern ships. Nowadays, we have the most modern airport and we are constructing a teleport—a prestigious plan for an ultra-modern center for telecommunications and information technology."—NEL SLIS



Krusenshtern, the training ship of the Soviet Fishery Board, was built in 1926 and carries a crew of 236.

COPENHAGEN

Coping with Racism

Like other Scandinavians, the Danes consider themselves to be extremely open-minded and tolerant on ethnic and racial issues. In the E.C. context, Denmark has supported a very strong stand against the apartheid policies of South Africa in the United Nations and elsewhere.

But now the Danes are asking themselves searching questions. A number of incidents involving open and covert racism are testing the image the Danes like to project. The most unpleasant fact is that the growing public resentment of "guest workers" and refugees, especially the latter group, is linked to growth in numbers. The Danes may not be fundamentally better at integrating newcomers than others.

By themselves, the incidents do not loom large: petty discrimination against the employment of dark-skinned and other non-Danish cab drivers, graffiti on the walls of housing projects with foreign residents, a nightly brawl at a hotel housing 60 Iranian refugees in a small provincial town, a minuscule Danish section of the Ku Klux Klan showing off on national television.

But in total, they represent an ominous change in public opinion. The Prime Minister, Conservative Poul Schlüter, and other Cabinet members have reacted promptly and in strong terms, expressing shame, but promising that there will be no change in liberal Danish refugee policies. Political observers fear that the right-wing anti-tax Progress Party may try to capitalize on the present public mood, though an attempt to do just that earlier this year failed dismally.

Public attention has focused on the Iranians, because they are the latest arrivals and have been involved in the most recent incidents. Many have reached Denmark by ferry from the German Democratic Republic. They arrive there by air from Turkey, bypassing otherwise closed European frontiers.

Some Danish sociologists claim that the Iranians provoke special resentment because they are not as destitute as Vietnamese and other refugees. Spending public money on this group angers some Danes, especially the unemployed and those having problems coping socially, they say. Left-wing critics of the Government add that the problem is exacerbated by the general success of economic policies. Those not partaking in the success feel relatively even worse off than before.

Certainly the success of Danish economic policies, promising the highest growth rate in the E.C. for three years in a row, should also make the cost and process of integration easier. But it will not be an easy ride, as most Danes have taken for granted.

—LEIF BECK FALLESEN

BRUSSELS

Election Set For October

The murderous English soccer fans whose rioting led to 38 deaths at a match in Brussels on May 29th have indirectly brought about an early end to Belgium's most successful post-war Government. Nothing is to be said in mitigation of the guilt of the Liverpool soccer supporters whose brutal attack on followers of the rival club Juventus of Italy led to the tragedy. But both inside and out of Belgium, it is now widely recognized that the match stadium was ill-fitted for the game, that police forces entrusted with crowd control were inadequate and poorly prepared and that ticket sales were handled with surprisingly little regard to the consequences of allowing rival supporters in close proximity.

These charges are not made by English apologists. They come from an all-party committee of inquiry of the Belgian Parliament which in turn lays the blame (though by a split vote) on the Minister of the Interior, Charles-Ferdinand Nothomb, whose department bears the ultimate responsibility for public order and safety.

Nothomb is leader of the Social Christians who, with the Liberals, have formed the center-right coalition that has governed Belgium for three and a half years—a remarkable achievement given the usual duration of about 12 months for Belgian Governments. Whether Nothomb was guided by personal considerations or whether he felt his resignation would mean the collapse of the coalition is not clear. Anyway, he refused to step down. There was uproar in the press, following which the liberal leader, Jean Gol, said he could not continue to serve with Nothomb and thus announced his own resignation.

Prime Minister Wilfried Martens.

Other Liberal Ministers followed his example, leaving Wilfried Martens, the Prime Minister, no alternative but to ask the King to dissolve the Parliament. Most Belgians breathed a sigh of relief when the King persuaded Martens and his divided team to soldier on for two more months, allowing holiday-makers a few weeks on the beaches before returning to face what promises to be an unusually bitter campaign and general election in early October.

The whole business has caused something of a shock in Brussels, though not perhaps for the obvious reason. There is thus no strong sense of outrage that English soccer hooligans should have contributed to the downfall of the Belgian Government. There is little evidence that either Nothomb or Gol has won or lost personal support because of his actions. The point here is simply that a general election is constitutionally due in Belgium in December in any case. And what these events have done is to bring out into the open the extent to which the coalition is split by deep fissures between the main partners and what an uphill task it faces if it is to beat off the mounting challenge posed by the Socialists in the election.

This is surprising because, for most of its relatively long life, the Government has been credited with taking unpopular decisions and standing by them without ever seriously forfeiting the general goodwill of the public. Facing a near-disastrous economic situation on taking office in 1981, the Martens Goverment (the fifth under the same Prime Minister) devalued the franc and assumed emergency powers to force through an austerity drive that brought about the first real fall in the standard of living for Belgians for many years. It acted boldly to cut back steel making capacity, in the process pushing Belgium's unemployment rate up to the highest in the European Community. More recently, it has pressed ahead with the installation of NATO cruise missiles in a move that provoked a short-lived rebellion in the ranks of Marten's own party.

But the price has been a relentless erosion of the coalition's popularity and, with the approaching election, growing unrest between the Liberals (who in spite of their name are the more right-wing of the partners) and the Social Christians over the extent to which the Government should compromise over taxes, social security and economic growth in order to win back the voters. There presumably will be some effort at economic pump-priming in the remaining few weeks of the Government, but

COURTESY LUXEMBOURG NATIONAL TOURIST OFFICE.

Luxembourg will be the site for an important conference in September aimed at amending the E.C. treaties.

with both the Social Christians and the Liberals out to maximize their showing in October, the most likely prospect is for a round of increasingly malicious infighting.

All this has come as something of a windfall to the Socialists who are now confidently expecting to get back into power this year. The most likely prospect is that of a Social Christian/Socialist coalition, but an alliance of the three large parties is not being ruled out. In any event, the three-and-a-half-year Belgian experiment with right of center economic and social policies seems about to end, and the prayer of most Belgians is that this will not mean an abrupt fall from the country's new-found economic respectability, still less a return to the linguistic divisions that plagued Belgium throughout the 1970s.

—Alan Osborn

LUXEMBOURG

A Six-Month Presidency

Luxembourg is back in action so far as the European Community is concerned. Most of the stories you will read about the Common Market in the next six months will come from Luxembourg. The country has become, by rotation, the official seat of the E.C. Council of Ministers presidency for the second half of 1985. That means that many key meetings are being held here. And none of them is as important as the intergovernmental conference designed to negotiate changes in the treaties establishing the E.C. with a view to improving decision-taking. That meeting will be in the Grand Duchy starting on September 9th. Its conclusions will be put to a summit meeting of E.C. leaders in the Grand Duchy in December.

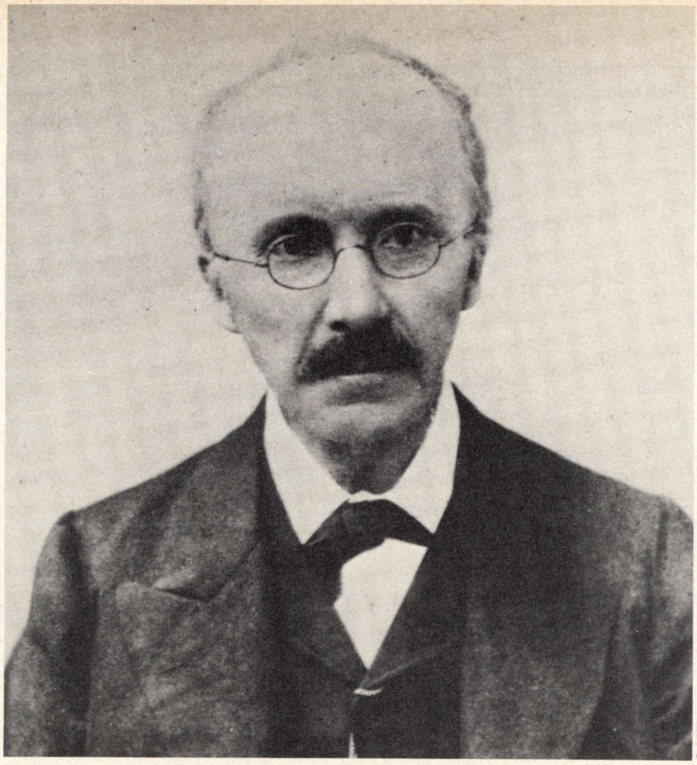
In so many ways, Luxembourg is an ideal seat for the Common Market institutions. Geographically, it is at the very heart of Europe. Politically it is so small that no one really resents its aspirations. But there is one important exception to this. The European Parliament is legally obliged to sit in both Strasbourg and Luxembourg. For many reasons, including the strong presentation made by the city of Strasbourg, most members of the European Parliament want to have their monthly sittings in the French city. The Parliament did in fact have a session in Luxembourg in June, but this was only because the Strasbourg building had to be closed for extensions to be made. The Luxembourg sitting was successful, but it has not led to any great clamor for more sittings to be held there.

Luxembourg has a fine building that has proved itself worthy of accommodating all the members of the European Parliament. There has been no complaint about hotels or communications. But there is little doubt that the Parliament will revert to Strasbourg, and the chances of Luxembourg playing host to the Parliament in the near future are next to nothing. The legal claim still exists, and it is being pursued in the courts by the Luxembourgers, but the realities are that future sessions will be held in Strasbourg.

This prospect upsets many members of the European Parliament and many outside critics of the Parliament. At present, the secretariat of the Parliament, numbering some 2,000 E.C. employees, is based in Luxembourg. Every month most of them have to uproot their office and move to Strasbourg for a week. It is a costly and inconvenient exercise. Why can't the Parliament sit in a location that serves all professional requirements at minimum cost? Almost certainly this would be Brussels, where the E.C. Commission and the E.C. Council of Ministers already have their headquarters.

Both Luxembourg and Strasbourg oppose the idea. And they probably have a majority of the members of the European Parliament on their side. In many ways Strasbourg is a more agreeable city than Brussels. But its charms may not last forever. Many members of the European Parliament feel that ultimately all the Community institutions will have to be in the same location. That will have to be Brussels. Already many of the main political groups in the Parliament have decided so, and have moved their headquarters to the Belgian capital.

Luxembourg has probably accommodated itself to the loss of the Parliament. Its future lies in other areas. The city can now boast many top-class international hotels and meeting centers. It is already a major banking center. It has real attractions for tourists. It is shaping up as a genuine competitor to stage international conferences and it may be in that direction that the city's future lies.—ALAN OSBORN



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Heinrich Schliemann, the German archaeologist who discovered Troy.

ATHENS

19th Century Restoration

Around the corner from Parliament and the luxury hotels of Constitution Square, an Athenian landmark has come back to life after years of neglect. A palatial mansion built by Heinrich Schliemann, the self-taught archaeologist who discovered Troy, was restored at record speed this year to house an exhibit of ancient objects borrowed from the Federal Republic of Germany in honor of Athens' six months as Europe's cultural capital.

Schliemann, who kept his private collection of antiquities in the Iliou Melathron (ancient Greek for Palace of Troy) would have been delighted. The German-born pastor's son who left school at 14 and made a fortune as a merchant in czarist Russia and then in the California gold rush, built the house as a monument to his archaeological career.

No expense was spared in decorating the three-story mansion, designed in the style of a Tuscan villa by Ernst Ziller, a German architect working in Athens and a friend of Schliemann. "Motifs from Schliemann's excavations recur throughout the building," said George Korres, an archaeology professor at Athens University and an expert on Schliemann. "It's one of the most important buildings of the 1880s in Europe and it's stamped unmistakably with the archaeologist's personality."

A mixture of Italian Renaissance villa and solid Athenian family home, the Iliou Melathron is one of Athens' few remaining architectural splendors from the late 19th century. Its gilt and marble interior, decorated by Italian and Bavarian artists, evoked Schliemann's singlemindedness and earnest dedication to his work.

Gilded quotations from classical authors were painted above doorways of Schliemann's huge library overlooking a broad terrace and his children's bedrooms. Brilliantly colored frescoes modeled on Roman wall plantings from Pompeii decorated walls and ceilings. One showed a string of Cupids excavating. Tall door frames recall the entrance to a bronze age beehive tomb he excavated at Mycenae in southern Greece. Bird and flower designs from Troy are picked up on mosaic floors.

And modern comforts were not forgotten. The house had gas lighting, a dumbwaiter was installed and stoves were imported from the United States. Schliemann and his young Greek wife Sophia had spent years in discomfort, digging at Troy in the 1870s. At the Hissarlik mound on Turkey's north Aegean coast, they unearthed prehistoric fortifications, a hoard of gold treasure and buildings destroyed by fire—the remains, they thought, of the sack of Homer's Troy. Although the finds are now dated around 2,300 B.C. and most scholars believe Homer's Troy fell about 1,000 years later, there are few doubts left that Schliemann found the legendary city.

At the time, however, his theories were dismissed by many professional classicists. But by the time he built the Iliou Melathron, he had also discovered the gold-filled shaft graves at Mycenae and his reputation was established. Schliemann and his wife entertained a great deal in their new home, both for Greeks and visiting foreigners. But there were official complaints from the Government, which objected to the terracotta copies of nude classical statues that decorated the roof of the mansion.

Sophia continued to live in the house after Schliemann's death in 1890, but eventually sold it to the Greek state. Intended to become Athens' music academy, it was later used as the Supreme Court building and was allowed to fall into decay over half a century of hearings. When the Culture Ministry's $1 million restoration is complete, the building will become a permanent exhibit hall. But it will also house Greece's numismatic collection, which grew up around Schliemann's own collection of more than 1,300 ancient coins inherited by the Greek state after his death.—KERIN HOPE

This announcement appears as a matter of record only.

EUROPEAN INVESTMENT BANK

Dfls 200,000,000

8% Bearer Bonds 1985 due 1991/2000

Amsterdam-Rotterdam Bank N.V.

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July, 1985

This announcement appears as a matter of record only.

EUROPEAN ECONOMIC COMMUNITY

Dfls 200,000,000

7¾% Bearer Bonds 1985 due 1991/2000

Amsterdam-Rotterdam Bank N.V. Algemene Bank Nederland N.V.

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Rabobank Nederland Nederlandsche Middenstandsbank nv

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July, 1985

E.C. ENLARGEMENT SEEN HURTING U.S. EXPORTS

GRAIN SHIPMENTS FACE PRINCIPAL THREAT WHEN SPAIN, PORTUGAL JOIN.

H. PETER DREYER

On January 1, 1986, Spain and Portugal are to join the European Community. This is an event which the United States unreservedly favors. It is, after all, fully in line with the European policy objectives the United States has pursued throughout almost four decades now and which have made Washington a staunch champion of European integration since the days of the Paris and Rome treaties establishing the E.C. and of the extensions which followed.

In this particular case there exists one more weighty reason for U.S. approval. While it is too early yet to evaluate the prospects for the Spanish referendum next year on the country's membership in the North Atlantic Treaty Organization (NATO)—which the United States was most anxious to secure—there can be no doubt whatever that those prospects would be much gloomier had Spain failed to get into the E.C.

But if the political vistas of the forthcoming enlargement of the E.C., as perceived by Washington, thus are clear and positive, that is not the case at all on the economic side. For one thing, uncertainties seem to prevail. For another, according to present expectations, the impact may be distinctly negative. And last but not least, it is only too likely that the negotiations which must follow Spanish and Portuguese accession will add one more to the long list of irritants, not to say areas of potential confrontation, now characterizing the U.S.-E.C. relationship.

Why the uncertainties? They are not perhaps all that surprising. The membership negotiations were only completed in early June. Only then was it possible to start assessing the effect which a host of specific terms and understandings finally agreed on may have on dealings with the outside world.

Just as obviously, this effect was not and could not have been expected to be a major matter of concern to the negotiating parties during their protracted and wearying efforts to hammer out the ultimate accord. Countries which had reason to fear that Spain's membership in particular might pose a threat to vital export opportunities, like Israel and Morocco, may have made protesting noises all along, but there was little more they could do until now.

It is only at this stage—that is, after the conclusion of the negotiations—that the E.C. Commission has turned to the problem (and plans to send appropriate proposals to the E.C. Council of Ministers in early fall) of how to maintain at existing levels the flow of trade of such produce as citrus fruit, tomatoes, potatoes, olive oil and wine from countries around the Med-

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With the accession of Spain and Portugal to the E.C., the United States could lose part of an important market for its corn shipments. Total U.S. agricultural exports to these two countries currently run around $2 billion.


© ANN MORGAN/PHOTO RESEARCHERS.

American produce exports to other E.C. countries may also suffer when Spain and Portugal can supply the E.C. countries with these produces more cheaply.

iterranean to the E.C. For it is afraid of the adverse social and eventually political consequences were these countries to be excluded from the E.C. market on which they depend so largely.

Naturally, no comparable situation exists with respect to future U.S. exports or, for that matter, other industrial nations like Canada or Japan once Spain and Portugal are inside the E.C. Were they to be jeopardized, there is surely no reason to assume that there would also be a matching social and political fallout.

But does the United States stand to lose? Are American exports to Spain and Portugal, which last year (on a f.o.b. basis) totaled respectively $2.6 billion and just under $1 billion, at risk now? U.S. observers answer these questions unhesitatingly in the affirmative. Furthermore, they are convinced that as a result of the enlargement, U.S. exports will be exposed to other (actual as well as potential) adverse impacts as well, and that such commercial benefits as may also develop will not be sufficient to offset the anticipated minuses.

The principal threat is that facing American grain shipments — corn to Spain, wheat and corn to Portugal—plus other agricultural sales to those two countries which add up at present to around $2 billion annually. They are not expected to disappear overnight, but a certain erosion is likely to set in right away.

Both Iberian peninsula countries, as they gradually adjust to the E.C.'s Common Agricultural Policy, are certain also to follow the process well under way in E.C. countries where some corn is still imported for starch, but no longer for feed purposes. Other cereals, notably barley, are now substituted. Within a few years, therefore, the two new members probably will import French barley rather than American corn.

Theoretically, it would be possible for Spain and Portugal to step up their purchases of U.S. soybean products, thereby compensating for the anticipated reduction of cereal imports. It is not, however, very probable that they will. On the contrary, fears clearly persist that an oils and fats tax—which has been talked about in the E.C. for many years and which would deal a severe blow to U.S. soybean sales to the Community—might move several steps closer to reality and realization in the 12-member E.C.

There will be losses elsewhere, too. The United States currently ships about $500 million a year worth of nuts, fruit and a variety of other fresh and processed horticultural products to the E.C. Yet, in future, it is bound to be Spain which will sell such goods to its then E.C. partners.

Nor is the outlook all that encouraging when it comes to industrial products. The central element is that as Spanish and Portuguese customs duties which currently are mainly on the high side gradually adjust to the E.C.'s Common External Tariff, they should come down a little and thus bestow benefits also on exporters from third countries. It is quite possible therefore that American suppliers may discover new or additional opportunities in areas where competition from firms in the Community is weak.

But where competition is strong, the shoe is very much on the other foot. After the transition period is over, products from E.C. countries will have duty-free access to the Iberian peninsula market, whereas those from the United States will remain confronted with a tariff wall. This comparative disadvantage may well make itself felt even during the transition years, if the case of Greece is anything to go by. Imports there from other E.C. countries have increased since Greece joined the Community, while those from the United States have receded.

Here again uncertainty reigns. Within the E.C., work is still proceeding—and not expected to be completed before some time in the fall—on the line-by-line drafting of a new Common External Tariff which ideally should represent a trade-weighted combination of the existing E.C. tariff and Spanish and Portuguese tariffs. Only after that has been done will it be ascertainable where the United States and other third countries would post gains or losses. This process, in turn, is the precondition for the opening—perhaps in April 1986—of the required negotiations under Article 24 (5) and (6) of the General Agreement on Tariffs and Trade (GATT).

As matters stand even now, and in the light once more of what has happened with Greece where those negotiations still have not been brought to a harmonious end, this situation contains the seed of still another U.S.-E.C. conflict. The GATT rules, stating that the duties applied by an enlarged E.C. should not on the whole be higher than the duties applicable before, are obviously not very concise.

In these circumstances, E.C. negotiators not only are certain to insist that their new Common External Tariff is not more restrictive than the pre-enlargement state of affairs. They may go further even and claim, or so U.S. officials suspect, that on balance the new Common Extended Tariff will benefit the United States which therefore owes the E.C. a credit, to be "paid off" conceivably in the form of raised E.C. duties on, say, some U.S. agricultural products. Such a conclusion—as yet, of course, hypothetical—the United States would view as both illegal under GATT and generally unacceptable.

What all this adds up to is that, as far as it can be ascertained at this stage, the effect of the E.C. enlargement on U.S. commerce will produce little cheer. Yet for the longer term there may well be a silver lining to this cloud, too.

Throughout the E.C.'s history, and somewhat contrary to original assumptions, the European integration process and the growth of prosperity it brought with it have paid handsome dividends overall to American business. The expanding activities of U.S. firms in Europe have been a vital part of this. Hence the thought is surely neither unrealistic nor unreasonable that, should the Spanish and Portuguese economies achieve "quantum leaps" through E.C. membership, American enterprises ought to be among the ultimate beneficiaries once more. €

H. Peter Dreyer reports from Brussels for *The Journal of Commerce.*

MEMBERS OF U.S. CONGRESS, EUROPEAN PARLIAMENT MEET

BIANNUAL EXCHANGE OFFERS OPPORTUNITY FOR UNDERSTANDING POLITICAL PRESSURES.

FRITZ GAUTIER

In June 1985, the members of the European Parliament and the U.S. Congress celebrated a little anniversary. We had our 25th meeting, almost unnoticed by the general public. Delegations from the Congress and the Parliament meet twice a year—once in Europe, once in the United States.

This year's meeting was preceded by two important events, namely the Bonn Western economic summit and President Ronald Reagan's speech to the European Parliament in May. Furthermore, the list of urgent topics for discussion was long: from the Strategic Defense Initiative (SDI) to the General Agreement on Tariffs and Trade (GATT), from monetary questions to human rights.

This kind of exchange between politicians of both sides of the Atlantic is unique. Three days of meetings at the U.S. Military Academy in West Point were devoted to "off-the-record" discussions. Open talks on political and economic problems, without the press in the background, gave the unique possibility to explain and discuss political preoccupations and pressures from respective constituencies. The Congress and the Parliament are not negotiating bodies—that is up to our Administrations—but we can influence public opinion to a certain extent. We are involved in legislation; we can influence our Administrations about the direction of negotiations and about topics for the agenda.

That is why our meetings are so important. There are only a handful of freely elected parliaments in the world. Europe and the United States have a special responsibility for the development of world affairs, especially in trade. The respective democratic bodies, therefore, should cooperate as best as possible, and they should exchange their views directly and not (only) through the press. The European Parliament and the U.S. Congress have developed a very good working relationship as well as close personal contacts.

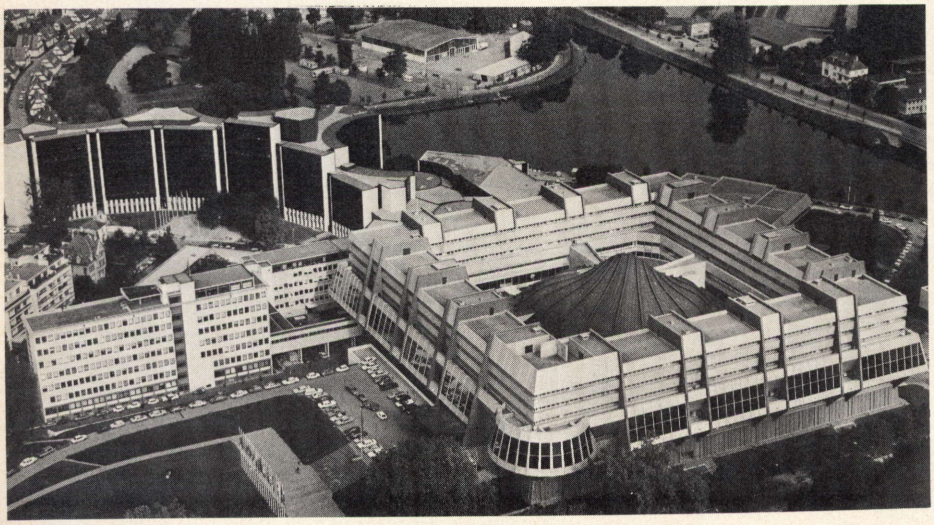
What were the main topics at West Point? I will concentrate on the actual problems in the monetary and trade area. The fluctuations of the dollar exchange rate are of great concern, as much for Congress as for Parliament. The huge U.S. budget deficit, in connection with a rather low national savings rate, and the enormous U.S. trade deficit require measures from the U.S. Administration and the Federal Reserve which, in the long run, disadvantage the United States as well as Europe and are especially harmful to the Third World.

The United States has to attract international capital to finance its deficits, which leads to rather high interest rates and, in part due to speculative movements, to an artificially high exchange rate for the dollar. The short-term disadvantage of the high dollar for the U.S. trade balance is evident. Meanwhile, with the administration and Congress not taking the necessary steps to reduce the budget deficit, protectionist pressures increase in the United States. In contrast to public declarations for a new GATT round and for an open trading system, the United States moves in a direction of bilateralism and unilateral protectionism from steel to shoes, from textiles to petrochemicals.

In long run, such developments are very dangerous for an open world trading system. Therefore, we, as members of the European Parliament, have lobbied our Congressional friends to include international monetary questions on the agenda of the next GATT round. International monetary transactions are about 10 to 15 times higher than the value of international trade in goods. This figure alone shows the immense influence of speculative monetary transactions on international trade. Both delegations at West Point agreed that a certain coordination in the monetary field is necessary.

This was a big success of the ongoing discussions, especially in view of the difficulties at the Bonn economic summit. Now it is important to increase the political pressure on both sides of the Atlantic so that the preparations for the next GATT round can be concluded successfully and that the trade and monetary questions are dealt with in parallel. Nobody wants a new Bretton Woods system, but neither does anyone want speculators to determine the conditions for international trade.

A second big point of discussion was the so-called citrus/pasta dispute between the United States and the E.C. Here the different points of view were very evident. What is it about and why discuss those tiny things? In the framework of its Mediterranean policy, the E.C. grants unilateral import duty reductions to certain Mediterranean countries for citrus fruits and other goods. These preferences are granted because for foreign-policy reasons, similar to the U.S. Carib-



The European Parliament building in Strasbourg, France.

During three days of meetings at West Point, the delegation debated U.S.-E.C. trade problems, the SDI proposal, U.S. technology-export restrictions, Nicaragua, the U.N. drug program, terrorism and human rights.

bean Basin Initiative.

In recent years, the United States felt its interests were hurt by the Mediterranian preference agreement and officially complained in the GATT. To the surprise of many, the United States got a GATT panel decision that U.S. exports to the E.C. of citrus fruits were indeed damaged. Since the E.C. does not accept that a technical GATT panel can interpret the GATT treaty, the E.C. has blocked the decision. Interpretation of the GATT treaty is reserved to the contracting parties. And if the E.C. accepts the decision on the Mediterranean preferences, then its whole system of foreign trade policy could be attacked, including the Lomé Convention trade-and-aid agreement with 66 African, Caribbean and Pacific countries.

But despite the E.C. arguments the United States unilaterally announced an increase in the import duties for E.C. pasta this summer, which was answered by the Community with an increase of the duties for U.S. nuts and citrus. Both moves were then suspended while the two sides talked it out. The amounts involved are rather marginal, but we as members of the European Parliament explained to our American friends that this question is more than just a dispute about peanuts. It is a dispute over whether the E.C. can use foreign-trade instruments for foreign-policy reasons as long as it does not gain thereby an economic advantage for its exports. I believe that the long discussion during our meeting at least has raised some understanding for our position. And in the moment it looks rather likely that the problems can be solved by negotiations between our Administrations and not by the escalation of measures and countermeasures.

Just as we do expect from our American counterparts some understanding for our severe problems, they too can expect understanding for their problems. In recent years, we have realized that a tax on vegetable oils and fats, i.e. soybeans, by the E.C. would be a heavy burden for the United States. Therefore, many of my colleagues and myself have vigorously attacked all plans for introducing such a tax. But agricultural trade exists of more than just soybeans or corn gluten feed.

Decreasing purchasing power and increasing production are a heavy burden for the world market. On this stagnating market the United States, the E.C., Brazil, Argentina, Canada and Australia try to grab a bigger market share, in part with the help of dumping and subsidies. And the taxpayer has to finance all this nonsense.

Thus, the future of the E.C.'s Common Agricultural Policy was one other main topic of discussion between the delegations of the Congress and the Parliament, as it has been during previous meetings. But neither in the United States nor in Europe is it clear at the moment in which direction the reform of the respective agricultural support systems should go. The E.C. tries quota systems (e.g. milk) and cautious price cuts for cereals, the U.S. approach includes severe price cuts and more exports.

For both sides, it was clear during the discussions that internal agricultural policy is an autonomous decision of the respective democratic institutions. But for both sides it was also clear that the implications of internal agricultural policy on international trade must be discussed and that the GATT is the proper forum for that. I personally believe that everything should be put on the GATT table, be it subsidies, non-tariff barriers, quotas, so-called developmental aid and so on. Agricultural trade should be better integrated into the GATT system. But in the United States as well as in Europe, agricultural policy reform will need more discussion. This is very clear from our meeting in West Point.

But the two delegations did not discuss only trade and agriculture. We intensively debated the SDI proposal, unilateral technology-export restrictions by the U.S. Administration, Nicaragua, the United Nations program against narcotics, international terrorism, human rights and visa reciprocity. The three days that the meeting lasted really were not enough time to cover everything.

From my point of view, there is another part of the program which is as important as the official discussion. I mean the social events. A boat trip on the Hudson river with music and beer, a brunch with business people or a trip to New York City provided the opportunities for very informal talks. These informal talks, the discussions about the respective political systems and the rumors about the possible candidates for the next presidential elections, all help improve the relations between the U.S. Congress and the European Parliament. €

Dr. Fritz Gautier (Social Democratic Party) is a member of the European Parliament from the Federal Republic of Germany.

$240,000,000

European Economic Community

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September, 1985

DROP IN OIL PRICES WOULD BOOST E.C. ECONOMIC OUTLOOK

FORECASTERS SAY GDP WOULD RISE, INFLATION DROP, BUT COORDINATION IS NEEDED.

JAMES DAVID SPELLMAN

With the oil cartel in disarray, oil prices are tumbling. Dollar exchange rates for the pound, mark and French franc are falling too, though unsteadily. And oil demand in the E.C. continues to decline, while inflation remains sluggish. Combined, these factors could rally the E.C. economy to outpace lackluster projections.

The good news for the E.C. starts with a one-third cut in world oil prices since their 1981 peaks. The average cost per barrel dropped from $38 in June 1981 to $28 in January this year, a 26-percent saving. If these *nominal* prices reflect currency fluctuations (deflated by a dollar index of wholesale prices of manufacturers in the major industrial countries), the decline in *real* dollar prices is less dramatic but still substantial—a 7-percent slide, according to Morgan Guaranty Trust Company.

Since January, prices have dived further. The official price of the Organization for Petroleum Exporting States (OPEC) for its benchmark, Saudi light crude, was holding weakly at $27 in mid-August, after almost doubling to $34 per barrel in 1982. And hidden discounts—experts believe as great as 30 cents per barrel—soften these current prices. North Sea oil is selling at one-third below its 1981 average of $39. On the volatile spot market, where oil is bought and sold like stocks, the huge premium—as high as 50 percent—once paid to get more supplies when producers refused at official prices is gone. Buyers can find oil prices discounted as much as 25 percent below official charges.

The series of dollar price cuts came as the dollar's value surged against E.C. currencies, appreciating 82 percent against the European Currency Unit (ECU) between July 1980 and mid-August 1985. Viewed another way, the dollar costs a third more today in international exchange, compared to 1981. This wiped out most of the potential savings for the Ten. In *nominal* terms, average world oil prices converted into French francs or sterling soared roughly 60 percent and in marks about 18 percent between January 1981 and January 1985, according to Morgan Guaranty.

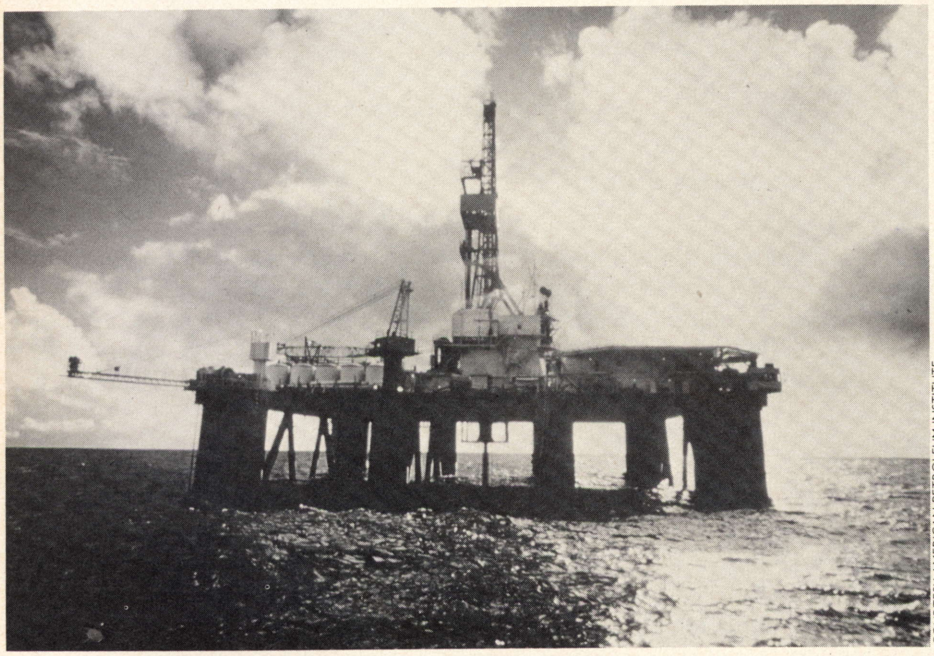
But this is deceiving. Measured in *real* terms, there has been no change in the mark price, a negligible rise in the French-franc price but a 22-percent hike in the sterling price. Hence, the past three years of cuts failed to boost the economy. The only plus came to North Sea producers—revenues in local currencies increased due to the dollar's ascent.

Dollar prices collapsed because supplies swelled above demand. The glut came by 1982 when non-OPEC sources such as the North Sea expanded rapidly, and industrial countries switched their more austere energy diet away from oil to natural gas, coal and nuclear power. Non-OPEC oil production is now almost double that of OPEC. World petroleum demand collapsed from 65.1 million barrels per day (mbd) in 1979 to an estimated 58 mbd this year, according to the U.S. Department of Energy.

Europe's demand, which accounts for one-fifth of world consumption, fell from 16.3 mbd in 1973 to 12.1 mbd last year, the International Energy Agency reports. A consulting firm, Purvin and Gertz, Inc., sees this trend continuing—dropping 5 percent by the year 2000 to 10.66 mbd. Another firm, Data Resources, Inc., predicts oil consumption rising 10 percent above the 1983 level by 1998, before dropping by 4 percent by 2005.

European states, like other industrial countries, have successfully cut their dependence on OPEC by half. North Sea wells pump out 20 percent more oil today than in 1981 (2.31 mbd). Imports grew from Mexico, non-OPEC less developed countries (LDCs) and the Eastern bloc, displacing OPEC supplies even more. Europe's dependence on all imported oil is half its 1973 level. Conservation also helped. One measure of energy consumption (energy used per unit of *real* gross GDP) fell 18 percent between 1973 and 1983.

Furthermore, overall reliance on oil plummeted as other sources were substituted. Almost two-thirds of Europe's power was supplied by oil; today it is less than half as nuclear power's share increased by 86 percent (to a 7-percent share), gas by 36 percent (to a 15-percent share) and both coal and hydroelectric marginally (with 21-percent and 9-



COURTESY AMERICAN PETROLEUM INSTITUTE

European states have cut their dependence on OPEC by half. North Sea wells pump 20 percent more oil today than in 1981.

percent shares, respectively). Among industrialized countries, Europe and Japan have "achieved the largest and most constant shifts away from oil," Morgan Guaranty concludes. The bottom line: Europe's energy self-sufficiency is near 60 percent.

Europe's oil bill during the 1970s undermined economic growth. This burden held back overall expansion of GDP roughly one percentage point on average during the past six years. That is because oil and related industries constitute roughly one-tenth of the region's economy. Income was abruptly shifted from investment, savings and non-oil sectors to cover petroleum costs. Sharp climbs in this basic production input reverberated throughout the economy, helping to trigger the inflationary spiral.

As a result, capital and borrowing expenses rose, sustaining and accelerating the spiral. Consumer demand weakened. Companies scaled down production. Europe's key trading partner, the United States, similarly was suffering through an OPEC-induced recession, which cut E.C. export sales and perhaps slowed Europe's growth at least another half of a percentage point.

This past experience largely would be reversed with oil prices sliding, the dollar rising and oil demand moribund. Wharton Econometrics Forecasting Associates expect faster growth in their May outlook if world oil prices reach $20 per barrel by January 1986 and hold there until 1988. That would cut $16 billion annually off Europe's net oil import bill, pushing nominal GDP up .6 percentage point and generating 700,000 jobs.

Inflation would drop 1.1 percentage points, which in turn would help to keep the lid on wages and push interest rates down. Europe's terms of trade would improve, but add less to growth than domestic demand bolstered by extra income that cheaper oil would create. Overall, GDP would expand by at least half a percentage point during the next two years.

On the negative side, sales to oil-exporting LDCs would fall abruptly. Revenues from North Sea oil would decline, dampening particularly the United Kingdom's promising growth. And consumers would not receive the full cut in crude-oil prices when buying heating and other fuels because European energy taxes are not determined by oil's value, but are assessed on a per-unit basis.

For this forecast to be borne out, several assumptions must hold true. Oil demand from industrialized nations must grow moderately. OPEC's discipline over production must be reasonably firm. Finally, fiscal and monetary policies must be conservative.

Morgan Guaranty also sees good news, if oil prices gradually bottom out at $23 in 1986 and 1987 before floating up slowly to $28 by 1990. Europe's expansion measured by GNP would leap almost a percentage point next year above current projections if oil prices remain stable. In 1987, GNP would jump another notch—.5 percentage point—and then .8 percentage point on average from 1988 to 1990. Inflation of manufactures, for example, measured in local currency would be a half percentage point lower than if current prices stabilize.

Without this drop in oil prices, "the current economic recovery would be moderate," Morgan Guaranty reports. "Because of its strength to date, the U.S. recovery would be increasingly vulnerable to inflation triggered by the gradual onset of capacity constraints and higher wage demands. That would provoke monetary restraint and compound expected fiscal tightening. The upshot would be a distinct slowing of U.S. economic expansion that would not be fully offset by a speedup in growth elsewhere."

The importance of lessening the oil burden, though, is overshadowed by other factors which could have a greater effect on the E.C. economy than the future of petroleum prices. The most important, in Wharton's analysis, is improvement in the international community's ability to coordinate economic policies to tackle budget deficits, trade conflicts and poorly crafted monetary policies. More coordination along these lines promises the greatest growth for Europe —a surge in real GDP growth of two percentage points by 1988.

OPEC prices will depend ultimately on Saudi Arabia. A recent report by the Bank of America said: "It's unlikely that the politically conservative Saudis will send prices toward $15 (per barrel) by raising production to 8 million barrels per day since such an action would seriously hurt their neighboring friends and foes alike." The bank sees prices falling to $25 by December. The threshold the price needs to hit before the E.C. can see the benefits ranges from $20 to $23.

Whether economic growth or recession in the E.C. will prevail depends partly on the course of oil prices. But wage futures, the coordination among industrialized countries to resolve trade and other disputes and a substantial cut in the U.S. federal budget deficit (by $100 billion in 1988) are as important in generating expansion in the E.C. €

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EUROPEAN INDUSTRY'S UPHILL STRUGGLE

PHILIPS HEAD URGES AGENDA FOR ACTION ON TRUE COMMON MARKET.

W. DEKKER

There are signs that the past year has perhaps been a turning point in the checkered history of the E.C. Political leaders seem to have found their way back to the path leading to European unity. We know that an uphill struggle lies ahead, but there is a growing European consensus and a renewed feeling of confidence.

My company, Philips, has played an active role in promoting this consensus. Philips, by the way, is a European-based, multinational, diversified electronics company, active worldwide with 420 factories, 60 national sales organizations, a turnover of 22 billion European Currency Units (ECU)—1 ECU currently equals about $0.75)—and 350,000 employees. It ranks 28th on the *Fortune* list of the world's largest companies.

At the beginning of this year we launched in Brussels a pragmatic plan of action, developed by the staff departments of the company, on the further integration of the E.C. A homogeneous Common Market, constituting a home market on a Continental scale, is urgently needed by European industry in order to be able to compete successfully on the world market with American and Japanese companies.

On various occasions, Philips has emphasized the need for European collaboration and a more convergent European industrial policy. We see signs that the messages are not only beginning to be understood, but that there are even moves toward implementation.

Why Europe Lags Behind.

Until recently European industry has been shackled by a number of chains of its own making. The chains are of various types. The first consists of the adverse business conditions stemming from the prevailing social and economic climate of the 1970s. The second chain is formed by

Dr. W. Dekker

the shortcomings of the "home market" in which European industries have to operate, in particular the fragmentation of the Common Market and the nationalistic policies of the member states of the Community.

As far as the general social and economic conditions are concerned, it should be noted that Western Europe has experienced a relative decline compared with the United States and Japan, due to the fact that, during the 1970s, too high a priority was attached to the distribution—as opposed to the creation—of income. This decline has manifested itself in inferior, and sometimes even negative, growth; high inflation; and the inability to create new jobs which, combined with the growth of the labor force, has resulted in high unemployment.

The Uncommon Common Market.

The second "chain" for European industry referred to above is the lack of commonness of the Common Market. It is true that internal tariff barriers have been abolished, but market integration has been inhibited by a host of non-tariff barriers, such as differing technical standards and nationalistic procurement policies on the part of Governments. This is all the more serious because many industries in Europe, and especially those in the areas of high technology, desperately need a real European common market in order to survive.

In high technology, the nature of competition has changed fundamentally. Both the costs and the pace of innovation have increased tremendously. This requires the rapid seizure of world market shares in order to break even and to earn the necessary funds for investment in the next round of innovation. Companies which fail to do this will hardly get a second chance; they will be forced to quit the race permanently.

Only a real European home market can offer sufficient scale to cover the gigantic rise in research and development costs which is characteristic of modern technology and which exceeds the scope of national markets. Only a real European home market will enable European producers to achieve the optimum scale of production and to fully exploit the learning curve effect, thus perhaps bringing down unit costs to levels at which European industry could compete successfully world-wide. And only a real European home market can act as a launching pad for the world market, in the same way as the American and Japanese markets do for our major competitors.

Estimates have been published recently of the cost of failing to create a single common market. This is called the cost of "non-Europe" and it amounts to some 50 billion ECU. It can be broken down into several categories. The waste caused by delays and formalities at the internal frontiers of the E.C. member states is estimated to be 12 billion ECU. Then, there are the losses resulting from fluctuations in exchange rates. Lack of monetary integration in the E.C. is estimated to cost 6 billion ECU.

The nationally oriented purchasing policies of the Governments of member states constitute, however, the most important deficiency. The waste ensuing from this is estimated to be 30 billion ECU. More generally, it is assumed that the cost prices of many categories of goods produced in mass or series could be reduced by an average of 10 percent if a single homogeneous internal market with European standards really existed.

The Free Trade System and the World Electronics Market.

In judging the international position of European high-tech industry in electronics, one should not only look at isolated products. There are important interlinkages, e.g. between microelectronics and professional and consumer electronics.

Microelectronic components constitute the building blocks of the electronic revolution and hold the key to the future of the electronics industry in the information society. In the United States, the professional markets provide large-scale, leading-edge customers for the microelectronics components sector.

In Europe, however, the professional fields of application are often too fragmented by nationally oriented stimulation and purchasing policies on the part of European Governments. European producers of microelectronic components therefore need the European consumer electronics market as a large-scale, leading-edge customer. If the consumer electronics industry disappeared in Europe, this would also undermine the position of the electronic components industry.

Yet this market is under severe pressure from Japan. The one-way traffic in the flow of Japanese trade is concentrated on some selected product sectors and the consumer electronics sector is one of them. For example, Japan exports 356

Apart from market integration, cooperation between various European producers is of the utmost importance.

times as many consumer electronics products to Europe as it imports from the E.C. In doing so, it has become the chief beneficiary of the worldwide open trading system, while shirking the obligations of reciprocity which this entails. Japan seeks to achieve monopoly positions in its selected targeting segments and has already won this in certain fields of consumer electronics in the United States, while it threatens to do so in Europe as well.

In 1970, there were 107 independent manufacturers of audio and video products registered in the four largest countries in Europe: France, the Federal Republic of Germany, Italy and the United Kingdom. Now, 15 years later, the names of almost 60 of these manufacturers have disappeared. Of the remaining ones, only a few are still the master of their own technology. Philips, in fact, is one of the few Western companies that holds its own in the battle with the Japanese in consumer electronics.

Not only in Europe, but also in the United States, there is a growing consensus that the Japanese disruption of reciprocity—the basic principle of the free trade system—has to be stopped. Japan must open its own market to foreign exporters and restore its trade balance with the rest of the world.

Europe 1990, an Agenda For Action: Start of the Uphill Struggle.

Throughout the 1970s there were many unsuccessful attempts by European industry to put these messages across. More recent initiatives, however, have fallen on more fertile soil. One of them is the Philips plan "Europe 1990, an Agenda For Action." It is a five-year plan prepared by staff departments of Philips, covering the period from 1985 to 1990. It is intended as a pragmatic aid to bringing a truly common European market closer to realization by 1990.

It is gratifying to note that many of our ideas tie in with those of a number of Governments and the E.C. Commission. They can be traced back, for instance, to the initiative of the Netherlands Prime Minister Ruud Lubbers, aimed at the completion of the Common Market and the creation of a "technological Europe." They have, moreover, been a source of inspiration for various proposals by the E.C. Commission, particularly in the White Paper entitled "Completing the Internal Market" which was published recently by Lord Cockfield, the E.C. Commissioner responsible for the internal market. (See p. 22).

Apart from market integration, cooperation between various European producers is of the utmost importance. Here, too, positive developments are taking place. Various cooperative projects have been started, e.g. the Community-based ESPRIT (European Strategic Program for Research on Information Technology), BRITE (Basic Research Industry Technology in Europe) and RACE (Research in Advanced Communication Technologies for Europe), which cover a broad spectrum of high-tech projects.

Furthermore, we see multinational cooperative projects of a so-called "variable geometric" nature, an example being Eureka, the European alternative to "Star Wars." Finally, a number of bi-national cooperative projects have been established—for instance, cooperation between Philips and Siemens on research in submicron technology or superchips.

This increasing European collaboration does not mean that European industry should isolate itself from partners outside Europe. An example of cooperation with a non-European partner is the joint venture between Philips and AT&T in the field of telecommunications.

In the recent past, a group of European business leaders gathered together in the "Round Table of European Industrialists" has also launched proposals for activating Europe's industrial potential. One of these proposals has already resulted in the establishment of a European venture capital fund known as Euroventures.

Only a few years ago all these positive developments would have been inconceivable. So we are definitely on the right track. Yet European industry is still not completely free of the chains which shackle it.

Nevertheless, there is a unifying insight in Europe that the uphill struggle can be won by:

- An attitude of "cooperative competition."
- A joint, firm stand against the Japanese disruption of the free trade system.
- The completion of a truly homogeneous European "common market" which, with 320 million inhabitants (after the accession of Spain and Portugal on January 1, 1986) will outnumber the U.S. market by 100 million and the Japanese market by 200 million potential customers. €

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TOWARD A REAL COMMON MARKET

E.C. LEADERS APPROVE WHITE PAPER ON COMPLETING REMOVAL OF INTERNAL BARRIERS BY 1992.

PAUL CHEESERIGHT

The light has turned green. The European Community is now committed to a wide-ranging series of reforms which will have the effect of a decisive movement toward a market of 12 countries and over 300 million people without frontiers. At their European Council summit meeting in Milan at the end of June, E.C. Heads of State and Government gave not complete or unqualified, but general, approbation to an internal market program drawn up by the E.C. Commission in the form of a White Paper.

The White Paper itself contains some 300 measures ranging from systems for reducing frontier checks to the minimum, through the development of a common transport policy, and specific suggestions for apparently obscure standards like brucellosis in ruminants, to the approximation of national tax laws.

The Milan approval brings to an end the first stage of a new push for movement on the internal market which started at the Copenhagen summit of December 1982 when the European Council instructed Ministers to decide on priority measures proposed by the Commission to reinforce the internal market.

There have been other declarations since, but now E.C. leaders want "a precise program of action based on the White Paper and the conditions on the basis of which customs union had been brought about." And the summit wants to achieve "effectively the conditions for a single market in the Community by 1992."

There are doubts about whether this can be achieved. Inevitably they are tied up with the sluggish decision-making procedures inherent in a system which for the most part demands that decisions be taken unanimously. Even if this difficulty is cleared up at inter-governmental level —the technique chosen in the Community to promote institutional reform—the program would remain heavy.

A backlog of measures has progressively built up over nearly 30 years and they have all been pulled together by the Commission and new measures have been added. Some of the steps in the White Paper, those dealing with transport, for example, were laid down for action when the Treaty of Rome establishing the E.C. was signed in 1957.

Clearly a catalyst for this new interest in the internal market has been the desire at all levels of the Community and among the Ten to stimulate economic growth. The correlation between the leaps and bounds of the U.S. economy and the existence of a single American market has been widely made.

At the same time it could be argued that what the E.C. is now seeking to do is a domestic version of a wider international movement to promote trade liberalization. The lengthy process which set off the current preparations for a new round of international trade negotiations under the auspices of the General Agreement on Tariffs and Trade really started just a few days before the E.C.'s 1982 Copenhagen declaration. And there is a further parallel. The international moves will go on into the 1990s, just like the E.C. program.

The Commission has argued that if the E.C. can pull off its internal market program, it will be a quantum leap toward economic integration on the same scale as the formation of the customs union in the 1960s. That carries with it the corollary of enhanced political integration because the closer the national economies become, the greater will be the pressures for combined action.

In that sense, the internal market program halts the fragmentation of the E.C. which appears to have been taking place over the last decade. The oil crises and the shock of recession have resulted, in some cases, in a turning in toward national capitals and a more nationally introspective approach toward struggling for recovery. So the succession of summit statements since the end of 1982 signals a willingness to move toward greater economic cohesion. Strengthening the internal market is the most obvious manifestation of this.

There has been, in any case, a trickle of internal market decisions moving out of the internal market Council of Ministers and of other specialized Councils associated with the general process, even as the Commission was urging the adoption of new programs. A new technique of settling standards, by cutting out specific product negotiations and paring down the E.C. legislation to the bare essentials of health and safety, has been adopted this year with unaccustomed speed. And old problems, some dating back two decades like settling E.C. norms for the weights and dimensions of trucks or settling a standard for the mutual recognition of architects, have been sorted out.

But what is now envisaged goes much further. The approach is more systematic and it will be linked to a timetable, for which the Commission White Paper will serve as a basis. The White Paper itself divides the problems into three categories: the removal of physical barriers, the removal of technical barriers and the removal of fiscal barriers.

Physical barriers are those which stop the movement of people and goods at the frontiers. This involves steps not only to reduce formalities, but to group customs posts together, to remove residual import quotas, to shift veterinary controls away from frontiers to the point of departure and to relax progressively the quotas which control the number of trucks from one country that can ply for trade in another.

As far as the movement of people is concerned, the Commission is seeking an end to automatic checking in favor of spot checks, coupled with measures to have a uniform system of entry to the E.C. for people coming from outside. And that would involve a common visa policy.

In this area, the mood has changed. Although France and the Federal Republic of Germany, with the Benelux countries (which for the most part have had free movement for years), have been working on easing the movement across frontiers, new fears have arisen. They concern the movement of drugs and terrorists.

The Fontainebleau summit in June 1984 demanded study of measures to bring about "the abolition of all police and customs formalities for people crossing

The internal market program was approved by E.C. leaders at their Milan summit in June.

The E.C. is seeking an end to automatic border controls in favor of spot checks.

intra-Community frontiers." But the Milan summit did not list this among its "high priority" measures. Instead it called for the removal of physical barriers to the free movement of goods, the removal of technical barriers to trade through the adoption of, for example, common standards, the creation of free transport and financial services markets, freedom of establishment among the professions and the liberalization of capital movements.

All of these help to make up the second category of measures contained in the Commission White Paper. Here, the Commission starts from the principle that "if a product is lawfully manufactured and marketed in one member state, there is no reason why it should not be sold freely throughout the Community." It makes the point that the objectives of national legislation, like health protection, are often identical. And it goes on to argue: "What is true for goods is also true for services and people."

And this reasoning takes in the need for mutual recognition of one another's laws rather than the hitherto detailed approach to harmonization. Where harmonization is necessary, it should be cut back to the essentials. And steps toward this end would be speeded up if the Council of Ministers delegated more and left technical matters to the technicians.

When it comes down to a more detailed list, the Commission offers steps to open up the system of public purchasing and a common market in services. For financial products, supervision of what goods companies are selling and how they are selling them should rest on the country of origin.

Tremendous importance is laid on the question of services. A Common Market in them is "one of the main preconditions for a return to prosperity," asserted the Commission. They already account for nearly 60 percent of the value added in the E.C. economy. Industry accounts for just 26 percent.

But greater freedom in both the services and industrial sectors demands legal changes which facilitate cooperation between companies. Proposals for a European company statute have been on the books for longer than most people can remember. And cooperation would be helped by lining up national trademark laws and having a E.C. trademark.

The Commission also believed that it would be necessary to remove fiscal barriers. And this constitutes the third category of its program for action. Here, the Commission is arguing that "the harmonization of indirect taxation has always been regarded as an essential and integral part of achieving a true common market." In fact, it is seeking "approximation" and suggests that, on the basis of American experience, there can be variations of up to 5 percent without undue adverse effect. It therefore proposes a target norm with the ability to diverge plus or minus 2.5 percent.

Right from the early stages of discussion of the White Paper, it became clear that the Commission in this area was running into rough waters. Certainly there appears to be no great enthusiasm in the national capitals. The British Government has poured cold water on the scheme, arguing that tax measures are not a priority. Even Luxembourg has threatened a veto. So here there is no commitment to action from the Milan summit, only an instruction to Finance Ministers to examine the question.

Regardless of the merits of the proposal, the reactions to it point to one of the political problems associated with achieving the end of a single market without frontiers by 1992. It is the question of impetus toward the agreed end. It will be very easy for the Ten, soon to be Twelve, to run out of steam in a welter of detailed argument if the national capitals want not the internal market *table d'hôte,* but the internal market *à la carte.*

And this comes back to the question of the institutions. No one country is going to receive everything it wants—some of the changes could be unpalatable. But, on the assumption that the end of the exercise will leave everybody better off than they are now, national capitals will probably have to accept much more majority voting in the Council.

Without a "win-the-whole-but-lose-a-bit-on-the-details" approach, the Milan summit priorities are not likely to be realized, much less the White Paper proposals. €

Paul Cheeseright reports from Brussels for the *Financial Times.*

HOW DOES THE E.C. SET TRADE POLICY?

ARTICLE 113 COMMITTEE PLAYS KEY ROLE IN DETERMINING COMMUNITY POSITION.

ROBIN GRAY

The international trading system is not everybody's favorite subject. It is complex and a special jargon is often used in writing about it. The average intelligent man or woman in any country will know only one thing—that the General Agreement on Tariffs and Trade (GATT), or at any rate the way it works, is biased against his country and in favor of everybody else.

I do not seek in this short note to confirm or dispel this impression. Nor to trace the last 40 years of international cooperation, and dispute, that have marked the international trading scene. Nor to prophecy what is yet to come in terms of a new GATT round or otherwise. Instead I write about a committee of civil servants from the countries of the European Community which plays a large part in determining what the E.C. will say and do about major trading issues like a new GATT round, the renewal of the Multifibre Arrangement, the openness or otherwise of Japan's market and particular disputes as in agricultural products or steel. This is the Article 113 Committee, named after the article from the Treaty of Rome establishing the E.C. which mandates the committee.

I was the British member for 9 years. It does not meet in August, so I must have attended 99 meetings—more, in practice, because it meets more frequently than once a month or for extended periods when there is a crunch in international trade negotiations or a crisis of one kind or another in international trade relations.

The basic membership of the committee is a senior member of the E.C. Commission staff, plus a senior official from each E.C. member state. As in much of the rest of Community business, member states take turns chairing the committee for six months at a time. Of course, senior officials have aides and advisors so, when the committee meets, there are well over 50 people sitting around the table.

Before saying more about the Committee, let me describe briefly what being a trade negotiator is like—whatever your nationality. You must, of course, know the other side's case and basic problems as well as your own. But behind you there is "support" from your authorities which often involves bitter warfare between competing agencies and "instructions" which tend to be an uncertain amalgam of opposing views. I am sure that not only the Commission (which negotiates for the E.C.), but trade negotiators from the United States and Japan would recognize this description.

A member of the Article 113 Committee has this kind of problem twice over. First, he must go to Brussels (or Luxembourg or wherever else the committee is meeting) with instructions from his capital—unless he is lucky enough, as I sometimes was, to be left with broad indications of desired outcomes. This means studying in advance not only the position of the "enemy," but also what your "friends" (i.e. other E.C. countries) are likely to think. Then, after an E.C. policy has been evolved, the member has to negotiate with his E.C. colleagues (or his authorities) about modifications as the negotiations or discussions with the foreign power concerned get under way.

Despite these complications, external trade policy is one of the most successful examples of E.C. cooperation. It is often said that the E.C. is slow to reach a view or to modify its position. There is some substance in this thought. I am never sure that critics recognize the enormous volume of overseas trade that E.C. members undertake or the wide nature of interests that must be balanced. Anyway, I doubt whether E.C. negotiators are any more tied than are, say U.S. negotiators in major rounds who have trade legislation hammered out in the U.S. Congress as their basic instructions. However this may be, the Community has increasingly played a constructive role in world trading policy. It has adopted a more and more cohesive and coherent attitude, and, when the chips are down or the need is there, it can move very quickly indeed.

An important reason for this lies, in my opinion, in the character of the Article 113 Committee itself. I would mention three things. First, the members are senior officials who come each month from the E.C. capitals and who work daily with their Ministers. They travel with them and know their Ministers' minds—and sometimes more than that. This means that they have a close knowledge of domestic political situations that are always important in international trade negotiations or disputes. And they have a knowledge of the broad limits of what is politically tolerable for the Minister and what is not.

Second, the members do not change that often. They know each other pretty well and sometimes very well. And they have a good appreciation of the problems that other E.C. member states will have on any subject. For it is no use going to an Article 113 Committee meeting unless you have assessed how far the line you think sensible is likely to meet the preoccupations of the Commission and other member states.

Third, the proceedings of the Committee have an almost North American air of informality about them. And the habit has grown up of discussing more difficult or sensitive subjects over lunch where it is easier to explain problems frankly or to find a way through them. It must be acknowledged that at lunch members refresh themselves with more than a glass of water and a certain mellowing seems to occur.

There is, perhaps, a further element that might be included in any explanation of why the committee, against many odds, actually works. This is that each member will take the chair for six months at least once—and some twice or three times during their term. As chairman, you feel an added sense of responsibility to yourself and your country to do a good job. This means that you want constructive agreement out of the committee for it to make progress. And when you leave the chair you are that more aware of the problems and preoccupations of the new chairman and you tend to try to help him achieve that progress you sought yourself.

Apart from laying down that the E.C. will have a common commercial policy, Article 113 establishing the committee says, roughly, that where trade agreements need to be negotiated the Commission must make recommendations to the E.C. Council of Ministers and get authority to negotiate. Then comes the magic sentence: "The Commission shall conduct these negotiations in consultation with a special committee appointed by the Council to assist the Commission in this task and within the framework of such directives as the Council may issue to it."

It will already be apparent that things do not actually work out quite in this way. To be sure, the Commission does sometimes conduct negotiations with the Article 113 Committee in the next room. More commonly the Commission negotiates having taken the mind of the committee and, on important matters, with directives from the Council (these directives often being called "the mandate"). But the Article 113 Committee plays a major role in establishing Council mandates, and, I would say, the committee has been more and more respected and relied upon during the past decade.

These mandates are sometimes agreed in the committee and endorsed by the Council of Ministers without discussion. On major issues, the committee prepares the way for the Council of Ministers by agreeing as much as possible leaving the disputed areas to be settled by Ministers. Quite often, the committee is called together during Council of Ministers meetings to work out the details of what has been agreed. But, frequently, the committee is asked to clarify further the points in dispute or to suggest a way to an agreed compromise decision while Ministers turn their minds to another topic, leaving the 113 Committee to sort out the mess.

Here, I might mention again the close relationship between the senior officials and the Trade or Commerce Ministers. Since, on difficult points, Ministers know that they will have to argue their case in the Council of Ministers, they are less prone to want their senior officials to get them out on a limb. Sometimes Ministers want to make a splash at home, to show they have defended their domestic interests to the end and only compromised at the last moment with, of course, considerable gains (which are fully retailed to the media). But most Ministers are far too sensible or far too busy to provoke controversy for its own sake, and all are aware of the central importance of the sensible conduct of trade relations in the dangerous world today.

I have concentrated in this note on the Article 113 Committee meeting at senior official level. This is called, in French, the meeting of *titulaires* and rendered enigmatically into English as "full members." The committee does, however, meet at other levels. The deputies or alternates who advise the senior officials meet about twice a month. And the committee has met at ministerial level, particularly during the GATT ministerial conference in Geneva in November 1982. There, the E.C. Commission representatives returned daily from their talks with representatives of other contracting parties and, notably, then U.S. Trade Representative William Brock, to report on what had occurred and to receive new guidance for the next stage from assembled European Trade Ministers.

Whether this conference was a success or failure depends a bit on what you expected, but it did establish a GATT work program which has helped international trade relations through a difficult period and may yet assist the GATT to develop further. However this may be, the Ministers struggled manfully through long days and nights with the complexities of trade negotiations and came, I think, to understand more of the spirit of the Article 113 Committee. I think myself that it is helpful to the comity of international trade relations that the E.C. has a 113 Committee in such excellent order and less faceless and inhuman than might sometimes be thought. €

Robin Gray was the U.K. representative on the key Brussels-based Article 113 Committee from 1975 to 1984.

WORKING WOMEN HURT BY RECESSION

ECONOMIC STAGNATION IN EUROPE BLUNTS FIGHT AGAINST DISCRIMINATION.

HAZEL DUFFY

It's official. Boys and girls are the same, in education terms at least. But in stating the apparently obvious, the Education Ministers of the 10 E.C. countries at their meeting last June had to admit that by the time the boys and girls got to employment, things are pretty unequal.

Women poured on to the European labor markets during the economic growth years in the 1960s and 1970s. The expansion was checked by recession. Since 1980, the number of women in employment has grown by less than half a million in total, and during that time it has fluctuated up and down. By comparison, the number of working women in the United States has grown by 2 million in the same period.

Nevertheless, women in the E.C. are a vital element in the labor force, particularly in the socially more progressive E.C. member states. The trouble is that, despite their increase in numbers, they are still concentrated in the poorer paid jobs, frequently working part-time to allow them to continue running homes, and they have fewer promotion opportunities than men. They are less likely than men to belong to a trade union, and, when they do, they are highly unlikely to participate in union affairs at a senior level.

Around 40 percent of the adult female population in the Community is employed, compared with some 54 percent in the United States. But there are considerable variations between member states in the female activity rate. In Denmark, for instance, the rate was 57.3 percent in 1983, according to the most recent analysis of E.C. labor statistics, whereas it was only 32.3 percent in Italy.

Female activity rates also vary considerably when categorized by age groups and marital status. In Belgium, for instance, it peaks in the 25-29 age group, and drops off sharply thereafter; in the United Kingdom, it peaks earlier in the 20-24 age group, drops, and then peaks again at a new higher level for the 45-49 age group. Only in Denmark does it coincide closely with the male activity rate throughout the working life. In the Community as a whole, single women are most likely to be working, with an activity rate of 82 percent, followed by widowed or divorced women at 75 percent. For married women, it falls to 54 percent.

Part-time employment is significant for women in the E.C. Some 28 percent of all employed women hold such jobs, against only 3 percent of employed men. The incidence of part-time working is strongest in the service industries, which account for 75 percent of the 13 million part-time jobs in the Community. And it is most marked in the United Kingdom, the Netherlands and Denmark, where four out of 10 working women are in part-time jobs.

Most women who work part-time are satisfied with the arrangement, according to a survey carried out by the E.C. Commission a couple of years ago. Conditions, however, vary considerably, with those in the public-services sector generally being treated the same as for full-time employment, while in the private sector there can be substantial disadvantages. Individuals have taken their cases—with only partial success—to the European Court of Justice in search of rulings that part-time work should carry, for instance, a pension if there is long service.

The fight against discrimination—

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Sylvie Girardet recently became the first female stockbroker in France.


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Despite equal opportunity legislation for women in the labor market, they are still concentrated in poorer paid jobs with few chances of promotion, and they are more subject to discrimination in difficult economic times.

whether in part-time working, promotion opportunities or pay—is being conducted by women in the E.C. at several levels. At the official level, they have several weapons at hand. The fundamental right to equality between the sexes is guaranteed by all signatories to the Treaty of Rome establishing the E.C. And 10 years ago, the E.C. Council of Ministers directed member Governments to promote equal opportunities for women. The Governments—some before, some since, the directive—have legislated for equal opportunities.

But the effectiveness of the weapons has been blunted somewhat by the economic stagnation in Europe. Just as cuts in working hours have been resisted by employers, and some governments, as pushing up wage costs and therefore reducing competitiveness, so the vision of equality has been dimmed by the perceived economic burden that it would bring. Women have assumed, with the thinly disguised encouragement of their governments in many cases, that to press for equality would be to risk their jobs.

The overall employment position has to be taken into account to realize the significance of this argument. Whereas in the United States there has been an increase of some 20 million jobs on the labor market over the past 10 years—of which a respectable proportion have gone to women—in Europe, there has actually been a net loss of jobs in the past few years. Women are more vulnerable to being put out of work, not only in the traditional industries where men have also been fast losing jobs, but also in service industries like banking where automation is cutting clerical jobs frequently done by women.

An E.C. Commission investigation last year into change and social adjustment resulting from the new technologies noted that the "situation of women workers is particularly unsatisfactory." Far from having jobs created for them, as had been expected, women were losing out both from "gradual diminution of office work and the introduction of more efficient machines usually requiring new skills" and from their concentration in the low-skilled industrial sectors which are most easily automated. The report also emphasized that the small percentage of girls in technological and scientific education "is detrimental to their occupational integration and their future, in a world where technological skills and know-how are a major advantage."

This is where the Education Ministers meeting last June came in. They recommended a positive action program in schools, where it all begins, and, in particular, measures to encourage more girls to take up math and science subjects by allowing them to delay their choice of subjects until later than normal in their school careers.

Six months earlier, another Council of Ministers had recommended another program of positive action. This time, it was aimed at eliminating or counteracting the prejudicial effects on working women arising from traditional social attitudes and at encouraging women to take more responsible jobs. The committee on women's rights at the European Parliament noted recently that the E.C. Commission itself, where women are typically underrepresented, would be a good place to start.

Some E.C. member states are promoting equality with more vigor than others. France, for instance, which has a Minister for Women's Rights, makes a number of stipulations on equality in those areas where government can put pressure on the private sector such as Government contracts. But women sometimes have to take it into their own hands to get things done. At the Ford works in Dagenham, England, the women who make car seat coverings have just concluded a long and bitter argument to be paid the same as men who are doing a comparable job. In the end, Ford agreed to upgrade their jobs. The arguments for comparable worth could turn out to be more significant than the principle of equal pay for equal work in Europe although there have been fewer legal tests of "comparability" than in the United States.

But the area where some women feel most discriminated against is not pay—despite the fact that they earn only between two-thirds and three-quarters of men's pay (64 percent in the United States)—but taxes. Women are significantly better educated in the Community than they were 20 years ago, yet many member Governments still persist in patronizing them on tax matters. The Commission prepared a recent paper giving a variety of examples which could best be summed up as advising women: "Don't work, or don't get married." Since most women do both, it is advice that is sounding increasingly hollow. Perhaps it is the Finance Ministers who ought to be having positive action programs drafted for them. €

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FRANCE, GERMANY: ALLIANCE WITHIN AN ALLIANCE

MANY BELIEVE THE FRENCH-GERMAN "LOCOMOTIVE" IS DRIVING NEW COOPERATION EFFORTS IN EUROPE.

AXEL KRAUSE

Ending one of their regular bilateral meetings recently, President François Mitterrand of France casually grasped the wrist of Chancellor Helmut Kohl of the Federal Republic of Germany, glanced at the Chancellor's watch and told startled reporters in the Elysée Palace that the hour had grown late and that Kohl had to catch his plane back to Bonn.

Similar to the two leaders' much-publicized hand-holding during ceremonies at the Verdun battlefield site in eastern France last autumn, the gesture was deliberate. These actions also were regarded as politically significant by senior officials in both Governments, even though their relations have been occasionally strained. During the recent Western economic summit meeting in Bonn, for example, the French leader did not hide his annoyance over Kohl's surprise public endorsement both of President Ronald Reagan's effort to begin global trade negotiations in 1986 and of the U.S. Strategic Defense Initiative (SDI).

"There may be differences over some issues, but above all, the gestures (of hand-holding) symbolized the deep, personal commitment by the leaders to reconciliation and cooperation that is unique to both of us," commented a senior German diplomat based in Paris. "Can you imagine Mitterrand holding hands with Reagan in public, or taking [British Prime Minister Margaret] Thatcher's wrist?" asked a senior French official. "The gestures reflected determined French policy," he added.

What Robert Picht, director of the German-French Institute at Ludwigsburg in the Federal Republic, terms "the alliance in the alliance" has become, during the past two decades, a cornerstone of foreign policy for both Governments, extending into many areas: political cooperation, defense, economic, monetary and trade policy, investments, culture, tourism, science and education.

Formally established by a treaty of cooperation signed by Charles de Gaulle and Konrad Adenauer in 1963, the links are regularly touted by Bonn and Paris as historically unique—and growing. Some observers and recent polls have suggested that the French-German relationship may even be gradually eclipsing the close ties between the Federal Republic and the United States.

Meanwhile, a growing number of observers now agree that "the French-German locomotive" is driving new cooperation efforts in Europe, extending beyond the European Community to include Norway, Sweden, Finland, Switzerland and Austria. The most notable example is Eureka, the French-led project to mobilize European research cooperation, which has drawn support by 17 European Governments and the E.C. Commission.

With a hint of anti-Americanism, Hans-Dietrich Genscher, the German Foreign Minister, pledged Bonn's full support for Eureka during a May 22 news conference. Flanked by Roland Dumas, France's Minister for External Relations, Genscher described the U.S. Administration approach to European participation in SDI as "Americans going through Europe with their checkbooks." He added: "We cannot risk losing our best brains."

Gradually, and to the surprise of many observers, the alliance of the two countries has penetrated the public mind—a fact which is reflected in opinion surveys, notably in France. A recent survey for the daily newspaper *Le Monde* and the RTL radio network, for example, asked French citizens whom they thought Germans resembled most in mentality and behavior. About 41 percent cited "the French." Only 22 percent cited citizens of the German Democratic Republic, and that score was only slightly below that of Americans, who drew 29 percent.

Asked whether France should continue with the Federal Republic in building European cooperation, even if other E.C. partners did not follow, 80 percent said they were totally in favor of France moving ahead with Germany, alone if necessary. Only eight percent of those interviewed opposed that suggestion. In another surprise, 62 percent of those interviewed said that they were completely agreed that France should come to Germany's defense in the event that its neighbor—and former enemy—were threatened militarily. That conclusion was played on the front page of *Le Monde* in its editions dated June 28.

The results of the survey and supportive statements from conservative leaders, including former President Valéry Giscard d'Estaing, have encouraged the Mitterrand Government to move toward closer cooperation with Bonn on security issues. They were expected to have been the center of another bilateral meeting between the two leaders scheduled for the end of August.

The key, but by no means the only, issue surrounding the planned meeting was whether or not France would extend its defense capabilities, including the nuclear *force de frappe* umbrella to Germany. The approaching summit was accompanied by widespread discussion in European military circles over whether or not France still could afford the costs of a purely independent defense policy, a debate that was expected to continue during the next 12 months.

There are, however, many complex obstacles, real or imagined, to the French-German relationship. They regularly puzzle and fascinate those trying to understand why these two countries—after two world wars and with their different cultural, political and economic systems—appear to be moving toward each other.

For example, virtually the entire banking establishment in the Federal Republic remains firmly opposed to French-led proposals to bolster the European Monetary System (EMS) and link the European Currency Unit (ECU) to the dollar and the yen. Bankers in Frankfurt term these ideas "ideologically motivated." Countering, French banking and Finance Ministry officials say Germany fears that a strong ECU would threaten the mark.

Similarly, French industry is viewed by many German business leaders as inefficient, state-dominated and incapable of marketing many products efficiently, particularly when it comes to consumer goods. The French say the Germans are hypocritical when talking about France's state-owned industries, citing the powerful role the state of Bavaria plays in that region's economic life. Officials in Bonn and Paris regularly quarrel over what they perceive as each other's protectionist trade policies.

On security issues, despite the renewed talk of cooperation, France and Germany approach Western defense differently, particularly regarding East-West relations. Bonn is widely regarded as more open than Paris to pursuing ties with Eastern Europe and the Soviet Union, particularly in trade and financing.

In the cultural sphere, despite student exchange programs in which about 4 million German and French youths have participated during the past two decades, only about one in a 100 French, or Germans, speak each other's language well. (Mitterrand and Kohl rely on an interpreter; their predecessors used English.) The overwhelming number of students in both countries regularly select English as their first foreign language. And in recent interviews with *La Vie Française*, a weekly magazine, the French Ambassador in Bonn and his counterpart in Paris complained that too many scientists still pursue advanced research in the United States instead of in their home countries.

Meanwhile, French foreign policy under Mitterrand remains driven by a deep and highly popular commitment to national independence, which often annoys German officials. That frustration occasionally surfaces in public. For example, Markus Berger, a Christian Democratic member of the Bundestag defense committee, told a conference on SDI held in Paris during June that he found it incongruous that France was asking for German support in Eureka, yet was blocking a far larger project—the European Fighter Aircraft, a five-nation plan to build a new combat fighter for the 1990s. Largely because of French insistence on design leadership, the project was on the verge of collapsing, but Britain, Germany and Italy decided August 1 to go ahead without France and Spain.

Yet, despite the obstacles, disappointments and shortcomings, Bonn and Paris continue pressing development of their alliance actively. As Picht put it during a recent interview in Ludwigsburg: "There simply is no realistic alternative—the French-German relationship reflects political necessity."

Asked in recent interviews what each country is seeking, French, German, and U.S. Government officials, professors and business leaders cited the following:

• France, although economically weaker, looks to Germany for export markets and industrial cooperation, notably in the military and space fields. Paris also seeks Bonn's support for French views regarding economic, trade and monetary policy within the E.C., particularly those that conflict with those of the Reagan Administration and, sometimes, Britain.

COURTESY PRESSE- UND INFORMATIONSBURO DER BUNDESREGIERUNG

French President François Mitterrand (left) and German Chancellor Helmut Kohl hold hands during commemorative ceremonies last fall at the Verdun battlefield in France.

• West Germany, faced with opposition at home from pacifist and pro-environment groups, looks to France for leadership on security issues within the alliance. The striking example was set by Mitterrand in his speech to the Bundestag on Jan. 20, 1983, in which he bolstered weakening support in Germany for the deployment of U.S. medium-range missiles.

• Trade and investment between the two countries, despite a chronic French deficit in both sectors, remain an important unifying force. Trade officials and business leaders on both sides of the Rhine say that they expect Germany and France to remain each other's main trading partners into the forseeable future. Close coordination between the Bundesbank and the Bank of France, since the dollar began its decline during the spring, has been widely praised in both capitals, even though some German business leaders believe the franc is overvalued, despite the recent EMS realignment.

Commenting on the realignment in which the Italian lira was devalued by a net 7.8 percent, an official of the E.C. Commission in Brussels said that "the positive reaction of the markets, despite rumors about the need for a new adjustment, shows that coordination is working, particularly between Bonn and Paris . . . and there were some big surprises—the French franc was revalued, not devalued as most experts were predicting, and there was no big rush into marks as everyone was also predicting."

French Finance Minister Pierre Bérégovoy and his German counterpart, Gerhard Stoltenberg, confer by telephone frequently and repeatedly say that they are committed to lower budget deficits and that fighting inflation remains their key priority in economic policy. Both Ministers regularly fend off suggestions made in Cabinet meetings, that they adopt more expansionary policies.

In Paris, Henri Monod, chief executive of the French subsidiary of Hoechst, the large German chemical company, said recently that "of course, there are problems in our relationships." Indeed, Hoechst itself became embroiled in a major controversy with the Mitterrand Government, because it was singled out for nationalization under the Socialist Party's plan that brought leading French corporations and banks under state control in 1982.

However, bowing to pressure from Schmidt, Mitterrand allowed Hoechst to keep a 54.5-percent interest in Roussel Uclaf, the second-largest French pharmaceutical company, which the Socialists had targeted for full nationalization. "It reflected friendship for Germany, and today that commitment is irreversible," Monod said. €

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E.C. ENVIRONMENTAL POLICY IS MODEL FOR OTHER NATIONS

MANY ARE STUDYING EUROPEAN TOXIC-WASTE MANAGEMENT PROGRAMS.

CYNTHIA WHITEHEAD

Question: Name the most important environmental issues of the past five years.

Answer: Acid rain? The ozone layer? The greenhouse effect from the CO_2 buildup? The destruction of tropical forests? Chemical pollution? Toxic wastes?

Q: Which of these problems are basically international in scope?

A: All of them.

Q: What, if any, international Government exists that can deal directly with international environmental problems?

A: The European Community.

The burgeoning international movement of commercial chemicals, consumer products and industrial investments means that we are facing a new, much more complicated generation of threats to the environment. Now, the same local environmental problems can turn up anyplace in the world. Other environmental problems have transnational or even global impacts—damage to the global environment through climatic change or the loss of plant and animal species from modern, industrialized agriculture or forestry practices.

In response to our growing awareness of this new generation of environmental problems, our attempts to protect the environment have in turn undergone a slow but steady internationalization. Today, as a matter of course, every country looks around to see what other countries are doing to solve a particular problem before drawing up new laws and programs. And, finally, many countries have realized that the new generation of environmental problems can only be solved through long-term, concerted international efforts. Even the United States—which, in 1981, tried to turn back the clock and go it alone—has sensed the change, has come back, has intensified its dialogue with the E.C. and has strengthened its participation in the Organization for Economic Cooperation and Development's (OECD) environmental program, the United Nations and other international organizations.

The E.C.'s environmental policy has been hailed as "a quiet success story." The E.C. is making a name for itself as a proving ground for models of international regulation and concerted, international action to protect the environment. It can do this because it is an international entity that is also a government. Unlike international organizations such as the OECD or the United Nations, the E.C. can enact and enforce law.

Since the launching of the first E.C. Environmental Action Program in 1973, more than 100 laws and regulations have been adopted. These have changed the course of environmental policy in 10—soon to be 12—European Governments reaching from Denmark to Greece.

"I believe that the E.C.'s efforts in the environmental field have been dramatically underrated," comments a Foreign Service officer at the U.S. Mission to the E.C. He sees two underlying reasons for this state of affairs: Firstly, only problems such as lead in gasoline or acid rain get media attention, and secondly, the structure of the E.C. is poorly understood in the United States.

Take the example of the most successful area of E.C. environmental regulation—chemicals control. Here, E.C. legislation has provided models for other countries and international organizations. In 1967, the E.C. adopted a system for the classification and labeling of dangerous chemical substances that has functioned smoothly to this day. More than 1,000 substances have received E.C. labels, containing the chemical identity, a warning symbol, and standardized risk and safety phrases. A guide has been published to show manufacturers what labels are necessary pending adoption of a uniform E.C. label. The E.C. system is being studied by other Governments in Europe and the Eastern bloc.

When the United States enacted the Toxic Substance Control Act (TSCA) in 1976, it attempted to fill the gaps in existing laws controlling risks from chemical substances, to establish a notification procedure for new chemicals that would identify potential health and environmental risks and to give the Environmental Protection Agency (EPA) the tools to identify and control risks from both new and existing chemicals. The act ran the gamut of regulatory possibilities that European countries feared might be used to discriminate against foreign chemicals producers exporting to the United States.

The E.C. responded in record time, and, significantly, it simultaneously undertook to develop an European new chemicals notification law, and to work through the OECD with the United States and other industrialized countries to develop internationally harmonized procedures for testing, hazard assessment and governmental use and exchange of information relating to chemical risks. So, in 1979, the E.C. enacted the "Sixth Amendment" (to a 1967 directive on dangerous substances), which established a Community-wide notification system for new chemical substances, based on the submission of a "base set" of data and a risk assessment by the producer or importer to one member country.

The language of the Sixth Amendment is precise; the burden on industry is well-defined. It creates an information system that is regularly and automatically updated and expanded. It does not attempt to cover the whole field of chemicals control. And, most importantly, it creates an international system of interlocking procedures and obligations in which each E.C. member country in effect acts as the agent of its partners in permitting a new chemical onto the E.C. market. The national competent authorities that administer the directive meet several times a year in Brussels under the chairmanship of the E.C. Commission to confer, to decide on common procedures and policies and to resolve disagreements.

During 1980-1983, the OECD adopted the Minimum Pre-market Set of Data, test guidelines and standards for good laboratory practice, which extended the E.C. concept of a "base set" of data for the notification of new chemicals to 24 industrialized countries. During the past two years, members of both the U.S. House of Representatives and the Senate have introduced bills to drastically upgrade TSCA's new chemicals notification program by requiring manufacturers of

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With its environmental regulations, the E.C. seeks to curb the effects of pollution not just on people and on the countryside, but also on its most treasured historical monuments. Michelangelo's David, for example, has fallen victim to air pollution.

new chemicals to provide EPA with the same "base set" of data as is required in the E.C.

And the "base set" works: "European industry has no real difficulties with the Sixth Amendment; it is a good balance between environment protection and the administrative burden on industry and government," says Louis Jourdan, head of the Technical Division of the European Council of Chemical Industry Federations.

In 1982, the E.C. adopted a directive setting uniform standards for the prevention and control of the risks and impacts of major industrial accidents, based on lists of dangerous chemicals and processes. After the catastrophe in Bhophal, India, this "Seveso Directive" was the model for initiatives in the U.S. Congress and by the World Bank.

The E.C. has just started reviewing the need for regulation of new applications of biotechnology, but is committed to following the trail blazed by the OECD Chemicals Program. From the start, the E.C. is emphasizing the need for comprehensive European regulations in the context of wider international harmonization of testing, risk assessment and information policies.

Why has there not been a series of toxic waste scandals in Europe comparable to those in the United States? Why does there not seem to be a need for an E.C. Superfund? "In Europe, the density of cities and population gave rise to a culture that paid greater attention to protection of the earth, the soil," Jourdan believes. "Even if they were not termed waste regulations, in all European countries you can find laws and decrees referring to the management of dangerous wastes, dating back to Louis XIV in France." Consequently, in recent years, Europe has been playing host to numerous U.S. visitors ranging from the Sierra Club to U.S. Congressmen who come to study its toxic-waste management systems.

The effectiveness of E.C. environmental law rests in part on cultural traditions and political values native to Europe that give its laws greater force than, say, comparable federal legislation in the United States.

First of all, European government benefits from a political evolution that passed directly from feudalism into bureaucracy. This means among other things, that modern European civil servants still enjoy the public respect and deference owed to their predecessors who served in the courts of kings and princes. It means, that government in Europe is from the top down and not, as in the United States, from the bottom up. Some countries lack the grassroots democracy that Americans are used to. But it also means that the "best and the brightest" of university graduates tend to seek careers in public administration and stay there, instead of leaving to work for industry. It means consistency in public policy, because the people who propose environmental laws are likely to be the same people who administer them. And it means higher levels of trust between government, industry and the public, based on tradition and familiarity.

Secondly, Europe faced up to the implications of the industrial revolution long before the United States did, probably because the population density of Europe made it imperative to regulate the hodgepodge construction of new industries and new adjoining workers' neighborhoods before disaster struck. England, the United Kingdom, the Federal Republic of Germany and France adopted comprehensive laws controlling industrial siting and processes from 1870 to 1890. A century later, these countries often simply tacked environmental measures to the framework of existing industrial regulations. European industries have had more than a century to adjust themselves to intensive governmental supervision and control of their activities, and European Governments have had as long to establish and refine their procedures and programs.

Thirdly, Europeans are far more allergic to "regulatory uncertainty" than U.S. citizens. Europeans strongly believe, along with Aristotle, that "good law is good order." The E.C. paradigm for good law is the statute, while in the United States the paradigm is still the judicial opinion. So, the thrust of European legislation is "to define obligations," while "U.S. laws are written to empower government," says Turner T. Smith, Jr., chairman of the American Bar Association Standing Committee on Environmental Law who is currently on sabbatical in Oxford University. As he sees it, European laws are more rigorously logical, and Europe seems to have more experience in building lasting regulatory structures than the United States.

His comment is borne out by experience. The wheels of the E.C., the amalgamation of a young constitution with the age-old political and administrative traditions of 10 countries, "grind slowly, yet they grind exceedingly fine." If the question is how to build a lasting and effective international framework to safeguard the world's environment, in some cases at least, the experience of the E.C. has confirmed the moral of Aesop's tale of the tortoise and the hare: Slow and steady wins the race! €

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ACTION COMMITTEE FOR EUROPE PLANS PUSH FOR UNITY

NEW GROUP BRINGS TOGETHER POLITICIANS, INDUSTRIALISTS, LABOR LEADERS.

EMANUELE GAZZO

On June 6 and 7 this year, three weeks before the Milan European Council summit of E.C. Heads of Government, the new Action Committee for Europe had its first formal meeting. The committee immediately released a statement recalling that the European Community once again faces critical choices in dealing with the economic, social and political challenges of a changing world. A consensus is needed and the committee vowed to exert all its influence toward achieving one. The committee will push Governments, political parties and both sides of industry for the support needed to take these fundamental decisions.

At the same time, the committee sent an urgent appeal to the European Council about to meet in Milan to strengthen the decision-making process within the E.C. Council of Ministers and to undertake a certain number of clearly defined, priority actions.

A comparison between the Milan summit's conclusions and the texts adopted several days earlier by the Action Committee show that the latter's voice was heard, at least in part. News accounts took little notice of this, however, and the genesis, formation and objectives of the Action Committee remain little known. The committee will be talked about more in the near future, though, and will be seen to have real influence on the future of the European integration process.

To better understand this new organization, a brief historical review is useful. As the members of the committee explained in their founding declaration: "The committee's aim will be action to build political support for concrete and specific priorities in European integration. In this respect, it will work in the spirit of the former Action Committee for the United States of Europe of which the late Jean Monnet was president and Max Kohnstamm the vice president."

To understand what today's Action Committee is—how and why it was born—one must understand its roots and its spirit. Let's go back 30 years, to when Jean Monnet was president of the High Authority of the European Coal and Steel Community (ECSC)—the first step toward a united Europe with a federal avocation. One year earlier, in August 1954, the French parliament had voted down the treaty creating the European Defense Community which five other member states' national assemblies had ratified. In the same stroke, the proposed political community, put together by the ad hoc assembly led by Paul-Henri Spaak in 1963, was knocked out.

The framework of a uniting Europe, under construction, was falling apart like a house of cards. The ECSC was left alone and lost all locomotive power. To do nothing meant to slip backward. Aware of the serious danger, Monnet decided to take action, but with new means and methods. Like a besieged leader who rushes out of his fortress to turn the tables on his assailants, Monnet announced he would not serve a second term as president because he now had to take action elsewhere and otherwise, because the impetus now had to come from outside.

In his eyes, this meant two things. First, battle had to be enjoined again on a new field. And this led to the spectacular initiative creating Euratom, a European organization for peaceful use of the atom, and a European Economic Community (or Common Market), whose treaties were both signed in Rome in March 1957. Secondly, ensuring the success of these two undertakings necessitated the support (and participation) of political parties—"which, by inclination and by necessity, take an overall view"—and of the democratic unions—"which are interested in life and are sensitive to change."

Monnet was able to quickly mobilize around the Action Committee for the United States of Europe important political people—that is, party and union leaders who had a mandate from their membership and could thus guarantee support from Governments and the labor forces for the committee's proposed solutions to various crucial problems. Aided by a handful of faithful associates (and with the help of some experts), Monnet personally kept up contacts between the 30 or so members of the committee. Whenever it held a plenary session (once or twice a year), texts were adopted and made public.

This is how, beginning in January 1956, the committee appealed to Governments, institutions, parliaments and public opinion, making specific proposals for the most important problems—not the least of which were the drafting, ratification and application of the Treaties of Rome; a speeding up of the Common Market; monetary union; U.K. accession; the Kennedy Round of trade negotiations; an energy policy; the partnership with the United States and the necessary peaceful coexistence with the Eastern bloc. The committee was thus perhaps the most powerful pressure group for the progressive achievement of European unity.

But, in 1974, Monnet felt that the creation of the European Council, composed of Heads of State or Government—which he himself had suggested—henceforth would be the "supreme instrument" for decision-making. Monnet felt it was not his committee's place to "dictate" the Council's conduct, so he decided to dissolve the committee—on the 9th of May, 1975, the 25th anniversary of the famous "Schuman Declaration" which was the basis for today's European Community. Monnet believed the committee had thus transferred to a functioning institution of the E.C. its energy. He did not exclude, however, the recreation of a new such force should "crises similar to those that once led to the formation of the committee reappear."

And now this "new force," which takes its inspiration from Monnet's example, has just been born. Why now? It is undoubtedly because several members of the old committee felt that the Community, though now free of past budget disputes, is going through a major crisis which demands a qualitative leap forward and a commitment by the vital forces in Europe like that aroused in his time by Monnet. As the committee declared after its founding meeting in Bonn: "Our nations, once again, are forced to take fundamental decisions on how to move forward to their common aim: the

German Chancellor Helmut Kohl (second from right) greets founding members of the new Action Committee for Europe after their inaugural conference in Bonn in June. From left: Walter Scheel, former German President; Edward Heath, former British Prime Minister; and Karl Carstens, also a former President of the Federal Republic.

establishment of an ever-closer union among the peoples of Europe."

This is how Max Kohnstamm—encouraged by old colleagues such as former Belgian Prime Minister Leo Tindemans, former British Prime Minister Edward Heath, former German Chancellor Helmut Schmidt, former French Foreign Minister Maurice Faure, former Italian Prime Minister Emilio Colombo as well as by representatives of the second generation of "Europeans"—took up his pilgrim's staff and wove new links while renewing the old.

After two study meetings at Stuyvenberg and Leeds Castle, an important convention was held in Rambouillet (on the invitation of French President François Mitterrand) in December, 1984. This in turn led to the official establishment of the committee in Bonn last June.

It goes without saying that the Action Committee does not intend to be a carbon copy of the Monnet committee from which it takes its inspiration. The first difference is the absence of Monnet himself. The times have changed; so have the people. The second difference is that Monnet created the Action Committee for the *United States* of Europe. The words "United States" are gone. There has been a change in sensitivities since 1956: Today, no one wants to be suspected of "pro-Americanism."

The third difference is the structure. The Monnet committee excluded business and labor representatives, but the new committee calls on them as well. And it is a good thing. Captains of industry should sit next to political and union leaders. The dialogue is richer for it. It is the producers who today are demanding the realization of a true Common Market and real technological progress.

This is why the Action Committee declared: "Its purpose is to mobilize the support of Governments as well as of political parties, trade unions and employers for practical plans with clear deadlines and methods of decision-making aimed at meeting the challenges." The committee listed three possible courses of action:

- The creation of a border-free European home market by 1992.
- A major Community response to the challenge of advanced technology.
- Strengthening the European Monetary System and bringing about mutually compatible economic policies of the member states with due regard to the promotion of solidarity between the richer and poorer regions of the Community.

The committee asked the Council of Ministers to give "an unambiguous mandate on institutional reform, notably on substantially increasing the use of majority voting, on the role of the European Parliament in decision-making procedures and on increasing the powers of the Commission to speak with one voice in international affairs."

Jean Monnet (left) and former Belgian Prime Minister Paul-Henri Spaak were behind the first Action Committee in the 1950s.

There is a chance that the Community, running against the current of "Europessimism," will progress in this direction. The Action Committee's voice joins others and bears witness to the faith in the original committee that inspired the construction of Europe.€

Emanuele Gazzo is the director of *Agence Europe* in Brussels.

DEVELOPMENT PLAN FOR MEDITERRANEAN APPROVED BY E.C.

PROGRAM SEEKS TO CORRECT IMBALANCES UNDERMINING EUROPEAN UNITY.

FERDINANDO RICCARDI

The E.C.'s new Integrated Mediterranean Programs (IMPs) are both more than and different from other E.C. actions supporting a particular initiative or region. The objective is more ambitious and the stakes are high. What is involved is neither more nor less than consolidating the links between the Mediterranean part of the E.C. and overall European integration. Greece, the Italian Mezzogiorno and France's Midi have been a bit at loggerheads with the construction of a united Europe, not because of political reservations, but as a result of their impression that the present Common Market was designed mainly for the northern regions. These are the most industrialized and, generally, the most prosperous in the E.C.

In the spring of 1983, the Greek Government set out its claims in a memorandum, emphasizing that the disparity between its economic structures and those in the rest of the E.C. made exceptional intervention and some temporary waiving of general E.C. rules essential. For years, southern Italy has been demanding that special measures be taken to protect its farmers from concessions made by the E.C. to third Mediterranean countries in the agricultural sector. Imported plums, olive oil and other fruit and vegetables such as peaches and tomatoes cut into markets for farmers in the E.C.'s Mediterranean areas, which are already the poorest in the Community.

On the whole, France's Midi has adapted well to the requirements of the Common Market. But when Spain joins the E.C. Jan. 1, the present situation will change. Many farmers in the Midi have opposed Spanish membership because they fear an invasion of Spanish products in direct competition with their traditional products: wine, peaches and other fruit and vegetables.

Some of their fears were exaggerated because the conditions for Spanish membership have been very carefully negotiated so as to take account of the concerns of the E.C.'s Mediterranean regions. Nevertheless, the shock of enlargement

The E.C.'s Integrated Mediterranean Programs' aim is overall economic development encompassing all sectors, including agriculture, which remains fundamental to the region.

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will undoubtedly be felt mainly in those regions, for obvious geographical reasons. So what can be done? There can be no question mark over enlargement since Spain and Portugal's membership meets basic political needs. But at the same time, the E.C. must take into account the above-mentioned concerns, through solidarity and also in simple justice. If enlargement implies certain efforts and sacrifices, at least at the beginning, these must be fairly shared. And so the IMPs were born. They reply both to the Greek memorandum of 1983 and to the economic repercussions of enlargement.

The three words in their title define these initiatives by summarizing both the objectives and the course of action. First of all, they are "programs" and not projects, which means that the E.C. intends to stimulate and finance not isolated projects but real, coherent programs for economic development. These programs will be "integrated," which means that their objective is not to develop agriculture in one place, tourism in another and industrialization in a third. Instead, the aim is overall economic development, with all its different elements, because experience has shown that this is the most effective way to bring about overall progress. Finally, these programs are "Mediterranean" since they cover the regions in the E.C. bathed by the Mediterranean sea. These have common characteristics and make up a fairly homogenous unit crossing national boundaries.

When it proposed the IMPs in 1983, the E.C. Commission carried out a realistic analysis of the situation in these regions. It noted that the Mediterranean regions were among the least developed and, in the majority of cases, among the poorest in the Community. They are geographically peripheral to the main industrial centers; their agricultural sectors are still important, often predominant, in employment terms.

These regions are characterized by the weakness of their industrial fabric, high unemployment and a low level of economic activity. Their agriculture is very dependent on the products aptly called Mediterranean and suffers from important handicaps resulting from natural conditions and from backwardness in the productive, commercial and processing infrastructure. (Oranges flourish in these areas, yet the main producer of orange juice is Dutch and the most famous manufacturer of marmalade is in the United Kingdom.) Parts of these regions have declining, or dramatically aging populations.

The situation is not the same everywhere. Sometimes tourism has brought slight improvement and some cities and areas have income levels comparable to the E.C. average. But, on the whole, Greece, the Italian Mezzogiorno, Corsica and certain counties of the Midi have a level of activity and wealth well below that average. The E.C. has already taken many initiatives to help these areas—by biasing the European Regional Development Fund (ERDF) and other instruments in their favor—and there are often major efforts by the national Governments. On the whole, however, it must be acknowledged that the gap between these regions and the rest of the E.C. has not been reduced. Indeed, in certain cases, it has widened.

Experience has shown the limits of actions which focus on single sectors and which are not coordinated within an overall development plan. The Commission also has emphasized the need to set up ways of intervening which "can make up for the lack of dynamism and entrepreneurial spirit as well the inadequacies of the administrative structures." In fact, it has sometimes happened that funding and support explicitly aimed at the Mediterranean regions have gone to other areas because there were no projects or they were badly prepared.

This analysis has led the Commission to propose programs which would cover both the agricultural sector, which remains fundamental to the E.C., and other sectors of economic activity which could create employment and use local capacities and potential. There is absolutely no question of copying, in the Mediterranean regions, a model of industrial development which succeeded elsewhere. This has been tried before, and it usually fails. Mentalities and traditions are hard to change; nature cannot be forced. Old-style industrialization pushed to the extreme is even less useful nowadays when new jobs do not come mainly from the industrial sector but from other activities such as the tertiary sector, revived agriculture or general services. Training is important, of course, because real wealth lies in people who are prepared. The climate and the quality of life play major roles as well. It is not dreaming to imagine that certain Mediterranean regions, those which are best able to understand the possibilities offered them and show dynamism and a spirit of initiative, will one day be the "California of Europe."

Of course, the IMPs cannot do everything. And, unfortunately, it is virtually certain that in several areas they will not achieve the hoped-for results.

Seven years from now, when the programs are over, many regions will still suffer from problems of underdevelopment, from insufficient economic activity and from administrative deficiencies. But the IMPs should produce a "multiplier" effect elsewhere and serve as a basis of an authentic renewal along with other national and E.C. initiatives.

The Commission's proposals, which were made in 1983 in accordance with the guidelines mentioned, have had to struggle for acceptance. When they were discussed by the Heads of Government in 1984 (the decision was sought at this level given the size of the effort required and its political and economic importance) several E.C. member states felt that the initial proposals went too far particularly with their financial commitment of nearly 7 billion European Currency Units (currently about $5.6 billion) in 5 years.

The Commission did not believe its estimates excessive but it took these financial and budgetary concerns into consideration and revised its proposals by reducing the costs, while trying to keep not only the direction and the objectives of the IMPs but also their size and their effectiveness. The negotiations were not easy and once more intervention by the Heads of Government was needed, in Spring 1985, to arrive at an agreement in principle. Then in June the rules of application were defined and adopted.

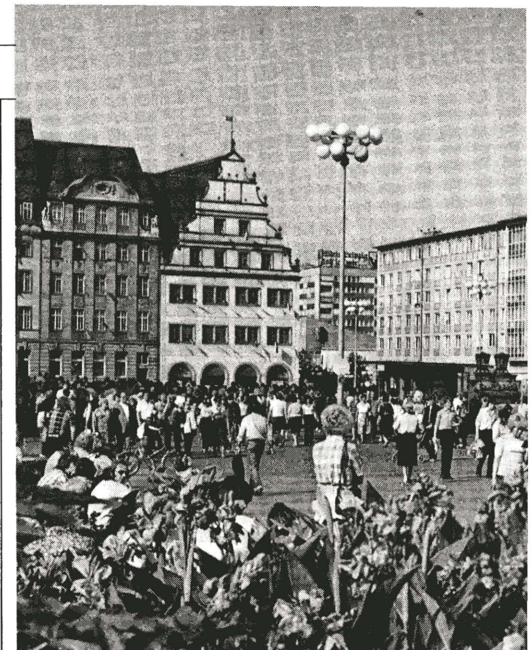
The IMPs will be carried out over seven years, starting in 1986. So long as the three countries concerned present their projects within the framework defined by the E.C. rules, the funding procedures will be quite supple, in the sense that the Commission has obtained a major delegation of powers, in liaison and consultation with representatives of national administrations. The IMPs appeal above all to the entrepreneurial spirit and will to act in the regions concerned.

For those regions which feel they do not have an adequate administrative and scientific infrastructure for preparing suitable programs, the Commission is ready to provide both the experts and its own infrastructure. If the IMPs are sufficiently understood and supported by the authorities, as well as by the people, they will contribute to reducing the differences and the imbalances which undermine European integration. Furthermore, they will promote the renaissance of European regions which have been left on the sidelines during the great movement of economic development, but which are among the most wealthy in civilization and glory, as much in Greece as in France and Italy. €

Ferdinando Riccardi is editor-in-chief of *Agence Europe* in Brussels.

E.C. AND COMECON MAY SEEK NEW TIES

EAST EUROPEAN EXPORTS TO WESTERN EUROPE SURGED IN 1984.



The fair at Leipzig offers good opportunities for East-West trade.

JOHN STARRELS

Are we on the verge of a new era of East-West business diplomacy? Perhaps. Certainly that is the message behind the various meetings which have taken place between a number of U.S. and West European officials with their East European and Soviet counterparts over the last year.

For the United States, the most significant breakthrough came last June when U.S. Secretary of Commerce Malcolm Baldrige met with his Soviet counterpart, Nikolai Patolichev, in Moscow to discuss long-term efforts to improve the bilateral trade picture. Meanwhile, there have been parallel indications that the two halves of Europe are increasingly interested in the possibility of reviving them as well.

In 1984, for example, Hungary's Janos Kadar and the German Democratic Republic's Erich Honecker briefly experimented with the idea of establishing their own, regional ties with Western Europe. The Soviets put an end to those efforts, but not before the Hungarians and Germans had made their major point: that Eastern Europe also had interests of its own to advance vis-à-vis the West.

The German Democratic Republic's initiative came as an especially pleasant surprise. Since the early 1970s, the Democratic Republic has demonstrated a willingness to engage the West. But never on its own. Undoubtedly economic motives figured heavily in Honecker's decision to reach out to his West European neighbors, who accommodated him last year with visits by no less than French Foreign Minister Claude Cheysson and British Prime Minister Margaret Thatcher.

After the abrupt cancellation of Honecker's trip to the Federal Republic of Germany in September 1984, efforts to improve ties between the two parts of Europe slowed. They were revived this June, when the Soviets announced that long-delayed negotiations on normalizing relations between the Moscow-dominated Council for Mutual Economic Assistance (Comecon) and the European Community could begin—if Brussels took the first step by agreeing to a bloc-to-bloc accord. At that point, "we would not exclude reaching our own separate trade arrangement with the E.C.," says Leonid Lokshin, deputy head of the Soviet foreign trade department responsible for Western Europe.

To be sure, the above events at most reflect a tendency, hardly a trend. As in the past, East-West commercial relations remain subordinate to political and security considerations. And yet these recent moves do suggest a common desire in East-West capitals for a renewal of commercial ties which, during the 1970s, witnessed a whopping 300-percent growth in trade between capitalist and state-trading economies.

In order for East-West commercial relations to flourish once again, a number of preliminary conditions must be satisfied. On the Soviet side, this involves Moscow's ever-present worry about Eastern Europe becoming too dependent on the more-advanced West. Accordingly, the new Soviet leader, Mikhail Gorbachev, recently admonished his East European allies to be more cautious in advancing their separate, national agendas toward the West. As the London *Economist* explained: "The Russians believe that . . . Comecon's . . . enthusiasm for buying from capitalists went too far in the 1970s. They are anxious to avoid a repetition of the East European debt crisis of 1981-83, and they want . . . Comecon . . . to become less vulnerable to any future trade sanctions like the West's that's-for-Afghanistan grain embargo and its attempted pipeline protest against martial law in Poland."

On the debt score, Gorbachev's worries seem to be exaggerated. Since 1981, the East Europeans have successfully reduced their Western debt from a peak of $58.3 billion to $47.1 billion by the end of last year. Indeed, the German Democratic Republic, which still carries a formidable $10-billion debt burden, recently negotiated a $500-million credit package put together by the Bank of Tokyo along with Bank of America, Manufacturers Hanover and Citicorp. Soviet worries about future Western embargoes, however, are another matter. But on this issue, Moscow and its allies have a good deal to say about whether—and under what circumstances—the West might be inclined to initiate another one.

In the meantime, though, proponents of closer economic relations with the West in Comecon still have reason to be optimistic about Gorbachev's long-term course. Why? His own travels to a number of E.C. member states are one reason. Another, and related, impetus is Gorbachev's apparent passion for modernizing the Soviet Union, which requires massive inputs of Western technology. From this vantage point, Gorbachev's worries about Western influence in Eastern Europe may end up being overcome by his stronger impulse to use the entire Comecon organization as a mechanism for promoting close ties with the West.

The major obstacle facing the West in its desire to expand East-West commercial ties involves technology transfer and control policy. Three years ago, those differences came to a head when the Reagan Administration attempted to halt European exports of technology to the Soviet Union for completion of the Yamal gas pipeline. In the interim, both sides have compromised. For the Americans, this has resulted in a more accommodat-

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ing attitude on sales of non-sensitive commercial goods to Eastern Europe and the Soviet Union. But the Europeans have likewise exhibited a greater willingness to work closely with the United States in the control of truly sensitive, "dual-use" (civilian goods which have military applications) exports to Comecon.

Despite the freeze in East-West commercial relations, the volume of trade between the two blocks remains large. In 1984, for instance, it came to $66 billion. Most of that involves the E.C. and Comecon, notably the Soviet Union, which with the addition of Portugal and Spain to the Community, transacted 70 percent (totaling 50 billion rubles) of its Western trade with the E.C. last year.

Indeed, the Soviets place great stock in negotiating bilateral trade arrangements with individual firms and E.C. member Governments. In the mid-1960s, for instance, Fiat of Italy negotiated a long-term protocol for scientific and technical cooperation with the Soviet State Committee for Science and Technology. The result was Fiat assistance to the Soviet Union in designing a passenger car for a production facility with a capacity to produce 660,000 cars a year. About the same time, the French firm of Renault provided assistance in the expansion and modernization of the Moscow Lenin Komsomol passenger car plant.

The Soviets remain interested in establishing long-term commercial relations with companies in the E.C. area—notably in the manufactured goods and technology sectors. Some examples taken from the 1981-1983 period are: casting equipment with Press & Shear Machinery of the United Kingdom; a joint venture for producing a passenger car with Porsche of the Federal Republic of Germany; machining and welding equipment for light alloys and plastics with Triulzi of Italy; and equipment for cleaning carburetor parts with Ultrasons-Annemasse of France.

More recent Soviet imports of Western European products include equipment deliveries from the Federal Republic of Germany for the Soviet Union's ferrous and non-ferrous metallurgy industry, along with machinery for the Oskol electrometallurgical and the Sayany aluminum factories. In the meantime, the Italians have negotiated long-term trade agreements with the Soviet Union in the gas, chemical, petrochemical and textile sectors. Recent changes in Western export regulations may soon enable E.C. computer manufacturers to market word processors throughout the Soviet educational system.

The key issue facing the Soviets, of course, is whether it will continue to be able to pay for its E.C. imports with compensating exports of raw materials and energy goods. Up to now, the question remains open in light of significant drops in global prices of energy products—which constitute some 80 percent of the Soviet Union's exports to the E.C.

But the Soviet Union's enthusiasm for "mutually beneficial relations" with the E.C. is, if anything, dwarfed by the veritable passion for increased contacts with individual E.C. member states by Moscow's European allies. In 1984, they transacted more than $31 billion worth of trade with Western countries, the overwhelming bulk of which was with the Community.

Unfortunately, passion has had to confront two unpleasant realities: continued hard currency shortages throughout most of Eastern Europe, which place severe limits on how much it can import from Western Europe, along with Moscow's demand that its European partners must divert some of their hard currency exports from the West to the Soviet Union in exchange for continued Soviet deliveries of inexpensive raw materials and energy goods. So the East Europeans find themselves in a box.

For all that, Eastern Europe may be able to increase its trade with the West. The United Nations Economic Commission for Europe, for instance, reports that East European imports from the industrial West actually rose by 6 percent in 1984. This was made possible in large measure by surging export sales to the West, which grew by 19 percent in the first nine months of 1984. The E.C. market is particularly receptive to a range of goods from Eastern Europe which run the gamut from Polish hams and coal, to German textiles and Hungarian buses. Alternatively, there remains a huge demand for E.C. consumer and technology products throughout the European part of Comecon.

Far and away the most important commercial link between the E.C. and the European membership of Comecon involves the Federal Republic of Germany and the German Democratic Republic. On an annual basis, the two transact between $5 billion-$6 billion worth of trade. It benefits both sides. For the Federal Republic, such trade improves export conditions for some traditional (smokestack) sectors that need the German Democratic Republic market to keep their doors open. Honecker's side also comes off well from an arrangement with his capitalist neighbor that includes generous grants of credit from the Federal Republic—which in turn allows Honecker to purchase large volumes of consumer and technology goods. And a certain amount of those goods find their way into other Comecon markets as well.

On top of this are lucrative, German-German "swap" deals, such as a summer-1984 arrangement that would allow the Democratic Republic to acquire a sophisticated, small-engine plant from Volkswagen of the Federal Republic. In return, VW would receive 100,000 engine blocks a year, to be produced by Democratic Republic workers between 1988 and 1993.

So, despite the gloom of the early 1980s, East-West efforts to revive commercial relations between the blocs bear promise of modest, but no less real success. And one need look no further than the two parts of still-divided Europe to find out why. €

John Starrels is an economist with the Joint Economic Committee of the U.S. Congress.

PORTUGAL

IBERIAN NATION WILL JOIN THE EUROPEAN COMMUNITY JANUARY 1.

DIANA SMITH

A celebration in ornate stone of Portuguese navigators who charted new worlds in the 15th and 16th centuries, the cathedral of Jerónimos rises near the Tagus River—the waterway that begins in Spain, meanders across Portugal's highlands and flatlands and, near Lisbon, spills into an Atlantic ocean that shaped Portugal's destiny.

Lisbon, the capital, sits like Rome on seven hills. Like Rome, it was once the heart of an empire that spread further over the globe than the outposts of Julius Caesar. Jerónimos, symbol of that empire, shelters the tomb of a hero of the golden age, Vasco da Gama.

Driven to seek an identity independent of their domineering neighbor Castile, moved by the energies of Europe's Renaissance, avid for riches absent from their country's modest 34,340 square miles, Portugal's navigators opened routes and touched shores later to be exploited by more powerful European nations.

By the late 18th century Portugal ruled a worldwide dominion whose resources greatly outweighed those of the motherland. Her empire included Brazil, whose gold and coffee built many stately Portuguese palaces. In Africa, the Portuguese established themselves on the islands of Cape Verde and São Tomé and laid claim to the vast territories that are now the modern nations of Guinea-Bissau, Angola and Mozambique. At Goa on the Indian subcontinent, on China's doorstep in Macao and on the Indonesian island of Timor, her traders left distinct traces of Portuguese culture. For instance, the Japanese word for thank you, *arigato*, is a corruption of the Portuguese *obrigado*. The Portuguese were the first Westerners to penetrate that closed society in the 1500s.

The empire is gone now, but Portuguese is still spoken by millions in Brazil, which chose independence in 1823; Africa, where former colonies battled for independence from 1961 to 1974; and in parts of Asia—and on all continents where 5 million emigrant Portuguese live and work. Nineteenth and 20th-century seamen and migrants to North America bred famed descendants there like John Philip Souza, the "March King," and John Dos Passos, the novelist. They were following the urge bred by the first discoveries to search abroad for a living.

By the 1960s Europe's postwar boom and eruption of war in Africa heightened the lure of the old Continent. Able-bodied men and their families poured into France, the Benelux countries, the Federal Republic of Germany and Scandinavia, seeking jobs modest by European standards but lucrative for laborers paid Europe's lowest wages at home. One and a half million Portuguese now live in Western Europe. Their outflow reduced the domestic population, but built up currency reserves thanks to their generous remittances home.

This migration and the 1974 overthrow of a 50-year old dictatorship resting on colonial power strengthened Portugal's European persona after a long period when European trade and culture were of only relative importance to a country looking oversees for status and physically isolated from the mass of the Continent by Spain. While the North Atlantic Treaty Organization provided a protective umbrella, European postwar ways were considered perilously liberal by the introverted regime of Antonio Salazar.

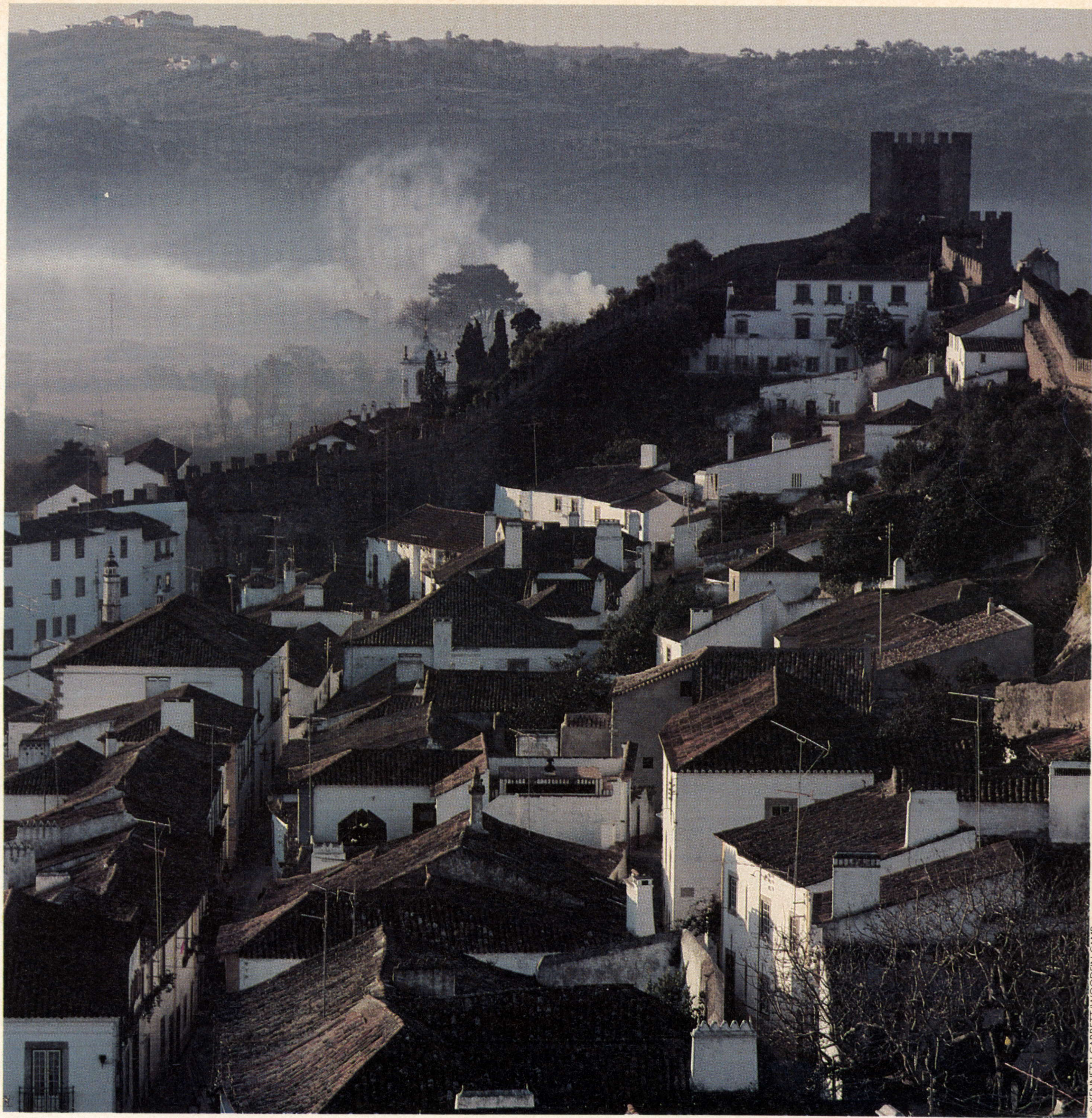
Independent Portugal today has only 10 million inhabitants, with a dropping birth rate affected by migrations and greater birth control despite Roman Catholic Church disapproval. The language is Latin laced with Arabic threads—a heritage of long Roman and Moorish reigns that fashioned structures, cities and industries. Roman marble quarries and clay potteries still work; Moorish palaces, polychrome tiles and architectural features still adorn areas from the center to the southern Algarve—*Algarb*, the Arabic for west, as in the west of their realm.

The land is richly varied. The coast is marked by white sand beaches, capes and hills rolling to the water. The hinterland is crossed by rivers and mountains scattered with boulders. There are tiny subsistence farms, vineyards, wheatfields, olive and cork groves and pine forests interspersed with eucalyptus groves that provide the raw material for a booming pulp industry. Whitewashed villages, market towns, fishing ports and industrial belts around Lisbon and the bustling northern capital Porto—the Roman *Portus Calia*, or gate of Gaul, the origin of Portugal's modern name—and university towns rise from a land with modest soil whose farmers still use ancient implements.

The Celts, descending from the North, introduced the first tools to Portugal. The wail of the Celtic bagpipe is still heard in Trás-os-Montes, a land of tiny farms striving to graduate to the 20th century. Phoenician-prow barques—heritage of Phoenician traders—still sail the Tagus. Legend has it that "Lisbon" is an elision of Olissipolis, city of the mythical Greek voyager, Ulysses.

Independent Portugal was born in the middle of the 12th century when nobles aided by the Crusaders ousted the Moors. But for 500 years thereafter, Portugal was obliged to ward off Castile, with the help of Europe's oldest alliance, signed with Britain in 1386. The alliance did not save Portugal from annexation by Spain from 1580 to 1640 or Portuguese forests from being decimated to build the Spanish Armada. That blow to national pride and the toll taken by an inquisition introduced in 1520 that drove Christian and Jewish thinkers, artists and merchants into exile left scars on the national psyche that still show.

A violent natural disaster, the 1755 Lisbon earthquake that wrecked half the city, had one positive effect: construction with the aid of German architects of Lisbon's geometrical downtown and the stately Praça do Comércio that houses most Government offices and the small stock exchange. Lisbon's oldest quarters, kaleidoscopes of little houses draped in washing, geraniums and caged birds, crammed along steep lanes and steps, teem with people, cats, dogs, poultry, dark taverns and overstuffed shops. They



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Membership in the European Community will help strengthen Portugal's young democracy and aid its economy. Above, a Portuguese village. Below left, a view of Lisbon, and, right, the monument dedicated to the famous Portuguese navigators who opened up new worlds.

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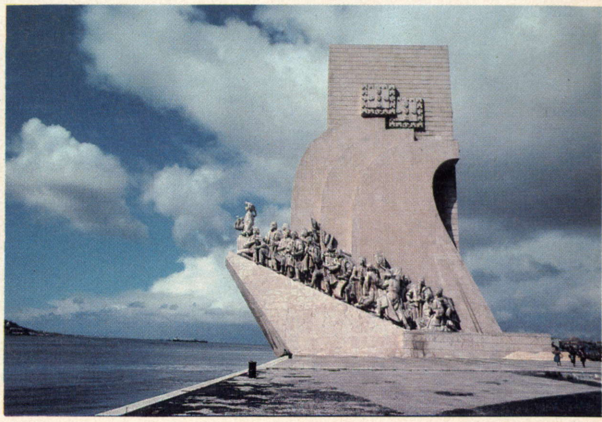

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distance runner is a fitting image for a Portuguese gift for dogged survival in punishing conditions. A spirit that lay dormant under half a century of rigid order imposed by a police state permitted the majority of Portuguese to keep their heads when revolution raged around them in 1975 and, when calm was restored, to opt for lasting freedom, moderation and, they hope, individual achievement.

Gradual, sometimes shaky corrections are being made to the excesses of 1975 and the inertia of 1928-1974 when lack of industrialization or investment in agriculture prevented Portugal from following the European mainstream. Fifty years of one-party rule have been replaced by a semi-presidential, semi-parliamentary system, with a 250-person assembly elected, as is the President, by universal suffrage with proportional representation. Parliamentary and presidential elections are separate. Local elections, important achievements of post-1974 freedoms that brought new powers to local authorities, are held separately from these. Parties winning an election majority form a Government with a four-year mandate. The President has a five-year term and no individual may serve more than two presidential terms.

The shift from a monolithic system in 1974 brought an explosion of 57 parties onto the scene. Eleven years later, the currents have settled into four main themes: Communist (20 percent of the 1983 vote), Socialist (moderate, 32 percent in 1983), Social Democrat (slightly conservative, 25 percent in 1983) and Christian Democrat. So far, no party or coalition has survived its four-year mandate. Internal party rivalries have erupted while politicians learn to convert from enforced political silence via excessive rhetoric to maturity in a pluralistic democracy. Despite their difficulties, the Portuguese have mastered their new democratic status enough to belie past leaders who told the nation it was only governable with an iron fist.

Never entirely sure of themselves, the Portuguese have evolved a quirky humor and talent for ironic political anecdotes and graffiti that have been safety-valves for centuries. The humor has permeated works of witty observers, like Eça de Queiroz, and left its legacy in a 1975 graffito in Lisbon: "The Indians were red, too. Remember what happened to them." What happened to Portugal led democratic leaders to ask for the key to Europe in 1977, seeking a European bond that past history had made difficult. €

Diana Smith reports for the *Financial Times* from Lisbon.


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Agricultural production, especially wine and fruit, is an important element in the Portuguese economy.

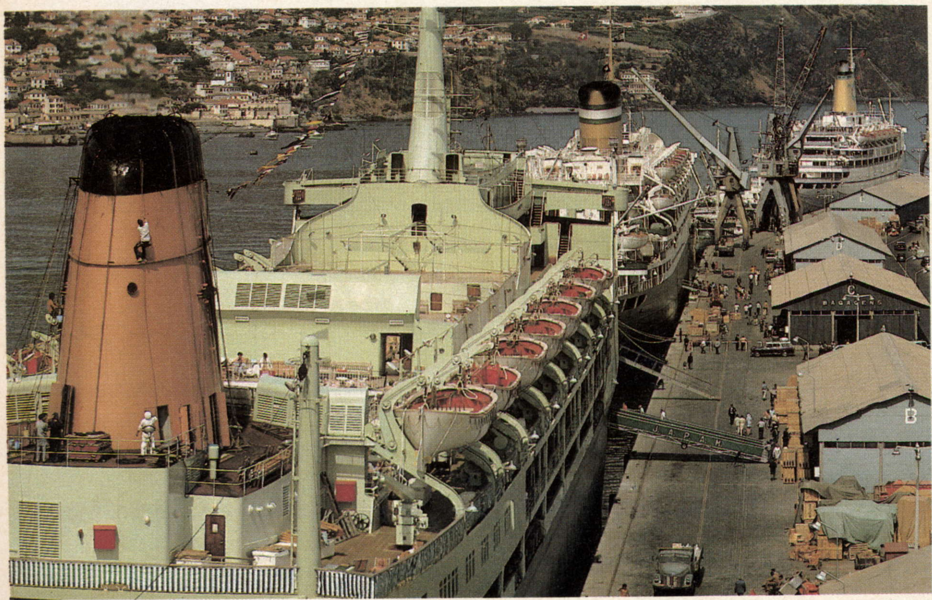
are as complex as the ethnic music, the *fado*, sung to two guitars by men or women with powerful voices. The *fado* speaks of disappointment and survival, pain and the past—trademarks of a nation that has not been sure of its future.

In the present, belle époque piles are giving way to modern office buildings and housing projects. Recent economic crises have dimmed the national appetite for vast quantities of starchy and oil-fried food washed down by cheap wine. Also, habits are changing through more exposure to the modern world. Younger Portuguese are more diet and exercise conscious. Free of decades of censorship and moral or political censure that stultified their elders, Portugal's young people are freer-spoken and more adventurous in the arts and business than those of a generation ago.

Enthusiasm for new-found freedoms and opportunities after 1974 has been marred by rampant inflation (29 percent in 1984), per-capita income under $2,400 a year, under- or unemployment (estimated at 12 percent) and other fruits of generations of underdevelopment and a brief span of Marxist nationalizations enforced by an aggressive minority in 1975.

Like any other nation, the Portuguese seek distraction from their worries. Three-quarters of the population watches two television channels serving up a potpourri of domestic and imported material. Much of the male population are soccer fans. A minority watch bullfights. Those who can flock to the beaches and campsites in good weather, and young athletes dream of emulating Carlos Lopes or Rosa Mota, the national hero and heroine who took a gold and a bronze medal in the 1984 Olympic marathons.

The loneliness of the successful long


© JONATHAN BLAIR/WOODFIN CAMP.

Portuguese trade with other E.C. nations will increase when the country joins the Community next year.

PORTUGUESE ECONOMY

FROM STABILIZATION TO MODERNIZATION AND GROWTH

Portugal is a small, open and new industrialized economy. Imports and exports account for a large share of demand and output. Imports are predominantly non-competitive, namely energy-related (petroleum), food and raw materials. Exports include manufactured goods (textiles, chemicals, paper and pulp) and services (tourism).

The second oil shock, a severe drought, the international recession and the attempt to sustain a high level of domestic demand and employment all led to a deterioration of Portugal's external payment position. High interest rates in international markets and adverse exchange rate developments compounded the problem.

The stabilization program implemented in the past two years to reverse the growing deterioration of Portugal's external payments position achieved its ends. More than that, the effects surpassed the targets established in the stand-by agreement with the International Monetary Fund signed in October, 1983, and revised in August, 1984.

The devaluation of the escudo, an increase of the interest rate and a substantial tightening of monetary and fiscal policies, were the most important instruments of the stabilization program. Utility prices were increased in order to reduce the deficit of state-owned enterprises. Some other administered prices were allowed to rise so as to lower subsidies and therefore the budget deficit.

In 1983, the current-account deficit came down to \$1.6 billion, against \$3.3 billion in 1982, while the target agreed with the IMF was \$2 billion. In 1984, the deficit was \$520 million, less than half the target of \$1.250 billion.

This important recovery was the combined result of domestic demand restraint and expenditure switching policies. Domestic demand decreased by about 7 percent in real terms both in 1983 and 1984, but its negative effect on output and employment was softened by the positive contribution of external trade: exports increased by 17 percent in 1983 and 14 percent in 1984.

Public sector borrowing was cut very substantially. As a share of GNP, the public-sector borrowing requirement fell in 1983 by about one-third of its 1982 value. External debt growth decelerated noticeably and the service burden was improved.

Although Portugal has been able to reverse unfavorable previous trends, and to stabilize its financial situation, it could not avoid suffering the associated economic and social costs. Inflation has increased as an immediate result of the price liberalization measures and of the escudo devaluation. Unemployment has risen.

Economic activity is at a low level, particularly in the domestic-oriented sectors. Gross domestic product dropped by 1.7 percent in 1984 after a marginal fall of 0.5 percent in 1983.

The financial stabilization accomplished, the country is now introducing structural changes which are imperative for a better performance of the economy and for a successful integration in the EEC. The Treaty of Accession to the European Economic Community was signed on the 12th of June and Portugal will become a full member in 1986. This will have an enormous impact on the Portuguese economy and the authorities believe in a favorable effect, in spite of the risks involved to the less efficient industries. Time has come to develop the country through the modernization of agriculture and fishing and the technological improvement of the main industries. It is expected that the opening up to private capital of sectors such as banking, insurance, cement and fertilizer industries will work in that direction. Ten private banks were recently allowed to operate in Portugal. Furthermore, the modernization of the financial sectors enjoys a high official priority. A set of new policy measures was recently approved in order to modernize and diversify the money and capital markets. A decrease of the interests rate, which has been tested as an efficient tool of the monetary policy, is expected to stimulate a careful but effective economic recovery.

However, the efforts toward modernization and development of the economy will have to count, to a large extent, on the cooperation of foreign investors and with the international financial community.

Attractive conditions are offered to direct foreign investment. It can rely upon high profitability, favored by skilled manpower, low labor costs, tax facilities and a significant growth potential. The forthcoming EEC membership is another strong incentive to foreign investors. It is hoped that they will join in this modernization effort.

Bank of Portugal,
Rua do Comercio 148,
1100 Lisboa, Portugal

'TREASURE HOUSES OF BRITAIN' SHOW OPENS THIS FALL

EXHIBIT IN WASHINGTON D.C. WILL RECREATE COUNTRY INTERIORS.

JANET RENSHAW

Connoisseurs and lovers of European art will be in their element during the next five months in Washington, D.C. The "Treasure Houses of Britain" exhibition to be unveiled at the National Gallery's East Building on November 3 will present a panoply of works of art from British country-house collections ranging from the 15th into the 20th century.

Seven hundred pieces including rare books, paintings from Holbein to John Singer Sargent, furniture by Boulle, Kent, Adam and Chippendale, silver by Paul de Lamerie and Storr, porcelain from Meissen, Sèvres, Delft, Chelsea and Bow will be displayed in 17 installations representing country-house interiors through the ages. It is the most prestigious exhibition of its kind to be mounted at the National Gallery in Washington D.C. and promises to be one of the major cultural events in the United States during the winter of 1985-86.

British country houses—"vessels of civilization" as J. Carter Brown, director of the National Gallery, has described them—are unique. Unlike the châteaux and villas on the Continent whose contents were ravaged by war and revolution, Europe's offshore island has most of its artistic patrimony intact. One wonders how long this will last. The houses, architectural masterpieces built in an age of aristocratic opulence, are still, in many cases, private homes, albeit open to the public. They require enormous expenditure to keep up. The sale of a work of art from the collections inside is often the only way to mend another leaking roof outside.

Patrons and collectors since early Tudor times, members of the British landed gentry have left repositories of unrivaled works of European art which it is now vital to preserve. Viewed together, the glorious combination of noble house, collections and parkland becomes one whole work of art. Each element complements the others. If the treasures were dispersed, the houses would be empty monuments to the past; the pictures would lose their historical connections and become anesthetized in gallery surroundings. If the parklands were plowed up, the British countryside would lose its character and the houses their idyllic settings.

The present owners of these stately homes have a role to play as curators and guardians of this European heritage. The National Trust, the largest private landowner in Britain, has over 200 houses in its care out of the 700 across the land and preserves them for the nation in a way that is admired throughout the world. It is the future of houses that are still owned by the families who built them that are the cause, in some cases, of most disquiet.

Gervase Jackson-Stops, architectural advisor to the English National Trust, and guest curator of the Washington exhibition, expresses concern that not enough is done to help stately home owners preserve the fabric of these magnificent "temples." "The Trust cannot take them on unless there is a considerable endowment to ensure their upkeep in perpetuity, and every year the gap grows bigger," he said during a recent interview. The answer, he believes, lies in owners forming private charitable trusts to keep the houses a going concern. The British Government has introduced such a scheme. "Unfortunately, to date," he says, "few families have taken advantage of the mechanism because of the inflexibility of the scheme."

Jackson-Stops welcomes the proposal made earlier this year by Carlo Ripa di Meana, the E.C. Commissioner responsible for cultural affairs and tourism, that there should be concerted E.C. action to stem the flow of European art overseas. In Britain's case, it seems a particularly good idea. Unless an attractive system is offered by the Government to encourage more families to take advantage of the private charitable trust scheme, there is a high risk that the flow of works of art overseas will become a flood.

The "Treasure Houses" exhibition comes at a pertinent time when the U.S. dollar is strong, and the art market booming. It has been designed to stimulate interest and support in the United States for Britain's cultural heritage and has the full backing of the British and U.S. Governments which have secured indemnity. The Ford Motor Corporation has provided a generous grant and the National Gallery has organized the exhibition with the collaboration of the British Council. Further British assistance was supplied by the National Trust and the Historic Houses Association.

For the past three years, Gaillard Ravenel, head of the design department of the gallery, and Mark Leithauser, his deputy, have worked closely with Jackson-Stops in the planning of the exhibition installations. "We've paid meticulous attention to detail," said Ravenel. "Jackson-Stops was insistent on the accuracy of the interior decoration." The settings are authentic in period style but are not allowed to detract from the pieces on show. Rather, the room settings provide the right backdrop so that the historical context of the collections on view will be alive to the visitor.

Wall coverings in the 18th-century rooms have been specially woven by Perry (now Coles) of London from the original blocks the firm made for Sir Rowland Winn's Nostell Priory in Yorkshire when the house was built in 1733. Layered chimneybreasts have been copied from Chatsworth in Derbyshire and Beningborough Hall in Yorkshire. The floor of the Tudor Renaissance room is covered in sisal matting woven in Belgium and typical of Castle Ashby in Northamptonshire. A 90-foot Jacobean Long Gallery, displaying portraits and furniture of the period, is lit by natural daylight filtered through gray-green glass specially manufactured in the Federal Republic of Germany. The effect resembles the windows at Hardwick Hall, a fine Elizabethan mansion in Derbyshire which is lending some splendid 16th-century textiles and furniture.

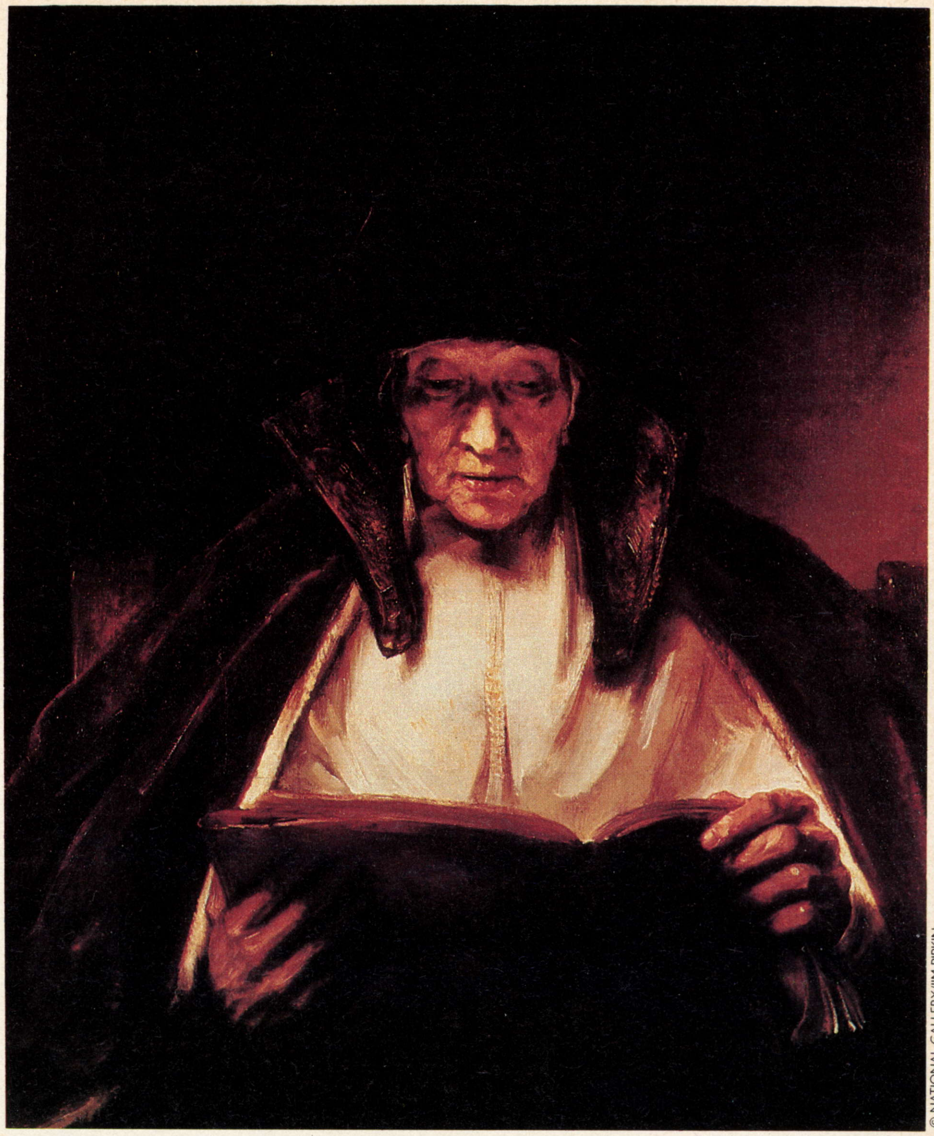
A series of rooms brilliantly illustrating the 18th-century collecting achievements of the British landed gentry during the Grand Tour provides an insight into the passion for Italian art and architecture and the classical age. The predilection for old master paintings from the Low Countries will be reflected in an intimate Dutch cabinet room. This is the surprise of the exhibition.

Those knowledgeable about the period will be shocked by the bright blue-and-yellow decor and pictures framed in English gilt-style instead of the usually somber interior and ebony-framed pictures of the time. However, a look at a contemporary painting by the German artist Johann Zoffany (1733–1810) of the Scottish patron Sir Lawrence Dundas and his grandson in the Pillar room at Arlington Street displayed on one wall will reveal the provenance of this daring color scheme. The room is a replica of the interior shown in the painting, complete with Jan van de Cappelle's "A Calm" (1654) above the mantelpiece in its very English gilt frame. The Giaccomo Zoffoli (1731–1785) bronzes also shown in the painting are displayed just as they are in the picture in a mirror-image effect.

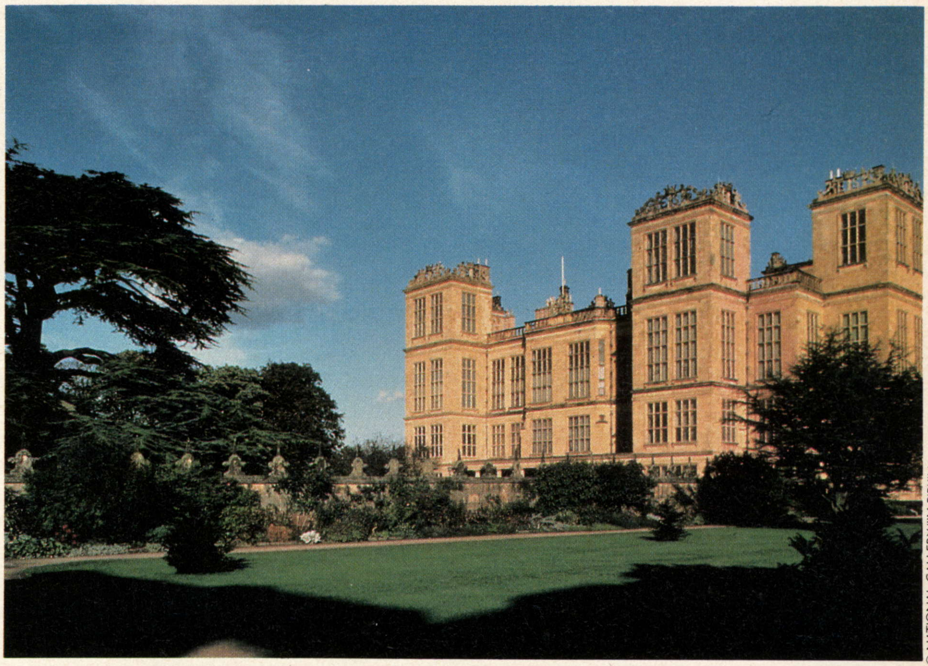
Probably one of the most flamboyant portraits in the exhibition is Sir Robert Throckmorton, 4th Bt., by the French artist Nicholas de Largillière, from Coughton Court. It was painted in 1729 when Sir Robert, a member of one of England's leading Catholic families, was on a visit to France. It is a perfect example of Largillière's mature style. Confident and secular in tone, it provides a contrast with the more subdued ecclesiastical portrait by the same painter of Sir Robert's sister, Elizabeth, a member of the Order of Blue Nuns in Paris, which was acquired by the National Gallery, Washington, D.C., in 1964. The sumptuous frame is typically French in style and wonderfully complements this masterly rococo portrait.

The ethereal beauty of the female form is exquisitely captured by Antonio Canova's "Three Graces" from Woburn Abbey. This was made for the Duke of Bedford by Canova in 1815–1817. After Empress Josephine's death in 1812, the Duke of Bedford had seen the original unfinished marble executed for her and had tried to purchase it. Eugène Beauharnais, son of the Empress, however, claimed the piece (now at the Hermitage, Leningrad) and Canova agreed to execute another for the Duke. It was completed in 1817 and delivered that year, along with other pieces to adorn his sculpture gallery.

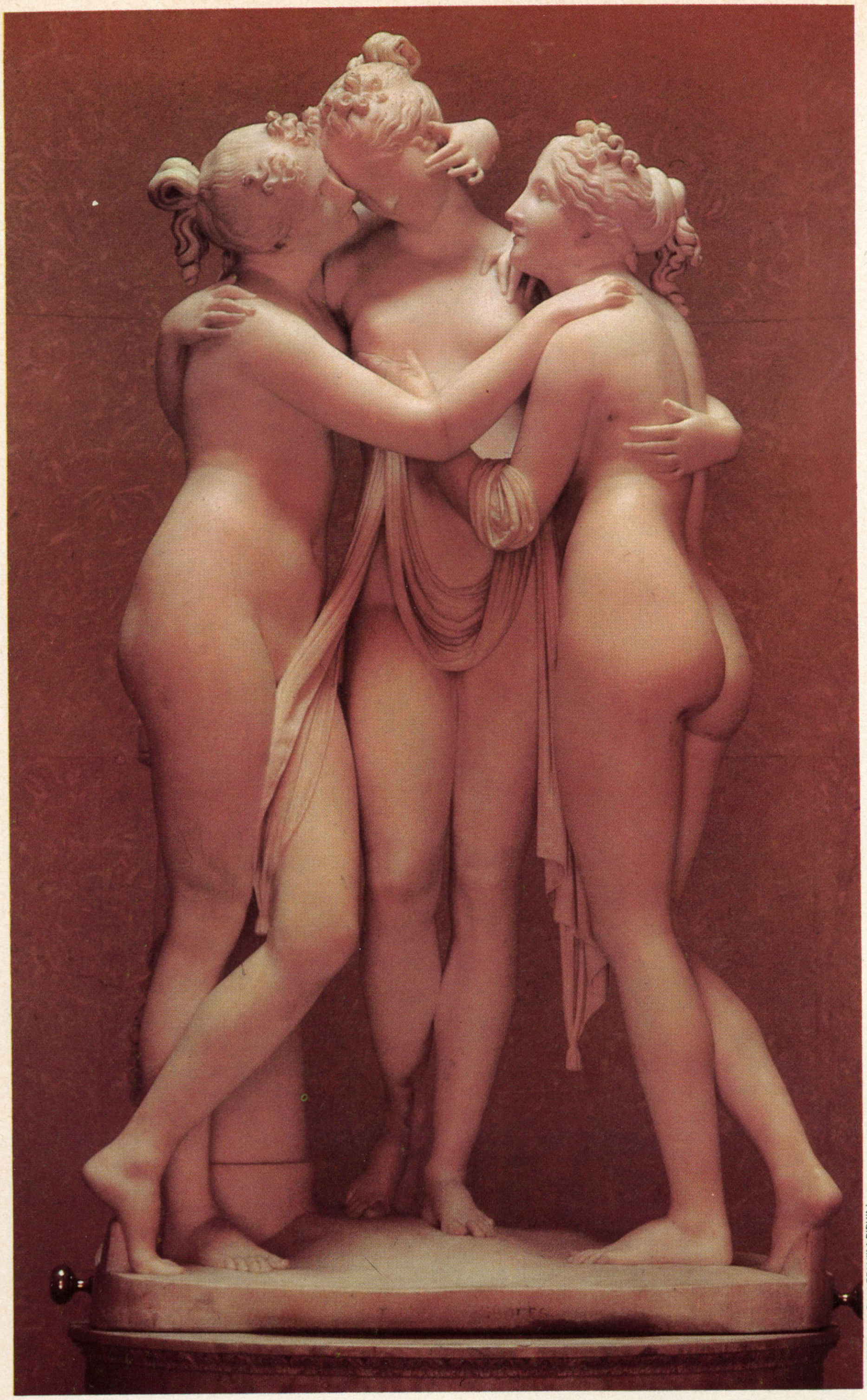
Knole in Kent, seat of the Sackville family for 400 years and home of author Victoria Sackville-West as a girl, possesses one of the finest collections of 17th-century furniture in England. The rare silver furniture in the King's Bedroom is being lent to the exhibition, complete with the 17th-century Mortlake



"An Old Woman Reading" by Rembrandt van Rijn is one of the masterpieces shown in the Dutch cabinet section of the exhibition. The painting's home is Drumlanrigg Castle in Scotland.



Hardwick Hall, an Elizabethan mansion, is lending a beautiful selection of 16th-century textiles and furniture to the exhibition.



© NATIONAL GALLERY/JIM PIPKIN.

Antonio Canova's "Three Graces," from Woburn Abbey, were made for the Duke of Bedford in 1815-1817 after he had seen the original version made for Empress Josephine.

tapestry in front of which it has always been displayed.

Silver furniture was made extensively in England between 1660 and 1710 after the French Baroque style at Versailles and Saint-Cloud. In France, almost every known piece was melted down to help pay for the wars in Flanders in the late 17th century, but, in English collections, important pieces still survive. There are, however, only two surviving complete suites of furniture: one in the Royal Collection at Windsor Castle and the other at Knole. The scrolling acanthus ornamentation with fruit and flowers is typically baroque in design and evokes the opulence of English country-house life during this period.

The accolade for reintroducing the manufacture of porcelain to the Western world goes to Germany. The Meissen factory was at the height of its production in the 18th century and Meissen pieces were much sought after and copied extensively during this period. The exquisite portrait snuff box made in 1748 for Henry Fox as a reconciliation gift to his mother-in-law, the Duchess of Richmond, is one of the jewels of the Earl of March and Kinrara's collection at Goodwood House. The rectangular box is set in gold Dresden mounts chased with foliate scrolls and decorated with small flowers scattered across the surface. Inside is a half-portrait miniature of Henry Fox's wife, Lady Caroline, attributed to one of the leading Meissen painters of the day, Johann Martin Heinrich.

The "Treasure Houses of Britain" exhibition promises to be one of the major cultural events in the United States this winter.

A detailed catalogue, "The Treasure Houses of Britain: 500 Years of Private Patronage and Art Collecting," with 500 color plates and 150 in black and white, will accompany the exhibition. Edited by Jackson-Stops, it is published by Yale University Press.

"An Old Woman Reading," by Rembrandt van Rijn from Drumlanrigg Castle in Scotland, is one of the masterpieces on show in the Dutch cabinet room. This deeply moving study of an old lady in quiet contemplation of her book was purchased by the Duke of Montague in 1770. It then passed to his daughter, Elizabeth, wife of the 3rd Duke of Buccleuch in whose family's possession it remains to this day.

The "Treasure Houses of Britain" exhibition promises to be a most exciting and comprehensive survey of European culture. The Prince and Princess of Wales, joint patrons of the exhibition, are making a special visit to the gallery early in November. Lectures by British art historians and country-house owners are planned during the five months the exhibition is installed on the mezzanine and upper floors of architect I. M. Pei's East Building.

Will the exhibition succeed in its ultimate goal to attract support and interest in the houses and their collections? Whatever the outcome, visitors to Washington, D.C., have an unrivaled opportunity to view some of the world's most remarkable treasures. Don't miss them. €

Janet Renshaw is a freelance writer based in Washington, D.C.

VOYAGES

The Third European Film Festival

The American Film Institute Theater — Kennedy Center
Washington, D.C. — September 14-30, 1985

The American Film Institute will salute the films and filmmakers of Europe this fall, bringing to the American screen "Vacation for A Murder" from Luxembourg, "The Cool Lakes of Death" from the Netherlands, "The Satin Slipper" from Portugal, "The Stilts" from Spain, "The Innocent" from the United Kingdom, "Benvenuta" and "Brussels By Night" from Belgium, "Beauty and the Beast" from Denmark, "Colonel Redl" from the Federal Republic of Germany, "Voyage to Cythera" from Greece, "Adieu, Bonaparte" from France, "Anne Devlin" from Ireland, and "The Two Lives of Mattia Pascal" from Italy.

With the cooperation of the nations of the European Community, 'Voyages' sets sails September 14.

Special thanks to The Ambassador's Committee: The Honorable John Dolibois, U.S. Ambassador to Luxembourg; and the Honorable James Gordon Lowenstein, The Honorable Ruth Lewis Farkas, The Honorable Rosemary Ginn, The Honorable Kingdon Gould, Jr., former U.S. Ambassadors to Luxembourg Festival Patrons: Banque Internationale à Luxembourg, Caves Bernard-Massard, Continental Resources, E.I. duPont deNemours & Company, The Honorable Kingdon Gould, Jr., A.M. Pate, Jr., Radio Tel Luxembourg, Texas Refinery Corp., Villeroy & Boch Corporate Underwriter: Frangelico Liqueur Host Hotel: The Ritz-Carlton

NEWS OF THE E.C.

Acid rain, a problem that recognizes no borders, is damaging German forests.

NEW PROGRAM ON ENVIRONMENT IS PROPOSED

The E.C. Commission is proposing a five-year, $84 million project to establish a scientific basis for the implementation of E.C. environmental policy, and to promote long-term basic research on important environmental problems, it announced on July 25. The plan, which involves three multiannual programs to run through the end of the decade, focuses on R&D in environmental protection, climatology and major technological hazards—problems that "recognize no borders."

The program is a logical continuation of the three previous E.C. programs in this field, but shifts the emphasis away from research on emergency action toward scientific support for preventive and anticipatory policies. Much attention will be given to R&D on cutting pollution and the development of "clean" technologies. Research on critical natural ecosystems also will be increased, and the proposed research on climatology will focus on understanding man's influence on climate and on predicting the results of climatic changes.

The new program on major technological hazards has been instigated in part by growing public concern over industrial accidents, such as the recent catastrophic toxic gas leak in Bhopal, India. The program's aim is to support the implementation of a 1982 E.C. directive on accident hazards of certain industrial activities and to study the prevention and management of major industrial accidents.

The Commission also recently proposed stricter rules on the dumping and incineration of wastes in Europe's seas. Disposal at sea of certain chemical compounds, oils, metals and other substances on a "black list" will be banned under the proposed rules, and disposal of certain other substances will be reduced by half.

The Commission is proposing that storage of waste on land be encouraged, as well as recycling and an overall reduction in the quantities of waste discharged. Incineration should only be allowed if alternative treatment or disposal methods could not be found.

E.C. CONDEMNS SOUTH AFRICAN APARTHEID

Growing violence and unrest in South Africa this year and Pretoria's imposition of a state of emergency have led to a rising chorus of world protest against the system of apartheid. One of the leading voices of concern has been that of the European Community, whose Foreign Ministers on July 22 "strongly condemned" apartheid and demanded that South Africa undertake policies toward dismantling the system and granting political and civil rights to the black population.

Calling for the opening of a dialogue between the Government and representatives of the non-white population, the Ministers also pressed for the immediate release of imprisoned black opposition leader Nelson Mandela, an end to detention without trial, a halt to forced removal of blacks from certain areas of the country and repeal of discriminatory legislation, in particular the notorious "pass laws."

The Ministers' condemnation is one of a number of efforts the E.C. is making to bring pressure on South Africa to reform its policies. The E.C.'s 10 member states, together with future members Spain and Portugal, agreed on July 31 to summon their Ambassadors from Pretoria for consultations, and the E.C. Commission and the European Parliament have also expressed their opposition. The Commission warned in a July 31 statement that unless South Africa moved quickly to dismantle the apartheid system, economic sanctions were "inevitable." It said the Community must prepare for that eventuality, and declared that it was ready "here and now" to draw up sanction proposals.

The E.C. remains, however, divided on the question of how useful such sanctions would be, with some member states pushing for them and others opposing them as ineffective. Two member states, France and Denmark, have banned new investment in South Africa on their own.

The European Parliament, which over the years has adopted a number of resolutions condemning apartheid, urged the E.C. last April to sever all economic, financial, cultural and military ties with South Africa, and called on the E.C. to develop a consistent policy and to take joint actions with the U.S. and Scandinavian Governments when possible.

E.C. Foreign Ministers adopted in 1977 a code of conduct for E.C. companies with subsidiaries, branches or representation in South Africa, calling on them to treat their employees equally and to do everything possible to support trade unions for black South Africans. In their July 22 statement, E.C. Foreign Ministers said the code has "proved to be a useful instrument for the emancipation of black workers in South Africa," but should be strengthened. The European Parliament has also called for a stronger code.

E.C. PUBLISHES ECONOMIC FORECASTS FOR 1985, 1986

The Commission recently completed a new forecast of economic activity in the E.C. that anticipates moderate growth this year, with falling inflation and reduced exports. The forecast, which includes a revision of estimates for 1984 and 1985 as well as a new outlook for 1986, predicts GDP growth in volume terms of about 2.3 percent in both 1985 and 1986, slightly faster than the 2.1 percent recorded in 1984. Inflation is expected to continue decelerating, with the price deflator of private consumption forecast to decline from 6.3 percent in 1984 to 5.4 percent this year and to 4.4 percent in 1986.

Employment should expand modestly over the forecast period, sufficient only to halt the rate of increase in unemployment, which is expected to rise from 10.9 percent in 1984 to 11.2 percent in 1985 and 11.6 percent in 1986.

As the growth of world trade slows from the exceptional expansion of 1984, the stimulus to growth from exports is expected to weaken somewhat, but gradually strengthening internal demand should offset lowered export earnings. Investment is expected to recover slightly (2.9 percent in 1986 against 2.2 percent in 1985 and 2.3 percent in 1984), and private consumption is likely to expand by 1.5 percent this year and 2.3 percent in 1986. Per-capita wages are expected to grow in nominal terms by 6.7 percent in 1985 and by just under 6 percent in 1986.

The current year again should see an increase in the E.C.'s trade surplus to just under $16 billion, as exporters benefit from the effects of a strong dollar on their competitive positions. A further increase to about $26 billion is expected in 1986, attributable largely to a marked improvement in the terms of trade. The E.C.'s traditional deficit on the invisibles account is predicted to continue increasing, but the surplus on current transactions with the rest of the world is forecast to increase from 0.1 percent of GDP last year to 0.4 percent in 1985 and to reach 0.7 percent in 1986.

The notable deterioration in the financial situation of general government in virtually all member states in the years following the second oil shock has proved to be more intractable than previously expected. Measures introduced in several countries to restrict the growth of government expenditure have not always been successful and, until last year, their effect has been offset by faster-than-expected increases in interest payments and in certain current transfers.

As a result, total government expenditure, as a percentage of GDP, continued to grow, reaching 47.9 percent in 1984. These aggravating factors are expected to weaken, however, and the government measures may be more effective. The general government borrowing requirement is expected to contract from 5.5 percent of GDP in 1984 to 5.2 percent and 4.9 percent of GDP in 1985 and 1986 respectively.

The E.C. Commission expects moderate growth this year, with inflation falling and exports dropping.

EUROPEAN SATELLITE DOCUMENT TRANSMISSION

The E.C. Commission and the European Space Agency (ESA) are joining forces to develop a high-speed document delivery system that will allow the rapid transmission of long-data messages throughout Europe by using a new European communications satellite.

The collaborative communications project, known as Apollo, is the result of efforts by the Commission to encourage new services in electronic publishing and electronic document delivery, a field in which it is currently co-financing a series of 10 projects. For its part, ESA is interested in promoting the use of European communications satellites and the development of prototype equipment. It intends to use the Apollo system to transmit information from some of its other programs, in particular data from its Earth observation satellites.

Once in place, the Apollo system will allow about 10 information sources to provide documents rapidly to a large number of widely distributed users throughout Western Europe. The system will use one of the EUTELSAT-1 satellites developed and launched last year by the ESA.

THE FUTURE FOR STEEL IN THE E.C.

E.C. leaders have been focusing intensively in recent months on the future of Europe's declining steel industry, as the December 31 deadline for ending the current "crisis plan" approaches.

Faced with shrinking world demand and rising production costs, the E.C. in 1980 undertook an ambitious plan—known as the "Davignon Plan"—to restructure and modernize Europe's steel sector and bring it in line with the economic realities of the 1980s. The plan provided a system of production quotas and subsidies to allow the European steel industry to adjust smoothly and effectively to changing market conditions, with the aim of creating a streamlined and profitable steel industry by 1986.

With the most acute phase of the crisis now at an end, the Commission outlined to the Council in mid-July its plans for a transition back to free and competitive market conditions. While steel production capacity has been cut back between 30 and 35 million tons since 1980 (an achievement which will make most European steelmakers viable from 1966 on), the outlook for world steel markets remains gloomy. With enormous excess capacities worldwide, markets will not be stabilized for several more years. Furthermore, the process of restructuring in the E.C. is not complete; some 20 million tons of excess capacity still remains to be cut.

The Commission, therefore, is planning a two-stage transition period. For the first 18 to 24 months after the end of the current plan, market restraint measures would be relaxed, and only a minimum of restraints would be retained for the following 12 to 18 months, until normal market conditions were restored. All operating subsidies will be discontinued on schedule at the end of this year, but aid would be allowed for research and development, environment protection and plant-closure costs.

Other measures designed to lessen the social costs of restructuring are also being proposed. Almost 7 billion ECU have been spent in recent years to retrain steelworkers, to cofinance early retirement and to create alternative employment. Such programs will receive even more emphasis from the Commission in the years ahead.

The E.C. Council of Ministers held a detailed discussion of the Commission's proposals on July 25, and it asked the Commission to elaborate on the guidelines and to prepare a specific document for a final Council decision. The Council will resume its steel discussion on October 17, with the aim of making a decision before the end of the year.

STEEL TRADE AGREEMENT REACHED

U.S. and E.C. negotiators crossed another hurdle in the field of steel trade this summer, reaching agreement on August 6 on ceilings for exports of 11 categories of E.C. steel to the United States. The agreement, which E.C. Commissioner for External Relations Willy De Clercq called "an equitable accord," sets a total export ceiling for the remaining five months of 1985 of 197,917 net tons for some 16 "consultation products" that were not subject to formal quotas under the 1982 U.S.-E.C. Carbon Steel Arrangement.

Agreement was formally reached after E.C. Industry Ministers approved the internal burden sharing for both the consultation products and the so-called "oil country tubular goods," the latter of which had not been settled since the arrangement on pipes and tubes was signed in January. A settlement allowing an additional 100,000 tons of line pipe beyond the 1985 quota limit, to be used in the construction of the All American Pipeline, was approved earlier this summer.

Commissioner De Clercq said the negotiations with the United States over the consultation products were "the prelude to much more difficult negotiations we shall have to face next fall," and noted that the United States wants to renew the 1982 Carbon Steel Arrangement, which expires at the end of the year.

DELORS MEETS WITH BUSINESS ROUND TABLE

A recent meeting between E.C. Commission President Jacques Delors and representatives of the Round Table of European Industrialists brought "a positive reaction," according to Pehr Gyllenhammar, head of the Round Table.

President Jacques Delors

The Round Table, composed of heads of leading European companies, was set up last year to examine ways of getting private finance for major infrastructure projects in the E.C. At the meeting with the Commission, Gyllenhammar outlined recent Round Table achievements, including the influential "Missing Links" report identifying necessary road and rail links between remote regions and the main body of Europe, the creation of Euroventures to raise risk capital for innovative projects and the idea for a European Institute of Technology to improve European business's use of available advances. "We have the technology," commented Gyllenhammar. "We just do not use it wisely."

Delors described the Round Table initiatives as "encouraging to the Commission." It used to be, he said, that most industrial leaders were less than enthusiastic about European unity. "Today, the situation is reversed," he said. "The leading forces in the economy now seem most motivated toward the E.C. because they realize that without a big enough arena for their cooperation, they will lose their force."

E.C. INFLATION AND THE HIGH DOLLAR

Inflation rates substantially higher in Europe than in the United States over past years have resulted directly from the strength of the dollar, a recent study by the E.C. Commission argues. According to exchange rates, the study predicts, inflation this year should be the same on both sides of the Atlantic.

Over the past four years, inflation in the E.C. has been consistently higher than in the United States. When import costs are high, as they have been in Europe due to the strong dollar, inflation increases. But when imports are cheap, as they have been in the United States, inflation is held down.

The 1984 E.C. inflation rate of 5.2 percent is a case in point. Of that 5.2 percent, 4.3 percent was due to internal factors and 0.9 percent to exchange rates. In the United States, where internal factors should have produced a rate of 3.4 percent, the low cost of imports resulted in an actual rate of 2.7 percent.

The Commission is now forecasting an E.C. inflation rate of 4.2 percent for 1985, of which 0.7 percent will be due to import costs. Exchange rates alone will account for about 0.5 percent. In the United States, internal factors should produce a rate of 3.5 percent, but exchange rates should bring the rate down to about 3.1 percent.

The latest figures suggest a jump in inflation of 6.3 percent in the E.C. for 1984, compared with 3.2 percent in the United States and 2 percent in Japan. From March 1984 to March 1985, consumer prices rose by 5.9 percent in Europe, 3.8 percent in the United States and 1.6 percent in Japan.

AGRICULTURE POLICY CHANGES PROPOSED

Sweeping changes in the E.C.'s Common Agricultural Policy (CAP) have been proposed in a new Commission "Green Paper" (consultation paper) currently under discussion, which suggests a move away from farm subsidies toward a more market-oriented pricing policy.

The Green Paper is part of a general debate on the CAP launched this year by the Commission toward developing a global strategy that will allow European agriculture to meet the technical and economic challenges it faces through the end of the century. The CAP is a key element of European integration, and the preservation of a "Green Europe" which protects agricultural employment and serves the interests of all Europe's citizens is a top priority. But conditions are changing, and reforms in the system are needed if the CAP is to continue to serve its purpose.

One of the main problems has been a continuing accumulation of surpluses—the notorious "wine lakes" and "butter mountains"—which has resulted from the imbalance of prices and markets brought about in part by the price support mechanism of the CAP. This imbalance, the Green Paper argues, must be corrected if European agriculture is to develop.

Efforts have been made in recent years to adapt the instruments of the CAP so that European farmers are not encouraged to produce for public intervention—that is, for markets which do not exist—and what are required now are measures to complement and advance recent reforms. With budgetary resources increasingly limited, the CAP is coming under financial constraints as well.

E.C. URGES NEW RULES ON CONSUMER PROTECTION

Consumer protection has been a basic part of the fabric of E.C. policy since the E.C. adopted its first consumer-information and protection program in 1975. That program distinguished five basic consumer rights: the right to safeguards for health and safety, the right to economic justice, the right to redress of damages, the right to information and education and the right to consultation.

A number of steps have been taken since then to implement these rights, and a second consumer-protection program approved in 1981 widened and deepened the development of a common European policy. Progress has lagged, however, and the Commission recently introduced proposals to give new impetus to the drive for a more effective and complete consumer policy.

Special emphasis is being given in the Commission's new program to improved child safety and to better product-safety legislation. Measures are also being proposed to protect the consumer's economic interests—against unfair contract terms, for instance—as well as on sales through videotex systems and electronic fund transfers. The Commission is also studying the operation of guarantees and warranties on goods bought in other member states, and is planning to publish buying guides for consumers shopping in E.C. states other than their own.

A central aim of the new proposals is to allow consumers to benefit more fully from the Common Market by making it easier for them to buy goods in other member states, to have them repaired as if they were purchased domestically and to see any complaints handled effectively. Consumers also need protection against unfair contract terms, which may be in an unfamiliar language.

In an effort to start consumer education at an early age, the Commission also is proposing to introduce it gradually into primary and secondary schools. This would not mean necessarily a new series of courses, but rather the incorporation of a "consumer-awareness" approach into existing subjects.

All of the Commission's proposals, if adopted according to the proposed schedule, would come into effect before the end of the decade.

New proposals would allow consumers to benefit more fully from the Common Market.

PRODUCT LIABILITY LAWS TO CHANGE

E.C. consumer protection policy took an important step forward on July 25, with the adoption by the E.C. Council of Ministers of a directive on product liability that makes manufacturers of unsafe products liable for damages, whether negligence was involved or not. Seven member states will now pass from traditional liability systems based on negligence to the new, harmonized system, which is being welcomed as a "victory for consumers" by the European Consumers Union.

The new directive is designed to increase consumers' access to justice by limiting costs and time involved in litigation, making it easier for victims and their families to obtain compensation for personal injury, death, or damage to property. The latter, however, has been limited to goods for private use or consumption and has been made subject to a 500-ECU deduction to avoid excessive litigation.

Manufacturers can free themselves from liability under certain circumstances, for example by proving that the state of scientific and technological knowledge at the time the product was put into circulation was not advanced enough to allow the defect to be discovered. E.C. member states, however, may dispense with this defense if they so choose.

Taking into account the legal traditions in most member states, the directive does not set any financial ceiling on the strict liability of the producer. Member states, nevertheless, will be allowed to set an upper limit on a single producer's liability.

E.C. SETS NEW PLAN FOR HIGH TECHNOLOGY RESEARCH

The E.C. Commission is introducing an ambitious new action program aimed at increasing cooperation between industry and universities in advanced training for new technologies.

The seven-year program—called COMETT, for Community in Education and Training for Technology—is the latest of several E.C.-wide research programs aimed at coordinating and promoting the growth of Europe's high-tech industries. The COMETT program is designed to introduce a European dimension to national advanced-training programs by placing students in firms in different E.C. member states and to foster economies of scale through jointly organized training programs. Such programs, the Commission believes, can be used effectively to combat the specific skill shortages that result from rapid technological change.

The COMETT program will be carried out in two phases, the first of which (1986-89) should involve about 10,000 students at a cost of about 80 million ECU ($61.6 million). COMETT will provide support to University-Industry Training Partnerships (UITP) for cross-national cooperative projects and personnel exchanges, and will provide grants for other exchange schemes and cooperative projects as well.

COMMISSION PROPOSES 1986 BUDGET

On June 14, one day after the European Parliament finally accepted the E.C. budget for 1985, the Commission adopted its preliminary budget for 1986. The new budget differs from previous drafts in that it is the first to cover the enlarged Community of 12, the first since the increase in own resources to 1.4 percent of value-added taxes collected in member states, the first to be written by the Commission and the first to establish financial guidelines for the Common Agricultural Policy.

Total spending for the enlarged E.C. will be 34.9 billion ECU (about $25.13 billion) next year. Apart from the extra 3.8

The draft 1986 budget for the E.C. would boost agricultural spending as a whole by 2.4 percent.

billion ECU for enlargement of the E.C. to include Spain and Portugal, the increase in spending will be 12 percent, mainly due to the need to pay out funds already promised in the past. For normal operations, the rise amounts to only 3.2 percent.

Agriculture spending as a whole will rise by 2.4 percent, and spending on research will increase by 14.7 percent, reflecting the new Commission's priorities for the E.C.'s future. Some 13 million ECU have been set aside for the costs of the European Year of the Environment in 1987, and Mediterranean programs have had their funding increased from 10 million to 230 million ECU.

The United Kingdom will receive a rebate of 1 billion ECU in 1986, as agreed at the Fontainebleau summit of 1984. The new E.C. member states Spain and Portugal will each get back a substantial proportion of their own contributions in the early years of membership, gradually paying more as they become fully integrated into the Community.

For the first time, a contingency reserve has been built into the budget draft. This will not only help cope with unforeseen expenditures, but will help cushion the impact of commitments to the three structural funds (agriculture, regional policy and social policy) which come due for payment this year and should guard against the need to introduce a supplementary budget during the year.

E.C., JAPAN PLAN MORE OPEN TRADE

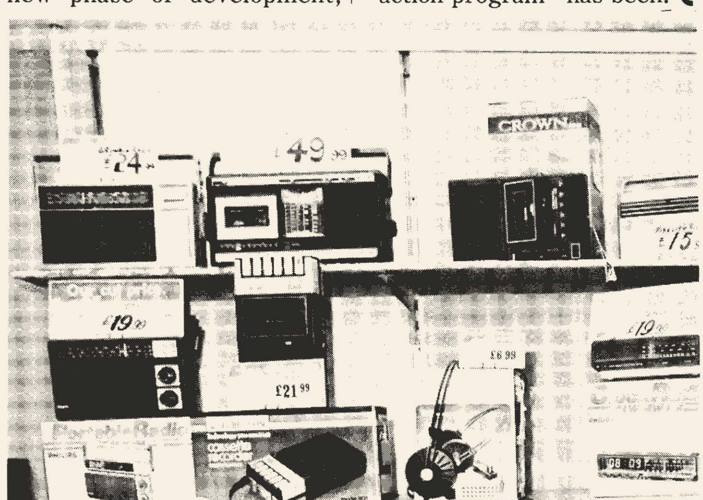
Japanese Prime Minister Yasuhiro Nakasone met with E.C. officials in Brussels on July 19 for discussions on Japan's trade surplus with the E.C., the question of access to Japanese markets and the problems of the world economy. Japan had a 15.5 billion European Currency Unit, or ECU, ($12.2 billion) trade surplus with the E.C. in 1984, up from 13.3 billion ECU in 1983, and E.C. leaders recently called on Japan to increase "significantly and continuously" its imports of European goods.

A Japanese program on tariffs announced June 25 was welcomed by E.C. Commissioner for External Affairs Willy De Clercq, who nonetheless noted at the time that the tariff changes were unlikely to bring much relief and were "only one among many difficulties" that needed to be resolved.

During the talks with Commission President Jacques Delors and other officials, Nakasone unveiled a three-year action program for opening Japanese markets that addressed some of these "many difficulties," including technical norms, procedural harmonization, liberalization of financial markets and access to public markets. Japan must enter a new phase of development, Nakasone said, by abandoning its centralized system and by opening up to the exterior world. "Japan, whose economy represents 10 percent of the world economy, cannot remain in a corner of the Far East," he said. "It cannot close its eyes, either to its international duties or the exercise of its responsibilities."

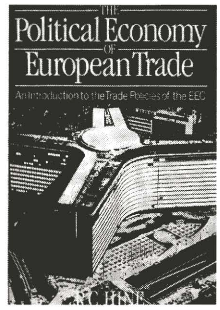
While welcoming these remarks and affirming his confidence in Nakasone's good faith, Delors pointed out that the E.C. was arriving at the end of a period of restructuring its productive capacity, during which it had maintained an open economy. The different "rhythms of development" of Japan and the Community should coincide, he noted, if further trade difficulties were to be avoided.

Delors and Nakasone also discussed the sharing of responsibility for the world economy, next year's Tokyo summit meeting, and North-South relations. Delors emphasized that E.C.-Japanese relations could be expected to be conducted in a better spirit following the talks, and that more formalized and effective work methods were to be implemented. A possible meeting this October between high-level E.C. and Japanese officials, followed by a Delors visit to Tokyo in January 1986, will study how much the relationship has actually improved and what the effect of the Japanese "action program" has been. €



Japan had a $12.2 billion trade surplus with the E.C. in 1984, prompting calls for significant increases in its imports from Europe.

BOOKS IN REVIEW



Europe versus America: Foreign Policy in the 1980s, by Baard Bredrup Knudsen, The Atlantic Papers No. 56, published by The Atlantic Institute for International Affairs, Paris. Rowman & Allanheld, 81 Adams Drive, Totowa, New Jersey 07512, $7.00.

WILLIAM C. CROMWELL

In this succinct yet vigorously developed study, Baard Knudsen argues that the United States faces a European challenge in the form of a "politically more independent and assertive Western Europe" which is no longer willing to accept traditional American predominance within the Atlantic alliance. The United States, largely comfortable with or at least accustomed to its alliance primacy, may be unprepared to adjust to an enhanced European role since this would imply a diminished American influence. In short, Knudsen asserts that "the fundamental problem in the Atlantic alliance is *structural* in nature and that pressures for systemic change . . . are major causes for seemingly chronic problems in trans-Atlantic relations."

Knudsen believes that many of the alliance's difficulties stem from American unilateralist tendencies and a proclivity for assuming European endorsement of or at least acquiescence to American policy prescriptions. This attitude collides with a growingly assertive Europe, tired of being taken for granted by paternalistic America, and increasingly aware of its own interests as distinct from those of the United States. Thus the essence of the "European challenge" in the 1980s, Knudsen states, "is a more genuinely European viewpoint in international affairs which demands a separate and independent role."

As a solution to this Atlantic "quagmire," as he puts it, Knudsen suggests a return of the alliance to its original scope, that of a traditional military coalition. The focus would be on vital and mutually shared security interests, with few expectations beyond that. Such a "live-and-let-live" approach would enhance the scope for independent action on both sides of the Atlantic, while reducing the frustration level through a narrowing of the range of activity on which agreement was expected.

A precondition for such a restructured and reduced scope alliance is a more unified European political entity encompassing responsibility for security policy including its military aspects. With the E.C. likely to remain a predominantly civilian power in the foreseeable future, Knudsen sees the West European Union (WEU) as a more promising vehicle for shaping a distinctive European security and defense policy.

While Knudsen does not provide a detailed model for a restructured alliance, one may question some of the assumptions on which his approach is based. First, despite recurring expressions of dissonance with American leadership and the alliance in its present form, hardly surprising in a coalition of free states, Europe's concerns have lacked sufficiently compelling urgency to generate fundamental structural change. Most alliance issues (e.g., burden sharing, conventional force preparedness, and technology transfer) address the modes of allied cooperation without, however, seriously challenging the underlying security basis for the alliance itself.

And for the most part, Europeans seem to have adjusted to the potential unreliability of U.S. nuclear protection, a problem in any case mitigated by recent NATO missile deployments and emerging technology advances in the conventional weapons sector. While the Reagan Administration's Strategic Defense Initiative (SDI) has the potential for aggravating European decoupling fears, it is still too early to assess its impact on the alliance's security cohesion.

Moreover, there is a powerful resistance to major change within Governments and bureaucratic structures which tend toward the preservation of familiar patterns and the adoption of coping techniques that prefer marginal adjustments to sweeping innovation. For example, the challenge posed by the close defeat of the Nunn Amendment in 1984, which would have substantially reduced U.S. force levels if the Europeans failed to begin to remedy combat support deficiencies, was at least provisionally defused by a "within the system" NATO decision to substantially augment munitions stocks and construct support facilities for U.S. reinforcement aircraft. Thus, while the idea of a restructured alliance will continue to merit close attention, as a practical matter it is unlikely to generate sufficient support at Government levels to produce more than modest adjustments to the status quo.

Reinforcing the absence of a compelling imperative for change within the alliance is the still essentially inchoate form of the European nucleus as a basis for alliance redistributive measures and for concerted and effective European action outside its framework. Knudsen is surely right when he observes that an alliance devolution toward a more equal and limited U.S.-European partnership would pose an "American problem" of accepting a reduced U.S. role and a greater scope for European independence. Yet it is a problem from which America has been largely spared through Europe's own internal divisions which have thus far impeded serious progress in the areas of political and defense cooperation.

Indeed, Knudsen rightly observes that the E.C. will remain a predominantly "civilian" power in the foreseeable future and that "the existing institutional framework for dealing with the vital security concerns of the E.C. member states is not likely to be changed in the near future."

Knudsen's "back to basics" alliance would abandon the expectation of Atlantic solidarity on non-European issues because of the lack of a political basis for a global alliance. Thus both the United States and Western Europe would acquire increased freedom of maneuver, each expecting less from the other, though concerted approaches might be achieved in specific cases. However, "no one would question the right of either side to pursue its own interests and policies" since the United States would drop its expectation of European support for its policies while Europe would no longer expect that U.S. policies would be acceptable to Europeans.

Without examining the extent of current U.S.-West European expectations in this regard, one must wonder if Western Europe would be better off under the formula Knudsen proposes. After all, the United States has a far greater capability for action on a global basis than does Western Europe, and Knudsen's limited European-scope alliance concept could well encourage the very unilateralist tendencies in American foreign policy that he implicitly criticizes. Knudsen's "live and let live" approach to U.S.-European policies beyond the European security context would mean reduced opportunities for European influence on the shaping of U.S. global policies that could, nevertheless, have significant impact on European interests.

Knudsen's enthusiasm for Europe occasionally leads to incomplete perspectives. His assertion that "only American preponderance in the military domain remains a significant difference between the United States and Western Europe" ignores the immensely consequential difference of the absence in Europe of a unified and supranational political decision-making structure. Also, while Knudsen correctly notes consistent and preponderant public opinion support for West European unity (70 percent in 1982), the depth of that support may be questioned.

Nevertheless, Knudsen has provided a serious and perceptive analysis of current strains in trans-Atlantic relations and how differences could become aggravated if Europe achieves greater political cohesion and adjustments in the alliance are not managed skillfully.

Dr. William C. Cromwell is a professor at the American University's School of International Service.

The Political Economy of European Trade. By R. C. Hine. St. Martin's Press, 294 pp. $29.95.

JAMES DAVID SPELLMAN

Twenty-seven years after the Treaty of Rome creating the E.C. went into effect, the author, R. C. Hine, a lecturer in economics at the University of Nottingham, poses and explores the fundamental question of whether the institution symbolized by the Berlaymont building in Brussels has fulfilled what the treaty envisioned.

Are the member economies so tightly integrated that domestic goods move freely across national borders while imports are assessed the same tariff no matter what the port of entry into the E.C.? On trade matters, does the E.C. speak, negotiate and trade as one? Or do national impulses and agendas prevail, limiting what common policies on trade, agriculture, transportation and competition can be forged and implemented?

The structure of E.C. trade within the Common Market and outside provides some answers. Member economies are heavily dependent on intra-Community trade, which roughly constitutes 50 percent of all trade that each E.C. country does. Hine sides with studies attributing the growth in commerce among members partly to the E.C.'s formation. Import and export patterns define common concerns, such as dependence on foreign oil or the dollar's exchange value.

These patterns also define strains. While some members' trade interdependencies (the Netherlands, Belgium, the Federal Republic of Germany, and France), match the predominant pattern for the E.C. as a whole, other members do not (the United Kingdom, Italy and Greece). "This . . . suggests that a common EEC policy which is geographically discriminating and which is shaped according to the importance of non-member countries in overall EEC trade will be less appropriate for Greece, Italy, the United Kingdom, and possibly Ireland and Denmark than it is for the other member countries."

Establishing the common external tariff ahead of schedule and with less resistance than expected, demonstrated less the members' commitment to the E.C. than the favorable impact of economic growth during the 1960s.

Progress, though, fell far short of realizing a single, unified home market comparable to that available to U.S. firms. One reason, in Hine's view, is that the E.C.'s national economies are still distinct and different. Prices for electronics, automobiles and other consumer goods differ widely. The gap between prices, for example, in France and Italy, is 30 percent, according to a 1978 study cited by Hine. Industrial base composition, unemployment levels, economic expansion, living standards, and government fiscal policies take European states along divergent paths. This plus lethargic growth have prevented the realization of a truly *common* market, and, indeed, as the Commission recently said, spurred a "retreat from Community-oriented" approaches.

In sectoral policies, members' commitment to the E.C. has been tested perhaps the greatest. The trials of the Common Agricultural Policy (CAP) are one example. CAP aims to keep E.C. market prices for farm goods above the world market level to guarantee, if not raise, farm incomes. For some products such as fruits and vegetables, flat customs duties are levied or quotas imposed. For other goods (cereals, rice, sugar, eggs, pork, poultry, dairy products, etc.) a variable import level is used. Import prices are raised through the levy to ensure that imports do not enter the E.C. below a fixed threshold price. If demand for E.C. farm goods still falls below supply, the E.C. will buy up excess supplies at an intervention price to cut down market surpluses.

As Hine concludes, "in spite of the immense cost of the CAP to both consumers and taxpayers, the Community has not succeeded in resolving the income problems of Europe's small farmers, though larger producers and landowners may have benefited. Short-term support measures have been emphasized at the expense of structural reform measures, and as the problems facing declining industries become more entrenched, so the Community has tended to be drawn into more and more intervention, as with the introduction in 1984 of milk quotas in agriculture. . . . "

Hine goes on to explore E.C. relations with the European Free Trading Association (EFTA), the Mediterranean region, less developed countries (LDCs), Japan, the United States and the Eastern Bloc.

The Lomé Convention is at the core of E.C.-Third World ties. It eliminates tariffs and quotas for almost all exports from the African, Caribbean and Pacific (ACP) countries to the Ten. Agricultural goods covered by CAP, though, are subject to reduced levies. To prevent ACP states heavily dependent on a select, few commodities against volatile drops in market prices, STABEX provides funds to offset shortfalls in export earnings. Minerals are increasingly important to the E.C. To ensure a secure supply, SYSMIN was established to provide special, low-interest loans to compensate revenues lost through temporary disruptions in production.

Lomé, Hind contends, has been effective in bringing about key changes in ACP countries' problems of "slow export growth; heavy dependence on unprocessed, primary-product exports; and trade imbalances."

The bottom line question is whether these and other initiatives have encouraged freer commerce within the world trade order based on the General Agreement on Tariffs and Trade (GATT) pillars of nondiscrimination, reciprocity, negotiations and tariff protection.

The Political Economy of European Trade is a solid, introductory, nuts-and-bolts explanation and analysis of how the E.C. makes trade policy. As a survey, though, the author's insights into such quagmires as CAP or Lomé are inevitably limited, resigned to brief conclusions. And although the book was published this year, it is less up-to-date than one would first suppose. There is no discussion of what was accomplished at Lomé III, for example. Despite this, the book is a good contribution to an area in need of more comprehensive studies to make sense of the scores of monoliths on particular aspects of E.C. trade policies. €

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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.*

Dilemmas of Change in British Politics. Edited by Donley T. Studlar and Jerold L. Waltman. University Press of Mississippi, Jackson, 1984. 242 pp. $17.50.

A collection of essays examining the recent performance and prospects for change of major British governmental institutions. Treats the functioning of traditional institutions—Parliament, the executive, political parties, the courts, local Government—and such new features of the political system as devolution, the referendum and E.C. membership. The current success of the institutions is examined, as well as their significance in British life and the directions in which they are likely to change.

The Global Financial Structure in Transition: Consequences for International Finance and Trade. Edited by Joel McClellan. Lexington Books, Lexington, 1985. 174 pp. $20.00.

With contributions from international policymakers and private sector practitioners, this series of papers demonstrates the wide diversity of opinions on how to understand and manage the rapidly changing forces in international finance and trade. Topics include international debt, trade deficits, long-term investments, adjustment and insolvency options for loans to developing countries and refinancing and trade expansion. Includes a case study of the world steel industry.

The Road to Europe: Irish Attitudes 1948-1961. By Miriam Hederman. Institute of Public Administration, Dublin, 1983. 167 pp., paper.

Charts the development of Irish public opinion and of the attitudes of Government and pressure groups toward the idea of Irish membership in the E.C. during the period from 1948 to 1961. Attempts to describe the processes which occurred and to relate developments in Ireland with those in Europe. Stresses the importance of the media, particularly radio, in preparing the political and social mood of the country for Irish accession.

France 1814-1940. Fifth edition. By J.P.T. Bury. Methuen & Co., New York, 1985. 337 pp. $13.95, paper.

Describes the characteristics of France's different regimes and their leading personalities from the time of Louis the XVIII's accession to the throne to the end of the Third Republic. Explains why France underwent so many revolutions, wars, and crises of various kinds during this period. Deals with social and economic changes as well as cultural developments and overseas expansion. Includes updated and revised bibliographies at the end of each chapter, and the text has been amended to account for recent work.

International Monetary Collaboration. By Richard W. Edwards, Jr. Transnational Publishers Inc., Ardsley-on-Hudson, N.Y., 1985. 822 pp. $85.00.

Through an examination of institutions, rules and policies, explores what collaboration on international monetary problems means in practice. Contains an introduction to the International Monetary Fund and other multilateral organizations in the monetary sphere and examines the institutions, rules and policies relating to balance-of-payments financing. Deals with international restraints on the use of exchange controls, the legal regimes applicable to exchange rate arrangements, and pervasive features of the systems of consultation and collaboration on monetary problems.

World Guide to Trade Associations. Edited by Barbar Verrel. K.G. Saur Inc., New York, 1985. 1259 pp. $200.

A reference guide to over 31,000 professional associations, trade unions, employer and management associations, consumer and service organizations and commercial, economic and industrial bodies in 176 countries. Entries divided into 394 trade categories, listing each organization's name, address, telephone and telex numbers, executive officers, number and type of members and affiliation to other associations.

French Communism and Local Power: Urban Politics and Political Change. By Martin A. Schain. St. Martin's Press, New York, 1985. 147 pp. $25.00.

Studies the role that Communists play in French Government at the local level, in order to gain a new perspective on the basis for Communist support and on the conditions and limitations of the exercise of local power in France. Focusing on the network of local Governments with Communist mayors, discusses not only the way in which French Communists develop, support and make policy decisions, but also the processes and structures through which they govern.

Western European Energy Policies: A Comparative Study. By Nigel Lucas. Oxford University Press, New York, 1985. 298 pp. $32.50.

Investigates how countries formulate their energy policies by looking at the reactions of France, the Federal Republic of Germany, Denmark, Italy and Sweden to a high dependence on oil imports. By comparing the objectives and achievements of each country's energy policy, concludes that politics outweighs technical factors in the development of energy policy.

International Marketing Data and Statistics 1985. 10th edition. Euromonitor Publications Ltd., London, 1985. Available from Gale Research Co., Detroit, 1985. 376 pp. $160.00

A source of comparative statistical data on international social, economic and consumer trends. Covering 132 countries (excluding Europe), furnishes information on over 100 key marketing factors concerning population, production, trade, employment, standard of living, consumption, retailing, consumer expenditure, housing, health and education, communications and travel and tourism.

European Regional Incentives 1984. Edited by Douglas Yuill and Kevin Allen. Centre for the Study of Public Policy, University of Strathclyde, Glasgow, 1984. 543 pp. £35.00, cloth, £25.00, paper.

Fifth annual survey of regional incentives offered in each of the E.C. member states, as well as in Portugal, Spain and Sweden. Begins with an overview of recent changes in the regional incentive field, comparing the forms, features and values of the current regional incentives on offer. Part II comprises detailed and structured information for each country's main regional incentives.

Industrial Policy: Business and Politics in the United States and France. Edited by Sharon Zukin. Praeger Publishers, New York, 1985. 256 pp. $36.95.

A selection of papers drawn largely from an October 1983 conference on state policy and business strategy in the United States and France. Contributions from labor union staff, corporate executives, government officials and political economists treat topics such as economic claims and social consequences of industrial policy, Government response in the United States and the strategy of business and labor.

The Economics of the European Community. Edited by A.M. El-Agraa. St. Martin's Press, New York, 1980. 338 pp. $39.00.

Provides background information on the historical development of the E.C. and its institutions and gives basic statistics of member nations. Discusses the theory of customs unions and measures the E.C.'s effect on both the participating nations and the rest of the world. Explores the problems of hidden barriers to trade and of policy coordination and harmonization in the E.C.

The European Court of Justice: Practice and Procedure. By K.P.E. Lasok. Butterworths, London, 1984. 437 pp. $100.95.

Aims to examine systematically and comprehensively the practice and procedure of the E.C.'s Court of Justice. Explains how the Court performs its functions and what litigants and their professional advisers must do when conducting proceedings before the Court. Also details the theoretical basis of the procedural rules applied by the Court.

Europe and the World. The Hudson Institute, Indianapolis, 1985. 70 pp., paper. Available free.

An assessment of Europes economic and political future which concludes that cautious optimism about both the Atlantic alliance and Europe's economic future is much more justified than a pessimistic view.

The Regulation Game: How British and West German Companies Bargain with Government. Edited by Alan Peacock et al. Basil Blackwell, New York, 1985. $29.95

An examination of government regulation of private industry and the bargaining process which has emerged in response to this growth of control in the United Kingdom and the Federal Republic of Germany. Concentrating on safety, health and environmental legislation, investigates whether regulation places a burden on private enterprises in the form of significant and growing costs of compliance.

The Times Guide to the European Parliament June 1984. Edited by Alan Wood. Times Books, London, 1984. 287 pp. £15.00

Gives detailed results both by party and by candidate of the 1984 European Parliament (E.P.) elections for each of the E.C.'s 10 member states. Includes short descriptions of the electoral campaigns held in each country. Devoted in large part to a section with brief biographies and photographs of all 434 members of the E.P.

The Grand Duchy of Luxembourg: The Evolution of Nationhood 963 A.D. to 1983. By James Newcomer. University Press of America/Texas Christian University, Lanham, MD, 1984. 358 pp. $14.25, paper.

A detailed and current history of the Grand Duchy of Luxembourg. As the book traces the country from its prehistory through its founding as a country, its independent status in 1830 and its development as a modern industrial nation, the central issue addressed is how and why the Grand Duchy of Luxembourg still exists.

The European Parliament: Performance and Prospects. By Emil J. Kirchner. Gower Publishing Co., Brookfield, VT, 1984. 192 pp. $32.95

Statistically analyzes the membership of the first directly elected European Parliament. Concentrates on the social, occupational and political background characteristics of the members of the European Parliament (MEPs), the nature and extent of their activities in the first three years of their term and the issues on which they spent most or least of their time. Concludes with an assessment of the MEPs' collective impact on E.C. affairs. Includes tables.

Western Europe and the United States: The Uncertain Alliance. Studies on Contemporary Europe: No. 6. By Michael Smith. Allen & Unwin Inc., Winchester, MA, 1984. 152 pp. $19.50 cloth, $8.95 paper.

Argues that many of the contentious issues in European-American relations in the 1980s have their origins in the Atlantic partnership that emerged during the 1950s. Reviews the elements of continuity and change and the complexities which have characterized trans-Atlantic dealings since 1945. Explores European-American relations as part of a global system, as a regional phenomenon and as part of the domestic politics of the countries involved.

THE COMMUNITY BOOKSHELF

To order these publications, please check the desired items and fill out the order form.

☐ **Working Together: The Institutions of the European Community.** *Commission, Brussels, 1985, 45 pages.* Booklet by Emile Noël on institutional mechanisms and decision making procedures. **Free**

☐ **Publications of the European Communities: Catalogue 1984.** *Office of Official Publications, Luxembourg, 1985, 65 pages.* **Free**

☐ **Report from the ad hoc Committee on a People's Europe.** *Bulletin of the European Communities, No. 3/85, Offprint, Commission, Brussels, 1985, 10 pages.* Interim report of the Adonnino Committee submitted to the European Council, Brussels, March 29-30, 1985. **Free**

☐ **Lomé III: Analysis of the EEC-ACP Convention.** *Information Development Cooperation, Commission, Brussels, 1985, 58 pages.* **Free**

☐ **Tourism and the European Community.** *European File No. 11/85, Commission, Brussels, 1985, 10 pages.* **Free**

☐ **The European Community and Consumers.** *European File No. 12/85, Commission, Brussels, 1985, 10 pages.* **Free**

☐ **The European Community's Common Agricultural Policy: Some Facts.** *European Community News No. 22/85, Information Service, Washington, D.C., July 30, 1985, 3 pages.* **Free**

☐ **Completing the Internal Market.** *Commission, Brussels, June 1985, 37 pages.* White paper from the Commission to the European Council on the program and timetable for eliminating intra-Community trade barriers. **Free**

☐ **European Investment Bank Annual Report 1984.** *European Investment Bank, Luxembourg, 1985, 120 pages.* **Free**

☐ **Official Handbook of the European Parliament 1984.** *European Parliament, Luxembourg, 1985, 333 pages.* Photographs and biographies of the members, committee memberships, political groups, 1984 election results, and secretariat services. **$6.00**

☐ **European Treaties Vocabulary: Part I.** *Commission, Brussels, 1985, 683 pages.* Multilingual terminology based on the treaties of the E.C. in Danish, Dutch, English, French, German and Italian. **$17.00**

☐ **European Communities Glossary: French-English, 8th edition.** *Council, Brussels, 1984, 1594 pages.* Glossary of French phrases used in Community documents with the corresponding English translation. **$22.00**

☐ **Directory of Community Legislation in Force and Other Acts of the Community Institutions, 6th Edition.** *Office of Official Publications, Luxembourg, 1985, 859 pages.* References for all binding Community legislation in force as of January 1, 1985, classified by subject with a chronological index. **$44.00**

☐ **Annual Economic Report and Review 1984-85.** *European Economy No. 22, Commission, Brussels, November 1984, 236 pages.* **$7.00**

☐ **The Effects of New Information Technology on the Less-Favoured Regions of the Community.** *Regional Policy Series No. 23, Commission, Brussels, 1985, 192 pages.* Study of impact of new communication technologies (teletex, videotex, facsimile transfer) and microprocessor applications on the development of certain regions in the E.C. **$4.00**

☐ **Bibliography on Public Contracts.** *Documentation Bulletin B/25, Commission, Brussels, 1984, 31 pages.* Legislative bibliography of Community provisions on public works and public supply contracts and articles published on the subject. **$2.00**

☐ **Bibliography on Transport.** *Documentation Bulletin B/3, Commission, Brussels, 1985, 207 pages.* Bibliography of Community publications and legislation on transport and references to other sources of information. **$4.00**

☐ **Regional Imbalances and National Economic Performance.** *Commission, Brussels, 1985, 151 pages.* Study of the relationship between regional economic patterns on national macroeconomic growth. **$9.00**

☐ **Programmes de développement régional (deuxième génération) République Fédérale d'Allemagne, y compris Berlin (ouest), 1981-1985.** *Commission, Brussels, 1984, 382 pages.* Regional development plan for the Federal Republic of Germany for the period 1981-85. **$26.00**

☐ **Partage des responsabilités professionnelles, familiales et sociales.** *Commission, Brussels, 1984, 292 pages.* Study on the problems encountered by working women in meeting their professional and domestic obligations. **$21.00**

☐ **L'image de la femme dans le contexte de l'enseignement: Rapport final et annexes.** *Commission, Brussels, 1984, 286 pages.* Survey results and report on sexual stereotypes in education curricula in the E.C. **$21.00**

☐ **Work Sharing and the Reduction and Reorganization of Working Times at Firm Level: Anglo-Italian-French Case Studies.** *Commission, Brussels, 1985, 158 pages.* Study on the redistribution of "core" working time. **$9.00**

☐ **The Economic Integration of the Disabled: An Analysis of Measures and Trends in Member States.** *Commission, Brussels, 1984, 259 pages.* Examines legal systems defining disability and policies to promote the training and employment of the handicapped. **$14.00**

☐ **La perception du secteur privé des services des intérêts communautaires pour une libéralisation du commerce international des services.** *Commission, Brussels, 1984, 200 pages.* Interview surveys on freer international trade in services. Covers the insurance, banking, building, tourism, information, television and maritime transport sectors. **$15.00**

☐ **Analyse des formations aux nouvelles technologies de l'information en vue de prévenir les difficultés d'emploi de certains groupes de travailleurs particulièrement vulnérables: les travailleurs féminins.** *Commission, Brussels, 1985, 266 pages.* Study on the impact of new technology on the training of women. **$20.00**

☐ **Régime juridique des relations entre les opérateurs économiques et les organismes d'exécution du droit communautaire.** *Commission, Brussels, 1984, 224 pages.* Study on the legal system governing transactions between businessmen and public entities in the operation of the common agricultural policy. **$16.00**

☐ **Definitions of Registered Unemployed 1984.** *Statistical Office, Luxembourg, 1985, 376 pages.* Survey of national definitions and scope of statistics on registered unemployment in the E.C. member states. **$11.00**

☐ **Family Budgets: Comparative Tables, Federal Republic of Germany, France, Italy, United Kingdom.** *Statistical Office, Luxembourg, 1984, 197 pages.* Standardized national surveys on the characteristics of households, housing and consumer durables, average annual household expenditure, and quantitative consumption per head on selected goods. **$3.50**

☐ **Structure of Earnings: Principal Results, Vol. 7—Bundesrepublik Deutschland.** *Statistical Office, Luxembourg, 1985, 603 pages.* Results of the survey on the structure and distribution of earnings in industry, wholesale and retail distribution, banking and insurance in 1978/79. **$28.00**

☐ **The Rates of Value-Added Tax in Agriculture 1968-1984.** *Statistical Office, Luxembourg, 1985, 25 pages.* Supplement to "Agricultural Prices 1972-1983." **$2.00**

☐ **Community Survey on the Structure of Agricultural Holdings 1979/1980.** *Statistical Office, Luxembourg.* Vol. I: Introduction and Methodological Basis, 1984, 152 pages. **$7.00**
Vol. II: Main Results by Member State and Region, 1985, 219 pages. **$13.00**
Vol. III: Main Results by Selected Crops and Livestock Categories, Use of Tractors, Farm Labour Force, 1985, 220 pages. **$15.00**

☐ **The Community's Research and Development Programme on Decommissioning of Nuclear Power Plants: Fourth Annual Progress Report (Year 1983).** *EUR 9677, Commission, Luxembourg, 1985, 123 pages.* **$6.50**

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THE E.C. AND LATIN AMERICA

It is not exaggeration to say the E.C. is at an historic point in its relationship with the Latin American continent. The accession to the E.C. of Spain and Portugal—the European countries with the strongest links to Latin America—can only accelerate the growth of E.C.-Latin American relations.

I know that there is concern in some parts of Latin American that enlargement will simply mean a weakening of traditional links with Portugal and Spain, but I consider this quite unjustified. On the contrary, I believe that accession will have a profound and positive effect on E.C. relations with Latin America as Portugal and Spain will add to the Community even deeper ties of history, culture, language and temperament with these regions. These two countries will give us a very special insight into the concerns of Latin America and will also be uniquely placed to explain the Community's views. The resulting mosaic of contacts will be more than the simple sums of its constituent parts and will have a dynamic impact across the entire spectrum of our relationship.

The ministerial meeting at San José in September 1984 brought together the Foreign Ministers of all the Central American countries, of the Contadora Group of the 10 E.C. members and of the two future members, Spain and Portugal. It was an historic occasion which marked the beginning of a major new departure in political and economic relations between the E.C. and Central America, and set out the main principles on which future cooperation between the two regions will be based. The participation of the member countries of the Contadora Group at this meeting was in itself a recognition of the crucial role played by them in the search for lasting peace and political and economic stability in the area.

The Community has repeatedly expressed its full support for the Contadora process since it was initiated. We have admired the efforts and perseverance of the four countries in promoting solutions for peace and in particular in the elaboration of the draft Contadora Act for peace and cooperation in Central America. It is our earnest desire and hope that these efforts will be rapidly brought to a conclusion through the signature of a comprehensive agreement which will bring peace to the region.

The commitment of the Twelve (as we soon will be) to the attainment of a peaceful solution in the Central America region has been reiterated on numerous occasions. Our view is that the attainment of a peaceful solution in the Central American region can only be found through a concerted action by the countries concerned, supported by efforts to improve the economic and social development on the region as a whole. Such efforts are essential to the process of political stabilization. We frankly believe that what is at stake in Central America is not a matter of East-West confrontation, but rather of economic and social progress. This was recognized by all the participants at the San José conference and has been the target of all E.C. aid to the region so far.

The lack of progress in solving the root causes of the socio-economic imbalance in the area continues to be a major source, if not the source, of the conflict in Central America. In this respect I would underline that such socio-economic imbalances cannot be solved through the imposition of economic sanctions for political reasons. The very negative effect of such sanctions which we hope to see lifted, emphasizes all the more that solutions to this conflict must come from within the region itself. This is the essence of the efforts of the Contadora Group of countries.

With this in mind and as a concrete follow-up to the San José conference, the E.C. Commission has proposed the negotiation of a global cooperation agreement between the E.C. and the six countries of the Central American isthmus. The Commission has proposed that this agreement should provide not only a framework within which economic cooperation would be developed, but also the institutionalization of the political dialogue between the two regions. We have also proposed the doubling of E.C. aid to the region.

Let me develop some of the elements which are fundamental to the E.C. approach to Latin America.

The return to democratic and pluralist societies is certainly the most significant and positive achievement. We have witnessed a general confirmation of the need to guarantee respect for human rights and democratic principles throughout most of Latin America, thus fulfilling the hopes and aspirations of so many.

Another aspect is that Europe has proved a welcome haven for many South American writers, intellectuals and political refugees who were forced into exile during the dark times of repression. The recent changes in the political climate have enabled many of these exiles to return home and it is to be hoped that their European experience will provide another link between us. We in Europe have followed these developments closely. The European Parliament, the Commission and the other institutions of the Community have underlined on countless occasions their support and encouragement or the success of the democratic forces in Latin America.

The last two years have witnessed an unprecedented level of activity between our two continents, each action in itself contributing to a further strengthening of cooperation between us.

There has been the reinforcement of bilateral relations with Mexico and Brazil, for example, through meetings of the joint committees set up under the respective cooperation agreements. And there have been the visits to the Commission and the European Parliament of several Presidents and other Government leaders from Latin America.

The signing of the Cooperation Agreement between the Community and the Andean Pact and its member countries in December 1983 provides a further example of increased cooperation. In itself, the agreement, which sets out several areas where cooperation can be developed, symbolizes the recognition by both sides of the potential ahead for developing closer ties between the two regions.

We must not lose any time in seeking to harness this potential. Therefore we on our side look forward to a rapid entry into force of the agreement once all the ratification procedures on the part of the member countries of the Andean Pact will have been completed. Apart from these significant achievements, there are other areas of major importance in our relationship where some initiatives have already been taken and which are likely to figure on our agenda for the future. €

Peter Sutherland is the E.C. Commissioner responsible for competition, social affairs and education.

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