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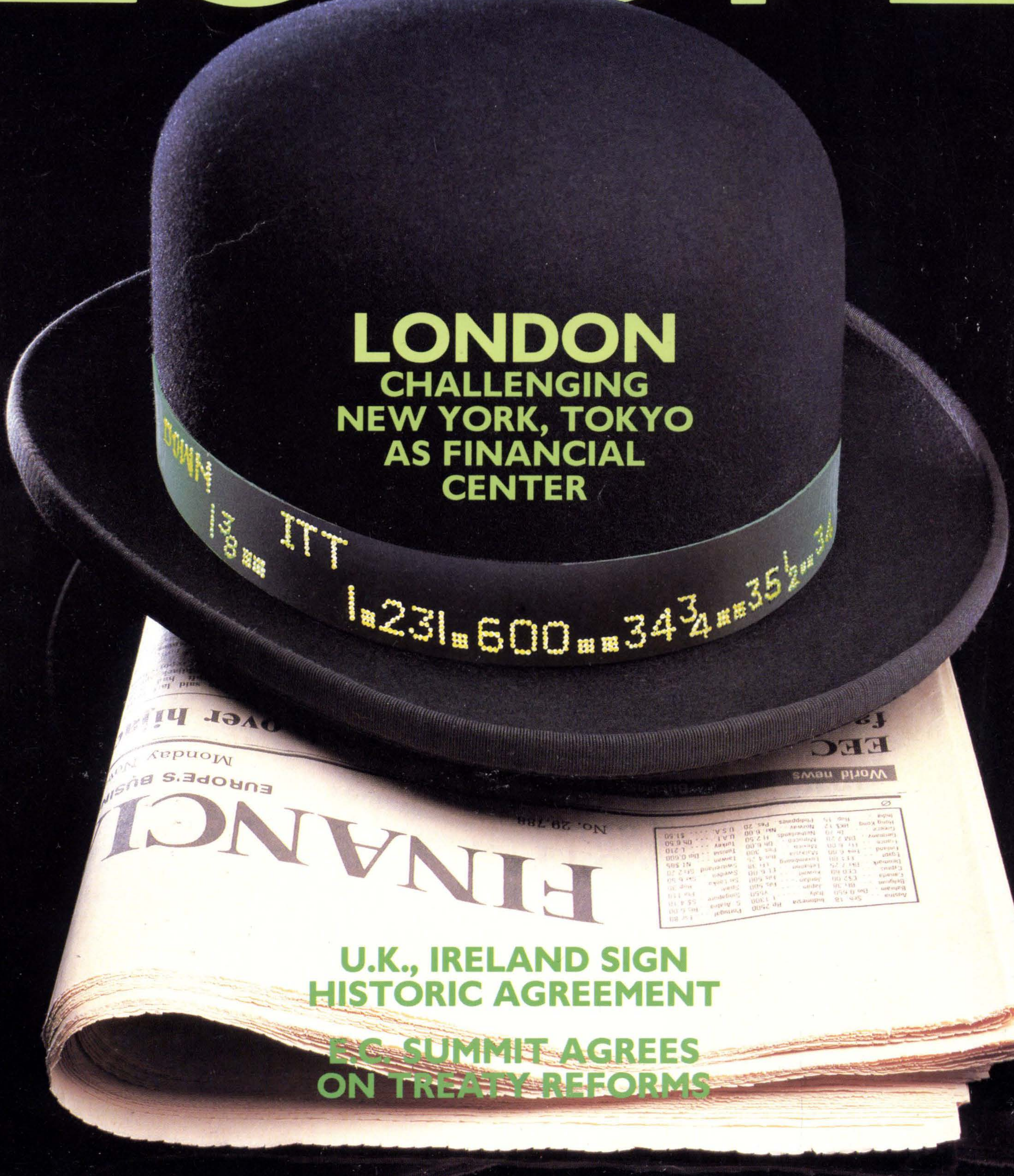
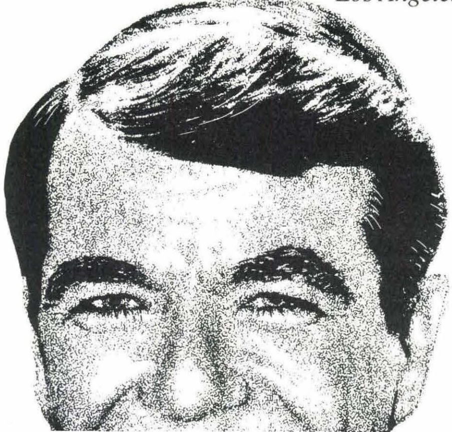
EUROPE



LONDON
CHALLENGING NEW YORK, TOKYO AS FINANCIAL CENTER

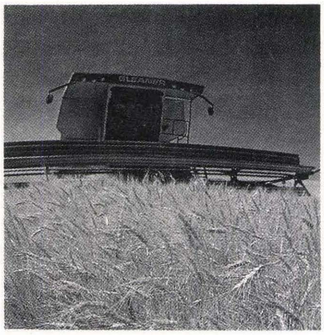
U.K., IRELAND SIGN HISTORIC AGREEMENT

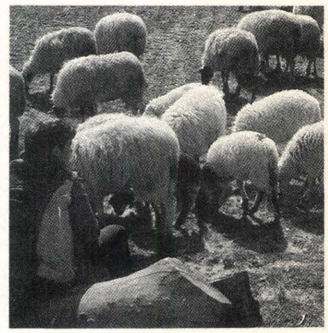
E.C. SUMMIT AGREES ON TREATY REFORMS



EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY





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PUBLISHER'S LETTER

Are we standing on the brink of a new era in Europe? A growing number of people are beginning to say we are, and the pundits who used to throw around words like "Europessimism" and "Eurosclerosis" have been rather quiet lately. Could it be, after all, that the rumors of Europe's demise were "greatly exaggerated?"

The truth, of course, is that Europe and the European ideal are very much alive. The enlargement of the E.C.—which formally brought Spain and Portugal into the Community on January 1—is surely proof of that. But there are signs of growing vitality everywhere else too, from the first steps toward institutional reform taken at the December summit in Luxembourg, to the launching in November of the Eureka high-technology research program. In recent weeks, the E.C. has concluded an historic political agreement with the countries of Central America, negotiated a major four-year steel accord with the United States, worked closely with the United States in Geneva to bring about an agreement in the GATT for a new round of multilateral trade talks, completed a massive aid plan for Africa that saved thousands of lives, and taken further steps toward removing the last remaining barriers to trade within the E.C.

Not everything is roses and champagne, of course; we still face real economic problems, and unemployment is unacceptably high. But with Spain and Portugal now in the Community, Europe has become more diverse as well as more integrated, and in this diversity there is a wealth of resources, talent, strength and energy that give cause for optimism—and may indeed mean a "new era" for the E.C.

We welcome the Iberian countries to the E.C. with this issue of *Europe,* and focus on Spain for our member-state report. Elsewhere this month, Ronan Fanning, a lecturer in Irish history at University College in Dublin, examines the Anglo-Irish agreement signed in November and discusses its impact for both the Unionists and the Nationalists. Marina Gazzo of *Agence Europe* gives a thoughtful appraisal of the reforms begun at the E.C. summit in December, Stanley Crossick discusses the European perspective on U.S. trade policies, James David Spellman explains why services will figure so prominently in future multilateral talks on trade, and in our cover story this month, the *Financial Times'* John Wyles looks at the far-reaching changes the City of London's financial institutions are going through.

Much of Europe's ability to compete in the markets of the future depends on research it undertakes now, and that research got a boost in November with the launching of the Eureka program, Europe's non-military response to "Star Wars." Projects from fields as diverse as robotics and health care were chosen to get the program started; the *Financial Times'* Rupert Cornwell looks at Eureka and its meaning for Europe's high-tech future.

But making the transition from industries of the past to those of the future means painful cutbacks and restructuring in certain sectors, even those that have been traditional mainstays of the industrialized economies. *Europe's* Stephen Brookes examines the changes the E.C. has made in its steel industry over the past decade, and discusses the recent decision to end all further subsidies to European steelmakers.

Denis Corboy

AROUND THE CAPITALS

LONDON

Parliament Bars T.V.

Politicians of all nationalities are not usually shy of television. Some will go to inordinate lengths in order to get themselves on it. Dignity is often cast to the winds to win the attention of the magic eye. A slot on a talk show, a televised debate or even a televised snippet of a public speech is the devout hope of most politicians anxious to reach as many of their electors as possible. How odd it is, therefore, that the House of Commons—that very select club for political discourse—should still be so resistant to allowing the cameras to televise its proceedings. By 275 votes to 263, it recently voted against a television experiment, despite the fact that the House of Lords has been accommodating the controversial camera for more than half a year now.

Parliamentary resistance to allowing the public access to debate is not, of course, anything new. Until the late 18th century, the proceedings of the Commons were kept nominally secret on the grounds that public reporting would make the legislators more vulnerable to pressure from below. Not, you might think, a very democratic attitude on the part of the mother of Parliaments, but democracy had a different meaning in those days. In any case, the rule was not often enforced and when it was, it was usually in the interests of the Government of the day. Thus, Lord North, one of George III's Prime Ministers, used to exclude reporters from the galleries whenever he wished to keep an issue quiet, and allow them in when the Government stood to gain good publicity.

The legal respectability of reporting debates was eventually established by a slow process which was greatly aided by the fondness of many Members of Parliament for giving the texts of their speeches to the press. Fear of bad publicity for the opposition was certainly an important factor to account for the recent demise of the pro-television movement in the House of Commons. It was certainly uppermost in Prime Minister Margaret Thatcher's mind and, therefore, very influential on some of her younger, more impressionable or more ambitious backbench Conservatives. The Prime Minister, once thought favorable to the television idea, kept her intentions very quiet until the vote—which was not subject to party discipline. But when she was seen to be walking to the "no" lobby, upward of a dozen of her followers quickly developed deep-seated aversions to the televising of debates.

One can only speculate on Thatcher's motives, because she did not offer any prompt public explanation for her vote. A few months ago she was reliably reported as favorable to television and a likely reason for her change of mind was the emergence of Labor Party leader Neil Kinnock as a heavyweight public debater. When he strikes his form—which is not every day, but a lot more frequent than it was—Kinnock is an impressive sight, all clenched jaw, scathing wit and courageous attack. These qualities were at their best during the Labor Party's conference in October, when Kinnock saw off some of his troublesome left-wingers with a blood-stirring performance.

Parliament sits in the Palace of Westminster.

Thatcher is not shy either in the parliamentary tournament, and she often exploits to the full the advantages enjoyed by the Prime Minister of the day—which all derive from being in possession of the facts. However, with a general election less than three years away, it seems she did not want to take any risks by putting the young Kinnock in front of the cameras. Other Members of Parliament had other motives. The more traditional among them view the Commons as an intimate debating parlor where members address each other and not the great British public glued to its television screens.

Fear of television editing was a powerful deterrent in many minds. The Commons can be a very rowdy place, where people forget their manners—rude interruptions of speakers are not uncommon: Michael Heseltine once swung the speaker's mace around his head before he became a virtuous Defense Minister. Might not the television give rather more time to such events than debates on, say, housing in Wales? What will the public think of members slumbering in postprandial comas?

Much of this mistrust of the producers was directed against the British Broadcasting Corporation (BBC). Some members feel that the BBC has helped the 91-year-old Lord Stockton (known as Harold Macmillan when he was Prime Minister) create a public constituency through his speeches critical of Government policies in the House of Lords. Others dislike the sometimes sardonic tone of the BBC's daily radio report.

Arguments that it is somehow absurd to expose the public through these radio reports to the playground sounds of the Commons without supplying correcting pictures did not win the day in the end. Nor did it matter that the non-elected House of Lords, once a bastion of tradition and privilege, seems happy with its television experiment. Nor did the possibility of a better informed public lure a majority of members to support the proposition. John Biffen, the leader of the Commons, urged his colleagues to take the "leap in the dark" but for the rest of this Parliament, the Commons will stay as firmly rooted as possible away from the television gaze.—JOHN WYLES

BONN

Armed Forces Celebrate 30

Thirty years after the Federal Republic of Germany's Bundeswehr, or armed forces, were created, generals and soldiers alike still have difficulty determining the military traditions they should honor. Germany does have a long military tradition. The trouble is, however, that tradition is not an unbroken line reaching back into the distant past, but sometimes has been interrupted by episodes that today's military leaders would as just as soon forget. As President Richard von Weizsäcker said in a speech in November on the 30th anniversary on the induction of the Bundeswehr's first 50 recruits, the armed forces were being misused during World War II by a criminal regime.


COURTESY GERMAN INFORMATION CENTER


COURTESY GERMAN INFORMATION CENTER

Germany's modern-day armed forces, the Bundeswehr, were created in 1955. Top photograph: Chancellor Helmut Kohl.

The military's main problem, in fact, is how to fit the Wehrmacht, as the German armed forces were known from 1935 to the end of the war, into "the guiding principles of tradition for the Bundeswehr." The political leadership initially tried to come to grips with the problem of tradition by inducting those first 50 recruits in 1955 on the 200th anniversary of the birth of General Gerhard von Scharnhorst, who converted the Prussian army from a mercenary to a people's army. "All residents of a state are its born defenders," Scharnhorst declared, and that was the guiding philosophy behind the German decision to fill the armed forces by conscription. This remains the case, although other countries, including the United States and the United Kingdom, abandoned compulsory service.

But the link to Scharnhorst was too vague for young soldiers asking why they were serving in the atom age. Furthermore, the soldiers recruited for the new democratic armed forces needed to be told how to view the Wehrmacht's wartime performance, and, in particular, how to treat the July 20, 1944, officers' plot to overthrow the Nazi dictatorship. In 1965, the Ministry of Defense published a first set of "Bundeswehr and Tradition" guidelines. The ministry said that the German military tradition was based on "freedom in obedience," but that the Nazis had restricted the soldier's freedom. "Finally responsible only to their consciences, soldiers in the resistance against the injustices and crimes of the National Socialist criminal regime stood the test to the last consequences," the 1965 guidelines said. Those original principles were laid down by a Government led by Christian Democrats.

The Social Democrats who came to power in 1969 decided they needed rewriting, but they spent 13 years doing so. As luck would have it, the Social Democratic guidelines took effect on the day the Christian Democrats recaptured the Government. The new Defense Minister, Manfred Wörner, said in his first speech to the military commanders that he intended to revise the guidelines on tradition yet again.

The 1982 guidelines went into considerably more detail than the original set. Among other things, the Social Democrats stressed that the Bundeswehr already had created its own traditions by serving the democratic state founded in 1948. "There is no uninterrupted line of military tradition," the Social Democrats said. "The traditions of former German armed forces cannot be passed on to Bundeswehr units, which are forbidden to fly or accompany the flags or standards of earlier units. Meetings to maintain traditions may be held only with such persons and units who are committed politically to the values and goals of our constitutional order," the Social Democrats said.

This had become an issue when some air force units invited Hans Rudel, one of Hitler's favorite fighter pilots and a regular speaker at neo-Nazi rallies since the war, to be their honored guest. The Social Democrats forced a pair of general officers to resign because of their involvement in that affair.

"The history of the German armed forces is not without deep ruptures," the Social Democrats said. "During the National Socialist period, the armed forces were in part guiltily involved, in part innocently misused. A criminal regime such as the Third Reich cannot be the basis of this tradition." But curiously, the Social Democratic principles made no reference to the July 20, 1944, officers' revolt.

Three years after taking office, Christian Democrat Wörner submitted the draft of new guidelines to a 25-member body pf representatives of the political parties, labor unions, employer's associations, the churches, universities and other mass organizations that advise the military on such questions. Wörner has been trying to pull the Wehrmacht of World War II back into the line of tradition. His draft suggested that "the Wehrmacht had been misused and tragically ensnared" by the Nazis.

But historian Professor Hans-Adolf Jacobsen, who is chairman of the advisory body, said the group thought that was not good enough, and insists that the new guidelines face up to the fact that the Wehrmacht itself actually committed some crimes, while simultaneously highlighting the July 20, 1944 officers' plot. Apparently, both Wörner and Jacobsen's groups also want the new guidelines to include specific examples of what is considered honorable and dishonorable behavior.

This won't be easy, as many persons still think that German soldiers who fought courageously during World War II should be treated as heroes even though they served a criminal regime, and that the July 20 plotters were traitors. Jacobsen said he thought work on the new guidelines could be completed by the late spring, but it is much more likely that Wörner will have to spend as much time revising the Social Democratic principles as the latter spent writing them.—WELLINGTON LONG

DUBLIN

Debate Over Pure Air

Ireland's once-famous pure air is not so pure anymore. The soft Irish rain is becoming more acid, but the state-owned Electricity Supply Board (ESB) says it cannot afford to implement the draft E.C. directive to limit sulfurous emissions from its generators. Ironically, it was the E.C.'s energy policy which influenced the ESB to switch from imported oil to coal when it was planning to increase output. In 1973, when the first oil crisis broke, most of Ireland's electricity came from oil-burning generators. The new E.C. energy policy required steady reduction in oil imports and a switch to solid fuels, essentially coal.

In the mid-1970s, the ESB was planning a substantial increase in output to meet the expected increase in demand from industry and private consumers. The increase was to come from a new coal-fired plant at Moneypoint near the mouth of the river Shannon and on the edge of an area of great natural beauty called the Burren. Moneypoint will have a 900-megawatt capacity when completed in 1987. The first 300-megawatt phase recently came into operation. This brought to a head the controversy about how much it will pollute the Irish countryside and towns and even those of Ireland's E.C. neighbors in the track of the prevailing westerly winds.

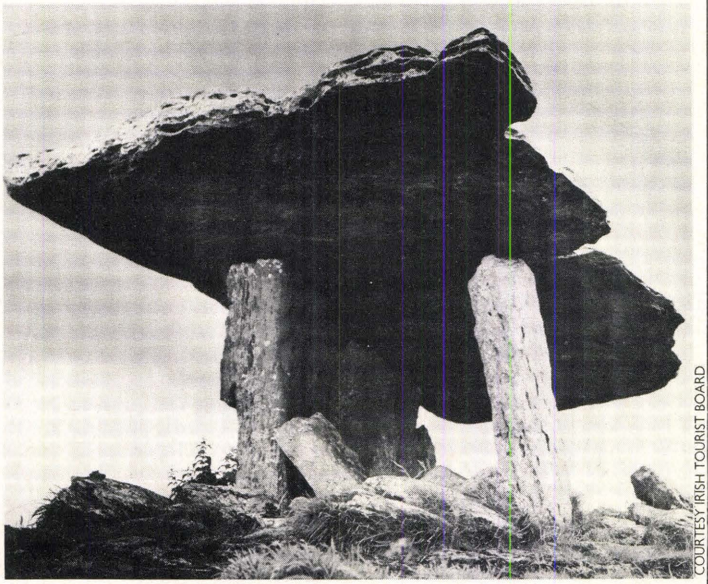
When fully operational, Moneypoint will pump about 65,000 tons of sulphur dioxide each year into the relatively pure Irish atmosphere. This is double the present ESB output and an extra one-third of the country's total sulphur emissions. The main environmental protection body, An Taisce, warns that Moneypoint oxides washed down by the frequent Irish rain will seriously damage the stonework of historic buildings and statues. They will also acidify game-fishing waters, it is claimed, and have a disastrous effect on the tourist fishing industry. Damage to the Burren, world-famous for its unusual flora, is also likely.

All these harmful effects from Moneypoint would be eliminated if only Ireland and the ESB implemented the proposed E.C. directive limiting emissions from large combustion plants. But, says the ESB, to fit the necessary desulfurization equipment called "scrubbers" would cost about $400 million and add 20 percent to consumers' electricity bills. Nobody wants to pay that. The Government's attitude is that because Ireland's air is relatively pure compared to other more industrialized E.C. countries, it is unfair to make Ireland apply uniform antipollution measures. It would be too high a cost to pay for "an insignificant improvement in air quality."

The ESB claims that the use of tall, 700-foot high stacks at Moneypoint will waft the sulfurous smoke plume far away from the immediate neighborhood. The prevailing westerly winds will blow the pollution across Ireland toward Britain and Scandinavia. The ESB says the amount will be, that word again, "insignificant" compared to what these countries receive from domestic industries and other countries.

Nearer home, there is already considerable concern about pollution in Dublin, which some ecologists say has "the dirtiest air in Europe." Because of the oil crisis, the Government in recent years has paid about $15 million in grants to householders to convert their oil-fired central heating systems to solid fuel. The air pollution from coal fires has risen dramatically as a result and a report from the Dublin Corporation says stringent controls are now necessary for domestic as well as industrial coal users.

There is now a call for state subsidies to persuade householders to switch from dirty coal to clean natural gas. The Marathon oil company has discovered a commercial gas field 30 miles off the south coast of Ireland when drilling for oil. Up to now, the main customers for this Irish gas have been industries in the Cork area near the gas field and the ESB itself. As the gas now becomes available in Dublin and other large towns, a huge advertising campaign is underway to persuade domestic consumers to switch to this "clean, Irish" energy source.—JOE CARROLL



COURTESY IRISH TOURIST BOARD

Historic monuments such as this dolmen in the Burren area could suffer from oxide emissions washed down by the frequent Irish rains.

LUXEMBOURG

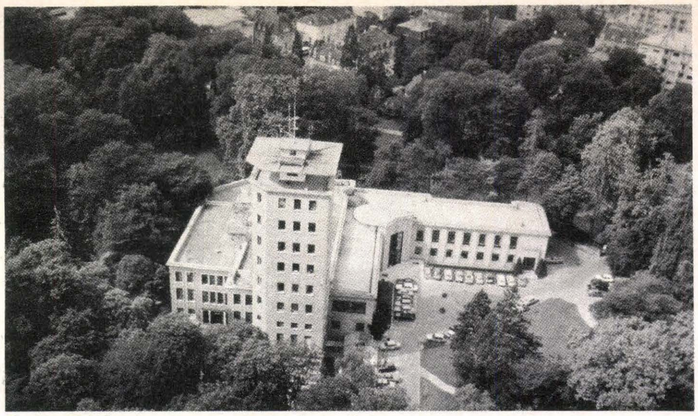
A Battle For The Airwaves

Luxembourg regards itself, with some justification, as being very good at broadcasting. It started a commercial radio channel—in several languages—more than 50 years ago and did so well at it that the parent company of Radio Luxembourg has become the country's single biggest taxpayer. Now it wants to do the same thing with commercial television. But France is not at all amused. The French Government has in fact rejected a bid by the Compagnie Luxembourgeoise de Télédiffusion (CLT) to take a channel on France's television satellite to be launched next year. Instead, Paris has given the rights to an Italian consortium and to the British newspaper owner Robert Maxwell. The Luxembourg broadcasters say this is going back on an agreement reached earlier, and they want to take the matter to court. France does not like being told such things by its small neighbor.

Still less does it like plans being made in Luxembourg by a private company, Société Européenne des Satellites (SES), to buy a satellite from the United States so as to broadcast commercial television across most of Continental Europe. A similar plan some years ago was dropped when it was discovered that subscribers might have to pay up to $1,000 each for receiving equipment. But technological developments have brought the price down to about a third of this and SES seems confident that its service will make some money. It has persuaded investors in France, Belgium and Scandinavia, as well as Luxembourg, to put up cash for its proposal.

The SES satellite, to be built by RCA, will carry 16 television channels with an output of 45 watts per channel. Its specifications leave little room for doubt that it would be a formidable competitor to the

French Government's own direct broadcasting satellite. It has been suggested that the arrival of Radio Luxembourg 50 years ago made possible, and indeed ensured, the introduction of commercial radio throughout much of Europe. France does not want to see its hand forced again in such a way over television.—ALAN OSBORN


Radio Télévision Luxembourg's building in the capital.

PARIS

Battle Over Prostitution

The city that invented the term bordello is trying to clean up prostitution. The battle is being waged in one of the oldest sections of Paris—the St. Denis district, where winding streets are lined with cramped 18th-century apartment buildings. It is the most traditional of Paris' stomping grounds for prostitutes.

As far back as the 13th century, when Philippe August expelled the "ladies of folly" from the royal community, the persistent women moved into the area around the St. Denis gate, the royal entrance to the city. The ladies responded by constructing their own makeshift shelters using planks, or "bords." Their grateful clientele dubbed the cabins "bordels," and, ever since, the same streets have been used for bordellos of one description or another. That is just the problem, according to the Mayor of the second arrondissement, or district, of Paris, who has authority over the St. Denis area in the eastern part of downtown Paris. "I am the first to recognize the historic character of prostitution," declared Mayor Alain Dumait, "but 20 years ago there were 200 prostitutes in the area and now there are 2,000."

By day the streets are a hodgepodge of carts shuttling through the garment quarter, trucks, general traffic and tour buses that slow down for a glimpse of the prostitutes. By night, the lights of the sex shops start flashing, and the cruising starts, with potential clients picking among the prostitutes who line up in the doors of the ramshackle apartment buildings. Since the city closed down houses of ill-repute in the 1940s, the system is for several women to pay a pimp for the use of one apartment. And under French law, that is their only illegal activity. Prostitution is perfectly acceptable in France as long as the prostitute registers with the police. But it is illegal to sublet apartments.

That is the catch that Dumait is using to try to clean up the neighborhood. He said his campaign was the result of thousands of letters of complaint that prostitution had gotten out of hand. The prostitute population exploded in St. Denis after the police shut down, for health reasons, a neighborhood red-light district. The result is more prostitutes and a lot more immigrant workers seeking their services. There are more arguments in the streets, more clients waiting in the hallways and more traffic.

Dumait's solution was to conduct the first mail-in referendum ever held in France. He mailed out 5,313 letters asking residents of St. Denis street if they were bothered in their daily life by the nuisance created by prostitutes. He got a 90-percent affirmative response, which he will use as ammunition to urge a police crackdown on violations of the subletting law.

Despite the opening salvo from the mayor's office, however, the battle lines are not clear. The police have problems proving the violations. The city of Paris wonders what a cleanup of the St. Denis district will do to other neighborhoods. As in in many cities facing prostitution problems, the solution is not just "let them do it in some other neighborhood," because the question remains: "which other neighborhood." There are other existing areas for prostitution in Paris, but whether it is the kinky possibilities offered in the Bois de Boulogne park, male prostitution downtown or the chinchilla-coat-ladies of the Champs Elysées, each has carved out an indisputable turf and particular character that would never support an influx of new competition.—BRIGID JANSSEN

BRUSSELS

Crime Wave Worsens

An American woman living in Brussels said recently she had given up evening shopping in the supermarkets. "It's even worse than New York," she said. I could understand her point. A gang of faceless, savage criminals had just shot to death eight people in a suburban store in order to make off with about $50,000. The same gang, operating in much the same way, is held to have killed 22 people since 1982. Foreigners living here are appalled. The bald facts of the crimes are enough to outrage anybody. What further incenses many, however, is why this murderous band has not been identified, still less, apprehended. An American diplomat said: "Their methods, their appearance, the lack of any philosophy behind their attacks...all point to a group of psychopaths....It is almost as if they are asking to get caught."

This kind of crime is new to Belgium. On balance, Brussels could still be rated as among the best behaved and most sober capitals in Europe. But the supermarket killings have coincided with a rise in more traditional kinds of terrorism that can be identified. A Marxist group calling itself the Communist Fighting Cells (CCC) has claimed responsibility for several bombings in recent years. These have been directed against establishments, mainly banks and NATO outposts, and almost always have been preceded by clear warnings to the premises. Commentators have tried to make links between the CCC and the supermarket bombers, but this is not widely accepted. All they have in common, it appears, is an ability to elude the police.

The Government has responded by approving a major increase in the funds devoted to the anti-terrorist team within the police and to the setting up of a special squad under the Government to deal with the supermarket bombers. This has caused disapproval. Critics are saying it would be better to group everything under one heading so as to concentrate money and expertise in the fight against terrorism. Prime Minister Wilfried Martens, in choosing his new Cabinet after his success at the polls in October, is also under fire for restoring Charles-Ferdinand Nothomb as Interior Minister. Nothomb has been blamed by some for causing the sudden collapse of the Government in the summer by his refusal to resign after his department was found wanting in the matter of the Heysel soccer disaster.

The emergence of terrorism and internal political disputes has not given Martens a good start in his sixth term as Prime Minister. But it has been widely reported that his personal appeal to the voters was the major factor in the return of the center-right coalition in October and this will clearly help his authority. At 49 and in his sixth term as Prime Minister, Martens looks like becoming the "grand old man" of Belgian politics. But he will have to deal with terrorism before his reputation is secured.—ALAN OSBORN

COPENHAGEN

The Greening Of Europe

Green is the party color of the Danish conservatives. But party leader and Prime Minister Poul Schlüter is hardly likely to find useful applications of this connection in 1986. Why? The color is now associated with the new environmentalist party, the Greens, which is part of a growing European family of parties presenting new challenges to ruling Governments and major opposition parties.

Though still strong on the basis of national opinion polls, the Government was severely disappointed in the results of the local elections in November. Though not comparable to midterm elections elsewhere, the success of the left-wing parties, notably the Socialist People's Party and the Greens, did nothing to bolster the self-confidence of the ruling Conservative-Liberal coalition. Campaign infighting between the conservatives and liberals did not improve matters.

Theoretically, the new environmentalist party may decide who should form a Government after the next general elections, probably in late 1987. The possibility of a left-wing Government including the Socialist People's Party cannot be totally excluded, but it is unlikely for a number of reasons. The most important is the still-widening gulf between the left and right wings of the Social Democratic Party. The left considers the success of the Socialist People's party a necessary invitation to closer rapport with that party. The right wing, including the most powerful trade union, the metal workers, refuses to accept a party that is not only more truly Socialist, but also a proponent of much of the same issues as the environmentalists. The demands of these two parties are a threat to the Danish industry, the metal workers think, and industry itself is saying the same.

Copenhagen.

Compared to other European countries, Denmark has few really polluting industries, and most of the restlessness of the electorate is confined to the left. The right-wing, anti-tax party of Mogens Glistrup, released from prison earlier this year after serving a sentence for tax evasion, was almost wiped out. Glistrup himself, campaigning on an anti-tax and anti-refugee platform, could not secure his own election to local and regional councils north of Copenhagen.

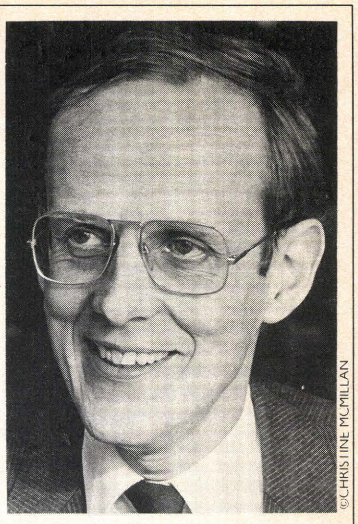
Political insiders consider a Social Democratic-Conservative Government more likely than a left-wing Government, if Poul Schlüter should lose the next election. But despite the optimism of the left wing, that result is by no means a foregone conclusion.—LEIF BECK FALLESEN

AMSTERDAM

Cleaning Up The Country

The Dutch Government has come out with a five-year program designed to clean up the soil of this country, a land tightly packed with major chemical plants and whose water table is relatively high. To avoid toxic dumps that imperil both the soil and the ground water, the Government will spend some $1.5 billion on environmental preservation in the next fiscal year. That sum will increase annually by about five percent to some $1.9 billion in 1990.

Responsibility for the environment will be carried by three ministries. Neelie Smit-Kroes, Minister for Transport and Water Management, will take on much of the responsibility for water quality policy; Agriculture Minister Gerrit Braks will take care of resource preservation; and the overall coordination of environmental policy will lie with dynamic 43-year-old Pieter Winsemius, the Minister for Housing, Planning and Environment.



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Housing, Planning and Environment Minister Pieter Winsemius.

Winsemius, a mathematician and physicist who also studied at Stanford, once worked for the Amsterdam branch of the U.S. firm McKinnsey. In the early 1980s, he urged a comprehensive plan enabling business to respond better to legislation and regulations governing environmental protection and physical planning. "The Netherlands and the United States," he said recently, " were the first countries to be faced with the problem of contaminated soil—in the United States it was the Love Canal, and here, our first major problem was the town of Lekkerkerk, which had to be evacuated due to heavily contaminated soil." He added that "cleaning up the soil contamination, however, makes no sense unless we develop a soil protection policy at the same time." He went on to say that a soil protection bill now in Parliament would soon become effective and that, in the meantime, an interim policy, aimed mainly at agricultural practices and industrial-waste leaks, should be followed. In 1984-85, an inventory of hazardous waste sites showed some 6,000 dumps, of which 350 were considered a serious danger.

Winsemius listed three priorities for environmental conservation: acid rain—an international problem—pollution from fertilizer runoff and water purification. He is pushing hard for a common E.C. policy to reduce emissions from oil refineries and generally reduce acid rain.

As regards water, the Netherlands is situated in the Rhine and Meuse delta, where Europe's two main arteries run into the North Sea. The estuary near Rotterdam needs regular dredging to allow heavy tankers and vessels in and out of this, the world's largest, port. Neelie Kroes, the minister responsible for water management, said: "Much of the pollution of the large rivers ends up in the soil. The floor of our basins and the mud dredged up in our harbors is highly polluted by the compounds discharged way upstream."

This creates an enormous problem for the country. The highly polluted dredgings from the harbor cannot be disposed of on land or in the sea. As a temporary solution, they will be stored in a diked-in area to be built offshore. The cost for this will be around $80 million, but, in Kroes' words, "we have achieved quite a lot. Since 1975, about $1.1 billion have been invested in water purification plants." Industry has invested another additional $500 million. And, although the discharge of heavy metals and other toxic compounds has decreased considerably, Kroes adds that while "we are not there yet, we are on the right track."—NEL SLIS

ATHENS

Rebirth of a Cooperative

The village where the European cooperative movement started out more than 200 years ago is getting a new lease of life. But this time only women are being allowed to join the cooperative at Ambelakia. Set above the Vale of Tempe, one of northern Greece's most spectacular tourist attractions, Ambelakia was an all-too-typical Greek mountain village. Its residents were abandoning unrewarding hill farming for factory jobs in the town of Larissa in the plain below, a growing manufacturing center. They left behind a few hundred residents, mostly elderly people.


©AMALIA MELIS

Lesbos, where a similar cooperative is planned.

Enthusiasts who came looking for the home of George Schwarz, born Georgios Mavros, who masterminded Ambelakia's rise to wealth in the 1770s, found a shattered, decaying stone mansion. Madder root, the source of a brilliant red dye that made yarns from Ambelakia famous around Europe, was no longer cultivated. But next summer, the village will be back on the map as one of Greece's most unusual summer resorts. The women's cooperative, based on a similar experiment on the island of Lesbos that proved unexpectedly successful, will provide 25 rooms for tourists looking for something different, including old-fashioned Greek village cooking.

Premier Andreas Papandreou's Socialist Government made women equal under the constitution three years ago, but then found that their new legal status was often ignored in traditional, patriarchal, rural communities. Earlier this year, a special secretariat for equality of the sexes was set up. One of its main tasks is to promote women in management, especially in small-scale businesses in the provinces. The secretariat helped 25 women in Ambelakia, aged from 18 to 70, to squeeze 10 million drachmas ($63,000) out of a variety of government funding organizations to convert rooms in their homes and build a restaurant. The women attended seminars on bookkeeping and catering, organized under the Government's adult education programs for the countryside.

Men among Ambelakia's 460 residents were skeptical at first, the women say, but the suspicion relaxed as the conversions got underway. Some have joined in to help build a showroom for village products. As well as catering for tourists seeking quiet vacations, the Ambelakia women intend to revive textile weaving in the village. They are growing madder again, and are experimenting with other natural dyes for fabrics.

The "Joint Fellowship of Ambelakiots," as the original cooperative called itself, was a remarkable venture in Ottoman-occupied Greece. The villagers grouped together to grow cotton, spin both cotton and wool, dye and market the yarns from branch offices in the mercantile centers from London to Leipzig, Constantinople and Odessa. In its heyday, more than 6,000 people were employed by the cooperative. A large chunk of the profits went on philanthropic activities around the Larissa district. The fellowship contributed funds for building schools, libraries, dispensaries and even printing presses for almost half a century.

Ambelakiots built themselves handsome, two-storied stone mansions with overhanging timber eaves. Oak-panelled reception rooms had elegantly frescoed ceilings. George Schwarz' house—included in the E.C. Commission's conservation program this year—boasted special cupboards designed to conceal firearms and a secret staircase in case of an attack. The villagers kept their wealth on deposit in the Bank of Vienna, which proved their undoing. In 1810, Napoleon confiscated their 20 million gold francs and Ambelakia never recovered its prosperity. An attack by the Turks, a plague epidemic and competition from steam-powered spinning mills in England sped its decline.

The new cooperative modestly aims at keeping the village a living community and securing a regular income for the women involved. The secretariat now plans several other women's cooperatives—one producing pasta in Lesbos and a chicken-farming project in the mountainous Peloponnesos—to tap what it sees as valuable entrepreneurial potential.—KERIN HOPE

ROME

Italy's First Carrier

Recently, the Italian Navy commissioned the first aircraft carrier in the country's history. The Giuseppe Garibaldi, named after the hero of the 19th-century unification of the country, is nowhere near as large as an American aircraft carrier—she displaces only 13,000 tons—but with her flight deck and aircraft elevators to a hangar underneath, she is recognizably a member of the breed. There is just one difference, however, between the Garibaldi and similar small aircraft carriers such as Britain's HMS Invincible, which fought in the 1982 Falklands war: the Garibaldi does not carry any airplanes. She is not allowed to. Instead she has a squadron of helicopters on board for anti-submarine work.

The reason is that ever since 1923, when Benito Mussolini was in power, the Navy has been forbidden to operate fixed-wing aircraft. This was the preserve of the Air Force, Mussolini decreed, and the law has remained unchanged ever since. It has been the claim of the Air Force that its own planes can easily defend the Italian Navy from land—despite mutterings in the Navy about the failure of the Air Force to turn up when the Navy had a disastrous encounter with the British at the battle of Matapan in World War II.

Given that the Navy is forbidden to have its own air wing, why was the Garibaldi ever built? The answer is that she was officially built as a helicopter carrier. But while she was under construction, the admirals persuaded the Ministry of Defense that her lines would be enormously improved if a ski-jump, sloping upward at an angle of six degrees, were installed at her bows. The only practical purpose of a ski-jump, a British invention, is to help the take-off of vertical-and-short-take-off aircraft, such as the British Sea Harrier.

As the Garibaldi was under construction, the Navy launched a campaign for the reversal of the 1923 law. The campaign has raged intermittently for most of the 1980s, its most obvious form being bursts of articles in the press. The articles consist of anything from learned analyses of naval warfare and how it might be helped by the addition of an air arm to articles by retired admirals lamenting their failures in World War II and attributing the blame to the Air Force.

The Air Force has not been idle, however. It too has inspired press contributions which have argued that the Navy is best defended by shore-based aircraft, that aircraft carriers are a waste of money (particularly for a country which has a small defense budget) and that vertical-and-short-take-off aircraft are unreliable. In answer to the question of what happens when the Navy is out of range of shore-based aircraft, the Air Force replies that the Navy has no business operating far from Italian waters. In fact, the commander of the Italian Air Force argued in a newspaper article that he was opposed to the Navy having its own air arm because he said it would make Italy "too powerful," an argument designed to appeal to politicians who have reservations about Italy's armed forces' very existence.

That type of argument does strike a chord in many Italians. Many believe that Italy's defense spending—among the lowest per head of population of the NATO countries—ought to be reduced, and they do not believe in Italy taking an aggressive role with its Mediterranean neighbors. Yet the fact remains that when Italy sent a peace-keeping force to Lebanon in 1982 to 1984, the ultimately successful mission was at risk for lack of air cover.

The signs now are that the Navy will win its battle to have fixed-wing aircraft. After two years of contemplation. Giovanni Spadolini, the Defense Minister, recently introduced a bill in Parliament to reverse the law of 1923. But though it would allow the Navy to have an air arm, it makes concessions to the Air Force by allowing it technically to be responsible for the air arm's organization. So far, however, the bill has made little progress. No one knows when Parliament will get around to discussing it, and if the Government were to fall, or the minister to lose his job, the whole process of drafting and presenting the bill would have to begin again.

But the Navy believes that sooner or later it will get its way. The admirals' appetite was whetted recently when the British aircraft carrier Invincible steamed off Italian waters and put on a stunning display of flying by Sea Harrier aircraft. A number of Members of Parliament came, too, but as they bumped their way back to Rome through a storm in an Italian Navy helicopter, they would not say how they intended to vote.—JAMES BUXTON

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IS EUROPE AMERICA'S BEST CUSTOMER OR BIGGEST COMPETITOR?

TWO SIDES SHOULD WORK TOGETHER TO SMOOTH OVER DIFFERENCES OVER FARM TRADE.

DERWENT RENSHAW

Notwithstanding a satisfactory resolution of the canned fruit dispute, farm-trade tensions between the European Community and the United States show few, if any, signs of easing, particularly with disagreements being orchestrated far beyond their true economic significance—as in the case of citrus. On the other hand, there would seem to be a grudging, but perceptible, recognition in some quarters, at least, of the economic facts illustrated in the chart to the right.

This shows what many remain unwilling or unable to acknowledge: namely, that in recent years, the E.C. has played a vital role as the U.S. farmer's best customer. Over the three years covered by the chart (fiscal 1982, 1983 and 1984), the E.C. bought 21 percent of all U.S. farm exports, or $23 billion worth. Japan, in second place, took 17 percent, followed, a long way back, by the Soviet Union, Canada, Mexico and South Korea, with 5 percent each. Even in fiscal 1984, with a strong dollar discouraging Europeans from buying American, the United States sold $6.7 billion worth of farm and food products to the E.C., enabling it to register a trans-Atlantic trade surplus with the Community of $3.6 billion.

What is more, most U.S. farm exports to the E.C. enter without import charges. For example, in 1984, despite the effect of the dollar and an abundance of feed grain of its own available, the E.C. imported free of any levy or duty whatsoever one-third of all U.S. soybean exports and almost half of all U.S. overseas sales of soymeal. The combined value of the sales to the E.C. of these two products came to $2.4 billion, or more than was sold to the whole of Asia.

From this it would not seem unreasonable to conclude, in answer to the question posed in the title of this article, that the E.C. is, indeed, the United States' best customer—and, what is more, one that pays in hard cash. Consequently, the trans-Atlantic impact of the E.C.'s agricultural policy is nothing like as harmful as is often alleged.

But before turning to the E.C.'s role as a competitor against U.S. farm exports, it is instructive to examine the E.C.'s position as a customer for the rest of the world's agriculture. The E.C., in spite of achieving self-sufficiency in a number of agricultural products over recent years, is still the world's largest importer of farm goods, running a farm-trade deficit with the rest of the world of about $20 billion. By contrast, the United States is still the world's largest exporter.

Furthermore, while one hears a great deal about the E.C. increasing its exports over the last few years, a fact not generally acknowledged is that its imports have risen much more strongly. Over the last decade, E.C. farm exports rose by some $15 billion, but imports rose much more steeply, by some $20 billion. Furthermore, over the last three years, E.C. farm exports have fallen by a similar proportion to those of the United States.

Any serious examination of the E.C.'s role as a competitor of the United States very soon reveals that for around three-quarters of U.S. farm exports, competition from the E.C. is, for the most part, nonexistent or, at best, indirect. This for the simple reason that the E.C. does not grow or export the products concerned in significant quantities.

"Ah yes," the shrewd reader will observe, "but what about the other 25 percent where we do compete and what about those enormous subsidies the E.C. lavishes on its farmers?" Let us take these two valid questions one at a time.

By far the most important product in this 25 percent is wheat, followed by dairy products. Much has been made recently of the allegedly unfair way in which the E.C. is said to have taken away large portions of the U.S. share of the world wheat market. Even to the extraordinary extent that President Ronald Reagan recently instructed his Trade Representative to initiate proceedings in the General Agreement on Tariffs and Trade (GATT) against the E.C.'s wheat export refunds.

It is not difficult to understand the sense of U.S. frustration and resentment over markets lost to others. But, a dispassionate look at the facts of the situation shows that such resentment should not be vented against the E.C.

International Wheat Council figures show that the U.S. share of the world wheat market has fallen quite clearly from its peak of 49 percent achieved in the 1981-82 marketing year to 36 percent in 1984-85—a loss of 13 percent. However, what the same figures also show—and equally clearly—is that the E.C. share has moved only marginally over the same period from 14 percent to 16 percent and that the bulk of the lost U.S. share has gone to exporters other than the Community. The major culprits—if that is the appropriate description, which is questionable—need to be sought elsewhere.

That the United States has not continued to enjoy an ever-increasing share of the world wheat market as it did in the late 1970s and as some perhaps expected it to do, and that it has lost some of its previous predominance are indisputable. The real reasons for this would seem to have been spelled out very clearly by U.S. Wheat Associates only recently in testimony before a congressional hearing convened to look into the Export Enhancement Program. The group listed the following reasons for the decline:

- The value of the dollar;
- Economic stagnation and debt problems in client countries;
- U.S. wheat prices above those of competitors;
- U.S. trade policy (eg. grain embargoes and reactions to such measures as restrictions on textile imports);
- Cargo preference.

As for competition on the world dairy market, a subject on which rather less is heard in Washington, U.S. exports of heavily subsidized dairy products have increased its market share by much more than the two percentage point gain for E.C. wheat exports. For example, having had a "nil" share of the world butter market up to 1980, the U.S. had achieved seven percent last year and, in the case of milk powder, had pushed its share from 10 percent to 26 percent. Both gains have been made largely at the expense of the E.C.

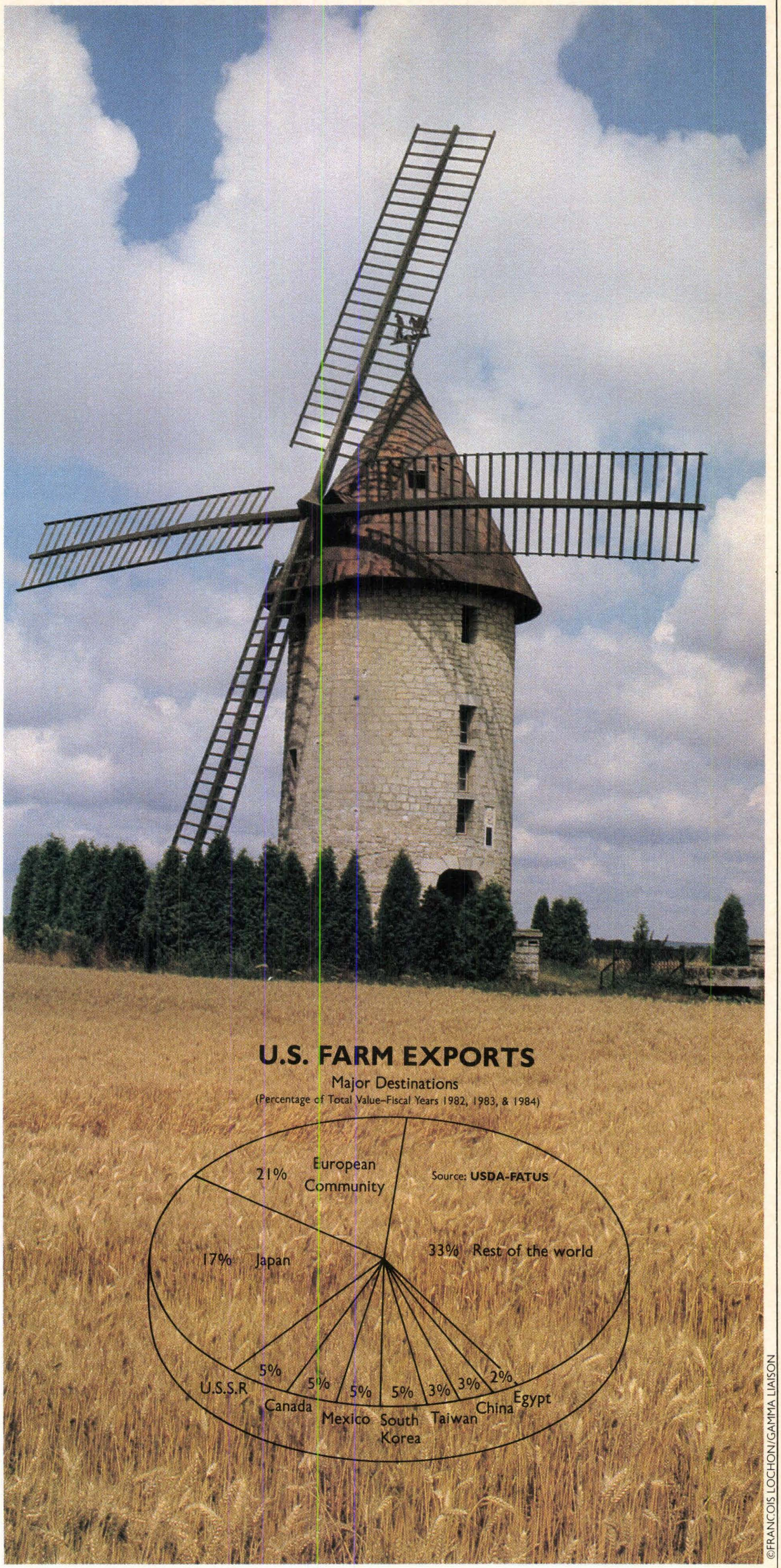
On the question of subsidies to agriculture, there are two general points that need to be made. The first concerns subsidies on farm exports These are permitted under GATT trading rules, provided they are not used to gain more than an equitable share of the market or to undercut world market prices. The E.C. has observed these rules, as the figures given above on world wheat market shares demonstrate.

The second is that there is no escaping from the fact that the E.C., like the United States, subsidizes its agriculture to an increasingly expensive extent. However, perhaps hard pressed Eurocrats coping manfully in Brussels with budgetary restraint can now be comforted with the news that the U.S. Department of Agriculture publicly accepts two facts: First, while the United States spends less than Japan on its farmers, it dispenses more on its 2 million farmers than the E.C. does on its 8 million. Second, Agriculture Secretary John Block announced some weeks ago that federal spending on direct farm price support cost $18 billion in 1985 and would reach $20 billion in fiscal 1986. Expenditure in the E.C. is expected to be within budget this year at just under $15 billion and around $16 billion next year.

These observations are made not to be critical or boastful, but only to point out that farm subsidies are by no means a monopoly of free-spending Europeans. They are a fact of modern political life—which is hardly surprising, once it is accepted that two of the major objectives of government are to defend its territory and to feed its people.

But that the United States currently spends more on its farmers than the E.C. does is somewhat beside the point. What is important to recognize is that both share depressingly similar problems—surplus production, stagnating markets and budgetary exposure. Both have modern, innovative agricultural sectors where technical progress—as much as the decisions of politicians and bureaucrats—has caused impressive, but worrying, increases in production. Output has grown so much that both the United States and the E.C. have become increasingly dependent on export markets which, because of low economic growth and the desperate problems of indebtedness, have not provided the essential growth in commercial demand.

Faced with these problems, both sides search grimly for solutions. After months of debate, the U.S. Senate finally produced its own version of a new farm bill just before the Thanksgiving recess. At



U.S. farm exports, by major destinations as a percentage of total value, for the fiscal years 1982, 1983 and 1984. Europe was America's best customer.

the time of writing the House/Senate conference was still seeking to reconcile both versions. But, whatever the outcome and whether the White House applies its veto or not, it seems unlikely that the new bill, on its own, will have much success in meeting the Administration's stated aim of substantially reducing its involvement in farming. The E.C. also talks, but, at the same time, has already taken some significant steps to put its house in order. However, the E.C. does not pretend that it has found the magic cure-all and that it can now sit back and relax.

There are no quick, easy fixes. On the contrary, painful but effective measures were taken a year and a half ago to reduce dairy output. Quotas were introduced, and, in the first year of operation, milk production fell by an average of five percent—with further drops expected for 1985. However, one of the factors that will not make the continued operation of this program any easier—and the E.C. is committed to press on for another three years— is that while European dairy farmers are cutting back on their own output, they look around the world and see most of the other major producers—and this includes the United States—increasing theirs.

As for grain, the Commission—the E.C.'s executive body—had to step in earlier this year and introduce a 1.8-percent cut in official support prices since the Council of Ministers found itself unable to take this step, largely because of the determined opposition of one E.C. member state. It has not been easy to persuade the Council of Ministers to take effective action to control situations of market imbalance. But it nevertheless has accepted the principle that the days of unlimited guarantees are over.

And, furthermore, in recent discussions on the Commission's "Green Paper", called by some E.C. farmers the "Black Book", and which outlines the choices facing European agriculture,there is a consensus, first, that the development of the E.C.'s farm policy must take account of both international and budgetary constraints and second, and more specifically, that there is urgent need for reform of the E.C.'s grain policy which is running into real and serious problems with a market just as seriously out of balance as the dairy sector was before production quotas were imposed. Of course, this summer's cut of 1.8 percent, of itself, is nowhere near sufficient to deal with the situation which now confronts the E.C., notwithstanding the much sharper fall in market prices—of between 10 percent and 15 percent—that has occurred.

Any action taken in the grains sector, of course, will have an impact on U.S.-E.C. relations both in the medium and long term since grains, or more precisely wheat, are in that sensitive 25 percent mentioned earlier.

While the E.C. does not accept for a moment that its export refunds (or "subsidies") have resulted in its taking an inequitable share of the world grains markets, it is very conscious of the uncomfortable fact that the divergence between the trend of European grain production (currently about 140 million tons and rising 2 percent to 3 percent a year) and that of consumption (117 million tons and rising much more slowly) will lead to exportable surpluses which neither the world market nor its budget could realistically be expected to bear. If supply and demand were to continue on their present trends, grain stocks in the E.C. would amount, by 1991, to around 80 million tons—or almost half its production.

The E.C. bought $6.7 billion worth of U.S. farm goods in fiscal 1984.

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It was against this bleak background that the Commission recently issued a memorandum setting out a plan for the reorganization of the E.C.'s grain market. Briefly, the program attacks the problems on four fronts, since a concerted, single attack on price alone would not be politically acceptable. They are:

- First, a restrictive price policy consistent with market signals.
- Second, a levy to be paid by growers on all grain sold off the farm onto the market, or into intervention, over and above the first 25 tons. This levy would cover the cost of disposing of surplus production—that is, the difference between production, on the one hand, and non-subsidized consumption (with an allowance made for imported grain substitutes) on the other. The effect of this levy which will increase growers' exposure to, and awareness of, market conditions must not be diluted by a generous price policy.
- Third, tighter quality standards for sales into intervention which would steer producers away from the higher yielding, but poor quality, varieties and toward better quality strains.
- Fourth, a more restrictive intervention system—that is, the possibility of limiting it to certain seasons, so as to stimulate deliveries to the commercial market, as opposed to having it available throughout the year.

It will be clear that while the first of these four initiatives may not result in dramatic, direct cuts in official support prices, numbers three and four (stricter standards and tighter periods for intervention) will have a considerable indirect effect on the lowering of market prices.

But, to return to the title of this article, the E.C. is both a major customer for a wide range of U.S. products, which it would hope to remain, and a competitor over a restricted range which plays by the rules. It intends to remain an exporter of farm goods and to maintain its market share. However, as both an important, but undervalued, customer and as a law-abiding competitor, the E.C. does not appreciate much being targeted by provocative initiatives such as the Export Enhancement Program.

The E.C. will defend its interest in affected markets, and it will file a trade complaint against the program, which clearly violates the GATT Subsidies Code, if the United States persists with its attacks on E.C. wheat export refunds. Such programs may have superficial attraction as a Rambo-style trade policy weapon, but in the real world they can only have a negative impact on the export prices obtained by all farmers, be they from the plains of the Midwest or from the Paris Basin. They will only serve to broaden the knowing and anticipatory smiles on the faces not only of the customers who wait patiently and smugly for prices to drop even further, but also of low-cost competitors with untapped resources whose joy may not be unconfined since lower world prices will not make their debt repayment any easier.

Perhaps the Export Enhancement Program is seen in the United States as a way of adjusting the tilt of the playing field, of which so much is heard. But the direction of tilt in the playing field, like beauty, is in the eye of the beholder. Both sides can, and do, claim they are the ones kicking uphill. Rather, it is a case of a bumpy playing field. It should be possible for both sides to work together to smooth out these bumps and to achieve sensible rules of conduct for agricultural trade—which will bring benefits to all. €

Derwent Renshaw is counselor for agriculture at the E.C. Commission's Delegation in Washington D.C.

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U.S. PROTECTIONISM SEEN FROM EUROPE

HOST OF NON-TARIFF BARRIERS INHIBITS EXCHANGES.

STANLEY A. CROSSICK

James Baker, the U.S. Treasury Secretary, has described the recent import surcharge bill introduced in Congress by leading Democrats as "protectionism in its rankest form." Congress is increasingly intent on combating what it sees as Japanese and European protectionism, but also appears to be receptive to proposals which encourage protectionism by the United States. It is understandable that the representatives of a state which produces a particularly vulnerable commodity have to react to constituency pressures. It is also understandable that firm action should be taken to fight unfair trade practices. However, short-term gains should always be weighed against longer term losses and the interests of the minority balanced with those of the majority. The concept of unfair trading should not be stretched beyond its reasonable limits.

U.S. policy since World War II has been to work for a politically strong Europe and Japan: This must still be to the advantage of the United States. Neither Europe nor Japan can be politically strong unless they are economically strong. U.S. trading interests also demand strong trading partners. The E.C. is the world's largest single trading bloc and the United States' largest trading partner.

This article does not consider trading relations between the United States and Japan, although the problems with Japan are much more critical to the United States than those with the Community.

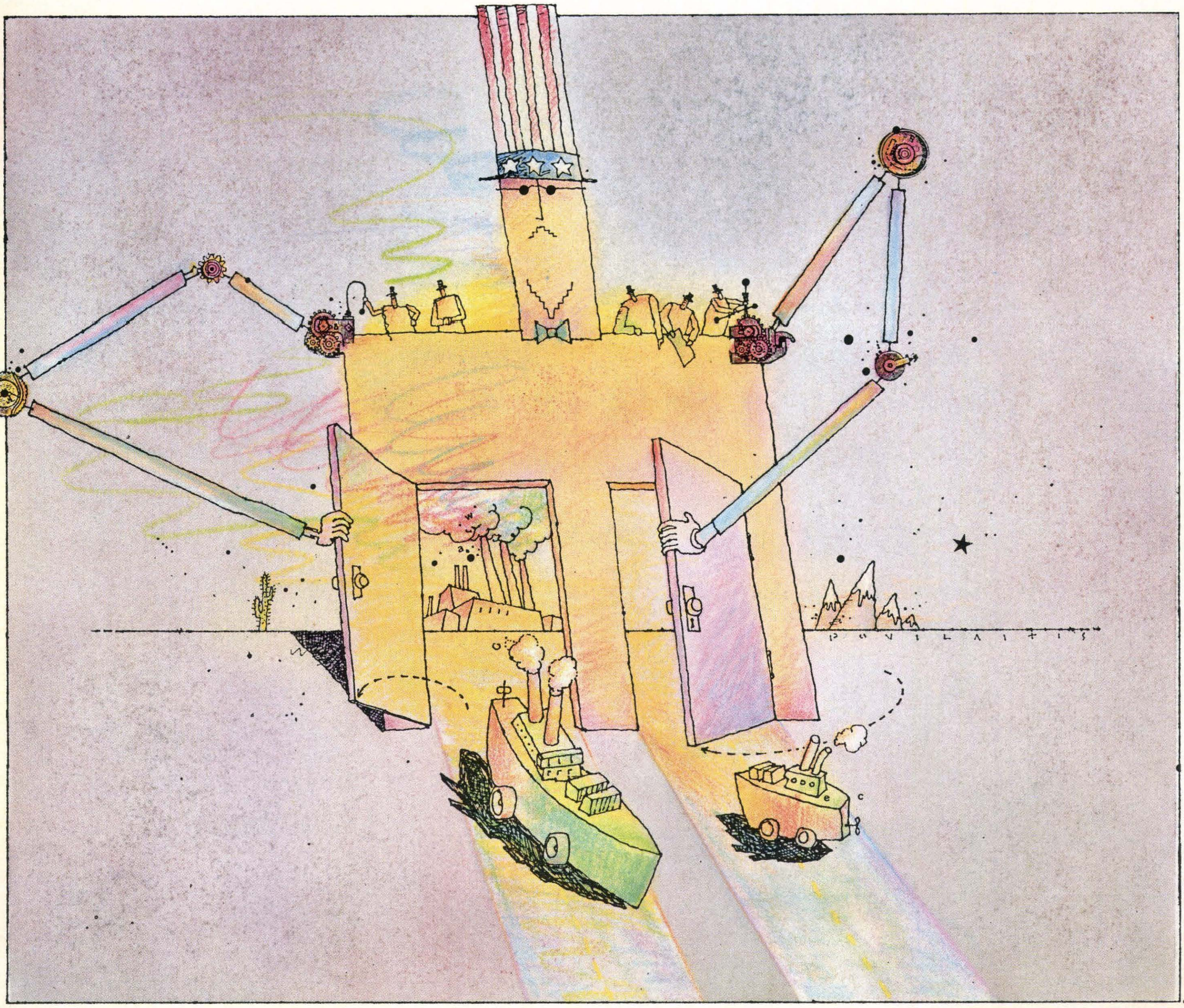


ILLUSTRATION BY DAVID POVILAITIS

The 1984 trade deficit with Japan was $37 billion and may rise this year to over $60 billion. Exports represent 25 percent of gross national product for the E.C., 11 percent for the United States, but only 10 percent for Japan. The United States ran a large trade surplus with the E.C., reaching a record high of $16.7 billion in 1980 and registered a trade deficit in 1983 and 1984 for the first time since 1972. Seen from Europe, the United States is content to benefit from a trade surplus for 10 years, but cries "foul"as soon as the surplus becomes a deficit.

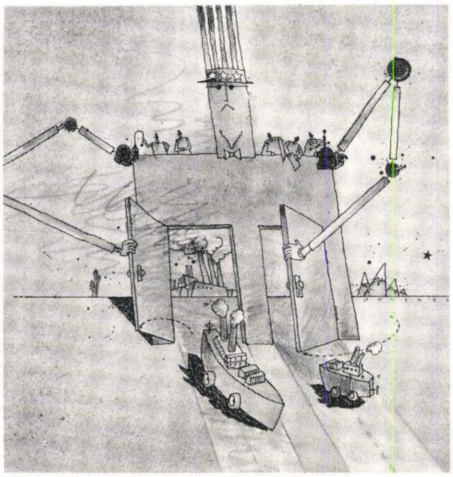
It is sad to note that while the United States and the E.C. stand side by side over curbing Soviet armament levels, they squabble over pasta and lemons. The import duty on E.C. pasta was recently raised from less than 1 percent to between 25 percent and 40 percent. Whether justified or not, it inevitably provoked retaliatory increases in E.C. import duties on U.S. walnuts and lemons. Protectionism breeds protectionism. If we start down this slippery road, we may find it difficult to stop. If the United States, by protectionist measures, seeks to return to its pre-1983 trade balance, European industry will be hurt in the process and inevitably will retaliate. Both the United States and the E.C. will then suffer from the obstacles to free trade.

This article looks at some of the problem measures which European manufacturing and service industries face when exporting to the United States or competing with American corporations, and suggests that some of these measures appear to Europeans to be no less protectionist than those European measures which are attacked as protectionist by Americans.

Europeans realize that U.S. protectionist trends may be inside Congress rather than inside the Administration. They also realize that direct remedies of U.S. corporations before the courts are greater than those of their counterparts in Europe and that neither Congress nor the Administration can control this use of the courts. However, critics of free trade are also to be found among the U.S. business community and the media. All countries have their sunset industries but must not use the process of restructuring of such industries to justify protectionism.

The Europeans encounter in practice or read in the press about over 40 investigations by the International Trade Commission under Section 337 of the 1974 Trade Act and over 300 trade-related bills pending before Congress. European exporters also have to face action involving the Commerce Department's International Trade Administration and the office of the U.S. Trade Representative. They can find favorable decisions appealed to the Court of International Trade in New York, the Court of Appeals for the Federal Circuit in Washington and even to the Supreme Court.

Section 201 of the Trade Act creates particular problems. There are uncertainties as to the powers of Congress and the Senate to overrule the President's decisions. This escape clause could well, in practice, be incompatible with the General Agreement on Tariffs and Trade (GATT). Although the President rejected the Federal Trade Commission's recommendation of shoe-import quotas in the footwear case, the threat of Section 201 hangs over European exporters. No other GATT contracting party has so many potentially protectionist provisions in trade statutes—altogether surprising for a country so apparently committed to GATT. These reflect the power of U.S. interest groups and an American reluctance to rely upon non-U.S. jurisdictions.



Even more seriously, private parties in the United States may file petitions under these trade statutes if they have sufficient standing. The Commerce Department appears easily to accept the representative capacity of petitioners and thus did not reject, at a preliminary stage, the cases brought by some U.S. grape growers against E.C. wine imports and by Bethlehem and United Steel Workers against E.C. steel imports.

The main obstacle to finalizing the new Carbon Steel Agreement between the United States and the E.C. is the dispute over the quantity of unfinished steel that the E.C. wishes to export to the United States. Although there is currently in the United States a shortage of unfinished steel, the United States has reduced past import levels and given quotas to other countries which did not previously have them. This seems unnecessarily insensitive—as does the threat of retaliatory measures if talks fail.

No similar private rights exist in the Community. European industry can complain to the Commission in dumping matters, but cannot initiate proceedings: they cannot, in short, use anti-dumping measures as a protectionist tactic. U.S. exporters to Europe may come up against E.C. or national government actions but do not face the hazards of encounters with private-sector corporations fighting the battles before the courts, sometimes only for delaying purposes. The litigation-cost factor alone is a deterrent. In Europe, the losing party in a law suit is required to pay at least a substantial part of the winner's legal costs and there are no contingent fees. The dual jurisdiction of the Commerce Department and the Federal Trade Commission also make life difficult for European importers.

The United States appears to be the driving force to liberalize services under GATT and yet does not remove blatant U.S. protectionist practices. Some examples of this:

- Administration employees must fly U.S. flag carriers when traveling overseas;
- The Jones Act effectively forbids the carriage of goods in non-U.S. vessels between U.S. ports;
- There are severe restrictions, under the guise of copyright protection, which help the domestic printing industry;
- E.C. accountants cannot practice in many States without requalifying;
- E.C. lawyers are prohibited from practicing even their own laws and Community law in almost all states and the District of Columbia.

It is difficult not to conclude that Americans are content to carry a trade surplus with the E.C. for 10 years, but will act by all available means when the surplus becomes a deficit.

President Ronald Reagan says that he is still committed to free trade, provided that it is *fair* trade, although it is impossible to define fair trade objectively. It is to be hoped that the United States and the E.C. will work together to resist increasing protectionist sentiments on both sides of the Atlantic. Both stand to gain by extending GATT principles to services. In any case, the GATT must be strengthened as it is the only formal framework which can minimize the dangers of bilateralism. It is not suggested that the United States is protectionist while the E.C. is not—merely that the U.S. Congress, media and businessmen should be aware that the United States, as seen from Europe, is not necessarily the bastion of free trade that is sometimes claimed. €

Stanley A. Crossick is the founder of Belmont European Community law office in Brussels.

SERVICES: U.S., E.C. PREPARE FOR TALKS

STAKES ARE HIGH FOR FASTEST GROWING SECTOR IN INDUSTRIALIZED ECONOMIES.

JAMES DAVID SPELLMAN

The outlines of a new round of negotiations within the international trade regulating body, the General Agreement on Tariffs and Trade (GATT), are sharpening into focus. GATT members unanimously approved in late November a panel to set a detailed agenda for the eighth round, slated to start in September and expected to last several years. There is widespread agreement that the forum should tackle proliferating nontariff barriers obstructing the flow of communications, finance, transportation and other services between nations. But the details—the scope, structure and strategy for reversing the protectionist drift—remain unsolved. The United States and the European Community are key players in putting proposals on the table.

The stakes in services-trade negotiations, are high. Total recorded world receipts from exports of business services hit an estimated $104 billion in 1985, up from $91 billion in 1983. Such exports were about one-fifth the size of world merchandise exports in 1972, about the same relative size as in 1983. The value of services exports worldwide increased at an average compound rate of nearly 19 percent from 1970 to 1980. This rate was almost as rapid as the pace for merchandise exports (20 percent), but exceeded the growth in world production (14 percent). From 1980 to 1985, services exports expanded by seven percent, again roughly the same as merchandise exports. Industrial countries together export more than three-quarters of services exports, but their share has been falling as developing countries expand theirs.

Business service industries encompass advertising, accounting, insurance, architecture, banking, licensing, consulting, franchising, communications, legal assistance, entertainment, computers and transportation by plane, ship or vehicle. These form part of a country's "invisibles" account (meaning the intangibles, in contrast to merchandise), which also includes income from non-service and service industries, government transactions, royalties and license fees.

For the United States, services, including government, account for about half of total output, while manufacturing hods a two-fifths share. Such firms represent a 70-percent share of the U.S. economy. Seven out of 10 Americans now work in public and private service jobs, as compared to 1940, when 45 percent did. The sector is the fastest growing in the U.S. economy, generating the greatest number of new jobs. Nine of every 10 new jobs created in the next decade will be in service industries, according to the U.S. Bureau of Labor Statistics.

The expansion of these industries reflects the evolution from local to regional markets and from national to international markets. Such shifts required disproportionate increases in transport, communications and other service businesses, according to the study prepared by the United States for GATT. Manufacturers pushed service tasks out of the plant to be hired by independent firms. Service inputs increased as manufacturing processes became more complex. As government intervention grew, services multiplied. "The contribution of the expanding service sector to the efficiency of goods production and in meeting final consumer demand, will be a major determinant of U.S. economic performance in the 1980s," said the study.

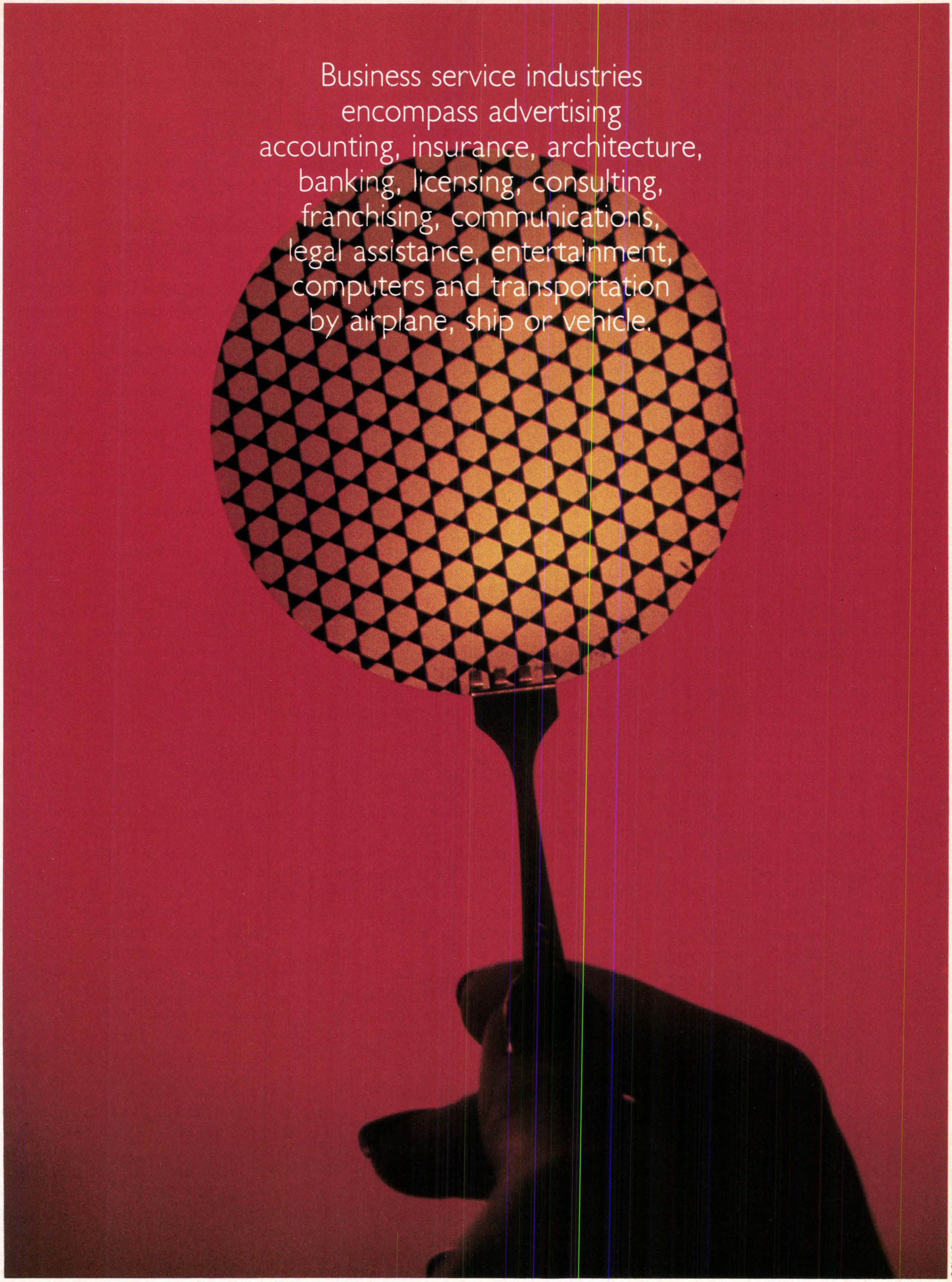
The United States has the largest share of services trade worldwide, 20 percent, and sold more than $145 billion abroad last year. But the large surplus in services trade has been cut gradually by 66.3 percent during the last five years, from $41 billion in 1981 to an estimated $13.8 billion in 1985. Export growth has been sluggish during this period, a $900-million gain to a projected $138.6 billion in 1985, while imports have increased $26.3 billion to $123.8 billion. Transportation—including travel, passenger fares, shipping—holds the largest share of receipts.

Services are equally important to the European economies. The contribution they made to the region's gross domestic product exceeds 50 percent on average. In the United Kingdom, the Federal Republic of Germany, France and Italy, the shares were 55.6 percent, 49.7 percent, 53.7 percent and 49.9 percent, respectively, in 1982, according to a Bank of England study. In 1964, services held 51.8 percent, 45.2 percent, 51.6 percent and 48.2 percent shares, respectively. For most E.C. members, at least half of the labor force works in public and private service industries. Greece, Ireland, Spain and Portugal are the exceptions.

The E.C.'s experience with trade in services parallels that of the United States. Trade has grown at a pace roughly equal to that for merchandise trade. Exports grew from 21.4 billion European Currency Units (ECU)—one ECU currently equals about $0.85—to 104.5 billion ECU between 1972 and 1982, and imports rose from 20.4 billion ECU to 104.9 billion ECU. The E.C.'s own study for GATT shows that transportation (31 percent of total exports and imports in 1982) and travel (15 percent) are the two key exports. The Common Market itself is by far the largest market for the members' service exports. What members sell to each other is roughly three times what they sell to the largest foreign customer, the United States, and more than four times what they sell to other Organization for Economic Cooperation and Development (OECD) countries combined.

Service industry receipts recorded by the E.C. grew about seven times between 1970 and 1980, from 41.3 billion ECU to 199.5 billion ECU, while imports increased more than six times during the same period, from $39.45 billion to $258.39 billion. Estimates show that service trade may have stalled by 1984, that exports stood then at 280.7 billion ECU and imports at 271.8 billion ECU for the first three quarters of 1984.

Whether the slowdown in services trade worldwide results form a proliferation of trade barriers, no one can say with certainty. Equally difficult to gauge is whether services trade is managed to a greater, equal or lesser extent than merchandise trade. In both cases, the data to substantiate protectionism is poor. "The evidence of an increasing flow of U.S.



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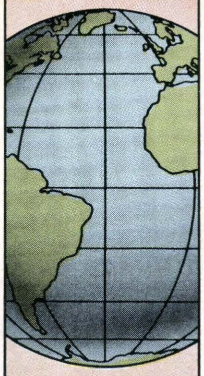
Total recorded world exports of business services reached an estimated $104 billion in 1985. The information-processing revolution, a key component of the growth in services, has been made possible by chips such as these.

THE INTERNATIONAL SHIFT TO SERVICES

		SHARES OF SERVICES IN: GDP Volume %	SHARES OF SERVICES IN: Employment %	SHARES OF MANUFACTURING IN: GDP Volume %	SHARES OF MANUFACTURING IN: Employment %
UK	1964	51.8	51.3	30.2	33.9
	1972	53.1	56.0	30.0	32.1
	1981	55.6	63.4	24.9	25.6
U.S.	1964	57.9	—	24.8	25.8*
	1972	59.6	65.8	24.7	23.4*
	1982	64.0	70.1	22.8	19.6*
JAPAN	1964	51.7	—	24.1	—
	1972	50.3	44.2	31.1	26.8
	1982	48.8	52.7	39.8	24.3



		SHARES OF SERVICES IN: GDP Volume %	SHARES OF SERVICES IN: Employment %	SHARES OF MANUFACTURING IN: GDP Volume %	SHARES OF MANUFACTURING IN: Employment %
GERMANY	1964	45.2	37.4	40.7	37.2
	1972	45.9	42.4	37.6	37.0
	1981	49.7	48.1	33.2	33.7
FRANCE	1964	51.6	—	27.4	—
	1972	49.7	52.5	32.2	26.5
	1981	53.7	58.0	31.2	23.7
ITALY	1964	48.2	36.1	25.4	25.8
	1972	48.6	42.6	29.5	27.7
	1982	49.6	50.0	31.5	26.2

Source: Bank of England.

*Excludes self employment.

services to other countries does not in itself suggest that there has been an accompanying increase in foreign barriers," according to two experts with the Council on Foreign Relations. Their paper to a 1982 conference continues, "but the experience of American firms trying to increase their market shares abroad has tended to support the charge that as competition grew, restrictions were put in place to contain it."

Service firms generally encounter five types of barriers: national market-access controls, transaction and financial-structure regulations, constraints on access to production inputs needed to provide the service, marketing obstructions and government practices. Disruptions in both the foreign sales of and trade in services are sometimes not a direct result of policies intended to shield domestic industries from foreign competition, but rather a side effect of national security, monetary or public welfare initiatives. Furthermore, services trade is often indirectly curtailed by barriers designed specifically to protect domestic goods since increases in foreign sales of goods generate overseas demand for services, and vice versa.

No comprehensive set of rules disciplines services trade. But there is a loose network of bilateral agreements, OECD codes and GATT nontariff-barrier codes. Bilateral agreements include treaties of friendship, commerce and navigation signed by the United States with 43 nations since 1903. Among other things, these accords ensure that service businesses are treated as equally as non-service ones. Air transport, banking and shipping are usually exempt. In 1981, the United States began negotiating bilateral investment treaties, which provide certain guarantees and protections for foreign investors within each signatory's borders. Civil aviation, maritime commerce and telecommunications are covered by international treaties aimed at improving safety, defining legal liabilities, standardizing technological performance and organizing the evolution of high-tech economies.

The OECD established a code to liberalize invisibles trade and another to free the flow of capital movements. The first, adopted in 1960, seeks to "eliminate between one another restrictions on current invisible transactions and transfers." The second is similar, committing OECD members to abolish barriers blocking the flow of direct investments among states, including the right of establishment (it allows foreign companies to set up businesses as domestic companies do), and to increase transparency of accounting for tracing investment flows. In both, signatories have attached reservations, interpretations and exemptions that narrow the reach of both codes. Neither has mechanisms to settle conflicts.

GATT codes only cover services when they're directly tied to goods trade. Then the principles of most-favored-nation, liberalization, antidumping and countervailing duties and nontariff provisions apply. From the Tokyo Round of multilateral trade negotiations, two codes emerged which affect services transactions. One covering government procurement specifically requires members to "broaden and improve" the code to include services. The other commits members to avoid using technical standards as trade obstacles instead of advancing safety, health, environmental protection and other goals.

Washington's starting point is that there should be international acceptance of the idea that trade in services, like merchandise, should be liberalized. GATT offers the best forum because its agreements are contractually binding and apply to a large number of developed and developing countries.

Specific components of the kind of accord the United States would support have not been defined, but its study implicitly sets out some preferences. Firms competing in foreign markets should be treated on the same basis as domestic suppliers, including the right to sell their services. Building on the existing standards code, government regulations should be curtailed when their intended impact is to obstruct trade more than to advance social goals. The most-favored-nation principle should be extended to services trade. National policies should be made more transparent. Due process should be established and procedures implemented to settle disputes, determine compensation and impose penalties.

The E.C.'s position is apparently less defined. While Brussels sees the GATT as the best framework in which to negotiate, the E.C.'s study for GATT does not discuss possible strategies a new round could pursue. Its main conclusion is that "knowledge of the international service economy is still insufficient. Considerable further multilateral work will be necessary to elucidate the current and potential role of services in the world economy, to examine and compare existing regulation...and to draw conclusions [for] international policy."

One major obstacle comes from the developing countries. Brazil, India, Argentina, Yugoslavia and Egypt led LDCs in trying to block services from being included in a new GATT round. They maintain that free trade in services would solidify industrialized nations' near monopoly and inevitable lock LDCs into being importers.

As GATT moves toward new talks this fall, a great deal of preparation is essential for it to effectively confront the problems. As the late Andrew Shonfield said in 1969, "any future negotiations on a worldwide scale involving the services sector...will surely be of a complexity and *longeur* at least as great as the Kennedy Round." €

James David Spellman is a freelance writer in Washington D.C.

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CONFERENCE STUDIES TRANS-ATLANTIC TRADE CONFLICTS

E.C. OFFICIALS MEET OPINION LEADERS IN THE MIDWEST TO DISCUSS CURRENT ISSUES.

MARTHA WILHELM KESSLER

The state of Minnesota provides a contrast in economies. The northeastern half of the state hosts the waning iron-ore industry, a victim of changing times and changing technologies. Farming and agricultural industries form the economy in the southern and western sections of Minnesota. Residents of the state major metropolitan community surrounding the "Twin Cities"—Minneapolis and St. Paul—concentrate their energies on the high-tech, medical and service industries. But from the ailing iron range in the north to the hard-hit agrarian economy of the south, many people agree that unfair competition from overseas has played a role in the economic downturn.

It was this belief that the E.C.'s Delegation to the United States sought to counter in November when it sponsored a dialogue with Midwestern media, business, agricultural and academic representatives in Minneapolis. The daylong conference, "The European Community: Economic Dynamics of the 1980s," was the first of its kind—and it may spawn similar meetings in other parts of the United States. The selection of Minnesota as the conference location reflects the E.C.'s growing awareness of the importance of discussing U.S.-E.C. trade and economic relations outside of Washington. Cosponsored by the University of Minnesota Western European Area Studies Center, The conference featured sessions on international trade, U.S.-E.C. agriculture conflicts, Latin America, the Upper Midwest economy, the European economy and nuclear weapons.

Sir Roy Denman, Head of the E.C.'s Washington D.C. Delegation, dismissed charges by U.S. proponents of protectionist legislation that the E.C. engages in unfair trade practices. Sir Roy objected to claims that the E.C. provides its farmers with higher agricultural subsidies than does the United States. In fact, estimated figures for 1985 cited by Sir Roy show the E.C. spending just under $15 billion for direct farm price support, while U.S. expenditures during the same period are expected to total almost $18 billion (see related article on page 10).

Sir Roy also dismissed charges that the E.C. levies unfair tariffs on imported goods, noting that both U.S. and E.C. industrial tariffs average some 4.5 percent. But, he added, over 10 percent of industrial imports into the United States carry a tariff of over 15 percent and some more than 40 percent, while only one percent of industrial imports into the E.C. come in a tariff in excess of 10 percent. Sir Roy stressed to conference participants the need for the two trading partners to maintain open trade routes, and noted that the E.C. would retaliate against U.S. protectionist actions.

The importance of the E.C. to the Midwest was emphasized by Ronald Kramer, director of the Minneapolis district office of the U.S. Department of Commerce. In 1984, the United States exported to the E.C. some $3.3 billion of automated data-processing machinery. Kramer noted that the E.C.'s demand for instrumentation, computer peripherals and software and medical products are expected to increase through 1987. These items are commodities in which Minnesota has a comparative advantage, in addition to a range of farm products sought by the E.C.

Any attempts to limit trade between the United States and the E.C. through the use of protectionist legislation would have a significant impact on the Midwest, Kramer stressed. He supported the position of the Reagan Administration on trade-barrier legislation and warned that "if protectionist sentiments prevail, [the United States] would be pushed into a higher cost economy; the likelihood of a recession here and abroad would be increased." But he admitted that while lowering the gates of protectionism and entering into trade liberalization negotiations in the GATT are "a nice thought, we've heard this position many times."

While E.C. speakers at the conference expressed concern over the U.S. Government's inability to take action on the burgeoning federal deficit, they complimented the recent monetary proposal made by U.S. Treasury Secretary James Baker. Sir Roy said the Baker plan to increase the funds available for loans to economically distressed nations was a positive sign of recognition by the Reagan Administration that monetary issues must be discussed in tandem with trade relations.

Mark Pierini, Development Secretary at the E.C. Delegation, suggested that the E.C. and United States may view the Latin American debt crisis from different sides of the coin. A higher percentage of the E.C. gross national product is dependent upon sales to debt-ridden nations, he pointed out. And while the E.C. welcomes the Baker plan, he said that more must be done to return financially ailing nations to a path toward independent economic growth.

He denies that the push for additional lending by the International Monetary Fund and the World Bank amounts to a "bailout" for private financial institutions that made bad loans in the 1970s. Pierini said he is not advocating a free-lending policy, but development of a program in which loans are made for specific forms of economic development in coordination with the use of outside policy advisors. Resisting protectionism is a key component in the attempt to restore the economic growth of Latin American and African nations, Pierini added. "Trade is a two-way street," he emphasized, "so we must work to keep trade barriers down."

U.S. speakers at the conference agreed that while U.S. legislators wrangle over trade legislation, the federal deficit has proven to be the biggest barrier to expansion of American exports. In addition, John Kareken, University of Minnesota professor of finance and insurance, explained that the macroeconomic policies of the Reagan Administration between 1982 and 1984 were a combination of extreme fiscal expansionism and extreme monetary constraint. This led to high real interest rates. Because the United States is such a large part of the world economy, he explained, this naturally led to upward pressure on rates in other countries. And this, in turn, brought on a dislike of U.S. macroeconomic policies by E.C. leaders because they believe it reduced the record U.S. current-account deficit.

But, Kareken noted, if during that same period, the policies of the E.C. countries had been more a combination of fiscal expansionism and monetary restraint, the U.S. current-account deficits would not have been so large. The interdependence of world economies is such, he continued, that if the Western world is in an economic mess, "Governments of the E.C. countries are as much to blame as the U.S. Government . . . There would be no dispute if macroeconomic policies were roughly the same."

The inability of nations to "reconcile sovereignty with the pressing need for like macroeconomic policies" is at the heart of the world economic dispute, Kareken said. If, however, the E.C. is able to develop fully a European Monetary System, it will show leaders the possibilities that occur when sovereign nations "bow to the need for policy coordination," he concluded.

Joly Dixon, Economic and Monetary Affairs Secretary at the E.C. Delegation, agreed that cooperation between the E.C. and the United States was necessary to a strategy for growth. But Dixon reminded participants that there is no easy way out of the slow growth process. Some Americans believe that now that the United States has kicked off a worldwide recovery, Europe should take up the slack, Dixon said, "the idea obviously being that we could engineer growth." But Dixon indicated the E.C. member states have not fully recovered from the recent worldwide recession and are still battling problems such as high levels of unemployment. Unemployment figures E.C.-wide have only just stopped rising and are holding firm at 11 percent, although some countries have much higher individual rates, he noted.

Sir Roy agreed that coordination is necessary between the E.C. and the United States. "If any mutual escalation of world trade restrictions were to break out, if the shutters were to come clanging down on both sides of the Atlantic, the biggest rise of prosperity in world history would be bust," he warned. But such coordination requires a proper understanding of the E.C.'s role in world trade relative to the United States, an understanding that E.C. officials sought to convey to participants at the Minneapolis conference. €

Martha Wilhelm Kessler is a Midwest correspondent of the Bureau of National Affairs.

Participants in the dialogue included Ian Sturgess, professor of agriculture and applied economics at the University of Minnesota (left), and Minneapolis businessman Wolfgang Ebert.

LONDON TO RIVAL NEW YORK, TOKYO AS FINANCIAL CENTER

THE "CITY" IS PREPARING FOR MAJOR CHANGES IN ITS INSTITUTIONS.

JOHN WYLES

The City of London did not build its current standing as one of the world's most important financial centers on any subscription to the idea of revolution. It has accommodated change, most certainly, and sometimes it has anticipated it; but evolution, rather than revolution, has been the City's watchword. It is all the more remarkable, therefore, that the City is preparing itself for a series of major changes which are variously referred to as "revolution," a "big bang" and, predictably, "a leap in the dark." The scale of innovation is such that some experts fear that too much is being attempted too quickly and that the stability of London's financial markets, and therefore the City's reputation, is being put severely at risk.

Anxious to maintain and enhance its position, with New York and Tokyo, as a major financial center, the City will be simultaneously creating a new share trading system, a new government securities system, new securities houses and a new system of investor protection all within the next 12 months. These changes have been forced partly by the need to adapt to the bewildering pace of technological innovation which has created the electronic basis for global, 24-hour trading in financial markets. But they are also the barely foreseen consequence of reforms encouraged by a government committed to the deregulation of a broad range of economic activities in Britain.

Any explanation of the factors which have brought London to the brink of its revolution must begin with the slightly schizophrenic appearance which the City has presented to the world in recent years. On the one hand, it has featured rather inward-looking British financial institutions organized according to specialized functions such as the merchant banks, the clearing banks, stockbrokers and jobbers.

The other City, internationally-oriented and dominating other financial centers, is the home of the Euromarkets—markets in deposits, loans and securities denominated in currencies held outside their home countries. According to the magazine *The Banker*, London had 247 foreign banks and 61 foreign securities houses in 1973. By 1984, their numbers had swollen to 470 and 104, employing more than 40,000 people. In 1984, London accounted for 24.9 percent of international bank lending compared to the United States' 15 percent and Japan's 9.1 percent.

The City's attractions for foreign institutions are based on its position between the United States and Far Eastern time zones, which makes it possible to orchestrate dealings in the United States, Japan and Hong Kong during one dealing day. Other strengths include communications and the common language with the United States (the largest economy and the source of Eurodollar currency) whose pivotal role is marked by the number of U.S. banks represented in London (72 in 1984). The dynamism of the international banking and securities activities based in London has contrasted with the sluggish and poorly competitive performance of Britain's securities firms. The blame for this has been laid firmly at the door of the stock exchange whose rules had for decades allowed securities trading to be carved up between stockbrokers, who have been confined to buying and selling as agents for their clients since 1908; jobbers who make markets only for brokers; and merchant banks, which issued securities while leaving the underwriting to investing institutions (insurance companies and pensions funds).

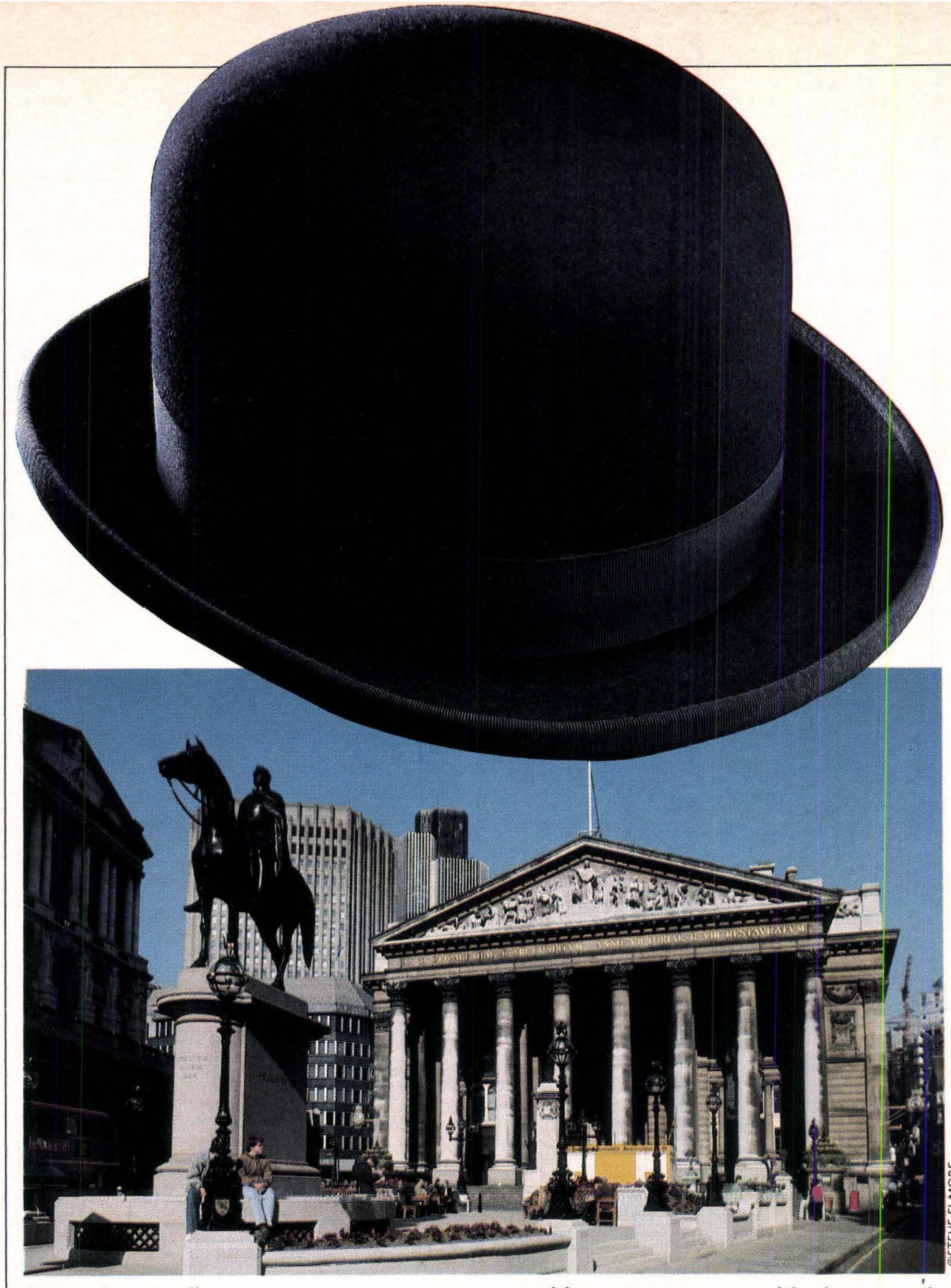
While the stock exchange might have believed that its "single capacity" system based on the division of function between brokers and jobbers generated highly satisfactory returns on very little capital, the fact is that more and more securities trading has been bypassing it. New technology and greater internationalism in fund management meant that trading in leading British shares such as ICI, BP and GLAXO is increasingly funneled away to Wall Street. Meanwhile in the gilt-edged market where government debt is funded, the stock exchange's dealing structure appeared inadequate in comparison with international markets where a single firm could act as both agent and principal in issuing, distributing and making markets in securities.

The spark of change was struck in February, 1979, when the Government decided to refer the stock exchange's rule book to the restrictive practices court. The cause of concern was the fixed commission rule, obliging the exchange's members to charge identical commission rates. Other rules, meanwhile, prevented outsiders in the shape of British merchant and clearing banks from joining the exchange. Neither could outsiders buy a controlling share in member firms.

The flame of reform was fanned later in 1979 when the new Conservative Government abolished exchange controls. This meant that the big investment institutions could invest anywhere in the world without restriction, at the expense, obviously, of the British Stock Exchange if it could not compete. An estimated 24 billion pounds swept out of London between 1979 and 1984 and well over half of it was handled by non-British brokers. The wheels of restrictive practices inquiries grind slowly and in the summer of 1983, the Stock Exchange, through its chairman, Sir Nicholas Goodison, struck a deal with the Government. If the restrictive practices inquiry was dropped, the Exchange would undertake to abandon fixed commissions.

The implications were not immediately clear, but within days Sir Nicholas was giving his opinion that the broker/jobber separate capacity system might not outlive the system of fixed commissions. Later that year, the Exchange's Council agreed that member firms might act as agent and principal. Known as the "big bang," this fundamental change comes into effect next October.

One immediate consequence of the move towards "dual capacity" is the need for much greater capital among stock exchange members. As a result, outsiders have been allowed to build up stakes in exchange member firms up to a limit of 29.9 percent. This can be increased to full ownership from next March. Since June, 1982, some 40 brokers and jobbers have acquired minority partners. They



A new share trading system, a new government securities system, new securities houses and a new system of investor protection all will be in place within the next 12 months as the London stock exchange modernizes.

include three of the big four U.K. clearing banks, eight British merchant banks and 14 foreign banks—ranging from Citicorp and the Hong Kong and Shanghai Bank to Crédit Suisse and Crédit Commercial de France. One estimate is that three quarters of a billion pounds has been spent on these purchases, and the commitment will be still greater when the buyers inject further capital into their acquisitions.

As far as the gilt-edged market is concerned, the Bank of England has decided to create a combined-system based on the U.S. model. Currently, about three firms run the entire gilt-edged trading system, but in the future, some 29 firms will deal in treasury bills and gilts (long-term treasury debt). Eleven of them are parts of or associated with U.S. financial institutions and only 14 are U.K. firms. Initially, it seems that this new gilt-edged market will be massively overcapitalized. The present market functions on capital of approximately 150 million pounds, while the new firms will have a total capitalization of 600 million to 700 million pounds.

What is clear from these changes is that they are encouraging the emergence of so-called financial supermarkets or conglomerates—groups aided by new technology which deal globally as deposit takers, gilt-edged market makers, market makers in British and international equities and Eurobonds and futures dealing. Most of them will be American banks and securities firms.

The fact that virtually all companies, no matter how large, will be moving from businesses they understand to areas of unfamiliar risks poses major regulatory problems. The British response has been to create a statutory framework of regulation through a securities and investment board. This will set minimum standards which a network of self-regulatory organizations (SRO) and directly authorized businesses will be required to observe. This mix of statutory and self-regulation is regarded with suspicion in quarters which have consistently criticized City institutions over the years.

However, it is modeled, to some extent, on the U.S. regulatory system, although a deliberate decision was taken to avoid the alleged bureaucracy of the Securities and Exchange Commission (SEC). Sir Kenneth Berril, the SIB chairman, says that he will be "a regulator, a watchdog and a policeman." But unlike the SEC, he will not be a prosecuting authority. Instead, he says, he will "ensure that the crooks are not allowed in in the first place."

In all, there are likely to be seven SROs with delegated responsibilities for supervising firms and individuals operating in the investment markets. They are the stock exchange, the International Securities Regulatory Organization, the National Association of Securities Dealers and Investment Managers, the Management Regulatory Organization, the Life Assurance and Unit Trusts SROs, and the Life and Unit Trust Intermediaries Regulatory Organization.

Each SRO will have a complex series of relationships with the various exchanges for equities, fixed interest securities and so on, and the aim is that they will all apply compatible regulations and levels of disclosure to avoid business flowing artificially from one to another.

Much, clearly, hangs on the quality and effectiveness of the regulatory system. So new is the world into which the entire City is moving that no one can make any accurate forecasts. There are many loose predictions of market instability and of a political backlash against self-regulation after the first case of malfeasance.

Perhaps the most important aspect of the whole phenomenon is the size of the commitment of U.S. banks and securities houses. With their capital resources, they look likely to emerge as dominant players in the City revolution. The stock exchange is already uneasily aware that these institutions are set to develop the trading of British securities on an international basis away from the purely London-based market. Many of them have paid very handsome premiums to acquire existing members of the exchange.

It will be ironic if, in having made some of its members millionaires several times over, the exchange has also sailed into a tributary away from the mainstream of international capital markets. €

John Wyles is foreign news editor of the London *Financial Times.*

THE EIB: THE E.C.'S OWN WORLD BANK

AN AAA-BORROWER LENDING FOR PRIORITY ECONOMIC OBJECTIVES.

CEES POST

The European Investment Bank was created in 1958 by the Treaty of Rome to help implement specific economic policy objectives of the European Economic Community. The EIB is an integral part of the E.C., but it has a separate and independent legal persona and full autonomy in its financing decisions. Its role in the E.C. framework is broadly similar to that of the World Bank in the United Nations organization: both are international financing institutions which raise funds on world capital markets to make loans for capital investment projects in support of economic development. There is a basic difference, however, regarding their geographic spheres of activity. The World Bank lends primarily in the developing countries, whereas the EIB operates chiefly in the E.C., in industrialized countries and, to a much lesser extent, in countries outside the E.C.

In terms of its objectives, the EIB is committed to serving the E.C. Competing in the world's financial markets of funds which are on-lent for priority capital investments, the EIB is the only E.C. institution fulfilling its mission as a market partner. Article 130 of the Treaty of Rome defines the bank's lending priorities: to contribute to the steady and balanced development of the E.C. by facilitating the financing of capital investment projects. First and foremost, the EIB helps to finance projects contributing to the economic development of regions in difficulty. Second, the EIB finances projects of common interest to several Member Countries or benefiting the E.C. as a whole, and projects to modernize or convert enterprises or create fresh activities called for by the progressive establishment of the common market.

This second category includes:

- Projects in the energy sector which help to attain the goal of reducing the E.C.'s dependence on imported oil through the development of indigenous resources, more rational use of energy and diversification of energy imports;
- Projects for the industrial modernization or conversion of undertakings, whether called for by the progressive establishment of the Common Market or necessitated by structural difficulties, specifically those strengthening the competitiveness of E.C. industry by developing or introducing innovative or advanced technology and projects resulting from close cooperation between enterprises in different member countries;
- E.C. infrastructure projects which contribute toward European economic integration by improving communication links within the E.C. and projects that help to attain E.C. objectives, such as protection of the environment.

All projects must contribute to an increase in economic productivity in general and promote the attainment of the Common Market. Each project presented to the bank for financing is appraised by interdisciplinary and expert groups of the staff to assess the economic, financial and technical aspects. The appraisal also takes in account such factors as the effect on job creation as well as the projects' possible effects on the environment, for which the technical staff may put forward alternative least-polluting solutions.

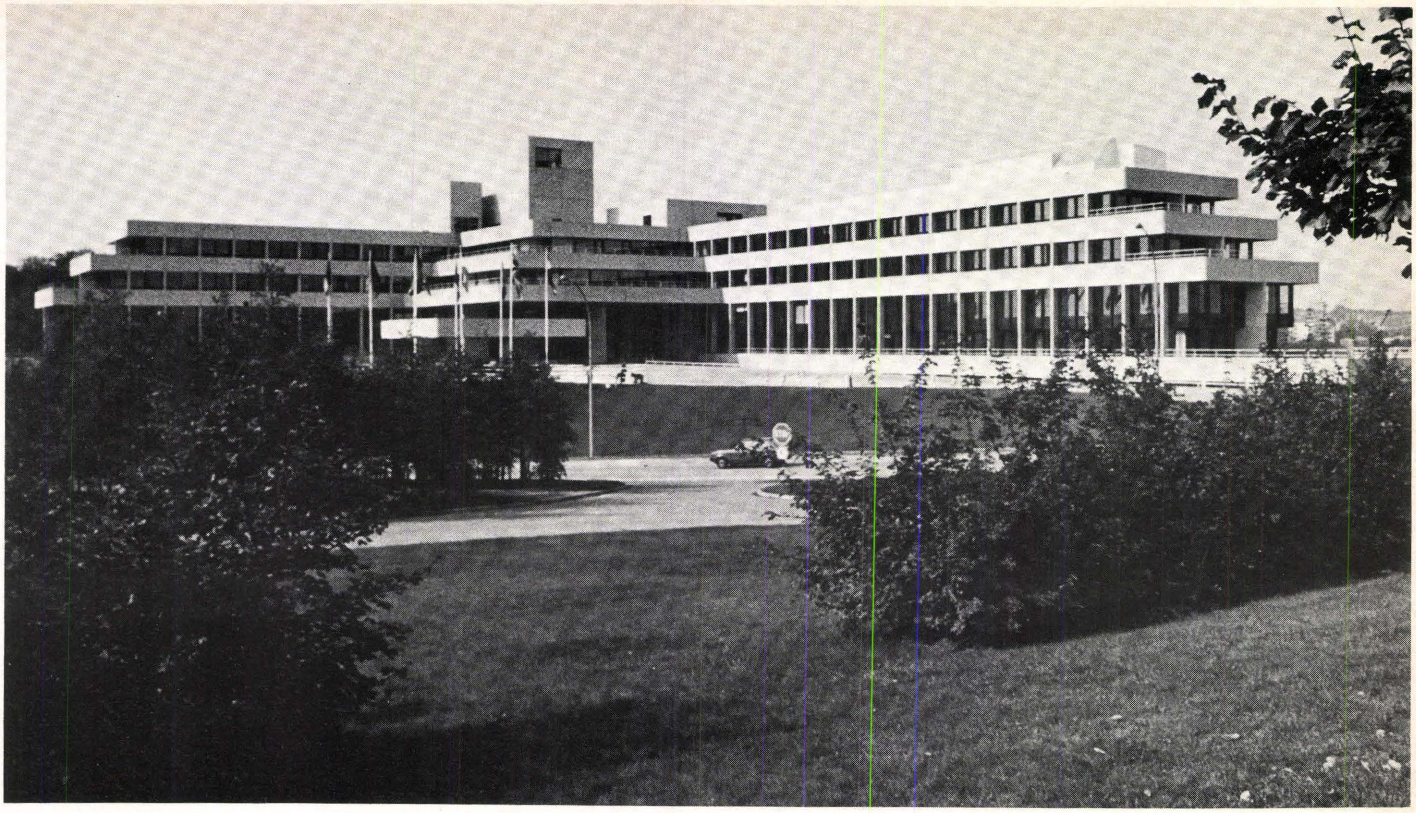
As a project financing bank, the EIB does not lend in countries or sectors on the basis of quotas, but reacts to the demand for the long-term funds the bank offers for public and private investment projects. Thus, while interest rates and availability of investment capital on domestic markets influence the level of EIB lending activity in the different member states, the bank tends to lend most in the countries with the greatest regional problems and in response to financing demands for priority investment in energy and other fields of E.C. interest.

A relatively minor part of the EIB's loans goes to projects in countries outside the E.C.. The EIB provides investment finance in the majority of non-E.C. countries in the Mediterranean region and in the 66 African, Caribbean and Pacific countries that are signatories to the Lomé Convention. In recent years these activities on the average accounted for some 10 percent of the bank's total lending. Project financing in these countries takes place in the framework of financial protocols and specific agreements providing E.C. aid. The bulk of the E.C.'s development aid is in the form of grants, but the various agreements generally provide finance on special conditions from funds made available out of the E.C. budget or by the member states, which it manages under mandate.

The E.C. increasingly takes advantage of the EIB's professionalism and expertise in project assessment and asks the bank to deploy, under mandate, funds on behalf of the EEC. The budgetary funds on concessionary terms managed by the EIB outside the E.C. in the context of cooperation agreements are one example, but the EIB also assures the project appraisal, makes the financing decisions and manages the loans drawn from the New Community Instrument, a financing facility to promote investment contributing to certain E.C. objectives.

The bank's capital is subscribed by the member states. Some 9 percent of the subscribed capital is paid-in, or to be paid-in. A far larger part, some 91 percent, is uncalled and acts as guarantee capital. The subscribed capital sets a limit to the overall amount of the EIB's outstanding loans, which under the bank's Statute, an integral part of the Treaty of Rome, may not exceed 250 percent of the subscribed capital. To allow the EIB a continued growth in lending and to meet the loan demands in the new member states, Spain and Portugal, the EIB's Board of Governors in 1985 decided to increase the capital to the extent that, including the shares of Spain and Portugal, the subscribed capital would be effectively doubled to 28.8 billion European Currency Units (ECU)—currently about $24.2 billion—on January 1, 1986.

The EIB raises the bulk of its resources, however, on capital markets worldwide just as do their international development banks and long term lending institutions. The increase in loan demands has made the EIB one of the biggest international borrowers on world markets, second only to the World Bank. The EIB borrows in all the major currencies and its loans are disbursed and paid back in the same cur-



The European Investment Bank in Luxembourg lent an estimated 7.5 billion European Currency Units (currently about $6.4 billion) in 1984.

rencies. Since the early years German marks and Dutch guilders have been the most commonly used E.C. currencies, but recently borrowing and lending in ECUs have shown a striking growth. In 1985, ECU-denominated borrowings actually constituted the second largest contribution to the funds the bank raised last year in international capital markets.

Other important currencies are the Swiss franc and yen. U.S. dollars, however, have been the EIB's major currency, accounting for some 25 percent of the funds raised in the last five years. The dollars are raised partly in the Eurodollar and Asian markets, but the bank is a regular borrower on the U.S. market and these bonds are quoted on the New York Stock Exchange. Incidentally, announcements of new bond issues often appear in this magazine. In 1984, U.S.-dollar borrowings totaled close to $1 billion. At the end of November of last year, public issues and private placements in U.S. dollars have already surpassed the 1984 figures.

Borrowing at this level is facilitated by the EIB's excellent credit standing. Moody's and Standard & Poor's have consistently evaluated the EIB's creditworthiness on the financial markets as "AAA." This AAA rating is based on several elements. First and foremost, the EIB has full autonomy to select the capital investment projects it decides to finance on the basis of the scrupulous appraisal of each project presented to the bank's expert staff. When granting a loan in the E.C., the EIB requires adequate security, be it a guarantee from the member state in which the project is located or another first-class guarantee. Outside the E.C., EIB loans, over and above the individual guarantee for each loan, are secured by a global guarantee of the E.C. or its member states, as provided in the various protocols and agreements. The EIB's own funds, comprising paid-in capital and reserves, totalled 3.5 billion ECUs by the end of 1984. Another important element of the EIB's credit rating is the fact that the uncalled portion of the bank's subscribed capital, according to the statute, could be called in to the extent necessary to meet its borrowing obligations by a simple majority vote of the EIB's board of directors. This provision has certainly not been made with the idea that it could ever become necessary to be implemented. Nevertheless, it represents an important ultimate guarantee to those investing in EIB bonds.

With the bank's activities on the U.S. dollar markets and its AAA rating, the EIB is better known in the United States as a borrower than as a lender. But American firms investing in projects in the E.C., in countries in the Mediterranean region, or in the countries of the Lomé Convention can also benefit from EIB loans. The EIB's primary consideration is the nature of the investment and the economic benefits it will generate, not the nationality of the promoter of the project. Throughout the Community, U.S. enterprises have received funds because their investment projects undertaken in the E.C. were viable and conformed with the bank's objectives and lending criteria. Also, contracts for goods and services relating to the projects financed by the EIB are, depending on the size and characteristics of the project, open to international competitive bidding.

Since its creation over a quarter of a century ago, the EIB has helped to channel funds raised on capital markets worldwide into priority investment in the E.C. The demand for its loans is still growing. In 1984, the EIB lent over 6 billion ECU to projects in the member states contributing to the creation of the Common Market through investments promoting regional development, reducing the E.C.'s dependence on oil imports, modernizing industries, and in infrastructure of E.C. interest; another 700 million ECU in loans went to projects outside the Community. In 1985, the combined lending total will have reached an estimated 7.5 billion ECU and there will be a further increase in demand now that Spain and Portugal have joined the E.C. Being well-established at the crossroads of the international capital markets, meeting the demand for its finance, is a challenge the EIB is looking forward to with confidence. €

Cees Post works in the public information division of the European Investment Bank.

EUREKA: EUROPE'S ANSWER TO SDI

PROGRAM AMONG 18 COUNTRIES WILL STIMULATE NON-DEFENSE RESEARCH.

RUPERT CORNWELL

Has supposedly sclerotic Western Europe at last come up with a winner, which will help make up for its slow start in the high technology race with the United States and Japan? Or has the old Continent just produced another paper effort, which will only blur the problem, rather than solve it?

The puzzling beast in question is Eureka, the fledging scheme to foster high-tech research and development collaboration among 18 European countries. On November 5 and 6, the second fullscale Eureka ministerial conference took place in Hanover, Federal Republic of Germany. But even weeks after the event, no one can safely say whether Eureka will prove to be a milestone, or merely a false dawn created by the bright light of empty rhetoric.

But whatever else, Eureka—or the European Research Cooperation Agency, to give it its full, un-Hellenized name—has come a long way in a short time. The idea was only conceived and floated last April, by the French, who saw it as a European riposte to the Reagan Administration's much-suspected Strategic Defense Initiative (SDI) of Washington, and as a means of preventing a hemorrhage of scientific talent across the Atlantic, lured by the $26 million of research work promised by SDI.

But that was seven months ago. Since then, Eureka's contours have changed completely. Its ends will now be essentially civilian, even though some of the technologies it encourages will have military applications, and could even overlap with "Star Wars." Once envisaged as a purely E.C. affair, Eureka has now cast its net much wider.

By the time Foreign and Research Ministers gathered for the first occasion, in Paris in July, 17 nations and the E.C. Commission had subscribed. Later Turkey joined them, meaning that, in effect, all of Western Europe was united under the Eureka banner in time for Hanover. Most important of all, what had begun amid at best tepid enthusiasm—and no little muttering that the French with their latent anti-Americanism "were at it again"—has now turned into a venture commanding the genuine commitment of all concerned.

Eureka remains a maddeningly elusive creature. But, remarkably, everyone is behind it. Hanover witnessed not just the first batch of 10 approved schemes for transnational cooperation, embracing companies from 12 of the participating countries: it also provided a rare example of one daring to rock a European boat. Serious organizational and financial problems are still unanswered. For the moment, however, these take second place, behind an idea, whose time—quite palpably—has come.

The idea itself is simple enough. Europe, everyone agrees, is not short of able scientists and researchers, still less of companies with the sophistication and the cash to back them up. The trouble is that Europe still lacks a complete, single market large enough to give competitive outlet to their products and a readiness to sacrifice narrow national interests for a greater common good. The result all too often is overlapping and unnecessary duplication, and delay. These defects in turn allow U.S. and Japanese manufacturers to stride into overseas markets, and make inroads into the home markets of Europe itself.

Eureka therefore will encourage high-tech companies to pool their projects and resources. In return, Governments will do their bit to accelerate matters—by doing their utmost to facilitate collaboration, by giving priority to projects boasting the Eureka label and by making good on promises to create a single internal market. Those are the intentions in the seven-page "Declaration of Principles," or charter, for Eureka.

There is no shortage of projects competing for Eureka funds. The 10 launched in November—ranging from high performance lasers to school computers and kits for the treatment of gonorrhea—have a total value of perhaps $500 million. There are another 50 in the wings, waiting for the seal of approval in time for the next ministerial conference, in Britain in May 1986. Hundreds more have been canvassed.

Eureka's skeptics wonder whether these projects would have happened anyway, and were not the first 10—or at least most of them—ready to start even without Eureka? What, in other words, is the difference between a Eureka project and ordinary cross-border industrial collaboration? Could Eureka prove to be just a label, akin to the "By Appointment to Her Majesty the Queen," so beloved to British shops and manufacturers, implying much but signifying nothing?

Financing is a further problem. Everyone accepts that the companies themselves must determine projects in the main, and they must supply most of the finances. There are, however, areas of risky, long-term research, where state support is probably essential. Yet no country at the Hanover meeting, with the exception of France and possibly the Netherlands, has committed itself to allocate specific government money to Eureka schemes.

Hanover has already thrown up a possible concrete test case. One of the ventures launched there—for an educational computer linking Acorn of Britain, Thomson of France and Olivetti of Italy—faces competition from a rival project linking a Dutch firm with IBM. The issues raised go to the heart of Eureka: What is the place within it of European subsidiaries of multinationals whose headquarters are elsewhere? And what is the point of a Eureka scheme if it faces rivals in its own nest? An official in Hanover commented: "What we really want are a lot of pan-European cartels." He was hardly joking.

Cartels raise another difficulty, however. The 10 kickoff projects already feature some of the biggest names in European industry—Olivetti, Thomson, Fiat and MBB to take just four—and others will surely join them. The lead times of most projects are long, five years on average. But as they move from the development to the production phase, they are almost bound to run into difficulties with anti-trust bodies. And some of these (for instance the Federal Cartel Office in the Federal Republic of Germany, the largest single market in Europe) are very powerful. If Eureka is to be a success, it may be at the cost of the clout of such organizations. On balance, that may be a desirable goal, but it won't be easy.

Last, but not least, of the problems is the organization of Eureka. In the interests of harmony and goodwill in Hanover, the task of finding an answer to that question was passed over to officials, who have been told to produce a compromise agreement by January 31, 1986. The points at issue may seem mere technicalities, but they conceal political conflict. And such matters, as students of European policy-making know full well, are just the stuff of which mighty rows can be made.

Until recently, larger countries like the United Kingdom, France and Germany wanted no formal secretariat for Eureka at all. A fixed staff, they maintained, would merely generate extra bureaucracy and lead to horse-trading. But the smaller states, and in particular the technologically less advanced ones in southern Europe, disagreed. They suspected that without a centralized agency of some importance, Eureka would end up as a club of the richest and biggest European countries and companies, from which the small fry would be excluded. The more backward states, moreover, were anxious not to miss out on possible free technology transfers, by ensuring they had an automatic right to enter a company of their own in any project they liked that involved Eureka funds.

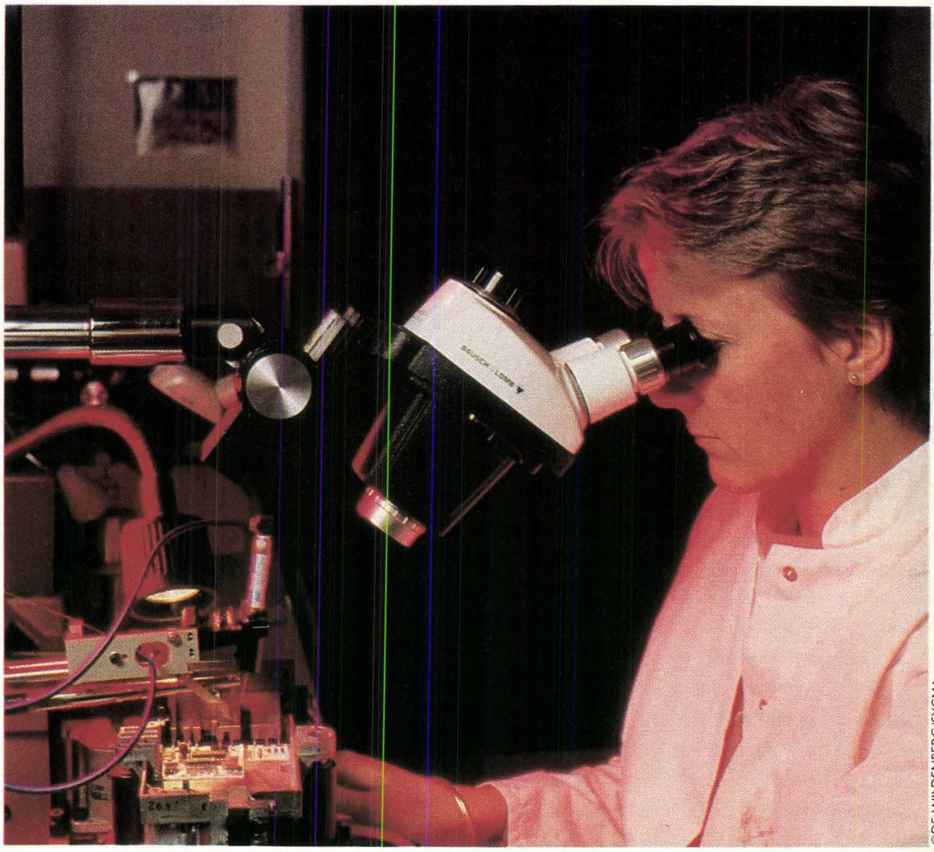
The dispute has yet to be settled. In Hanover, the 18 agreed that a secretariat will have to be small and flexible. But its exact powers have to be settled, as do its relations with the E.C. Commission, which already runs its own, though heavily research-oriented, high-tech program, known as Esprit.

One thing, however, which does seem probable, is that the future agency, secretariat or "task force"—call it what you will—will be based in Strasbourg. Suitably, Strasbourg is already the home of the Council of Europe, grouping all Eureka members, and a potent symbol of Franco-German reconciliation as well.

In fact, few doubt that the other issues will be resolved by January 31. The bandwagon effect will almost certainly make sure this happens. "Eureka now has an unstoppable momentum," declared Gregory Pattie, the British Minister for Technology, in Hanover's euphoric aftermath. "Many of the difficulties," added for good measure Roland Dumas, the French Foreign Minister, "will just go away of their own accord."

But will this vanishing act include the obstacles in the way of the genuine common internal market, upon which Eureka so heavily depends? The agonizingly slow progress being made by the current E.C. intergovernmental conference, despite all the ringing political promises, is not encouraging as an omen—even though the Commission has tabled proposals for an end to such barriers by 1992. Clearly, when the British and French are together on a European issue, then something is up. But in the case of Eureka, precisely what remains to be seen. €

Rupert Cornwell reports from Bonn for the *Financial Times.*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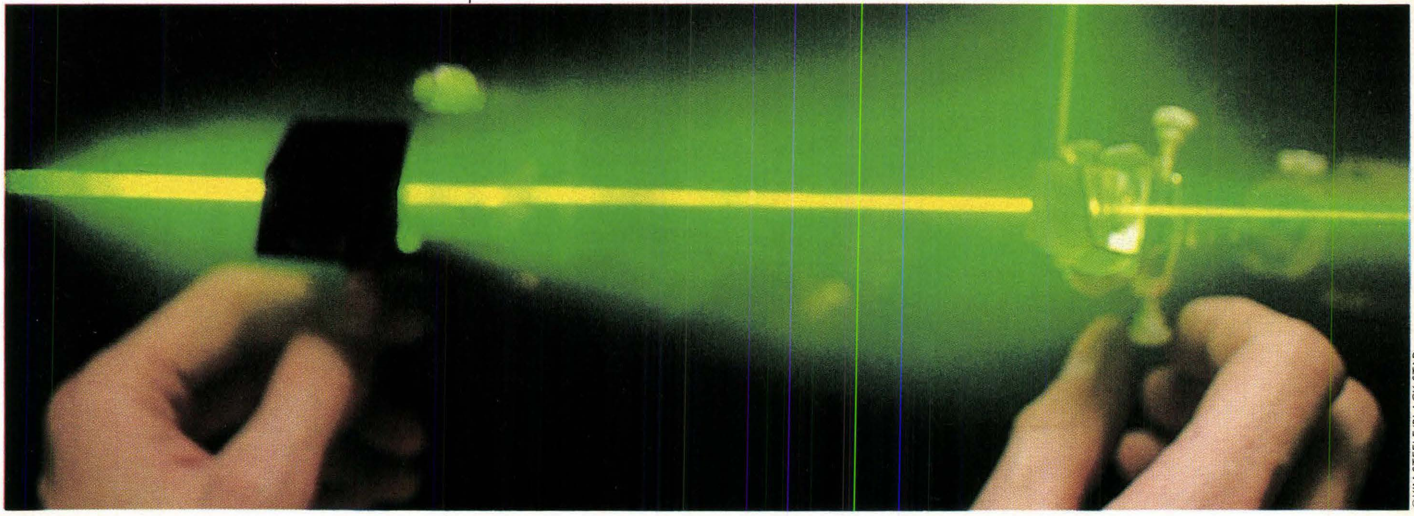
Eureka funds encourage high-tech companies in different countries to pool research and resources on joint projects such as high-performance lasers (below) and new microchip manufacturing procedures.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ECU PLAYS GROWING INTERNATIONAL ROLE

ITS DEVELOPMENT AS A EUROPEAN CURRENCY HAS SURPRISED EVEN ITS STRONGEST ADVOCATES.

CLIVE BERGEL

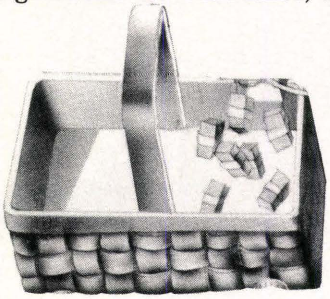
The future development of the European Currency Unit (ECU) and its emerging role in the international monetary system fascinates many in the world's financial markets. In a short time, the ECU has become a well-known and accepted member of the financial community. And yet, this relatively young currency has great potential as a financial instrument still before it. Before examining the ECU's future, let us review its background since 1981.

The development of the ECU as a currency in the past four years in the international capital markets has surprised even its most fervent supporters. This success must be attributed in great measure to the work and perseverance of the international banking community. By the end of 1984, ECU-denominated assets of European banks exceeded their levels of two years earlier by the equivalent of $21.5 billion: quite an impressive performance. In contrast, yen assets during that period increased by the equivalent of only $1 billion. Only dollar assets outperformed the ECU. In the international capital markets, the performance of ECU-denominated issues also showed significant success. Before 1981, there were no ECU-denominated issues, but by September 1985, the equivalent of $9 billion had been brought to market.

What accounts for the fast-growing use of the ECU in the international financial operations, and how may future growth prospects be evaluated? To answer these questions, it may be useful to examine more closely the banking market in ECU. Liabilities to non-banks at the end of 1984 amounted to only $2 billion out of total liabilities of $22.3 billion. Direct claims, at $7.9 billion, on non-banks were considerably larger than liabilities, but were still less than 30 percent of total ECU assets. On the source side, 900 million ECU came from local residents, 75 percent of which came from the Benelux. Cross-border deposits by non-banks totaled $1.1 billion ECUs. Again, the Benelux accounted for 45 percent.

It is apparent that the impetus for the growth of the ECU banking market has come from the asset side, with almost three-quarters of the borrowing being conducted by Italian and French non-bank entities. On the other hand, non-bank deposits yet played a major role in the development of the market. Therefore, the ECU's fueling has had to come from other banks, with France and Belgium playing the major roles.

Turning to the ECU bond market, European institutions have accounted for 30 percent of total issues in 1984. The second-largest borrower was France, with a



24-percent share of the market. The World Bank and Italian borrowers accounted for another 5 percent to 6 percent. Outside the European Economic Community (EEC), the Swiss and Japanese were important investors and very recently the ECU was introduced in the United States' capital market, with the EEC issuing the first non-dollar denominated issue ever.

Why has there been such quick acceptance of the ECU by issuers and investors? In a world in which the dollar interest rates and exchange have proved highly volatile, the ECU provides stability and risk aversion. The ECU's use as a payment medium has recently expanded, especially in the Benelux, where credit cards, traveler's checks and customer accounts are available. The ECU was created as a unit of account for central banks of member countries and as a unit of account for all E.C. budgetary purposes. What eventually developed was a private ECU used successfully in the capital markets. The private ECU has outplaced the "public ECU," creating a need to converge economic and monetary policy.

The private ECU has now reached a level of maturity that necessitates the development of the "public ECU". In order to maintain the momentum, it is essential that the use of the ECU be expanded to areas beyond the issuance of ECU-denominated securities. The recent agreement reached by the E.C. with the Bank for International Settlements to clear ECU transactions should help further interbank transactions.

What needs to be done?

First, the E.C. must continue to pursue, with vigor and patience, the efforts of the past; that is, to establish a solid foundation for the ECU among member countries. The ECU has become an integral part of the E.C. and, therefore, the pillar of the European Monetary System (EMS) and the responsibility of the E.C.

Second, the incorporation of the pound sterling in the EMS is in the interest of all member countries, and in the interest of the ECU itself. The importance of London as a financial center of Europe makes it even more pressing for the sterling to enter the EMS.

Third, exchange controls of certain member countries, such as France and Italy, must be abolished.

Fourth, the E.C. member countries should start to use the ECU as the base of payment in international trade, especially when dealing with Third-World countries, whose monetary systems are linked—for historical reasons—to E.C. members. The flexibility of the ECU is second to none, due to a minimum of controls from fiscal, monetary or even political entities or member countries. It is the ideal monetary alternative for Europe when dealing with the dollar or yen in the international monetary system.

There can be no doubt that the use of the ECU will be a lasting feature of the international financial markets. The question is whether the ECU market can sustain the rapid growth rate of the last four years and ultimately catch up to the Euro-Deutsche mark. The listing of ECU options by the Philadelphia Stock Exchange is another step in the right direction to recognize that the ECU has become an important world currency. €

Clive Bergel is managing director of Bear Stearns International Limited.

THE ECU

The European Currency Unit, or ECU, was originally introduced in 1975 as the European Unit of Account (EUA) to follow the example of the International Monetary Fund's Special Drawing Right. In 1979, when the European Monetary System was launched, the EUA was renamed the ECU. At present, E.C. currencies are included in the ECU "basket" in the following amounts:*

0.719 German mark (32%)
0.0878 Pound Sterling (15%)
1.31 French francs (19%)
140 Italian lire (10.2%)
0.256 Dutch guilder (10.1%)
3.71 Belgian francs (8.2%)
0.14 Luxembourg francs (0.3%)
0.219 Danish krone (2.7%)
0.00871 Irish pound (1.2%)
1.15 Greek drachmas (1.3%)

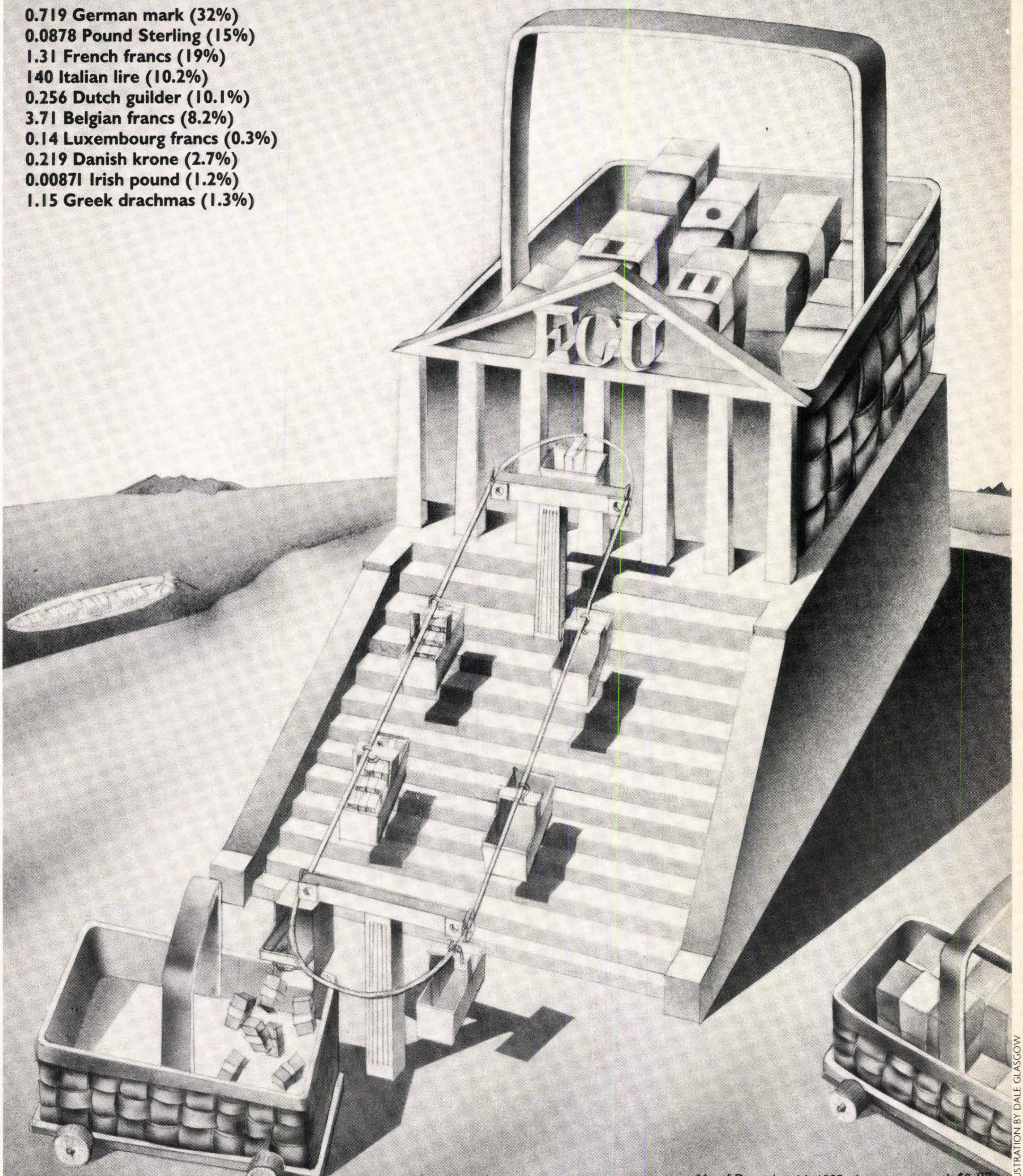


ILLUSTRATION BY DALE GLASGOW

*As of December 16, 1985, the ECU was worth $0.87.

SCOTLAND ATTRACTS U.S. COMPANIES

REGION IS PRIME LOCATION FOR FIRMS ENTERING GIANT E.C. MARKET.

DONALD HARRISON

More American investment is concentrated in the industrial belt of Scotland than in any comparable area outside the United States. Scotland also remains the prime location for high-technology companies entering or developing the vast markets of the European Community.

More than 200 American companies are located in Scotland, ranging from multinational companies to fledgling, start-up firms. The list includes the giants of the oil industry and its equipment suppliers, biotechnology research companies, contract design engineers and aerospace suppliers and many of the major semiconductor and computer companies. It also includes start-up companies that prefer to launch their international businesses from Scotland using the innovative financial industry for which Scotland has gained an international reputation.

The Scottish Development Agency (SDA), established 10 years ago, provides a "one-door approach" for potential overseas investment. Since the (SDA) started operations, manufacturing industry capital investment coming into Scotland from outside the United Kingdom has been almost $1.5 billion, much of it in electronics. That does not include the investment in exploration, development and production of North Sea oil.

To help incoming companies establish themselves quickly, the SDA has factory units for sale, rent or lease throughout Scotland and can negotiate custom-built units as part of an overall package. The SDA also provides services ranging from marketing support—by providing contacts with suppliers and establishing links with universities and research centers—to promoting joint ventures between American companies and Scottish manufacturers. Overall, financial packages can provide more than a third of start-up costs and make available a range of capital investment allowances. Furthermore, there are no exchange controls or restrictions on repatriation of benefits.

Financial incentives are only one reason for the success of American companies in Scotland. In a recent survey by the SDA, U.S. firms cited the quality and performance of the Scottish work force as the most important reason for their success and continuing expansion. The United Kingdom has an undeservedly poor reputation for labor relations. In fact, between 1980 and 1982, a survey showed work stoppages per 1,000 employees were identical to the United States. In Scotland, four out of five U.S.-owned plants have not lost a single day to stoppages in five years, and only one company considered itself seriously affected by labor problems.

The survey also showed that more than 80 percent of U.S. company managers consider the performance of their Scottish plants as good as or better than other plants in their group. Every U.S. company in health care in Scotland plans to expand in the next five years, as do 77 percent of the electronics firms and 64 percent of oil-related companies.

Electronics, in particular, has shown explosive growth. This year it will overtake Scottish whiskey for first place in the Scottish export league table with overseas earnings of about $1 billion. A high proportion of exports go to the European market, but Scottish subsidiaries are increasingly being given a worldwide mission, including responsibility for research and development.

The electronics industry, directly employing 42,000 people in more than 300 companies, has been attracted by the supply of skilled labor, particularly graduate engineers. Scotland has eight universities and the highest per capita student enrollment in Europe. A significant percentage of the student population is enrolled in electronics-related degree pro-

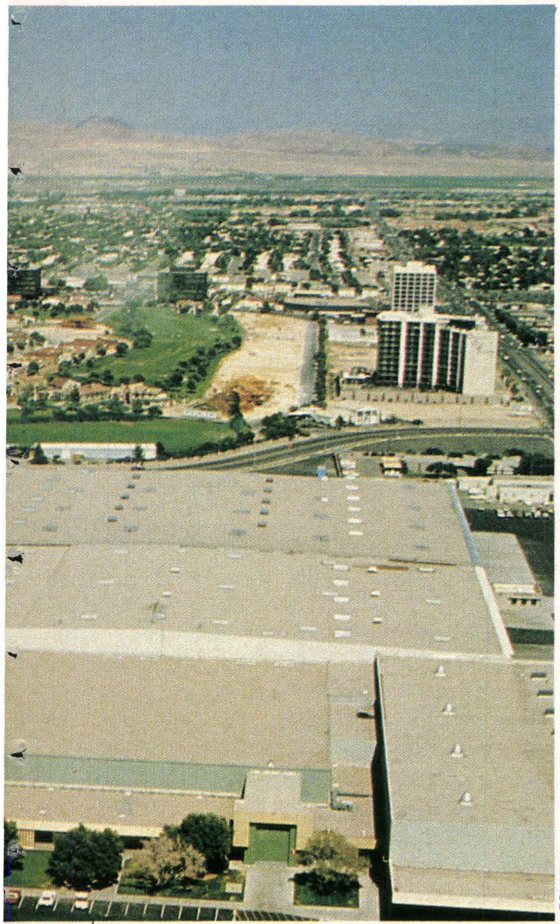
Continued on page 32.

In Scotland (top photograph), four out of five U.S.-owned plants have not lost lost a single day to work stoppages in five years.

EUROPEANS BOOST STAKE IN U.S. WEST

AREA ALSO SERVES AS MAJOR MARKET FOR E.C. GOODS.

COURTESY BRITISH TOURIST AUTHORITY



COURTESY NEVADA COMMISSION ON TOURISM

Some European firms have set up operations in Nevada, which has no corporate income tax. Above, Las Vegas.

WILLIAM J. MILLER

Since colonial times, European investment has been an important ingredient in America's economic growth. European capital was critical to industrialization of the Northeast, and European markets, particularly for cotton, gave important impetus to agricultural expansion in the South. Following the Civil War, European investment in Western mining and ranching, especially by Britain, helped stabilize the frontier as a productive component of the expanding American economy.

For generations, Europe's commercial relations with the United States focused on the East. New York emerged as the commercial capital of America and heart of the nation's most densely populated region. Ties of blood and culture, reinforced by sustained economic growth and geographic proximity to Europe, made the Northeast the epicenter of U.S.-European trade and finance. Since World War II, however, there has been a shift of population, technology, and finance capital to the Western states. The migration from East to West is accelerating and is reflected by the participation of foreign investors in growing Western industries.

To grasp Europe's significant role in the economy of the Western states, it is necessary to put American demographics, as well as U.S. reliance on foreign investment, in perspective. During the decade 1970-80, population in the Northeast and Midwest remained stable, with declines forecasted for the remainder of this century and beyond. During the decade 1990-2000, for example, population in the Northeast is expected to decline by 4.2 percent; New York will experience a 9 percent drop. During the same period, the West will enjoy double-digit population growth, lead by Nevada with a population gain of more than 50 percent.

The reasons for this migration are many and complex, and include, inter alia: a desire to avoid the harsh climate and relatively high taxes of the Northeast/Midwest, a perception of economic opportunity in the West and changes in lifestyle. Whatever their motivation, migrants bring with them their material assets and skills, contributing to an ever greater store of tangible and intellectual wealth in the West.

Foreign investors, especially Europeans, have discerned this shift and responded by expanding equity stakes in emerging, as well as established industries. In the San Francisco/Silicon Valley corridor alone, there are over 50,000 British nationals, at least 10,000 of whom are engineers, scientists or technicians working to expand the market and applications for American information-processing technology. The human capital furnished by Britain is augmented by more than 40,000 citizens of other E.C. countries.

Economic growth in the United States is inexorably bound to infusions of foreign capital. The International Monetary Fund estimates that 15 percent of the world's total stock of foreign investment capital is invested in the United States. Between 1980-82, the United States garnered over 35 percent of the world's total inflows of that capital. Of 6,404 significant foreign investments in the United States completed during the years 1974-83, and compiled by the U.S. Department of Commerce, 39 percent were investments by E.C.-based entities. California alone accounted for 857 transactions. E.C.-based entities accounted for 14 of the 21 largest transactions during the reference period. The aggregate value of the 14 European investments exceeded $13 billion. The largest single foreign investment in the United States was the commitment of $3.65 billion to the California petroleum industry by Royal Dutch Shell.

During 1984, $22 billion of foreign capital was invested in the United States;

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SCOTLAND
Continued from page 30.

grams. An additional 7,000 students are taking a range of high-grade, technician-level courses geared to the electronics industry in Scottish technical colleges.

The universities themselves in the last decade have acquired a growing international reputation in key areas of electronics technology. Edinburgh University has its own microchip fabrication facility which it recently upgraded for advanced technology. Other university research departments are working on exotic semiconductor materials, cryogenic techniques, low-dimensional structures and integrated electro-optics, including the development of a prototype optical computer. Scotland also is a leading world center for artificial intelligence and machine intelligence techniques.

Scotland is also on its way to becoming a prime location for another industry—health care—as many U.S. companies target the European market for their products. These firms are exploring European locations for R&D and production facilities to take advantage of the tariff-free access to the E.C.

Scotland has more to offer a company planning to set up a health-care facility than any other location in the world, according to a recent survey conducted for the SDA by health-care consultants Transmedica, Ltd. The study examined nine possible locations worldwide: New York State, Florida, Scotland, the Federal Republic of Germany, the Netherlands, France, Ireland, Belgium and Japan.

The report found Scotland leads in terms of:

- Total cost of plant construction and operation;
- Availability of skilled labor, including highly qualified university graduates;
- Collaboration with postgraduate institutions and technology centers;
- Transportation links;
- Language and culture.

The report found that over an assumed 10-year operating life of the facility, Scotland produced by far the lowest annual costs, including the initial capital outlay. In Scotland, total annual costs over 10 years would be about $611,400 a year—$31,000 a year lower than the second-place site, Ireland, and about half what it would cost to run such a facility in France, Japan, West Germany, or either of the two U.S. locations.

The study assumed that an overseas company in the health-care industry planned to set up a research-and-development facility on a site slightly smaller than one square mile. The facility would contain three laboratories and space for offices, administration, animals, reception and storage. Staff would total 30 people, with all members, except the director, recruited locally. It specified the site should be no more than 1.5 hours by car from an international airport.

The surveys reveal that the European market for health-care products last year totaled more than $34 billion in sales, compared with $39.5 billion in the United States. This year, the European market is expected to reach $44 billion, according to the SDA. The market for products such as diagnostic equipment, imaging devices and clinical laboratory products, is already larger than in the United States—$6 billion, compared to $3.9 billion.

Scotland has pioneered research in many fields. A team at Strathclyde University in Glasgow, for example, has developed immunoassay techniques using monoclonal antibodies that will speed up by 600 times the detection of substances in food, medicine and agriculture. These techniques are now being commercially developed for a pharmaceutical company. A team at Glasgow University is working to cut production costs dramatically on common antibiotics like tetracycline and streptomycin by cloning a new strain of the organism streptomyces. Researchers hope to produce a strain that will be capable of culture-growth at much higher temperatures, slashing the cost of cooling giant commercial fermentation vats, a major production expense. Work on this project is well advanced.

These are just two examples in a field of literally hundreds, which includes collaborative projects with universities, hospitals and companies all over the world. The availability of this level of expertise is vital to the health-care industry, which is driven more by the needs of research and development than by any other factor. Statistics give some idea of the excellence of the Scottish educational system. Scotland, with only 10 percent of the United Kingdom's total population, produces 16 percent of all biological-science graduates, 25 percent of all medical graduates and no less than 38 percent of all veterinarians.

The level of academic research and other support for the health-care industry is extremely high. There are centers such as the Sterile Products Facility at the Department of Pharmacy in Strathclyde University, which provide a unique aseptic suite where research teams can have new pharmaceuticals prepared and packaged in small quantities required for clinical trials.

There are facilities in Scotland for research in toxicology, metabolism, carcinogenesis, drug development and many other areas. All eight universities have groups of scientists skilled in various aspects of genetic manipulation. At Aberdeen University, the National Collections of Industrial and Marine Bacteria Ltd. is a microbiological service company of internationally renowned expertise. The main work of the center is to collect and conserve collections of bacteria of importance in industry, biotechnology, research and education, and to make them available to laboratories worldwide.

Scotland already has proved attractive to a number of major international health-care projects, such as the massive Roche production plant in Ayrshire, where more than $140 million was invested. Recently, the U.S.-based biotechnology leader, Damon Biotech, announced plans to set up a plant at Livingston New Town between Edinburgh and Glasgow at a cost of more than $140 million. These large-scale projects are now part of a broad-based health-care industry, with around 1,000 companies.

Companies considering Scotland will find that a great deal of groundwork has already been done that will facilitate their job of evaluating Scotland. The SDA has set up a special health-care division, and a major part of its development is aimed at improving the transfer of technology from the universities and other research institutions into industry.

During the last four years, the SDA has developed a number of mechanisms to do this. It invested in new or developing companies using technology from these institutions; it supported a number of projects to commercial development; it improved or established "on-campus" companies through which the universities market their skills to industry; it acted to ensure that universities know what the market needs and that industry knows what skills are available; and it has developed science parks throughout Scotland, some of which also provide venture capital funding.

Scotland offers an excellent base for Europe with good communications and a high-grade infrastructure for companies requiring quality labor. Its growth industries, particularly electronics, oil engineering and health/biotechnology, also offer a significant market, providing a strong base for an assault on the wider markets in Western Europe. The SDA, a government agency, has U.S. headquarters in Stamford, Connecticut. Other offices are in Houston, San Francisco and Chicago. €

Donald Harrison is director, North America, for the Scottish Development Agency.

WESTERN U.S.
Continued from page 31.

the West accounted for one-third of that sum. While California remains the center of foreign investment in the West (it is second nationally, after Texas), significant sums are going to other Western states.

Last year, foreign businesses invested $2 billion in New Mexico—more than New York and eight times direct foreign investment in Massachusetts for that year. Arizona's computer industry, expanding along Phoenix to Tucson, is third in the nation after Silicon Valley and Boston's Route 128. Research in advanced medical technology has contributed to the rise of Salt Lake City's "Bionic Valley," which attracted $650 million in foreign investments over the past twelve months.

In assessing the future of European investment activity in the West, it is important to focus upon the reality that "the West," is a vast area of enormous diversity. The 11 contiguous states (i.e., not including Alaska and Hawaii) cover a land area of more than 3.1 million square kilometers. The entire E.C., including Spain and Portugal, covers 2.25 million square kilometers. California is the dominant economic and political force in the West, with a population larger than Canada and the world's ninth largest gross domestic product. Forty-five members of the U.S. House of Representatives (out of a total of 435) are sent by California to Washington. By contrast, neighboring Nevada has fewer than one million people in an area larger than Britain.

Each Western state has a unique character, and European investors look increasingly to investment opportunities beyond California. A prime motivation for this lies in California's income-tax structure. California's corporate income tax, one of the highest in the nation, is compounded by application of the so called worldwide unitary apportionment method. Under the unitary system, the worldwide income of a corporate family, including operations outside California, are included in the apportionment model for application of California corporate income tax.

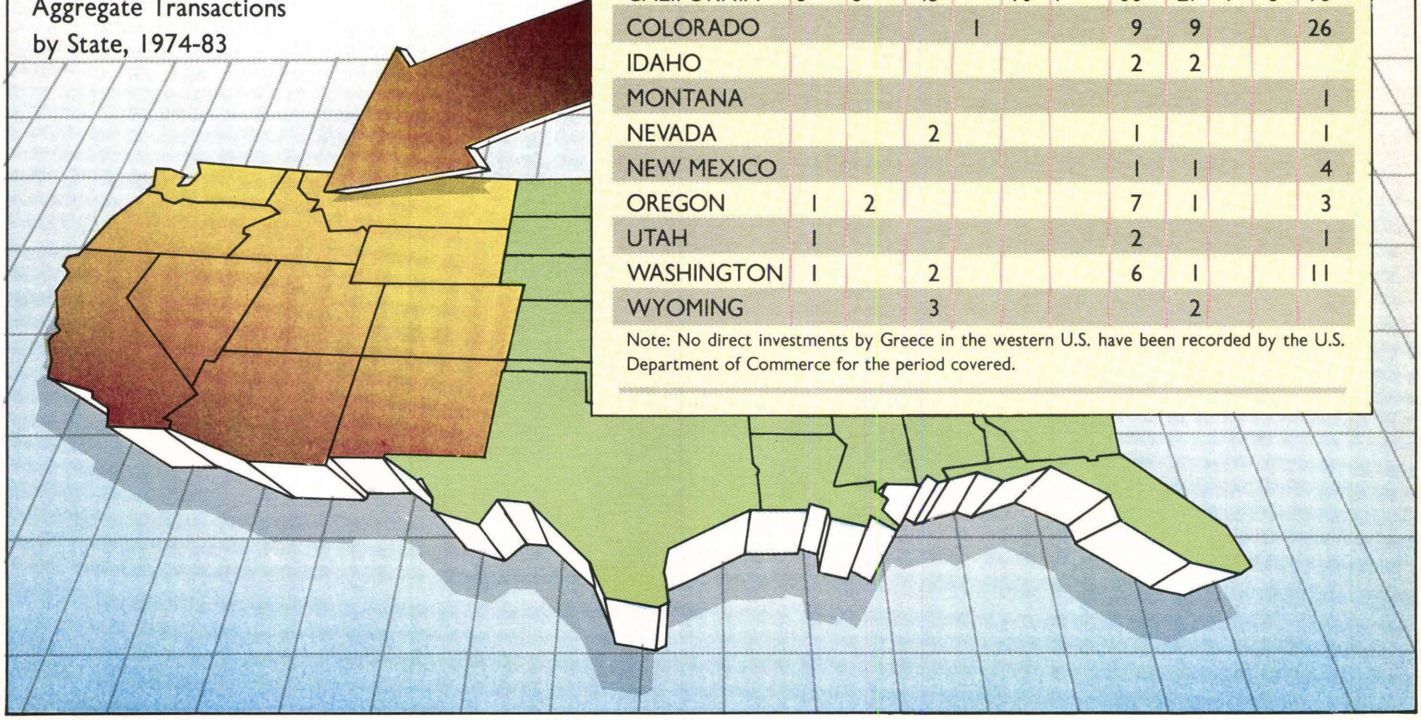
A dramatic example of the distortions associated with the unitary system can be found in the case of Scallop Exploration, a California-based European investment. During a six year period in the 1970s, Scallop sustained losses of almost $1 billion; nevertheless, California claimed over $20 million in taxes from Scallop in the grounds its overseas affiliates had been profitable during those years. This taxing scheme has been denounced by the E.C. and by national Governments, but efforts at repeal have been frustrated.

In response to California taxes and high operating costs, some European firms have set up operations across the border in Nevada, which imposes no income taxes, corporate or personal. The most conspicuous European investment in Nevada is Porsche Cars of Germany, which bases its North American headquarters in Reno. Although half of Porsche's North American sales are in California, the firm selected Reno as its bases for management and distribution. Taxes were a major factor in selecting Nevada, but lower operating costs, as well as the fact that Reno is the largest center of warehousing and product distribution in the entire West, were important considerations.

The American West will continue to attract European capital and serve as a major market for European goods and talent through and beyond the end of this century. California, by its sheer size, will remain the leader for the foreseeable future. Nevertheless, opportunities are evolving in the West outside California, and Europe's awareness of those opportunities is awakening. As the Western states overcome their preoccupation with the Pacific rim and recognize the role of European trade and investment in their future, the resulting dialogue and capital investment will work to the benefit of both Europe and the United States. €

William J. Miller is president of Infotrade, an international trade research and consulting firm.

DIRECT INVESTMENTS BY EC MEMBER NATIONS IN WESTERN USA
Aggregate Transactions by State, 1974-83



STATE	BEL	DEN	FR	IRL	IT	LUX	GER	NL	PO	SP	UK
ARIZONA							4				11
CALIFORNIA	5	3	45		10	1	68	27	1	3	93
COLORADO				1			9	9			26
IDAHO							2	2			
MONTANA											1
NEVADA			2				1				1
NEW MEXICO							1	1			4
OREGON	1	2					7	1			3
UTAH	1						2				1
WASHINGTON	1		2				6	1			11
WYOMING			3					2			

Note: No direct investments by Greece in the western U.S. have been recorded by the U.S. Department of Commerce for the period covered.

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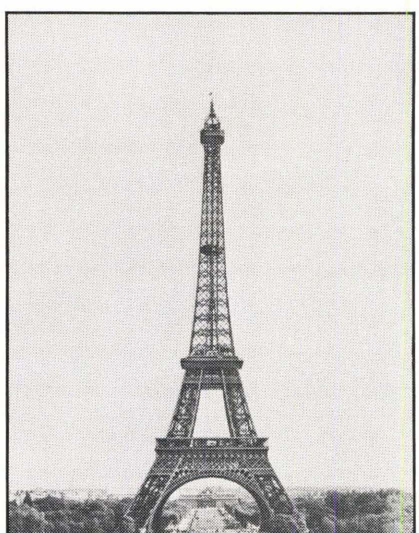

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E.C. SUMMIT AGREES ON TREATY REFORMS

COMPROMISE PACKAGE WILL LEAD TO MORE MAJORITY VOTING AND TO E.C. INVOLVEMENT IN NEW POLICY AREAS.

MARINA GAZZO

The 12 Heads of State and Government from the E.C. member states gathered in Luxembourg on December 2-3 to try to agree on a reform of the Treaty of Rome establishing the European Community. By the end of a long, final night of negotiations, they had tied together a package that pleased the "minimalists." But the fate of that "modest, sensible, realistic" package—as it has been described—hangs on a thread because the most "minimalist" of all, Denmark, still thinks it goes too far. On the other hand, Italy, the only "maximalist" left after the trail of interim meetings between the previous summit in Milan and the Luxembourg get-together, feels it does not go far enough.

"Not one inch of national sovereignty has been lost," admitted Danish Prime Minister Poul Schlüter at the end of the summit. Yet, he could not accept its conclusions, fearing, rightly, that his Parliament, with its vigorously anti-E.C. opposition parties, will reject them. "It is easier to be Hans-Dietrich Genscher than poor me," sighed Danish Foreign Minister Ellemann-Jensen, when asked during the summit why he would not follow the German Foreign Minister's example and make concessions in an area particularly sensitive for both countries—health, safety, environment and consumer protection. "We have tried very hard to understand Denmark's position," said E.C. Commission President Jacques Delors. "As I see it, Denmark is very reluctant to give up any of its hard fought for quality of life for the sake of 'more Europe'," he said. Indeed, the "Danish problem" is a real one. Even though the Government has contributed bravely in recent months to the effort to reform the Treaty of Rome establishing the E.C., the verdict of the Danish Parliament could render the package agreed upon by the majority in Luxembourg legally null and void. This is because, to become a reality, the reforms must be ratified by *all* Parliaments.

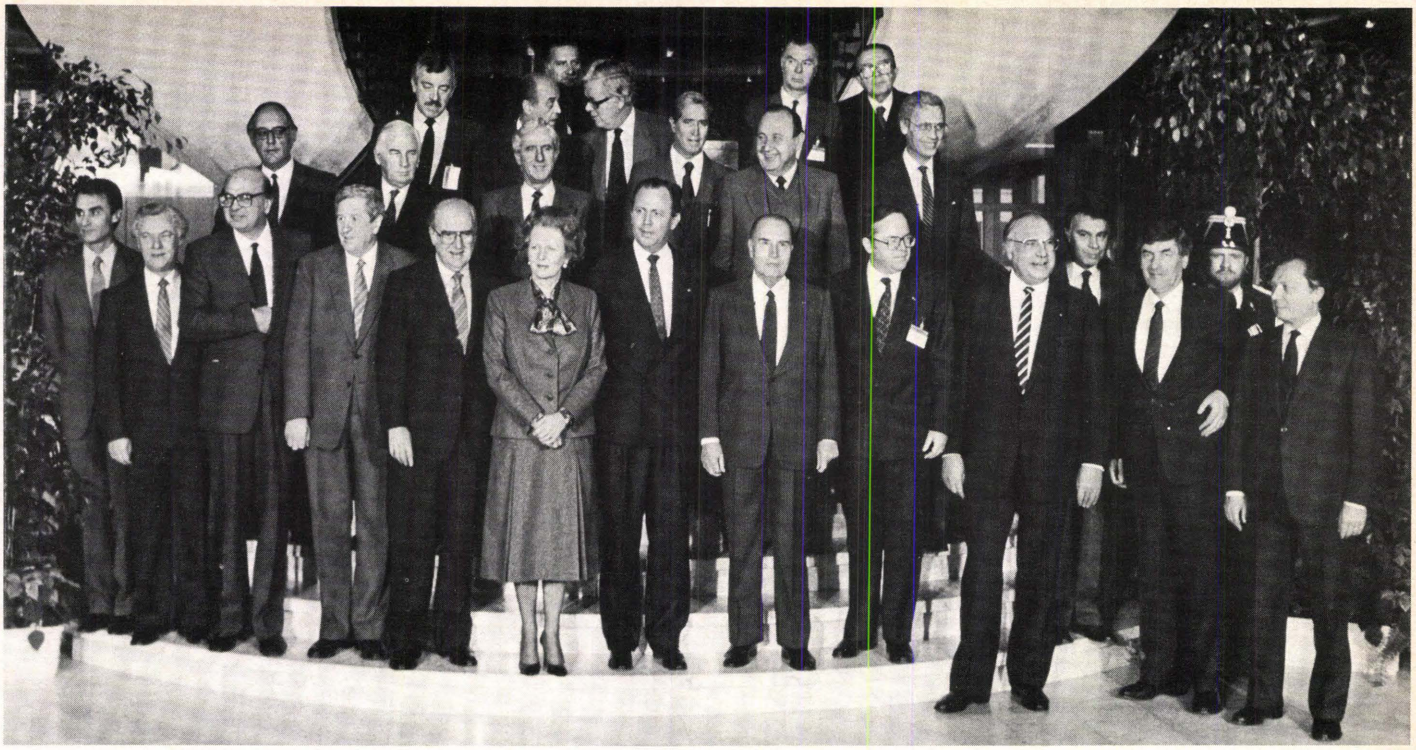
At the other end of the spectrum, Italy is unhappy for quite the opposite reason: The conclusions are too thin. They are unlikely to streamline, as is wished, the decision-making process in the E.C. and, above all, they would not necessarily make it more democratic. Furthermore, if the package does not take into account the European Parliament, it is not acceptable to Italy, maintained Prime Minister Bettino Craxi and Foreign Minister Giulio Andreotti in Luxembourg. This appeared to surprise their colleagues, although this sentiment had repeatedly been expressed.

What about the European Parliament, then? The initiator of the reform could hardly be pleased with a modest outcome, but the problem is that Governments did not let it have a real say during the whole process. Legally, they did not have to, since changes to the Treaty of Rome do not need the European Parliament's blessing, merely the ratification by national Parliaments. And it is a fact that a few national Parliaments are not yet entirely convinced that the European Parliament, in launching the reform, was not trying to take something away from them in its attempt to gain more initiative and control over matters which otherwise would be left almost entirely to Governments and bureaucracies.

Whatever its ultimate fate, was the package of Luxembourg worthwhile? On paper, it seems so. Quite a few things are in it:

• More majority voting in the decision on

A coalition of European federalist movements demonstrated outside the summit meetings to urge greater European union.



The Heads of State and Government (front row) from the 12 E.C. member states, their Foreign Ministers (back) and E.C. Commission President Jacques Delors (far right) assembled December 2-3 in Luxembourg to decide institutional reforms.

the liberalization of the internal market, instead of the unanimity that has hampered for years the achievement of a real "common" market;

- An attempt to give more weight to the European Parliament, making it harder for the E.C. Council of Ministers to reject its amendments to E.C. legislation;
- The writing into the treaty of new policy areas, such as monetary, technology and environment issues;
- The more formal coordination of foreign policy between member states; and
- A firmer commitment to achieve more cohesion between the less and the more prosperous E.C. member states.

Actually, at the summit itself, only a few subjects were thoroughly discussed —even too thoroughly, it seems, for Chancellor Helmut Kohl, who said that an experience such as this "marathon" could certainly not be repeated. The main subjects were the internal market and what was called the "monetary capacity," while on the Parliament little remained to be said, since the majority had already agreed on the not-too-daring proposal of the Presidency.

The discussions about the internal market took a turn that, to an outsider, would have seemed byzantine, but revealed in fact how deeply the idea of a "Community" can differ from country to country. Heads of State and Government debated at length about one single word: Should the treaty refer to the " market" or an "area" without frontiers? "Market" is not enough, said the majority; it has to be an "area," where something more than goods can move freely, an area with a social and even a cultural identity, in the broader sense. One after the other, the resistance of France and the United Kingdom to the word "area" fell. Nevertheless, while Article 1 in the agreed package refers to an "area without frontiers," Article 100 says that the decisions on the free movement of persons will still be taken unanimously (as will those on fiscal provisions). Once this only apparently semantic problem was solved, the Heads of State and Government argued for hours on an issue politically very sensitive for Britain and Ireland, two island states which would find it very hard to give up their special legislation on the protection of animal, human and plant health. Their partners admitted that there was a real problem here—though some were irritated at having to spend so much time on such a detail, and they finally accepted derogations, though under an E.C. control procedure.

The other bone of contention was the "monetary capacity" without which, for President Delors and Prime Minister of Luxembourg (and then-President of the European Council) Jacques Santer, the whole attempt at reforming the treaty would not be credible. But the Federal Republic of Germany could not accept anything unpalatable for the Bundesbank, and Britain resisted any mention of the European Monetary System (EMS) and the European Currency Unit (ECU). In the end, the EMS and the ECU were written down in a new Article, but with so many precautions that a British Treasury official was able to say that the text had nothing new in it, and thus was acceptable.

At the summit in Milan last June, seven countries had opened the way to a reform of the Treaty of Rome that they considered necessary in order to help Europe out of its stagnation, while three countries—the United Kingdom, Denmark and Greece—felt their arm had been twisted and saw no need for reform, preferring instead "pragmatic" improvements. Still, they took part in the exercise, during which the gap between reluctant countries like the United Kingdom and once-enthusiastic ones like France and the Federal Republic of Germany, became increasingly smaller. This led to the "compromise that means progress," as President Delors defined the outcome of the summit.

Does this compromise represent the minimum necessary to launch Europe on a more dynamic path? The answer is no for those who were convinced of the usefulness of a shakeup, but definitely yes for those who find that "a little is better than nothing." The future will tell whether this "little" will be enough, or will become nothing. Of course, Europe could find itself, as one participant put it, in a "SALT-II" situation—with an unratified treaty that, with a little goodwill, would be respected all the same. €

Marina Gazzo is deputy editor in chief of *Agence Europe* in Brussels.

U.K., IRELAND SIGN HISTORIC AGREEMENT

PACT GIVES REPUBLIC OF IRELAND ACCESS TO THE GOVERNMENTAL PROCESS IN NORTHERN IRELAND.

RONAN FANNING

The agreement which British Prime Minister Margaret Thatcher and Irish Prime Minister Garret FitzGerald signed at Hillsborough Castle on November 15 is a major landmark not merely in the history of the Northern Ireland crisis, but in the larger history of the relationship between the United Kingdom and Ireland in the 20th century.

When an act of the British Parliament partitioned Ireland in 1920, it effectively handed over control of the six counties in the northeastern corner of Ireland to the Unionist majority who, unlike the overwhelmingly nationalist majority in the rest of Ireland, wished to maintain rather than to loosen the British connection. Irish nationalists, then and ever afterward, rejected the act and the principle of partition which it embodied. But in the six counties of what then became Northern Ireland, nationalists were outnumbered two to one—there were, and are, about one million Unionists of different Protestant denominations, as opposed to half a million Catholic nationalists.

Hence, although nationalists successfully asserted their supremacy in independent Ireland, which, by 1949, had achieved the status of a sovereign republic outside the British Commonwealth, they were denied all access to political power in Northern Ireland where the Parliament and Government were controlled by an Ulster Unionist Party which denied membership to Catholics.

Successive British Governments turned a blind eye to the repression and discrimination endured by the nationalist minority in Northern Ireland for the better part of 50 years, until the civil rights agitation of 1968-69 was followed by the outbreak of sectarian violence and the first deaths in the long and grizzly toll, which now stands at some 2,500 dead and 25,000 injured. British instincts against involvement in Northern Ireland remained strong even after British troops were first sent in on policing duties in August 1969. Such instincts prompted the advice given to one British Minister who was urged "on no account to get sucked into the Irish bog" on the grounds that, once in, they could only sink deeper.

So it proved when the dramatic escalation of violence inaugurated by the Irish Republican Army (IRA) campaign of 1971 led the British first to suspend and then to abolish the Parliament and Government of Northern Ireland and to introduce direct rule from London. But British anxiety to minimize its involvement in Northern Ireland meant that British ministers never saw direct rule as anything more than an interim measure pending a new initiative.

The initiative took the form of the Sunningdale agreement of December 1973 which provided for the return of a more limited form of devolved government to Northern Ireland. Under the terms of Sunningdale, however, the Unionist majority had no longer a monopoly of governmental power, but was instead required to share power with the elected representatives of Northern Ireland's constitutional nationalists—the Social and Democratic Labor Party (SDLP).

The power-sharing experiment was bold, imaginative and short-lived. It collapsed in May 1974 under the pressure of a general strike of Unionist workers in which the Protestant paramilitary organizations played a key part. Confronted by electoral evidence that a clear majority of Unionist voters were opposed to power-sharing and advised by British army chiefs that they could not guarantee the maintenance of essential power supplies, the British Labor Government of the day chose the path of least resistance and did nothing to try and break the strike leaving the Unionist members of the power-sharing executive no alternative but to resign.

The result was a resumption of direct rule from London and a political vacuum in Northern Ireland which has remained unfilled for the last 11 years. The explosive dangers of that vacuum have increasingly alarmed both the British and the Irish Governments in recent years. Their worst fear is that the Catholic minority in the North, increasingly alienated from the system of government by direct rule and despairing of the prospect of progress through the institutional modes of politics, will turn instead to the IRA. Increased electoral support for Sinn Fein (the political wing of the Provisional IRA) after the hunger strikes of the early 80s has offered evidence of such a trend.

Hence the recent agreement at Hillsborough, the first object of which is to break the continuing cycle of violence and despair and to offer hope of political development. Conscious of the Catholic minority's conviction that their voice goes unheard in the Northern Ireland system of government and concerned with the alleviation of their alienation. Thatcher has effectively given the Irish Government access to the governmental process in Northern Ireland to ensure that the minority's voice will no longer go unheard.

Access will take the form of an Intergovernmental Conference on which Irish Minister for Foreign Affairs, Peter Barry, will be the permanent Irish ministerial representative and joint chairman. This will deal with political, security and legal matters as well as with the promotion of cross-border cooperation. A secretariat which will service the conference "on a continuing basis" and which is jointly staffed by civil servants from Dublin has already been established in Belfast under the terms of the agreement. The conference will be mainly, but not exclusively, concerned with Northern Ireland and the possibility of cooperative action in both parts of Ireland and in Britain is also envisaged. The two Governments have also agreed to support the establishment of an Anglo-Irish parliamentary tier if the Dublin and Westminster Parliaments so decide.

The SDLP's leader, John Hume, has drawn an analogy between this tripartite structure and the organization of the E.C., suggesting that the Intergovernmental Conference is the equivalent of the Council of Ministers, the Secretariat like the E.C. Commission and the proposed Anglo-Irish parliamentary body is

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Irish Prime Minister Garret FitzGerald and British Prime Minister Margaret Thatcher exchange documents after signing the agreement at Hillsborough House November 15.

the equivalent of the European Parliament. Although the agreement explicitly states that: "there is no derogation from the sovereignty of either the Irish Government or the United Kingdom Government, and each retains responsibility for the decisions and administration of government within its own jurisdiction," there can be no doubt that, as Unionist representatives have angrily charged, it amounts to a major shift in the constitutional position. This is especially apparent in the British Government's explicit acceptance "that the Irish Government will put forward views and proposals on matters relating to Northern Ireland within the field of activity of the conference in so far as those matters are not the responsibility of a devolved administration in Northern Ireland."

Herein lies the key to understanding what is in fact a remarkable and sophisticated agreement. The amount of power to which the Irish Government will have intimate and continuing access in Northern Ireland will be in inverse ratio to the amount of power conferred upon a devolved Government in Northern Ireland. But the reestablishment of devolved government is contingent upon Northern Ireland's Unionist politicians being prepared to share power and that is something they have refused to do since 1974.

The impact of the Hillsborough Agreement upon the Unionist majority in Northern Ireland has been traumatic and it is difficult to exaggerate their sense of shock and fury at what they perceive as Thatcher's "treachery." Their present strategy is to contrive the simultaneous resignation of all 15 Ulster Unionist Members of Parliament who have seats in the Westminster Parliament and so to force a kind of referendum in which, they hope, a majority of the electors will support them and thus provide them with a renewed democratic mandate for their opposition to the agreement.

What form that opposition might then take remains unclear, although there has been talk of their urging their supporters to withhold their assent from all the processes of government in the event of Thatcher's Government refusing to give way. This could involve, for example, mass resignations from the public service which in turn could lead to a massive depletion of judicial, police and prison services—to mention but some of the most obviously sensitive areas.

But there is as yet no evidence that such extremist counsels will lead to an outright confrontation between the forces of Ulster Unionism and the British Government and Parliament to which Unionists still profess their loyalty. Even if they were to regain all the seats that they intend to resign from, that must be set against the overwhelming majority of 473 votes to 47 by which the House of Commons endorsed the agreement on November 27. For Unionists to continue to repudiate that massive majority would ultimately amount to a repudiation of the sovereignty of the Parliament of the United Kingdom of which they insist they are a part.

Nor are the Unionists under any illusions about how formidable an antagonist Thatcher might prove if they were to pursue the path of confrontation. So much is clear from the frequency with which they have compared their present situation with that of the Argentineans at the time of the Falklands crisis and with that of Arthur Scargill's followers during Thatcher's protracted, but no less successful, struggle with Britain's miners. It is clear, too, from the very vehemence with which Ulster leaders insist that they would offer her much sterner resistance.

Behind all this lies a recognition of the reality that Thatcher is an interventionist by temperament: that she must be numbered among that rare breed of democratic politicians who prefer to confront, rather than to evade, even the most intractable of problems. Throughout this century and even before Ireland was partitioned, the traditional Unionist reaction when any British Government launched an initiative which they disliked has been to insist that their majority in the northeastern corner of Ireland gave them a veto with which they could compel the British Government to back down. Although Thatcher may also yet give way before the wrath of the Unionist majority, she does not seem to be addicted to that habit of retreat which has characterized

Continued on page 64.

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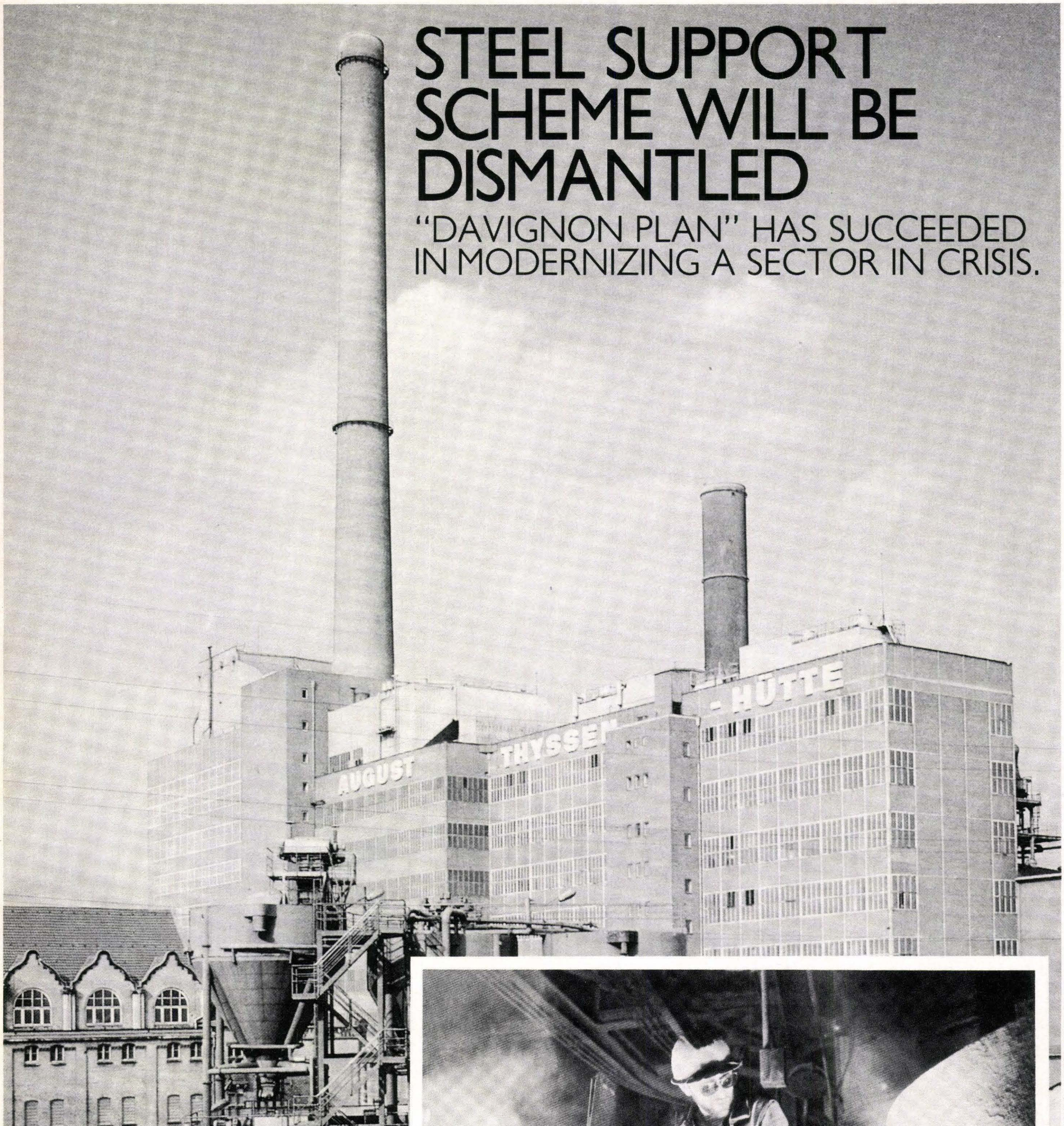
STEEL SUPPORT SCHEME WILL BE DISMANTLED

"DAVIGNON PLAN" HAS SUCCEEDED IN MODERNIZING A SECTOR IN CRISIS.



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Between 1980 and 1984 in the E.C., about 32 million tons of hot-rolled steel capacity were cut and some 170,000 jobs eliminated in an effort to rationalize the industry.

STEPHEN BROOKES

In the small hours of the morning of October 30, after 14 hours of wrangling over some of the most fundamental issues facing Europe's industrial future, ministers from the 10 E.C. states agreed to phase out the tight regime of quotas, price controls and government subsidies that has kept the European steel industry from collapse for most of this decade. It was a startling, even astonishing decision; almost from the moment in 1980 when the regime—known as the Davignon Plan—was begun, most observers of the European industrial scene had scoffed at the notion of a temporary aid plan being genuinely temporary. The deadline of December 31, 1985, would be impossible to meet went the conventional wisdom. Europe's steel companies, knowing they were too strategically, socially and politically important to be allowed to die, could safely count on a lifetime of state aid; they would never undertake the modernization and rationalization the Davignon Plan required.

And yet the plan worked; European steel has been substantially reshaped, and over the next two years the industry's "iron corset" is to be progressively shed. The state subsidies that steelmakers have used to meet operating costs while cutting back their excess plant are to end as of January 1, 1986. Quotas on controlled steel are beginning to be lifted. Minimum prices will no longer be set. In all, the new regime reflects an understanding by the European states that steel's future depends on how quickly and how well it adapts to a changed climate, and that a dirigiste approach would only leave Europe saddled with a wheezing, unproductive and very expensive industrial dinosaur to support—perhaps forever.

That there has been a crisis in world steel for the past decade is not much of a secret, and its origins no longer seem very mysterious. The 1973 oil shock brought an abrupt end to the steel boom of the 1960s and early 1970s; suddenly, with automobile makers and shipbuilders cutting their steel consumption, with producers springing up in the Third World armed with frighteningly cheap labor, with a widespread recession that cut back production of heavy durables and construction and with traditional applications for steel vanishing as new metals and materials were developed, the large, integrated mills of the industrialized West felt the ground shift under their feet. From a record production level of 704 million tons in 1974, production plummeted to 643 million tons in 1975. The United States and the E.C. each saw their production drop about 20 percent in the first quarter of the year. And as the huge expansion projects drawn up in the early 1970s began to come on line, they only compounded the problem that, in the decade since, has so wonderfully focused the minds of the world's steelmakers: too much supply, too little demand.

No one wanted to believe, at first, that the crisis was anything more than a temporary downturn, an economic fluctuation that would pass when growth picked up again. Steel had always been a backbone industry of the Western economies, important for its strategic role in defense, its size as an employer and its position in the production chain of a wide range of goods. So it was only with reluctance that Governments and steelmakers began to acknowledge that permanent, structural changes were underway in the world steel industry, changes that threw steel's traditional role into question. A basic realignment in trade was beginning to appear, as comparative advantage shifted toward countries that could combine basic industrial technology with wages 10 to 20 times below those of the United States and the Community. The industrialized West had to start thinking, and thinking fast, about the shape of its industrial future.

But as the crisis deepened through the late 1970s, the general response seemed to be not the development of an effective adaptation plan, but rather a mad rush to preserve prices through whatever means lay quickly at hand. As their once-legendary pricing discipline began to fray, U.S. steelmakers came to rely more and more on the 1978 Trigger Price Mechanism (TPM) to maintain market stability. The inevitable problem with the TPM, of course, was that in keeping steel prices higher than those of any other steel-producing nation, it both made the United States the primary export target of other producers and made American steel less competitive abroad. It also lifted pressure on American steelmakers to cut costs and reduce capacity, and allowed them to acquiesce to wage increases demanded by the United Steelworkers union.

In Europe, meanwhile, prices had declined so precipitously by the end of 1977 that a program involving voluntary production cuts, a mixed system of obligatory and recommended floor prices, and restrictions on some low-priced imports was drawn up. This, in fact, was the first Davignon Plan, named after the then-Commissioner for Industry Etienne Davignon. The plan was implemented by a temporary cartel of E.C. steel producers called Eurofer, whose aim was to coordinate a voluntary system of discipline in the market.

In fact, the 1977 plan worked with varying degrees of success through the end of the decade, and things might have slowly improved had it not been for the second oil shock of 1980. As it happened, prices dropped suddenly and violently through the floor. The average rate of capacity utilization fell from over 70 percent to a terrifying 55 percent—and did it in the space of a few weeks. In panic, a number of companies boosted production and slashed prices. The voluntary plan collapsed.

European steel found itself verging on an internecine price war when Davignon and the Commission declared a state of "manifest crisis" in the industry and slapped down strict production quotas in a desperate attempt to reassert order. It was a natural step for the Commission to take. The first of the European Communities had been the European Coal and Steel Community (ECSC), which was set up in 1951 to remove all barriers to trade among the original Six and to develop a cooperative policy among European producers. The 1951 Treaty of Paris gave the ECSC's ruling body the power to monitor the steel market and, should an emergency arise, even impose controls on prices and production.

The Davignon production quotas were extended and broadened in the summer of 1981, when mandatory levels were established for 70 percent of European steel output and prices were set and monitored. Guidelines were introduced for national subsidization of steel companies, with such subsidies to end by December 31, 1985. Subsidies had to be authorized by the Commission, could not create unacceptable distortions of competition, and had to be directly related to trimming excess capacity and making the industry profitable.

The new measures proved their worth almost immediately, as prices firmed up and stayed firm. But the Davignon Plan was not itself a map for radical restructuring of the industry; the Commission's role was not to make specific proposals, but rather to ensure that the financing of national plans was in line with the decision relating to the code on aids. The Commission knew very well that it was endorsing policies "diametrically opposed" to those generally followed by the member states, which as it noted "often consisted of subsidizing the losses of their steel industry...thus maintaining prices that have no relation to costs." But it also

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Stephen Brookes is a contributing editor of *Europe.*

E.C. RESPONDS TO SOUTH AFRICAN CRISIS

MEASURES INCLUDE ECONOMIC AND POLITICAL PRESSURES.

MARC PIERINI

In a foreign policy subject such as the attitude of the European Community and its member states vis-à-vis South Africa, various options have to be considered: economic ones, such as possible regulatory measures on trade and investment or economic assistance to certain groups in South Africa; and political ones, such as statements, possible modifications in diplomatic relations, contacts with the Government and the opposition.

With regard to such a broad range of policy options, the member states quite naturally come to the discussion at E.C. level with different historical and diplomatic backgrounds, with specific inputs from their Parliaments and public opinions. Also, their discussions and decisions, at Foreign Minister level, take place under two distinct legal frameworks:

- The 1957 Treaty of Rome establishing the E.C. which, in particular, is the basis for the E.C.'s common trade policy. Any alterations, for example, in the customs regime applied to South African goods entering the E.C. would be made within this legal framework.

• European Political Cooperation (EPC), a non-treaty form of cooperation established in 1969 which aims at the maximum possible rapprochement of the E.C. member states' foreign policies.

In considering steps taken by the E.C. in a given foreign-policy area, one therefore has to remember that the legal bases and the procedures followed differ from one aspect of the subject to the other, although one is dealing with the same set of 12 Foreign Ministers. Moreover, the roles of the various institutions involved differ: for example, while the Commission is the initiative and executive body of the E.C., it has a more limited role within the EPC. Similarly, the European Parliament has direct control powers over the use of the E.C. budget, but none over money managed by the member states under their bilateral assistance programs. In addition, the same objectives—for example, assisting nonviolent, anti-apartheid organizations—often can be pursued through both bilateral and E.C. instruments, which all respond to different ground rules.

At present, three of the 12 E.C. member states have severed diplomatic relations with South Africa (Denmark, Greece and Ireland), while the three members which had military attachés in South Africa (France, United Kingdom and Portugal) are now recalling them. With regards to trade relations, the E.C. is, together with the United States and Japan, one of the main partners of South Africa. In 1984, the E.C. absorbed 18 percent of South African exports, for a total value of $6.9 billion. Diamonds, gold, coal, copper and other metallic and nonmetallic minerals (such as chromium and platinum) make up over 60 percent of these imports.

E.C. exports to South Africa in 1984 amounted to $5.7 billion and made up 36 percent of South Africa's total imports. Industrial machinery and electrical equipment make up 41 percent of these exports; automobiles, tractors and spares made up another 29 percent. South Africa represents 2 percent of both E.C. exports and imports. As the E.C. does to all members of the General Agreement on Tariffs and Trade (GATT), it is granting South Africa most-favored-nation treatment, but does not have any preferential trade agreement with the country. The 12 E.C. countries provide for approximately 50 percent of foreign investment in South Africa, especially the United Kingdom and the Federal Republic of Germany. It is estimated that about half

The current tragedy of violence, death and human suffering has has one single cause: apartheid. Left, Johannesburg at night.

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of the 1,100 transnational companies established in South Africa are from E.C. countries. They employ about 600,000 South Africans, 400,000 of whom are black South Africans.

On September 20, 1977, the E.C. countries adopted a code of conduct for E.C. companies operating subsidiaries, branches or representations in South Africa. They adopted a strengthened code on November 19, 1985. So far, it is a voluntary code, which calls on the companies to treat their employees equally and to do everything possible to ensure that black employees are free to join or form a trade union. The code includes provisions on minimum wages, equal pay for equal work, training, fringe benefits, desegregated workplaces and migrant labor.

Companies applying the code report on a yearly basis and the E.C. Governments review the code's implementation every year. The most recent of these reviews, published on October 31, 1985, found that most employees were paid above the minimum legal level. Almost all companies reported providing fringe benefits such as pension and insurance schemes, assistance to housing, contributions to training, subsidized travel and meals. However, the report mentioned that not all workers are paid above the norm recommended by the code, which was attributed, at least in part, to the economic recession in South Africa.

Also, given the shortage of skilled workers, it is felt that there is further room for improvement in training and education of black workers by the companies themselves. This is especially important in view of the inequity of South Africa's educational system. In addition, the number of unionized black South African workers has increased, a reality taken into account by E.C. corporations in their dealings with black workers.

E.C. assistance to black South Africa to date has taken two different forms: support to nonviolent and anti-apartheid movements and assistance to South African refugees in neighboring countries. This latter form of aid also applies to Namibian populations. Altogether these programs amounted approximately to $14 million over 1980-84, part of which was for black South African citizens. In particular, they took the form of medical and food supplies, as well as other basic necessities for refugee camps in Angola and Tanzania and training programs through nongovernmental organizations in the same countries, plus Zambia.

Until September 1985, the position of the E.C. was primarily expressed through 1) a number of common statements by the Foreign Ministers of the Twelve, 2) different sets of measures taken by individual E.C. member states and 3) statements and resolutions voted by the European Parliament and national parliaments. On September 10, 1985, the 12 Foreign Ministers took a further step forward in deciding to harmonize their attitudes and policies vis-à-vis South Africa beyond the mere common statements. The position of the E.C. and its member states, in the current crisis, now incorporates six main elements:

• Moral condemnation of the apartheid regime and an appeal to the South African Government for a complete abolition of apartheid as a whole;
• Harmonized restrictive measures;
• Harmonized positive measures;
• The launching of preparatory work for stepped-up E.C. assistance to the nonwhite population and to refugees;
• The threat to reexamine the possibility of economic sanctions in the absence of progress within a reasonable period of time; and
• Continued contacts with all parties involved in the present crisis, particularly in order to maintain pressure on the South African Government.

The *moral condemnation of apartheid* and the appeals to the South African Government can be summarized as follows:

• Strong condemnation of the apartheid system and an appeal to the South African Government to embark on specific actions leading to the complete abolition of this system, not just certain of its components, and to the enjoyment of political and civil rights by all citizens. Protection of the minorities must be ensured.
• A call for the rapid opening of a dialogue between the present South African Government and the genuine representatives of the nonwhite community. One of the objectives of such a dialogue should be to give proper representation to the black community at national level;
• A call for a renunciation of violence by all concerned, an end to the state of emergency and the release of those held under its provision, the end of detention without trial and, among other measures, the immediate and unconditional release of Nelson Mandela.

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TEXTILE PRODUCERS FIGHT TO STAY ALIVE

EUROPEAN MANUFACTURERS THREATENED BY IMPORTS FEAR TERMS OF MULTI-FIBRE ARRANGEMENT RENEWAL.

ANTHONY MORETON

The European textile and clothing industries are fighting a rearguard action to prevent a surge in imports from low-cost countries. Over the last six years, the industries have lost over half a million jobs. The fear is that another round of losses will begin in the middle of next year.

The cause of this fear is the Multi-Fibre Arrangement (MFA), the world textile agreement which is up for renegotiation. It came into force in 1974 and was intended to give Western industry—largely that in Europe and North America—time to readjust in the face of increasing competition from countries such as Hong Kong, South Korea, Macau, the Philippines and Brazil.

The original aim of the MFA was to allow those countries to increase their sales to the industrialized West at an average of six percent a year. This, it was thought, would satisfy the aspirations of the Third World producers and allow industrialized importers time to put their own houses in order.

The first oil crisis in 1973 immediately undermined that arrangement and when the MFA came to be renegotiated for extension in both 1978 and 1982, tougher conditions were laid on the low-cost producers. These tougher conditions were necessary, according to the West, because of the severe recession which hit the industry in 1979 and which lasted until late 1983, though the severity was not uniform in each country. Britain was first into the recession and first out. Subsequently, France, the Federal Republic of Germany and Italy all faced a severe drop in output and income just as Third World producers became both more efficient and more numerous. Brazil, Mauritius, Algeria, Turkey, Sri Lanka, the Philippines and others joined the original producers. Every emerging country appeared to want its own textile industry.

The scale of the depression was unparalleled in Europe. Between 1975 and 1985, the European textile and clothing industries lost well over one million employees. In Britain alone, one million jobs have been lost since the mid-1950s. The losses have been equally severe in the other big producing countries. Not all those losses have been due to cheap imports. As the imports flooded in, Europeans took every opportunity to install new, more efficient machinery on the assumption that the only way to fight the Far East was to turn sunset industries into sunrise ones.

Consequently, production of run-of-the-mill commodity fibers, which could be produced cheaply and efficiently in the Third World, was abandoned in Europe and a massive search went on for high-value-added fibers and clothes with a high fashion content. Wonder fibers such as ICI Fibres' "tactel" in Britain were introduced. Hoechst in Germany; Snia Fibre, Montefibre and Anicfibre in Italy; Rhone-Poulenc in France; and Enka in Holland all sought to do something different. At the same time, the European fiber producers got together under the E.C.'s wing, and agreed to take out surplus capacity. In theory, this was against the E.C.'s competition policy, but the E.C. Commission turned a blind eye to it. Indeed, it helped the process along.

Parallel with this move, the European fiber firms got out of fibers in which they were not particularly strong. ICI Fibers concentrated on nylon, Courtaulds on acrylic, Snia on polyester.

Having put their houses in order—and with the clothing side moving more and more toward leisure wear in up-to-the-moment fashions by leading designer names—the producers suddenly found themselves up against politicians around the world who had pledged themselves to liberalizing trade in general. At successive world economic summits, President Ronald Reagan, British Prime Minister Margaret Thatcher, French President François Mitterrand and German Chancellor Helmut Kohl nailed their policies to the mast of freer access to the West for Third World goods. The intention was not aimed solely at textiles, but the consequence was that textiles would figure very large in this greater freedom because textiles have become of paramount importance in the economies of so many Third World countries.

Just as European industry was preparing to batten down the hatches and put up a strong case against further liberalism of trade, two events of shattering importance hit it. First, it became apparent that the United States was headed for a greater degree of protectionism than before. European industry watched with a degree of fascination and horror as the U.S. Textile and Apparel Trade Enforcement Act approached, and then went through Congress. Fascination because the Europeans would have liked to have done the same thing; horror because the consequences of success in Washington would have repercussions in Europe.

Although the bill does not affect the E.C. directly, Europeans are concerned that if the bill becomes law and keeps a large number of textiles and clothes out of America, those goods could be diverted to Europe—just as European producers are fighting to contain their own liberal-minded Governments. The fear was compounded by the knowledge that the Third World—parts of which are not Third World at all—now makes extremely good clothes and textiles. Hong Kong makes up-market clothes equal to the best in the West and pays its workers higher wages than can be earned in comparable industries in Portugal, Greece or Turkey. South Korea is in the same league and has become a thorn in the side of Japan.

Portugal and Spain, which joined the E.C. January 1, have large textile and clothing industries. Portugal is a very efficient producer of fabrics and its industry has invested heavily in recent years in new machinery. Spain has an even larger industry, some 400,000 strong. There have been some reductions in the last five years in an effort to improve productivity, but the industry has remained highly protected until now. Entry in the Common Market will force removal of these trade barriers and the industry fears the consequences will prove disastrous. One Spanish source has estimated that a fifth of its workers could lose their jobs as goods flow in under reduced tariffs.

Certainly, the Portuguese have designs on Spain. The two countries have existed back-to-back for over 300 years without ever trading on anything more than a perfunctory basis. This year, all that will change. Spain is also worried that its trade barriers will be reduced just as the MFA talks come to a conclusion. It is desperately concerned about high-cost, fashionable goods flowing in from northern Europe, and it is worried that it will attacked on its flank by cheap goods from the Far East and its next-door neighbor. No such fears assail the Portuguese. With low wage rates—averaging some $1.50 an hour (compared with $3.50 in Spain and $7.50 in Germany)—Portugal knows it can shrug off the possibility of imports from the Third World. It also knows that it can very easily supply a market of some 250 million people in the E.C.

The one thing Western Europe is not worried about as 1985 ends is competition from America. With the dollar strong, there is no way that American goods are going to be anything other than specialty items. Some up-market, high-priced goods from Georgia and the Carolinas will always have a market in Europe. But the days of 1981 and 1982, when American carpets and American household textiles flooded Europe on the back of a weak dollar, have long since gone. What Europe now knows is that, within a limited but very profitable range, it can sell efficiently and profitably to America itself. It is no coincidence that many important names in Europe—Lagerfeld, St. Laurent, Burberry—all have identified the United States as their most important single export market.

As the MFA talks approach, however, Europe is not speaking with one voice on the issue. Britain has joined the liberal ranks, long dominated by the Germans and occupied by the Danes and the Dutch. France and Italy remain in the hard-line camp, anxious not to lower barriers. They are joined by the Greeks and certain to be joined by both the Spaniards and Portuguese. The E.C., which negotiates on behalf of all its members, has had a difficult autumn attempting to reconcile these differing beliefs. But the E.C. Commission itself is traditionally liberal in outlook on trade and it is likely that it will shift the E.C. stance along this path.

European industry would almost certainly want an extension of the MFA and not a particularly long one, perhaps for four or five years. The Third World has been pressing for next year's renewal to be the last; European industry fears this may be the outcome.

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THE FUTURE OF SPAIN LIES WITH EUROPE

PRIME MINISTER APPEALS FOR GREATER EUROPEAN UNION.

FELIPE GONZALES

Spain joins the European Community fully aware of having begun a journey from which there is no turning back, convinced that the future of this Community, to which we wish to contribute, is integral to our own.

The technological revolution, whose principle centers are in Japan and the United States, is finding Europe slow to react and lacking in persistence. I understand, to some degree, the lack of dynamism of some sectors and the general disillusionment of European youth. I understand it, but I do not share it. And it is not justified by the comfort—or, perhaps, the sin—of a generation which has not known how to communicate the importance of a project like Europe to the young Europeans.

If we wish to advance on the road of political integration, it is important first to overcome the conflict between national and E.C. interests. We cannot support those who claim that nationalism is realistic, and integration merely idealism.

Without a doubt, today's nation-state has become too small for certain functions and too large for others, with the symptoms of a double crisis of both supranationalism and "intra-nationalism." The solution is not to revive sentimental and fanatical nationalism; if we want to advance we must do so with the clear understanding that the E.C.—and even more the European union of the future—requires a common exercise of our national sovereignties. Full integration will only be possible when all Europeans embrace the idea that true national interests are identical with E.C. interests; at this stage, isolated solutions are already impractical.

As a Spaniard, I see that a century and a half of "hypernationalism" and "hyperprotectionism" in my country have only produced political isolation, authoritarian tendencies, a backward economy and self-absorption. This is why we are seeking common and shared solutions that will move us conclusively away from the demons of the past.

The enlargement of the E.C. has the benefit of bringing some existing problems into relief, and makes it clear that we need a substantial leap forward in European development. As I have made clear previously, Spain will not be an obstacle on the road to E.C. integration. Spain wants to move as far forward as possible, with those who also wish to advance, toward the goal of a united Europe.

This desire will necessarily bring a powerful modernizing force to our present structures, which will mean greater sacrifices on our part than those the present member states were called upon to make. But we make these sacrifices with the conviction that our own future as a part of the E.C. demands it, and we have faith that the E.C. will respond with the indispensable political and economic solidarity, and will not impose further demands beyond our social and economic means.

With this conviction, we support initiatives aimed at perfecting the institutional framework, keeping in mind the necessity of making our institutions more effective and democratic. It is essential to make the decision-making mechanisms of the E.C Council of Ministers more flexible by more frequent use of simple or qualified majority voting.

It is also necessary to review the role of the Commission in the light of the founding treaties, strengthening its executive capacity and its means of action. It seems neither economically sound nor politically desirable that the Commission drift toward becoming a voice which is excessively technical and bureaucratic. That has not been its role in the past, nor should it be now.

Finally, the major role played by the European Parliament, whose direct election by universal suffrage is one of the symbols of European democracy, must be recognized. I am equally convinced that it is necessary that the E.C. advance in the area of political cooperation which we have already shown at the Intergovernmental Conference. We must systemize and organize our political cooperation in order to coordinate the external policies of the Twelve as broadly as possible, including security and defense matters. An exclusively European forum is needed where questions of security affecting solely Europeans are handled.

The deepening of political democracy

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COURTESY EMBASSY OF SPAIN

Prime Minister Felipe González.

SPAIN

SPANISH BUSINESS FACES MOMENT OF TRUTH WITH E.C. MEMBERSHIP.

DAVID WHITE

From farms to factories, Spanish business faces a moment of truth now that Spain has joined the European Community and it is approaching the next year in a sober mood. Although the freeing of trade in both directions between Spain and the E.C.'s current members will be only a gradual process–staggered over seven years in the case of industry, and 10 in the farm sector–short-term worries presently overshadow the prospect of longer-term benefits.

With its long tradition of protectionism, Spain has been through this kind of stage fright before. When the former Franco regime took steps to open up to international commerce, first through liberalization measures at the end of the 1950s and then in 1970 when Spain signed a trade agreement with the E.C., many dire predictions were made. They mostly turned out to be unjustified. The difference now, however, is that the change comes after a decade of industrial crisis, in some respects more profound than that suffered by any other large European country in the aftermath of the 1973 oil shock. Although, with its lower wage levels, the Spanish economy is highly competitive in many fields, it has not finished sorting out some serious structural problems.

Inevitably some of the early effects of joining the E.C. will be negative for Spanish manufacturers. What Spain makes of its membership will depend to a large extent on how well they manage these effects. The energy crisis of the 1970s hit Spain when economic expansion was in full flight. Up to then, its annual growth rates were above the rest of Europe's—and from 1975 onward, below. The process of deindustrialization which in some measure has hit the whole Continent has been more marked in Spain. The total number of people employed in Spain today is just over 10 million—almost two million less than eight years ago. And although the Socialist Government which was voted into power three years ago set out to reverse the trend, the first signs of a halt in the decline have only emerged since this summer.

There is now some indication that jobs will be created faster than they are destroyed—but not fast enough to absorb all the young people coming into the labor market. Spain's official unemployment estimate is around 2.9 million, or almost 22 percent of the available work force, a higher rate than anywhere else in Western Europe. It looks likely to continue rising, albeit more slowly than before. Felipe Gonzalez, the Prime Minister, came to power three years ago promising 800,000 new jobs, but now admits that was a miscalculation. In fact, when the four-year mandate ends next year, the net result will be fewer jobs, not more.

Foreign companies stepped up investment in Spain as Common Market entry approached, but investment by Spanish companies remains slack. Strict monetarist policies and austerity measures adopted by the Socialist Government—to the despair of many of its supporters on the left—have brought big improvements to Spain's external payments and to inflation, but have so far failed to generate a climate of business confidence.

Helped by a few fluke factors, Spain's balance of payments swung sharply out of the red last year to show a $2 billion surplus on the current account. This is expected to be repeated this year. Its foreign debt has been reduced after reaching a peak of $30 billion last year, and Spain has become a favored borrower. Its gold and foreign exchange reserves stand at a respectable $15 billion, reinforced by a third since the Socialists took power.

Inflation, which was already on its way down, went into single figures last year for the first time since before the end of the Franco regime 10 years ago, and is expected to drop to 8 percent for this calendar year. As a result, the inflation gap between Spain and the current average in the E.C.—a key factor in future trade—has been reduced to a couple of points. Finally, although the state budget deficit is still a prime source of complaints from private-sector business, which feels that government and nationalized enterprises use up too big a share of the nation's financial resources, a tight rein has been put on spending by government departments.

Indeed, it became clear at the end of last year that economic stringency had gone, if anything, too far. The current-account surplus had been achieved at the cost of depressing the economy more, as it turned out, than was necessary. In the spring, the Government embarked on a series of cautious measures aimed at reviving economic activity, starting with some reduction in personal taxation.

There have been signs of revival, especially in purchases of new equipment by industry. But the expected recovery of private consumption and of the depressed building sector have been slow in coming. In addition, last year's export boom ran out of steam. Although sales of Spanish-made cars on the European market have continued to rise, total exports have only recently started growing again. The farm year has also been less good. As a result, the government has ditched its hopes of increasing the country's growth rate before next year. It is aiming to maintain a rate of close to two percent, but experts now doubt that can be achieved.

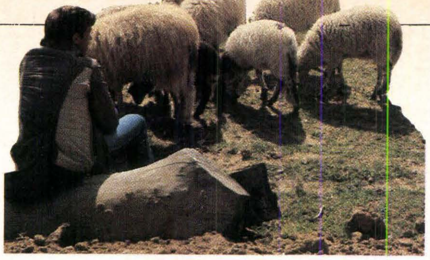
Spanish companies were able to increase their average operating profits substantially in 1984, and have continued to do so, if less spectacularly, this year. But they have mostly taken advantage of the opportunity to put their house in order, rather than embarking on new investments. As Spain begins its now unstoppable move toward open competition with the rest of Europe, the agility of Spanish manufacturers will be put to the test. Entry into the E.C. means accelerating the process of adjustment which has already begun in numerous sectors—including several under the impetus of government-backed "reconversion" programs designed to shake out unneeded manpower. These programs embrace industries from the largely state-owned steel mills and shipyards to the widely-dispersed textile sector, pre-entry aids are also being extended to some multinationals—such as French auto groups with manufacturing subsidiaries in Spain—which need to reduce numbers.

This is a costly affair in a country

where collective dismissals are practically impossible. Voluntary redundancy plans, agreed between employers and union, become increasingly expensive as the jobless rate rises and workers are more and more reluctant to accept compensation for leaving their posts. Rigid hiring-and-firing laws are a legacy from the Franco regime, which banned normal union activity but, as a kind of exchange, guaranteed job security for workers—and none of Spain's post-Franco Governments has dared make any radical change to the system.

Spanish wage costs rose sharply after trade unions were legalized in the late 1970s, but Joan Majo, the Industry Minister, argues that the real problem was not so much the wage rise as the failure of Spanish companies to offset it with technical improvements. After the onset of the industrial crisis, gains in productivity failed to match the increase in labor costs. This was also the case in other countries, but the gap was bigger in Spain and persisted longer. Labor costs per unit of production continued to rise in 1979, well after they had started to fall elsewhere in Europe. This is the handicap which, in Majo's view, still must be overcome.

Urgent and rapid adaptation is therefore necessary. The Common Market is seen as giving Spanish companies, which are on the whole smaller than their counterparts in the bigger E.C. countries, an



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Spanish farmers stand to gain from membership in the Community.

opportunity to specialize much more than at present and to achieve economies of scale. The fact that Spain must adopt the E.C.'s value-added tax system from the moment of entry—unlike Greece, which has still to introduce it, or Portugal, which also has delayed the move—means that business is taking on two major changes at the same time in January.

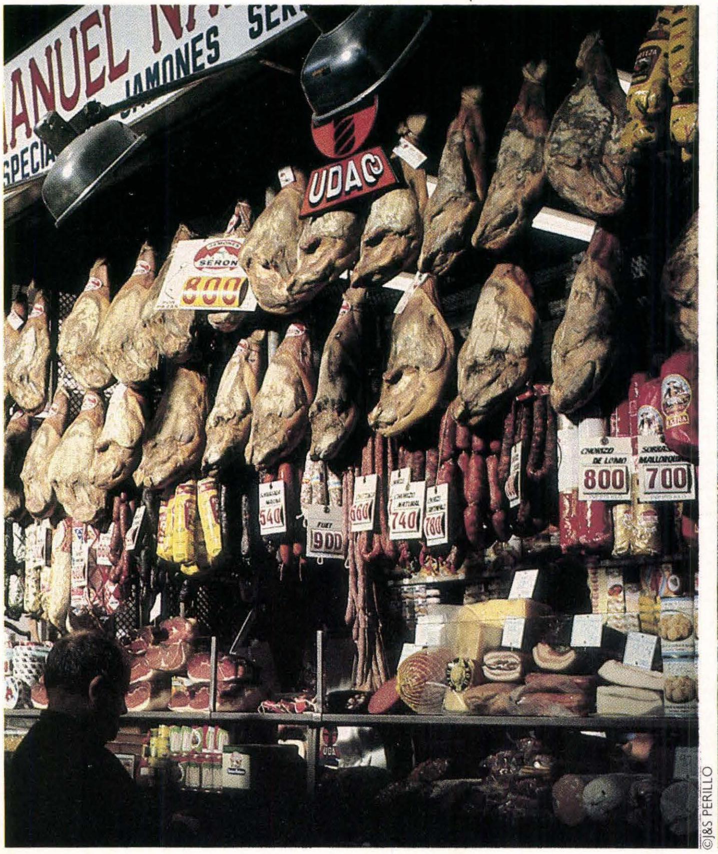
In addition to the new accounting procedures involved, the changeover gives rise to preoccupation on two fronts. One is the psychological impact it is likely to have on inflation, even though some products—for instance, consumer durables such as video cassette recorders—will be cheaper under the new tax. The authorities hope the tax change will not add more than two percentage points to prices this year and that inflation will remain around last year's rate. The other worry is caused by the ending of tax relief for exporters, available under the old system. These benefits have already been reduced, but products such as appliances, steel and capital goods will be losing the tax advantages of the export market.

Spain already sends half its exports to the E.C., and will not gain much from the lowering of tariffs which the E.C. now applies to Spanish goods. These now average only three percent, against Spanish import tariffs of around 15 percent.

However, sales of some Spanish products such as textiles will be helped by the progressive dropping of quantitative restriction. Spanish exports also stand to gain if more companies from other member states set up Spanish manufacturing bases for the European market. In addition, some of the equipment and raw materials which Spanish companies buy abroad will become cheaper, enabling them to reduce export prices. On the other side of the scales, imports will be considerably more competitive and are likely to show a marked rise in the early period of membership.

In the short term, some industrial sectors in Spain may face serious problems and may lose jobs. What happens in the longer term, however, depends on Spanish competitiveness. The Madrid authorities believe E.C. entry provides a big stimulus, by bringing an inflow of investment and by placing Spain in the mainstream of technological development. €

David White is the *Financial Times* correspondent in Madrid.



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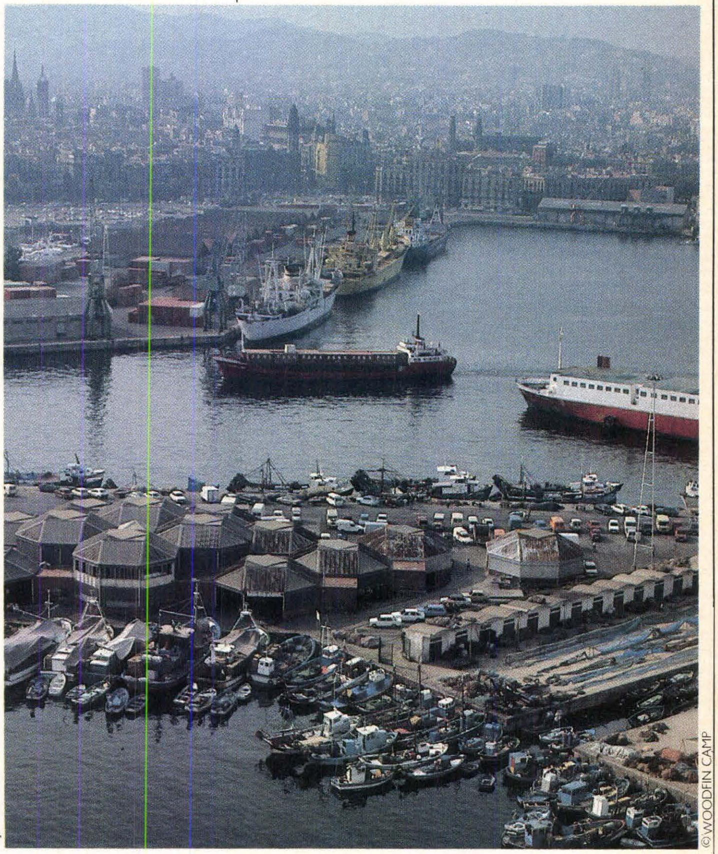

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Membership in the E.C. means Spain must lower import tariffs on goods from other member states, but also means that Spanish exporters will have duty-free access to a Common Market of some 320 million people.

SPANISH ECONOMY WILL GET BOOST FROM E.C. ENTRY

GOVERNMENT SEES MEMBERSHIP AS POSITIVE STEP TOWARD LIBERALIZATION.

GUILLERMO DE LA DEHESA

The following is excerpted and adapted from a speech by Guillermo de la Dehesa, Spanish Secretary of Commerce, to a recent Spain-U.S. Chamber of Commerce seminar on the "Entry of Spain into the E.C."

During the years of negotiations for E.C. membership, Spain tried to assess through innumerable studies of all kinds what the impact of entry into the E.C. would be for its economy and its social system. The results of these studies were diverse: some concluded that Spanish entry into the Community would have a disastrous effect on its economy, others foresaw a positive growth in the medium run and others were neutral.

In the end, what made the Spanish Government decide to become part of the E.C. was the conviction that membership in the Community will result in a great process of liberalization of the Spanish economy—probably the most important since 1959. We realized that previous liberalization processes had proved positive for the Spanish economy. Both 1959 and in 1970, when we signed the potential agreement with the E.C., were important milestones for Spain. There is no doubt that this new change also will have positive results for the Spanish economy. Having been isolated for many years and subject to state intervention and subsidies, the economy is bound to react favorably when opened up to the rest of the world and given a chance to increase the flexibility of its basic structure.

The introduction of the value-added tax (VAT) is expected to have no impact on prices, because we have calculated that with the VAT rates we have applied, we will receive the same amount of revenue that we got from our previous tax system. Some of the sectors will have greater difficulty in adapting to the new system, since we believe that the VAT will introduce a shift of around two percent in prices. This will, therefore, also affect exports. The most positive factor concerning exports for the very short term is the reduction of tariffs in relation to the rest of the Community.

There are some aspects that will make our economy more positive. On one hand, imports will be much cheaper as all our tariffs—not just in relation to the rest of the E.C., but also to the rest of the world— will be much lower. And Spain, having few local natural resources, is currently importing more than it exports. One more reason for liberalizing the economy and reducing protective measures on our imports is to make exports cheaper and more competitive. As import competition grows, a drop in Spanish prices will necessarily result, if only for the sake of remaining competitive. This also will affect our exports because, as profits will also be lower, especially in the monopolistic and oligopolistic sectors of the Spanish economy, these sectors will be forced to export a higher percentage of their production since this will no longer be absorbed by the domestic market.

> Moving from a market of 40 million people to one of 320 million eventually will force readjustments in Spain's economy.

Another important factor is that Portugal will be a considerable market for Spain. This was already the case, but now Portugal and many developing countries will become much better prospects for Spanish exports because of international agreements. Also, both the European Investment Bank (EIB) and the European Development Fund grant credits for exporting into these countries. In the long term, the impact will be very positive, mainly due to the change from a market of 40 million people, which is today's market for Spanish products, into a market of 320 million.

As for how the different products will be affected by our entry into the E.C., there are some which will receive worse treatment than others, depending on the individual agreement. For example, textiles may have a difficult time since the E.C. will keep some quantitative restrictions for Spanish textiles for a seven-year period. The E.C. will also maintain quotas for Spanish steel products, and for agricultural products, mainly food and vegetables. The worst thing is that other Mediterranean countries like Morocco and Algeria will receive better treatment than Spain for the next four years; as a matter of fact, they have preferential treatment even now.

The agricultural sector, for example, will be subjected to a transition period of 10 years, instead of seven. Nevertheless, we believe that these products, in which Spain has a large comparative advantage, will increase exports into the E.C. to a larger extent than the products that have been liberalized.

In general, however, the E.C. agreement for exports will prove very positive in the long term. The E.C. takes 50 percent of our exports, 62 percent of our non-energy exports; and if we were to take the E.C. as well as the EFTA, these figures increase to 62 percent and 75 percent, respectively. This is therefore our main market, and the more this market opens up to us, the more we will increase our exports. The E.C. takes 70 percent of our consumer goods exports, 90 percent of our car exports and 70 percent of our edible fats and vegetable exports. We believe that being part of such a market, which will open up to us increasingly in the future, will help to improve our exports in the long run.

As to imports, the ICGI and its protective component will disappear in the short run. This ICGI, which was higher than the fiscal charge on Spanish goods, was applied not on the actual tariff that the imported good was paying, but on a theoretical tariff. From now on, however, the VAT will be applied to the imported goods on the real tariff paid depending on the country. We now have three tariffs: the

E.C. tariff, which is the lowest; the GATT tariff; and the tariff applied to the rest of the world. Since the real tariff paid by the E.C. products is much lower, the protective component we had before will disappear. The effect will be even greater since our tariff reductions will be 10 percent from March 1, 1986, and another 12.5 percent at the end of next year. These two reductions, both the protective tax component and the tariff component, will increase Spanish imports greatly in a short time.

Also, in the past Spain had a system of import licences for E.C. products by which it could control the flow of E.C. products into Spain. Now licences will not exist because the products come from the domestic market. Spain is opening up its imports, and EFTA goods will receive the same treatment. Many countries have negotiated duty-free access to the E.C. for their industrial goods. So Spain will face more competition from imports coming from Mediterranean, African, Caribbean and Pacific countries.

In the first year of membership, imports will flood the Spanish market, depending, of course, on marginal import propensity of increased income in Spain. If, in 1986, the Spanish economy does not grow, it will be difficult for imports to increase. There also will be a rearrangement of the general flow of imported products into the Spanish market; while those coming from the E.C. will increase notably, there will be a deviation from trade with other countries. In the medium term, after the first 18 months' impact on imports, imports will depend more on the exchange rates of the Spanish peseta in relation to the European Currency Unit (ECU). Judging from the Spanish economic structure, it depends more on its parameters of growth than on a simple reduction in trade tariffs, because the reduction will take a long seven years, and actual Spanish protective tariffs against the E.C. average are only at seven percent.

Immediate increases in Spanish imports from the rest of the E.C. will come mainly from consumer and equipment goods. In automobiles, we will double our import figures immediately. Previously, there was a quota that limited the import of cars from the E.C. to 15,000, with a low import tariff. In the first years after our entry, this figure will more than double, to 32,000, and will increase to 60,000 in four years. As a result, there will be a shift from trade with Brazil, Argentina, the United States and others in favor of Europe. There will also be a bigger import figure from the E.C. in dairy and all animal products, and, again, Spain will buy less of these products from other countries.

In the case of services, sector reactions will be different. Tourism, for example, will not be affected, essentially, by our entry into the Community. It will generate more payments because now Spain can no longer impose any exchange control restrictions on current accounts with the Community. Spanish tourists will travel more freely abroad and spend more, it is true, but receipts will increase overall because Spain is becoming a place for retirement from E.C. countries. Pension funds from the E.C. countries are buying large plots of land and apartments in Spain for retired people, because it is cheaper and more comfortable. During the winter months in the north, people spend more on heating than they do during an entire year in Spain. Since there will also be more commercial activity for the E.C. countries in Spain, business trips and traveling to Spain will increase receipts.

> Previously, new capital came into the country through bank loans and credits. Now, Spanish companies and the Spanish Government will borrow in U.S. and European markets.

In the freight sector, the balance in the short term will be disadvantageous for Spain. We now have a system of reservation for Spanish flag ships for some products, called state imported products. As this disappears, Spanish freight companies will face greater competition from the E.C. and Spanish exporters will probably use E.C. shippers more than Spanish ones. The same thing will happen in the insurance sector. We have set up a six-year transition period for covered insurance with the Community. In general, Spaniards insure to a greater extent than other Europeans.

As regards foreign investment goes, we foresee an important increase. Since 1970, a number of foreign companies have invested in Spain, interested in the profitability offered by a very protected market. Also, the low labor costs, as compared to the rest of Europe, combined with an acceptable level of working skills and availability of basic production infrastructure, make Spain a desirable place for investment and for the establishment of branch offices, factories and production plants. After our entry into the Community, Spain will continue to be attractive for investment purposes.

E.C. companies will continue to invest in Spain because they want to take some position on the Spanish market. Most E.C. companies are currently investing primarily in distribution networks more than in industrial plants. This is one of the reasons why we have decided to liberalize our investment policies, not only in relation to the E.C. countries, but also with the rest of the world. Spain wants to attract American and Japanese investment, because investment from these countries is based more on industry than on trade. In the medium and long term, they bring more wealth into the country.

There are some sectors, however, where investment is growing very fast. Agriculture, for example, has grown 10-fold. In real estate, there was massive investment from the E.C. last year. Many European companies are trying to take positions in tourism through real estate investments. Spanish investment will be considerable in E.C. countries and all over the world, and due to the liberalization of investment with the E.C., Spanish investors are given the opportunity for the first time to place their assets wherever they choose. On the other hand, there are two limitations to this liberalization process: one is for real estate investments, in which it will take five years for Spanish residents to buy freely in the E.C., and there will also be portfolio investments after three years.

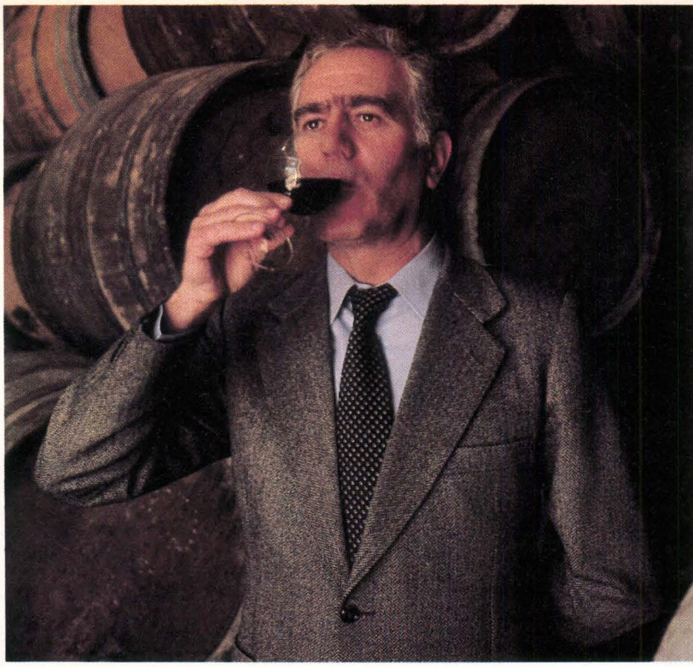
Finally, thede will be big increases in new capital coming into the country. Previously, new capital came into the country through bank loans and credits. Now, Spanish companies and the Spanish Government will borrow in U.S. and European markets. We will have a bigger influx of public capital because the (EIB) has a program for the less developed areas in Spain, and there will be an inflow of funds by way of cheap long-term loans to develop these regions. The EIB has another program to help Spanish companies to invest in Spain and increase industrial output. Spanish capital will increase and private capital will be reduced. In short- term capital, there will be a greater influx once Spain is a member of the ECU system, because there is a fund in Europe that gives short- and long-term loans to member countries. €

NEWS OF THE E.C.

TRANSATLANTIC WINE TRADE OPENING UP

American winemakers are raising their glasses to new E.C. actions that remove the last remaining barriers to U.S.-E.C. wine trade. Regulations adopted in late October have simplified certification procedures for wine imported into the E.C., and mark the final step in the implementation of a 1983 agreement that was drawn up to harmonize wine regulations across the Atlantic.

That agreement, one U.S. Treasury official noted recently, "has enabled U.S. wine exports to expand from a few thousand gallons to more than two million gallons annually. These bilateral commitments will ensure future market opportunities for the United States and offer significant opportunities for trade expansion." Such opportunities have, in fact, expanded enormously for American winemakers, with a growth in the European market's share of total U.S. exports growing from 3.5 percent in 1978 to 22.5 percent in 1984. The E.C. currently levies no compensatory charges on imports of bottled wines from the United States.



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Europe's share of total U.S. wine exports has grown from 3.5 percent in 1978 to 22.5 percent in 1984.

CENTRAL AMERICA AND THE E.C. SET NEW DIALOGUE

The E.C. strengthened its ties with Central America late last fall at a conference which produced a five-year cooperation agreement and a plan to develop a political dialogue that may help promote peace in the region. "This is a very important political step," said Claude Cheysson, the E.C. Commissioner responsible for North-South relations. "We must now demonstrate our will to act together in the medium and long term, with mutual regard and the recognition of differences, in the framework of an agreement of peace and cooperation."

Attending the November 11-12 talks in Luxembourg were the Foreign Ministers of the 12 E.C. member states plus Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Contadora group countries of Colombia, Mexico, Panama and Venezuela. The ministers signed a five-year accord under which they agreed to grant each other most-favored-nation status, to cooperate in technological, agricultural, industrial and other fields and to promote European investment in Central America. The E.C. also pledged to provide development assistance to the region, and said it would examine ways in which its Generalized System of Preferences might be made more beneficial to the countries involved.

Claude Cheysson, the E.C. Commissioner responsible for North-South relations.

Perhaps the most striking element of the conference was the agreement to institutionalize the political dialogue that was begun last year, at a similar conference in Costa Rica. It was agreed that ministerial meetings would be held on an annual basis, aimed at helping the nations of Central American find a "negotiated, global, political solution" to the violence and instability in the region. Such a dialogue, it is hoped, may also help reinforce democratic principles and institutions, foster national reconciliation, and guarantee freedom and human rights throughout Central America.

The importance of regional economic projects, increased private investment, and the need for closer relations in vocational and literacy training were underscored in the conference's economic communiqué, which also lent support to long-term solutions to Latin American debt problems and to a new round of international trade negotiations. The conferees affirmed their conviction that world trade must be expanded to hasten global economic recovery, and that the functioning of the international monetary system should be improved. All agreed that efforts to implement the General Agreement on Tariffs and Trade program should continue, and that international commitments to combat protectionism should be honored.

JOBS FOR EUROPE: NEW COMMISSION PLAN

The E.C. Commission has adopted a strategy for economic growth in the E.C. that aims at raising annual economic growth from 2.5 to 3.5 percent over the next few years, while reducing unemployment from its current 11 percent to seven percent. The plan, outlined in the Annual Economic Report for 1985-86, calls for a cooperative and concerted attack on European unemployment by the E.C., national Governments, employers and unions. Without such a cooperative approach, the Commission believes, little real improvement could be expected before the end of the decade.

The Commission is therefore aiming at creating higher and more job-intensive growth in the medium term without rekindling inflation. An increase in job-creating investment by the business community is considered crucial to the success of the strategy, but is only likely if the outlook for sales appears favorable. This, in turn, requires that real wages continue to increase moderately and that demand be maintained at an adequate level until the growth process becomes self-sustaining. Investment, at 1.6 percent this year, is expected to recover to about 3.7 percent in 1986.

The Commission is also advising that monetary policy be designed to reinforce the progress already made against inflation, which has been cut from an average 11.7 percent in 1981 to 5.2 percent this year. Interest rates should be brought down carefully through a combination of internal measures, a gradual reduction of imbalances in the U.S., and a return to a more normal exchange rate for the dollar.

Budgetary policy should aim at consolidation in the countries where public indebtedness is still very high, and should help to underpin demand where room for maneuver exists, the Commission says. It should also be geared to restructuring public spending in ways that will help create jobs and promote growth.

Transforming the plan into reality will take several years, according to the Commission, and will require genuine cooperation among the social partners. Which actions particular states and groups will be able to take will depend on their circumstances; Germany, for example, could well see a growth rate of over three percent in 1986, with both a considerable current account surplus and a decline in the government deficit. This would give the Government considerable flexibility in its fiscal and external policies, allowing it to increase public investment and to advance to 1987 the tax reform planned for 1988. Such actions, the Commission believes, could well start a "positive chain reaction" that would bring about a lasting improvement in employment.

AID TO AFRICA CONTINUES

The massive emergency aid plan that the E.C. launched two years ago has been almost completely implemented, E.C. sources reported in October. The so-called "Dublin Plan" was drawn up in late 1984 as a strategy for fighting the famine and drought that have swept across much of Africa, and has since supplied well over a million tons of food and some $25 million in refugee aid to the eight worst-hit countries.

But averting immediate famine and laying the groundwork for future self-sufficiency in food has involved more than simply providing bags of grain. New emergency teams were set up to expedite the relief actions, coordination between the E.C. and other aid donors was tightened, and special attention was paid to improving distribution networks. In all, more than 600 trucks (complete with spare parts and maintenance units), nine heavy transport planes, several helicopters, and about $5 million worth of fuel were sent to Africa. Repairs to the Sudanese railway, a crucial distribution link, were also funded by the E.C..

Thanks to these efforts, stocks were re-established by September in the West African ports serving Mauritania, Mali, Niger and Chad, and have been improved in two of the three ports serving Ethiopia. Current reports indicate that the prospects for next year's harvest are much improved, and that the specter of famine is receding.

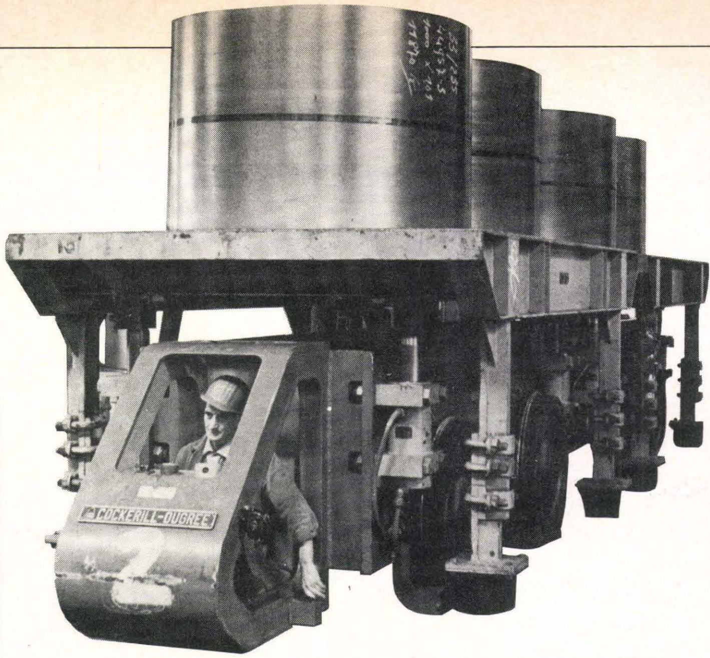
The success of the Dublin Plan notwithstanding, much work remains to be done. E.C. ministers approved in November a plan to use about $70 million remaining from the budget of the Lomé Convention (the trade-and-aid pact that links the E.C. with 66 African, Caribbean and Pacific states) to help prevent future famines in Africa, and authorized the Commission to draw up long-term aid plans for the countries worst hit by drought. The ministers also approved in principle a plan to set aside 500,000 tons of food as an emergency reserve.

Commission staff is now examining a major rehabilitation plan designed to help the affected African states to get their economies going again. Seed stocks must be rebuilt and farm tools, fertilizers and other agricultural equipment restored, if displaced people and refugees are to return to productive lives. The long-term problem of desertification is also being studied by the Commission.

The E.C.'s so-called "Dublin Plan" supplied over a million tons of food and some $25 million in refugee aid to the eight worst-hit countries in Africa.

E.C., ASEAN MINISTERS AGREE ON INVESTMENT

The E.C. and its trading partners in Southeast Asia gathered in Bangkok in October for two days of talks on economic and trade affairs, and agreed on the need to stimulate European investment in the region. The meeting was arranged in order to evaluate the first five years of the 1980 E.C.-ASEAN cooperation agreement, and to consider how relations might be strengthened. Relations have, since their inception in 1972, generally been excellent; overall trade has more than doubled in the past decade, from about $3.8 billion in 1975 to about



The agreement will hold E.C. steel shipments to about 5.5 percent of the U.S. market through September 30.

$8.8 billion in 1984, and trade was almost exactly in balance last year. But while the ASEAN countries (Thailand, Indonesia, Malaysia, the Philippines, Singapore and Brunei) comprise the economically fastest growing part of the world, with a market of some 265 million consumers, European analysts admit that the E.C. has yet to take advantage of the economic boom. The E.C.'s share of the ASEAN market, at about 11 percent, lags well behind that taken by the United States and Japan.

In a joint statement following the meeting, E.C. ministers underscored the "vast potential" of the ASEAN region and said that increased European investment there was central to the longer-term strategy of increasing trade, promoting economic links and improving technology transfer. The ministers agreed to set up a high-level working party to examine investment conditions, identify any difficulties and study ways of facilitating investment, especially by small and medium sized companies.

The E.C. ministers also said they intended to organize a series of exhibitions and events in ASEAN capitals on the theme of "The City in the Year 2000," as part of a campaign to generate interest among European businessmen in investment in the region. ASEAN ministers said they welcomed the proposal.

Much of the discussion focused on trade. The ministers affirmed their commitment to resisting protectionism, implementing the work program of the GATT and achieving a consensus on a new round of international trade negotiations. The considerable development and diversification of E.C.-ASEAN trade which has taken place since 1980 was also discussed; E.C. exports to the region have expanded 73 percent over the period, and imports have risen 41 percent.

Other topics covered at the meeting included cooperation in developing human resources, exchanging technology research, and tourism. The ministers expressed satisfaction at the outcome of the talks, which they said had served to strengthen cooperation in a number of key areas.

AGREEMENT REACHED ON STEEL TRADE

U.S. and E.C. negotiators agreed in November on a four-year pact limiting European steel exports to the United States—an agreement that should do much to ease trans-Atlantic trade tensions. The ad referendum agreement, which will hold E.C. steel shipments to about 5.5 percent of the U.S. market through September 30, 1989, is the latest in a series of market-sharing arrangements the United States has been negotiating with its trading partners to keep exports to 18.5 percent of the American market.

The accord was met with praise by both sides: U.S. Trade Representative Clayton Yeutter called it a "major accomplishment for the President's steel program," and Willy De Clercq, the E.C. Commissioner responsible for external relations, affirmed that the accord "preserves the essential interests of the E.C.'s industry" and would assure stability in U.S.-E.C. steel trade for the next four years.

Under the new plan, which is essentially an extension of the 1982 U.S.-E.C. steel accord, the E.C. will gain 150,000 additional tons of exports, and the scope of the arrangement has been broadened to cover certain products which were not covered by either the 1982 agreement or the complimentary arrangement signed last August. Semi-finished products will not be subject to quantitative limitations, but will continue to be considered "consultation products," and the arrangement on pipes and tubes signed in January 1985 will be prolonged through September 1989. Export limits will be implemented for the stainless steel goods that have been covered under American safeguard measures since 1983, as soon as the measures are ended.

E.C., JAPAN BATTLE TRADE IMBALANCE

The E.C. is stepping up pressure on Tokyo in a new bid to settle its massive trade deficit with Japan, which soared to almost $13 billion last year. Willy De Clercq, the E.C. Commissioner responsible for External Relations, accompanied by Commissioners Karl-Heinz Narjes and Peter Sutherland, met in Tokyo on November 18 with high-level Japanese officials and proposed a number of measures designed to counteract the effects on the multilateral system of Japan's structural trade surpluses. The Japanese made no formal response to the European proposals, which called on Japan to incorporate into its economic policy quantifiable goals on imports of manufactured products and processed agricultural goods.

The Japanese did indicate, however, a growing sense that both the Japanese propensity to import as well as imports themselves should be increased, through eliminating obstacles to trade and modifying the trading structure. Japan reaffirmed its intention to implement measures already announced (including the "Action Program," stimulation of internal demand, and action on the yen), and proposed that a dialogue on these measures continue.

The Commission remains skeptical about the effectiveness of the Japanese approach, and noted in a report to the Council of Ministers last October that moves such as Prime Minister Nakasone's personal campaign to encourage the Japanese to buy foreign products have seldom been followed up by any medium- or long-term measures. The Government has not ensured, for example, that services and organizations which it controls have pursued a deliberate policy of buying foreign goods—another promise it has made in recent years.

While recognizing that the country's distribution system has an important role to play in increasing imports, the Japanese Government has done little more than announce further fact-finding studies—studies, the Commission notes, which have always concluded there is no special problem as regards fair competition.

"It is urgent that, beyond the decisions taken or announced, Japan take broad measures to increase its participation in the world economy," said De Clercq, underscoring that the Japanese "Action Program" did not seem adequate to bring about a change in the trade disequilibrium. "Japan must set concrete and measurable objectives for increasing its imports," he added.

Despite repeated expressions of concern by the E.C.'s Council of Ministers, numerous high-level meetings and renewed Japanese assurances of early action to curb exports of the most sensitive goods and encourage imports of manufactured goods, the E.C.'s trade deficit with Japan has been rising inexorably in recent years. Even today, the E.C. accounts for a mere seven percent of Japanese imports; only raw materials and semi-manufactures are increasing, and even if E.C. exports rose by 10 percent a year while imports stayed the same, it would take 13 years to restore the balance.

EURO-ARAB RELATIONS: TALKS BEGIN

A dialogue between the E.C. and the Gulf Cooperation Council (GCC), several years in preparation, got underway on October 14 with a meeting in Luxembourg of high-level E.C. and GCC officials. Agreeing that it was time to move discussions to a new and more active phase, the two sides said their aim was to conclude a comprehensive and mutually beneficial agreement that would foster broader commercial and economic cooperation. High-level talks are now examining in depth the substantive issues—including industrial cooperation, technology transfer,investment and so on—that might be covered in the negotiation of such an agreement.

While the E.C. and the Gulf states have as yet no formal relations at the regional level, contacts between the two sides aimed at exploring the possibility of establishing a cooperation agreement began as early as 1980. The GCC itself was set up in June of 1981 by Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Oman and Bahrain, with the intention of creating a customs union and fostering closer cooperation in monetary policy, energy, investments and economic development.

The E.C. and the Gulf states are becoming increasingly important to each other as trade partners. The E.C. grants the Gulf states the benefit of most-favored-nation status in trade, and imports of manufactured goods from the region benefit from duty-free access to the E.C. market. Exports of petrochemicals from the Gulf area have expanded enormously in recent years, as have E.C. exports of intermediate and manufactured goods. Trade between the two areas was about $32 billion in 1984.

The E.C. was represented in the October talks by Jacques Poos, president of the Council of Ministers, and by Claude Cheysson, the E.C. Commissioner in charge of Mediterranean policy and North-South relations. The GCC was represented by Sheikh Sabah Al-Ahmed Al Jaber, the Kuwait Foreign Minister and chairman of the GCC Council, and by Abdulla Bishara, secretary-general of the GCC.

NEW FUNDS EARMARKED FOR ENVIRONMENT

Several species of European birds whose habitats are being threatened will be saved from possible extinction by new programs funded by the E.C. Commission. The Commission has allocated about $1.1 million for 11 conservation projects designed to maintain or re-establish some of the more seriously threatened sites throughout the E.C.

E.C. funding will provide about 50 percent of the cost of each of the projects, and will allow the program to go ahead immediately. The projects range from a survey of the state of the European wild bird population and development of an administrative structure for its complete surveillance, to a plan to monitor the effectiveness of E.C. policy for protecting wetlands.

Elsewhere on the environmental front, the Commission is addressing the growing problem of agricultural pollution. E.C. farm policy must take environmental as well as economic concerns into account, it said in a recent report, as the growing use of fertilizers, pesticides and herbicides is releasing substantial quantities of chemicals directly—and dangerously—into the environment. Specific measures under consideration focus on limiting the damage caused by agrochemicals, waste from intensive livestock production and such activities as road construction and drainage of valuable wetlands.

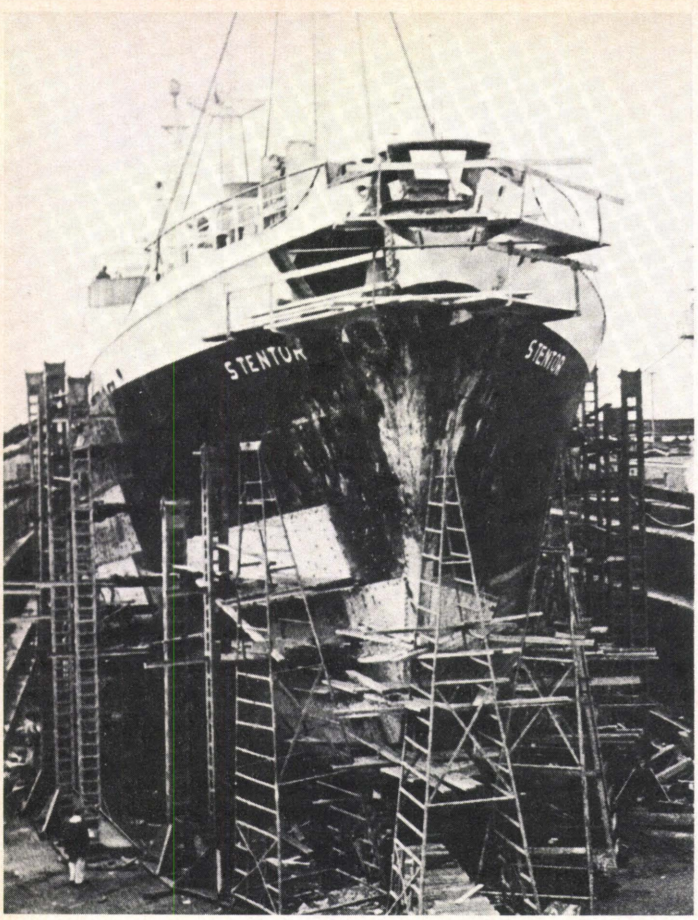
INTERNAL MARKET: TAX PROPOSALS

The E.C. Commission proposed a measure in early November that would, if adopted by the Council, bring about a freeze on present rates of excise and value-added taxes, which are forms of sales taxes. The proposal is an important step toward implementing the Commission's plan for completing Europe's internal market by 1992. The ultimate justification for border controls in the E.C. has been concern by national Governments over protecting their revenues and fiscal prerogatives, and as long as the differences between fiscal systems are significant enough to affect trade, those Governments will maintain their border controls.

The new proposal, therefore, is a first step to ensure that the problem does not get any worse before it starts to get better. The more divergent the E.C. tax systems become, the Commission believes, the more difficult a final approximation will become. According to the Commission's plan, the standstill on VAT taxes would be followed by a second freeze, in which a central target area would be defined toward which the member states would be encouraged to develop. As for excise taxes, the Commission will be attempting to harmonize the scope and structure of the five major duties that are to be maintained at the E.C. level on mineral oils, beer, wine, spirits and manufactured tobacco. The rates for these goods will be approximated and other excise taxes phased out.

This project will take a number of years and is complicated by the fact that the existing disparities among national tax systems are already so marked. As far as the broader implementation of the Commission's internal market proposals, Lord Cockfield (the E.C. Commissioner who authored the internal market report) noted recently that the Council had already adopted 16 proposals this year, and that it was reasonable to expect that some 35 more would follow shortly.

The growing use of fertilizers, pesticides and herbicides is releasing substantial quantities of chemicals into European rivers.



Employment in E.C. shipyards declined a further 15 percent in 1984 to 93,000 jobs.

SHIPBUILDERS HIT ROUGH SEAS

While the E.C. still dominates world trade, it is losing ground in the industry that was once the backbone of every maritime power: shipbuilding. European shipyards saw a 15 percent drop in production in 1984, and with world capacity continuing to expand faster than demand, E.C. shipbuilders face an increasingly troubled future.

The recession in shipbuilding throughout the world is coming to an end, but persistent and substantial overcapacity in virtually every sector of the industry continues to disrupt the market. Price levels remain a critical problem; Japanese and Korean builders have kept prices extremely low, and European shipbuilders have had to continue the reorganization and yard closures that have cost thousands of jobs in recent years. But despite continued capacity shedding in 1984, which brought the total contraction between 1976 and 1984 to more than 40 percent, the average capacity utilization rate in the E.C. was still only about 60 percent—a situation that threatens the very survival of a number of yards.

Very few shipyards have thus been able to avoid further worker layoffs; employment declined by almost 15 percent in 1984 to 93,000, and there are now less than half the number of jobs in European shipbuilding than there were a decade ago.

New orders placed with E.C. shipyards picked up slightly in 1984 to finish about 11 percent higher than in 1983, but are still about 20 percent lower than in the pre-1983 crisis years. The new orders add up to less than 80 percent of 1984 production levels, so 1985 may have seen a further contraction of activity. Conditions seem to be better in Germany, Denmark and the Netherlands than in other member states, partly due to the different pace of restructuring and to improvements in competitiveness. Very often, the Commission has noted, better results have been obtained in member states where direct aid to shipyards has played a less prominent role in public support schemes for the maritime sector.

The seriousness of these conditions in the market lay behind the 1984 decision to extend the E.C. directive on aid to shipbuilding for a further two years. The Commission wants to improve the European industry's efficiency, while at the same time spreading the burden of the crisis more evenly around the world. But with yards and workers lying idle for long periods, the progress that has been made in improving competitiveness is being nullified. Capacity, meanwhile, is growing in other parts of the world; South Korea, for example, has raised its share of world production from virtually nothing to 10 percent over the last decade, and both China and Taiwan doubled their output in 1984.

Forecasts indicate that the drastic contraction of the world market (which declined by 17 percent in 1984) will continue for the next several years, and may mean future problems in reconciling the expansion of the shipbuilding industries in some developing countries with the efforts to restore normal activities in the countries which have been cutting capacity in an effort to adjust. There is a real danger, the Commission believes, that the latter countries will have a difficult time capitalizing on the recovery expected in the 1990s, and that many of them—including the member states of the E.C.—could be in for stormy weather ahead.

The population growth rate in the E.C. has fallen to 0.2 percent in 1983.

POPULATION: AN AGING EUROPE?

Statistics recently published by the E.C.'s statistical office suggest that the population of Europe may be steadily getting older. In all member states of the E.C., the percentage of those under 15 dropped in 1983 to a level below that of 1982, confirming a trend which has been evident almost everywhere in the E.C. and which is mainly due to a fall in the birthrate.

According to a report by the E.C.'s Economic and Social Committee, 20 years ago the E.C.'s population was rising by about 0.9 percent a year, but by 1983 this had fallen to 0.2 percent—an average of only 2.1 children for every woman of reproductive age. At 320 million (including new members Spain and Portugal), the E.C.'s population is not exactly small, but an expanding population is considered a positive economic force and should be encouraged, the Committee noted in its report.

Young people are most numerous, proportionally, in Ireland, where those under 15 account for 30 percent of the population, as against the average of 20 percent elsewhere in the E.C.

STATEMENT OF OWNERSHIP, MANAGEMENT AND CIRCULATION

1a) EUROPE Magazine. 1b) 18848. 2) 24 October 1985. 3) Bimonthly. 3a) Six. 3b) $25.00. 4) 2100 M Street, NW, 7th Floor, Washington DC 20037. 5) 2100 M Street, NW, 7th Floor, Washington DC 20037. 6) Denis Corboy, 2100 M Street, NW, 7th Floor, Washington DC 20037. Webster Martin, 2100 M Street, NW, 7th Floor, Washington DC 20037. Position vacant. 7) Delegation of the Commission of the European Communities, 2100 M Street, NW, 7th Floor, Washington DC 20037. 8) None. 9) N/A. 10a) 46128/40000. 10b1) 92/500. 10b2) 32525/30036. 10c) 32617/30536. 10d) 6725/6362. 10e) 39342/36898. 10f1) 6665/3102. 10f2) 121/0. 10g)46128/40000. I certify that the statements made by me above are correct and complete. Signed: M. Laughlin, General Manager.

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EUROPEAN STEEL

Continued from page 43.

knew that if European steelmakers were ever to restructure, their best chance lay in the framework of the ECSC.

The country-by-country response to the Davignon Plan varied widely, with some notable successes and a few disappointments. The question of subsidies seriously divided the industry, with the mostly privately-owned German companies pitted against government-owned or -subsidized companies in France, the United Kingdom, Belgium and Italy. German steelmakers fared better than most over the past decade, but a proposed merger between the major integrated companies never came off—in part due to a dispute about how much aid Bonn would contribute to see the deal through. Germany has reduced its capacity and employment in steel significantly since 1980; Europe's largest steelmaker, it faces the future confidently.

France, on the other hand, has seen its restructuring process hampered. The two main steel companies, Sacilor and Usinor, which nationalized after the Socialist victory in 1981, had operating losses of $800 million in 1984. Both are still far from profitability, despite extensive modernization and production cuts. And with employment sure to be an important issue in the 1986 national elections, the Government has been reluctant to close any more plant capacity.

Italy has cut most of the 3.8 million tons in the public sector it had targeted, and the state-owned Finsider says it could be viable next year. The Luxembourg producer Arbed has cut more capacity than was demanded, and has entered into a production-sharing agreement with Belgian state-owned company Cockerill Sambre. Arbed posted its first net profit since 1976 last year, and Cockerill forecasts a profitable year in 1986. Many of these companies have invested heavily since 1980, and most of the investment came from state aid.

The experience of the British Steel Corporation (BSC) has been the most striking of all the European companies. Formed in 1967 by the nationalization of about 90 percent of Britain's steelmaking plant, BSC abandoned an expansion strategy begun in the early 1970s as mounting losses forced wide plant closures. In 1980, the year the Davignon Plan began, 45,000 workers had to be laid off due to the depth of the crisis. But under the leadership of Ian McGregor, BSC rationalized its entire management strategy and system of labor relations. Strict quality controls were implemented, absenteeism targeted, deadlines enforced and aggressive marketing strategies adopted. Capacity closures have gone well beyond the 4.5 million tons originally sought, but both Government and industry accept that more capacity will have to be cut to bring the industry into line with realistic long-term demand. BSC appears to be able to survive without subsidies in 1986.

How effective has the Davignon Plan been? Has the industry in fact adapted, streamlined itself, readied itself for battle in the free and open marketplace? The answer appears to be a qualified yes. About 32 million tons of hot-rolled capacity have been cut since the commitment to do so was made in 1982, employment was cut by some 170,000 workers between 1980 and 1984, and the Commission says that most European steelmakers will be viable from 1986 on without operating aids from the state. The restructuring, however, is far from over. The industry can survive only by continued modernization, even if doing so increases production capacity at a time when demand is growing only marginally. Lacking the large scale, technically superior production plant of the Japanese or the large unified home market of the United States, European steelmakers still face hurdles to self-sufficiency.

The October 30 decision to end subsidies but keep production quotas on some products for a while may disappoint free-marketeers who would prefer to see the industry immediately thrown open to market forces, but clearly such a step is unfeasible. The gains that have been achieved were won with enormous hardships of unemployment, and they need to be safeguarded. Moreover, the European steel industry has evolved into a series of 10 more-or-less national industries, whose Governments will never entirely give up the reins, but who are also alarmed at the prospect of subsidizing forever an industry whose heyday has passed. Europe's future lies in entirely new fields—high technology, telecommunications, space, for example—where government support can be essential to overcoming the initial costs of research, development and capitalization that private enterprise in a new field faces. With annual growth continuing to hover only at around two to three percent in Europe, governments are loath to spend their limited resources on preserving an industry they see as a drag, rather than a spur, to growth. Permanently subsidizing steel is also, it hardly needs to be said, a good way to lose friends and influence among trading partners, especially those in the newly industrializing world. European steel won't be allowed to die, nor should it be. But its masters are insisting that it eventually pay its own way.

So despite the skepticism of the pundits, the Davignon aid plan will come to an end on schedule. The new regime, which will control steel production through 1988, excludes any further aid for continued operating costs and investments, although some investment aid will be allowed in Greece as long as it does not increase capacity. Subsidies from now on will be granted only for research and development, protection of the environment and certain plant closures. Aid for such closures will be limited, however, to social payments to workers who have been made redundant or as compensation for plants which are pulling out of the steel sector altogether. The aids should serve as an incentive for further capacity cuts, as well as improving the competitiveness gained as a result of earlier restructuring efforts.

The Ten also agreed on a two-year period of gradual return to normalcy in the market regime. Minimum prices for all products have been suspended, and the quota system made more flexible. Concrete reinforcing bars and coated sheet, representing about 15 percent of all steel products under control (about 85 percent of all E.C. production is controlled) will be taken out of the production quota system, and, this year, the Commission will make proposals for further liberalizations in 1987. A company will also be allowed to transfer its quota from one particular product to another, as long as the quota does not increase by more than 25 percent and the tonnage being transferred does not exceed 10 percent of the company's total quota.

Will the new regime succeed? The Commission is confident it will. Some 20 million tons of excess capacity still need to be cut, and the industry is only running at about 70 percent capacity, when it needs to hit 80 percent to break even. World steel consumption in 1985 was lower than in 1984, according to the OECD, and is likely to decline further this year. But demand rose modestly in Europe in 1985 due to increased activity in the automobile and machinery sectors, and exports have been rising as well. While job opportunities in European steel continue to shrink, they're shrinking more slowly. So the signs are there for a return, if not to the boom conditions of the 1960s, at least to a period of market stability and appropriate capacity levels. The Davignon Plan was a temporary measure that got European steel through a crisis and allowed it to begin the long process of rationalization, modernization and change. The industry is on its own now. The cocoon is coming off. €

SOUTH AFRICA

Continued from page 45.

The *harmonized restrictive measures* consist of the following:

• A rigorously controlled embargo on exports of arms and paramilitary equipment to South Africa and on imports of any such equipment from South Africa;

• Refusal to cooperate in the military sphere;

• Recall of military attachés accredited to South Africa and a refusal to grant accreditation to military attachés from South Africa;

• Discouraging cultural and scientific agreements, except where these contribute toward the ending of apartheid or have no possible role in supporting it; and freezing of official contacts and international agreements in the sporting and security spheres;

• Cessation of oil exports to South Africa; and

• Cessation of exports of sensitive equipment destined for the police and armed forces of South Africa;

• Prohibition of all new collaboration in the nuclear sector.

The *harmonized positive measures* include the following:

• Code of conduct: adaptation, reinforcement and publicity;

• Programs of assistance to nonviolent, anti-apartheid organizations, particularly to the churches;

• Programs to assist the education of the nonwhite community, including grants for study at the universities in the countries originating the programs;

• Intensification of contacts with the nonwhite community in the political, trade union, business, cultural, scientific and sporting sectors and so on;

• Programs to assist the South African Development Coordination Conference and the Front-Line States; and

• Programs to increase awareness among the citizens of E.C. member states resident in South Africa.

The E.C. Commission—the institution responsible for proposing such programs to the member states and for implementing them once agreed upon—has now proposed to step up E.C. assistance to local black communities, to training and education efforts, to human rights and legal-aid schemes and to social programs. Such programs should be implemented through churches, non-governmental organizations and trade unions—and exclusively through non-violent organizations.

The September 10 decision, if it excluded immediate recourse to E.C. *economic sanctions* against South Africa, nevertheless agreed to keep them on the agenda for internal review. The Twelve stated that they "may have to reexamine their attitude in the absence of significant progress within a reasonable period." They will "assess the situation regularly," i.e. on the occasion of the monthly meeting of their Foreign Ministers.

Finally, the E.C. maintains *contacts with all parties involved in the present crisis.* The most visible part of these contacts was the mission of three E.C. Foreign Ministers plus the E.C. Commissioner for External Relations, Willy De Clercq, to South Africa which took place August 30 to September 1, 1985. They met with the South African Government, churchmen, trade unionists, leading businessmen, journalists, and leaders of political organizations such as PFP, INKATHA and AZAPO. In addition, the Luxembourg Foreign Minister and De Clercq met in Luxembourg with representatives of the ANC on September 10.

Let us now take a broader view of the problem and discuss the prospects for evolution in the South African crisis, as seen from Europe. The present crisis results in violence, death and human suffering. This tragedy has one single cause: apartheid. De Clercq declared before the European Parliament on September 11, 1985: "Apartheid is violence in every respect: not only the brutal repression of demonstrations for fundamental rights, but also the state of emergency, arbitrary imprisonment, detention of political prisoners, racial discrimination, refusal to negotiate with genuine representatives of the black population."

To all this, the E.C. says: It must stop. Apartheid must be dismantled, not in part, but as a whole, and a genuine dialogue must be started with all the representatives who will be designated by the black population. The Government must not exclude anybody, not even those presently jailed.

For years, the South African regime thought that the country's strategic mineral endowment, its geographical position important to the Western alliance, its economic successes compared to the rest of Africa made it immune from moral condemnation and appeals to abolish apartheid. Now South Africa is in deep economic trouble: a currency crisis, a recession, a debt crisis. Private commercial banks in industrialized countries are unwilling to refinance South Africa's debt, not because of some kind of political pressure from their Governments, but because South Africa's racial policies make it a bad risk. Similarly, private companies and portfolio investors from abroad are now voluntarily disinvesting from South Africa or at least withholding new investment decisions simply because market-economy principles and capitalism do not get along well with a policy of deprivation of fundamental political rights. In addition, there is the permanent threat of a massive, peaceful and general strike that could paralyze South Africa's economy at any moment.

Now, pressure on the South African Government is building up inside the country, not only from the black movements and parties, but also from the business community as a whole. Outside South Africa, the pressure from the democratic countries of the West is virtually unanimous. Even though practical measures taken by Governments might differ, their general attitude is basically identical: The business community (investors, banks, industrialists) has already "voted with its money," the general public is pressing for change. This is not the result of some conspiracy against white South Africans, it is simply the expression of the democratic nature of the Western countries.

Apartheid is now condemned, from inside and from outside South Africa. True, some steps have been announced by the South African Government, some measures implemented. This is, no doubt, partly due to the attitude taken by the Western countries. Political moves such as the E.C. Foreign Ministers' mission to South Africa have certainly helped the Government realize that the outside world could not sustain normal relations with it much longer without drastic and rapid reforms.

The steps already taken certainly point to the right direction, but they do not go far enough. Human dignity is indivisible. Restoring citizenship, for example, means precious little to a black South African who still cannot vote or live, eat and go where he wants. Again, there is no such thing as good or bad apartheid.

The most serious worry at this juncture, it seems, is the lack of clear direction for the future. There is no comprehensive proposal for the future structure of the country; there is no established and recognized forum for negotiations; it is not clear yet who will come to the negotiating table. Clearly, a significant gesture from the South African Government is required in order to restore a minimum of confidence and credibility. Whether the present Government will be able to make such a quantum leap remains to be seen.

The best hope so far lies with the progressive forces within the white population of South Africa, in particular the business community. €

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.*

EEC Regulations on the Marketing and Use of Dangerous Substances and Preparations. Vol. I & II. Sandro Amaducci. Brussels, 1985. 1200 pp. $65.00

To keep pace with scientific and technical progress, EEC legislation on dangerous substances has been amended frequently. This two volume set compiles the texts of legislation into a clear, concise format that will prove to be a great help to those baffled by the amount of legislation in this field. The author also provides useful comments and a neat loose leaf format to simplify further updates.

Nontariff Barriers to High Technology Trade. Robert B. Cohen, et al. Westview Press, Bolder, 1985. 142 pp.

As nontariff barriers gain increasing commercial and diplomatic importance, this study researches the extent of their proliferation and their effect on trade and technology transfer. Departing from the hypothesis that nontariff barriers are linked to national industrial goals, this study examines the argument that they undermine production advantages based on economies of scale. The book includes a number of policy recommendations designed to reorient international trade negotiations to account for the impacts of these barriers.

International Accounting: A Survey. John Samuels and Andrew Piper. St. Martin's Press, N.Y., 1985. 197 pp. $27.50. cloth.

During a time of increasing interest in international accounting, this book presents a critical survey of the diverse literature in this area. Provides an overview of current trends and changes in international accounting and examines the harmonization and standardization debate, as well as the enforcement of international standards and the need for accounting specialists in developing countries. Succinct introductory overview of the subject.

A Rural Policy for the EEC? Hugh Clout. Methuen, N.Y., 1985. 214 pp. $29.95. cloth.

Surveys rural-urban movements, prospects, resources as well as other key factors which have been instrumental in changing the countryside. Emphasizes depopulation, repopulation, changes in land structure and land use. The author argues for a more expansive program in addition to the CAP in order to manage rural Europe in the face of these changes. He also sights several examples of member states' programs in managing rural policy.

The Economy of the Common Market. Dennis Swann. Penguin Books, N.Y., 1984. 336 pp. $7.95. paper.

This latest edition, updated to include recent events, analyzes the shifts and evolution of community policy over the years. Reviews the mechanics and politics of some of the E.C.'s most important policies such as regional, industrial and social policies. Chapters include discussions of Community decision making institutions, tariff barriers and the customs union as well as monetary integration.

Comparative Industrial Relations. Ron Bean. St Martin's Press, N.Y., 1985. 261 pp. $32.50. cloth.

Going beyond a country-by-country description of institutional arrangements, the author attempts to utilize analytical tools for cross-national comparisons and to account for the different patterns of industrial relations structures. Surveying a wide body of research findings, he presents analysis of collective bargaining and the role of worker participation in decision making. The last chapter provides a general overview of comparative industrial relations.

Privatization and Deregulation: The European Debate. Jacques Pelkmans and Martijn van Nie, ed. European Institute of Public Administration, Maastricht, 1985. 190 pp.

This timely study published during a period of heated debate over the role of government in the management and regulation of the economy, sheds new light on some of the attempts at deregulation and privatization in various European countries. Essays examine the enterprise zones in Belgium and the UK, privatization of public enterprises, pricing policy for public services and the political dynamics behind these issues.

International Organizations 1984 Issue No. 1. Denise S. Akey, ed. Gale Research Co., Detroit, 1983. 3 issue subscription: $130.00.

The first issue of the series contains 500 entries of international organizations whose headquarters are located outside the United States. Organization entries are arranged under 15 broad categories and include over 20 pieces of information about each organization including name, address, telex and telephone numbers, officers, etc. Covers international membership organizations, generally binational and regional organizations are not included.

International Who's Who 1985/86. 49th Ed. Europa Publications Ltd. Available from Gale Research Co., Detroit, 1985. 1676 pp. $103.00. cloth.

Biographical data on prominent individuals in virtually all fields can be found in this 19th edition containing 15,000 entries. Existing biographies have been revised and updated. Listings include date of birth, nationality, area of prominence, education, accomplishments, current address, and in some cases phone number. Covers a wide range of areas including international affairs, government administration, diplomacy, science and medicine.

Doing Business in Belgium. American Chamber of Commerce in Belgium, Averue des Arts 50, Bte 5, B-1040, Brussels.

This practical guide is designed to provide a basic source of information on Belgium business practices for a foreign business seeking entry into the Belgian market. Includes useful information about importing and reexporting, the legal aspects of exporting directly to Belgium and some tips on establishing a business in Belgium. Annex includes lists of useful addresses.

Le Parlement Europeen. Jean-Paul Jacques, et al. Economica, 49, rue Hericard, 75015 Paris, 1984. 286 pp. 149 FF. paper.

Written and published in French, this thorough study of the European Parliament examines its legal and institutional aspects as well as the national legislation of member states concerning voting and elections. The concluding chapters analyze the status of members of parlia ment, the organization and powers of the Parliament, with special emphasis on the institutional aspects including a discussion of its budgetary control. Also includes complete bibliographies.

Common Market Digest. David Overton. Library Association Publishing Ltd., London, 1983. 387 pp. 29.50 pounds.

Extremely useful reference guide to the European Community, providing clear information about community institutions, organization and politics. In addition to an outline of the evolution of policies and institutions, it includes lists of committee members, references to other publications and background on the most important developments within the community. Excellent resource for students, business people, and teachers.

The Senate and U.S. Troops in Europe. Phil Williams. St. Martin's Press, N.Y., 1985. 315 pp. $25.00. cloth.

Outlines the legislative history of Senate reactions to U.S. troop deployment in Europe and provides an overview of the evolution of legislation and policy position on this issue. Includes analysis of the North Atlantic Treaty, the great debate of 1951, Senator Mansfield's position, and the later debates of the 70's. An informative and scholarly text.

Yearbook of the European Communities and of Other European Organizations. 6th Ed. Editions Delta, Brussels, 1984. 408 pp.

Now published in a trilingual format of English-French-German, this complete directory and yearbook of the European Communities updates information on almost all aspects of Community institutions and other European organizations. Provides information on the Parliament, Council, Court of Justice, Commission, and organizations such as the Council of Europe, the Nordic Council, and scientific organizations. Includes a calendar of events, list of publications and press agencies and addresses of various Community organizations.

Market Integration in the European Community. Jacques Pelkmans, Kluwer, Hingham, Mass., 1984. 322 pp.

Unique approach combines three traditional approaches to the study of market integration - theory, study of industrial structure and political economy in an interesting analysis of this topic. Presents both theoretical and empirical analysis in this two part study including chapters on the theory of a customs union, its effect on market structure and intra-industry trade and international production. The second half examines "integration from above" or the effects of E.C. policy on industrial structures.

Consumer Europe 1985. 5th Ed. Euromonitor, Available from Gale Research Co., Detroit, 1985. 420 pp. $335.00. cloth.

The new 5th edition provides a statistical database on the European consumption of some 350 consumer products ranging from fresh beef to cigarettes. Consumer products are grouped into about 50 generic categories. In addition to data on annual consumption, each country's market share, sales per capita, percentage growth rates over five years and the most recent annual inflation rate are also included. Excellent source for market and consumer research.

Private Rented Housing in the U.S. and Europe. Michael Harloe. St. Martin's Press, N.Y., 1984. $32.50. cloth.

Analyzes the private rented housing markets in terms of historical development and national social and economic conditions. Through extensive research and a series of interviews with landlords and tenants in Britain, France, West Germany, the Netherlands and the U.S., this study sheds light on the evolution of the rent sector, rent policy, urban renewal, and draws conclusions about the future of the private rented sector.

The Cost of Social Security. International Labor Office, Geneva, 1985. $28.50. cloth.

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Yearbook of International Organizations 1985/86. Volume II: International Organization Participation: Country Directory of Secretariats and Membership. Union of International Associations, ed. K.G. Saur, N.Y., 1985. 1504 pp. $168.00. cloth.

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IRISH AGREEMENT

Continued from page 39.

so many of her predecessors as Prime Minister. Nor is there any evidence that British public opinion, which is clearly supportive of the Hillsborough Agreement, would want her to do so. Indeed, when Ian Paisley went to Glasgow to try to rally British opposition to the agreement he only drew a crowd of 250.

But the danger in this growing isolation of the Unionists is that it intensifies their sense of siege and excites their fears that they may be at the beginning of the road to what Paisley has denounced as "rolling Irish unification." And there can be little doubt that the significance of the Hillsborough Agreement is that it does not seek to establish a new status quo, but to institutionalize a process. In fact, it offers a choice of processes and therein lies its subtlety.

One process could lead to the devolution of governmental powers "within Northern Ireland on a basis which would secure widespread acceptance throughout the community," long the declared policy of the British Government which the Irish Government has now formally supported. If, and only if, this first process is frustrated by the absence of intercommunity cooperation, then the agreement provides for another process which would enable the Irish Government to use the Intergovernmental Conference as a framework within which, "where the interests of the minority community are significantly or especially affected," the Irish Government may "put forward views on proposals for major legislation and on major policy issues." There can be no doubt that Ulster Unionists would find the second process more obnoxious than the first because it would give the Irish Government an ever-increasing influence over their affairs. But it remains to be seen if what is essentially a deterrent will serve as an incentive which will lead them to participate in that process of sharing power with Catholics within Northern Ireland which they rejected in 1974.

More attractive incentives are demanded if Unionists' bitterness and suspicion is to be assuaged. What is demanded above all is that the Intergovernmental Conference achieve early success in its first self-appointed tasks of improving relations between the security forces and Catholics in Northern Ireland, of improving cross-border cooperation against the IRA and of increasing public confidence in the administration of justice. The immediate object, in short, must be to isolate the terrorists to a much greater degree than has hitherto proved possible in order to demonstrate to moderate Unionist opinion that there are tangible advantages in the agreement for them. And that is an objective which cannot be achieved in a matter of weeks, or even of months.

The Hillsborough Agreement, then, does not pretend to be a solution to the Northern Ireland problem. It offers, at best, a framework within which progress toward such a solution might be made. But it does give Northern Ireland a new status which, it has already been argued, is unique in international law. Although it remains part of the United Kingdom—and, under the first article of the agreement, will so remain for as long as the majority of the people of Northern Ireland so wish—the agreement confers upon two separate, sovereign Governments the *legal right*, in the shape of an international treaty which will be registered with the United Nations, to determine jointly issues which touch upon the essence of sovereignty within Northern Ireland.

This is why Hillsborough marks the most dramatic change in the *legal* status of Northern Ireland since it was first established as a distinct entity, and this will remain the case even if the high *political* hopes which have been vested in the agreement are unfulfilled. €

SPAIN

Continued from page 48.

can only satisfy us if it is united with an effort to meet the social and economic challenges we face. On the one hand, the E.C. is obligated to set concrete terms for the attainment of the objectives established in the founding treaties, but which have never been realized. On the other hand, the E.C. should broaden the scope of its activities by assuming greater responsibility in such fields as environment, scientific research and technology, and other areas which could be vital to enhancing both its internal cohesion and its role in serving the citizens and nations of Europe.

The European road toward economic development is leading to a new social harmony and toward a system in which freedom and flexible management are complemented by progressive forms of worker participation in the decision-making process. The real defects of our system, the dangers which hover over a debt-ridden Europe, oblige us to democratize our economy—which, perhaps, has not been sufficiently adapted to political democracy.

The time may have come for a new idea: that if we are not capable of stimulating our young people, of opening new roads and horizons for them in the workplace, if we cannot build economically rational systems and humane social models for living together, we run the risk of pushing them down a dangerous road of indifference and alienation.

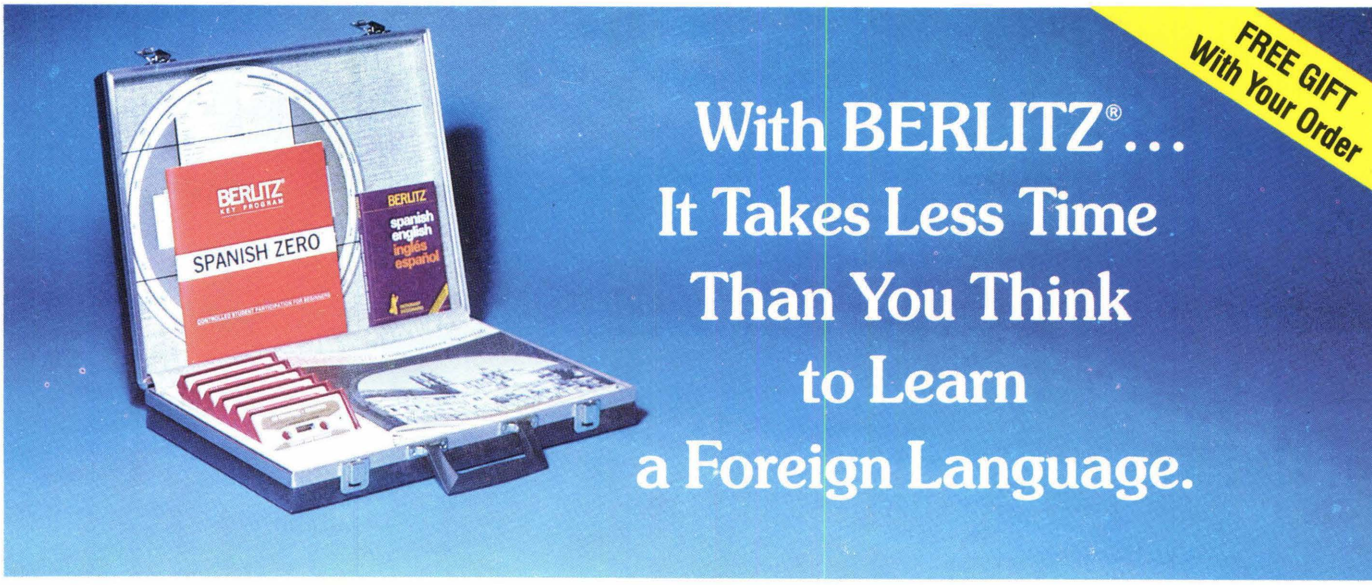
We must promote a genuine culture of the advancement of integration, which will require coordinated action. With that goal in mind, the E.C. must collaborate with other European countries and with other institutions, such as the European Council, that are becoming important forces in the educational as well as cultural realms. All institutions which promote cultural values and the drawing together of the people of Europe should count on our support, because they contribute concretely to the values of democracy, pluralism, liberty and justice—the values of a Europe for excellence.

We find ourselves faced with an uncertain and at times dramatic situation because we sense the shape of the approaching future, but do not dare to define it precisely. A new division of the world is being brought about by the technological revolution, separating the societies which are entering fully into the modern age from those which remain disengaged from it. A Europe of technology and science is absolutely necessary, if we are to correctly guide our societies through this transformation.

Spain joins the E.C. to help build for all of us a future of liberty and progress for a united Europe. We arrive in the midst of a profound crisis which is causing the entire world to change its political customs and methods of production. It is a long and painful crisis, but it must also be a fruitful one, as all true crises of history have been. It is the time to apply reflection and imagination, the moment of the idea. It is the time of creativity and daring, the time to eliminate what is decrepit and to welcome what is being born. It is the time of youth.

The aim of the Spanish people is to contribute our confidence and our hope for the Europe of today, so that all of us, together, can make the Europe of tomorrow possible. We have time and experience on our side, and we have both the knowledge and the means. We have the will, and we share the goal of making Europe that motor, that force that can accelerate the progress of the freedom of man. €

This article is adapted from a speech given by Prime Minster González at the College of Europe in Bruges, Belgium, on October 10, 1985.



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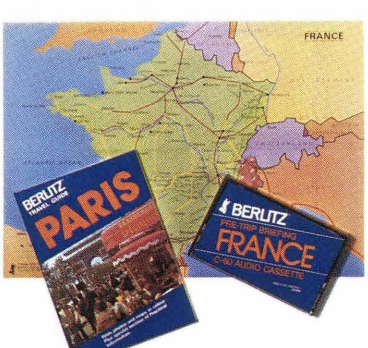

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