JUNE 1986

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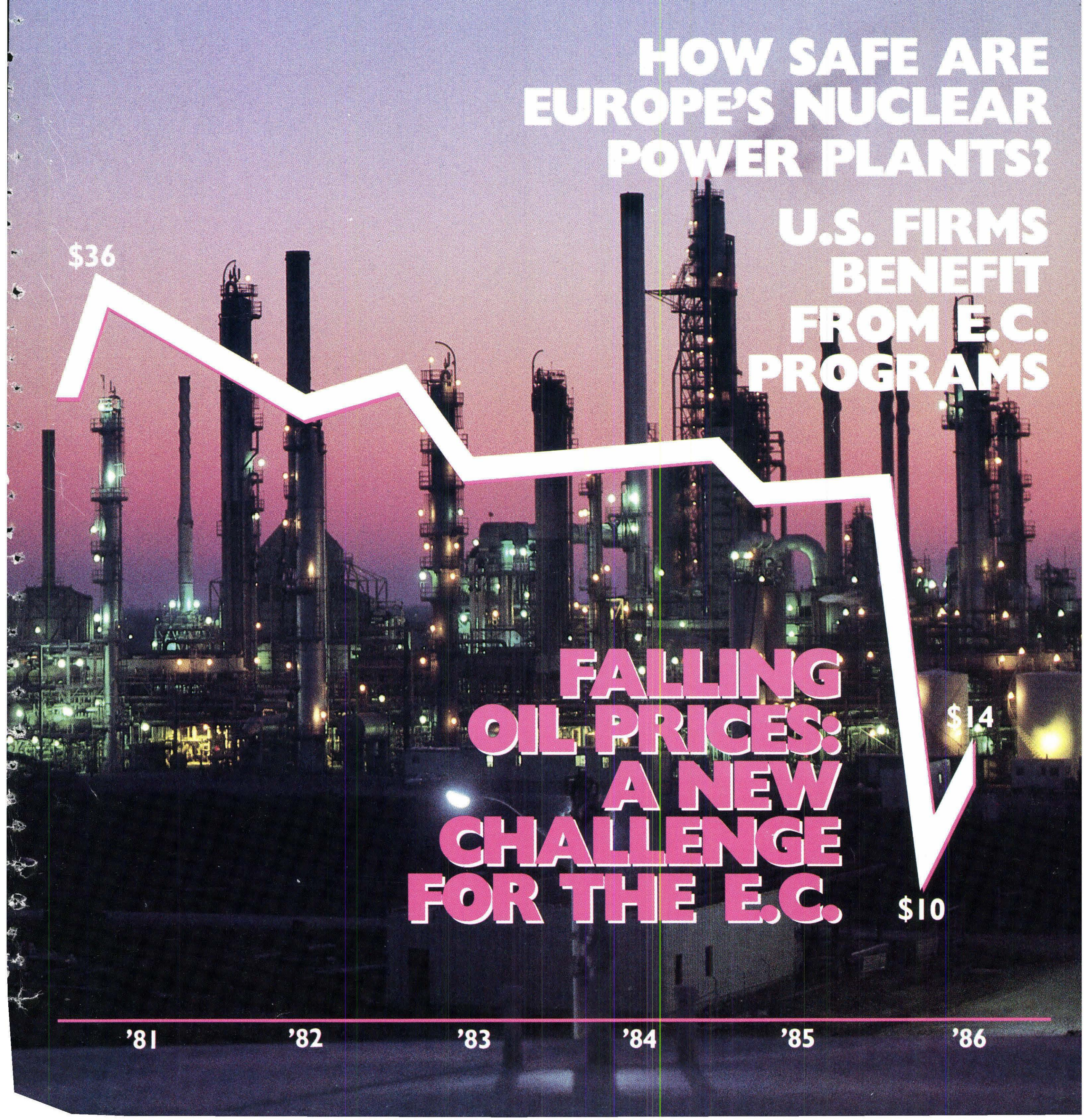
EUROPE

HOW SAFE ARE EUROPE'S NUCLEAR POWER PLANTS?

U.S. FIRMS BENEFIT FROM E.C. PROGRAMS

FALLING OIL PRICES: A NEW CHALLENGE FOR THE E.C.



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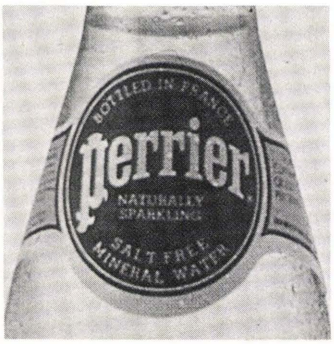

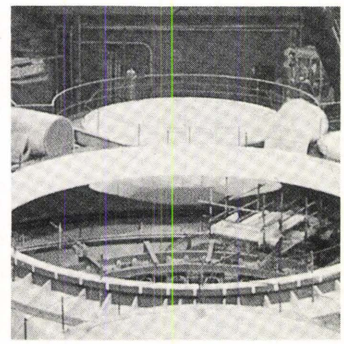

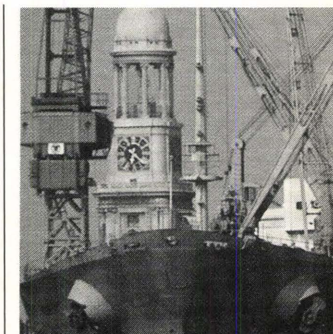

COVER: Plunging oil prices have changed the outlook in Europe (see page 18). © Steve Dunwell/The Image Bank.

Publisher Denis Corboy
Editor-in-Chief Webster Martin
General Manager Mark Laughlin
Assistant Editor Anke Middelmann
Contributing Editor Stephen Brookes
Editorial Assistant Noelle Bujold
Design Dual Impressions

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PUBLISHER'S LETTER

All through Europe, things are looking better and better. Business investment and consumer spending are up, inflation is down, even the persistent problem of unemployment is beginning to show signs of abating. The Federal Republic of Germany, France and the Netherlands cut their interest rates earlier this year moves expected to boost growth, and a number of economists have upped their forecasts for Europe's growth rate from about 2.5 percent to 3.5 percent for this year. Jacques Delors, the President of the E.C. Commission, said recently that Europe should be the engine for world economic growth, and the OECD agrees: Its forecast for 1986 said that improving prospects in Europe were the key to a sustainable global recovery.

What's behind all this new "Euro-optimism"? Without a doubt, the combination of plummeting oil prices and a weakening dollar in recent months have played a crucial role. Lower energy and commodity costs are pumping new life into the economies of both Western Europe and the United States. In our cover story this month, E.C. Commissioner Nic Mosar, who is responsible for energy policy in the Community, explores the meaning and consequences of low oil prices for Europe.

One of Europe's responses to the oil crises of the 1970s was to push forward with an ambitious nuclear energy program. In the light of the Chernobyl incident, which has reignited a certain amount of anti-nuclear feeling, the question is being asked whether such an accident—or one even more disastrous—could occur in Europe. Simon Rippon, European editor of *Nuclear News*, explains in this issue why he believes "it can't happen here."

Elsewhere this month, Paul Cheeseright of the *Financial Times* discusses the dispute between the German government and the E.C. Commission over strict German beer purity laws: Are they justified on health grounds, or are they naked protectionism? Robert Taylor, who reports from Brussels for *The Economist*, writes on the "major change" in European attitudes toward American multinational corporations, which are increasingly being treated as an essential part of the Community's industrial structure. And Marino de Medici and Nicola Furnan de Medici look at the "Europeanization" of America...and the reverse process.

Our member state report this month focuses on Germany, where Wellington Long writes that an impressive record on economic issues won't guarantee Chancellor Helmut Kohl an easy reelection at the polls next January. Long analyzes the complex crosscurrents of German politics and suggests that neither Kohl's Christian Democratic Party or the Social Democratic Party under Johannes Rau is likely to win a majority of the popular vote.

Jim Cotton

AROUND THE CAPITALS

MADRID

Fighting For The Olympics

Barcelona, Spain's second largest, and, to many, most European city, is currently agonizing over whether it will be awarded, on its fourth attempt, the Olympic Games in 1992. Barcelona's case for holding the 1992 Olympics has just been studied on the spot by the International Olympic Committee's (IOC) vetting committee. Afterward the city fathers were told by Gunnar Ericsson, the committee chairman from Sweden: "Your product is a solid one, but you have strong competition." Barcelona's chief rivals are Paris, Amsterdam and Birmingham in the United Kingdom.

The wait until October will be nerve racking for Barcelona, with much high-level lobbying and a quiet conviction that Jose Antonio Samaranch, the IOC President and former Mayor of Barcelona, cannot be utterly indifferent to his city's case. "If our candidacy is technically good, how can we be fairly refused again?" is the comment that Josep Miquel Abad, chief executive of Barcelona's Olympics office, underlines.

Barcelona has been hoping to capture the Olympic Games for the past 60-odd years. If Baron Coubertin, the Frenchman who revived the modern Olympic Games, had not changed his mind in 1924, when Barcelona almost hosted them, the background shots of the British film "Chariots of Fire" would have been set not in Paris, but in Barcelona, the lively capital city of Catalonia in northeastern Spain. The other times that Barcelona was a candidate but lost out were in 1936, when the IOC got cold feet as it took the location decision in 1931 just after the sudden abdication of Spain's King Alfonso XIII—meaning the games went to Hitler's Berlin—and again in 1972, when Germany staged them in Munich.

Barcelona has been campaigning since 1982 to secure the 1992 games, emphasizing that the 500th anniversary of the discovery of America by Christopher Columbus will take place in the same year, and that it was to Barcelona that the navigator afterward returned to be greeted by Spain's Catholic kings. Barcelona hopes that this historical coincidence will put its candidacy up a notch from the other cities.

The Spaniards, for once, all seem united behind the Barcelona candidacy, with the Socialist Government giving its support when the vetting committee visited the Spanish capital. Even King Juan Carlos I, an eager sportsman himself, has become an eager supporter of the 1992 Olympic Games candidacy.

The stimulus of competing for the games has led to an ambitious $1-billion investment program for Olympic sports facilities and for redevelopment of Barcelona's old factory district and railway shunting yard along the Mediterranean to serve as the athletes' Olympic village and afterward as an up-market residential area. The dynamic and hardworking Catalans like this kind of external stimulus as a means to help modernize other things such as Barcelona's airport, and to bring about a technological leap forward in telecommunications in time for the games.

There is a historical precedent for all this—Barcelona's international exhibition in 1929. That event brought about the same excitement and much building development, and one masterpiece of modern architecture: Ludwig Mies Van der Rohe's famous "German Pavilion." The building also housed Mies' famous "Barcelona chairs" which then took the city's name around the world.

It was only a temporary building, however, and a permanent pavilion, almost exactly a copy of the original, was reconstructed by three leading Barcelona architects from the original plans conserved in the New York Museum of Modern Art archives. It is now nearing completion on the original site.

There is one snag, however: Mies created the gleaming steel and marble pavilion as a symbol of the Weimar Republic's modernity, shown off by an open esplanade now occupied by the former showrooms of Spain's state industrial institute, a typical concrete horror of the Franco regime's economic boom years. Fidelity to Mies' original structure requires demolishing that reminder of Spain's rambunctious and uncultured years, but six months ago, Barcelona's Olympics office moved into that building, scotching plans for its quick removal.

Now the architects have been told to exercise just a little patience. "If Barcelona gets the 1992 Olympic Games next October, this building will quickly become too small for us and we shall move. If we lose," the mayor promised the architects, "we shall not want the building anyway, and you can then pull it down straightaway."—RICHARD WIGG

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Barcelona would have hosted the Olympic Games in 1936, had they not been moved to Berlin at the last minute. Barcelona now hopes to capture the 1992 games.

PARIS

From Meat To Science

France has struck a path into the technological revolution with Ariane rockets, Hermès space shuttles, Eureka-coordinated research projects and, now—a converted meat market.

The spanking new Parc de la Villette on the northern edge of Paris is a high-tech monument to science of the 21st century. It includes hundreds of exhibits, hands-on experiments, a 360-degree screen cinema as well as a rock-concert hall under a futuristic tent, a planetarium and, eventually, a music conservatory.

La Villette was designed to transform popular attitudes and to develop an appreciation of the modern tools of the years beyond 2000. At the same time, it transformed a huge wasteland of abandoned space in a run-down section of the capital. For a century, the area had been the central meat market for Paris. In the 1960s, the government invested 2 billion francs at the La Villette marketplace to build a seven-story structure that was to be the world's most modern slaughterhouse. It was used only for a brief period until, by 1973, the project was declared a total failure, the victim of outdated technology. As a face-saving measure, the Government decided to reincarnate the slaughterhouse into a homage to technology—a science center.

The project soon bogged down in political wrangling—with planners fighting scientists, politicians battling taxpayers. Costs ran five times higher than original projections: The price tag so far for the project is 4.5 billion francs (currently about $650 million)—making it the most expensive museum in the world. And it is still nowhere near finished.

The project was given a new lease on life, however, when the Socialists came to office in 1981. The Socialist Party made the science center its symbol of France as a technology leader and the park was even used as a backdrop for Socialist Party advertisements in the campaign for parliamentary elections this spring. Just a few days before the voting in March, President François Mitterrand made his last big pre-election public appearance to inaugurate the science and industry section of La Villette.

That science section—housed in the converted slaughterhouse—is the centerpiece of the park. It is divided into four areas that roughly correspond to space, biology, industry and communication. There are some 150 computer screens and terminals for "interactive" communication. The center also boasts displays from a greenhouse to a high-temperature oven that melts down gold bars. There is an Airbus cockpit with a flight simulator, a submarine, a kids-only section, a robot-operated video-desk library and a 150,000-book library. Outside, a shiny geodesic dome—6,433 triangles forming a stainless steel ball that seems to float on a shallow pond—houses the panoramic cinema.

With a park entrance fee of roughly $6 per person, the predicted 10 million visitors a year will eventually cover up to 30 percent of the cost. More revenue is anticipated from sales of prototype equipment to Japanese and American interests. Park director Maurice Lévy says La Villette is an important part of the "crucial job of helping the French to understand the challenge of today's formidable leaps of technology." Its appeal, he says, is that state-of-the-art technology is brought within the grasp of people, in a setting that avoids putting science on a pedestal and gives it a day-to-day context.—BRIGID JANSSEN

COURTESY FRENCH EMBASSY PRESS AND INFORMATION SERVICE

One attraction of the new science museum are the computer terminals that visitors may use.

BRUSSELS

A Colonial Squabble

Here's a story about how one man's complaint over a dismissal notice can bring Governments into collision and it may also say something about the relationship between Belgium and its former colony in Africa—Zaire.

A Zairean pilot, Pierre Van Impe, was sacked earlier this year by Air Zaire on what he felt were unfair grounds. In a highly successful bid to dramatize his grievances, Van Impe persuaded a local court in Belgium to impound his DC-8 airliner at Ostend airport against the refusal of his employers to pay him some $120,000 in severance pay.

Zaire reacted with a mixture of contempt and hostility. The country's official news agency said scornfully that as "Brussels loves to use the words "aid," "gift" and "assistance" in payments to Zaire, it could now consider the DC-8 aircraft as "aid," "gift" or "assistance" from Zaire to Belgium."

At the same time, Zaire said it was suspending all flights by the Belgian airline Sabena to the Zairean capital Kinshasa, which meant that the considerable air traffic between the two countries carried by Sabena had to be diverted to Paris, with passengers having to be taken to and from Brussels by bus.

Van Impe dropped his action after a few days but the flight ban remained. News agency reports from Kinshasa said that President Mobutu had received "voluminous mail" on the subject, urging him, among other things, to withdraw his children from schools in Belgium.

Belgium offered peace in the form of a conciliatory visit to Kinshasa by the Foreign Minister, Leo Tindemans. But he insisted on flying with Sabena, and this was rejected by Zaire. It was only following a telephone call by the Belgian Prime Minister, Wilfried Martens, to the leader of the Zaire Government, that an invitation to visit Zaire was extended to Tindemans.

He left—on a Sabena flight—only to be snubbed on arrival, and spent his first day or so sightseeing in the African country. Then came a summons by President Mobutu to a lavish banquet, at which all was forgiven. "All Belgians love Zaire," the Zaire news agency reported Tindemans as saying at the occasion. A few days later the two countries agreed on a joint communiqué restoring full flying rights to both airlines concerned. The solution is temporary, pending a top-level conference between the two in July. In the meantime, however, Belgium is allowed to keep the DC-8.

In Brussels the incident has raised the question of which of the two countries has more to lose from a major break in their relations. The trigger for the dispute might seem trivial, but it has exposed strong feelings on both sides about their attitudes to each other.

Zaire—which used to be called the Congo—exercises a deep fascination for most Belgians who are taught at school about the exploits of their nuns, missionaries and explorers on the banks of the "Dark River." More recently, Belgian companies have profited from claims on Zaire's huge deposits of copper, cobalt and diamonds.

But recent years have also revealed a growing distaste in Belgium for the excesses of President Mobutu, one of Africa's most flamboyant leaders. It was widely reported in Brussels last year that President Mobutu and his entourage spent $3 million on a holiday in America at a time when Zaire told its international creditors that it could not meet $20 million of debt repayments due at the same time. The big-spending Zairean President is a source of constant news for Belgian newspapers.

These concerns accompany the longing of many Belgians to see their former colony gain more international respectability. Van Impe's case suggests how very carefully the Belgians will have to move if they are to help achieve it.—ALAN OSBORN

LISBON

Consequences Of Cheap Oil

Few countries like Portugal can be so grateful for the unexpected blessing represented by the joint fall in oil prices, interest rates and the dollar.

A recent survey based on figures from the General Agreement on Tariffs and Trade has ranked the country as the third net beneficiary of the oil price drop on a world basis comparison of relative direct trade effects. Brazil and Japan are the two front runners, but among the 20 selected economies of the survey, only Portugal, the Philippines, Greece and India are reported as being able to take advantage of the cheaper oil prices without suffering from sharply reduced export opportunities. To complete the picture, it must be added that the Portuguese economy depends very heavily on foreign oil, which represents more than 30 percent of total imports and 12.5 percent of its gross domestic product (GDP).

Estimates made available by independent analysts some weeks ago, during the parliamentary debate on the 1986 budget, concluded that Portugal can save some $65 million for each $1-drop in oil prices. Assuming an average of $16 per barrel for 1986, the direct benefit for the current-account balance could reach more than $550 million this year. Furthermore, beyond the gains on fuel import prices, the recent trend of the oil market will have positive effects on the growth in world trade, the deceleration of inflation and the fall of interest rates on international markets. For Portugal, this will mean higher exports (an increase of 5.5 percent in real terms this year) and a $100-million saving on external debt servicing.

The obvious consequences are the bright prospects for economic performance in 1986: 4 percent real growth in GDP, a significant current-account surplus, a deceleration of inflation from 19 percent to less than 12 percent, a 4-percent to 5-percent real wage increase and, of course, an expansion of private consumption that could reach 4 percent to 6 percent.

Government officials and independent experts are beginning to express some reservations about the future impact of the present expansionary mood. The improved outlook follows on the deep recession of 1983-85, when, severely hurt by the second oil shock and the very high value of the dollar, the Portuguese were facing the most serious payments crisis since World War II.

Following the deep recession of 1983-85, the drop both in oil prices and the dollar indicates bright prospects for the Portuguese economy. Above, a view of Lisbon.

During the last decade, oil price increases, combined with the explosion of the dollar, were systematically presented to the population as inexorable reasons to raise domestic fuel prices, which quickly became the highest in Europe. Now that the cost factors are falling, the parliamentary opposition has decided that the moment is right for change. Amid bitter political disputes with the Government, a majority of left-wing members of parliament has introduced a new legal mechanism forcing a partially automatic adaptation of fuel prices to the evolution of cost factors. The Government is opposed to these measures, arguing that they will necessarily imply a reduction in gasoline prices, thus curbing the financial surplus used to subsidize agricultural products.

In practical terms, the bill would lead to a 2-percent reduction of the gas prices. This may not sound drastic, but it led to a severe speech by the Prime Minister on television, accusing the parliament of deliberate obstruction and saying that milk could not become cheaper because the opposition had preferred to protect "the privileged gasoline consumers."

One could view this as a mere episode in the history of the oil-shock reflex, if it were not also an important political development, the real reason for which must be found on the delimitation of powers between the Cabinet and the parliament, within a minority Government context.

It is generally acknowledged that the time is not ripe for any significant political change in the immediate future. The opposition is far from being a united front and its main parties, the Socialists, the Renewal Democrats and the Communists, are going through difficult internal adjustments. They hardly have any common strategy to take power, but they do not want to leave the Prime Minister alone when the favorable economic outlook leaves room to enlarge the support of the minority Government led by the Social Democrats.

For the moment, nobody wants to take any risks. However, political leaders are already gearing up for harder battles and the recent budget debate was undoubtedly an excellent opportunity to create the right atmosphere.—JOSE AMARAL

LONDON

High-Level Friendships

Of all the pillorying that Prime Minister Margaret Thatcher received for supporting the U.S. bombing of Libya, none was more acute, nor more cruel, than the treatment meted out by a British satirical television program, "Spitting Image." Some of the show's brilliance derives from the fact that all of the characters are in fact puppets sculpted to the highest standards of caricature. As the credits rolled at the end of that eventful week, Thatcher was depicted as elbowing the Queen out of camera shot and then pulling President Ronald Reagan into the warmest of embraces. The program ended with her planting a large, almost lascivious, kiss on the President's cheek.

COURTESY BRITISH INFORMATION SERVICES

Mutual understanding between British Prime Ministers and American Presidents has always been an important factor in the Anglo-American relationship.

In attempting to explain why Thatcher had risked widespread public opprobrium in allowing the use against Libya of American F-111 bombers based in Britain, many commentators drew attention to Thatcher's warm personal regard for President Reagan. It has been obvious to many that, while the Prime Minister finds herself in agreement with the President's views on a host of political and economic issues, she also genuinely likes Reagan and enjoys his company. Personal relations between American Presidents and British Prime Ministers have often been a salient factor in Anglo-American relations over the past 45 years. When the "special relationship" really did mean something, it was partly because Presidents and Prime Ministers had a personal regard for each other that undoubtedly helped kindle the identification of mutual interests. At the same time, however, the personal friendships have led to problems by encouraging one or the other to place too much reliance on them and to underestimate the partner's ability to deliver.

The Churchill-Roosevelt relationship was absolutely crucial in setting the mold of the extraordinary Anglo-American wartime alliance. Such was the ease of this friendship that when Churchill was staying in the White House in early 1942, Roosevelt was wheeled into his guest's room to discover Churchill fresh from his bath—cherubic, glowing and stark naked. Roosevelt moved to withdraw only to be halted by Churchill's majestic statement that "the Prime Minister of Great Britain has nothing to conceal from the President of the United States."

Their successors, Harry Truman and Clement Atlee, did not strike quite the same chord, but such was the importance of the relationship between their two countries in building the early postwar period, that they knew they had to get on—much as French and German Heads of Government now feel they must. Neither did Anthony Eden—correct and somewhat neurotic—develop a true bond of friendship with President Dwight Eisenhower. If he had, then surely the fundamental difference of perceptions between the two Governments might never have resulted in the Suez crisis.

But the fact that harmony was so quickly restored in the aftermath of Suez owes much to the close wartime friendship forged between Dwight Eisenhower and Harold MacMillan, who succeeded Eden in 1957. The two had worked together closely in 1943-44 when MacMillan was British minister attached to Eisenhower's Allied Air Force headquarters in North Africa and Italy. Remarkably, MacMillan went on to achieve almost equivalent relations with John F. Kennedy, playing the elder statesman anxious to shape Kennedy's youthful promise. Anyone who has ever heard the choking grief in MacMillan's voice as he describes their last meeting before Kennedy's tragic appointment with death in Dallas can be in no doubt about the depth of the older man's affections.

By the time that Lyndon Johnson and Harold Wilson were in charge of their nations' affairs, one felt that even if the personal friendship was absent, there was a weight of tradition that required them to confect it. How else could Johnson feel that the only way he could express his gratitude for Wilson's steadfast support of the Vietnam War was to describe Wilson as the greatest British Prime Minister since Churchill?

Such has been Britain's decline since the late 1960s, and so one-sided the relationship with the United States in terms of wealth, power and influence, that British Prime Ministers have seemed almost pathetically grateful for any sign of personal regard from the occupant of the White House.

This would not have been true of Thatcher. She would not have been greatly distressed if her relations with Reagan were, say, no better than her current exchanges with Greece's Andreas Papandreou. She is more concerned to secure her objectives than to be liked. But she is susceptible to Reagan's charm and his regard for her appears genuine. It ought to be even higher after what she has been through following the bombing of Libya.—JOHN WYLES

DUBLIN

On Allowing Divorce

Forty-nine years after the Irish Constitution formally banned divorce, the campaign for a referendum to remove the ban is underway. After much dithering and many misgivings, the present coalition Government surprised most people—and possibly itself—by suddenly announcing last April that it would hold a referendum to change the Constitution, thus enabling divorce legislation to be introduced.

With perhaps less than a year to go before the next general election, prudence seemed to dictate against tackling such a sensitive issue in a country that claims to be 95 percent Catholic, since it seemed certain, for one thing, that any divorce proposal would be opposed by the Catholic hierarchy. There was also a more political risk that the main opposition party, Fianna Fail, would also oppose the measure for its own tactical reasons, thus helping to ensure its defeat.

Opinion polls had shown a fairly consistent 70 percent in favor of divorce in certain—limited—circumstances, but only 50 percent, sometimes less, sometimes more, said they would actually vote in favor of a constitutional change to allow legislation for divorce. It was a worrying inconsistency for any political party trying to read the mind of the electorate, and it looked as though the Irish Catholic conscience was torn between compassion and scruples.

What was clear was that no "blank checks" would be endorsed and that the Government would have to spell out the kind of divorce regime it envisaged at the same time as it sought the necessary constitutional changes. After a series of Cabinet meetings and much redrafting, a wording to change the Constitution was produced that caught both Fianna Fail and the Catholic Church somewhat by surprise. If approved, it would build into the Constitution a provision that divorce would only be permitted if a marriage was shown to have failed for a minimum of five years.

The pro-divorce lobby saw the proposal as one of the most "restrictive" divorce systems in the world, but welcomed it nevertheless as a realistic attempt by the Government to win the support of those afraid of further liberalization once the new laws had been passed. Fianna Fail, whose leader, Charles Haughey, had been saying only days previously that the party would not object to the people being consulted, suddenly found itself confronted with a concrete proposal. While the mainstream of the party would have preferred not to have to take a position on divorce in view of the antipathy for it from its rural, traditional base, it could not now eat its words and retreat from its original position.

Now for the first time, an opinion poll could ask for views on the basis of a definite proposal and the first one, published in the *Irish Times*, showed 57 percent in favor of the proposal, 36 percent against and 7 percent undecided. Highest support, not surprisingly, was in the Dublin area, and especially among the under-24 age group. Those most opposed were in the "large farmer" class and the over-65 age group.

The poll was taken only days after a public statement by the country's four Catholic archbishops that was cautiously worded, acknowledging that marital breakdown was a "distressing and growing problem." It welcomed the proposals to set up a proper family court and better mediation services, but queried why divorce should be necessary as well. The grounds proposed for "failures" of a marriage were the basis for the "most unrestrictive form of divorce in the world today," the statement noted. The hierarchy's official spokesman, Bishop Cassidy, had earlier said that the Catholic Church would "use, but not abuse, the pulpit" to teach the Catholic doctrine on marriage and its dissolubility.

Whether such teaching would also mean unmistakable directives on how to vote will become clearer as the campaign progresses. Individual bishops will not necessarily feel bound by the more circumspect hierarchy statements. The Fianna Fail position is likewise not totally clear. Officially, the party is not opposed to the people being consulted in a referendum and will not campaign for or against the proposal. But individual members are free to take a position and several prominent ones are indicating their opposition on divorce. There are also several members of the Fine Gael Government party who have strong moral objections to divorce, and are publicly opposing the change in the Constitution. But if the polls are right, they are a moral minority.—
JOE CARROLL

COPENHAGEN

Luring The Tourists

Copenhagen has always tried to sell itself as one of the prettiest gateways to Western Europe. This year, the city would like to add another adjective: the safest. Certainly, Scandinavia has until now seen far fewer acts of terrorism than most other European countries.

American tour operators let Copenhagen have its share of cancellations in the wake of the U.S. reprisal in Libya, but the tourist industry hopes that most of the individual travelers will persevere. Copenhagen caters especially to this type of tourist, who also happens by and large to have the financial means to survive the scourge of the industry in Europe this year: the cheap dollar.

With the famous Tivoli Gardens as the mainstay, Copenhagen is trying to develop a distinct city personality based on the concept of *hygge*, an untranslatable Danish word with connotations of coziness and a generally relaxed atmosphere. Long gone are the days when the Danish porn industry gave Copenhagen a never fully deserved reputation as a city of sin.

Deserted by the general public, sex shops have been priced out of the main streets, and most of the movies shown are imported from the United States. Although all kinds of services are—naturally—available, Copenhagen has no organized market comparable to Amsterdam or Paris.

And though former Socialist Prime Minister Anker Jorgensen called the U.S. strike in Libya an act of state terrorism, perhaps not the most diplomatic choice of words, anti-Americanism has been on the decline, especially among the young. Demonstrations outside the U.S. Embassy attract very small crowds.

Judged from outside Denmark, the sharp turn to the left of Denmark's largest party, the Social Democratic Party, in defense and security policy might seem as running counter to this trend. But while there definitely has been a turn, its scope may be overestimated. The power frustrations of the Social Democratic Party have found no outlet in economic policy, and foreign policy has served as a vehicle instead.

In a position of power and responsibility it is traditionally much more difficult to advocate major changes in foreign policy. And it is interesting that at the same time that the Social Democrats have adopted more restrictive positions on Western defense issues, the

COURTESY DANISH TOURIST BOARD

The Tivoli Gardens in Copenhagen are a great attraction for tourists who, the Danes hope, will continue to visit this year.

major left-wing party, the Socialist People's Party, has moved closer to accepting the need for a NATO defense of Western Europe. Libya notwithstanding, U.S. baiting is no longer high on the left-wing agenda.—LEIF BECK FALLESEN

LUXEMBOURG

Dispute Over Airwaves

For reasons which nobody seems to understand, the French President, François Mitterrand, seems to bear a strong grudge against Luxembourg. Some commentators here wonder whether it is mere pique on the President's part that such a tiny country as Luxembourg should carry equal weight in the councils of the European Community. Others suggest that Mitterrand has not forgotten the rush of capital out of France just before he took power—much of it into Luxembourg's impregnable banks. There is, too, the long-running dispute between the cities of Strasbourg and Luxembourg over the seat of the European Parliament. None of this is really convincing, but of the animosity itself there is little doubt among Luxembourg's politicians and pundits.

It was dramatized at the E.C. summit meeting in Luxembourg last December when President Mitterrand snubbed a formal lunch given by the Grand Duke, and arrived unexpectedly in mid-afternoon at a moment seemingly designed to cause maximum confusion to the city's sorely pressed security forces. It did not help relations that among the first locals he encountered was a group of demonstrators protesting at the location of a French nuclear power plant on the border with Luxembourg.

But this was nothing compared to the shock and outrage felt in the Grand Duchy when the Mitterrand Government, in one of its very last moves before the March elections, decided to exclude Luxembourg from participating in its TDF-1 television satellite project. Luxembourg felt that it had not only a moral right to the two satellite concessions put out to tender (based on promises made when it was deprived of the fifth French channel last November), but also a solid legal claim. Under an intergovernmental agreement between the two countries in October 1984, France had formally pledged that the two TDF-1 channels would go to the Compagnie Luxembourgeoise de Télédiffusion (CLT).

Prime Minister Jacques Santer said the decision was "an affront" and fired off a formal letter of protest saying that the "blatant" violation of the 1984 agreement would "badly damage the spirit of confidence that had always been a feature of Franco-Luxembourg relations." The managing director of Radio-Télévision Luxembourg (RTL), the parent company of CLT, said "once again the plans of the Luxembourg Government and the CLT have been exposed to ridicule. We have been led up the garden path by the French Government. The real negotiations were conducted elsewhere and under cover."

But there are further depths to this story. RTL, while a Luxembourg company, is privately owned and many of its large shareholders have big stakes in other broadcasting companies with a vested interest in keeping Luxembourg off the French airwaves. The suggestion is that CLT/RTL was offered the TDF-1 channels in a bid to woo it away from a planned satellite project drawn up by the Luxembourg Government which presented a clear threat to the French state-backed broadcasting system.

Whether it was because of this, or because Luxembourg's planned Société Européenne des Satellites (SES) found less favor with Santer's Government that it had with his predecessor, Pierre Werner, the SES project has been pushed to the sidelines in recent months. This may now change. Tempers are running high on the matter in Luxembourg. Not only has the French "treachery"—the word is freely used in the Luxembourg press—stirred up a desire to hit back at Paris, there is also a gloomy realization that unless action is taken soon Luxembourg will find itself pushed out of an industry in which it has played a leading European role for more than half a century.

The new French Prime Minister, Jacques Chirac, has cancelled the TDF-1 contracts and will put the channels up for tender in a television "sale of the century" in July. This is consoling to the Luxembourgers, but the events of the past few months have taught them not to take anything for granted where their big neighbor is concerned.—ALAN OSBORN

ROME

Aftermath Of The Scandal

In the late 19th century the vines of Italy and France were smitten by disease. A virus named phylloxera reduced Italian wine production by a quarter and caused an agricultural depression. In the end, salvation came from the United States: The roots of healthy Californian vines were imported to Europe and local vine stocks were grafted onto them.

The Italian wine industry now faces difficulties not much less serious than those caused by phylloxera, and once again eyes are focused on the other side of the Atlantic. The image of Italian wine has been gravely damaged by the scandal over the production of quantities of poisonous wine, and the most valuable market for bottled Italian wine is the United States. If exports of Italian wine are to recover, they must recover in the United States.

The wine scandal broke in March. By the end of April, at least 23 people had died from wine containing excessive quantities of methyl alcohol in order to raise the alcohol content of the beverage. Exactly why a chemical known to cause blindness and death if taken in large quantities was added to a product which is already overproduced in Italy, is still a mystery—but it has left the Italian wine industry, the biggest in

Italians wine exporters report hopeful signs that U.S. supermarkets are beginning to put Italian wines back on the shelves.

the world, in serious difficulties.

It hardly matters that the poisonous wine—about 1 percent of Italy's total production in 1985 of 63 million hectoliters—was of a low grade kind that is rarely exported: All Italian wine is tainted by association. Successes achieved in the past 20 to 30 years in upgrading the quality and image of Italian wine have been put in jeopardy. "It's as if I was accused of being a murderer because my neighbor shot his wife," said John Troiano of the U.S. company Villa Banfi which produces wine in Italy and imports it into the United States.

Alarmed by the publicity given to the wine scandal, many American consumers have temporarily ceased buying Italian wines, and supermarkets and shops are not reordering from their suppliers to fill their shelves. A market that was worth about $350 million in the 12 months to August 1985 is collapsing, dashing the hopes of those who had built it up in the face of competition and opposition from both French wine exporters and domestic Californian producers.

Some Italian wine exporters report hopeful signs that the U.S. supermarkets are beginning to put Italian wines back on the shelves. But they insist that the Italian Government should now fund a big publicity campaign to reestablish the image of Italian wines in the United States before it is too late. The trouble is that the Italian Government, though willing in principle, never acts very quickly.

But even if the market can be regained, Italy could lose much of its big market for bulk wine in France and the Federal Republic of Germany, two countries that need to import strong southern wine to boost the alcohol content of their own products. Spain and Portugal, newly members of the E.C., could supplant them in this large, although low-value, market. And in Italy itself, Italians, whose wine consumption had for years been gradually declining, are now drinking much less wine. They are concentrating on the higher quality, bottled vintages rather than the cheap, low quality *vino sfuso*—the bulk wine served in jugs and carafes on the restaurant table.

It all adds up to severe shock for an industry which was already overproducing low-quality wine. Even before the wine scandal broke, almost 10 percent of the relatively small 1985 vintage was destined to be distilled into alcohol under a distillation scheme subsidized by the E.C. with the aim of balancing supply and demand. Until a few years ago, the Italian Government was still encouraging the planting of new vines—now there is only a very modest program for favoring the grubbing of surplus vines.

The Italian Government is now planning much tighter controls on wine producers with a view to squeezing out the dishonest producers. It is also talking of carrying out a vineyard survey to assess exactly how many vines there are and what they produce. But much more needs to be done: There is an urgent necessity for a new classification of Italian wine, to bridge the yawning gap between the carefully controlled DCO wines—wines certified to come from a particular district and to meet certain standards—and the rest of the country's wine production, since DCO wines account for only 5 percent of total Italian production.

The many lovers of Italian wine now hope that the shock of the scandal will bring about a drastic change in the industry, forcing out of business the marginal producers of low-grade wine and obliging other producers to raise their standards. The more optimistic believe that it could bring about the abandonment of wine producing in the less favorable areas, the large-scale grubbing of surplus vines, the end of the need for distillation and thus the transformation of agriculture in many parts of the country. If so, the action of a few criminals over a few months would have as great an effect as phylloxera, a disease that persisted for a generation.—James Buxton

AMSTERDAM

Women In The Armed Forces

The Netherlands Government was the last in a row of West European countries to sign a European Community directive guaranteeing equal pay and rights to women. But it was only after a threat from the E.C. Commission that it would take the Netherlands to court that the Dutch Government finally signed it in 1980, and passed legislation to this effect in 1982.

The younger generation had clamored for this first step toward full emancipation for years. Statistics for E.C. member states showed that in the Netherlands fewer women held jobs than in any other West European country. Until the 1960s, the bulk of married Dutch women were housewives, staying at home, waiting for their children to come from school and supervising their homework. But the social upheavals of the late 1960s brought with them a dramatic change in the traditional role of women. Young men and women began living together without marital blessing—each of them holding a job. An increasing number of young women now also finished university studies, instead of getting married halfway through them and never completing their degree.

Throughout the late 1960s and 1970s, women kept up their demonstrations and protest meetings to demand equal rights. A few women actually succeeded in becoming ministers in the Dutch Government—mostly for political reasons—but very few of them have had—or have—a leading role to play, although they might sometimes have done better than their male counterparts.

But things are changing even in the Netherlands. The business world is slowly—but surely—beginning to show some interest in employing women, and the chemical industry in particular, is seeking women to work in its companies. Recent figures show that four in five women are graduating as engineers every year—400 alone in the last year. Strikingly high also is the number of women who run enterprises. Presently, one in six enterprises is run by a woman, these being concentrated mainly in the service sector and the retail trade.

Although there is no compulsory military service for women, some 1,500 of them have volunteered for the armed services, representing about 2.3 percent of the volunteers. Some 500 now serve in the army and some 300 in the Dutch air force. The navy air arm has one woman pilot and five helicopter pilots. While they do not serve on submarines or in the Royal Marine Corps, there are roughly 600 women in the navy, of whom 83 are officers and 61 are noncommissioned officers. Some 30 women also have recently joined the crews of two supply ships.

This new arrangement, however, has caused an uproar already. A group of angry naval officers' wives has set up an "action committee," claiming that the influence of women in the armed forces is creating working conditions for their husbands that, as they say, can be likened to "Sodom and Gomorrha." Spokeswomen for the committee are complaining bitterly, arguing that the divorce rate among Dutch naval couples is increasing under these conditions. The women in the navy are being blamed for trying to seduce their husbands, and accusations went so far as to suggest "sexual orgies" and "prostitution" on board the ships.

The Dutch Defense Ministry reacted quickly to dispel these accusations. Commander J.L. Hartman, acting director of personnel, said that "the navy as an employer could not be held responsible for the quality of the marriages of our naval officers." And Willem Karel Hoekzema, the Secretary of State for Defense, cut short the outburst by announcing that the next step would be to order the women to serve on battleships, adding that they were good workers and devoted to their jobs. Divorce among naval officers was inevitable, he said, but he was quick to point out that the divorce rate was higher among submarine personnel and in the Royal Marine Corps—services where women are not allowed to serve at all. These marriages, he concluded, suffer most from extended absences.—NEL SLIS

ATHENS

A Fruit Of Many Uses

Islanders on Crete are increasingly keen to promote the carob, a leathery brown fruit that looks like a bean and has a staggering variety of uses. Now that Spain and Portugal, also producers of this fruit, are members of the European Community, there are hopes of enlisting E.C. help in developing a local carob processing industry that might boost incomes substantially in poorer agricultural regions of the Community.

Crete claims that it is the world's largest carob producer, with about three million of the small, bushy evergreen trees scattered across the island. They grow on their own, favoring Crete's barren uplands and rocky coasts. Farmers sometimes plant carobs among their olive groves, not necessarily for the fruit, but because they have a reputation as being the best siesta tree! "A nap under a carob gives sweet dreams and lets you wake up with a clear head," the saying goes.

The carob kernel's first industrial use may have been as a medieval jeweler's weight to calculate the value of pearls and diamonds—hence the term "carat," the unit of purity of gold. But these days, the carob can meet a multitude of demands. It can be used as a chocolate or cocoa substitute, as a stabilizer for dairy products or in medicines for stomach disorders. Carob "glue" makes ice cream melt more slowly, enhances the aroma of cosmetics and is useful in celluloid and paper manufacturing. It improves flavors and can be used as a natural preservative for other fruits and vegetables. Many people in Crete are convinced that carob juice is the secret ingredient in Coca Cola!

The islanders complain that they cannot exploit their carob crop fully because there are no processing facilities in Greece. At present, Crete produces around 40,000 tons of the fruit annually, but agronomists say this amount could be tripled through a more systematic approach to carob cultivation, especially since the long-lived tree improves with age. A five-year-old carob produces just 20 pounds of fruit per year, but one aged 30 years and over can produce as much as 600 pounds.

For years people in Crete have clamored for a carob processing plant to be set up on the island. Agriculture Ministry officials admit the carob has been neglected in the past, partly because it requires so little attention. Now the Community has agreed to finance studies of carob production and preliminary work is already underway on Crete. The islanders want two or three factories operating on a cooperative basis to process the fruit. Eventually, they hope the Community will adopt a carob policy.

The factories would process the long, leathery pods into carob flour, high-protein animal feeds and cocoa substitutes. The kernel, prized most for cosmetics and celluloid manufacture, would probably be exported whole. The carob's greatest potential, some experts believe, lies in the health food industry. The tree flourishes without the aid of chemical fertilizers. Carob sugar, once natural tannins are removed, is easily digested. And unlike the cocoa bean, carob is caffeine-free.—KERIN HOPE

CORRESPONDENTS

ALAN OSBORN reports from Brussels for *The Daily Telegraph.*

KERIN HOPE is a correspondent for *Associated Press* in Athens.

JOHN WYLES is the foreign news editor of the London *Financial Times.*

BRIGID JANSSEN is a freelance writer in Paris.

JOE CARROLL is a reporter on the RTE program *Today-Tonight.*

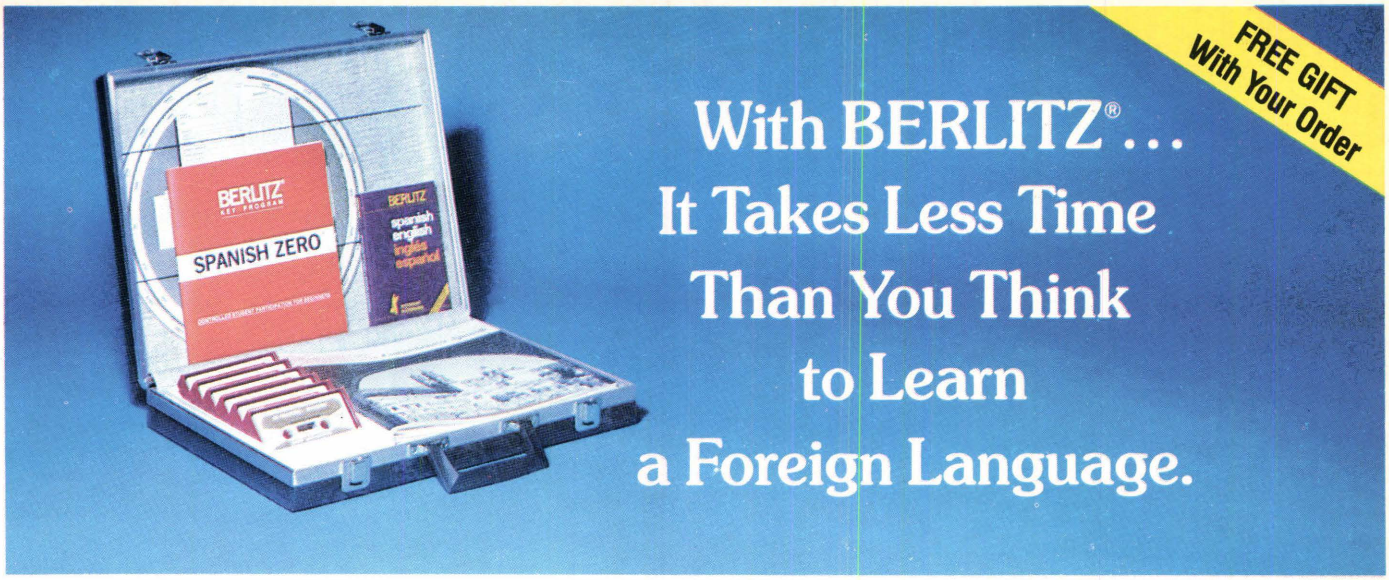
JOSE AMARAL is a freelance writer based in Lisbon.

JAMES BUXTON reports from Rome for the *Financial Times.*

RICHARD WIGG reports from Madrid for *The Times* of London.

NEL SLIS is a freelance writer based in The Hague.

LEIF BECK FALLESEN is the economic director of the *Borsen* newspaper in Copenhagen.



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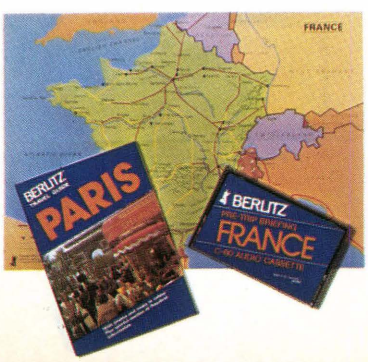

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WORLD ECONOMIC PROSPECTS IN THE WAKE OF TOKYO

E.C. COMMISSIONER DE CLERCQ REVIEWS TRANSATLANTIC RELATIONS AND THE OUTLOOK FOR A NEW ROUND OF TRADE NEGOTIATIONS.

STEPHEN BROOKES

The 12th Western economic summit that met in Tokyo over the weekend of May 4-6 is widely considered—in spite of the rash of pessimistic predictions that preceded it—to have been a clear and surprising success. British Prime Minister Margaret Thatcher called it a "valuable, constructive and forward-looking" meeting, U.S. Treasury Secretary James Baker said he thought it was " very successful," and E.C. Commission President Jacques Delors described it as "the best summit in five years."

In contrast to previous summits (in particular last year's meeting in Bonn), real progress was made on a number of fronts: disputes over international trade were avoided, a promising plan for management of the international monetary system was developed, and a strongly worded statement was released that promised "close cooperation" in combatting the problem of international terrorism.

"It was a good summit, and came at a good time," said Willy De Clercq, the E.C. Commissioner responsible for external relations, who joined Delors in Tokyo for the summit conference. "The industrialized countries have grounds for economic optimism. There are, of course, serious problems in different parts of the West, including unemployment, industrial restructuring and market rigidities, and we have to be vigilant about inflation. But an economic upswing is undoubtedly in progress; the question is how to consolidate this improvement, and how to pass on the beneficial effects to the world as a whole." The summit's final declaration reflected this view; recent economic developments, it noted, "offer brighter prospects for the future of the world economy."

Most European observers agree. Despite severe trade imbalances and burgeoning protectionist pressures, international commerce is expanding and the predicted trade wars have not come to pass. U.S.-E.C. trade relations, while not entirely peaceful, are reasonably well in hand. "The trans-Atlantic trade balance has swung back and forth over the past 10 to 15 years; it is a broad, two-way street handling annual traffic well in excess of $100 billion," explained De Clercq. "Right now, the United States is in the red, and there are points of consequent friction. A European Community of 320 million people, conducting one-fifth of world trade, is not going to be pushed around. But we in Europe are the first to recognize that, with a current global trade deficit of $150 billion, the U.S. Government has handled domestic protectionist pressures with a courage and a determination of which few other Governments would be capable."

Perhaps the most fruitful aspect of the summit was the spirited and innovative discussion of monetary and macro-economic matters. The feeling about exchange rates had evolved considerably from that prevailing at last year's summit in Bonn; the idea that a close and discreet concertation among the major currency countries could give exchange rates greater transparency and stability has been adopted by the United States, which rejected it last year despite the support of Delors and other Europeans.

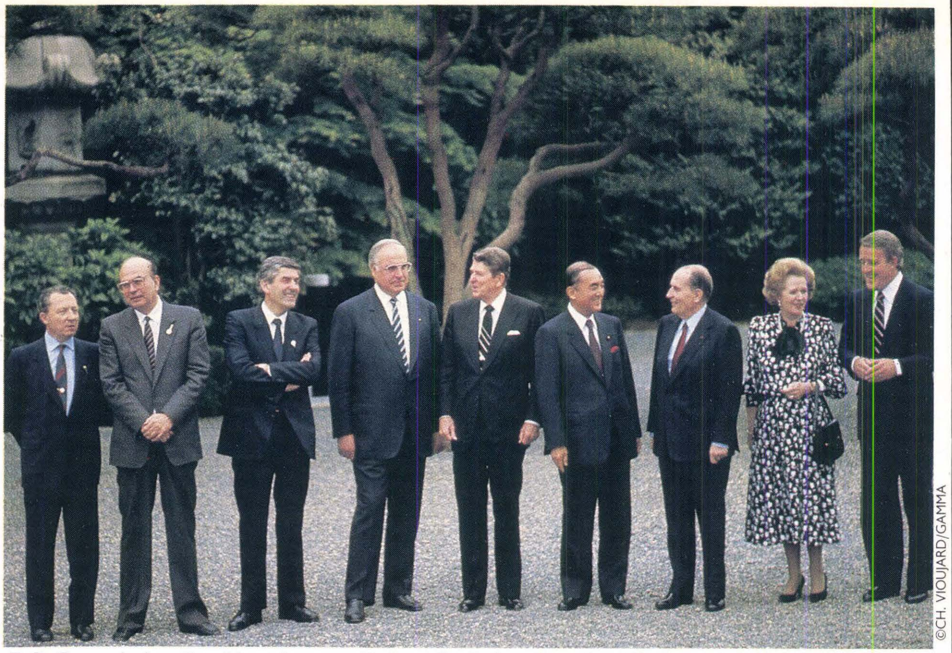
Multilateral monetary surveillance and economic policy coordination have since then become the tenets of an almost unchallenged orthodoxy, and are in the process of becoming genuinely institutionalized, due in part to the success of the Group of Five (G-5) last September in arranging a drop in the value of the dollar. Italy and Canada were invited at the summit to join the G-5 in order to better manage the international monetary system, and while the Community will not participate directly, the inclusion of the two new countries reflects a basic trend the Community has long urged. And given the role of the European Monetary System and the growing responsibilities of the E.C. Commission for economic coordination in Europe, the Community will be increasingly associated with the Group of Seven.

A great deal of time at the summit was spent discussing the debt problem and the development needs of the Third World. The debt problem, which has taken on enormous proportions for certain developing countries, has put the entire world economy in jeopardy, some European officials believe. "The responsibility of the industrialized countries lies primarily in promoting the recovery of demand, and the current protectionist pressures go against this objective," said De Clercq.

Although the summit failed to produce a commitment to undertake a new round of multilateral trade talks under the General Agreement on Tariffs and Trade (GATT), the Community affirmed that it supports an early and successful launching of such a round. "With our long experience of the GATT, our preponderance in world trade, and our sophisticated and extensive economic and political links with almost all parts of the Third World, the Community occupies the center ground in Geneva and is inescapably a prime mover in the GATT," said De Clercq.

"If, as I hope, the GATT ministerial meeting in Uruguay on September 15 decides then and there to get the new round started," De Clercq added, "the Community will be in large part responsible. We have been occupying a centrist position, which has allowed us to pursue the development of a consensus on the new round. Our approach is based on three convictions: that new multilateral negotiations are essential, that a consensus at the beginning is necessary to their success, and that all the participants must profit from them."

While it is essential to include services in any new round, De Clercq noted, it was equally important that all concerned be aware of the risks of trying to introduce too many new subjects into the discussions; to succeed, the negotiations must cover a balanced range of issues in which all participants will be able to find their interests. Moreover, these issues should remain in the field of activity reasonably defined by the GATT, and not impinge on the responsibilities of other international organizations, especially with regard to subjects such as investment and intellectual property.



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E.C. Commission President Jacques Delors, far left, with other Western leaders at the Tokyo summit.

The results of any new round of talks will not begin to take effect until the 1990s. In the short term, European officials are calling for continued resistance to protectionist pressures and for the removal of remaining obstacles to trade, especially those implemented during the course of the recession. The Community has taken significant steps in this direction, even in the sensitive sectors of steel and textiles, and has done this despite the persistence of very high levels of unemployment. Nevertheless, European leaders say, to have a substantial impact on world trade these efforts must be pursued by a greater number of countries and must be aimed at both longstanding and recent trade restrictions.

The trans-Atlantic trade relationship cast no noticeable shadow over the Tokyo summit, even when the normally contentious issue of agriculture was brought up. "The talk around the table was sober and responsible. Almost everyone acknowledged his own problems and shortcomings, the cost to all of us of our various agricultural subsidies and support schemes, and the protection we give to our farmers," said one European participant.

There was also universal recognition that the world agricultural scene is rapidly changing, and that all face a single, urgent problem: the tendency of modern agricultural production to outstrip demand. The United States and the European Community are, for better or worse, the major players in the game; Australian Prime Minister Bob Hawke compared the two to elephants, saying, "if they get into a fight, they risk crushing a number of the little cats and mice under their feet."

It is a paradoxical fact that as economic prospects have improved, bilateral tensions have become more aggravated—especially between the United States and the E. C. and between Japan and most of its trading partners. While a number of recent disputes with the United States have been successfully resolved, the E.C.'s enlargement this year to include Spain and Portugal and the consequent effects on U.S. trade have resulted in some unexpected—and potentially serious—developments (see page 14).

In a move the E.C. described as "disappointing," the United States unilaterally imposed quotas on May 19 on white wine, chocolate, beer and other goods in response to new restrictions on agricultural imports into the Portuguese market. "The Community has no option but to respond with equal measures," said De Clercq. "It is getting us into a pointless escalation of trade measures which the Community has not provoked."

In a multilateral system, the enlargement of a customs union such as the E.C. brings both advantages and disadvantages for third countries, a fact recognized in Article XXIV of the GATT treaty, which expressly authorizes customs union enlargements. According to GATT rules, third countries must make an overall, balanced appraisal of the effects on their trade; they cannot simply demand compensation for losses they might suffer, without taking their gains into account. "Negotiation in accordance with the rules of the GATT is the only sensible way to deal with our dispute," De Clercq said.

Another topic discussed at the summit was Japan's problematic trade relationship with the outside world. Japan's current account surplus with the world was $50 billion in 1985, and could reach $56 billion this year. While exports rose 18 percent in the first quarter of this year, imports increased by only 1.5 percent. Imports of manufactured goods into Japan are still running at half or less than half of what they are in other industrialized countries. And the Japanese market remains, by and large, impenetrable.

Financial relations are also marked by the absence of effective reciprocity. Japanese banks and other financial institutions have steadily increased their activities on the Community market, thereby reinforcing the Japanese commercial effort in the Community. European banks operating in Japan do not enjoy the same liberal conditions of establishment and operation that Japanese banks receive in European financial markets.

The Community has put forward a number of practical proposals to the Japanese Government, asking in particular that domestic demand be stimulated and that the Japanese financial market be more rapidly liberalized. European observers remain skeptical about Tokyo's efforts to make real changes, however: "These ideas are still on the table," one E.C. official noted drily.

Japan's actions in future months could determine the success of its participation in any upcoming trade negotiations. A recent statement by the E.C.'s Council of Ministers noted that "the present imbalance of real advantages between Japan and its partners will have to be dealt with," and said that if Japan were to benefit at the end of the day from further advantageous trade concessions from the Community, a fundamental change in Japan's propensity to import manufactured and processed agricultural products would be required.

"The present system is neither natural nor inevitable," said De Clercq, summing up the Community's optimistic outlook for the future. "If we can work together to launch a new round, we can surely do more to improve bilateral trade and investment flows. Japan and Europe should be working more closely in the industrial, scientific and technological fields. We should be coordinating our strategies in overseas development assistance, and doing more together in monetary and financial matters. In the short term, this will involve some sacrifices and changes of habit for both partners. But in the long run, putting our relationship on a new and higher plane will be better for each other and better for the world." €

Stephen Brookes is a contributing editor of *Europe*.

U.S.-E.C. DISPUTE WORSENS OVER FARM TRADE

TENSIONS ESCALATE AS BOTH SIDES TRADE LISTS OF PRODUCTS SUBJECT TO NEW QUOTAS.

The United States on May 19 imposed import quotas on European white wine, chocolate, candy, apple and pear juice and beer.

BAILEY MORRIS

These may not be the worst of times in United States-European Community relations, but they are close. Malcolm Baldrige, the U.S. Commerce Secretary, recently said without equivocation that a growing agricultural dispute between the two sides dwarfs all other trade problems in the world at the present time, and is even worse than the West's dispute with Japan over its huge $50 billion trade surplus. Willy De Clercq, the E.C. Commissioner responsible for external relations and its chief trade negotiator, described the situation as "deplorable."

Strong words are emanating from both camps in the latest skirmish over the enlargement of the E.C. and the temporary measures designed to gradually bring Spanish and Portuguese trade policies into line with the rest of the European Community. The United States announced on May 15 that it would impose import quotas on European white wine, chocolate, candy, apple and pear juice and beer in response to the European measures; E.C. officials called the action "clearly contrary to the rules of the General Agreement on Tariffs and Trade (GATT)" and said that the Community had "no option but to reply with equal measures." The restrictions are being set loosely enough to avoid immediate damage to either side—but feelings are running high on both sides.

The language is harsh not solely because of the immediate dispute. It is only a symptom of a much larger and longer-running battle over international trade subsidies. Baldrige said in an interview that, for the first time since World War II, trade is the international issue dominating, for better or worse, geopolitical relationships. "The conflicts which arise among nations over trade are now more serious than the problems of mutual defense or other kinds of international relationships. The world has a different set of priorities," Baldrige said.

Unfortunately, the $1 billion U.S.-E.C. dispute over the trade plans related to the entries of Spain and Portugal arose during a difficult political period. The U.S. Congress, poised for battle in an election year, promised for the third time in almost six years to pass highly protectionist legislation, aimed largely at Europe and Japan.

In the U.S. Senate, where 22 Republicans—the majority from farm states—are up for reelection, the issues were less clear. But strong Republicans, such as

Senator John Danforth, chairman of the international trade subcommittee, were highly critical of the Administration's "weak, misdirected trade policies". Even Senate majority leader Robert Dole has come under strong pressure from his Kansas constituents to support the omnibus trade bill vigorously opposed by the Reagan Administration for its protectionist "controlled entry" import policies.

The bill undercuts the President's authority in trade matters, greatly increasing the powers of the U.S. Trade Representative to impose tough quotas in cases where there is a "pattern of unjustifiable, unreasonable or discriminating trade policies or practices." If enacted, after Senate action, a conference between the two houses of Congress and a threatened Presidential veto, the bill would force the Administration to cut by 10 percent a year the surpluses of the biggest trading nations over a four-year period.

The legislation is popular because it can be promoted by politicians as a short-term, albeit myopic, solution to the huge U.S. trade deficit, the loss of manufacturing jobs and the depression on American farms. But like all protectionist legislation, it is the fuse which could ignite the broader trade war no one wants. Since the Smoot-Hawley legislation of the 1930s, officials have been loathe to support obvious protectionist measures which cry out for retaliation.

In a letter sent to each member of the House of Representatives, nine Cabinet members made this point strongly. "This legislation would severely damage our economy, reduce our international competitiveness, destroy American jobs and embroil us in trade conflicts with virtually all our significant trade partners," the letter said. It was signed by Secretary of State George Shultz, Treasury Secretary James Baker III, Defense Secretary Caspar Weinberger, Commerce Secretary Malcolm Baldrige, U.S. Trade Representative Clayton Yeutter and others.

The difference in the climate this year, and indeed for the last four and a half years, is that the balance of world economic power has shifted dramatically. U.S. officials are clear on this point. Over the five years in which the Reagan Administration has been arguing with the E.C. over agricultural policies, the focus has shifted and the tone has become more urgent. Suddenly, the United States is one of the world's largest debtor nations. Instead of the comfortable trade surpluses it has enjoyed in past years, it is now faced with a $20-billion deficit with the E.C. and a $49-billion deficit with Japan. Given this scenario, a potential further loss of $1 billion in trade due to the Spain and Portugal plans becomes important, if not vital. "If we lose this one, we face an incredible backlash against Europe," a senior U.S. official said.

European officials are convinced that their policies are not only right, but also legal. The whole purpose of the Common Market has been to foster integrated markets, to increase Europe's power by creating a big, unified market and to forge common policies among formerly disparate nations. This was the case when the United Kingdom and Greece joined the Community. It remains so with the accessions of Spain and Portugal. The problem with the U.S. Administration, in the opinion of E.C. officials, is that it "has no institutional memory."

Although both sides insist that a war can be averted through negotiations designed to provide compensation and face-saving measures on both sides, the public war of rhetoric persists. More important, the basic issue dividing the two sides remains unresolved. Despite more than five years of talks among Trade Ministers, Agricultural Ministers and, finally, Finance Ministers, the search for a solution to the agricultural trade problem persists. Positions are hardening rather than softening, as the U.S. Congress moves into the fray.

Indeed, it can now be said that there are no saints in this dispute, only sinners. The five-year farm bill passed by Congress last December removes the traditional argument that Europeans, not Americans, are violators of the free-trade principles governing commodity trade because of the E.C.'s longstanding Common Agricultural Policy. Now, both sides are in the same boat.

"Both the United states and the E. C. have dreadful agricultural policies which are destabilizing world trade," Baldrige said. "The policies are costing each side more and more money. We both spend about the same amount on surpluses, about $20 billion a year," he said.

The impact of these subsidies on other nations is increasingly harmful. Thailand, a strong U.S. ally in Asia, protested vigorously that the aggressive U.S. pricing behavior made possible by the new farm bill had destroyed the world rice market, causing prices to fall by more than 20 percent in May alone. This occurred because of a new, increased subsidy which allowed U.S. farmers to redeem price support loans at less than the borrowing cost effective April 15 on the rice. On August 1, a similar price reduction will occur as a result of a new subsidy for privately-held cotton. Congressional authors of the bill attempted to justify the subsidies as necessary to dispose of the large government food surpluses.

The new farm bill, instead of moving toward the market-oriented policies espoused by both sides, does the reverse. For each dollar a U.S. farmer receives for wheat this year, 45 cents will come from the government. For corn, the government share is 35 cents.

A consensus is growing on both sides of the Atlantic that these levels of subsidies are unsustainable at a time when governments are facing other, more pressing problems. Resources are needed to correct high unemployment, declining competitiveness in high technology and the side effects of sluggish growth due in part to the sharp downturn in manufacturing activity.

But despite the importance of the issues and the high stakes involved, no solution is in sight. This is why Baldrige and other U.S. officials are pressing for high-level action by Heads of Government. "This is an issue which can only be resolved at the summit. It has to be a summit decision by Heads of State who can commit the necessary political will," Baldrige said.

At the Tokyo summit last month there was a brief, discouraging mention of the problems which was more an admission that governments are stymied in their effort to reduce substantially Europe's agricultural subsidies. But Baldrige said that the fact that the issue was taken up at this summit, albeit informally, is the first positive step.

The next step is to make international agricultural subsidies a formal agenda item at next year's summit. To this end, Baldrige and his associates have been working for the past six months on a proposal for a planned phase-down, over a six- to 10-year period, of worldwide agricultural subsidies. It must be endorsed by the Heads of Government of the United States, Europe and Japan to be effective. A roll-back of this magnitude will only work if the major trading nations agree on a common strategy for agriculture, similar to their agreement on monetary reform. But is there the political will?

Leaders of the Western economic summit left Tokyo with an endorsement for a new round of negotiations in the GATT. But this opportunity, fragile as it is, could be damaged or lost altogether if the United States and Europe are unable to resolve their differences over Spain and Portugal by the end of the summer, when a crucial set of deadlines will have expired. €

Bailey Morris reports from Washington D.C. for *The Times* of London.

"EUROPEANIZATION" OF AMERICA . . . AND VICE VERSA

PRODUCTS AND TRENDS FLOW BACK AND FORTH ACROSS THE ATLANTIC.

MARINO DE MEDICI and
NICOLA FURNAN DE MEDICI

Once upon a time, Americans believed that what was good for General Motors was good for America and that what was good for America was good for the world. This was certainly apparent in politics, where one U.S. President after another labored to make the world safer for democracy, and in popular culture as well after World War II when Western Europe was well on its way to becoming Americanized by an onslaught of Coca-Cola, jazz, baseball and "I Love Lucy." Later came the invasion of MacDonald's and the MacIntosh, and even the cultivated French language was jostled by an influx of American idiom that came to be known as *franglais.*

What was perceived to be a massive flow from the western shore of the Atlantic to the old Continent today appears to have a natural counterbalance—from east to west. After several decades of Americanization, Europe is now retaliating in kind. From food to fashion, from politics to the economy, the evidence of a European invasion is everywhere.

It is visible in the sudden popularity of the health- and taste-conscious "Mediterranean Diet." The American mania for pasta is so pervasive that now even energy-conscious football players load up on carbohydrate-laden pasta rather than steaks before games. Today, no respectable kitchen would be without Italian olive oil, Dijon mustard or fresh Parmesan.

All these exotic comestibles are washed down with large quantities of European wines (mostly Italian, as Italy provides 60 percent of all wines imported into the United States) and foreign beer. Perrier started a revolution of its own.

Americans have developed a taste for European cheese, of which 200 or so varieties are flown in daily from France. Americans also get daily shipments of gastronomic products of whose very existence people were barely aware 20 years ago—radicchio lettuce from Verona, Swiss bundnerfleisch dried beef, black and white truffles from France and Italy, fresh Dover sole and Swedish gravlax.

There is a veritable avalanche of gourmet groceries: goat cheese, pâté, morels and porcini mushrooms, Belgian chocolates, German sausages and, soon to come, pesto powder, the instant sweet basil sauce to which you just add oil and water, and, *Presto!,* pesto! And all of this is available at supermarket prices even in middle America and no longer exclusively in the "Little Italies" of the major cities or in the "French markets" of affluent metropolitan areas.

One by-product of America's penchant for things European is the American item that pretends to be European. A large share of the American cosmetic industry's advertising now emphasizes not only the European look and how to achieve it, but also hints that these goods are produced in Europe. With increasing frequency, the contemporary make-up commercial features a heroine with a heavy Continental accent, if not a full voice-over in a Romance language with English subtitles.

The urge to imitate the European has even spawned a new sector in the U.S. food industry: the pseudo-European product. Such all-American standbys as ice cream and yogurt have ceased to be American. New levels of absurdity were reached when such European-sounding names as Haagen-Daz (created and produced in Teaneck, New Jersey) and Kuhlen Glacen (Dallas) began to appear on American television screens and grocery shelves. Not even pet food has escaped the allure: For the kitty with the discriminating palate, there is Amore cat food; Smorgasburgers appeal to the taste-conscious dog.

Another of the great pretenders is the apparently French Cuisinart, which is to food processors what Kleenex is to tissues. The machine's marketers have been so successful in conveying its European flair that most consumers assume it is a French product. In reality, Cuisinart Inc. is headquartered in Connecticut, its designer is American and the machines are manufactured in Asia.

Popular though the European imitations may be, for Americans there is nothing like the real thing. The styles of ready-to-wear (or, as American retailers prefer to call it, *prêt-à-porter*), accessories, men's fashions and automobiles bear a distinct European stamp. The detectives of America's hottest television show, "Miami Vice," wear Armani—and only Armani—and one of them drives a Ferrari Daytona.

The Italian look is here to stay. Exports to the United States of Italian clothing and jewelry exceed $2 billion per year. Italian shoes alone account for another $1 billion. It is doubtful whether even the most star-studded appeal to "buy American" can succeed; once tastes change, even patriotism can't force them back. Don't forget: Those upscale baby boomers who are supposed to change the face of the American political landscape have been christened the "Chablis and Brie" crowd.

Automobile design has also taken on a new look, a distinct Euro-American style dubbed "lend-lease chic." Gone are the gas-guzzling, chrome-heavy monsters that crowded American freeways. The combination of the energy crisis and European design forced U.S. automakers to turn out radically different cars that emphasize simplicity and functionality. For those who want to buy American motors with a European look, there are the sleek auto bodies of Turin's world-class designer Pinin Farina, made in Italy expressly for Chrysler.

The most tantalizing of European temptations are wearable, edible and drivable, but more significant "exports" may be less visible. Along with pasta and espresso, America has discovered the underground economy, that part of a nation's gross national product that is not measured by official statistics. It is the Swedish dentist who provides free care for the electrician who rewires his house; it is the unemployed construction worker who tends his neighbor's vineyard in Tuscany for payment in kind. It explains much of the attraction of "home work," a phenomenon so widespread in Naples that the city, a major exporter of gloves, has not one single glove factory. Ten years ago, an IRS study concluded that the underground economy in the United

States, as measured in unreported income, ranged from $100 billion to $135 billion—between 5.9 percent and 7.9 percent of GNP—and it is growing.

Americans seem to be beginning to share the European notion that the quality of one's life is more important than the standard of living. The French and the Italians—less devoted to the Protestant work ethic than their Anglo-Saxon cousins—set the pace by negotiating for fewer working hours and by reviving the old practice of working at home.

Among the other bad habits that Americans have picked up these days, one of the most addictive is indebtedness. The cholesterol of inflation has altered permanently the pattern of economic life in the United States. Traditional American aversion to excessive debt as something immoral crumbled with the credit card and with the realization that a penny saved is not always a penny earned. Western Europeans have always managed to live reasonably well while deeply in debt, and, much to the Americans' chagrin, they seemed to enjoy doing so.

There is little doubt that American government and industry are open to European influence, as indeed are individuals. Unbeknownst to many people, for some time Europe has been influencing the national debate in the United States over the size of the federal government, or what the Europeans prefer to call the "public sector."

Shortly after World War I, the Italian *scala mobile* was born. This Italian invention spread throughout Europe, then across the Atlantic, landing first in Brazil and reaching the United States in 1972 under the all-American acronym of COLA (for cost-of-living adjustment) to protect pensions from the effects of inflation. The Italian mechanism consisted of a fairly extensive basket of goods and services. The weighted average of the indices of their prices came to form the "sliding-scale index." The objective, of course, was to defend the purchasing power of workers in proportion to their wages.

In Europe, the second reason for indexing was to avoid destabilizing wage claims. The Italians added a third aim: that of reducing differences in remuneration. While it is true that the spread in wages in Italy was far larger than in the United States, as well as the rest of Europe for that matter, it was a novel idea to rely on the variable course of inflation to speed up the equalizing process. In the United States, it is now generally recognized that the indexing mechanism has had notable effects in terms of transfer of wealth, to the benefit of older generations that are the recipients of well-protected entitlements.

More subtle, and yet unmistakable, is the influence of European politics on the American political process. Once again, there is more a reciprocal flow between the two shores of the Atlantic than a one-way transfer. At a time when Europeans were busily importing American polling and public relations techniques for electoral campaigns—as well as budgetary rules and cost-effectiveness procedures—Americans were importing a European-grown variety of political consensus. Bipartisanship—that great American invention—has had to yield ground to the realization that areas of consensus are fewer and farther between. This development has brought about the search for a different consensus not unlike the kind that permeates the workings of a parliamentary democracy.

The fragmentation of American politics, with ad hoc alliances among political forces and special interests, has affected even the conduct of foreign policy. As the executive branch got stronger, Congress found other ways to bend foreign policy to its desires by effectively pulling the purse strings it holds. At times, Congressional opposition to the foreign-policy initiatives of the executive branch smacks of European parliamentary maneuvers. In other words . . . it looks more European.

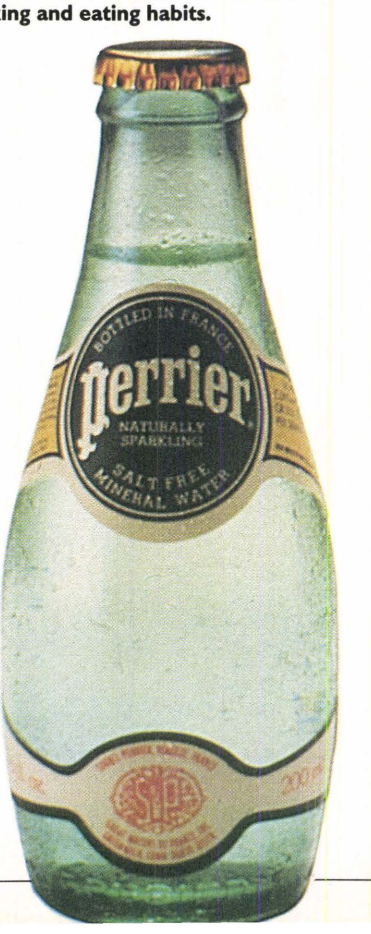
The "Americanization of Europe" and the "Europeanization of America," it can be argued, are two faces of the same coin. Together, Western Europe and the United States comprise the largest and richest market in the world. That market can accommodate demands for varied and changing patterns of consumption, based on nonrestrictive trade norms. The interchange between these two great areas would be even freer if, say, Western Europe were confederated the way the United States is federated. The United States and the European Community—the closest thing there is to a United Europe—will continue to wage their commercial wars over chicken, citrus or pasta. But the consumers on both sides of the Atlantic know what they want—and what's more, they can afford it. In essence, it is the consumer who determines what is good in America for Europe, and vice versa.

America was Europeanized for the first time in the 15th century by the Genoese who sailed the ocean on tiny ships financed by Spain. After that, Europeans crossed the Atlantic in droves, bringing their skills, their convictions and their dreams. This went on until the middle of this, the "American Century." "New" America came to the rescue of "old" Europe during and after two world wars.

Now, however, Europe is no longer "old." It is no longer a land of economic and technological conquest for American soft drinks, hamburgers, computers, precision machinery, films and television. In the years when America grew strong and confident in the future, and Europe groveled in centuries-old enmities and misplaced ambitions, the Americans paid homage to the land of their fathers and mothers by maintaining the old traditions, from knockwurst to opera, and by helping generously—and in their own interest—in the rebuilding of European industry and society.

All this, however, concerned the "old" Europe. All the renewed American interest in rediscovering ethnic roots does not constitute an effort to understand and synthesize the values and qualities of a "new" Europe. Now, America is once again being Europeanized. The search for the best, in industrial and institutional processes, goes on. It is not a matter of submission to outside influences, but rather of freedom of choice in a single, but pluralistic, market of ideas and products. €

Perrier led a revolution in American drinking and eating habits.



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Marino de Medici has been the U.S. correspondent of *Il Tempo* of Rome for 20 years. Nicola Furlan de Medici is a freelance writer in Washington D.C. This article is adapted from "Foreign Intervention: Europe Invades America," *Public Opinion*, February/March 1986. Used with permissiion of the American Enterprise Institute.

COVER STORY/ENERGY

FALLING OIL PRICES: A NEW CHALLENGE FOR THE E.C.

LONG-TERM CONSEQUENCES COULD COMPROMISE POSITIVE RESULTS OF LAST 10 YEARS' ENERGY POLICIES.

NICOLAS MOSAR

After several years of relative calm, energy is again in the limelight—witness the final communiqué of the recent economic summit in Tokyo. It highlights two recent events: the collapse in the price of oil and the nuclear accident at Chernobyl. Both of them could shake the balance which has been slowly reestablished in the energy market.

These two events have one thing in common in the effect they may have on the energy market: The short-term consequences will be minor, but, in the long term, they could compromise the positive results of energy policies pursued during the last 10 years in all the industrialized countries and especially in Europe.

Situation on the Energy Market

The European Community is the major economic and trading force in the world. As an oil consumer, it accounts for more than 20 percent of total demand in the free world and imports about a third of all the oil sold on the international market. As an oil producer, the Community ex-

Nicolas Mosar is the E.C. Commissioner responsible for energy policy.

tracts 2.5 million barrels a day of crude oil, mostly from the North Sea. This may be only one-twentieth of total production in the free world, but it has made a significant contribution to diversifying Europe's oil supplies in recent years. Together with increased production in other regions of the Organization for Economic Cooperation and Development (OECD), it also has helped reduce the dependence of the West on the traditional suppliers in the Organization of Petroleum Exporting Countries (OPEC).

The Community is also a major producer and consumer of other fuels. It has made spectacular advances in the development of nuclear energy, which covered 30 percent of its electricity requirements in 1985. And the Community is a major producer, consumer and importer of natural gas and solid fuels.

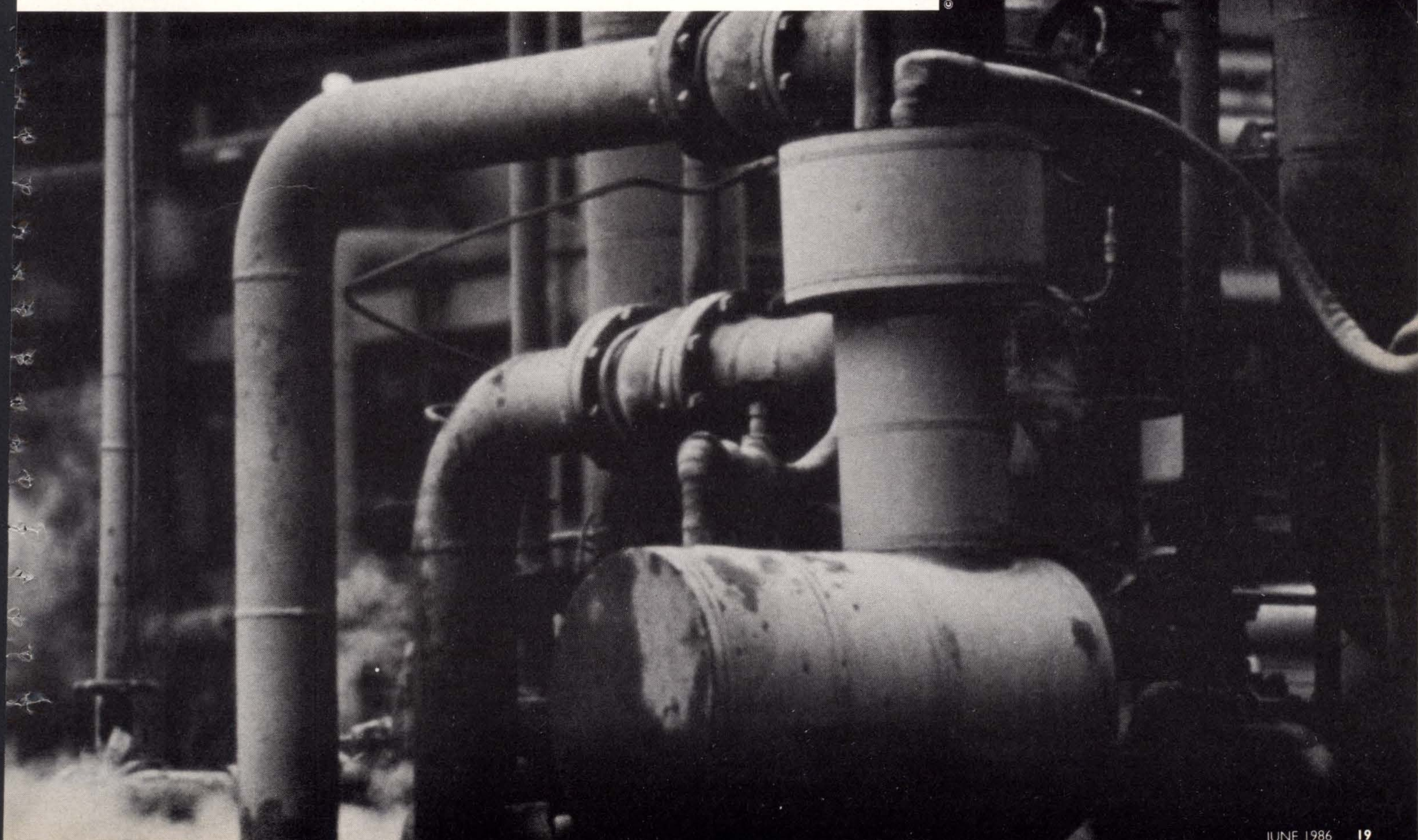
Finally, and this is a major feat, the Community can claim to lead the field in the rational use of energy. The quantity of energy it now uses to produce one unit of its gross domestic product has been reduced by more than 20 percent since 1973.

In short, the Community's energy situation is now far healthier than it was 10 years ago. Sources of oil and energy supply have been diversified and dependence on imported oil has been reduced. A power-plant market for coal has been developed, as has a nuclear-energy market. New and renewable energy sources are beginning to be established. The market itself, through prices, now plays a more decisive role, which has been strengthened by energy policy efforts both at national and at Community levels.

Recent Developments

Now, however, are energy prices—after playing a positive role—in the process of undermining all the efforts made in the past 10 years as trends are reversed? The two oil crises of 1974 and 1979 and the rising value of the dollar against the currencies of most industrialized countries in the early 1980s sent oil prices soaring. The result was a steady slide in demand and new production capacities coming on stream. Between 1979 and 1985, non-OPEC oil production increased by almost 30 percent, whereas oil consumption showed an overall drop.

As these developments had their impact on exports from oil-producing countries, Saudi Arabia had to carry a large share of OPEC's unavoidable production cutbacks in an effort to shore up the



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barrel price. Since October 1985, this strategy has changed. To defend an unspecified market share, Saudi Arabia and some other OPEC countries have increasingly switched to new sales conditions; these include netback agreements and the recent additional discounts on purchase prices.

This policy would inevitably depress prices. Since January 1986, they have fallen faster and farther than most experts thought possible. Brent crude oil, which was still fetching $26.50 per barrel on the spot market in January 1986, dropped to $10 by April 1. Its price at the end of May was fluctuating around $14 per barrel. The trend has been similar for other types of crude, such as West Texas Intermediate or Dubai. The average cost of oil supply to the Community at the end of May was thus around $14 to $15 a barrel. What will be the consequences if prices remain at this level for many months to come?

General Economic Consequences

All recent analyses show that the immediate effects of lower oil prices will be generally positive for the world economy. Relieving the pressure on the balances of payments of industrialized countries and non-oil developing countries will be a boost to world trade. Inflationary pressures will be reduced, and economic growth stimulated.

For oil-producing countries, continuing low oil prices will without doubt mean a considerable loss of income. In the Gulf countries, for example, gross domestic product (GDP) could decline by 5 percent to 10 percent. For oil producers outside the Gulf, the income effect will be less, but their financial situation will be worse because of their debt burden.

Oil-importing developing countries should benefit both from lower oil prices and from lower interest rates, meaning that their GDP could expand faster. For the industrialized countries, a lower oil bill will allow them to increase their GDP growth rate by 0.5 to 1 percentage point per year. Besides this increase in growth, and provided that no government action is provoked by this "reverse oil shock," the drop in crude oil prices should accentuate trends toward lower inflation, lower interest rates, a cheaper dollar and healthier balances of payments.

For the Community as a whole the results will also be positive. If the lower prices are mostly passed on to the consumer, the growth in GDP can be expected to approach 3 percent in 1986 and 1987 instead of the forecasted 2.5 percent, and, at the same time, the rate of inflation could be brought down to close to 3 percent, while in most E.C. member states, public deficits will also be reduced.

Short-term Consequences for Energy

Taking the aspects strictly connected with energy, the drop in oil prices should not have a significant effect on short-term energy supply and demand in the Community. An increase in energy consumption in general would be due to faster economic growth as much as to lower oil prices. Increased oil consumption would also be expected in industry and possibly for electricity generation or transport.

At the same time, we shall almost certainly see a downward pressure on prices of oil's competitors, gas and coal, so that they can more or less keep their relative market shares.

Long-Term Risks on the Oil Market

And what are the consequences in the longer term if the price of oil settles for a fairly long period at around $15 a barrel? A price scenario of this kind would jeopardize the future of gas and oil production both in Europe and the United States.

Most oil companies have already announced cuts of between 20 percent and 35 percent in their exploration budgets. If the price settled at around $15 a barrel for any length of time, they would make even greater cuts next year and possibly disband their specialized exploration crews. If this happens, we risk finding ourselves one day back in the same situation as before the first oil crisis and reliving the events of 1973-74 or 1979-80, with all their disastrous consequences.

Long-Term Repercussions on the Energy Market

Even last month, I thought that the negative effects of lower oil prices could still be tempered by specific developments in two areas of energy policy and market: energy saving and electricity production. The reduction in energy intensity will probably continue simply because of the structural changes taking place in the Western economies, where the traditional heavy industries are gradually being replaced by high-technology, service or high value-added industries. Any new investment should be more energy-saving and more efficient or high-yield, regardless of the initial motive for the investment.

In the electricity sector, nobody really foresees a massive return to the use of oil in power plants. Countries that have heavily invested in alternative fuels for power generation are not likely to start disinvesting now.

As far as nuclear energy is concerned, development plans did not seem likely to be affected by the current levels of oil prices. The Chernobyl accident may alter that prospect. It no longer seems impossible that some nuclear power plant construction programs will be stringently reviewed and perhaps delayed or even called into question, until we can prove to Europeans that their safety is fully guaranteed. This being so, the pressure on demand for oil could well increase.

Must We React? If So, How?

Faced in the medium term with possible growth in the demand for oil in Europe and the risk of a concurrent reduction in production capacity, what would the E.C. Commission do?

First of all, the Commission would closely monitor all market developments and intensify the economic analyses in progress. In terms of energy policy, Europeans must avoid the pitfall of rushing into hasty and ill-coordinated decisions. This is obvious for the Community; its credibility depends on it. It equally holds good for industrialized countries, which all know from past experience the benefit they gained from coordination within the OECD.

In the very short term, current oil prices will only have limited effects on the energy sector as a whole. Energy supply and demand will be fairly insensitive to present price fluctuations. We must therefore make the most of the current slump in prices, which had gone through the roof.

In the longer term, regardless of the shape the market is in when it stabilizes, it will remain imperative to keep the main objectives of our energy policies. After 10 years of endeavor, the targets of a better security of supply through lower and more efficient energy consumption, and through less reliance on imported oil through increased diversification, have produced adequate results. This is not the time to change tack. The ability of our economies to avoid a new oil crisis tomorrow—that is to say in the next 15 years—will depend on our fundamental refusal to give up the fight on supplies and efficiency.

This means that, in a situation which may be very different from what we have grown used to—but with an identical main objective, namely security for our energy supply—we should be ready to review the ways and means for achieving that objective.

It is the challenge facing all of us in the coming years. My personal hope is that worldwide cooperation in the energy field, including the oil and nuclear area, will allow us to succeed.

This announcement appears as a matter of record only.

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E.C. MAKES PROGRESS ON INTERNAL MARKET

PROGRAM COULD BE THE COMMUNITY'S MOST SIGNIFICANT STEP SINCE THE CUSTOMS UNION WAS SET UP IN THE 1960s.

PAUL CHEESERIGHT

Germans are very proud of their beer. There is a Bavarian law of 1516 which spells out that only malted barley, hops, yeast and water can be included in the beer. No additives are allowed. And the law works to this day.

The trouble is that this law keeps beer from other European Community member states out of the Federal Republic of Germany. And another trouble is that German brewers do not hesitate to put additives in the beer they sell outside their domestic market. Here then is a classic case of national regulations hampering trade in the Community. But perhaps the regulations are justified. The Germans say they are on health grounds; others are less sure and see them as naked protectionism.

The E.C. Commission takes the protectionist view, so it has taken the government of the Federal Republic to the European Court of Justice. How the Court handles the case could have a highly significant bearing on the moves to create within the Community a totally free market, without any barriers to trade, by 1992—a Europe without frontiers.

If the Court decides the German government is justified, then its judgment will have to be fitted against an earlier ruling, of the 1970s, on a case linked to the freedom to trade cassis, that French black-current drink that is mixed with white wine to make a drink called kir. In that case, the Court ruled that what was fit to be marketed in one country was fit to be sold in another. That case is the legal basis for the drive to create an internal market. The Commission has been arguing in the Court on other cases linked to the provision of services across national borders that what goes for goods can go for services too.

So the Court has been caught up in the drive toward a Europe without frontiers. This year it has decided that governments cannot support airline cartels on prices (see page 30). Later on, it will give a judgment about the provision of insurance services from one country to another.

One reason why the Court has been caught up like this is the frustration of bodies like the Commission with the 12 countries making up the Community. These are politics that often involve spirited agreement with the aim of a free internal market and spirited disagreement when a step toward that aim treads on a delicate national interest.

Court judgments, however, are a messy way of settling basically economic issues. The Commission knows that and so do the national governments. It is also very slow, except in areas like insurance, where there have been discussions among the Six, the Nine, the Ten and now the Twelve going back two decades.

There is no way then of achieving the internal market aim by 1992 without a long negotiating and administrative slog. The scale of that slog was set out firmly in a White Paper published by the Commission and authored by Lord Cockfield, the E.C. Commissioner Vice President responsible for the internal market. The White Paper came out in June 1985. It listed over 300 actions which would be needed to reach the magic goal by 1992. They covered matters as diverse as veterinary regulations, alignment of indirect taxes, the setting of E.C.-wide industrial standards and the liberalization of air services within the Community.

Leaders of the Twelve gave the document their general approval last summer. There were some areas they liked better than others. The British and the Germans made certain that tax questions, for instance, were pushed well down the list of priorities. Nevertheless, that general approval was the impetus Lord Cockfield and the Commission wanted. Certainly their aim would have been impossible to reach without it. To win approval for such a program was an expression of the desire to get the E.C. moving again, to recreate a drive toward economic integration that had been evident in the 1960s, but had petered out in the 1970s.

That decade, with the oil crises and the slowdown in economic growth, had made the Community countries more introspective, less keen to see their salvation in a collective context. Now, that introspection is seen generally as having little validity in terms of the competition with the United States and Japan, as having no relevance to breaking down the national barriers which traditionally have fragmented E.C. industry and denied it the economies of scale competitors take for granted.

The desire to see sustained economic growth underpinned last year the political push to the internal market. It underlies the moves the E.C. is bringing into force to speed up the process of decision-making to create the free internal market. Last February, the Twelve put their signatures on a package of internal reforms that would have the effect of making qualified majority voting more widespread in the E.C. Council of Ministers. That is where the decisions are taken: The Commission proposes; the Council disposes.

National parliaments are now ratifying that agreement. The first to do so, in May, was that of Denmark, whose Government had the most problems in agreeing to the package and had been the last to sign it. When ratification throughout the E.C. is finished, the cumbersome process of winning unanimity for every decision ought to be overridden.

Of course, it cuts both ways. There can be a vote against liberalization as well as for it, The United Kingdom and the Netherlands, for example, are firm advocates of the freedom to trade in the non-life-insurance market. But if there were a vote tomorrow, they probably would not win. So majority voting is no universal panacea, no automatic formula for fulfilling the Commission program.

This has meant that the Community must brighten up its way of doing business in other areas too. One stumbling block for years has been the habit of changing the presidency of the Council of Ministers every six months. The incoming president has often had a different vision of priorities than its predecessor. Presidencies will still change every six months, but to overcome the problem as far as the internal market is concerned, a rolling program has been introduced. It started last year when Luxembourg had the presidency.

Officials of the Grand Duchy had talks with the Dutch, holding the presidency in the first six months of this year, and with the British, holding it in the second half, to devise a coherent program for 1986. Later Belgium, holding the presidency in the first half of 1987, will be drawn in so that the program can run into next year.

None of this, however, has stopped a backlog of legislation from building up and, in May, the Dutch Government had to admit there had been, as it was put, "some slippage." The Council now has before it about 130 different proposals. But when Trade Ministers met in May, they could take only one decision—and that was the minor and arcane step of abolishing postal charges on parcels held by national customs authorities.

The difficulty is that ministers can take decisions only when the groundwork has been done by officials. Many of the issues are highly technical—ministers tend not to know too much, for example, about the noise levels of excavators and the safety standards of front-end loaders. Many of the proposals are held up in working groups of national officials.

At the same time, the Commission is finding that it has bitten off more than it is accustomed to chewing. It has not been able to draw up the legislative proposals as quickly as it promised—largely because it is not equipped to do so on such a vast scale.

These, then, are some of the teething problems as the E.C. grows to new dimensions. The strongest pressure for action on the internal market remains fear of the consequences if the conditions are not settled to allow business generally to flower. As Lord Cockfield said recently: "Europe is a giant on the world stage. But we fail to develop our full potential. We account for something like 30 percent of the world's market in information technology, but produce only 10 percent of the world's supply. We have 16 million unemployed and, as yet, the number shows little sign of falling, despite the revival in economic activity."

It is now commonly accepted that the internal market moves are one way out. But, as the German beer case shows, every step toward the general aim is a stamp on one individual's toes. Defense against that suggests that the full program is unlikely to be achieved at quite the speed the Commission wants. But just to go three-quarters of the way would mark the 1980s as the decade when the E.C. took measures of economic significance equal to the establishment of the customs union in the 1960s.

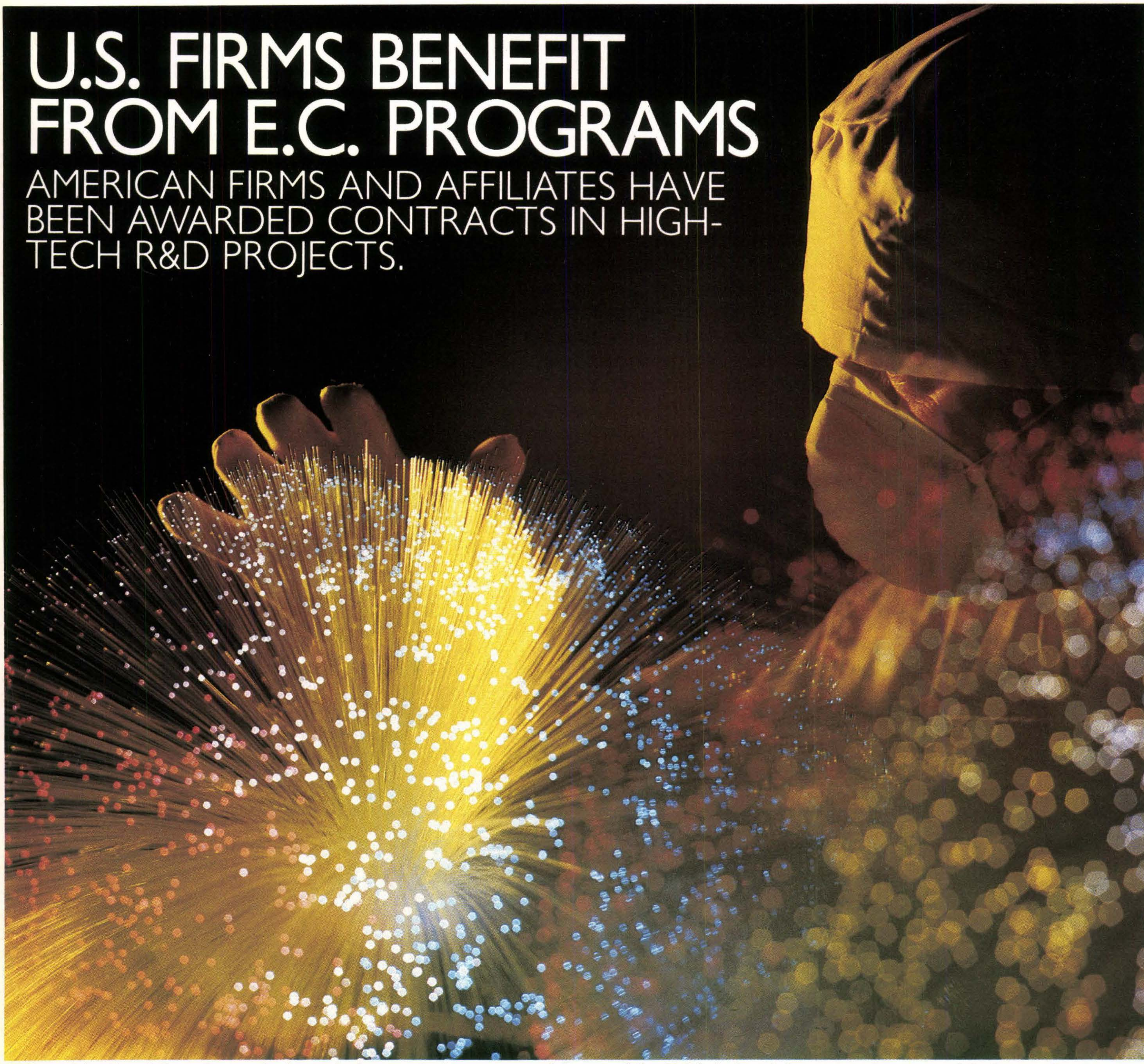
Paul Cheeseright reports from Brussels for the *Financial Times.*

Lord Cockfield's White Paper lists over 300 actions needed in many diverse areas.

The E.C.'s 1992 goal of a "Europe without frontiers" would reduce formalities at border crossings such as this one between France and Spain.

U.S. FIRMS BENEFIT FROM E.C. PROGRAMS

AMERICAN FIRMS AND AFFILIATES HAVE BEEN AWARDED CONTRACTS IN HIGH-TECH R&D PROJECTS.



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U.S. multinational firms increasingly are being treated as an essential part of the E.C.'s industrial structure because of their contribution to European well-being in terms of job creation, value added and technology transfer.

ROBERT TAYLOR

The European Community's attitude toward American multinational corporations is undergoing a major change. They are no longer considered as predatory outsiders, taking decisions in distant headquarters with scant regard to European interests and requiring, therefore, close surveillance from E.C. authorities. They are increasingly being treated as an essential part of the Community's industrial structure because of their contribution to European well-being in terms of job creation, value added and technology transfer. They have an important role to play alongside strictly European firms if the Community is to achieve its goal of remaining a front-ranking industrial power alongside the United States and Japan into the 21st century.

Put simply, American transnational corporations (and their European subsidiaries) are now seen from E.C. Commission headquarters in Brussels not as "them," but more and more as part of "us." Although Community law considers all companies incorporated in a member state, irrespective of who owns them, as E.C. firms, practice has been somewhat different. In its previous efforts to develop an industrial strategy, the Community has tended to preserve, whenever possible, a margin of preference for E.C. firms against foreign-controlled rivals.

This is much less the case nowadays, although discrimination has not disappeared entirely. In a short number of years, what independent Brussels analyst John Robinson describes as a "quiet revolution" has taken place which is not only opening up new areas of cooperation between the Community and the multinationals, but is providing them with opportunities for influencing E.C. policies.

Subsidiaries of American companies in Europe have, for instance, less reason than in the past to complain that they have been discriminated against in the award of E.C. funds to promote investments or finance Research and Development. However, the E.C. is not extending a blanket welcome to all non-European multinationals. Japanese groups are still viewed with some reserve. This is because of the nature of their activities in the E.C., which are often perceived as unskilled assembly operations, with low levels of job creation, too little local content and insufficient transfer of technology and know-how. This largely explains why no Japanese firm has been included in any of the major research and development programs with which the Community is involved. This situation is unlikely to change for some time to come.

By the same token, not all American multinationals can expect equal treatment. Most favored are groups that carry out major manufacturing operations in the Community and locate a considerable part of their R&D effort there. Their claim to treatment similar to that given to domestic E.C. firms is now well established. On the other hand, the European subsidiaries of U.S. multinationals which market in the Community products largely made outside can expect less favored status. Their contribution to economic growth in Europe is considered to be on a par with that of Japanese corporations.

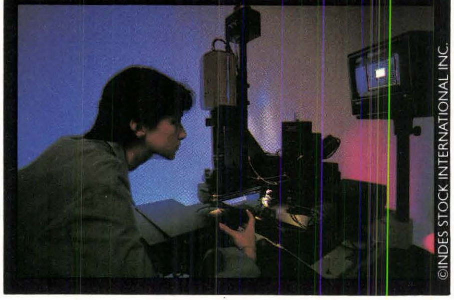
The Community is not looking only at the direct contribution American multinationals can make toward sharpening the competitive edge of European industry. Alliances between European and U.S. firms will also have a part to play in future European industrial strategy even if there is some concern that American partners, especially if they are the bigger ones, may dominate such relationships. But despite this misgiving, there is a growing recognition in Brussels that E.C. industry, if it is to compete effectively in the years ahead, needs access to the newest technologies which in many cases happen to be American.

A recent working paper on European competitiveness prepared by the E.C. Commission warns of the danger for Europe of growing links being forged by Japanese groups with American technological expertise: "The potential danger for the Community lies in the possible emergence of hyper-competitive companies marrying the technological know-how of the Americans with the productive efficiency of the Japanese."

Despite the strong current in favor of American multinationals, they still have some way to go before achieving full parity of treatment with domestic E.C. firms. The preference for a "European" alternative to the Sikorsky-Fiat rescue earlier this year of the British helicopter maker, Westland, was clearly voiced by senior members of the E.C. Commission, including the Commission Vice President responsible for industrial affairs, Karl-Heinz Narjes. Part of the E.C. program to create a truly home market within its frontiers by 1992 aims at drawing up common norms and standards on a European basis. The Reagan Administration has already made it clear to Brussels that it would consider the creation of such regional European technical standards as unacceptable if they were applied in a way which discriminated against American supplier firms.

Several groups of leading business executives, the best-known of which is the Round Table of European Industrialists, have been formed with the aim of working together to develop Europe's high-tech industrial potential. Yet many European corporations feel that the real

Affiliates of the U.S.-based ITT group were chosen to take part in 12 of the 31 RACE telecommunications projects.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challenge for them lies in the global, rather than the European, market. European alliances are therefore useful—where they form part of a global corporate strategy. But as Fiat's executive vice-president Cesare Romiti recently told a Brussels audience of Eurocrats and business executives, European groups should not be prevented from cooperating with non-European firms out of what he termed a "misplaced sense of European nationalism." The allusion to opposition to the Westland takeover was unmistakable.

The touchstone of the new cooperative spirit in which the E.C. views its relationship with American firms is the way they have been awarded contracts in E.C.-funded R&D programs. The most striking example is RACE, also known as Research into Advanced Communications for Europe. Affiliates of the U.S.-based ITT group were chosen to take part in 12 of the 31 telecommunications projects, more than any other participant, European or otherwise. Other American groups to be awarded contracts include AT&T (in association with its European partner Philips), GTE, Hewlett Packard and IBM. "Big Blue" is present in most E.C. programs, but in a small number of individual projects giving rise to speculation that the E.C. may be keeping the U.S. giant's participation to a minimum, despite IBM's strong presence in virtually all Community countries. It is taking part only in one RACE project compared to ITT's 12 and three each for GTE and AT&T.

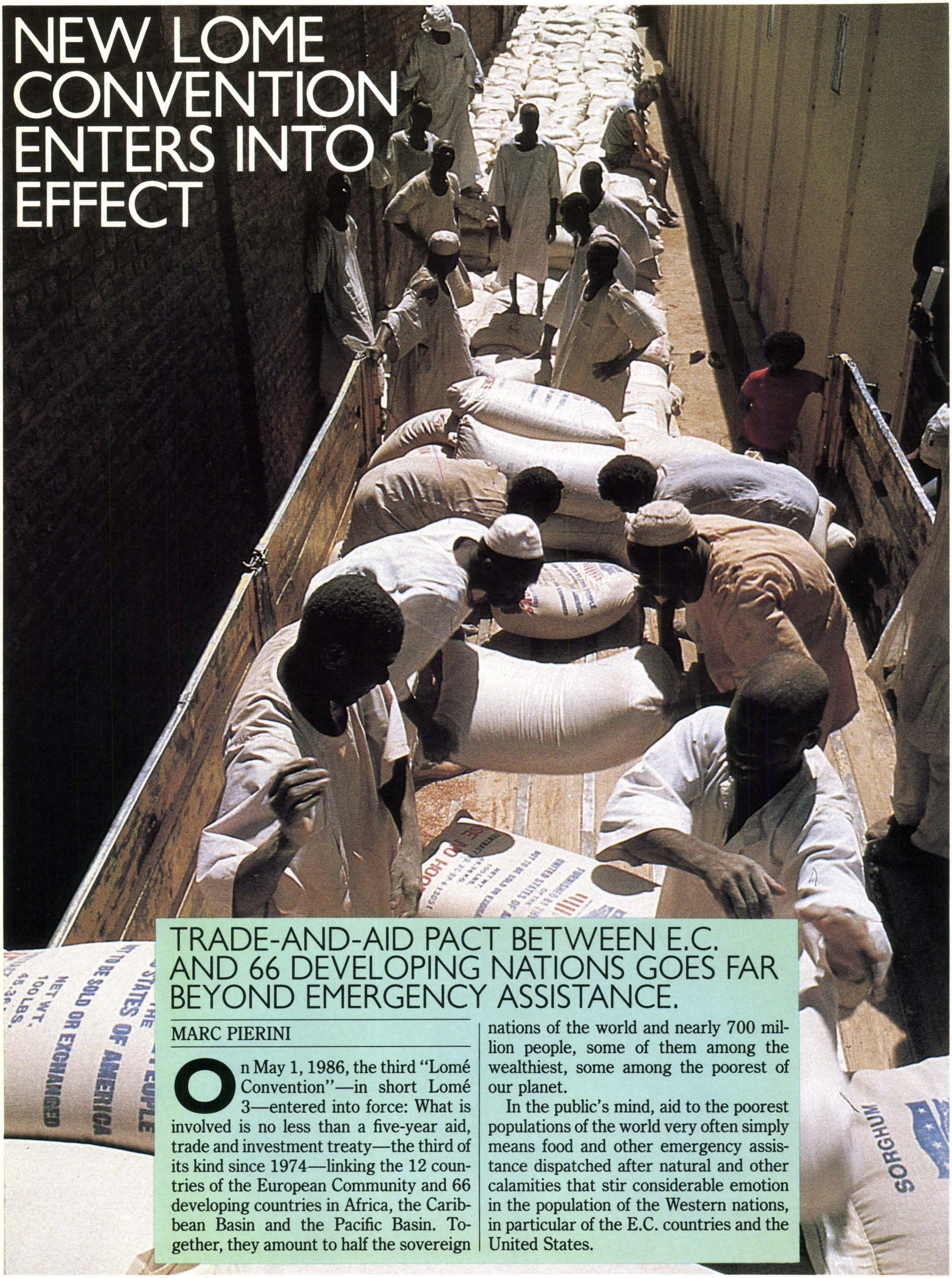
Nonetheless, IBM, alongside ITT and Digital Equipment Corporation, were among the few non-E.C. beneficiaries of the Community's more broadly-based Esprit program for R&D in information technology. IBM and Digital are said to have expressed strong interest in the Community's COMETT program, which is currently in preparation. This is a part of a European attempt to recreate—with E.C. support—the type of successful energy that characterized cooperation between industry and universities in the United States. The COMETT program is expected to be operational in early 1987.

It is not just in advanced sectors like telecommunications and information technology that the E.C. is extending its R&D program—and the scope for participation by U.S. companies. Earlier this year, the Community launched its BRITE program—Basic Research in Industrial Technologies for Europe. The aim of the program is to foster R&D into technological modernization for traditional industrial sectors. Here again, although the bulk of contracts went to home-grown E.C. firms, American companies were among the chief beneficiaries. These included Ford, Rockwell, Raychem and ITT.

Such, then, is one aspect of the quiet revolution. This degree of participation by American corporations or their European subsidiaries in E.C. programs would probably have been unthinkable even five years ago. It shows how economic realities can impinge on ideological purity. It betokens, too, how the Community can react pragmatically to changing circumstances, despite its cumbersome procedures and slow decision-making processes. Farsighted Brussels watchers are now waiting for the day when the E.C. puts up part of the seed money for the first R&D contract involving a Japanese corporation. €

Robert Taylor reports from Brussels for *The Economist.*

NEW LOME CONVENTION ENTERS INTO EFFECT



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TRADE-AND-AID PACT BETWEEN E.C. AND 66 DEVELOPING NATIONS GOES FAR BEYOND EMERGENCY ASSISTANCE.

MARC PIERINI

On May 1, 1986, the third "Lomé Convention"—in short Lomé 3—entered into force: What is involved is no less than a five-year aid, trade and investment treaty—the third of its kind since 1974—linking the 12 countries of the European Community and 66 developing countries in Africa, the Caribbean Basin and the Pacific Basin. Together, they amount to half the sovereign nations of the world and nearly 700 million people, some of them among the wealthiest, some among the poorest of our planet.

In the public's mind, aid to the poorest populations of the world very often simply means food and other emergency assistance dispatched after natural and other calamities that stir considerable emotion in the population of the Western nations, in particular of the E.C. countries and the United States.

It is, however, widely recognized that catastrophic events such as the 1984-1985 famine in Africa also have deeply rooted causes such as inadequate availability of financial resources, inadequate sectoral and macroeconomic policies, improper behavior of the population with respect to the environment and other problems.

It is therefore useful to ask how well developed nations have coped with their responsibilities in such continent-wide emergencies, but also what they are doing to deal with the longer-term, structural underlying problems.

Emergency Assistance

During the famine that struck sub-Saharan Africa during 1984-1985, the E.C. provided nearly 600 million European Currency Units (ECU)—The average exchange rate for 1985 was 1 ECU = $0.80. Presently, 1 ECU = $0.98.—in the form of emergency food (1.2 million tons of cereal-equivalent) and other aid (medical supplies and assistance, trucks and airlift). The E.C. action concentrated on the eight most affected countries in Africa: Angola, Chad, Ethiopia, Mali, Mauritania, Mozambique, Niger and Sudan—and amounted to about a third of all the aid supplied by the international community. An intensive cooperation effort took place between all those concerned: recipient governments, the E.C. Commission, E.C. member states, U.N. agencies, other donors such as the United States and Canada and also non-governmental organizations.

In some cases, when the worst came to the worst, international cooperation accomplished technical miracles. When the railroad used to ferry food supplies to western Sudan was washed away, this hard-hit region was on the verge of an even greater human disaster. Within days, a European repair team was busy repairing tracks and engines and an "air bridge" was put in place using planes and helicopters from the air forces of several E.C. countries and the United States in a cooperative manner.

Rekindling Agriculture

As soon as the worst of the African emergency was over, new problems had to be dealt with: starting food production again, drawing on the lessons of the response to the emergency. As early as November 1985, the E.C. decided that it would devote 200 million ECU to two sets of immediate actions:

- Providing ruined farmers with seeds, fertilizers, pesticides, tools, short-term credit and so on and helping them resettle, rehabilitate village wells and subsistence crops;
- Organizing a better preparedness of the countries that might be affected again by drought and famine. This involves strengthening emergency plans and procedures, improving "early warning" systems (agro-meteorological surveillance, data transmission), constituting safety stocks of food and seeds to deal with initial emergencies but without adversely affecting food markets, eliminating the most severe bottlenecks identified in the transport and storage systems during the 1984/85 emergency (loading and storage facilities, rail and road networks, spares and maintenance facilities for trucks).

> The Lomé Convention is "politically blind" in that it does not discriminate between ACP countries on political grounds.

Indispensable as it is, emergency assistance will only bring temporary relief to the affected population. Rapid-implementation rehabilitation measures such as those just described and disaster-preparedness schemes provide the necessary complement to emergency assistance. However, they will not solve any of the longer-term underlying problems, and donors should also provide financial assistance and technical support to policy reforms over extended periods of time.

This is the purpose of the Lomé Convention and other efforts initiated by the E.C.

The "Lomé Policy"

The Lomé Convention, a five-year trade, aid and investment treaty, is named after the capital city of Togo, where it was signed in December 1984. "Lomé 3" is the third treaty of its kind in a series that was initiated in 1974 and covers the period between March 1985 and February 1990. After the necessary ratifications, it took effect on May 1, 1986. The Lomé Convention offers a wide range of provisions that can only be briefly summarized here.

Concerning *trade,* Lomé 3 provides for a one-way free-trade area between the 66 beneficiary countries in Africa, the Caribbean and Pacific Basins (the "ACP") and the 12 E.C. countries. Virtually all ACP exports are covered by zero-tariff, no-quota provisions, the balance benefiting from trade preference over the products of other developing countries. Also, the provisions for "rules of origin," necessary to avoid pass-through operations, have been improved and relaxed.

Concerning *financial assistance,* Lomé 3 provides for a total package of 8.5 billion ECU over five years, of which 7.5 billion from the European Development Fund (mostly in grant form) and 1.0 billion from the European Investment Bank. This package is up by some 10 percent in real terms compared to Lomé 2 (1980-84).

The *investment* provisions of the Lomé Convention include a number of commitments by both capital-exporting and capital-importing countries to promote investment and to ensure fair and equitable treatment and a predictable and safe investment climate. They also include statements of principles regarding non-discrimination among investors and negotiation of investment agreements between states.

Lomé 3 also includes a number of unique features such as the *"Stabex"* scheme to compensate fluctuations in export earnings of 48 agricultural commodities from the ACP countries to the Community. The system, which has been substantially improved both technically and financially, has a built-in automaticity in order to ensure quick financial compensations for export receipt shortfalls due to a drop in world prices or in quantities exported. At the same time, proceeds from the Stabex have to be used either to remedy underlying structural problems in the affected sector for diversification purposes.

Another scheme, called *"Sysmin,"* is geared to the maintenance, rehabilitation and rationalization of the mining sector, while other provisions include E.C. assistance in the fisheries sector, desertification control, trade and investment promotion and technical assistance.

Negotiated at a time of serious economic difficulties in Europe, when most of the development financing institutions, both bilateral and multilateral, see their funding severely curtailed, when protectionist pressures are on the rise, the results of the Lomé 3 negotiations are of even greater significance.

The "Lomé Principles"

Lomé 3, like its two predecessors, is the framework for the economic relations between the E.C. and 66 developing countries. It is supplemented by the bilateral assistance and economic cooperation schemes that many of the E.C. member states have with many of these developing countries. The Lomé policy itself has four basic principles :

• Security and predictability of aid and trade benefits through a five-year legally-binding treaty. With Lomé 1 and 2, Lomé 3 provides uninterrupted economic benefits over a 15-year period and has built-in provisions for renewal. No other scheme in the world is so predictable. Indeed, budgetary constraints in industrial countries rather lead to the opposite evolution, as exemplified by the Gramm-Rudman-Hollings bill in the United States.
• Versatility of benefits through the combination, in one single agreement, of a wide array of aid, trade and investment provisions. A similar approach was later initiated on a more modest scale, both geographically and in scope, by the U.S. Administration with the Caribbean Basin Initiative.
• Permanent dialogue between the E.C. and the beneficiary countries at government and parliament level.
• Group-to-group agreement that collectively addresses all beneficiaries on an equal footing (while allowing for more generous assistance to the poorest ones), thus preventing discrimination on political grounds.

Is the Lomé Policy Perfect?

Over the years, the Lomé policy has received, and continues to receive, its fair share of criticism from the apostles of ultra-liberalism in the trade and economic fields.

We have heard that Lomé, through Stabex and its Sugar Protocol, discourages efficient agricultural production. That, through Stabex again, it encourages excessive production of sheltered commodities even if the country's competitive advantage is small, and that it relieves the country from adjustment efforts by providing substantial infusions of cash on a non-conditional basis. That, through the trade preference it gives to ACP countries, it reinforces E.C. protectionism because these countries will inevitably lobby for the defense of their (small and eroding, the argument goes) preference. That it finances projects irrespective of underlying policies.

These criticisms, which have been going on for some time without many changes, just miss two crucial points:
• Developing countries are not a group of equal partners: disparities in per-capita GNPs, natural resources, climate patterns, production and management skills of their populations make some of them extremely efficient in producing and marketing commodities and manufactures, while some others are extremely vulnerable to shifts in their economic environment. The abrupt application of market economy principles—however sound these principles are—will not make the least developed countries able to compete overnight with their more advanced developing neighbors on the industrial countries' markets. The African banana-exporting sector would probably be wiped out of the E.C. and world markets if it did not enjoy the Lomé trade preference over its Central American competitors. This would ruin the economies of two or three African countries. In other words, proportionately higher trade benefits and financial support for the most disadvantaged countries is warranted to help them overcome, over a period of time, their structural handicaps. The validity of this approach was also recognized three years ago by the U.S. Administration when it decided to give trade preferences to a selected group of developing countries through the Caribbean Basin Initiative.
• The Lomé policy has been substantially improved during the last negotiation, making some of the criticisms look a little antiquated. For example, Stabex transfers are now decided on the basis of programs submitted by recipient countries to remedy the problems of the sector concerned, or alternatively, to help diversification. In the same spirit, individual programs are agreed between the E.C. Commission and each of the ACP countries for the use of E.C. financial assistance: These programs include commitments by the recipient country to undertake a number of policy reforms in selected sectors and commitments by the E.C. to support them with quick-disbursing assistance.

Political Aspects

In a way, the Lomé Convention is "politically blind" in the sense that it does not leave room for discriminating between ACP countries on political grounds: whether E.C. member state "A" dislikes or not the regime of ACP country "X" will not result in a cutoff of trade or aid benefits.

This does not rule out political difficulties such as the objections which were voiced by the European Parliament, national parliaments and public opinion to E.C. cooperation with Uganda at the time of Idi Amin's regime. The legitimate human rights concerns of the European public (who fund most of the Lomé financial assistance) and the legitimate needs of the poorest sections of Uganda's population both had to be met. The Lomé "guarantee" played its role since funding was not cut off, but entirely redirected toward actions concerning the basic human needs of the population (food, medical supplies, health care) in ways and through channels which avoided any possible use by the regime in power at that time.

Lomé 3 now includes a Joint Declaration where all the contracting parties reaffirm "that every individual has the right, in his own country or in a host country, to respect for his dignity and protection by the law."

There are also global political aspects in the Lomé policy. For a developing country, being involved in a wide-ranging partnership agreement such as Lomé means an assurance that economic benefits will come with the full respect of its political and economic choices. It also means, from this developing country, a certain recognition of the merits of the economic, financial and technical advice and know-how that is provided by the E.C. through Lomé. The fact that the newest developing members of the Lomé Convention are Angola and Mozambique is not insignificant in this respect.

The Very Long Term

Beyond the medium-term framework of Lomé 3, the E.C. is also concerned by very long-term issues affecting the future of the African continent, i.e. desertification and, more generally, environment protection.

Economic development itself can create radical ecological imbalances: With the transition from subsistence farming to a money economy, growing pressure is exerted on agricultural land, accentuated by rapid population growth and aggravated by the general fragility of natural resources in tropical zones and by climatic fluctuations, i.e. drought. There has been a failure to adjust farming techniques and patterns to these changes, leading everywhere to soil deterioration and loss of plant cover which, if they continue, will probably become irreversible.

The E.C. Commission had put forward proposals to the 12 E.C. member states in order to adopt a comprehensive approach in this field. Desertification cannot be halted by isolated measures. The various aspects of the problem must be tackled by carefully coordinated packages of measures, tailored to the specific conditions existing in each zone or country. Proposed measures include improved farming techniques, actions to protect natural resources in conjunction with regular production projects and support for population policies drawn up by the governments concerned. €

Marc Pierini is responsible for development affairs at the E.C. Commission's Delegation in Washington D.C.

This announcement appears as a matter of record only

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WHY ARE EUROPEAN AIR FARES SO HIGH?

AND WHAT CAN BE DONE TO INTRODUCE FREER COMPETITION?

LORD BETHELL

Good communications are an essential part of any movement toward European union. In recent years, new technology has provided us with telephone and telex services that make mockery of distances or frontiers. The Continent's industrial centers in the Federal Republic of Germany, France, Belgium, the Netherlands and northern Italy have been transformed by the excellent network of roads and railways built up since World War II. It is a rich area where frontiers mean little and Europe is beginning to mean something rather important.

The European Community's periphery is not so fortunate. Greece, Spain, Portugal, Ireland, southern Italy and the north of the United Kingdom are not only Europe's traditionally poorer regions, but they are also the least well endowed with communications. For some areas, it is a problem of distance: They are too far from the centers of the north and west.

For others, it is a problem of water. Businessmen, or even many vacationers, do not have the time nowadays to take ferries, with the attendant risks of fogs and strikes. They have to fly. And it is in this area that, until now, the E.C. has been letting its citizens down.

Any map of Europe and North America, calibrated in air-fare costs rather than miles, shows the distortion that has arisen through applying two entirely separate systems of fixing European air fares. What emerges is a crazy world in which the English Channel is almost as wide as the Atlantic Ocean. Dublin is further from London than Belfast and Gibraltar is a small island north of Spain. The story goes that a Berlin schoolboy was once asked in a geography class where New York was. He replied: "I don't quite remember, but judging from the air fare, it must be somewhere between London and Hamburg."

How does this happen? It is because of the alarming difference between the fares charged under the free-enterprise system of domestic or charter travel and the regulated system of scheduled traffic. Because trans-Atlantic travel is based on free enterprise, British Airways would not dare charge more than $332 for a basic, one-way London-New York ticket. If they did, everyone would fly TWA or Pan Am. As it is, they all have to compete with Virgin Atlantic, which charges $75 less on the route. The same system applies to charter flights. A travel agent, or "bucket shop," will advertise a London-Frankfurt round trip for $90, Rome for $154 or

Continued on page 47.

Lord Bethell is a Member of the European Parliament.

EUROPEAN COURT CALLS PRICE FIXING ILLEGAL

In a decision that is likely to speed up deregulation of airline routes and promote lower airfares throughout the European Community, the European Court of Justice ruled on April 30 that airfare price fixing by governments and airlines in the E.C. is illegal. The ruling is expected to have an important influence on European air travel, and gives the E.C. Commission a legal basis for its fight to deregulate air transport in the Community.

"The judgment underlines the need for rapid decisions in the Council on the establishment of a Community policy for air transport," said the Commission in a statement. "These decisions should be in conformity with Community law and provide real benefits for air travellers."

In its decision, the Court said that the practice by the French government of approving tariffs based on airlines' price-fixing agreements was illegal under competition laws of the Treaty of Rome establishing the Community. The case began several years ago when a number of travel agencies and carriers were taken to court by the French Government for allegedly selling tickets at prices below the approved government levels. When one of the affected travel agents asked the Paris court in 1984 to rule on whether the Government's tariff-approval method was compatible with E.C. competition law, the court referred the case to the European Court.

While practices that restrict or distort competition are clearly prohibited under the Treaty of Rome, certain such practices are allowed if they bring technological or economic benefits. In the past, France and some other E.C. member states have considered that air transport is not covered by the E.C. treaty, while the E.C. Commission, the United Kingdom and the Netherlands have argued that it is. The Commission issued a number of proposals for deregulating the industry in 1984, but the Council, deeply divided on the issue, has failed so far to adopt them. The Court ruled that, in the absence of a common air transport policy between E.C. member states, it was now up to the Commission or national antitrust authorities to ensure that price fixing is prohibited.

"The Community is not in business to protect monopolistic activities or cartel-like arrangements which can prejudice the interests of our people," said the E.C. Commissioner responsible for transport, Stanley Clinton Davis, when the Commission's proposals were released. "Experience has shown that where innovative airlines are given the go-ahead, passengers get a wider choice of routes and fares—especially low fares."

The Commission's proposals are designed not to bring about an American-style deregulation, but rather to improve existing European air transport arrangements. Among the proposals: relaxing existing rules to allow enterprising airlines to bring in lower fares; limiting government interference in so-called capacity arrangements, exempting of certain airline practices temporarily from E.C. competition rules and setting comprehensive guidelines for the control of state aids in the air-transport sector.—STEPHEN BROOKES

PHOTO COURTESY LUFTHANSA GERMAN AIRLINES


Frankfurt Main
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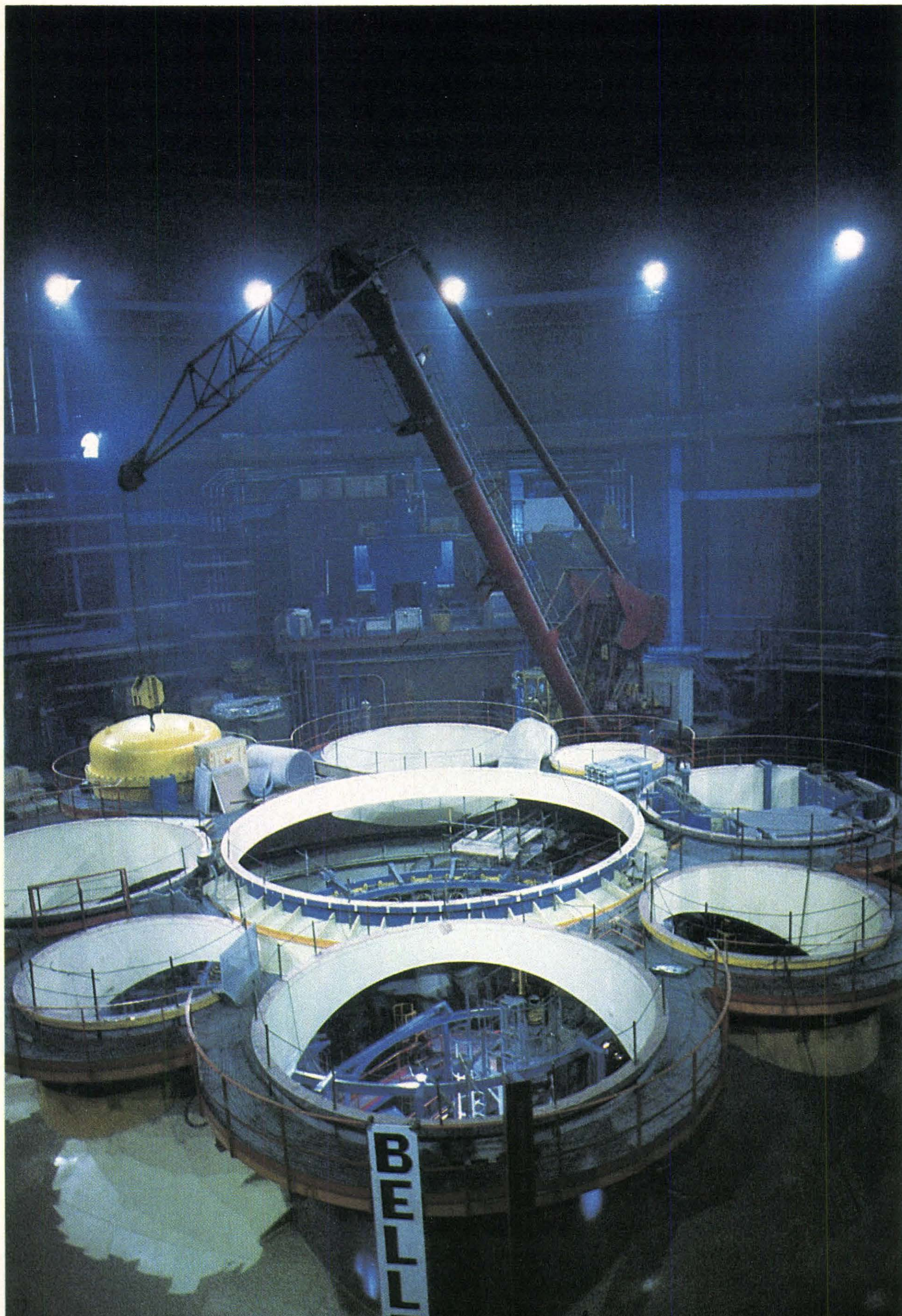
HOW SAFE ARE EUROPE'S NUCLEAR POWER PLANTS?

NO REACTORS ARE COOLED THE SAME WAY AS THE ONE AT CHERNOBYL AND ALL HAVE CONTAINMENT STRUCTURES.



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Inside the Superphénix reactor in France. Western Europe now obtains more than one-third of its electricity from nuclear power.

SIMON RIPPON

Western Europe now obtains more than one-third of its electricity from nuclear power. It is the main energy source for electricity production. It has to be safe. The imperative of nuclear safety is heightened by the rather high population densities in most countries of Europe. It is neither complacency nor self-satisfaction that leads the European nuclear industry to claim: "It couldn't happen here." It is necessity.

After any kind of industrial accident, the most urgent priority is to ask if there are any identical plants where the same accident might occur. In the case of the Chernobyl accident, the answer for Europe is a clear "no." The type of reactor at Chernobyl, with a graphite moderator and boiling light water in pressure tubes passing through the graphite, is unique to the Soviet Union.

The next thing to look at is what started the accident. It is now clear that the Chernobyl reactor suffered a reactivity excursion—a sudden burst of power—while maintenance work was being carried out, almost certainly on automatic control systems designed to control the reactivity. A characteristic of that particular type of reactor is what is known as a positive void coefficient: If the power of the reactor starts to increase, there is more boiling in the water coolant and the extra voidage causes the reactivity to increase and the power to increase further.

In contrast, the light-water-cooled and -moderated reactors most widely used in Europe have a negative reactivity coefficient which provides a degree of self-regulation of the power. A few of the early gas-cooled and graphite-moderated reactors used in the United Kingdom and in early French power stations can have a slightly positive reactivity coefficient in the first few years of operation, but this is much easier to control than it is with the Soviet type of reactor.

The surge of power in the Chernobyl reactor led to hydrogen explosions, a fire in the building above the reactor and, whether as a result of the building collapsing on the reactor or the initial explosions, a fire in the moderator. Could a similar sequence take place in Europe?

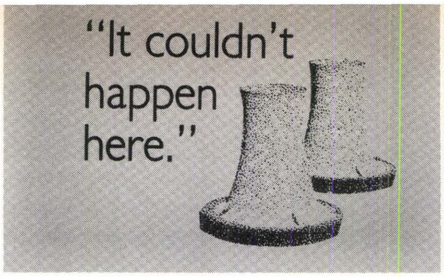
The only reactors with graphite moderators in Europe are cooled with an inert gas—carbon dioxide—and there is no mechanism that would produce explosive hydrogen in this type of reactor. In addition, they operate with the graphite at a relatively low temperature—around 400 degrees centigrade compared with 700 in the Chernobyl reactor—which makes the prospect of a graphite fire far more remote. It also has to be said that the standard of building construction is generally higher in Europe than in the Soviet Union, and the chance of collapse onto the reactor that much less.

The Chernobyl reactor was equipped with emergency core cooling systems similar to those provided on all light water reactors. But it is more difficult to inject the emergency coolant into the 1,600 coolant channels of the Soviet reactor than it is into the single large pressure vessel of light water reactors. The nearest equivalent to the Soviet reactor in Europe is a system known as the steam generating heavy water reactor (SGHWR) developed to the prototype stage in the United Kingdom. It is interesting that when designers attempted to develop the SGHWR to a commercial-size plant in the 1970s, the difficulty of devising emergency core-cooling systems which would satisfy the safety authorities was so great that the reactor design became uneconomic and was abandoned.

While the first priority in nuclear safety is to prevent serious accidents developing in reactors, a further line of defense can be provided by a variety of containment systems to prevent, or limit, the release of radioactivity even if there is a serious accident. This is particularly valuable in reactors cooled with water at very high pressure where a sudden failure of the coolant circuit can cause a loss of pressure and the flashing of the high-temperature, pressurized water to steam.

All such reactors in Europe have a containment building enveloping their reactors and all the associated plant. The large, dome-shaped containments built of steel or prestressed concrete or both can withstand considerable excess pressure from within as well as substantial impacts from outside forces such as crashing aircraft. There are also water-spray systems or pools of water inside the containment building which would be used to condense any escaping steam from the plant, so reducing the build-up of pressure on the building.

Analysis carried out in many countries since the Three Mile Island accident in the United States in 1979 have highlighted the value of containment buildings in reducing the consequences of serious reactor accidents. Even if the containment itself is eventually breached, it would still help to reduce the emissions of radioactive iodine and caesium to insignificant levels. It is these two radioactive isotopes that have dominated the releases from Chernobyl, and it is the iodine, which concentrates in the thyroid gland, that has been the main cause of concern.



COURTESY GENERAL PUBLIC UTILITIES

The Chernobyl type of reactor is very large in size and also needs space above the reactor for a large machine which is used to load and unload fuel. It therefore would have been very difficult for the designers to provide a large-enough containment building for the whole of the plant. Rather, a system of partial containment was adopted where different sections of the plant are contained in large concrete cells.

Gas-cooled reactors—which account for most of the nuclear-power production in the United Kingdom, as well as a small portion in France, Italy and Spain— are also very large in size. The later gas-cooled reactors nevertheless have been designed with the whole of the primary coolant circuit integrated into a massive prestressed concrete vessel. Some of the early gas-cooled reactors do have only a partial containment somewhat similar to that of the Soviet arrangement. But because of a fundamental difference in the nature of pressurized gas and pressurized water coolants, there is not the same need for comprehensive containment. If a gas-cooling system were to be damaged, there would be a slow loss of pressure and partial cooling of the reactor could be maintained for many hours.

Having examined the technical aspects of reactor design in light of the Chernobyl accident, it is still advisable to take a look at all the aspects of nuclear safety, including human factors and the standards of regulation and licensing. In practice, the review of nuclear safety procedures is a continuing process which was already active before the Three Mile Island accident and has greatly intensified since. A further close examination of all possible lessons to be learned from Chernobyl will certainly take place.

A number of factors have led to very high standards of nuclear safety in Europe. In the first place, each of the 10 countries in Western Europe operating nuclear power plants has independently established nuclear regulatory bodies with authority over a small number of operators—in several cases just on nationalized electricity undertaking. In contrast, in the United States, one nuclear regulatory authority has to license more than 30 independent utility operators of nuclear plants. A consequence of this is that the European authorities have tended to devote more attention to the licensing of reactors on a case-by-case basis, whereas the United States attempted to establish complicated rules and regulations which could be applied to any plant. Most European countries, in adopting the light water reactor designs which originated in the United States, have taken on board all the U.S. rules and regulations and have added further stringency in applying them case by case.

Europe also has been very much in the lead in the exchange of technical information and experience in nuclear safety. The E.C.'s Euratom organization is one agency that provides for specialist analysis of nuclear safety issues and the collection and dissemination of operating experience from different countries. While Euratom is in no sense a supranational regulatory agency, it is starting to play a role in fostering cross-border emergency planning which is clearly important for many of the nuclear plant locations in Europe.

The Nuclear Energy Agency (NEA) based in Paris started life as a European organization and now has expanded to embrace all the countries in the Organization for Economic Cooperation and Development. In recent years, the agency has been playing a very valuable role in bringing together the best technical experts from all the member countries to examine detailed safety issues. Other valuable activities include the operation of an incident-reporting system and the mounting of some large-scale experiments to test different aspects of nuclear safety.

All European countries are also active members of the International Atomic Energy Agency (IAEA) based in Vienna. Among other things, the IAEA provides for the exchange of technical information on nuclear safety from the wider membership of the United Nations and is the agency through which the Soviet Union is communicating information on the Chernobyl accident.

One important program undertaken by the IAEA in recent years has been the establishment of a comprehensive set of codes and standards for nuclear safety. The Soviet Union participated actively in this program and, in claiming that Soviet safety standards meet international norms, usually refers to the IAEA codes and standards. European specialists, who also participated in the IAEA standards program, view the results rather as the lowest common denominator—a useful starting point for a country setting up a new regulatory body, but already exceeded by the established safety practices in Europe. €

Simon Rippon is European editor of *Nuclear News.*

GERMANY

ECONOMIC PICTURE IS LOOKING ROSY.

PHOTO COURTESY GERMAN NATIONAL TOURIST OFFICE

WELLINGTON LONG

As German politicians gird themselves for the final lap to the parliamentary election in January 1987, the question facing voters is whether the cup being offered them is half full or half empty. Chancellor Helmut Kohl, the 56-year-old Christian Democrat who led his party back into office at the end of 1982 after 13 years in opposition, has managed to get only part way through the turnaround he promised.

By all standards but one, the economic picture is rosy. The five research institutes that produce a detailed prediction each year for the Government believe growth will reach about 3.5 percent this year, which would be the best in about the last decade. By coincidence, as the institutes published their prediction in Bonn, the Federal Statistical Office in Wiesbaden reported that, thanks to the lower exchange value of the U.S. dollar and the drop in the price of oil, the rate of inflation had at least briefly dropped to near zero.

Of course, the drop in oil prices also meant fewer new orders from the oil producing countries for investment projects, and the lower exchange rate of the dollar probably will trigger a sag in exports to the United States. But experts thought that these losses might be made

Wellington Long is a freelance writer based in Bonn.

up by an increase in domestic demand and in sales to European Community member states.

The one jarring note was the Government's inability to bring down the jobless rate. Up to 100,000 new jobs had been created in the last two to three years, and experts predicted that trend would continue. But this did no more than soak up the increasing number of school leavers. The numbers of unemployed remained stubbornly high, at around 2.5 million, or something more than 9 percent of the work force.

Kohl's coalition of Christian Democrats and Free Democrats, as the German liberals call themselves, resisted all suggestions that it resolve the unemployment problem by increasing public borrowing to finance a state works program. It stuck instead to its intention to reduce the personal and corporation tax loads as an incentive to increased consumer demand and to more investment. As Chancellor Kohl sees the situation, the cup is half full—he has essentially turned the economy around. Not even the Social Democrats, the main opposition party, any longer deny the economic improvement. But they insist that the fact that unemployment has actually grown during Kohl's time in power cancels out the other side of the ledger—that the cup they see is half empty.

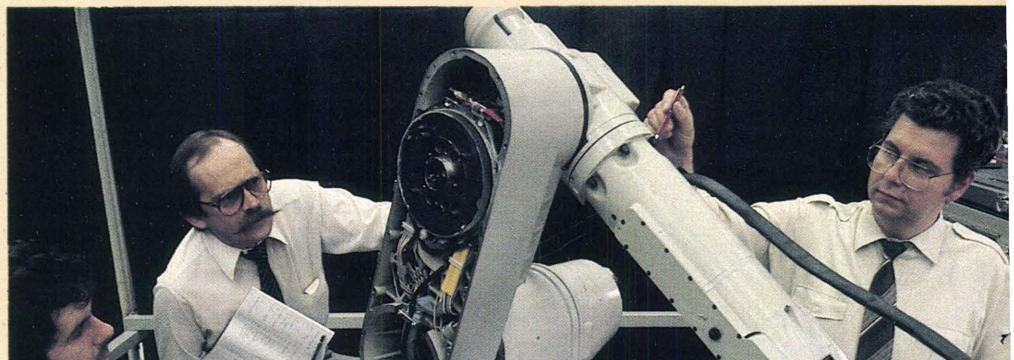
That is not Kohl's only problem. Curiously, his personal popularity is running well behind that of his Christian Democratic Union party. With most Heads of Government, it has been the other way around, although—as former Chancellor Helmut Schmidt discovered to his dismay in 1982 when he was considerably more popular than his Social Democratic Party—that can also simply mean that he has lost the support of his own nominal followers.

Kohl also has difficulty in getting the average man to associate him with the economic improvements. The conservative writer, Johannes Gross, recalled recently that Franklin D. Roosevelt was such a successful President of the United States because, while he was unable to improve the objective situation of his country as fast as he desired, he was able to win over the voters subjectively. "Kohl is a reverse Roosevelt," said Gross. "The situation has objectively improved, but he is not honored as the author of this improvement."

Johannes Rau, the 55-year-old Minister President of North-Rhine Westphalia, is leading the Social Democratic Party as its candidate to form a Government. Rau has headed the Government in Germany's most populous state since 1976, and was reelected without difficulty in the spring of 1985, which made him the obvious choice as banner bearer in the national campaign.

Some complain that he has developed too soft a profile. Shortly after being made the candidate, he suggested that if he formed the next Government, he would immediately reverse all of Kohl's social legislation and order the United States to remove its Pershing II and cruise missiles. But the roars that arose apparently convinced him that the challenger is best advised to avoid being too specific on any subject. Since then, he speaks only of reviewing all decisions taken by his predecessor as well as the strategies and deployments of the North Atlantic Treaty Organization (NATO), but promises no specific actions before seeing the results of those reviews.

In line with this tactic, Rau has refused all demands by Kohl's supporters that he face the Chancellor in a budget or foreign-policy debate in the Bundestag, the lower house of the federal parliament. As the head of a state Government, Rau sits in the Bundesrat, the upper house of parliament, and has the right to participate in debates in the lower house. But he has refused to do so, on grounds that he objects in principle to state leaders interfering in the business of the lower house. But inevitably, at some point during the closing weeks of the campaign, he will



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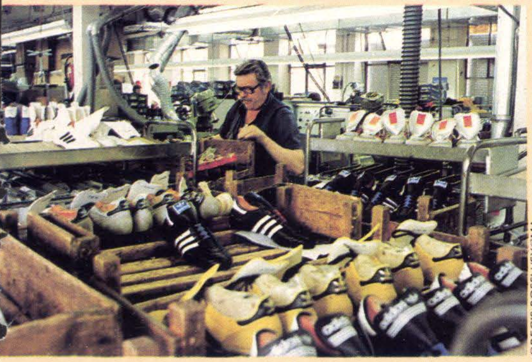
The German economy is showing rapid signs of recovery, especially in the field of high technology where much progress has been made. Clockwise, from top: the port in Hamburg, Adidas factory in Herzogenaurach, Hamburg's State Opera and a German robotics plant.

COURTESY HAMBURG NORTH AMERICA REPRESENTATION



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COURTESY HAMBURG NORTH AMERICA REPRESENTATION

have to face Kohl directly in one of the television debates that have become traditional.

With four parliamentary parties in the race, it is unlikely that either Kohl's Christian Democrats or Rau's Social Democrats can win a majority of the popular vote. In fact, only Konrad Adenauer, Germany's first Chancellor, achieved that success, in his third campaign in 1957, when his Christian Democrats won 50.2 percent of the popular vote, giving him a Bundestag majority of 16.

Even then, however, Adenauer brought in the Free Democrats as a coalition partner. In fact, no party has ever governed alone—initially the Christian Democrats formed a "Grand Coalition" with the liberals in opposition, followed by years of Governments formed by the Social Democrats and the liberals. In fact, except for the brief "Grand Coalition" episode, the liberals have held the balance of power in Bonn, wielding much more power than would seem justified by their actual electoral strength, which has never exceeded 12.8 percent and sometimes has dropped to as little as 5.8 percent.

But a new party entered parliament in 1983, with 5.6 percent of the popular vote, and it could play a key role in determining who leads the next national Government, as it already has in the state of Hesse. This is the ecological party, known as the Greens, opposed to membership in NATO and peaceful use of nuclear power. While the Free Democrats have been in partnership with each of the dominant partners, the Social Democrats are the only possible partners for the Greens.

Heiner Geissler, general secretary of Kohl's Christian Democratic Union, says that his electoral goal is for his party to win more votes than the Social Democrats and the Greens combined, "so that they cannot form a Government against us." Kohl and Geissler paint a lurid picture of Germany's fate under a "Red-Green" coalition.

Rau says he would not form a partnership with the Greens because he finds their policy on national security unacceptable. This causes other politicians to wonder if he would accept their support, if he needed it to form a minority government, if they did not insist on a cabinet post. Alternatively, others suggest that rather than bend his principles, Rau might step aside after the election to permit some other Social Democrat to put together a ruling coalition with the Greens. The Free Democrats say they are campaigning for a continuation of the present coalition.

One of Kohl's problems is the constant rumble of criticism from Munich, capital of Bavaria. Kohl's party is itself a partnership—his Christian Democratic Union exists in all German states except Bavaria, where it operates independently as the Christian Social Union. However, since the opening of the first parliament in 1949, the two have formed a single parliamentary group. But Bavarian Minister President Franz Joseph Strauss, who is chairman of the Christian Social Union, maintains a steady stream of criticism of what he perceives as weaknesses in the federal Government—he faults the Free Democrats for most of these, but some of his criticism obviously is aimed at Kohl for tolerating the liberals.

Strauss blamed Foreign Minister Hans-Dietrich Genscher, a former chairman of the Free Democratic Party, for what he considered the Government's unacceptably equivocal acceptance of President Ronald Reagan's Strategic Defense Initiative (SDI) offer. In the wake of Strauss' attacks, quite a few others wondered whether the agreement Kohl's Government finally made with Washington governing cooperation in SDI research really was worth all of the political trouble it caused. Strauss said the Government could have gotten a much better deal if it had wholeheartedly embraced the SDI concept from the start. As it is, he argues, the Government has irritated both the Germans and the Americans without being able to balance this with assurances of major research contracts.

Some companies in the Federal Republic do theoretically have much to offer SDI, in lasers and optics. But industry generally remains skeptical, assuming that Washington is unlikely to let any major contracts to foreign, privately-owned firms. The Germans now buy all of their microprocessors from the United States and their memory chips from Japan, although this could change if Siemens of Germany and Philips of the Netherlands succeed in producing a megabit memory chip.

In the meantime, the Germans have moved ahead of both the United States and Japan in fitting those components together to create new technological applications to the production process. The Germans say the race now will not be won by inventing still more hardware, but by creating and selling software applications to production, and that here they are forging ahead smartly. "Microchips are marvelous," says one software designer, "but you can't pound a nail into the wall with one. That is where we come in." €

NEWS OF THE E.C.

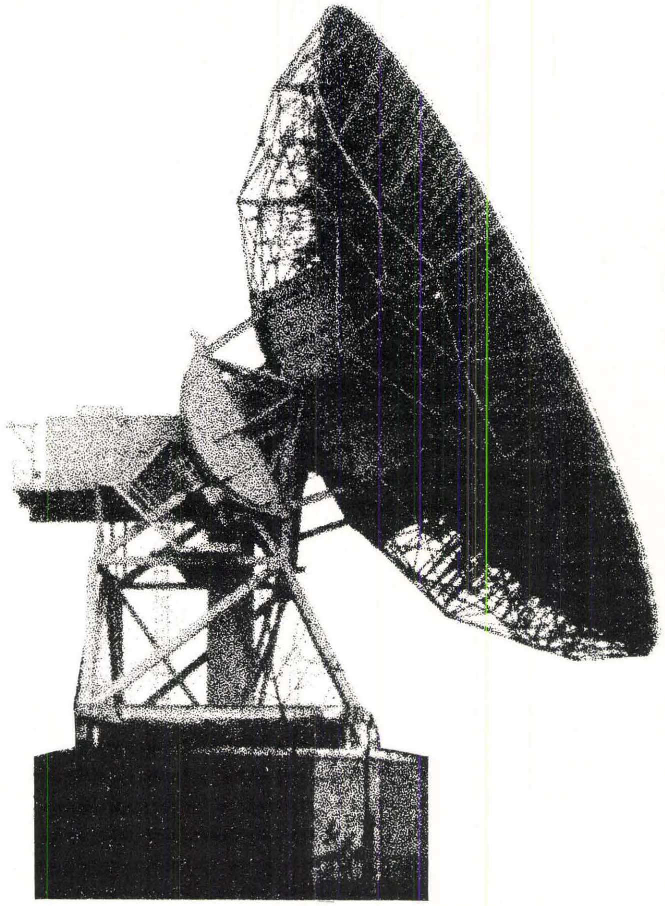
A TELEPHONE REVOLUTION IN EUROPE?

Telephone users throughout Europe should be availing themselves of an expanded range of new services from 1988 on as telephones and computers become increasingly interlinked, the E.C. Commission said recently.

The Commission has asked the Community's member states to begin developing telecommunications innovations that will allow telephone users to identify unwanted calls, determine the price of a call instantly, transfer data and visual information over the telephone and generally take advantage of the numerous services that computers can provide.

This combination of the telephone and the computer, which specialists are calling the Numerical Network for the Integration of Services, must be developed and implemented rapidly if Europe is to claim its share of a world-wide market estimated at $200 billion, the Commission believes. Such a network would also constitute an important step toward the future wide-band telecommunications network based on satellites and fiber optics, which Europe will be building during the 1990s.

The new communications network, once implemented, will give rise to a wide range of new activities in the services sector, especially for small and medium sized companies. Simultaneous voice/data transmission, high-speed telecopying and telexing, data and information services and a range of specialized professional services will become widely and easily available, the Commission believes.



Satellite transmission will be a central feature of Europe's future wide-band telecommunications network.

Telecommunications in the E.C. will develop through the end of the century through a succession of stages, according to the Commission's plan, as the current telephone network becomes "enriched" by new data information services, and is then succeeded by the integrated wide-band network. To pass to the "enriched" stage, the Commission is calling for an investment of between $6 billion and $7 billion over the next eight years to bring the numerical network to maturity.

E.C. PROPOSAL WOULD LIMIT T.V. ADVERTISING

The free flow of information among the countries of the European Community is vitally important both to European integration and to the development of the internal market, as the Commission made clear in its 1984 Green Paper on establishing a common market for broadcasting, "Television Without Frontiers."

A new draft directive on broadcasting drawn up by the Commission was outlined recently to the press by Lord Cockfield, the Commission's chief internal market strategist, who said that the proposed Community-wide regulatory system would break down the existing barriers among E.C. states, as represented by the various national regulatory systems. Lord Cockfield pointed out that the Commission had taken into account the reasons the national governments had invoked for keeping out broadcasts from other member states, which related essentially to programming and advertising. The new draft directive addresses these concerns by setting a quota for programs produced in the Community, and a maximum transmission time for advertising.

The directive would require member states to ensure that at least 30 percent of the programs they broadcast are produced within the Community. This percentage would eventually be increased to 60 percent. Noting that currently at least 80 percent of programs offered are Community-produced, Lord Cockfield indicated that the Commission wants to discourage newcomers from using inexpensive programs from third countries to collar advertising revenue.

The directive limits advertising to 15 percent of total transmission time, as compared to about 12 percent at present for many important broadcasters. Lord Cockfield stressed that member states would be free to set a lower ceiling for their national broadcasts, but could not refuse Community programs with a 15-percent advertising content.

The Commission wants equipment manufacturers, producers and performers to take advantage of the emerging Community-wide market. The Commissioner responsible for industry, Karl-Heinz Narjes, noted that the Commission had been developing a permanent dialogue with industry, especially with regard to the development of high definition television. His colleague, Carlo Ripa di Meana, who is responsible for communication policy, noted that the Commission had been cooperating with Europa-TV, a European channel broadcasting multi-lingual programs.

The Commission has also drawn up the outlines of an action program to promote audiovisual production in the Community, which will be discussed this year with a number of experts before a concrete action program is put together sometime next year. The audiovisual sector in Europe is expected to grow at a rate of about 5 percent a year throughout the decade. In that time, cable television is expected to double its penetration of Europe to reach about 20 percent of the European viewing public, and different satellite systems will add about 90 new channels to the television system.

E.C. FINES PETROCHEMICAL CARTEL

The E.C. Commission has imposed fines totaling 57.85 million European Currency Units (ECU)—about $55 million—on 15 petrochemical producers which it found had been operating a market-sharing and price-fixing cartel in the polypropylene market for much of the past decade. Such practices are illegal under E.C. competition rules, which the Commission has been stepping up its efforts to enforce.

The Commission acted following the results of a surprise investigation it undertook in 1983, which revealed that the cartel was created when seven new polypropylene producers entered the European market in 1977. When the new producers agreed to join a price cartel, the existing producers made room for them in the market.

Prices and market shares were subsequently decided in regular, twice-monthly institutional meetings of "bosses" (directors or senior managers) and "experts" (marketing managers) of the 15 companies. Coordinated efforts to raise prices and implement an annual quota system were worked out at these sessions, and local meetings were then held to discuss in detail the implementation of the agreed measures in national markets—often down to the price of individual truckloads.

The four largest producers—Montepolimeri, Hoechst, ICI and Shell—which account for 50 percent of polypropylene production in the E.C., formed the nucleus of the arrangement and constituted an unofficial directorate. The members—who became known as the "Big Four"—considered themselves to have a special responsibility toward ensuring the success of the cartel, and since 1982 met together prior to every meeting of the "bosses." The four companies were awarded about 80 percent of the fines; Montepolimeri was fined 11 million ECU, the largest such fine ever imposed by the Commission.

The 11 other companies, which were fined between 500,000 ECU and 2.75 million ECU, attended meetings of the cartel and acted to implement the cartel decisions. A few firms participated for a shorter time than the others, and two non-E.C. producers with markets in the Community also participated. The procedure establishing their involvement was carried out in accordance with an Organization for Economic Cooperation and Development (OECD) recommendation of 1979 on cooperation in the field of restrictive business practices affecting international trade.

The pervasive nature of the cartel's activities in such an important product seriously affected trade and distorted competition in the Community, the Commission believes. Polypropylene is a primary bulk thermo-plastic product, and is a key intermediate product in the plastics processing industry. It has an extensive range of uses, including film, tape, rope, clothing, automotive parts and other consumer articles. It can also serve as a substitute for wood, metals, paper, textiles, jute and other plastics such as polystyrene and polyvinyl chloride.

The E.C. Commissioner responsible for competition policy, Peter Sutherland, announced the decision on April 24 and said: "Last year the Commission established as a strategic priority the aim to complete the internal market by 1992. Competition policy is an important instrument in this strategy. The Commission has sought through positive competition measures to encourage greater European integration and facilitate cooperation among European enterprises. The corollary to this positive approach, however, is that the Commission will act to maintain competition if firms are discovered to have participated in restrictive practices and anti-competitive behavior which can cause serious damage to other producers and consumers in the Common Market. Market-sharing and price-fixing are particularly serious violations. Producers and consumers can only reap the benefits of the internal market if competition in the market is not distorted. The need to safeguard competition is particularly important in the case of key industrial products such as polypropylene."

The firms involved were: Anic S.p.A, a unit of Ente Nazionale Idrocarburi (Italy); Ato Chem S.A., a unit of Nationale Elf Aquitaine, Ste. (France); BASF AG (Germany); DSM N.V. (The Netherlands); Hercules Chemicals N.V. (Belgian unit of the U.S..-based Hercules Inc.); Hoechst AG (Federal Republic of Germany); Huels Corp. (Federal Republic of Germany); Imperial Chemical Industries PLC (United Kingdom); Linz Textil AG (Austria); Montepolimeri, a unit of Montedison S.p.A. (Italy); Rhone-Poulenc S.A. (France); Petrofina S.A. (Belgium); Shell International, a British unit of Royal/Dutch Shell Group; Solvay & Cie. (Belgium); and Saga Petrokjemi, which since the investigation has become part of Statoil (Norway).

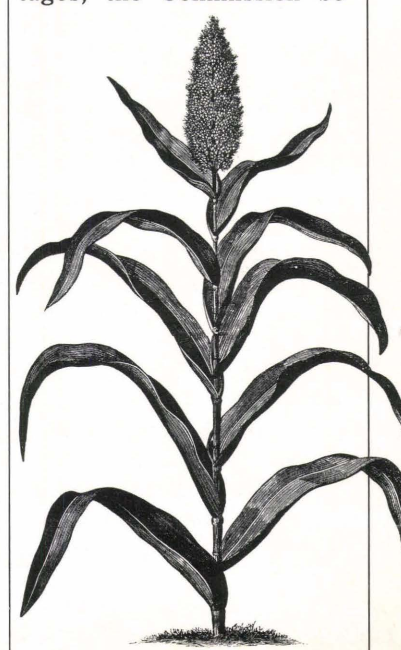
E.C. PROPOSES BIOTECHNOLOGY PROJECTS FOR AGRICULTURE

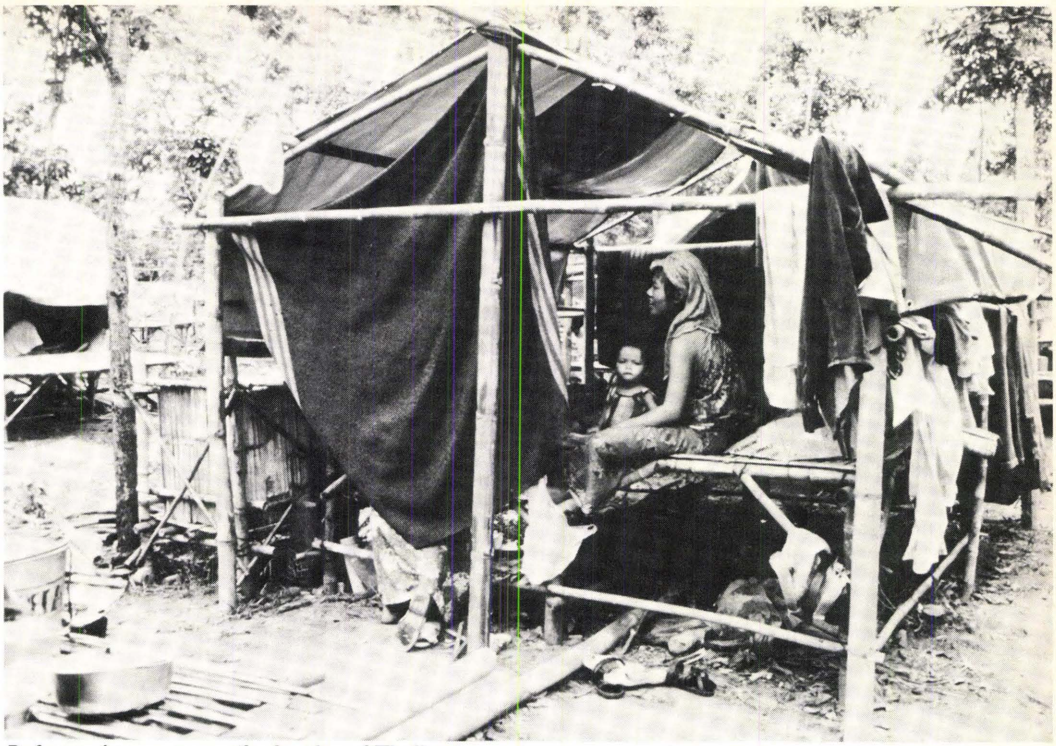
The future of European farming is being sown not in the fields, but in the laboratory where the development of recombinant DNA technology is promising a far-reaching evolution in agriculture. The E.C. Commission recently announced that it will soon be proposing a program of pilot biotechnology projects that should stimulate agro-industrial development in the European Community.

"The two great debates, on the future of agriculture and the future of biotechnology, are so clearly connected that they are really two views of the same phenomenon," said Karl Heinz Narjes, the Commissioner responsible for research and science. "The biological revolution must lead to agro-industrial transformation!"

The Commission has been promoting biotechnological development since 1983, when it began a plan of action that included precompetitive research and training, coordination of policies and actions affecting biotechnology, development of intellectual property rights and other measures. For some time, it has been stressing the need to encourage biotechnological research for the development of new, particularly non-food, uses for agricultural products and alternative production activities for products the Community still imports.

Europe has a number of advantages in agro-industrial development: plenty of land, a strong agricultural base, a powerful chemical industry, a strong and innovative pharmaceutical industry and a large internal market. These advantages, the Commission be-





Refugees in a camp on the border of Thailand.

lieves, should be exploited if Europe is to avoid becoming dependent on third countries for an increasing proportion of its biologically based industrial products.

Among possible pilot projects the Commission is suggesting are:

- greenhouse and field trials of candidate crops at the research stage;
- research surveys of land quality;
- studies to determine the scope for applying information technology to all aspects of farming;
- trials of whole crop harvesting, fractionation and refinery systems;
- trials of new biotechnology-based processes for adding value to agricultural and animal products;
- adaptation of food processing technology through new biotechnological processes to use indigenous rather than imported raw materials;
- production of alternative chemicals; and
- development of generic methodologies to assess the effects on the environment of projects and programs.

E.C. AID TO REFUGEES

E.C. Commissioner Claude Cheysson, who is responsible for the Community's relations with the less developed world, participated in a round-table discussion on refugees organized by the U.N. High Commission for Refugees on April 28. "To deal with refugees is to deal with the rights of man, the dignity of man, and it is to be confronted with the problem of peace," Cheysson said, outlining the principal actions and results of E.C. refugee policy.

Cheysson also reviewed Community aid plans that went beyond emergency and food aid, and were aimed at developing long-term self-sufficiency for refugee populations. Cheysson said it was best to find solutions that helped refugees return voluntarily to their countries of origin, and gave assistance to those repatriated.

There are currently over 330,000 refugees and displaced persons from Laos and Cambodia living in camps in Thailand under the authority of the U.N. High Commission who are being provided with substantial aid from the Community. The E.C. contributed a total of about 200 million ECU (about $190 million) in 1985 to improve the condition of refugees throughout the world (including emergency aid, Lomé Convention aid, food donations, contributions to non-governmental organizations, etc.), and has engaged about 100 million ECU for aid during the first three months of 1986. Two of the most recent projects will help give disabled people a measure of independence, and provide training for Hmong refugees from Laos.

The first of these projects, run by the International Operation for the Handicapped, will provide men and women maimed by the war with artificial limbs, crutches and wheelchairs, and reeducate them toward living useful lives. In the second project, Schools Without Frontiers is drawing up a three-year study program designed to teach Hmong refugees a trade they can practice within the camp and on their return to their homes in Laos. The project will train some 80 teachers and up to 1,500 students a year, thanks to the results already achieved under an earlier literacy program co-financed by the European Community.

In other aid and development news, the Commission announced it had recently granted:

- 500,000 ECU in aid for victims of a cyclone in Madagascar that left 32 dead and thousands homeless;
- 1.1 million ECU in agricultural assistance to Bhutan;
- 4 million ECU in development aid for small isolated communities along the Pacific coast of Colombia to raise their populations above the subsistence level;
- 3.1 million ECU to improve water supplies for 50,000 people in Nigeria;
- 900,000 ECU toward reactivating and improving cocoa production in Equatorial Guinea;
- 1.1 million ECU to reinforce sanitary infrastructure in Kenya;
- 400,000 ECU in aid for victims of violent rains in Peru, to be distributed by Médecins sans Frontières; and
- 285,000 ECU to develop the fishing sector in Burkina Faso.

EUROPEANS ARE SMOKING LESS

Europeans have been cutting back on their smoking since 1980, after steadily smoking more throughout the 1960s and 1970s, a recent E.C. Commission report on smoking concludes. Europeans bought nearly 480 billion cigarettes in 1982, a figure that seems enormous, but is still less than the 500 billion smoked two years before. Consumption has fallen in most countries over the past decade, by as much as 26 percent in the United Kingdom. It continues to rise steadily in some parts of the Community, however, especially in Greece, Denmark, Italy and France.

Per capita cigarette con-

sumption is higher in the poorer countries of the Community, with over 2,600 cigarettes a year smoked by those over 15 in Greece and Italy. The Danes and the Dutch, by contrast, smoke fewer than 2,000 cigarettes annually.

Filter-tipped cigarettes—considered less dangerous to health—are becoming increasingly popular, the report says, and many more men than women now smoke. In 1982, over 80 percent of all cigarettes sold were filter-tipped, and the figure was as high as 94 percent in the United Kingdom, Greece and Italy, and slightly under 90 percent in the Federal Republic of Germany and Ireland. Filter-tips are less popular in the Netherlands, Denmark and France, however, where they account for less that 70 percent of sales.

The report noted that smoking continues to be essentially a masculine vice, despite the fact that in the Netherlands, Ireland and Denmark nearly half the smokers are women.

INTERNAL MARKET COMMISSIONER VISITS U.S.

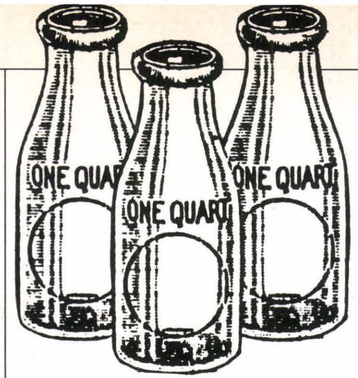
Lord Cockfield, a Vice-President of the E.C. Commission and the man responsible for the development of the internal market in Europe, met with U.S. Secretary of Commerce Malcolm Baldrige, U.S. Trade Representative Clayton Yeutter and other American officials and business organizations during a recent trip to the United States.

Commission Vice-President Lord Cockfield is spearheading the drive to complete Europe's internal market by 1992.

"The drive to complete the European internal market will only succeed if we can jointly defeat protectionism," Lord Cockfield told the International Business Council in New York, underscoring the importance of the trade relationship between the United States and the Community. "What Europe proposes doing and is doing to improve its economic performance is of direct interest to you in the United States for three reasons. A more prosperous Europe adds strength to the Western alliance. A more prosperous Europe adds to world prosperity through the development of international trade. And a more prosperous Europe offers greater opportunities to American companies operating in Europe which wish to share in Europe's progress and prosperity."

Lord Cockfield is the author of a 1985 Commission White Paper on the internal market, which contains some 300 proposals aimed at removing the remaining physical, technical and fiscal barriers to internal trade in the Community. The E.C., he noted in New York, still represents a dozen separate national markets divided from each other by frontier controls, by differing national laws relating to manufacturing trade and by differing taxes on goods and services. All these barriers, Lord Cockfield said, frustrate Europe's growth potential by multiplying costly border controls and jeopardizing the rewards of investment.

Referring to new opportunities opening up to American business, Lord Cockfield singled out services as an area of particular interest. But, he added, "it is vital that American industry does not simply appear to exploit Europe, to establish itself in Europe simply for what it can get out of it. It needs to contribute to European life; it needs to contribute to European research and development; it needs to accommodate itself to European values and European aspirations."



OPERATION FLOOD EVALUATED

The E.C. Commission recently completed an evaluation of a 15-year E.C. program for milk production in India that ended last year, and says the program successfully demonstrates how a food-aid plan can serve as an important tool for development in less developed countries.

The program, known as Operation Flood, was started in 1970 as a way of both leading India toward self-sufficiency in milk production and increasing social integration in disadvantaged rural areas. Available milk supplies in India had been shrinking throughout the 1960s, the result of stagnating production, a growing population and financial difficulties that made it difficult to import extra supplies to fill the gap.

Rather than simply adopting a short-term approach of shipping milk to India, the Community developed a strategy of using food aid as a source of investment; powdered milk, butter and vegetable oils were provided to local communities, and farmers and their families were organized so that unnecessary links in the distribution chain could be eliminated. The food donations were used to enhance local production, and the profits resulting from the cooperative distribution system were then combined with other funds and reinvested in the program.

The E.C. contributed about 62 percent of the supplies for Operation Flood, the World Bank about 25 percent, and other countries, including India, the remaining 13 percent. The Community's contribution amounted to over 900 million ECU in the form of food aid over the 15-year period.

Overall, the Commission considers the program a success. Operation Flood has resulted in the creation of a modern, nation-wide infrastructure for the collection, processing and distribution of milk, and has improved milk supplies while keeping prices at an acceptable level. It has also improved the incomes of small milk producers, and has brought almost 3 million of them into the cooperative system since 1978.

E.C. DEVELOPS DATA BANKS ON INDUSTRIAL MATERIALS

Beginning early next year, European engineers, company managers and materials specialists will be able to get all the information they need on materials, including iron and steel, alloys, plastics and ceramics, instantly and at the touch of a button—thanks to a new Community-wide system of data banks being developed by the E.C. Commission.

Information on industrial materials is vital to technological innovation. But such information must be up to date and quickly accessible, which is where information technology and databanks can provide an important service.

Data banks specializing in industrial materials already exist in the Federal Republic of Germany, France, the United Kingdom and at the E.C.'s Joint Research Center, but users have not been completely satisfied as each data bank has its own language and characteristics.

The Commission will be developing the Community-wide data bank system in the framework of its 1984-88 program on the specialized information market in the Community. The projected network will cover a wide range, from steel, glass and plastics to materials for the electronics and electrical industries. It will provide information on their properties, resistance to corrosion and reliability.

THE COMMUNITY BOOKSHELF

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☐ **Texts Relating to Industrial Cooperation: Volume IV (1.1.1983—31.12.1983)** *Council, Brussels, 1985, 31 pages.* Decisions adopted by the ACP-EEC Council for the operation of the Center for Industrial Development under the Lomé Convention. Earlier volumes are not available. **$2.00**

☐ **Texts Relating to Industrial Cooperation: Volume V (1.1.1985—31.12.83).** *Council, Brussels, 1985, 34 pages.* Decisions adopted by the ACP-EEC Council for the operation of the Center for Industrial Development. **$1.50**

☐ **Association of the Overseas Countries and Territories: Compilation of Texts VIII (1.1.1984-31.12.1984).** *Council, Brussel, 1985, 38 pages.* Decisions and regulations of the Council on the trade and aid agreement for the Overseas Countries and Territories and the French Overseas Departments. Earlier volumes are not available. **$1.50**

☐ **Higher Education in the European Community: A Guide to Courses and Institutions in 10 Countries.** *Commission, Brussels, 1885, 342 pages.* 4th edition. Guide to the organization of higher education systems in the E.C.-10 including admission requirements, fees and financial assistance, costs of living and student accommodations. Lists principal universities in each country, additional sources of information and survey of courses. **$13.00**

☐ **Legal and Administrative Barriers to Youth Exchange in the European Community.** *Commission, Brussels, 1986, 166 pages.* Study of the experiences of non-governmental youth organizations, social work organizations and government administrations in the E.C.-12 in promoting youth exchanges. **$12.00**

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☐ **Robotics Developments and Future Applications.** *European Centre for the Development of Vocational Training, Berlin, 1985, 100 pages.* Reports presented at a seminar held in Berlin, November 28, 1983, on the use of industrial robots and their impact on working conditions and employment. **$3.00**

☐ **Vocational Training in the Federal Republic of Germany.** *European Centre for the Development of Vocational Training, 1986, 329 pages.* Study of the organization and aims of the vocational training system. 2nd edition. (First edition is out of print) **$8.00**

☐ **The Production and Use of Cereal and Potato Starch in the EEC.** *Commission, Brussels, 1986, 136 pages.* Survey on the utilization of starch and starch derivatives in manufactures and processed food products and the implications for agricultural support measures. **$11.00**

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☐ **Energy Statistical Yearbook 1984.** *Statistical Office, Luxembourg, 1985, 180 pages.* Basic data for the E.C.-10 energy economy for 1984, supply balance sheets for 1984, data by energy sector for 1975-1984, and energy aggregates for Spain and Portugal for 1982-1984. **$15.00**

☐ **National Accounts ESA: Aggregates 1960-1984.** *Statistical Office, Luxembourg, 1986, 135 pages.* Principal aggregates of the national accounts of the Community as a whole (EC-10), the individual member states (EC-12), the United States and Japan. **$10.00**

☐ **Campylobacter.** *EUR 9739, Commission, Luxembourg, 1985, 145 pages.* Proceedings of a seminar on compylobacter bacteria and its role in animal health. **$9.00**

☐ **Priority Aspects of Salmonellosis Research.** *EUR 9197, Commission, Luxembourg, 1984, 342 pages.* Papers presented at a workshop held in Brussels, October 11-13, 1983. **$21.00**

☐ **Fifth International Symposium on Bovine Leukosis.** *EUR 8471, Commission, Luxembourg, 1984, 647 pages.* Proceedings of a symposium held in Tübingen, Federal Republic of Germany, October 19-21, 1982. **$35.00**

☐ **Hydrogen as an Energy Vector: Synthesis of the Results of the Second R&D Programme (1979-1983).** *EUR 9782, 1985 Commission, Luxembourg, 459 pages.* **$23.00**

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BOOKS IN REVIEW

The European Communities in the International Order. By Jean Groux and P. H. Manin. The European Perspective Series; Office for Official Publications of the E.C.; Luxembourg; 1985; 160 pp; $4.50.

International Trade Law and Practice of the European Community—E.E.C. Anti-dumping and Other Trade Protection Laws. By I. van Bael and J.P. Bellis. CCH Editions; Tax and Business Law Publishers; Telford Road, Bicster, Oxfordshire, UK; 1985; 438 pp; $30.00.

Leading Cases and Materials on the External Relations Law of the E.C. By E.L.M. Volker and J. Steenbergen. Kluwer Law and Taxation Publishers; Boston; 1985; 661 pp; $95.00 hardcover, $82.00 softcover.

Protectionism and the European Community. By E. Voelker (ed). Kluwer Law and Taxation Publishers; Boston; 1983; 199 pp.

The Customs Law of the European Economic Community. By D. Lasok and W. Cairns. Kluwer Law and Taxation Publishers; Boston; 1983; 292 pp.

Selective Safeguard Measures in Multilateral Trade Relations. By M.C.E.J. Bronckers. Kluwer and TMC Institute; the Hague; 1985; 277 pp.

Problems of Mixed Agreements. By M.J.F.M Dolmans. Asser Institute; the Hague; 1985; 163 pp; £23.50.

Implementing the Tokyo Round: National Constitutions and International Economic Rules. By J.H. Jackson, J.V. Louis, and M. Matsushita. University of Michigan Press; Ann Arbor; 1984; 223 pp; $18.00.

JOSEPH WEILER

The European Community is the world's leading trade bloc. In pursuing this trade, it has developed an extensive network of bilateral and multilateral treaties. Its autonomous Common Commercial Policy has been fleshed out by a complex corpus of international trade law. Yet, strangely, there has been a dearth of English language literature on the external relations and international trade law of the Community.

Joseph Weiler is a professor at the University of Michigan Law School and at the European University Institute in Florence.

The recent publication of a group of new titles goes a long way toward the closing of this gap. Of the new crop of books, three in particular stand out as useful general works of importance to any lawyer with an interest in the external legal relations of the Community.

The European Communities in the International Order is a useful introductory text to the range of problems the E.C. faces in the international legal order. The book, translated from the French and written by two eminent authors combining practical and academic experience, concentrates on structure and process rather than the substantive policy issues faced by Europe in its international legal relations. It is not a major treatise giving an in-depth analysis of all aspects of the problem, but rather a "nutshell" depiction of this. But then it is one of the very best of this genre.

The organization of the book is classical: Part One deals with problems of recognition of the E.C. as an international actor (for many years a major issue with the Soviet bloc), diplomatic representation (the right of legation) and the right of participation in the work of international organizations and multilateral conferences.

Part Two deals with the mechanics of participation, outlining the typology of E.C. agreements and focusing in particular on the special problems which the hybrid nature of the E.C. presents in what is essentially a world order of unitary actors. Thus, mixed agreements involving the participation of the E.C. and its member states receive extensive analysis.

Part Three deals with the application by the E.C. of international law—both controversial and customary. Again, the hybrid nature of the E.C.—straddling an international organization and, from the legal point of view, a pre-federation—creates new and unique issues. Thus, in addition to outlining classical topics such as the reception of international law into the E.C. legal order itself, special attention is given to the complex notion of responsibility and liability of the E.C. and its member states for international obligations.

This book is primarily concerned with the interface of public international law with E.C. law. Its main use will be as an introductory text to public officials, academics, diplomats and students. Paradoxically, its brevity and low price make it an ideal text for the practitioner who wishes to have a "nutshell" on the E.C. in the international legal order.

International Trade Law and Practice of the European Community is an altogether different work. It is written by two experienced practitioners and is intended for lawyers. Its focus is accurately reflected in the title—the anti-dumping regime of the E.C. and the 1984 so-called New Commercial Policy Instrument.

The book covers systematically and in terse language the measures that the E.C. may impose on imports from the Third World: anti-dumping, countervailing measures, safeguard measures and the New Instrument.

The structure of the book is rigorous and uniform to a fault. Each measure is introduced with a brief legislative history and, where relevant, with an analysis of the GATT framework. Then the substantive elements of the measure, establishing when violation takes place, are outlined, followed by an analysis of the "relief"—the measures the E.C. may take to counter the breach. Finally, under a rubric entitled "procedure," the remedies available to private parties affected by the application of the rules by E.C. authorities are explained.

The book includes a few tables covering previous practice under the legislation as well as very extensive and useful annexes with practically all relevant primary sources: excerpts from the GATT, the E.C. legislation itself, selected decisions of the GATT committee on anti-dumping, etc.

There is no doubt that Van Bael and Bellis will appropriately establish itself as an indispensable tool for any practicing lawyer and governmental officials involved in the European international trade area.

Leading Cases and Materials on the External Relations Law of the E.C. is the latest in the "yellow" series of the Europa Institute in Amsterdam. Books in this series, originally conceived as teaching materials, have become extremely useful aids for practitioners of law. This is certainly the case with the current collection on external relations law. The authors, another felicitous combination of practical and academic experience, have included materials on the general international legal posture of the E.C. and its treaty making power, but have focused most attention on the Common Commercial Policy.

Thus the catchment of the book is much wider than the van Bael and Bellis volume. Customs law is covered extensively, not only in relation to issues dealing with the Common Customs Tariff (CCT) as such, but also the valuation of goods for customs purposes, rules of origin, E.C. transit, customs procedure, discriminatory taxation and the like.

The collection draws a distinction between the conventional and nonconventional (autonomous) aspects of the E.C.'s external relations law. Under the latter, in addition to the customs issues, the volume treats the general import and export regimes (including the special rules for state-trading countries), anti-dumping and countervailing duties and, of course, the New Instrument.

Under the conventional rubric, the editors include, naturally, extensive coverage of the GATT, international commodity agreements and a sampling of typical bilateral agreements. Of particular interest are two chapters dealing with textiles and, more significantly for the United States, steel. This book is expensive, but so are many good things in life.

Protectionism and the European Community presents the results of a working group set up by the Europa Institute in E.C. international trade law. The book covers much of the field treated in the van Bael and Bellis volume. There are, however, several distinguishing marks. It benefits from the perspective of seven distinguished writers taking up different topics. It has an analytical and reflective depth which the practitioner's manual cannot achieve. It offers far more extensive analysis of specific sectors (textiles, Japanese imports), and, in general, the actual implementation of the law is analyzed. What it lacks in systematics is abundantly made up in profundity. It is the ideal accompanying text to the leading cases and materials book.

The Customs Law of the European Economic Community, the work of two scholars from the renowned Exeter Centre for European Legal Studies, gives a different perspective to the issues of external trade. Since the focus is on customs law, it covers both intra-E.C. as well as external trade. The book has historical perspectives of interest, covering earlier custom unions, the Benelux Union and, naturally if briefly, the GATT. Of the 10 chapters, about half deal with internal trade and the rest with international trade. In relation to the latter, naturally the closer one comes to customs law (e.g. to the CCT), the more extensive the treatment,. The Common Commercial Policy and anti-dumping are analyzed some more perfunctorily by comparison to specialized books. The value of this book is the realization that the international legal trade problem does not end once the imported good has entered the territory of the Community. Its arrival at its final destination within Europe will depend on the intra-E.C. trade rules.

Selective Safeguard Measures in Multilateral Trade Relations is an outstanding comparative treatment of the use by the major Western trading blocs of the escape clause in Article XIX of the GATT so as to impose protectionist restraints on imports. The first part of this book dealing with the requirement of nondiscrimination in the context of the escape clause will be one of particular interest to the policy maker involved in international trade. Of special interest to the practitioner will be the second part comparing private responses to foreign unfair trade practices in the United States under Section 301 of the 1974 U.S. Trade Act and in the E.C. under the New Commercial Policy Instrument.

Problems of Mixed Agreements. Although the E.C. has the capacity to enter into international trade agreements on its own, practice has shown that the vast majority of E.C. bilateral and multilateral agreements are mixed—concluded by the E.C. and its member states jointly.

The reasons for "mixity" are both legal—the agreement might cover areas over which the E.C. has no treaty making competence—or political—the member states' attempt to restrain the E.C.'s autonomy in the international arena. The problems of mixity are legion: from negotiation through conclusion to performance and responsibility. Dolmans does a good job in articulating the problems and he offers plausible solutions to most. As an introductory text to mixed agreement, the book serves the well even if many of the issues await more extensive analysis.

Implementing the Tokyo Round: National Constitutions and International Economic Rules is something of a breakthrough. The book takes a look not simply at the legal regime governing international trade (in this case the results of the GATT Tokyo Round), but at the internal constitutional procedure and obstacles, to their implementation. It does so systematically and authoritatively, in relation to the three major Western trading powers/competitors: the United States, Japan, and the Community. The volume is of immense interest. Not only does it describe in blow-by-blow fashion the steeplechase to give internal legal effect to international trade law, but it also reveals the eventual discrepancies among the three. It makes for enlightening and sobering reading. The extralegal analysis is as interesting and revealing as the strictly legal description.

The value of the book goes well beyond our understanding of the implementation of the Tokyo Round. The constitutional steeplechase is a constant in relation to all internationally agreed trade law. Finally, the distinguished authors also propose alternative mechanisms to enhance the international rule of law in this field. From the E.C. law point of view, there is no better treatment of the internal mechanisms of treaty implementation for the E.C. with all the well known obscurities and unresolved issues. €

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.*

Global Economic Imbalances. C. Fred Bergsten, ed. Institute for International Economics, Washington, D.C. 1985. 116 pp. $10.00, paper.

Product of a conference in 1984 which brought together major research centers working on international economic issues. The authors of the five main papers were asked to address three types of problems: Shortcomings and inconsistencies in national macroeconomic policies, structural weaknesses and trade policy issues. The book also contains summaries of the discussion relating to each paper and a synopsis of the research agendas submitted by a number of participating institutions.

The Trade and Tariff Act of 1984–Trade Policy in the Reagan Administration. Stephen L. Lande, Craig Van Grasstek. Lexington Books, Lexington, MA., 1986. 167 pp. $21.00.

This book describes the origins, provisions, and significance of the Trade and Tariff Act of 1984 which will help set the tone for the next decade of American trade policy. The first chapter provides an introduction to the historical evolution of the U.S. trade policy environment, centering on the development of a more liberal trade system. The Trade and Tariff Act does not represent a dramatic departure from this system, since the majority of its provisions are amendments to earlier trade laws. These changes are described under three general headings: The negotiating objective and authority that the TTA provides for the executive branch, the trade-remedy statutes, and the measures aimed at specific products or sectors.

The Trade Union Situation and Industrial Relations in Spain. International Labour Office, Washington, D.C., 1985. 138 pp. $11.40.

This study, one of a series aimed at creating a better understanding of the trade union picture in European countries, examines the situation in this rapidly changing Mediterranean state. A team of ILO officials interviewed representatives of government, trade unions, and employers' associations, as well as other experts, and analyzed both the legislation and the prevailing practice. The study also covers the historical background, trade union function and organization, collective bargaining and other forms of workers' participation, dispute settling and industrial relations in the public sector.

The Internal Market. European Parliament Liberal and Democratic Group Seminar, Brussels, 1984. 37 pp.

The result of a seminar organized by the Liberal Group in 1984 to discuss what decisive action could be taken to unify the Community's internal market. Includes an introduction by Simone Veil and forward by Gaston Thorn. Papers by various experts and practitioners examine the actions taken by previous parliamentary sessions to complete the internal market, new forms of protectionism and actions by the E.C. Commission to protect the internal market, the market as seen by business managers, and the role of business in the completion of the internal market.

The Soviet Union—The Incomplete Superpower. Paul Dibb. University of Illinois Press, 1986. 293 pp.

Examines the current state of the Soviet system with particular emphasis on its weaknesses. The author characterizes the Soviet Union as an incomplete superpower since it lacks real economic, technological or ideological power, and claims only its military prowess is truly impressive. This argument is sustained by discussing Soviet internal problems, the deteriorating strategic position, Soviet military vulnerability, the failure to retain influence in the Third World, and its minor role as an international economic power. Dibb concludes that these shortcomings will impose limits on the global power of the Soviet Union.

The ECU and the Banks. Belgian Banking Association, Brussels, 1985. 86 pp.

This concise reference book examines the position of this new and growing monetary unit at the beginning of 1985. Discusses the origin and attractiveness of the official and private ECU the primary and secondary bond markets, ECU applications in banking services and in other commercial transactions. Concluding chapter details the prospects and advantages of the Ecu in the European and world financial systems.

The United States and the World—Setting Limits. Jeane J. Kirkpatrick. American Enterprise Institute, 1986. 14 pp. $3.00.

In the Francis Boyer Lecture presented in 1985 to the American Enterprise Institute, Kirkpatrick discusses the evolvement of American foreign policy over the past two centuries. Special attention is given to the proper American role in the UN and the need to reexamine American foreign policy with respect to U.S. national interests. The former UN ambassador argues that foreign policy decisions based on national interests are not selfish, but instead protect freedom, human rights, and our civilization. She argues that the United States places too much faith in international law and organizations to maintain peace, often resulting in ineffective foreign policy.

Japan and Europe—Towards Closer Cooperation. Japan Center for International Exchange, Tokyo, 1984. 87 pp.

Proceedings of the European-Japan Conference in Ebenhausen, West Germany in April 1983. Included discussions of internal developments in both regions and their implications for European-Japanese relations. Also analyzed trade frictions as well as the social and political tensions created by technological expansion. North-South and security issues are also discussed as are research initiatives in both Europe and Japan.

Hard Bargaining Ahead—U.S. Trade Policy and Developing Countries. Ernest H. Preeg, ed. Overseas Development Council, Washington, D.C. 1985. 214 pp.

Trade relations between industrialized and developing countries are at a critical juncture, according to this new study. Trade conflicts over subsidies, import quotas, and 'voluntary' export restraints are becoming more commonplace. Topics include developing country trade policies, U.S. labor market adjustment and import restrictions and commodity trade.

Europe in the Balance—The Changing Context of European International Politics. J. Feld. Faber & Faber, Boston, 1986. 338 pp. $45.00.

Authors provide a thorough discussion of the post World War II period as well as an analysis of the evolution of the European political system. Examines the structural changes in the political systems of both Western and Eastern Europe and their mutual interactions. The text outlines the emergence of military alliances, economic cooperation arrangements and integration. Also discusses European politics, ideologies, nationalism and trends affecting European international politics in the 1980's.

An Introductory Guide to EEC Competition Law and Practice. 3rd Ed. Valentine Korah. ESC Publishing Ltd., Oxford, 1986. 177 pp.

Of particular importance to businesses operating in one or more states of the European Community, this guide provides a clear explanation of the workings of EEC Competition Law. Includes an analysis of Article 85 of the Treaties establishing the European Communities which restricts agreements between undertakings. Discusses the effects of this law on business practices. Also reviews civil law sanctions, distribution agreements, industrial property rights and the Free Movement of Goods. Includes extracts from the EEC Treaty, the text of Regulation 17 as well as references to relevant cases and legislation. Excellent reference guide for business people and students alike.

The Coventional Defense of Europe—New Technologies and New Strategies. Andrew J. Pierre, et al. Council on Foreign Relations, NY, 1986. 185 pp. $6.95

Overshadowed perhaps by the nuclear disarmament debate, the role of conventional weapons in the defense of Western Europe has become equally controversial. This collection of essays is representative in many ways of the diversity of opinions and perceptions of leading scholars and policy makers. Addresses the role of emerging technologies and their impact on the conventional deterrent as well as an alternative strategy for NATO and the constraints and opportunities of conventional weapons. Presents a wide range of views on the topic and offers insight into the rationale behind policy decisions.

Ailing Steel—The Transoceanic Quarrel. Walter H. Goldberg. St. Martin's Press, NY. 1986. 535 pp. $37.50.

Analyzes the causes of the serious problems facing the steel industry in industrialized countries. Some of the world's leading experts on the problems of the steel industry contribute to the analysis and recommendations put forward by Walter Goldberg. Uses statistical approaches to examine different background factors and discusses the importance of the innovation capacity of the industry. Looks at strategies, policies and instruments available at various levels to overcome the crisis. Presents an overview of strategic options available.

AIR FARES

Continued from page 30.

Athens for $162—scarcely one-quarter of the unrestricted fare.

So who pays these "ordinary" round-trip fares—$344 for Frankfurt, $678 for Rome and $877 for Athens? Why do such fares even exist? It happens because European scheduled fares, unlike trans-Atlantic flights and charters, are governed by the rules of "system number two," a distorted system where there is no free competition, no law of supply and demand or even of diminishing returns, and where the passenger has no choice but to pay . . . unless, of course, he is able to meet the very restrictive conditions applied to charter or promotional fares.

In this world of very expensive travel, the fares are fixed by the two airlines, usually state-owned, which have been "given" the route by the governments involved. The fare on each airline has to be identical. Even then, the two corporations share out all revenue from the route on a percentage basis. In such circumstances, there can be no genuine competition, even as regards better food or services, since it makes no real difference to either of them who flies with which.

The need for foreign government approval produces some strange anomalies. For example, it costs $296 for a one-way flight from London to Madrid. Gibraltar, 300 miles further south, costs $224 because it is counted as a domestic British flight and the fare does not need Spain's approval.

Fares are kept high for reasons of social policy or even foreign policy. The Belgian airline Sabena profits from the Brussels-London route, one of the most expensive in the world at $138 for 211 miles. The proceeds help subsidize flights between Belgium and Zaire, Belgium's ex-colony, to preserve political links and trade.

Air France is under very tight state control. It has to carry French civil servants free of charge and recently, as a contribution to France's unemployment problem, the airline was ordered to increase its staff—this at a time when other airlines were trying to reduce their staff and so become more competitive.

The Irish Government is in a dilemma. Irish people, especially the large community in Britain, complain loudly about the high cost of flying from their island to the rest of Europe. On the other hand, their state airline, Aer Lingus, is a symbol of Irish manhood and most Irish politicians feel the need to protect it at all cost, especially since it is not they, but the ordinary traveling public that pays the cost.

Thus, anyone traveling on a scheduled European flight these days must know that he is paying not only for the cost of providing the service, but also for a whole range of other countries' regional, social, diplomatic, unemployment and national problems.

This is why some of us in the European Parliament are determined to smash the monopoly system of air travel, using the articles in the Treaty of Rome establishing the E.C. which guarantee free competition. These articles, somewhat similar to American antitrust laws, are part of the E.C.'s "constitution" and are designed to protect the consumer against cartels.

It is an important matter to us, not only from the point of view of the annual holiday or even of more efficient business across European frontiers, but also in our efforts to make European air travel accessible to the ordinary citizen. This will help build up, gradually, a feeling of European identity in our 12 E.C. countries. €

GUEST COLUMN/SIR GEOFFREY HOWE

THE BRITISH PRESIDENCY OF THE E.C.

The British Government looks forward with anticipation, as well as a keen sense of responsibility, to taking up the presidency of the European Community on July 1, 1986.

The presidency is a challenge for each member state, as well as a privilege. As the Community and the scope of its activities have increased in size, so the challenges facing it have also grown. So, too, does the responsibility, as the Community becomes more and more a force in the world, speaking with a single voice on important issues of foreign policy as well as being the world's largest trading partner. This year we have welcomed Spain and Portugal as the two newest members of the Community. Their accession marks the reinforcement of democracy in Europe and will increase our influence in the world.

Smoother Business

The main tasks of any presidency include ensuring good conduct of business in the Council of Ministers and acting as spokesman for the member states in foreign affairs. We shall inherit a substantial program of business from the preceding Netherlands presidency.

Conscious of the need to ensure maximum continuity between presidencies, we and our Dutch friends have introduced an innovation in 1986, whereby we have tried systematically to coordinate the whole year's business over our two presidencies to ensure that no momentum is lost at the hand over. We are delighted that the Belgian Government is anxious to make the same effort of coordination. We hope that this will set a precedent for future presidencies and lead to a smoother flow for Community business and to speedier decisions.

This is especially important in the efforts that we must make to maintain momentum on the completion of the Community. It is a source of disappointment that we welcome the two new acceding member states to a Community in which we cannot yet claim that there is a genuine Community; where internal barriers to trade between the member states continue to impose considerable costs and delays on our industries and firms.

Insufficient Freedom

Our citizens can justifiably ask themselves why, after 29 years, the freedom of movement of goods, workers and services is still not yet fully free at all in many areas. They can also reasonably ask themselves why cartels, such as those on

We believe that progress toward the completion of a genuine common market, together with the greater flexibility in the labor market, is the greatest contribution the Community can make to combat the scourge of unemployment.

air fares, are allowed to continue in existence, denying them the benefits (for example, lower air fares) of competition.

We believe that progress toward the completion of a genuine common market, together with the greater flexibility in the labor market, is the greatest contribution the Community can make to combat the scourge of unemployment. It will also help to make individuals more conscious of the benefits of the Community policies, establish better conditions for job creation and help make our industries better placed to meet the challenge of the United States and Japan, especially through improved prospects for high technology development.

In external affairs, we shall be particularly concerned to ensure the successful launch of a new round of international trade negotiations in the General Agreement on Tariffs and Trade (GATT), and the renewal of the Multi-Fibre Arrangement. It is essential that the best possible climate should be created for the continued sustained growth in world trade. We expect the debate on adaptation of the Common Agricultural Policy (CAP), following on from this year's price-fixing under the Netherlands presidency, to continue.

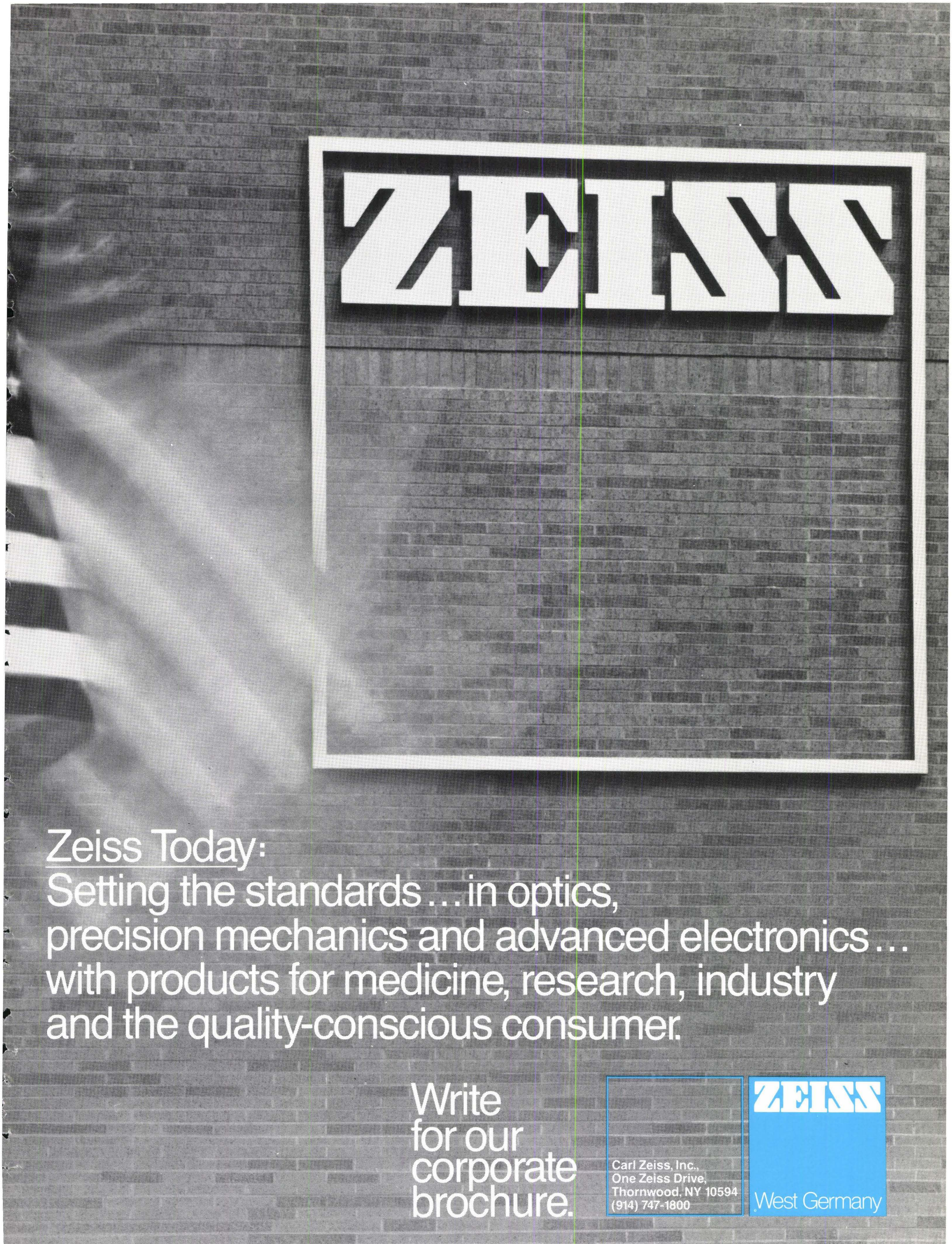
Strength and Unity

We must achieve a reduction of agricultural surpluses, and the cost of their disposal. We shall be keen to ensure that Community aid is deployed as effectively as possible where it is needed most. We want to see Europe speaking with a strong and united voice in world affairs. We shall guide the discussions of the Twelve on foreign policy issues in the spirit of the new treaty provisions on foreign policy cooperation which were agreed at Luxembourg last December and incorporated in the Single European Act.

We shall be urging all member states to complete ratification of the Single European Act embodying those treaty provisions and the amendments to the Treaty of Rome [establishing the E.C.] before the end of our presidency.

This, we believe, would get the Belgian presidency off to the best possible start and mark a significant step forward in the development of the Community and the progress which, I believe, we are constantly making toward the objective of ever closer union. €

Sir Geoffrey Howe is the British Secretary of State for Foreign and Commonwealth Affairs.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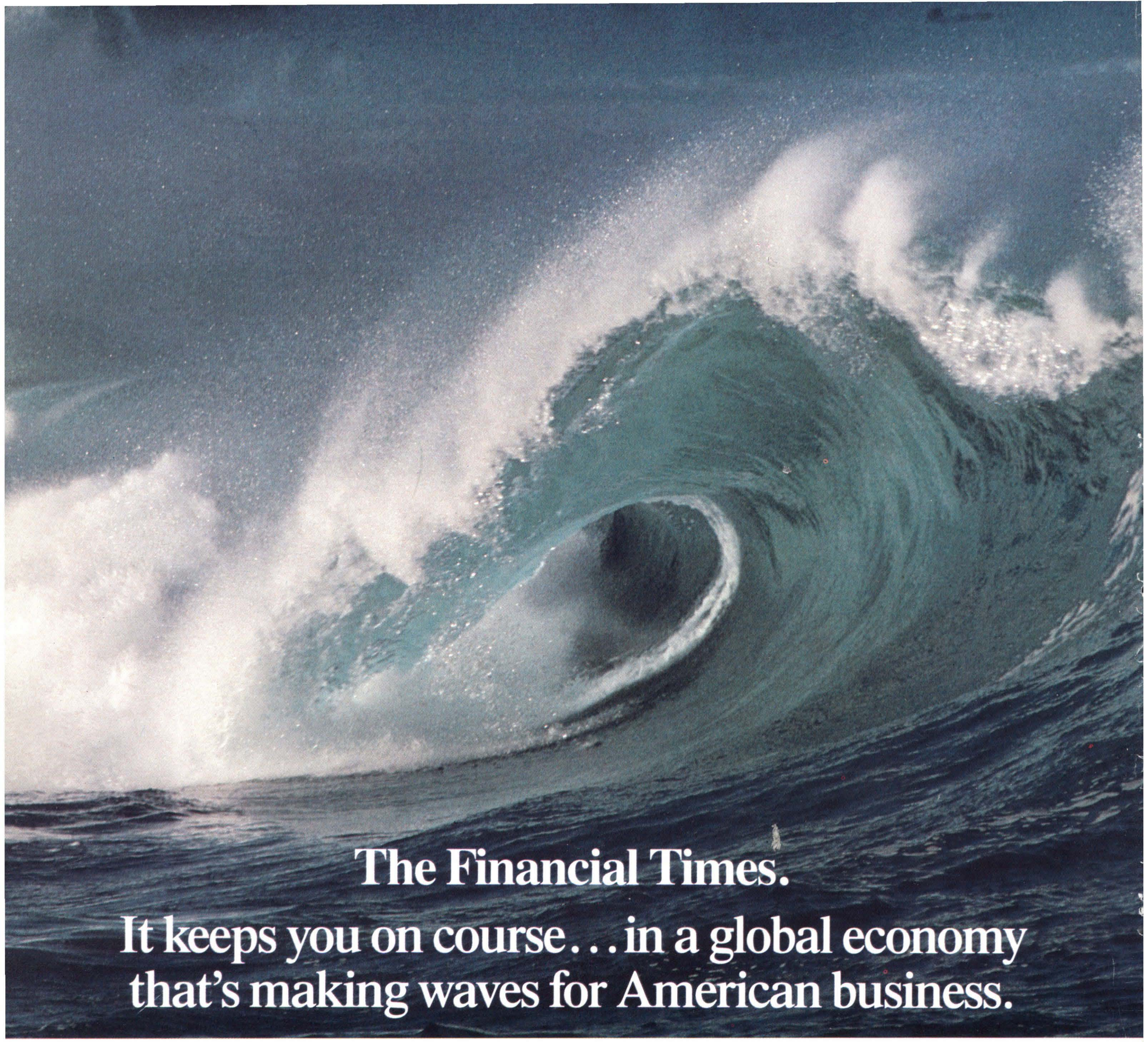

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