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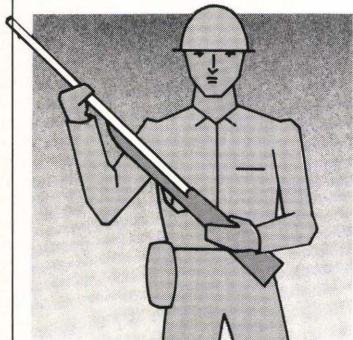
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EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



U.S.-E.C. RELATIONS

12 NATO: A U.S. Viewpoint

Rep. Doug Bereuter
Europe should assume primary responsibility in the alliance.

13 NATO: A European Viewpoint

Helmut Schmidt
Europe's contribution should not be seen only in terms of military spending.

16 From One Farmer to Another

Francis Capelle
Reflections on two different systems.



BUSINESS

18 The E.C. Commission: A New-Found Friend of Business

John Robinson
A quiet revolution is creating new opportunities for business to influence policies.

22 Airbus Scores Another Big Success in the U.S.

Guy Collins
Order by Northwest Airlines is considered a major breakthrough for the European consortium.

DEPARTMENTS

3 Around the Capitals

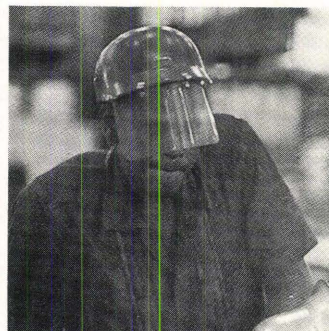
Letters from Europe.

38 News of the E.C.

Recent developments in European Community affairs.

45 The E.C.'s Bookshelf

Publications available from the E.C.'s Information Service.



EUROPEAN AFFAIRS

24 E.C.-Caribbean Links Seen Growing Stronger

Paget de Freitas
New Lomé Convention encourages private-sector investment.

26 E.C. and Caribbean Basin Enjoy Special Relations

Lorenzo Natali
Treaty provides trade, aid and investment benefits.

28 Punta del Este Meeting Restores GATT Authority

Willy De Clercq
The E.C. is pleased with the results and is looking forward to the new round of negotiations.

LIFESTYLE

36 Europe Tops Survey of Most Livable Countries

Richard J. Estes
Study measures trends in social development.



MEMBER STATE REPORT

32 The Netherlands

Laura Raun
Dwindling natural-gas revenues are forcing the Dutch to tighten their belts.

35 Energy Sector Aside, Dutch Economy Is Faring Well

Rudolfe de Korte
An interview with the Economics Minister of the Netherlands.

48 The Netherlands as a European and Atlantic Partner

Hans van den Broek
Guest column by the Foreign Affairs Minister of the Netherlands.

COVER: The NATO alliance: Debating Europe's contribution (see page 12). © Dick Durrance II/Woodfin Camp.

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PUBLISHER'S LETTER

The debate between the United States and its Western allies on security issues often seems to attract more public attention than East-West relations themselves. This is a good thing, as it shows that Western countries conduct their discussions in public, in the democratic tradition.

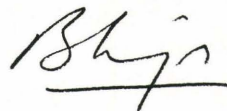
In this issue, we oppose the views of Rep. Doug Bereuter (R-NE) and former German Chancellor Helmut Schmidt on the question of Western Europe's participation in its own defense. The article by Schmidt, incidentally, is excerpted from his book *A Grand Strategy for the West*, which should be required reading for all who take an interest in Europe.

The Caribbean region is a part of the world where the United States and the European Community generally agree on the economic policies to be pursued. Paget de Freitas, a correspondent with the Caribbean News Agency, and E.C. Commission Vice President Lorenzo Natali, analyze relations between the E.C. and the Caribbean Basin under the Lomé Convention.

"Mission accomplished," declares Commission Vice President Willy De Clercq in an interview with *Le Monde's* Philippe Lemaitre on the meeting of the GATT in Punta del Este. While recognizing that the new round of trade negotiations will be difficult, De Clercq rejoices that the GATT came out of the meetings reinforced, illustrating the fact that there exists a willingness among the contracting parties to find solutions to the problems of international trade through dialogue.

Europeans and Americans alike think that their part of the world is the most livable. A recent study by Richard J. Estes of the University of Pennsylvania shows that from the point of view of social welfare, Western European countries seem to fare better than the United States. Estes explains his study, at the same time warning Europeans on the risks of "social insecurity," which could result from a lack of concerted action by European countries in the face of political and economic changes.

Our member state report this month takes us to the Netherlands, one of the smaller countries of the Community in size, but a major one from the economic point of view and from the contribution it makes to the construction of Europe.



AROUND THE CAPITALS

LONDON

Fighting Acid Rain

Once described as the "dirty man" of Europe because its pollution was killing the forests and rivers of Scandinavia, Britain is now cleaning up its act. Some say it is too little and very late, but others argue that it is better late than not at all. For, after years of denying that its transborder pollution was a problem for its northern European neighbors, London has now agreed to take some action to curb the poisonous gases from its power stations that high winds then carry to Norway and Sweden.

As certain parts of the United States, Europe is suffering from environmental damage caused by gases emitted from coal- and oil-fueled power stations that form poisonous clouds of sulphur dioxide once they hit the atmosphere. These pollutants travel hundreds of miles in the atmosphere before being brought back to earth in the form of rain or snow, commonly called "acid rain." The prevailing winds from Britain are eastward—over Scandinavia—which helps to explain the particular anger of the Swedes and Norwegians.

International experts blame acid rain for vast environmental destruction: the decline of forests, poisoning of lakes, erosion of stonework on buildings, defoliation of plants and trees, bronchitis and bone disease, and poisoned drinking water for humans.

Against this background, it was hardly surprising that,



Acid rain, caused by industrial pollutants, is blamed for extensive environmental damage, such as the destruction of forests.

COURTESY GERMAN INFORMATION CENTER

when Prime Minister Margaret Thatcher visited Norway in mid-September, her host, Prime Minister Gro Harlem Brundtland, echoed the protests of local demonstrators against the emissions from Britain's power stations. In an attempt to defuse these protests and, indeed, those of most of Europe, it was announced on the eve of the visit that the United Kingdom plans to spend close to \$1 billion to reduce the emissions from three of Britain's largest coal-burning stations. The program aims to reduce sulphur emissions by 14 percent by 1997.

This has not, however, stilled all protest because the plan falls short of the aims endorsed last year by the "30-percent club," which represents an agreement between most European states to cut back emission levels over the next seven years by 30 percent from the 1980 level. So far, Britain has refused to accept this proposal, claiming that the starting date is arbitrary. In its view, this ignores the fact that, since 1970, Britain has already

cut the outpouring of sulphur dioxide from its power stations by more than 40 percent.

This process began with the "Clean Air Acts" of 1956, which eradicated smog in London and cleaned up many of Britain's cities, and was accelerated by the switch from coal to natural gas for energy supplies. London further pointed out that the conversion to nuclear power and the decline of some heavy industries have further helped the environment.

British officials have also reiterated their doubts as to whether the effects of major reductions in emission levels is worth the cost—estimated for the United Kingdom at some \$7.5 billion—of bringing them about. Not everyone is convinced that the Government is doing as much as it should to combat this international problem. The Labor Party criticized the recent announcement as "too little and too late," and called on the Government to support an earlier E.C. proposal for a 60-percent cut in emissions.

Another air pollution problem currently under consideration is that of noxious fumes from automobiles. The E.C. is moving both to reduce the lead content of petrol to less than 0.15 percent and to make lead-free petrol available in every E.C. member state by 1988. But here, too, there is disagreement. Countries such as Britain, Italy and France, who produce small cars, argue that the conversion costs for their automobiles would be high relative to the sale price. The Federal Republic of Germany, which makes more expensive and larger models, wants to adopt U.S. exhaust-emission standards. The ideological Danes, on the other hand—who do not actually manufacture cars at all—believe the proposed E.C. standard is too low and is pressing for even stricter emission controls.

Despite its immediate objections, Britain claims to be ahead of its European partners in forward planning. According to British officials, both Ford U.K. and the British Rover company have recently decided to build "lean-burn" cars with engines producing lower nitrogen oxide and hydro-carbon pollution.

So, while Europe is still lagging behind the United States on environmental issues, this is a subject of keen controversy as awareness of the problem arises along with the recognition of its long-term implications.—DAVID LENNON

PARIS

Terrorist Aftermath

During this autumn Parisians again learned to live with terror when, in September, sporadic bombings that had occasionally shattered the city during the past year, evolved into a wave of violence. Bombs exploded every few days and with each attack there was a new threat of more. Although the motivation was political the targets invari-

ably were the famous spots that identify Paris as one of the world's most beautiful cities. And the victims were almost always innocent passers-by.

The foreign press took to describing Paris as a "war zone," a city "in a state of siege," as "reliving the occupation," and "in near hysteria." But even during the worst period when the bombings seemed incessant, Paris was none of those things so much as it was eerie and strange.

Empty subway cars in a city that moves by metro was a sign of something wrong, as was the fact that in a city where the accepted protocol is to avoid all eye contact, every subway passenger gave every other fellow passenger a suspicious once-over. After all, the terrorists had repeatedly cited the metro as a target.

The Champs Elysées—the grand avenue that normally throbs with jostling crowds of Parisians and tourists rain or shine, day or night—was deserted. Downtown cinemas with capacities of 500 seats got audiences of 10 people, and restaurants that often had line-ups for seating of 200, filled two or three tables. Cafés custom-designed for Paris' favorite pastime—drinking coffee and wine in the afternoon sun—suddenly seemed to have no purpose. *Triste*.

This was not the first time Paris knuckled under to a different kind of lifestyle under threat of terrorist attacks. There had been a rash of terrorism in 1982 and one in 1983, and many compared this to the state of mind that came over Paris during bombings in the Algerian war for independence from France in the early 1960s. In each case it was comforting—and often justified—to blame the violence on foreigners. This time, however, the terrorist attacks prompted specific measures against foreigners. The French Government tightened border controls and introduced mandatory entrance visas for citizens of all countries outside the European Community and Switzerland.



Places normally throbbing with people, such as restaurants and cafés, were deserted after the series of terrorist bombings in Paris last September.

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There is widespread support for those measures, but some people, such as philosophers and civil rights activists, wonder what the crackdown on immigrants will do to France's longstanding reputation as a land of asylum for revolutionaries of all descriptions. After all, this is the country where Karl Marx wrote "The Spark" and Lenin lived in the first decade of the 20th century. Ho Chi Minh, Deng Xio Ping and Chou En Lai all learned their communism as activists at the Renault car plant in Paris. The first Algerian President, Ahmed Ben Bella, was imprisoned here and then given asylum. Opponents of the Shah of Iran, such as the Ayatollah Khomeini, lived in exile in France and deposed African leaders have found haven here.

The terrorism this fall, however, has won the Government solid public support for fighting back with stricter immigration controls. But this round of terror may prove to do more than cast a temporary pall over the City of Light: It may be recasting France's historical identity as home to the outcasts of the world.—BRIGID JANSSEN

LUXEMBOURG

Anti-Nuclear Protests

Barely six miles from the border with Luxembourg, the looming towers of water coolers at France's Cattenom nuclear power station stand as a grim threat to health and even life throughout the Grand Duchy. That is the view not just of a few anti-nuclear cranks but of Government ministers, community leaders, church and civic groups and a good 80 percent of the Luxembourg population, according to a recent opinion poll.

Luxembourgers are not noted for active civil protest, but new anxieties in the wake of the nuclear accident at Chernobyl in the Soviet Union have brought tens of thousands of them out in public demonstrations this summer and fall. The rising tide of public feeling against Cattenom has spurred the Government into making tough formal protests to France, which in turn are threatening the biggest row

between the two countries in years.

After Chernobyl, any Luxembourger is surely justified in feeling some unease about the proximity of Cattenom, whose projected capacity of 5,200 megawatts will make it Europe's largest reactor. There are estimates that a breakdown at Cattenom on the scale of that at Three-Mile-Island in Pennsylvania in 1979 would mean the evacuation of two-thirds of the entire population of Luxembourg. Much of the Saarland region in the Federal Republic of Germany would be similarly affected, as would parts of France, although prevailing winds would tend to sweep most of any nuclear pollution away from France and into its neighboring countries.

Unfortunately, the situation is not altogether clearcut for the Luxembourg Government, which is saddled with a decision made by its predecessor 10 years ago, explicitly authorizing the construction of Cattenom. Under a deal struck with Paris, the Luxembourg Government, then led by Prime Minister Gaston Thorn, agreed to cooperate with France in the development of Cattenom jointly with the Grand Duchy's own proposed reactor at Remerschen. While a change in Government in Luxembourg in 1979 meant the end of the Remerschen project, the French reactor went ahead after strong pressure from regions of Eastern France that were facing serious unemployment.

Anti-Cattenom demonstrations by protesters from Luxembourg and the Federal Republic of Germany continued sporadically throughout the early 1980s without ever attracting much notice. It was the shock of Chernobyl this year that brought the matter to the forefront of public attention in Luxembourg. Even then the protest might have passed over uneventfully, had it not been for a serious misjudgment on the part of local French security authorities and a string of accidents at Cattenom this summer before the reactor

was brought into operation in September.

The incident concerning the French police occurred at a peaceful anti-Cattenom demonstration at Dudelange in Luxembourg, when French *gendarmes* in plain clothes from across the border were discovered taking photographs of protesters. The French Ambassador was summoned by the Luxembourg Foreign Minister, and an official apology from Paris followed with a pledge not to repeat such an intrusion.

Against this background the three accidents at Cattenom struck chill throughout Luxembourg and led to an intense round of meetings between Jacques Santer, the Luxembourg Prime Minister, and various members of the French Government. Santer was told bluntly that the accidents—a fire, a flood and a short circuit—were “normal” for a plant in the same stage of preparation as Cattenom. Paris said that postponement of the start of operations was out of the question and even refused Luxembourg’s demands for its own control post to monitor safety to be installed inside Cattenom.

The Luxembourg Government is now trying to win the backing of the E.C. Commission in Brussels to gain access to data on Cattenom and a share in monitoring. It is also pursuing legal action, by accusing France of violating the Euratom Treaty. There is an

Luxembourg's Prime Minister Jacques Santer.



impression of a Government busy in the defense of its citizens, although this is not shared by all. Skeptics say that all this diplomatic and legal activity is a smoke-screen to hide the fact that the fight to halt Cattenom has been lost and that the Santer Government is already negotiating secretly to buy cheap electricity from Cattenom when this becomes fully available.—ALAN OSBORN

DUBLIN

Political Worries

As the Dail, or the Lower House of Parliament, re-assembled at the end of October after its long summer break, most of its 165 members were wondering how much time was left before they would be facing the electorate. The coalition Government’s 82 seats exactly matched the total held by the main opposition party, Fianna Fail, the much smaller Progressive Democrats, the Workers’ Party and the group of Independents. As the Speaker would normally vote with the Government in the event of a tied vote, the Government could in theory carry on until it chose to call an election.

This “living dangerously” scenario could be abruptly ended following an upcoming bye-election in Donegal to fill the seat held by a Fianna Fail member who died last summer. The party is certain to win the seat when the bye-election is held and so put the Fine Gael-Labor coalition on borrowed time. The Government’s five-year term does not end until November 1987 and the Prime Minister, Dr. Garret FitzGerald, insists there will not be a general election until next autumn. But few parliamentarians or commentators believe the coalition can hold on until then.

The danger comes not only from outside the Government

but also from within the coalition itself, where several backbench members are threatening to withdraw their vital votes unless they can get official support for pet schemes of their own. There is large doubt whether these mavericks are really prepared to bring down the Government and risk the anger of the electorate in a winter election but such doubts add to the general nervousness.

A more serious source of dissent within the coalition is arising from the necessity to put together the draft budget for 1987, which will be submitted for parliamentary approval next January. The current budget deficit is certain to overshoot the Government’s targeted \$1 billion, and be possibly a record 8.3 percent of gross national product. Such a prospect leaves virtually no room for maneuver to draw up a budget calculated to appease an electorate exasperated by high personal taxes.

For the senior coalition partner, Fine Gael, heavily dependent upon support from the business community and the over-taxed Irish equivalent of U.S. Yuppies, only a tax-cutting budget gives the party even a remote chance of staying in office. But in the present record deficit situation, a tax-cutting spree is out of the question—unless the axe is also applied to public expenditure, and here the junior coalition partner, Labor, cries “halt.”

One economic commentator sums up the dilemma thus: “The Government must view the prospect of attempting to formulate a budget for 1987 with unadulterated horror. The fall estimates (of Government departments) campaign is just getting underway. With little growth, a sullen populace, a coalition divided against itself and an election in the offing, drawing up a budget for 1987 would tax the capacity of a miracle worker. Which is perhaps why things won’t get that far.”

For Fianna Fail, the public opinion polls indicate a clear victory at the polls whenever the elections take place. But

this lead has been established more because of dissatisfaction with the Government than any fresh ideas from Fianna Fail, whose Front Bench consists mainly of the former ministers from the 1981-82 period. The Fianna Fail leader, Charles Haughey, has successfully quelled various attempts to replace him, while his main opponents have left to form the Progressive Democrats. But in the last three elections, he failed to win the absolute majority, an unprecedented failure for a Fianna Fail leader since the party first came to power in 1932. His opponents will be hoping that the “Haughey factor” may yet save them.—JOE CARROLL



MADRID

Back To School!

Under Franco, Spain suffered from a neglect of state-run education, while private schools blossomed and took care of an exploding demand for education and the country’s considerable population shifts, both of which reflected growing national prosperity. Primary and secondary schools, often run by the Catholic Church, flourished especially in the middle-class neighborhoods of the bigger cities.

Two things, symbolic of the change that Spain has been undergoing in the last 10 years, occurred when Spain’s 1986-87 school year began this fall. For the first time in about 50 years, six brand new state schools opened their doors to pupils in Barcelona—the city with the lowest ratio of state-run primary and secondary schools per head of population.

Improvement of the state-run education system is one of the greatest priorities for the González Government.

COURTESY NATIONAL TOURIST OFFICE OF SPAIN

Secondly, José Maris Maravall, the Socialist Minister for Education, announced that for the first time, books and teaching materials would be distributed free of charge to some 200,000 school children attending rural public and private schools, equipment that, until now, has had to be supplied by parents.

Education is regarded as a basic investment for Spain's future and is therefore one of the Socialist Government's greatest priorities. In 1982, when Felipe González kicked off the election campaign that brought him his first term in office, he insisted that it would be his Government's achievements in the educational field that he would most wish to be judged by after leaving office.

The 1986-87 school year marks the first year of the full implementation of the Socialists' law guaranteeing a right to education, which had been adopted by the previous Parliament. Maravall, a 44-year-old Oxford University graduate in Sociology, sees this as a major instrument both to upgrade the state schools' overall funding and to exercise stricter controls on the private schools, some of which have, in past years, been receiving subsidies running to 100 percent of their total expenditure.

According to Education Ministry figures, 36 percent of Spain's primary and middle school education is in private hands—twice the figure even of the Franco years—and one of the highest within the Euro-

pean Community. Maravall believes that extending and improving the state sector is of vital importance to the Spanish education system, especially in view of previous official neglect. Building up the quality of education in the state sector, modernizing the many outdated old school buildings—which are not a rarity in Spain—as well as re-educating those teachers who cling to old-fashioned ideas, is widely seen as the Government's major task.

Maravall, strongly influenced by the British school system, also wants to introduce a school syllabus that will carry Spain's education system "into the next century." He wants to raise the school-leaving age from 14 to 16, and to introduce major reforms in primary, middle and high school education.

There is some opposition to these zealous plans, however. School teachers are suspicious of the possible outcome of the reforms, and Spain's Catholic and other privately-run schools are accusing the Minister of wanting their demise in his efforts to reform the system.

Nevertheless, the private education sector is already, in many ways, fighting a losing battle. Spain's declining birth rate means a lessening demand for private schooling in middle-class neighborhoods, while the still rising demand for education in the working-class parts of the country is being taken care of by the newly-built, and less costly, state schools.

All the same, when the

school year opened, Princess Elena, the 22-year-old Infanta, and elder daughter of King Juan Carlos, began teaching English in a Madrid private middle school. And Maravall's own two children attend Madrid's privately-run British School.—RICHARD WIGG

COPENHAGEN

Occupying Houses

The tranquility of Copenhagen has become a tourist attraction in a region of the world where capital cities are haunted by the fear of terrorism. The fear may be exaggerated, and certainly no one knows how long Copenhagen will be spared a major incident, but even here, a "peaceful weekend in the city" has now become an expression with a special meaning.

For Copenhagen is having a brush with a completely different kind of potential violence. Anarchist groups, calling themselves "BZ," have been taking over unoccupied buildings in the city area, claiming thereby to protest against the city's housing policy: About 24,000 people are registered in the City Hall as persons in need of dwellings.

Occupying tenement buildings is nothing new and Copenhagen is not the only capital city in Europe where this has happened. But the level and the extent of the confrontation shifted a few weeks ago, when the anarchist groups barricaded a street in the city center, and mounted a strong media offensive to be given the title to a property they have illegally occupied for more than three-and-a-half years. Police was held at readiness to evict the group, and many Danes believed that they were about to witness the first major incident of civil strife in their own capital.

The explosive situation was defused by the purchase of the building by a group of sym-

pathizers, after the City in the first instance had refused to let others—including a major trade union—buy the building and make a gift of it to the City, tenants and all. The Government kept out of the confrontation, which thus became a rather strange showdown between the Social Democratic Mayor of Copenhagen and the left-wing groups, of which the BZ anarchists seem to be a loosely defined part.

An old Danish political joke says that the reason there was no revolution in Denmark in the last century was because the Danes never miss lunch, because the hotheads of the morning became more pliable during the lunch hour. There is certainly still some truth in the substance of the joke, namely that the Danes do not take kindly to violence as an instrument of politics. But as in the question of refugees—where Denmark is now taking a harder line—many of the friendliest characteristics the Danes like to give themselves are those of being worn down. Which still leaves Copenhagen as one of the most peaceful cities in Europe, and the Danes some of the least likely Europeans to use violence.—LEIF BECK FALLESEN

ROME

A Chaotic Bureaucracy

The regulations were quite clear. If you want to relocate a cat together with your family from London to Rome, there are a number of things to be done before you can hope to gain admission to Italy. Family members need only their passports, but an imported cat has to have had a rabies shot. Italian authorities require the vet who gave it the shot to fill in a variety of forms in triplicate.

So there I was, a new correspondent on his way to Rome, fully armed with forms and vaccinated cat to satisfy the comprehensive Italian re-

quirements. And what did I encounter at the border? Not a spark of interest. Not a single request to look upon the cat and its forms so painstakingly prepared for this moment of entry.

This story is not so trivial as it may seem. The new arrival in Italy may not know it, but the country's laws are impressively comprehensive. Italy has a law to satisfy every liberal democratic principle for the protection of its citizenry.

The point is that the diligent efforts of legislators over the years provide the basis for a well-ordered, modern state. Yet in practice, the Government does a terrible job in applying and enforcing these laws. It is, for example, at this moment trying to legalize hundreds of thousands of properties that have been put up over the last 40 years in total breach of the building regulations.

The nation's livestock farmers are struggling with a bad outbreak of foot-and-mouth disease, which ought not to have happened if the animal vaccination laws had been properly applied. And some \$250 million have been skimmed off the health service in the last three years because no one has been properly checking pharmacists' claims for reimbursement on drugs they have issued. Tax evasion is endemic because tax collection is so inefficient.

Totally inadequate law enforcement is most obvious to every visitor in the uncontrolled way that Italians park in Rome and in their tendency to drive on the wrong side of the road at suicidal speeds. Rome is a southern city and law enforcement is rather more absent in the South, but its general scarcity leaves one wondering at how the country has achieved its very impressive development.

The problem is partly one of attitudes, and partly one of organization. The British authority on modern Italian history, Denis Mack Smith, traces the national contempt for authority back to colonial occupations. The South was ruled for centu-

ries by the Spanish and French Bourbons, the North by the French and the Austrians. The ordinary Italian peasant developed a healthy contempt for executive power that remains to this day.

Italian resistance to the idea of taxation, for example, derives from the certain prejudice that money handed over to the state is money going toward someone else's benefit, but not to be expended to the public good. Although Italy is not totally free from corruption, this is certainly not the case today, even if many Italians believe it is.

The public sector employs too many people too inefficiently, and, sadly, it cannot even manage to deploy inefficiency in the right places. While ministries and local government offices are bursting with supernumeraries, only seven people are employed to check the four or five million drug claims—some of which we know are fraudulent—made by pharmacies in Naples every month.

The Government recently passed a law imposing heavy penalties if a certain tax was not paid by a due date. But in many places it was impossible for citizens to pay because local offices were totally unprepared for the huge numbers of people who turned up actually ready to pay.

One of the many mysteries about the country is that Italians of all classes and income

levels lament the quality of their public administration. Politicians pretend to wring their hands about it and each month brings its new reform project. Yet improvement is painfully slow. If it ever arrives, at least I have a vaccinated cat and a portfolio of documentation to impress even the most tiresome bureaucrat!—JOHN WYLES

ATHENS

An Ancient Race Rerun

The marathon, the long-distance race invented to commemorate a run by an ancient Athenian carrying news of a Greek victory against Persian invaders, has formed part of the modern Olympic Games ever since they were first revived in 1896.

But the 26-mile marathon, named after the site of the famous battle in 490 B.C., is just a jog compared with the "Spartathlon," a 154-mile non-stop race from Athens to Sparta. It has become an annual fixture in the Greek sports calendar, and its organizers would like it to eventually become an Olympic competition, perhaps to coincide with the centennial of the first modern Olympic Games—which Greece wants to host in 1996.

The race, first run in 1883, grew out of a bid to prove that Herodotus, the ancient Greek historian, was not exaggerating when he wrote that the Athenian courier, Pheidippides, reached Sparta on foot the day after he set out from Athens. His quest was to seek military assistance for the city from the Spartans just a few weeks before the battle of Marathon.

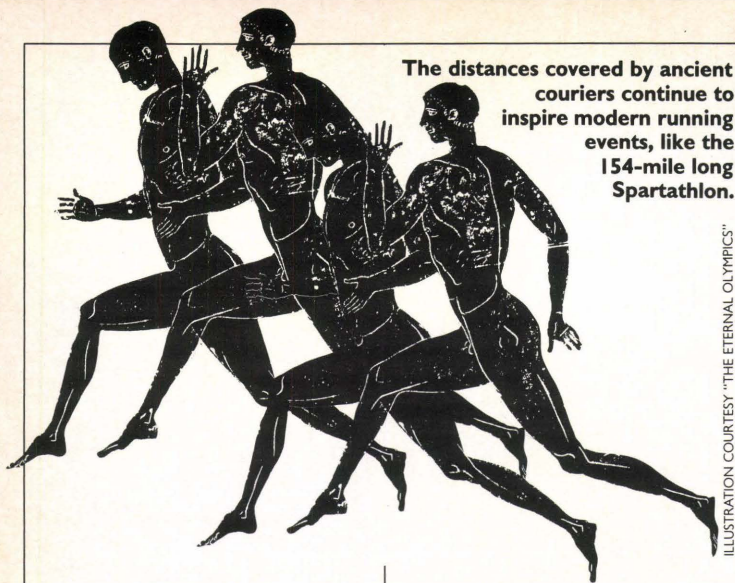
Generations of scholars had dismissed Herodotus' account—written about 50 years after the battle—as fanciful or slipshod. But a grueling historical experiment in 1982 proved it could be done, when a team of three British runners followed a mountainous route—proposed by experts as the most feasible for Pheidippides—and reached Sparta some 36 hours later.

This was the signal for the ultra-distance runners to take over, and a field of more than 40 experienced marathoners from a dozen countries turned out for the first Spartathlon race in 1983. In 1985, it was won convincingly by Yiannis Kouros, a 27-year-old unknown Greek athlete, who covered the distance in just under 22 hours. There were 15 finishers, including one woman.

Kouros, an attendant at a sports stadium in the southern Greek town of Tripoli, a region famed for its couriers in ancient times, went on to become a world-class ultra-distance runner, setting a string of

St. Peter's Square in Rome.





The distances covered by ancient couriers continue to inspire modern running events, like the 154-mile long Spartathlon.

ILLUSTRATION COURTESY "THE ETERNAL OLYMPICS"

records in events of 200 miles and up, and endurance contests such as three- and five-day runs. He improved his Spartathlon performance in 1986 to 20 hours 25 minutes.

The race, run in late September in temperatures that can rise to 100 degrees at midday, starts at dawn from the marble stadium in central Athens where the first modern Olympics were held. The athletes head south to ancient Corinth and through citrus groves onto a rough track into the Perthenian mountain range. The toughest stretch involves scrambling up a 3,600-foot pass on Mount Sanga by night, carrying an electric torch. Then comes a steep descent into Arcadia and a long, hot haul down the main highway to Sparta. On their run, the contestants must pass five checkpoints before reaching the finish line, which is at the foot of a statue of King Leonidas, the king of Sparta who defended the Thermopylae pass against the invading Persians.

According to Herodotus, it was in the mountains that Pheidippides met Pan, the ancient Greek god who was half-man and half-goat. Modern ultra-distance athletes say they begin hallucinating after more than 12 hours of continuous running, which may account for the ancient courier's curious encounter.

Some ultra-distance runners, used to road races or endless pacing around athletic tracks, complain that the

Spartathlon is too hazardous with its nighttime mountain crossing and rough, stony surfaces. Nevertheless, the race continues to attract around 40 contestants each year, with cramps and blistered feet the only injuries reported. This year 20 athletes completed the run.—KERIN HOPE

BRUSSELS

Moving A Piece of Art

The Adoration of the Mystic Lamb," Belgium's greatest national treasure and, by any yardstick, one of the world's supreme works of art, has been moved to a new

home. Although it was a short journey—a matter of a quarter of a mile or so in the Flemish city of Ghent—the trip has divided Belgium's artistic experts, caused a controversy within the church and touched off renewed wonder among the public generally at the religious and technical inspiration that make the "Mystic Lamb" the masterpiece that it is. Not least, and not for the first time, Belgium has cause to be grateful to America—the entire \$100,000-cost of the move was met by the American Express company.

The painter of the "Mystic Lamb," Jan Van Eyck, was one of the first great masters of the Flemish realistic school of painting, a school that, in the early 15th century, broke away from the Italian fresco techniques and began the use of oil paint on canvas, which allowed for much more precise execution of detail. Art historians disagree on the extent of Jan Van Eyck's own contribution to the "Mystic Lamb," compared to that of his brother Hubert, but church records show that Hubert died six years before the work was completed in 1432, and, in any case, other works by Jan testify to his mastery of the Flemish style.

The "Mystic Lamb" is an altarpiece in the form of a polyptych of 20 panels brimming with meticulously observed figures and symbols describing

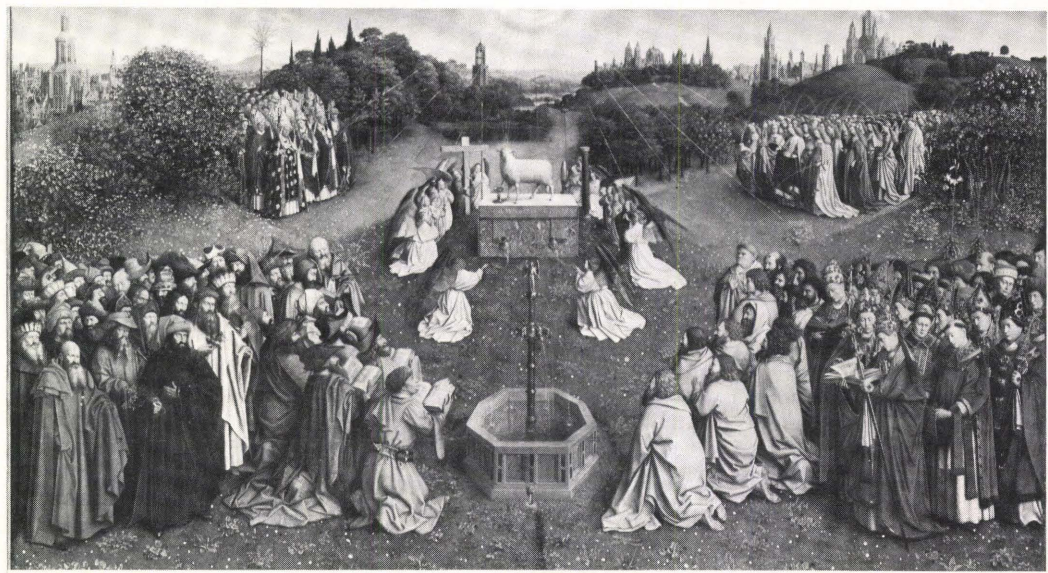
the biblical vision of St. John. As remarkable as its religious significance is its technical achievement—in 500 years its colors have scarcely faded or its surfaces crumbled. Why then was there a need to move the piece?

The decision was not sudden and, indeed, has been debated intermittently ever since the altarpiece was restored and replaced after the war, during which it had been appropriated by the German occupying forces. Throughout the centuries, the "Mystic Lamb" had stood in a small chapel of Vijd, named after Joos Vijd, a wealthy Ghent citizen who had commissioned the altarpiece. The painting was not always on public display but at least there was a feeling in earlier times that it could be put on show without risk of vandalism or theft.

These risks, along with the threat of steady corrosion through humidity, led to the eventual decision by the Flemish regional and church authorities that the work should be moved to a site where it could be protected against most man-made threats. But it was a step that was taken only over protest from many in the church and a number of art experts who argued that the "Mystic Lamb" was an integral part of the Vijd Chapel—painted in it and for it.

Indeed, many of its painted

The move from its original site of Belgium's greatest national treasure, "The Adoration of the Mystic Lamb," has caused widespread controversy.



COURTESY BELGIAN NATIONAL TOURIST OFFICE

shadows and reflections correspond to light coming from the actual chapel windows and its proportions mirror the chapel's own dimensions. The decision to move it to a larger chapel in St. Bavo's Cathedral prompted lengthy debate throughout the art world on the propriety of taking priceless works of art out of their original environment. Jan Van Eyck had never assumed that the work would be moved, and Joos Vijd had specifically instructed in his will that the painting should remain in the original chapel.

In its new home, the painting is probably as safe from mischief as any work of art in Europe. But the price for that is the erection of a glass barrier inside a concrete strong-room and the abandoning of the stone vaulting and church accoutrements that provided Van Eyck with his original inspiration. The new setting has been devised with considerable ingenuity and would offend few but the most die-hard purists. But there are plenty of those in Belgium and the controversy still simmers after the official inauguration in September.

"It seems to show that the average European can't be trusted to respect his masterpieces any more than the average American," an American tourist commented regretfully. "No, it shows the average visitor today cannot be trusted to respect treasures that his predecessors cherished for more than 500 years," replied a Ghent city official.—ALAN OSBORN

LISBON

Back To The Sea

The sea, with its economic and strategic importance, has just become a major political theme in Portugal. It is an unusual topic to occupy the minds of political leaders, who, more often than not, seem to be occupied with much more terrestrial things. The debate was initiated by Prime Minis-

ter Mario Soares, who, after sailing from the Azores to Lisbon on the training ship of the Portuguese navy, underlined that Portugal should take advantage of its "maritime vocation" and make it an international asset.

Along the same lines, a medium-term economic plan for the period from 1987 to 1990 recently made public by the Government, considers the "Atlantic dimension" to be Portugal's main natural resource and sees naval activities as a major area for development over the next decade. Simultaneously, the foreign policymakers stress that the European integration process should not offset the need to maintain strong relations with the United States, a point made quite clearly by the Prime Minister during his official visit to Washington in early September.

It is interesting to note that this sudden interest in naval revival is taking place at a time when Portugal, historically a naval power, has moved toward closer links with continental Europe. In fact, it is precisely Portugal's E.C. membership that seems to justify this emphasis on the sea, by stressing the importance of the triangle formed by the Continent and the archipelagos of Madeira and the Azores.

The basic idea of that "rationale" is easy to express. Without the "ocean link," Portugal would lose its fundamental identity, one that made it possible to maintain, for the past six centuries, an independent position toward Spain and the Western world. In other words, what is at stake is the need to develop a specific identity that will allow the country to avoid the centripetal effects of E.C. accession and give it the recognition of its relative importance inside the Community. This explains why Portugal is stressing its "special relationship" with the Atlantic.

However, at this point there is more talk than action, mainly because Portugal has not taken care to develop—and, in some cases, even has destroyed—

some of the most important attributes of a seafaring nation. The fishing and commercial fleets are insufficient and obsolete, as is the infrastructure of many sea ports; there is no significant navally oriented research; no effective use is being made of the relatively huge exclusive economic zone; even aquatic sports are not among the most popular. In short, one can say that in recent years the sea has been used primarily to attract tourists, something that does not exactly underline the ideals of "grandeur" political leaders are anxious to convey.

During the next 15 years, the historical achievements of the Portuguese maritime discoveries will be celebrated, highlighting such names as Bartolomeu Dias, Vasco da Gama and Pedro Alvares Cabral, who first sailed to Brazil in 1500. Until very recently, there was little hope that these celebrations would be more than yet another opportunity for rhetoric, with no glamor or any popular appeal.

Although no definite decisions have so far been made, there are now some signs that something will happen, for the political will—and the

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money— seem to be readily available. A committee has been appointed to organize the participation of Portugal in the celebration of the discovery of America, which will take place in 1992. And there are other plans—which do not involve such elaborate organization and financing—to build replicas of the caravels used by the discoverers, which will then use the same naval routes as in the 16th century, only now with a hint of 20th-century “special effects.”—JOSÉ AMARAL

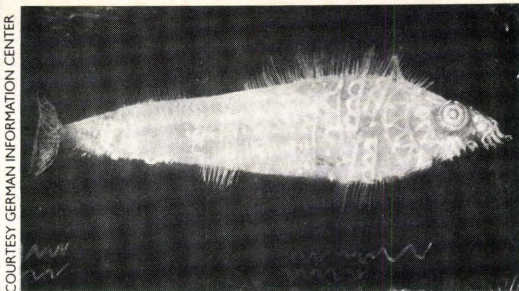
BONN

New Art Museums

North-Rhine Westphalia, with some 17 million inhabitants the most populous federal state in the Federal Republic of Germany, is celebrating its 40th anniversary this year. The jubilee was marked by two long-awaited, important and impressive events: the inauguration of a modern art gallery in Dusseldorf and a cultural center in Cologne, both of which are attracting art lovers not only from North-Rhine Westphalia itself, but indeed from all over the Federal Republic and from abroad.

The beginnings of the Dusseldorf art gallery started in Pittsburgh in 1960, when American industrialist G. David Thompson sold his stunning collection of 88 Paul Klee paintings to the city of Dusseldorf for a measly 6 million Swiss francs. The purchase was a kind of restitution to Paul Klee who had taught at Dusseldorf's Art Academy from 1931 until 1933, when, branded by the Nazis as “decadent,” he was forced to leave the country for Switzerland. At the time, of this acquisition, the collection was Dusseldorf's—and Germany's—first step toward the creation of a state modern art museum, then known as the “Kunstsammlung Nordrhein-Westfalen.”

The Dusseldorf fathers, however, had no clear idea as



Dusseldorf's art gallery contains a large number of Paul Klee's works. Left, a detail of his “Golden Fish.”

to how to go about enlarging such a museum. Things began to take shape when, in 1962, they appointed Professor Werner Schmalenbach and gave him *carte blanche*: “Nobody told me what to do, so I felt free to do exactly what I thought right,” Schmalenbach comments today. And so, less than 25 years later, he has acquired some 200 paintings with an emphasis on classical modern art. “I do not buy names,” he says breezily, “I buy masterpieces.”

Seldom in the Western world has an art director had so much power and influence. Schmalenbach has been in a unique position to acquire this superb collection with the help of a handsome budget and very little, or no, bureaucratic interference. Not counting the donation of some 100 paintings by Julius Bissier, Schmalenbach spent approximately 70 million marks (roughly \$35 million) on this exquisite collection. Behind all this lies a simple philosophy: A concentration on classical modern art and not spreading the resources too thinly. Which is why one will not find any sculptures, watercolors or graphics in this collection. But there are epoch-making pieces by Picasso, Leger, Kandinsky, Beckmann, Bonnard, Pollock, Johns and Warhol—to mention just a few.

This contemplative treasure had been displayed inadequately in Dusseldorf's charming old castle “Jägerhof,” and sometimes in special traveling exhibitions, until the city finally gave the go-ahead for the building of an appropriate museum. Already acclaimed as “an architectural masterpiece,” its main feature is elegance and simplicity, with a facade covered in polished dark

granite that mirrors the baroque church of St. Andreas, and natural lighting, which floods in from the ceiling, thereby finally giving the collection the home it deserves.

Cologne, too, has reason to celebrate the completion of its top-notch art center, which opened in September. It is a huge center that accommodates in the basement a concert hall of amphitheatrical dimensions (2,000 seats), a library, a cinema library, a “Foto-Historama” that displays the history of photography, a section for copper engravings, a restaurant and two museums: the Wallraff-Richartz Museum and the Ludwig Museum of Modern Art.

This super modern ensemble looming in the shadow of the Gothic Cologne Cathedral is the most expensive—it cost about \$140 million—and also the most controversial building in the Federal Republic, situated neatly on the most precious and sensitive spot between the Cathedral and the Rhine River. The architects, Peter Busmann and Gottfried Haberer, were entrusted to design an ensemble that would lend itself to the prominent environment of the Cathedral, and also to create and to develop a new area linking the Rhine promenade with the art center, the Cathedral and the old city center. To bring the city to the Rhine, tunnels had to be built for the busy traffic and terraced gardens for the pedestrians.

The entire infrastructure swallowed the incredible sum of more than \$250 million. But despite these costs, the center is seen as a successful venture for Cologne. “The new exhibition rooms give us the possibility of exciting dialogues between modern and older art,”

says Ekkehart Mai, deputy director of the Wallraff-Richartz Museum, referring, perhaps, to the 10-meter-long painting by Fernand Leger looming over a row of old Dutch masters.

On the occasion of the opening of the new building, the Ludwig Museum mounted an exhibition called “Europe/America: The History of Artistic Fascination since 1940.” Paintings, drawings, sculptures and objects by 125 artists covering the period from 1940 to 1986 are presented here and give an interesting insight into the art of the past 50 years on both sides of the Atlantic.

The four museum levels offer a feast for the art lover's eye and the stupendous view of the Cathedral choir from their side windows leave an unforgettable impression. The new building and the terraced gardens give the city a fascinating new face.—WANDA MENKE-GLÜCKERT €

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By almost any quantitative measure, the United States devotes far more resources to defense than do its allies. Last year, the United States spent over \$266.6 billion on defense, of which as much as half, according to some experts, could be said to be NATO-related expenditures.

DEFENSE: A U.S. VIEWPOINT

EUROPE SHOULD ASSUME PRIMARY RESPONSIBILITY IN THE N.A.T.O. ALLIANCE.

DOUG BEREUTER

More than four decades after World War II, the United States maintains over 300,000 troops in Europe as a contribution to the North Atlantic Treaty Organization's (NATO) defense against the Warsaw Pact. These forces play a number of key roles in NATO's deterrence and defense posture. They make a substantial contribution to the NATO forces available to counter the initial stages of a Warsaw Pact attack. They also serve as the foundation on which additional U.S. forces would build in wartime as reinforcing U.S. units and weapons systems arrive in Europe. And perhaps most importantly, this substantial U.S. presence symbolizes the U.S. commitment to the defense of Europe, backed by the awesome potential of the U.S. strategic nuclear arsenal.

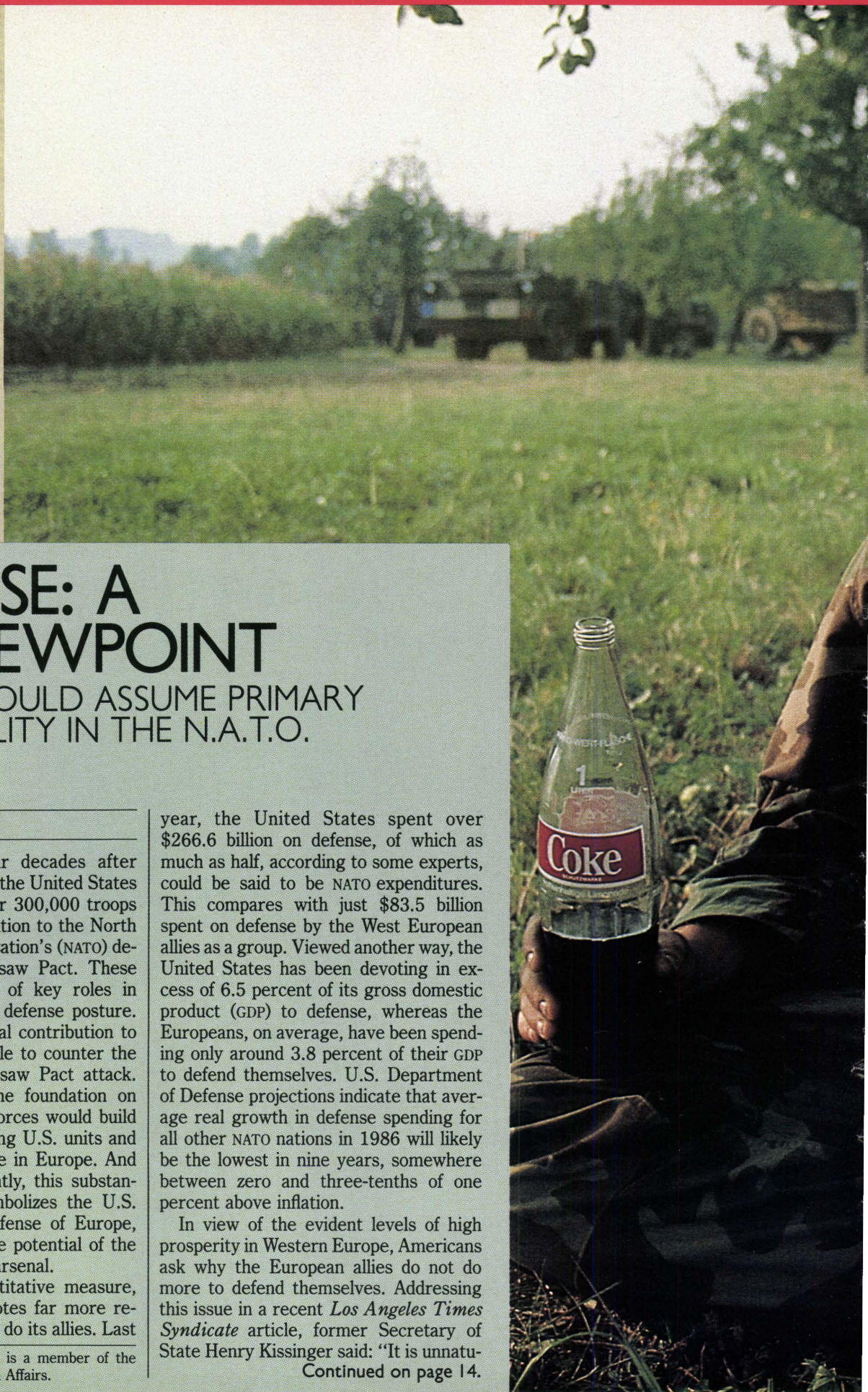
By almost any quantitative measure, the United States devotes far more resources to defense than do its allies. Last

Rep. Doug Bereuter (R-NE) is a member of the House Committee on Foreign Affairs.

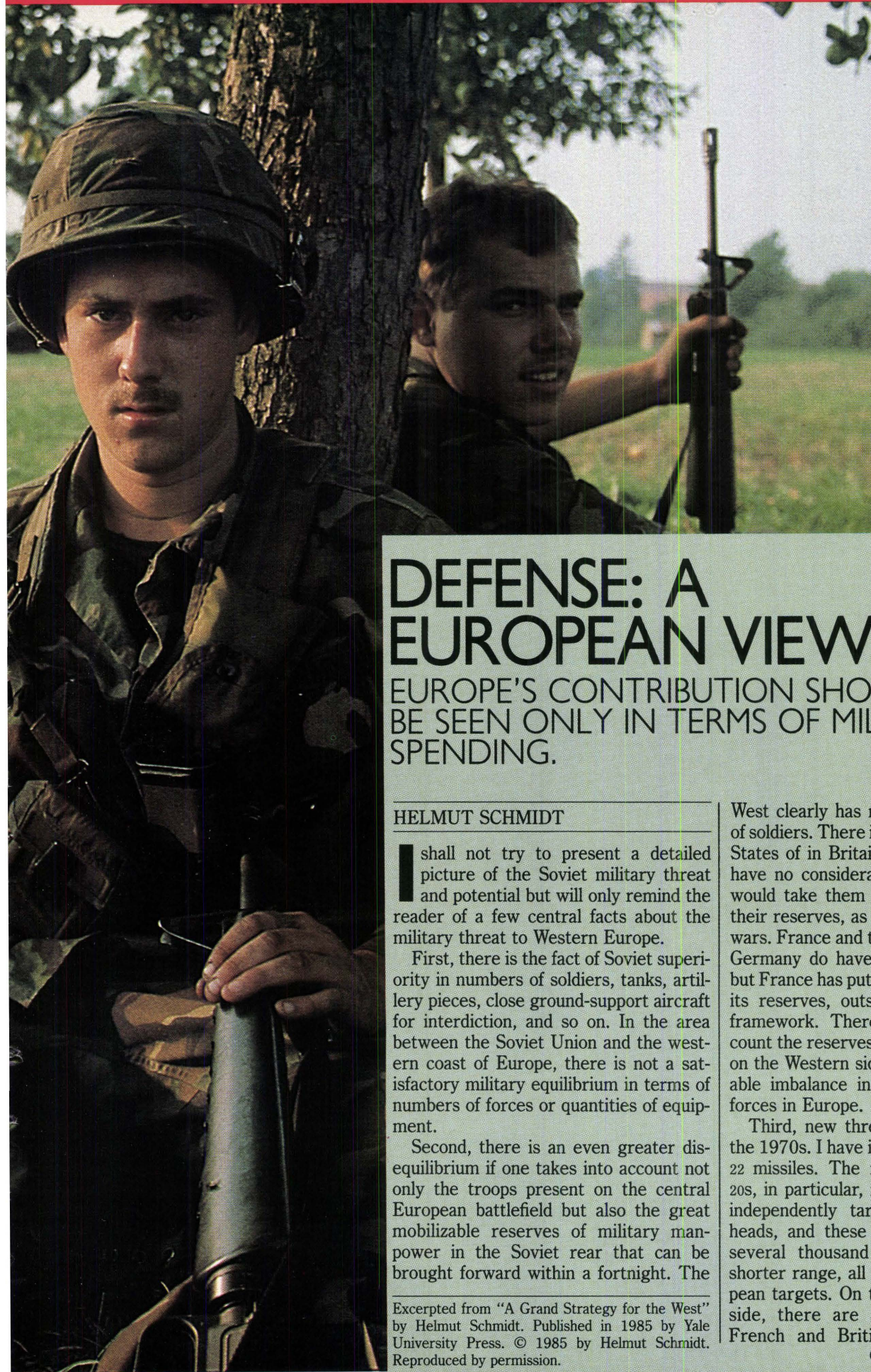
year, the United States spent over \$266.6 billion on defense, of which as much as half, according to some experts, could be said to be NATO expenditures. This compares with just \$83.5 billion spent on defense by the West European allies as a group. Viewed another way, the United States has been devoting in excess of 6.5 percent of its gross domestic product (GDP) to defense, whereas the Europeans, on average, have been spending only around 3.8 percent of their GDP to defend themselves. U.S. Department of Defense projections indicate that average real growth in defense spending for all other NATO nations in 1986 will likely be the lowest in nine years, somewhere between zero and three-tenths of one percent above inflation.

In view of the evident levels of high prosperity in Western Europe, Americans ask why the European allies do not do more to defend themselves. Addressing this issue in a recent *Los Angeles Times Syndicate* article, former Secretary of State Henry Kissinger said: "It is unnatu-

Continued on page 14.



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All the Continental nations of Western Europe have maintained conscription, which in political terms involves a much greater individual sacrifice than spending taxpayers' money.

DEFENSE: A EUROPEAN VIEWPOINT

EUROPE'S CONTRIBUTION SHOULD NOT BE SEEN ONLY IN TERMS OF MILITARY SPENDING.

HELMUT SCHMIDT

I shall not try to present a detailed picture of the Soviet military threat and potential but will only remind the reader of a few central facts about the military threat to Western Europe.

First, there is the fact of Soviet superiority in numbers of soldiers, tanks, artillery pieces, close ground-support aircraft for interdiction, and so on. In the area between the Soviet Union and the western coast of Europe, there is not a satisfactory military equilibrium in terms of numbers of forces or quantities of equipment.

Second, there is an even greater disequilibrium if one takes into account not only the troops present on the central European battlefield but also the great mobilizable reserves of military manpower in the Soviet rear that can be brought forward within a fortnight. The

West clearly has much smaller reserves of soldiers. There is no draft in the United States or in Britain, so these two states have no considerable reserves at all. It would take them two years to build up their reserves, as it did in the two world wars. France and the Federal Republic of Germany do have large reserve forces, but France has put all its troops, including its reserves, outside the NATO military framework. Therefore, taking into account the reserves on the Soviet side and on the Western side, there is a considerable imbalance in conventional military forces in Europe.

Third, new threats have arisen since the 1970s. I have in mind the SS-20 and SS-22 missiles. The intermediate-range SS-20s, in particular, now have about 1,000 independently targetable nuclear warheads, and these are supplemented by several thousand nuclear weapons of shorter range, all pointed at West European targets. On the Western European side, there are a limited number of French and British nuclear weapons.

Continued on page 15.

Excerpted from "A Grand Strategy for the West" by Helmut Schmidt. Published in 1985 by Yale University Press. © 1985 by Helmut Schmidt. Reproduced by permission.

NATO/BEREUTER

Continued from page 12.

ral for a continent with a population larger than that of the Soviet Union and a combined GDP one-and-a-half times greater than it to rely for so much of its defense on a distant ally." Looked at from either side of the Atlantic, the relationship is indeed unnatural. It stretches the resources of the United States. It faces the United States with risks well beyond those inherent in the defense of the United States itself. The nuclear guarantee in particular exposes the United States to nuclear confrontation with the Soviet Union for the sake of Western Europe's security.

Europeans have grown comfortable with the American contribution to the alliance—perhaps too comfortable. Over time, the continued reliance of Western Europe on such disproportionate American contributions will erode the political foundations of support for the alliance and for self-defense. We have offered the nuclear guarantee to Western Europe out of a conviction that our own security is bound to Europe's. If the feeling in America persists and grows that Europe is not pulling its own weight, that conviction will weaken.

Attitudes toward defense differ on the

two sides of the Atlantic, and this can be at least partially explained by differing roles and perceptions. The U.S. role is that of a global power facing security challenges around the world. Our European allies on the other hand, are now primarily concerned with regional defense. Moreover, as Europe's ability to influence global events by means of military power declined, European policies increasingly emphasized political and economic means.

The Atlantic partners also have differing perceptions—of the threat, of what to do about it and of each other. Europe generally shares the American view of the Soviet Union as the major threat to world peace. But where many Americans routinely view the Soviet Union as an implacable ideological foe, bent on destroying the American way of life, at least some Europeans see the Soviet Union in a Russian historical context—as a paranoid, insecure nation striving for equality and legitimacy. This perhaps does not reduce the Soviet threat in their eyes, but it makes them think twice about taking steps that merely reinforce Soviet tendencies to see the worst in everyone.

Americans sometimes accuse Europe of not doing all that it can to ensure a proper defense against the Soviet threat, of being too accommodating toward the

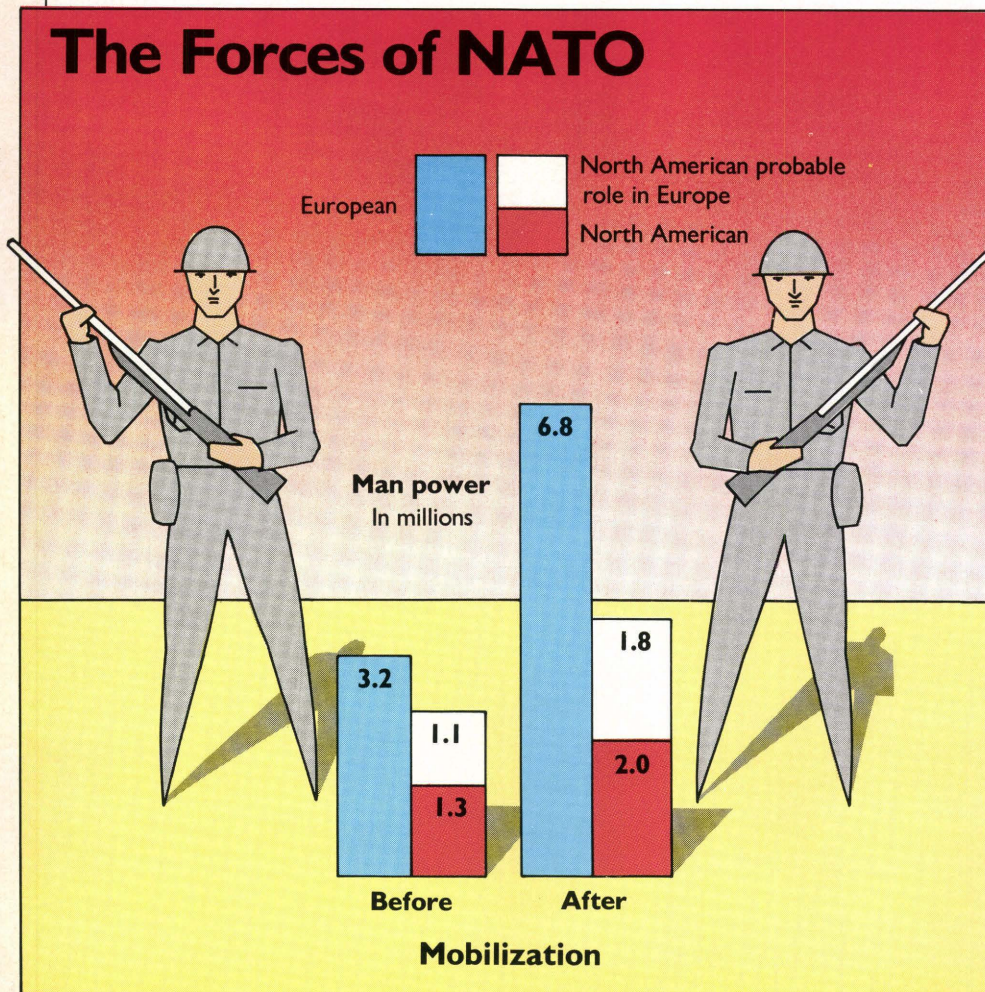
Soviet Union, even of risking "self-Finlandization." Americans are unable to fathom why Europe, in much closer physical proximity to the USSR than this country, apparently feels less threatened by it than we. Europeans counter that the United States is fascinated with military power and tends to concentrate too narrowly on military responses. They are concerned by what they see as American "adventurism" and by too great a willingness to contemplate limited nuclear war in Europe. On arms control, Europeans generally consider Americans to be substantially less enthusiastic about achieving agreement than they are.

There is a clear difference in perception about détente. The United States pronounced détente "dead" after the Soviet invasion of Afghanistan, but Europe, which gained more than the United States did from détente—in the form of reduced tension, increased trade opportunities and improved human contacts—has never accepted this judgement. Europeans obviously take a dim view of this Soviet "adventurism," but they refuse to let it jeopardize the fruits of détente in Europe. In general, Europe is more reluctant to allow Soviet misbehavior in the Third World to sour East-West relations than the United States, which sees Soviet action outside of Europe as also providing cause for Western response within the European framework.

East-West economic relations, often underrated on this side of the Atlantic, are a major consideration for Europe. While Americans view Warsaw Pact trade as a marginal item on the national agenda, Western Europe values its trade with the East Bloc, and, more important, sees substantial prospects for increased trade with Eastern Europe, which promises needed growth for Western economies.

No specific event in recent memory has demonstrated more clearly the possibility for the Atlantic partners to go separate ways than the U.S. bombing raid on Libya. A substantial majority of the American people, as documented by numerous public opinion polls, supported President Ronald Reagan's action. Reaction in Europe was generally just the opposite. Europe's condemnation of our military action triggered among Americans a sense of stunned disbelief, of being let down and, finally, of anger and bitterness. Americans questioned the value of having allies if we could not count on them when the chips were down. The Europeans point out that NATO is devoted to the defense of the North Atlantic, an area that clearly excludes Libya. Such a

Continued on page 44.



NATO/SCHMIDT

Continued from page 13.

which would not mean much against the vast numbers on the Soviet side, and, on the part of the United States, a few hundred warheads on intermediate-range ballistic and cruise missiles, plus some 5,000 shorter-range nuclear weapons (almost exclusively, by the way, on German soil). In other words, in the area of nuclear weaponry, no equilibrium is possible in the European theater without the American nuclear component present there. This will not change in the future, because the European nations, except for France and Britain, but including Germany, have undertaken by signing and ratifying the Non-Proliferation Treaty not to produce or buy nuclear weapons or have them under their national control.

In this situation the first question is how to defend Western Europe in case of a prolonged conventional attack that involves all the mobilizable Soviet reserves. Until Robert McNamara's Athens guidelines of 1962, or more properly, the formal revision of NATO doctrine in 1967, the strategic answer had been to resort to "massive nuclear retaliation" in case of such a Soviet attack. McNamara realized by 1962 that this strategy was no longer feasible, and the rest of the alliance came to share this view by 1967 at the latest. And because the Western alliance itself did not consider it feasible, it was also not credible to the Russians. Since 1967, therefore, the declared strategy of the alliance has been "flexible response"—that is, to try to hold the Russians for at least a couple of days (I would rather hope for a couple of weeks) by conventional defense and then to resort rather early to Western first use of so-called tactical nuclear weapons. (I refer to them as "so-called" because in fact they are lethal and deadly weapons for the German and Polish populations living on the battleground. Indeed, I personally resent a terminology that calls weapons that kill Americans "strategic" and weapons that kill only Poles or Germans "tactical." It is a belittling term for a category of weapons that, if used in great numbers, will kill or cripple the greater part of the central European peoples.)

In the years since 1967, the "early first use" strategy has become more and more of a problem, raising in particular the question whether it is acceptable to those most concerned. To accept such a military strategy for Europe may be easy for someone who lives in California or Georgia. It is not so easy—it is almost impossible—to accept it if you are living in the center of Europe.

This matter of acceptability—or rather the principle that one's own strategy has to be acceptable to the nations one wants to defend—is in my view one of six main principles of military strategy that one has to bear in mind if one is evaluating the scene from the European point of view. These principles could and should be shared by Americans.

- The first principle is the principle of *deterrence*. Deterrence is not a new invention of the 20th century. As a strategic principle, it has played a role ever since the time of the ancient Greeks and Romans: deter the potential aggressor by threatening him with some evil that outweighs his possible gains.

- The second principle is that of *plausibility* or *credibility*. The adversary has to be made to believe that you are really going to do what you are threatening to do. This is now the crux of all our nuclear strategies. To the extent that doubts arise in the West about the feasibility of our military strategy, these are bound to create doubts on the Soviet side about the credibility of our threat to them.

- The third principle I call the principle of *appropriateness* or *proportionality of means* we intend to use in our defense strategy. One can say that the debate on the question, what is proportionate, or how much is enough, has become more serious and more important and is today playing a more central political role than in any of the earlier phases of Western strategy since 1945.

- The fourth principle is that of regular or constant *re-evaluation*, because situations do change. We have to revise our evaluations constantly. As the history of the first 35 years of NATO has shown, we have from time to time revised our mili-

tary strategy, and we will have to do so again in the future.

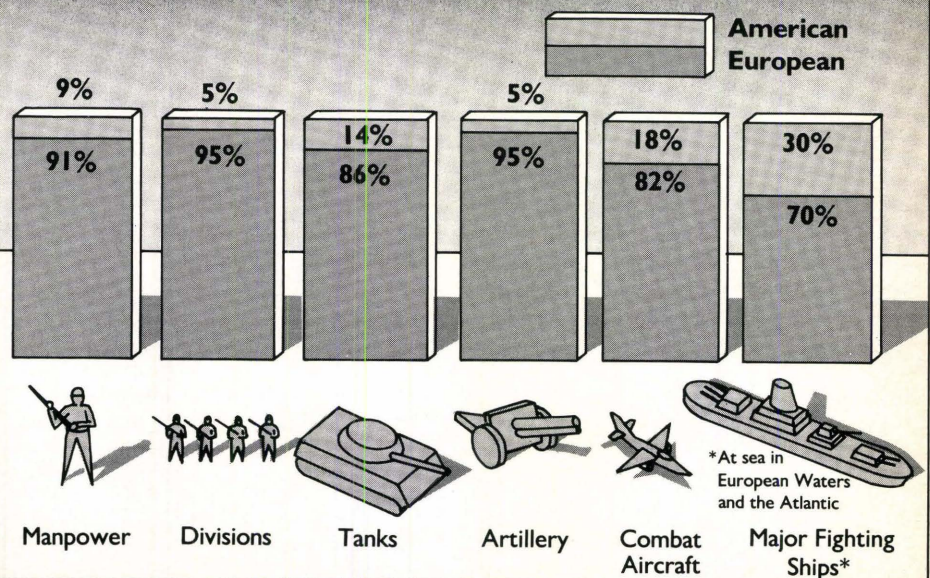
- The fifth principle is the principle of *equilibrium*—or a rough balance of security for each side. It is this principle that brings into play the necessity of efforts to arrive at mutually agreed-upon arms limitations. Begun in the late 1960s, this endeavor met with considerable success in the first half of the 1970s, but with no further success since then: SALT II, the Second Arms Limitations Agreement, worked out in 1979, was not ratified by the United States and therefore not by the Russians either. All the other arms control negotiations at all the different tables in Vienna and Geneva in the last 12 years have failed.

Some of the questions that arise in arms limitation negotiations are the following: What is proportionate? What will be proportionate tomorrow? How do we find an equilibrium? How do we stabilize equilibrium after we have defined or found it? What are the necessary ingredients of an agreement? Obviously no superpower, and no smaller power like Germany, would ever subscribe to an agreement that seemed on balance to offer advantages to the other side. And obviously the other side would never subscribe to an agreement that offered advantages to our side. So the principle of equilibrium is inherently present in any effort to get an arms limitation agreement between the two sides. It is easy to state this but very difficult for some political leaders to understand and to accept.

- Finally, there is the sixth principle, that of *acceptability*, which is closely related to the second principle of credibility. Doubts about our military posture and plans are

Continued on page 45.

Standing Forces in NATO



FROM ONE FARMER TO ANOTHER

REFLECTIONS ON TWO DIFFERENT SYSTEMS.

FRANCIS CAPELLE

Dear Farmer Brown,

I enjoyed spending 10 days in your country this fall. When I touched down at Washington, D.C.'s Dulles Airport, I appreciated the hot summer day, because, in those early days of September, we were having a lot of rain in Europe. But that sunny day reminded me of the summer we did have in our area. Those warm days were nice, but for farmers, as you well know, they often mean the bitter experience of drought.

I was scheduled to visit people in Washington, D.C. and then to move around Michigan and Ohio as part of a speaking tour organized by the E.C. Commission's Delegation to the United States. I don't mind telling you I was a little bit worried by reactions that might come from you and from other people I would be meeting when I had to tell them about the E.C.'s Common Agricultural Policy.

Newspapers, radio and television were constantly talking about subsidized agriculture in Europe, and I was worried that I might be considered a subsidized farmer who was responsible for the surpluses of wheat on the world market. Hence, I would be the cause of the troubles in U.S. farming.

Since I had studied your agriculture, I knew I could give you some answers and ask you some questions of my own, but I wanted to know more about your farm policies and the way you live. I wanted to understand you a little better.

My first appointments were in Washington, D.C. where I met many people, ranging from officials at the American Farm Bureau and the North American Wheat Exporters to people at the U.S. Department of Agriculture (USDA) and in the office of the U.S. Trade Representative (USTR). Everyone was concerned about oversupplies and ways to handle them. The American Farm Bureau



U.S. farmers often have no labor other than family members whereas Europeans must give salaried workers five weeks of paid vacation and year-end bonuses, Francis Cappelle (left) learned when he met with farmers in Ohio.

warned me about the dangers of putting restrictions on American exports to Europe, but to my way of thinking, American exports are European imports.

Because I am a firm supporter of free trade between countries, I could not forget how the U.S. Government had placed restrictions on imports of sugar from Central America to the United States. I came to the conclusion that every nation tries to develop its exports and limit its imports in spite of what is often said in speeches.

At USDA, I met an impressive delegation. I had already decided that my first step would be to listen. Of course, there was great concern about the fact that the United States had lost its share of the market and I could feel a real will to catch up. But everyone was concerned that the 1985 U.S. farm bill cost as much as \$35 billion. At the same time, I kept thinking that the E.C.'s Common Agricultural Policy (CAP) absorbs a 75-percent share of the entire E.C. budget: some \$25 billion. Who really is going to win that war? It seemed as though it was a case of the

American budget vs. the European budget.

We, the farmers in Europe, have agreed this year to give as much as 4 percent of the price of wheat to help to find new uses for wheat. Will it be more than 4 percent next year? That did not make any sense to me: the struggle over subsidies!

But the people at USTR thought they would win the war because they had deeper pockets than we have. I not sure that European farmers and E.C. officials in Brussels would give up so easily. Eventually, the actual winners will be the importers of wheat from other countries, such as Japan or the Soviet Union. Not the farmers, nor any budget.

So, I asked whether we could find a solution. Would it be possible to control supply on the market through a world storage policy? Could we install a system for regulated access to the market? Or would we be obliged to restore controls of acreage or tonnage?

Many among those that I met were fiercely in favor of a free market and

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price-regulated control of supply and demand. Behind this idea was the feeling, which I could easily understand, that U.S. farmers are the most efficient, and that they would succeed in such a marketplace. In the end, they would recapture their market share, whatever the price—even if it meant losing many inefficient farmers or ones too deeply in debt. Eventually, well adapted American farmers would be the winners, and the United States would again become the world's granary.

I pointed out that some nations such as Argentina were selling wheat at any price because they want the foreign currency. Some, such as India, were no longer importers and yet others, such as Saudi Arabia, were producing twice the quantity they needed without any price concerns. Is not self-sufficiency in food a political goal?

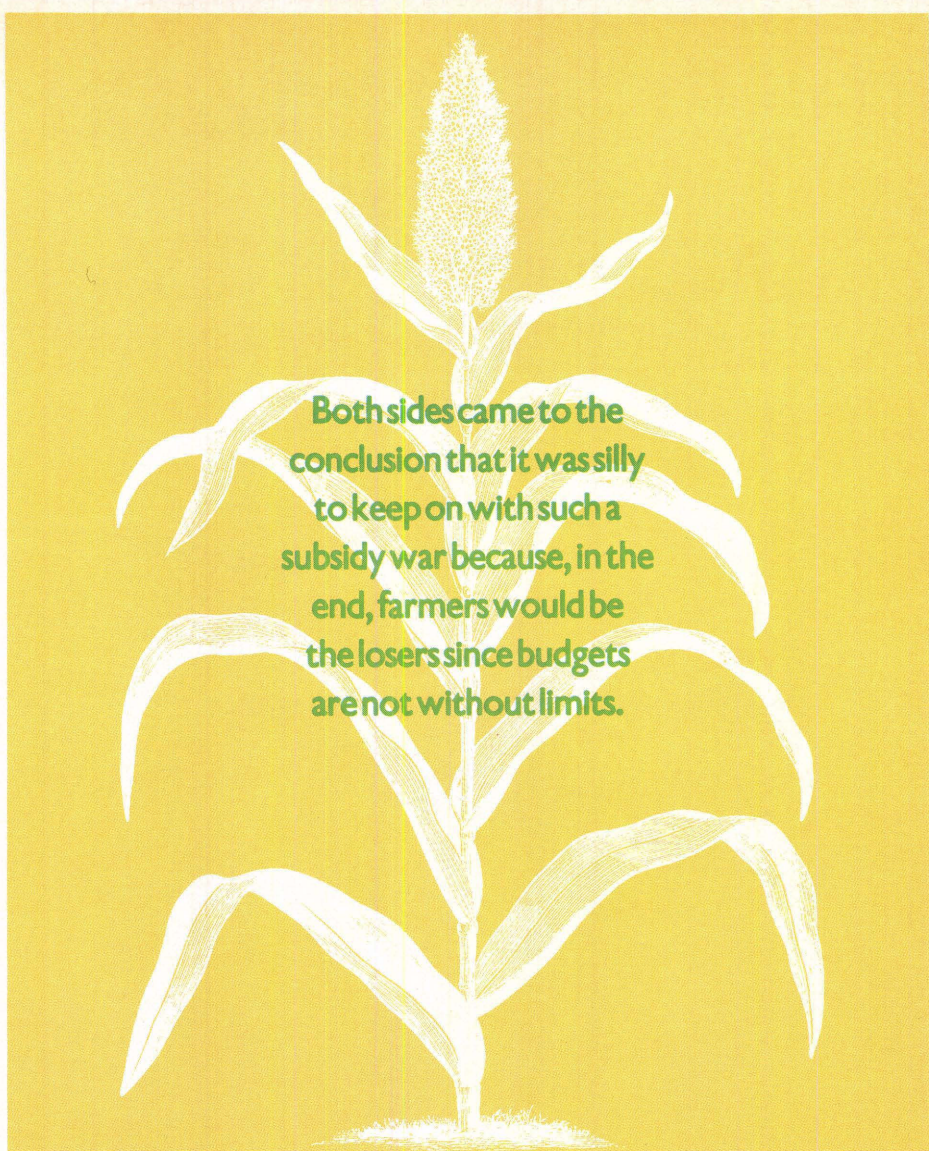
When it came time to go to Michigan and Ohio, I thought I would discuss these questions with the corn and soybean farmers I was going to meet. But my first impressions led me off on other tangents. The farm buildings I saw were very small compared to Europe. Two hundred years ago, our farmers had built with solid materials such as stone and brick. Our fathers and grandfathers thought that nothing could change in the future.

These observations led me to enquire about storage facilities. The American farmers showed me simple corrugated steel bins. I was amazed that it could handle so many tons of corn! It was probably more efficient than my old sugar beet pulp storage facility that I had adapted to use for wheat storage. I thought that those buildings were probably less expensive to maintain than my old stone walls and slate-roof areas.

When I asked to look at the machinery, I was even more amazed. A big combine, a big tractor, a large plough and a driller were the main items. I had a quick glance at two 20-year old tractors and a couple of medium-size pick-ups in a corner of the barn. I thought to myself that they had nothing, that they make do with nothing, compared to us. How can they manage?

I asked about labor. The answer was that there was only one mechanic for a 1,500-acre farm. In comparison, mine is a farm the same size and I am proud to be one of the most efficient with 5 workers. Of course, I grow more crops: sugar beets, wheat, potatoes, peas and corn. But I started to think that I could be wrong. Would it not be better to grow wheat and peas with very little equipment and no labor except my own? But, what would happen if I were ill?

I asked someone from the extension



Both sides came to the conclusion that it was silly to keep on with such a subsidy war because, in the end, farmers would be the losers since budgets are not without limits.

service about gross output and cost structures. The extension service agent confirmed that most of the farmers were on a government program, receiving \$3 per bushel of corn. Maximum support—the deficiency payment—was limited to \$50,000 per person. It did not take long for me to figure out that some farms had been divided into two or three smaller units to receive the maximum deficiency payment available.

When I worked out variable costs, I realized they were as high as ours. But American fixed costs were 30 percent of our costs. Of course, the Americans had a very plain system of production and no labor except for the farmer's family. I started to explain that by law we had to give our workers five weeks' paid vacation, 10 days of public holidays as well as an extra month's wages at the end of the year. At the end of the day, for one franc given to each worker, it had cost the farmer 1.8 francs. Upon hearing that figure, someone told me that the American ratio was one to 1.3.

Some of the farmers could hardly be-

lieve my words, not understanding how, under these conditions, we could still make a profit. I explained that our internal prices for wheat were higher than American ones, but that we had no deficiency payment. On top of that, we were producing more than three times as much wheat per acre. But even so, the margins have been squeezed for the last five years.

Both sides came to the conclusion that it was silly to keep on with such a subsidy war because, in the end, farmers would be the losers since budgets are not without limits. But what can we do? Probably sit around a table like politicians at the GATT and try to reach an agreement for our own sake. My dear friend, would you agree that this is possible before it is too late for both of us?

Sincerely yours,
Francis Capelle

Francis Capelle, a board member of the French Wheat and Grain Producers Association, farms 1,500 acres 100 miles northwest of Paris.

THE E.C. COMMISSION: A NEW-FOUND FRIEND OF BUSINESS

A QUIET REVOLUTION IS CREATING NEW OPPORTUNITIES FOR BUSINESS TO INFLUENCE POLICIES.



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JOHN ROBINSON

A quiet revolution, virtually unobserved, is occurring in the European Community's strategy toward business. It is creating unprecedented opportunities for companies to influence the policies and to participate in the activities of a Community driven by the twin forces of technological renewal and international competitiveness.

The changes under way are complex. While companies in the Community are fighting for international viability, its institutions are finding a new sense of purpose in an alliance with business. In sharp contrast to the recent past, when many in business viewed the E.C. as unnecessarily hostile, multinational companies are now seen as key players in achieving the E.C.'s priority goals of market integration and the cross-frontier link-ups needed to withstand the competitive challenge of the United States and Japan.

Whatever the long-term scope for policies of business control, the emphasis of E.C. strategy now and for the foreseeable future is clearly on the creation of transnational opportunities for European companies. This is coming about as a result of two forces: a shift in E.C. policy priorities and a shift in the style of the strategy, which in turn impacts on policy. The change in the content of policy-making is better known than the change in style, yet the style development is potentially just as significant for business because of the increased opportunities for influence it offers.

Social and legal regulation—which for many corporations was the hallmark of E.C. business policy during most of the last decade—by and large has given way under the twin pressures of technological renewal and international competitiveness to policies of market deregulation and industrial collaboration. The timetable for these policies up to 1992 is spelled out in some detail in the Commission's White Paper of June 1985 (*Completing the Internal Market*), which was subsequently endorsed by the E.C.'s summit in Luxembourg in December 1985.

But the shift in the thrust of E.C. activity goes much deeper than the new policy priorities chosen by the Community authorities. Equally important is the gradual adoption of a new style that owes much to the efforts in the early 1980s of former E.C. Commission Vice President Etienne Davignon who was responsible for industrial affairs.

The emerging style of Community industrial strategy has four main characteristics:

- The primacy given to the project approach to European integration.
- The influence of the project approach on the content of E.C. business policies.
- Linked to the project approach, the role that has been deliberately assigned to business in the attainment of the Community's central goal of economic integration.
- The performance by the Commission of a role that is as much one of a service institution for European business as

initiator of Community legislation.

For business, the clearest indication of the sea-change in E.C. priorities is that policies that once were used to exert public control over multinational companies are now being deliberately used to free enterprises from legal obstacles to transnational activity.

In areas like antitrust, company law and even social policy, the E.C.'s aim in the coming years will be to encourage cross-frontier business collaboration, whereas until recently such instruments were widely perceived by business as firmly pointed at curbing company and management freedoms. This aim will be paralleled by similar goals in European standards and procurement policies—two domains where success will greatly depend on the active involvement of business in the pursuit of Community objectives.

Pressure for these developments is coming as much from the expanding skein of European business projects and the supply-side influence they invite as from deliberate political strategies to boost Europe's competitiveness. Indeed, the E.C.'s White Paper on the internal market, a market economy credo assembled by Commission Vice President Lord Cockfield, owes something to the direct influence of business in the shape of W. Dekker's "Europe 1990" statement made in November 1984.

The change in emphasis that has occurred in European social policy in the mid-1980s has been dramatic. From the corporate standpoint, the change is from a policy seeking to alter the balance of European industrial relations in favor of organized labor (and therefore a threat), to one seeking to help meet industry's training requirements (and thus a service).

Moreover, the Community's evolving industrial strategy sees the Commission itself emerging in a new role. The Commission is moving closer to business and in so doing is subtly distancing itself from the formal E.C. decision-making process, or at least from an exclusive reliance on it. It is carrying forward the cause of European integration by drawing on—and deliberately building up—a new constituency: transnational European business.

In doing so, the Commission is increasingly performing a variety of roles, many of them undreamed of by the framers of the Treaty of Rome establishing the Community. Thus, in addition to its role as initiator and executor of E.C. legislation, the Commission is a service institution for European industry which, inter alia, sees it:

- Channeling the requirements of business into the political process;
- Building up with business a consensus on the problems facing industry in given sectors;
- Acting as a public fundraising institution for industry's needs; and
- Acting as a joint leader with business to nurture and encourage European projects in certain strategic sectors.

To be sure, the Commission's emerging role for the moment falls far short of the catalytic influence on industrial development exerted by the public authorities of either of the Community's two main rivals, the United States and Japan. As a public sponsoring body, it has only a fraction of the leverage enjoyed by the U.S. Department of Defense over industrial research and development. Nor does it possess the scope for industrial targeting, coupled with systematic cooperation among all economic factors needed to achieve it, which is the hallmark of the Japanese system and of the role played in it by its Ministry of International Trade and Industry (MITI).

However, on both these scores—industrial sponsorship and cooperation with business—the Commission is now on the map, and has come on to the map with increasing impact in a very short space of time. In this it has been helped by European industry itself, which has legitimized the Commission's new role as a service institution for business by being increasingly willing to be seen working in partnership with it. This is a sharp change from the recent past. "Until the early 1980s," says a senior E.C. industry official "European business by and large stood its distance from the Commission, except to say 'no' to one or other of our proposals."

Underscoring the Commission's new role and closer links with business are several interlocking factors, which above all relate to the preeminence of the competitiveness problem facing Europe and to the Community's prolonged institutional crisis. They include:

- The publication in June 1985 of the Commission's White Paper on the internal market. This is nothing less than a charter for business involvement in the attainment of E.C. market goals in a variety of sectors, including foodstuffs, pharmaceuticals, tobacco, motor manufacturing, banking and insurance.
- Under the pressure of international competition, such policies as trade, industry, competition and R&D that the E.C. has traditionally pursued separately are slowly being welded together into a single strategy designed to improve the performance of European business. At the same

time, these core business policies have become a magnet for other social, educational and economic policies, which are increasingly being made to work toward the same objective: Europe-wide industrial promotion. By the same token, E.C. policy as a whole has become more open to business influence. In scope and style of policy, if not yet in degree of impact, this tends to suggest movement towards an embryonic form of a European MITI.

- Competitiveness is replacing the Treaty of Rome as the main trigger for Commission proposals and initiatives. The Commission is striving to build effective European responses in the form of high-tech alliances and improved business/university cooperation in whatever way it can. As often as not, this means using its fulcrum position as a wielder of European influence, as much as a drafter of E.C. legislation.

- Making a virtue of necessity, the Commission has stepped into the political vacuum left by the prolonged abdication of the Council of Ministers and invited business to join it in creating a new pole of attraction for European integration. At the same time, penny-pinching E.C. Governments have shown themselves modestly willing to provide funds for projects partly sponsored by business; to some extent, they are forced by their own supply-side logic into supporting a supply-side industrial strategy exemplified by the Community's project approach.

Meanwhile, in this odd institutional situation, the Commission looks to the European Parliament to dignify rather than stimulate the formation of E.C. policy. The stimulation of industrial policy now lies as much with the forward-looking elements of European-operating business—a new E.C. constituency—as with Community institutions.

The Commission's role as a service institution for European business is accentuated in a variety of activities outlined above. This includes its new approach to standardization in many areas of industry and, even more telling, its role in technology-related sectors like telecommunications. True, in these areas, the existence of E.C. funding reinforces the leverage the Commission has over the direction to be taken by industrial development—leverage evidenced by the joint planning between the Commission and leading companies on the priority medium-term objectives. But the Commission's service role is not limited to hightechnology. The Commission is also active, using a mix of such legal instruments as competition, trade and standards policy and indicative analyses, in other more traditional sectors, includ-

ing machine tools, cars, paper, pharmaceuticals and chemicals. The following sample of projects serves briefly to illustrate just how this activity works.

In machine tools, the Commission has conducted several analyses to identify the problems of external competition and internal adjustment facing the E.C. industry. It has paid particular attention to the rapidly emerging dominance of Japan in numerically controlled tools.

In the Commission's contacts with industry, it is discussing issues like investment in numerical controls, interface standardization for controls, harmonization of specifications by major machine-tool users (automobiles, planes). Moreover, its concern with the needs for structural adjustment in the European industry includes, according to documentary sources, "formulation of recovery strategies targeted at individual manufacturers."

In addition to trying to gain industrial consensus on the major problems confronting machine-tool companies and users throughout Europe, the indications are that the Commission will seek to inflect major policies like competition and trade to help solve them. For example, according to E.C. industrial policy officials, "we need to take account, in the Commission's use of competition policy, of the need for mergers and cooperation to increase the scale of European machine-tool manufacturers." In addition, "commercial policy toward Japan has been relatively successful in encouraging export moderation," say the same sources, who allow, however, that trade restraint can only be a "stopgap" measure.

With E.C. chemical-sector annual output approaching \$200 billion, the industry has a strong visiting card with the Commission, just as the latter has strong reasons to be interested in its continued health. While shunning suggestions of *dirigisme* or interventionism, the Commission is gradually seeking to build up a consensus through close contacts with the industry's European representative body, the European Council of Chemical Manufacturers' Associations, on the major problems that are now confronting it. These problems—overcapacity in the petrochemical and fertilizer sectors, coupled with competition from low-priced imports, in particular from the Middle East—are not only fueling intra-industry consensus, but this in turn is creating greater business support for E.C. policy initiatives.

Recent examples of such E.C. initiatives include:

- The tough line taken by the Community

in negotiations begun in December 1985 with the Gulf States on petrochemical imports.

- The creation of a supportive environment for the systematic development of a Community biotechnology business, in the same way that E.C. Agriculture Ministers, in response to Commission and industry pressure, agreed in principle last February that starch and sugar—both raw materials for biotechnology—should be made available for industrial use at (subsidized) world prices.

- Continued protection exercised by the Commission, through extensive use of its powers as manager of the E.C.'s antidumping regulations, against cheap imports. The degree of Commission activity here is reflected by a telling statistic: 40 percent of antidumping cases handled by the Commission arise from complaints by the chemical industry, although only 5 percent of Community imports are chemicals, according to official sources.

With its White Paper, the Commission has provided the pharmaceutical industry with a valuable platform from which to attack its principal *bête noire*, state regulation of prices. Such regulation, from the E.C.'s standpoint, appears to be the basic obstacle to free movement of pharmaceuticals in E.C. countries; and from industry's standpoint, regulation is one of the main obstacles to R&D investment.

Commission officials are, of course, aware of the limited prospects of radical E.C. initiatives in areas like national price controls. Nevertheless, the internal market White Paper's emphasis on market integration and deregulation does suggest that the Commission and industry are on converging paths as regards intra-E.C. trade liberalization.

Among other initiatives prefigured by the White Paper is "the completion of work eliminating obstacles to free circulation of pharmaceutical products," a proposal scheduled for 1989. And among possible objectives for the Commission might be to ensure that European pharmaceutical companies are not disadvantaged, in respect of their international competitors, by public regulation, especially as concerns their ability to invest in innovation. Like the chemical industry, the pharmaceutical sector can expect to benefit from cheaper access to E.C.-produced commodities such as sugar and starch for the development of biotech-based products. €

John Robinson is a partner of European Research Associates. This article is adapted from a new report, *EEC Business Strategy to 1990: Threats and Opportunities*, available for \$290 from ERA, 39 Boulevard Clovis, 1040 Brussels, Belgium.

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AIRBUS SCORES ANOTHER BIG SUCCESS IN U.S.

ORDER BY NORTHWEST AIRLINES IS CONSIDERED A MAJOR BREAKTHROUGH FOR THE EUROPEAN CONSORTIUM.

GUY COLLINS

When it was announced at the beginning of October that Airbus Industrie had received yet another important order for its A320 aircraft from a major American airline, the European aircraft consortium had good reason to rejoice. This latest deal, in which Northwest Airlines, the nation's fourth-largest carrier, said that it would buy at least 10—and up to 100—Airbus A320 aircraft, is seen as a major breakthrough for the European aircraft industry into a market that has hitherto been largely dominated by the United States. If Northwest does indeed order all the 100 planes, it is a deal that could be worth up to \$3.2 billion, and would represent Airbus' most important success in the U.S. market.

Airbus Industrie is a four-nation European consortium owned by Aerospatiale of France, British Aerospace, Messerschmidt-Boelkow-Blöhm of the Federal Republic of Germany and Casa of Spain. It is the only real international competitor for American plane makers, such as Boeing and McDonnell Douglas, which are now accusing Airbus of selling its planes below cost, saying that the manufacturer was unfairly subsidized by the European Governments that own it.

The A320 Airbus ordered by Northwest is a twin-engined model designed for short trips of up to 3,500 kilometers (roughly 2,200 miles) and with a capacity of up to 150 passengers. Its maiden flight is scheduled for early next year, and when it goes into commercial service in early 1988, it will be in direct competition with Boeing's 737-400 short-range jet, an updated version of its successful 737 model, which carries up to 148 passengers, and of which the company has already sold 600 in the five years that it has been in production, and 110 of these to United Airlines in a huge order last year. Boeing was thus naturally disappointed to have



The \$3.2-billion deal for up to 100 A320s would be the company's biggest U.S. sale yet.

been passed over by Northwest.

Commenting on why the company had chosen the Airbus A320 over the Boeing model, a Northwest Airlines spokesman pointed to the fact that the aircraft was fuel efficient, consuming approximately half the fuel of comparable planes flying today, and that it was relatively quiet.

While European analysts consider this latest deal to be a major breakthrough for Airbus, signalling a growing readiness on the part of American airlines to buy European aircraft after years of skepticism, there were also less enthusiastic views on the deal. Lou Townsend, editor of the trade magazine, *Aviation Daily*, commented that "there could be a certain amount of smoke on how big the deal is," adding that both Airbus and Northwest would be interested in making the deal appear as large as possible, and pointing to the fact that the order for 90 of the 100 jets was as yet only tentative. Analysts

cited the \$1-billion deal that Airbus landed with Pan American World Airways two years ago for the sale, lease or option on up to 91 aircraft, of which so far only 28 planes have actually been bought, 16 being the A320 model, and the other 12 the wide-bodied A310 version.

Nevertheless, it looks as though Airbus Industrie is on its way toward achieving its goal of a 30-percent share in the world aircraft market by 1995. Even before the important deal with Northwest Airlines, whose first 10 jets will be delivered in 1990 and 1991, with the 90 planes on option to be delivered by 1995, Airbus had firm orders from 12 other airlines for 134 A320 planes and options on a further 133 aircraft. American companies flying Airbus aircraft other than Northwest Airlines and Pan Am are Eastern Airlines, Continental Airlines and Gatx Air, a railway car and aircraft leasing firm. ☛

Guy Collins reports from Paris for Reuters.

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October, 1986

E.C.-CARIBBEAN LINKS SEEN GROWING STRONGER

NEW LOMÉ CONVENTION FACILITATES PRIVATE-SECTOR INVESTMENT.

PAGET DE FREITAS

If Caribbean nations linked to the European Community under the Lomé Convention are successful, American capital could play a pivotal role in their bid to take advantage of preferential access to the E.C. market. At the same time, the region is hoping that similar access to the U.S. market under President Ronald Reagan's Caribbean Basin Initiative (CBI) will be a strong enticement to woo European investment.

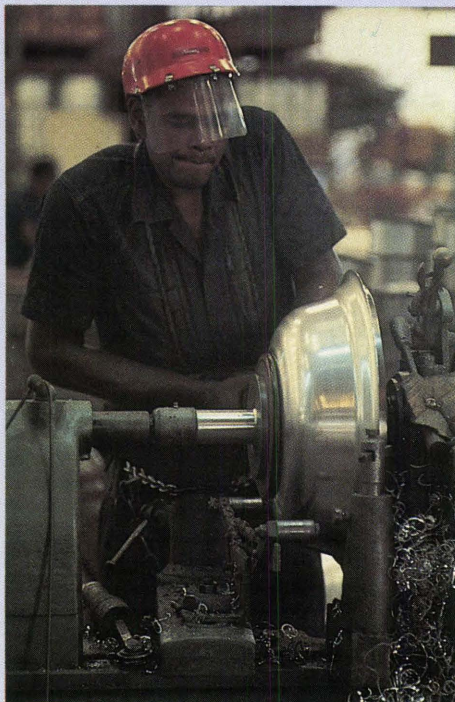
The Caribbean's quest for American or European investment is not new, only the current enthusiasm is—at least the rhetoric. The fact is that the region is being propelled to develop manufacturers and to process commodities beyond the primary stage because of the rapid decline in their terms of trade over the past five years, critical balance-of-payment problems, the debt crisis and high unemployment. In essence, it is an attempt to fight the tide of the international economic stagnation and the problems of underdevelopment.

On the Caribbean-E.C. side, the effort is deriving fillip from the emphasis on encouraging private-sector investment written into the recently promulgated third Lomé agreement between the European 66 former colonies that make up the African, Caribbean and Pacific (ACP) group of countries.

In terms of using American capital to develop business to penetrate the E.C. market, the move is not direct, coming via the U.S.'s quasi-state in the Caribbean, Puerto Rico. One European diplomat in the region jokingly referred to the proposed initiative as "the attempt to sneak into Europe." Whatever it turns out to be, the Caribbean countries covered by Lomé have been inviting that it be done.

The initiative, in fact, is an outgrowth

Paget de Freitas is a correspondent for the Caribbean News Agency based in Kingston, Jamaica.



COURTESY INTER-AMERICAN DEVELOPMENT BANK

of the Puerto Rican Government's efforts to save its special status under Section 936 of the U.S. Tax Code, which was initially implemented to help in the island's industrialization thrust. Under Section 936, U.S. companies operating in Puerto Rico were exempt from federal income tax, once they left their profits on the island. The Puerto Rican Government took a marginal tax.

What the scheme allowed was the buildup of a huge pool of capital in Puerto Rico, currently estimated at between \$7 billion to \$8 billion. A tenth of that is held in the Government Development Bank (GDB) under the island's laws. But, faced with huge budgetary deficits, Washington began to see Section 936 as a loophole—a big sieve through which businesses

Barbados is using a European Investment Bank loan to equip the port of Bridgetown for handling containers (below). In Trinidad and Tobago (right), there has been considerable European investment recently.





were escaping. Efforts were begun to close off Section 936 as part of overall tax reform.

The Puerto Ricans argued that its elimination would be disastrous for their economy: Businesses would pull out and already steep unemployment would rise further. When Rafael Hernandez Colon became Governor in 1984, he enlisted the Central American and Caribbean nations covered by Reagan's CBI to help argue Puerto Rico's case. He also provided a carrot. He promised that if Section 936 was saved, the funds would be also used outside Puerto Rico in production-sharing schemes.

The effect of this would be threefold: For Washington, Puerto Rico would be helping to promote its foreign policy in the region by encouraging private-sector investment. For Central American and Caribbean countries, there would be employment opportunities. For Puerto Rico itself, there was the prospect of developing twin plants, of saving some of the jobs

that were being lost to areas with cheap labor, while the economy became more capital-intensive. Congress has agreed to retain Section 936 with minor changes, and Puerto Rico has already upheld one element of the bargain by changing the rules of its development bank to allow it to make loans for projects outside the country.

The major focus of this is production for the American market, using the facility of the CBI that provides one-way free trade for most Central American and Caribbean goods for 12 years. Caribbean countries in the Lomé Convention see another opportunity. The possibility of taking production from Puerto Rican-Caribbean twin plants into Europe under Lomé is being discussed. Some of the prospects were outlined at a recent Section 936 investment conference in the Puerto Rican capital of San Juan, by Gloria Francis, the head of the commodities section at the ACP Secretariat in Brussels.

"The flexibility of the CBI program and

the old as well as the new provisions of the incorporated in the latest Lomé package have opened up wider dimensions for international trade on a North-South and South-North basis," she said. "It is for the countries of the Caribbean Basin now to exploit these greater opportunities and put to the test the E.C. member states' oft avowed commitment to promoting and encouraging the economic advancement of developing countries."

Francis pointed to some of the various possibilities that could be used to reach the local value added for goods from regional Lomé countries in order to qualify for duty-free entry into both the E.C. and the United States, and she concluded that there were benefits to be derived: "The establishment of an enterprise to benefit from duty-free entry into the E.C. as well as into that of the United States," she stressed.

The possibility, however, was not lost on others. In January, Joannes Ter Haar, who recently left the post as head of the

LORENZO NATALI

The European Community's relationship with the countries of the Caribbean Basin is governed by several distinct agreements. Thirteen Caribbean countries—Antigua, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Christopher, St. Lucia, St. Vincent, Suriname, Trinidad and Tobago—are partners of the Community under the Lomé Convention. The five countries of Central America—Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua—and Panama have an Economic Cooperation Agreement with the E.C.

The third Lomé Convention, a five-year treaty negotiated at length and in depth between the 12 member states of the E.C. and 66 African, Caribbean and Pacific (ACP) countries, covering the period to February 1990, offers the latter aid, trade and investment benefits on a contractual, non-discriminatory basis. This means that the Convention's benefits are open to all signatories regardless of political or ideological considerations. Its legally binding nature guarantees security, predictability and versatility of aid and trade benefits.

In financial terms, a minimum of \$214 million worth of aid, almost all in grant form, is available to the Caribbean region under the third convention, a substantial increase in real terms over the second convention, which expired in 1984. In addition to this, further assistance is available in the case of need, such as food

E.C. AND CARIBBEAN BASIN ENJOY SPECIAL RELATIONS LOME CONVENTION PROVIDES TRADE, AID AND INVESTMENT BENEFITS.



E.C. Commission Vice President Lorenzo Natali greets Prime Minister Eugenia Charles of Dominica during a visit this summer to the E.C. Commission in Brussels.

E.C. Commission's Delegation to Barbados and the East Caribbean, had noted the potential for investment in the region. "The Caribbean now has access to trading regimes that must be more favorable than any other region in the world. Under Lomé and CBI, the region has virtual duty-free access to the world's richest markets, comprising 500 million consumers," he said. "It would seem, therefore, that the onus now lies with Caribbean planners, producers and entrepreneurs to meet this challenge. We of the E.C. offer our assistance in this vital task."

At the Puerto Rico conference, Francis alerted the American and Puerto Rican businessmen to some of the assistance available to ACP member states in the region—loans and grants from the European Investment Bank and the European Development Fund as well as through other schemes to put in place the vital infrastructure necessary for development and trade.

It is still open to speculation whether

the twin-plant concept will get off the ground with Europe as part of the market focus. But to officials in San Juan, the idea makes sense for those countries with the access—both for themselves and for Puerto Rico. "This is very much in the forefront of what we want to structure in a way that can be of mutual benefit," José Ramon Gonzalez, the president of the GDB, told Caribbean bankers who were stressing the merits of the idea. "We do not have anything equivalent and we are not a major exporter to Europe. . . . "We do in fact have a trade imbalance with Europe," he added.

But opportunities for export under Lomé are not new—the market has been there, relatively free since the first Lomé convention was signed in 1975. Yet, exports from ACP countries largely remained primary products—sugar, bananas, coffee, cocoa and such—while the group continued to import capital goods and the processed version of their primary exports. The old patterns of trade,

it was suggested, was hardly trading.

A few years ago, Fijian Joshua Cavalevy noted in a study for the ACP that no member nation was on the verge of transforming itself into an industrial state. Critics tended to note the fact that Lomé had not given an impetus for investment, more particularly, investment from Europe. Where there was European investment, usually it came prior to Lomé, following the route of the colonial power, and producing for the domestic market.

Things have changed a bit over the past few years, Caribbean officials say. There has been some investment as well as a greater visibility of European companies doing things in the region. For instance, in Trinidad and Tobago, the French construction company, Sodeteg, recently completed the TT\$657 million Mount Hope Medical School, while the British firm, Wimpey, recently finished the TT\$420 million financial complex in
Continued on page 47.

and emergency aid, "Stabex" to compensate fluctuations in export earnings, "Sysmin" to maintain, rehabilitate or rationalize mining operations, as well as venture capital for productive businesses, standard investment funds from the European Investment Bank, related technical assistance and business promotion schemes. Total financing from the E.C. to Caribbean countries amounted to approximately \$500 million over the past 10 years.

As to the trade benefits of the Lomé Convention, the agreement grants duty-free access to the E.C. market, without reciprocity, subject to compliance with agreed rules of origin. Exports from the 13 Caribbean countries to the E.C. total around \$1.5 billion a year. For products that are part of the E.C.'s Common Agricultural Policy, preferential access is allowed. Sugar exports are covered by a special arrangement, guaranteeing prices above world levels for agreed quantities (a total of 425,000 metric tons for Caribbean countries), which alone represents a sizeable annual bonus for sugar exporters. A special duty-free quota also exists for rum.

As to investment, the Convention expresses commitments to establish a framework conducive to the promotion of investment flows from the Community into the region. Finally, a permanent and institutionalized dialogue takes place between the Community and its Lomé partners, at the levels of both their respective Governments and Parliaments.

The framework for economic relations

between the E.C. and the countries of Central America consists of the agreements reached by a conference of the Foreign Ministers concerned in November 1985 in Luxembourg. The broad range of discussions held at this meeting (and at an initial meeting in San José, Costa Rica, in September 1984) yielded a framework Agreement for Economic Cooperation between the Community and the five Central American countries and Panama that bears on three main areas: trade, development assistance and economic cooperation.

In the area of trade, the E.C. states its intention to consider improvements in its Generalized System of Preferences for products of special interest to its Central American partners. There are also measures for trade promotion, trade-related training and technical assistance.

For development assistance, a doubling of past assistance levels (approximately \$40 million per year in grants) was envisaged in 1985, and has in the meantime already been reached, the rural sector and regional integration being seen as priority areas. Assistance is granted on a non-discriminatory basis within the region. Specific reference is made to coordination and cofinancing between the E.C., the countries of the region and major aid donors. Under economic cooperation, business promotion is envisaged in all sections of common interest, as well as various means of promoting and protecting private E.C. investment in the host countries.

Finally, a Joint Cooperation Committee

is established between the parties to the agreement. In addition, the E.C., the five Central American and four Contadora countries institutionalized the dialogue initiated in 1984 in support of the Contadora peace process. Recalling the principles to which all parties of the agreement adhere, a decision was taken to formalize the political dialogue through annual meetings at ministerial level of the countries involved. The third meeting of this kind has been scheduled for February 9-13, 1987 in Guatemala City.

The Community's relationship with the countries of the Caribbean Basin, although based on two distinct legal frameworks, applies the same broad principles and is aimed at the social and economic development of the beneficiary countries. Both are based on the principles of region-to-region dialogue, non-discrimination between beneficiary countries and encouragement of regional cooperation. The path to regional economic integration is not an easy one, but the E.C. is well equipped to help the Central American and Caribbean countries in this: The Community has lived through 25 difficult years of putting into place a common customs tariff, of harmonizing a myriad of pre-existing national regulations and of establishing the mechanisms of cooperation between its member states, both internally and toward the outside world. This wealth of experience is unique and is readily available to E.C. partners in the region. €

Lorenzo Natali is a Vice President, responsible for development affairs, of the E.C. Commission.

PUNTA DEL ESTE MEETING RESTORES G.A.T.T. AUTHORITY

E.C. IS PLEASED WITH RESULTS AND IS LOOKING FORWARD TO THE NEW ROUND OF NEGOTIATIONS.

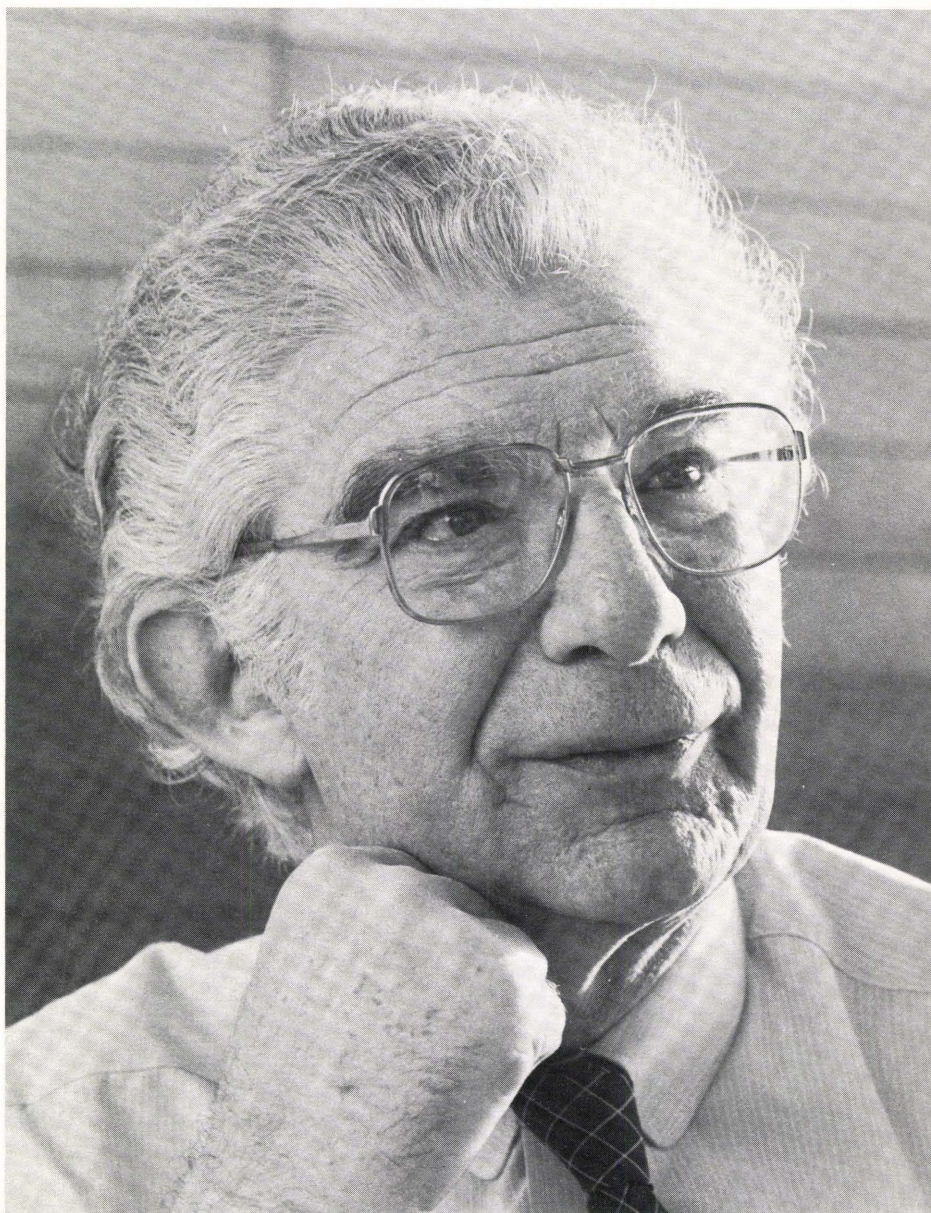
Willy De Clercq, the E.C. Commissioner responsible for external relations and trade policy, was the top E.C. official at the General Agreement on Tariffs and Trade (GATT) ministerial session which took place at Punta del Este, Uruguay, from September 14 to 20. In this interview with Philippe Lemaitre of Le Monde, he analyzes the results of the meeting.

The Punta del Este meeting concluded in euphoria. The participants unanimously welcomed the results. What is your own opinion?

Mission accomplished. That is how I would sum up my first feelings after the end of the conference. By agreeing to a new round of multilateral trade negotiations (MTN), we effectively escaped the worst. Any failure would have seriously reduced confidence in GATT, leading to increased protectionist pressures. Thanks to the success of Punta del Este, GATT's authority, somewhat shaken in recent months, has been restored. The contracting parties showed their will to find solutions to the problems of international trade by dialogue, avoiding any confrontation as much as possible. Having said that, the Punta del Este meeting was a necessary step, but the really serious business—I mean the negotiations themselves—have still to come. And they promise to be difficult, because the work program adopted by the ministerial session is very ambitious.

More ambitious than in the previous round?

The underlying idea is always the same: The contracting parties have to desire to find ways of stimulating international trade. Trade conditions develop, and GATT has to develop along with them. There is a "classic" aspect to negotiations. Our view is that a certain number of concepts have to be defined more precisely. With that in mind, the new round



E.C. Commissioner Willy De Clercq is responsible for external relations and trade policy.

will deal with matters like the regulations of dispute procedures, the use of safeguard clauses and the protection of intellectual property. The real innovation is the attempt which will be made to extend GATT rules to cover agriculture and ser-

vices. Naturally, we do not envisage an extension of rules identical to the present ones, which do not take account of the special nature of agricultural trade or of trade in services. We would like to see agriculture become a separate sector

within GATT, with clearly defined rules applying to everyone. That is not the case at present. As for services, we are talking about a totally new, and very promising, direction.

On agriculture, doesn't the current negotiation place a question mark over the principles and the operation of the whole Common Agricultural Policy?

We have tried hard to avoid that happening. In Geneva in July, the Community refused to approve the so-called W/47 draft resolution presented by Switzerland and Colombia, because of the passage on agriculture which blamed export subsidies for the present market disorder. We stuck our necks out, trying for a more balanced text. It says that all sorts of maintenance measures in every country can distort trade. Of course that doesn't let us completely off the hook, but at least it makes clear we are not the only ones in the dock of that charge. By widening out the debate like that, we ought to be able to bring about a deeper reflection on the pernicious effects of different policies, and on ways to sort them out.

How was this desire for balance welcomed by your partners, especially those who wanted to put the stress on E.C. export subsidies in Geneva in July, who seemed to forget production aids such as those granted in the United States?

I often felt as if I was alone. The signal the Community wanted to give in July when we refused W/47 was not taken seriously enough. I gave fair warning to my partners from the start of Punta del Este, that they should not entertain even the slightest hope of seeing the Community split over the question of agriculture. Nor should they have any doubt about our determination not to endorse such a one-sided text as W/47. The United States, apparently, did not understand. For a long time, they have taken on the role of spokesman for the Group of 14. This "Cairns Group" gathers around Australia all the exporting countries who are most desperate to denounce our policy, and who want to see the negotiations concentrate first and foremost on the elimination of export subsidies. That is a partial and a partisan approach we categorically reject. The United States' very negative attitude toward us took us to a stalemate. There was a moment of real tension at Punta del Este. The final text which was approved, which suits us as it protects our interests, was actually the result of a mini-crisis.

Does the emergence of the Cairns

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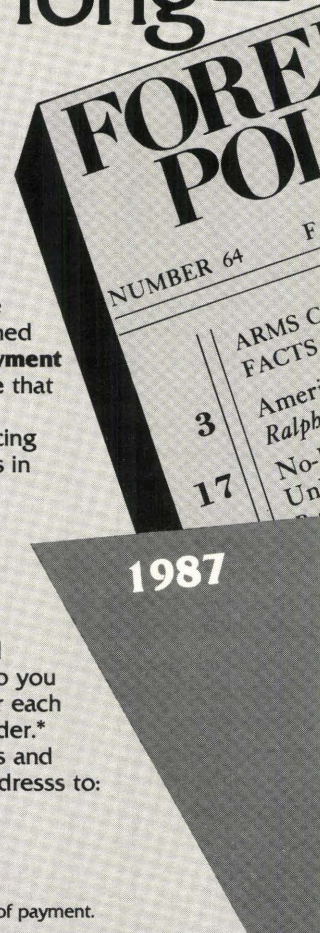
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Group cast a shadow over the future?

No doubt about it. Those countries, together, carry more weight in the discussions. And it is true that they will probably be difficult opponents for us to face down. But not everything about the creation around Australia of this Cairns Group is negative. Some of its members understand perfectly the need to arrive at a compromise, and they could have a moderating influence on the others.

Do you think the success of Punta del Este could help the resolution of the agricultural battles between the Community and the United States, in particular those concerning the joining of Spain and Portugal?

We can only hope that it will have taken the heat out of the situation. But limited conflicts will probably continue to come up. As far as the effects of enlargement on trade between the E.C. and the United States is concerned—what is known as the 24/6 GATT negotiations, in which the advantages and disadvantages for one or the other are weighed up before taking a decision on everything and deciding on the possibility of compensation—it is essential that the business be wrapped up by the end of the year. To calm things down and escape from the trap of reprisals and counterreprisals, the Community accepted that the United States could benefit from a reduced levy on their exports of maize to Spain until the end of 1986. But the Commission and the Council agree that this temporary solution cannot be extended. We have to come to an arrangement with the Americans, who do not confine themselves to the question of maize. We have used that question for the time being, but the situation remains tense and difficult.

Liberalization of trade in services is a bit of a leap in the dark. Do you think the Community can get anything out of it?

Of course. The services sector is complex and heterogeneous, but it occupies a more and more important place in the world economy, and especially in ours. The prospect of a liberalization of the different elements of this sector will allow, I am sure, the development of a whole range of activity throughout the world, and not only in the industrialized countries. As far as I can see, liberalization of services will mean more growth and more jobs. We should not hesitate to take that road on a global scale. Of course, given the variety of areas concerned, we will sometimes have weaknesses and sometimes problems, but the

overall balance will undoubtedly be positive. At a recent symposium at Lugano, I spoke of some interesting figures. The balance of trade in services in 1984 represented a surplus of \$33 billion for the United States, but \$91 billion for the Community. Three times greater. Everyone knows the Community is now in the first place in trade in goods. But when it comes to trade in services, we are the real superpower.

Isn't it paradox to set out to liberalize international trade in services when there is still so much to do on a European level?

Exactly. But the two can go together and benefit each other. The heads of state and government agreed on the establishment of a single market, a single European space before 1992. For example, services, equality of access to public markets or the decompartmentalization of air transport, are among our primary concerns.

Several Third World countries, led by India and Brazil, have doubts about this liberalization of services because they fear their own services industry will not hold up in the face of powerful American, European and Japanese groups. During the preparatory phase, like at Punta del Este, they fought tooth and nail for a minimum of guarantees. It would seem the decisions taken have reassured them. What is your view?

We decided to make sure that Brazil, India and the developing countries that share their doubts to a greater or lesser extent will not be left behind in the enterprise which is beginning. We want to have them on board and, I have to say, to the annoyance of some others, we struggled for that. The solution reached effectively gives them the assurances they were looking for. Note how it resembles the formula of our negotiators just before Punta del Este, where Brazil and India rallied together and which raised an outcry in Washington. The idea is simple: Talks on the liberalization of trade in services will take place as part of the global negotiations, but, unlike talks on goods trade, will take place outside the framework of GATT. Only experience will show whether or not this is more than mere diplomatic hairsplitting. But this procedural precaution should ease the introduction of specific rules for services which may be radically different from those which normally apply within the GATT framework. Those countries which are sensitive to the problem can hope more that they will be protected from the bargaining between goods and services

that goes "I will grant you access to my shoes market if you let my information technology or telecommunications companies work freely in your country." In short, Brazil and India are appeased, and this is the important thing, the negotiations which we think can benefit everyone are now able to begin.

Reading the resolutions, one gets the impression that the Japanese have once again given the world the slip. A look at the trade statistics shows they are still not converted, however much they talk about open trade.

While we did not exactly name names, the Community brought up Japan's case at length at Punta del Este. We have said that an exercise such as the one we are about to work on for the next four years has no point if it does not result in fairer results, equally profitable for all. There is no use making concessions at the negotiating table if they are not carried out in reality, in trade, in the shape of tangible changes. It is a matter of common sense. The Japanese felt themselves targets of criticism, and they found our moves displaced. The United States, which for purely political reasons did not want to speak out against Japan, barely supported us, even if deep down it knows we are not wrong. In the face of the emotion that our initiative provoked, it was decided not to include in the ministerial resolution the clause stating that the trade negotiations should result in effectively balanced advantages. That is a pity, because it is a wish which is entirely in keeping with the spirit of the GATT. However, we did not back down, for all that. The subject dominated the debates at Punta del Este as much as agriculture or services. We pricked some consciences, and I think that is to be congratulated. And it resulted in a declaration by the Uruguayan presidency which was quite in line with our ideas. That was a political text, and it ensures that from now on the problem will not be evaded.

Four years is a long time. When do you think the new round will begin to have some effect?

I think we will rapidly get down to the basics of the subject. The negotiations do not necessarily have to last four years. But in view of the complexity of the matters to be dealt with, we are obviously not going to get serious results in a few months. For us, though, there will be no problem if things progress rapidly, as long as the global character we have decided on will be imprinted on the negotiations is respected. €

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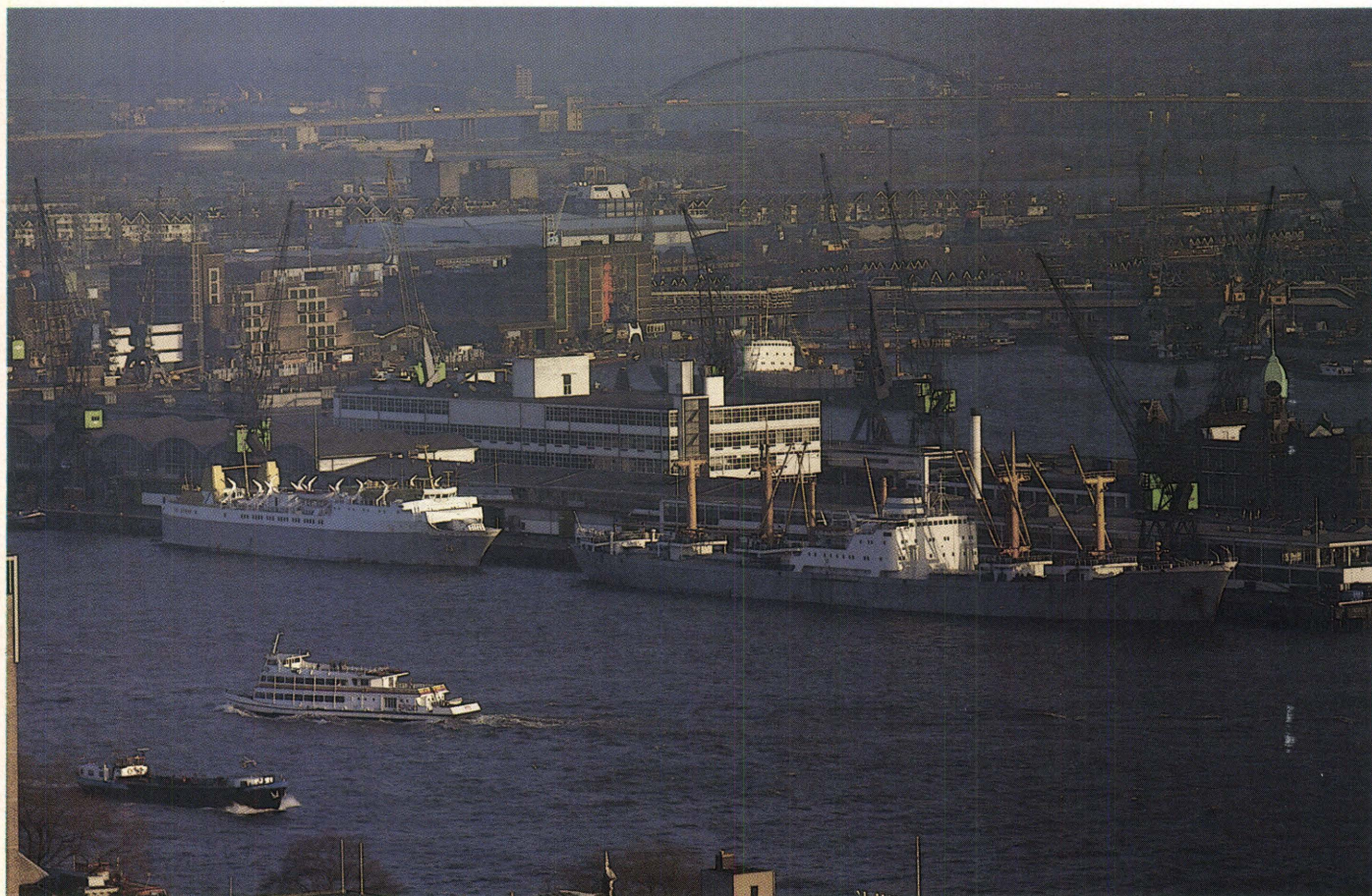
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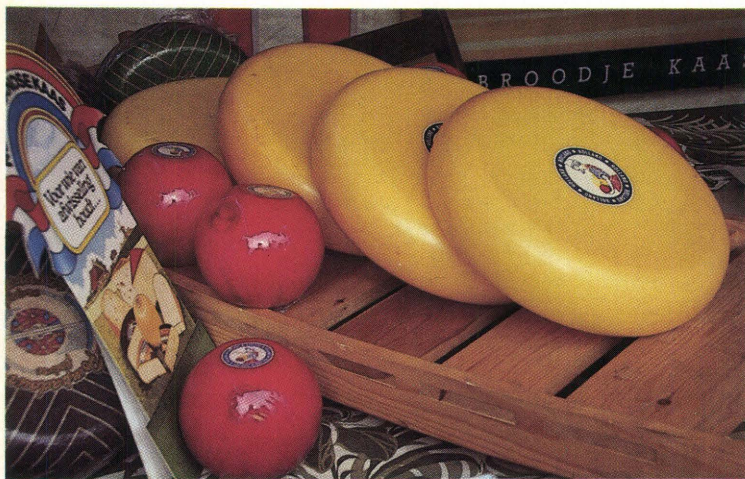
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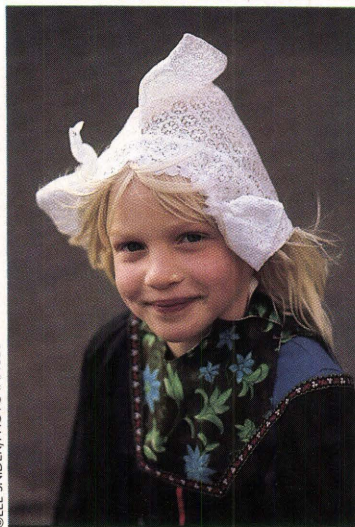
DWINDLING NATURAL GAS REVENUES ARE FORCING THE DUTCH TO TIGHTEN THEIR BELTS.



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A slimmer public sector and more private initiative are necessary to offset the plunge in gas revenue caused by collapsed oil prices. Meanwhile, faster economic growth is needed to help battle stubbornly high unemployment. Above: the port of Rotterdam, Europe's largest refining center. Left: the famous cheeses of Gouda and traditional costume in Haarlem.

NETHERLANDS

LAURA RAUN

Gas riches have built the Netherlands into one of the wealthiest countries in Europe, but now the petroguilders are dwindling and major changes are demanded. A slimmer public sector and more private initiative are generally accepted as necessary to offset the plunge in gas revenue caused by collapsed oil prices. Faster economic growth is needed to help battle stubbornly high unemployment and to bring the ballooning state debt under control.

Ruud Lubbers, the Prime Minister of the Christian Democratic-Liberal Government, underscored these changes in a forceful speech given in July at the outset of his second term in office. "The role of the Government in our society is changing because people are becoming more independent and want to be more responsible for themselves and others," he declared. "That is the fruit of the continuing democratization and emancipation of the 1960s, which can lead to a more responsible and mature society."

While a broad consensus exists on the need to put public finances on a healthier footing, the opposition Labor Party argues that more attention must be paid to the unemployment problem. But Lubbers, who enjoys greater popularity than any politician in recent history, insists that the three-track policy begun in the first term of his center-right Government is the best way to fight joblessness.

The Christian Democratic-Liberal coalition entered office in 1982 on a platform of cutting the budget deficit and rolling back the public sector while promoting the private sector and reducing unemployment. Government spending already was soaring to dangerous heights even then.

In last May's scheduled elections, voters gave a resounding approval to Lub-

Laura Raun is the Amsterdam correspondent of the *Financial Times*.

bers' Christian Democrats, who made record parliamentary gains in direct defiance of public-opinion polls. The right-of-center liberals were invited to continue the governing coalition for another term and the three-track policy remained on course.

In the broader context of the European Community, the Dutch followed similar guidelines during their presidency of the Council of Ministers in the first half of this year. Perhaps the biggest achievement of the Netherlands' presidency was a curb on farm-product prices, designed to rein in Community spending. The Dutch also fought sternly to begin deregulating the largely government-controlled airline industry, but with less success.

At home, fresh economic austerity measures are needed to compensate for plummeting gas revenue, which now accounts for one-seventh of all state income, but will drop by half next year. The 1987 budget unveiled in September will be the toughest in three years, raising taxes for the first time since 1984 and actually cutting Government spending for the first time since 1957. The business community has been called upon to shoulder more of the burden of balancing the budget after being spared in recent years in an effort to spur economic growth.

H. Onno Ruding, the Finance Minister, minces no words when he sums up the challenge facing the Dutch. Getting rid of the "gas addiction" is the answer to most of the problems, he asserts. Since the late 1950s, when the massive Groningen gas field was discovered along the northern coast, petroguilders have flowed faster into The Hague's coffers. The vast gas riches have offset sluggish economic growth that increasingly has plagued the Netherlands due to the burgeoning public sector and soaring wages. Much of the generous welfare system that has mushroomed over the past 30 years has been financed with gas money.

By the early 1980s, government

spending was far outpacing income and the general consensus was that something had to be done. Ruding, as a hard-line Finance Minister, has largely crafted the austerity policies that have pared the budget deficit from nearly 11 percent of net national income (NNI) in 1982 to 7.3 percent this year. Cuts in departmental budgets, welfare benefits, civil servants' pay and health care have not only narrowed the fiscal gap but have also shrunk the public sector to 67 percent of NNI from a massive 71 percent in 1982, one of the highest levels in the Organization for Economic Cooperation and Development (OECD).

The combined burden of taxes and social-security contributions also has edged slightly lower, although marginal rates still are among the steepest in the OECD, sometimes exceeding 100 percent. To finance the massive public sector, taxes and social security premiums make up 55 percent of NNI.

Government debt, though, is still growing and threatens to engulf national income by the turn of the century if retrenchment does not continue, Ruding warns. The Netherlands finances all its budget deficit on the domestic capital market, with no borrowing abroad, but a mountain of government bonds has built up. Deregulation and privatization also have played a significant role in the Lubbers policies to foster the private sector, although progress has been slow. Untangling the bureaucratic regulations of The Hague has involved nearly as much time as complying with the regulations themselves, while privatization of state-owned companies has moved sluggishly.

The long discussed idea of allowing commercial broadcasting recently was sidetracked by the new media law, which preserves the Netherlands' strictly non-commercial system. The Christian Democrats, the senior partners in the ruling coalition, oppose commercial television despite their commitment to the private

sector. The pro-business liberals, however, still hope to break The Hague's stranglehold on the airwaves.

Reducing the persistently high jobless rate is clearly the black mark on the Lubbers Administration's record. The unemployment rate has not fallen below 14 percent in five years and only scant improvement is foreseen next year.

The opposition Labor Party, led by Wim Kok, has castigated Ruding for paying so much attention to the budget deficit and too little to combatting unemployment, especially among youth and the chronically unemployed. Queen Beatrix reflected widespread concern about the masses of jobless in her annual throne speech in September, when she said: "One of the areas for special attention will have to be the younger generation, who must have the opportunity to develop their potential in our society. This means not only training them but also being willing to employ them."

An array of reasons are regularly cited for the intractable unemployment problem: high wages, labor-market rigidities, demographics, mismatched skills and the black market. Even though wage demands have moderated in recent years, levels still remain high by international standards and hurt the Netherlands' competitive position. Dismissal procedures are still complicated enough to thwart new hiring. The labor supply has been flooded by baby-boomers and women in recent years and an increasing number of job seekers lack the high skills and education required by high-tech industries.

Shorter work hours have failed to create as many new jobs as had been hoped because companies often refuse to hire new employees to fill the gap left by shorter shifts. Employers contend that the same number of workers usually can do in 38 hours what they previously did in 40 hours, thus raising productivity. Admitting some defeat, the labor unions have abandoned their drive for a 32-hour work week by 1990.

Worried about the political repercussions of the unemployment problem, the Government entered into a labor accord with employers and unions last spring before the general elections. Under the agreement, the number of jobless is to be hammered down over the coming four years from 698,000 at the moment to 500,000—a drop of 14.5 percent. Job creation programs are one of the very few areas in the 1987 budget to get extra money.

Faster economic growth also would help to create more jobs to absorb the ranks of the unemployed. But over the past decade, the Netherlands' economic



A major achievement of the Dutch presidency of the E.C. Commission earlier this year was a curb on farm-product price hikes.

expansion has lagged behind most of the OECD countries. The Central Plan Bureau, the semi-independent forecasting agency, is predicting that economic growth will slacken to 1.5 percent next year from 2.5 percent this year. But that is even more optimistic than the OECD, which sees only a 0.75-percent expansion.

Industry is suffering under low energy prices in sharp contrast to The Hague's prediction that business and consumers would profit from cheap oil. In the first half of this year, industrial-production turnover slumped 9 percent largely because of a downturn in the oil and gas industries and—to a lesser extent—in chemicals. Rotterdam is Europe's largest refining center and has been battered by the slide in crude-oil prices.

Capital investments also are slumping because of declines in the private as well as the public sectors. Growth in business investment will drop by half to 4.5 percent next year, partly because of the energy sector, while government investments will slide with the completion of the huge Oosterschelde storm-surge barrier. The 7.8-million guilder permeable dam has taken a decade to build and marks the finish of the massive water-control project on the Rhine river delta, the biggest public support project in post-war history.

The Hague plans to claw back more than half of its lost gas revenue next year through higher taxes on sales (value-

added tax), corporations and fuels such as natural gas, gasoline and heating oil. The VNO employers' association, the largest industry group, has alleged that the Government will wipe out in one fell swoop all the benefits of corporate tax breaks in recent years with increased taxes on corporate inventories and capital assets. The consumer group, Konsument Kontakt, contends that bigger taxes will keep prices from falling as The Hague predicts.

The Central Plan Bureau is forecasting that prices will actually decline by 1.5 percent next year—marking the first deflation in decades. But Konsument Kontakt and many private economists doubt that prices will fall at all because wages and taxes both are climbing. A more realistic scenario, they say, is flat prices. Consumer spending will slacken next year, with the Plan Bureau forecasting growth of only 2.5 percent compared with 3 percent this year. But the bureau's prediction also is questioned because it assumes deflation.

Industry critics are complaining that the second Lubbers Administration has reneged on its promise to foster the private sector, but The Hague retorts that taxes will be cut again when oil prices rebound. It is less clear how much social-security premiums can fall, however, because more and more of the welfare system is being financed with premiums of direct government outlays.

It is the combined burden of taxes and social-security premiums that drags down growth because marginal rates often leave a worker with only 30 Dutch cents of take-home pay from one extra guilder of income. Whether the Dutch are willing to further pare their cradle-to-grave system of state care also is in question. Benefits for basic welfare recipients are expected to surge in coming years.

The "graying" of the population—the rapid rise in the numbers of the elderly—is a growing concern. Queen Beatrix referred to the problem in her throne speech, saying: "These changes will call for extra resources both in terms of finance and in terms of solidarity among people."

The Labor Party, which faces as long as eight years outside Government, is trying to find a middle line between criticizing the Government's social policies and compromising in a future coalition. Wim Kok, the party's new leader who replaced veteran Joop Den Uyl recently, outlined the Socialists' criticism in Parliament: "A Government that recedes is a sleeping Government. I warn against that. What we want is a joining of forces and no polarization." €

GAS SECTOR ASIDE, DUTCH ECONOMY IS FARING WELL

ECONOMICS MINISTER DISCUSSES HOW INDUSTRY IS DOING UNDER THE LUBBERS ADMINISTRATION.

Rudolf de Korte was appointed Economics Minister and Vice Premier in July at the outset of Prime Minister Ruud Lubbers' second Administration after serving four months as Home Affairs Minister. Before that, he served as a Member of Parliament for the right-of-center Liberal Party. The 50-year old former businessman was the financial specialist for the Liberals, the junior partner in the ruling coalition with the Christian Democrats. Previously an executive with Unilever, the Anglo-Dutch giant, de Korte has been active in the Liberal Party—which firmly supports business—for 15 years. In the following interview with Laura Raun of the Financial Times, he discusses current Government policies.

Why is Dutch economic growth so slow?

Dutch growth isn't slower than in other surrounding E.C. countries. If you measure industrial production and leave out the energy sector, then growth next year is 3 percent and this year between 2.5 percent and 3 percent. The energy sector has been crazy in recent years. . . . and to assess the health of the economy, we look first at industry exclusive of the government and energy. At the end of the 1970s and in the early 1980s, our growth was about half of that of other surrounding countries. In recent years, our average economic growth has been closer to that of surrounding countries.

But economic growth was slow before the energy slump. Why was that?

The reason was that we were too accustomed to a large public sector and wages that were too high. The whole government sector must be paid for with social-security premiums and taxes and they show up in wage costs. We must compete with wage costs and if they are too high, we lose. That is why growth is so important.

How do you answer industry critics who fault the Lubbers Administration on its promise to foster the private sector?

We are not less friendly to business. The policy of the Liberals and the Christian Democrats is very firm: less government and more private sector. That does not always translate into money, but also shaping the conditions and policies where industry can do better. It is perhaps most important that industry make a profit on its own power.

But industry complains that higher taxes fly in the face of a policy of less government and more private sector.

The Government was the big loser as a result of the energy price fall, while business and consumer profited. There is a tremendous drop in gas revenue and you cannot cut spending by 12 billion guilders in one year. It is socially unacceptable.

Will taxes fall back in the future?

Yes, there is a clear promise that the value-added taxes and excise taxes on fuels will fall when the oil price goes back up to 60 guilders (currently about \$26) a barrel. The Liberals want the combined burden of taxes and social-security contributions down. The Christian Democrats want it stable. The compromise agreement is that the combined burden should at least remain stable or fall.

How much of a decline in the public sector will the Dutch accept?

I cannot say what is an acceptable level. I can only say that the public sector is still too high. But Dutch society is prepared to carry a heavier burden for the public sector than the average in the European Community.

How will the Netherlands pay for its welfare system when the natural gas that has financed much of it starts running out?

In the past, the social-security system was financed through social-security premiums . . . and gas, but now . . . it is increasingly being financed with premiums. Only basic welfare will come from direct government outlays in the future. But it is true that the premiums are a drag on economic growth.

How much has the welfare system been cut under the Lubbers Administration?

Between 1983 and 1987, it will have fallen in size by 7.5 percent. €

MACROECONOMIC INDICATORS FOR THE NETHERLANDS

	1986	1987
Real National Income	+2.5 %	+1.5 %
Inflation	0	-1.5 %
Real Disposable Income	+3 %	+3 %
Balance of Payments Surplus (in billions of guilders)	17	13
Average Oil Price (in dollars per barrel)	14	15.5
Unemployment	710,000	670,000
Industrial Production	+2 %	+2.25 %

Source: Central Plan Bureau

EUROPE TOPS SURVEY OF MOST LIVABLE COUNTRIES

STUDY MEASURES TRENDS IN SOCIAL DEVELOPMENT.

RICHARD J. ESTES

How well do European nations do in providing for the basic social and material levels of their populations? How do European levels of social provision compare with those of the rest of the world, especially the other economically advanced nations of North America, Asia and the Pacific? Are European social trends subject to significant fluctuations over time, or do they tend to remain stable?

These questions and related ones guided a just-completed study of *Trends in World Social Development*, conducted by the author for the 15-year period ending in 1985. The third report in a series—the first two were published in 1984 as *The Social Progress of Nations* (New York and London: Praeger Publishers)—the current survey again found that European nations lead the world as the countries with the most secure “social safety nets.” That is to say, the European nations as a group have been most successful in providing for the basic social and material needs of their populations. The United States ranked 27th in the listing.

The purpose of the study was to provide hard data concerning international progress in closing the gap between the world’s richest and poorest nations. Data gathered from the study will be used for purposes of helping to redirect international development assistance resources to those nations and world regions in greatest need of foreign aid.

Drawing on 36 internationally gathered indicators of *social* progress, patterns of social provision for 124 nations (comprising 98 percent of the world population) were studied for the period 1970-85. The indicators were grouped into 10 categories, focusing on changing national growth patterns with respect to access to basic education, adequacy of health services, status of women, eco-

omic trends, patterns of population growth, factors related to linguistic, religious and ethnic diversity, the protection of internationally guaranteed individual human freedoms, the availability of formal welfare programs and services. Factors also related to the frequency of natural disasters, including the number of fatalities and extent of material losses associated with those disasters, which were also included in the survey.

The survey also took into consideration national patterns of military and defense spending. Expenditures beyond a certain percentage of gross national product (GNP) were treated negatively in the study’s ratings of national social progress on the basis that excessive levels of defense spending deprive nations of resources that are needed to finance domestic social programs.

The European commitment to a high level of social development is historical and is a commitment that has set an international standard of social caring for the rest of the world. Today, European models of social development have been emulated by less socially advanced nations.

But levels of social development in Europe are far from uniform. Indeed, many European nations continue to harbor within their borders substantial pockets of poverty, illiteracy, even malnutrition. Some nations are characterized as well by variable access to quality health services and basic education. Others experience serious problems with respect to political participation and, for some, the suppression of internationally guaranteed human rights and freedoms looms large.

In still other European countries, national expenditures for military and defense purposes far exceeds those of the majority of nations within the region and this results in periodic intraregional political tensions and civil protest campaigns. All of those problems notwithstanding, the socially advanced nations of

Northern and Western Europe continue to dominate the list of countries that have achieved the greatest success in providing the most basic social and material needs of their people.

European “Social Leaders”

Of the 124 nations included in this survey, all of the top 12 “social leaders” *for the world* are located in Europe.

Favorable rates of national and regional economic growth and high levels of political participation, combined with Europe’s history of constitutionally protected individual freedoms, have resulted in Northern and Western European countries consistently emerging at or near the top of the list of nations with the “most adequate levels of social provision.” Controlled fertility, low rates of infant mortality, high life expectation and literacy patterns also have added to the region’s favorable social rating.

Also contributing is the comparative geographic and population smallness of the nations in the region. Europe’s relative cultural homogeneity, its socially secured opportunities for the advancement of women and the availability of a well-educated pool of skilled workers also help boost Europe’s advanced social standing significantly.

Europe’s historical commitment to the provision of high-quality, largely tax-supported and nearly universal programs of health, education and welfare services for the aged, disabled, widows, dependent children, unemployed workers and for other groups of socially vulnerable persons accounts for the region’s high ratings on each of the three world surveys that have been conducted since 1970. Denmark, the Federal Republic of Germany, Austria, France, Ireland and Belgium head the list of nations with the most comprehensive system of social welfare programs and services. The United Kingdom, Italy and the Netherlands also have achieved systems of social provision that have been emulated by less socially developed nations.

Europe’s “Social Laggards”

Not all European nations share top billing on the list of world social leaders, however. For a variety of economic, political and social reasons, a number of European nations can be characterized as “social laggards,” that is, as nations that are “social underachievers” relative to the resources available to them for advancing social development objectives within their borders. Southern Europe figures prominently on the list of social under-

achievers relative to Northern and Western Europe; all eight of the Warsaw Pact nations of Eastern Europe are among the bottom 10 of the region's least socially developed countries.

Though many of Europe's "social laggards" still occupy very favorable positions relative to the rest of the world (eight of the "bottom 10" in Europe rank among the top 25 percent of all countries worldwide), by European standards, there still exists considerable room for improvement within these countries.

In the main, the bottom 10 European nations earned less favorable ratings in the survey because of lower rates of economic growth, declines in per-capita food production over earlier levels, lower average per-capita income levels, less advanced levels of educational achievement and serious problems in political participation and internal political instability.

Within the Warsaw Pact nations of Eastern Europe, recurrent economic problems contributed substantially to their lower ratings. The continuing suppression of internationally guaranteed human freedoms that exists within these countries pulled down their ratings as well. These two factors—especially in combination—threaten to undermine the otherwise impressive social gains that East European nations have been able to achieve across a broad spectrum of national life (such as health and welfare services, in patterns of higher education, status of women). They even threaten to disrupt the fragile coexistence that currently prevails among the many ethnic minorities that live in the region. Albania, Yugoslavia, Romania, Poland and Bulgaria performed especially poorly on the survey's political freedoms indicators; economic problems are currently most severe in Yugoslavia, Poland and Albania.

East European spending for defense and military purposes was found to be the highest in all of Europe. In fact, as a percentage of gross national product, East European defense spending is nearly three times that of any other grouping of European nations. This trend is especially troublesome given the potential unrest that could easily spread from Eastern Europe to other subregions of the Continent.

Prospects For The Future

Prospects for even higher levels of social development in Europe remain high, although it is true that further developments are not likely to occur at the same rapid pace as they did during earlier decades. Even so, it is reasonable to expect that European nations, as a group at least, will continue to experience a higher

standard of living than that found in other nations, including that of the economically advanced countries of North America, Asia and Oceania.

But Europe's impressive social gains are not immutable nor are they guaranteed to last into the future. Indeed, many of Europe's most significant social accomplishments are being threatened by region-wide economic problems, by rapid increases in military expenditures in both Western and Eastern Europe and by the widespread suppression of internationally guaranteed human freedoms in Eastern Europe. These trends add immeasurably to the sense of "social insecurity" experienced by many Europeans vis-à-vis the region's future. These trends are indeed ominous and do threaten the very founda-

tions on which current social, political and economic development in Europe rests.

To retain its position of international social leadership, Europe will need to monitor even more closely the complex social, political and economic events that are taking place both within and outside the region. In responding to these myriad events European nations must be prepared to act decisively to neutralize intraregional and international threats to their high level of social provision. Only through carefully considered multinational actions will Europe continue to serve as the standard of excellence against which other nations will assess their social accomplishments. €

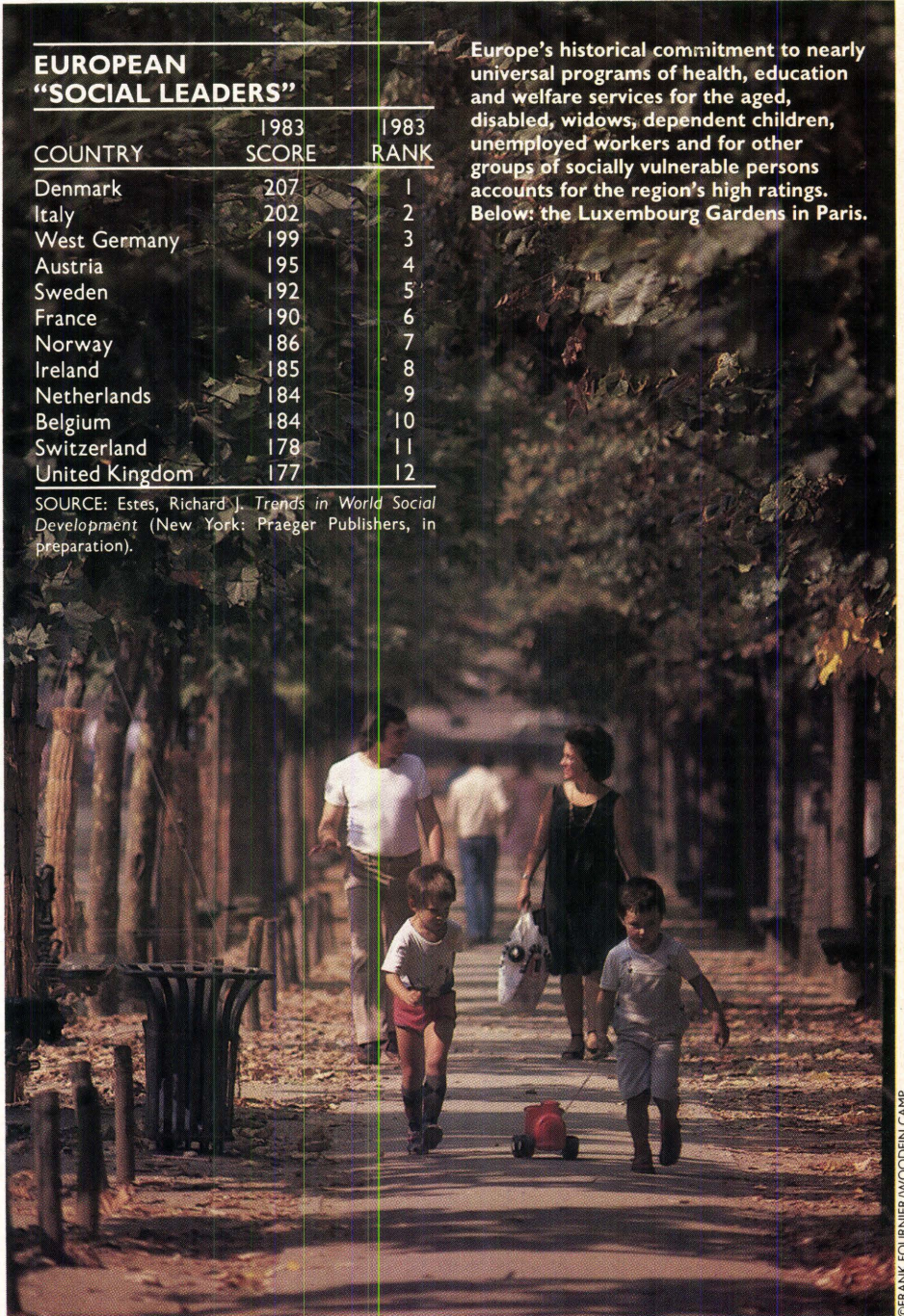
Richard J. Estes is a professor of social work at the University of Pennsylvania.

EUROPEAN "SOCIAL LEADERS"

COUNTRY	1983 SCORE	1983 RANK
Denmark	207	1
Italy	202	2
West Germany	199	3
Austria	195	4
Sweden	192	5
France	190	6
Norway	186	7
Ireland	185	8
Netherlands	184	9
Belgium	184	10
Switzerland	178	11
United Kingdom	177	12

SOURCE: Estes, Richard J., *Trends in World Social Development* (New York: Praeger Publishers, in preparation).

Europe's historical commitment to nearly universal programs of health, education and welfare services for the aged, disabled, widows, dependent children, unemployed workers and for other groups of socially vulnerable persons accounts for the region's high ratings. Below: the Luxembourg Gardens in Paris.



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NEWS OF THE E.C.

POLITICS

E.C. HOLDS EMERGENCY TALKS ON TERRORISM

European Community Interior Ministers held emergency talks in late September on combating international terrorism with the focus on enhanced co-operation between security services and tighter border controls.

British officials said the most concrete outcome of the one-day meeting, requested by France following a spate of bombings in Paris this month, was likely to be the establishment of a European "hotline" for instant communications between police forces in the 12-nation bloc.

British Home Secretary Douglas Hurd said he would urge his colleagues to reaffirm their determination not to negotiate with terrorist groups.

"There are two keys—one is that Governments of Europe should not negotiate with terrorists. The other is that there should be a total pooling of information about terrorism so that all agencies across Europe should know exactly what the others know," he said on British radio.

A slew of bombings in Paris in September, which left nine people dead and over 160 injured, have generated renewed anxiety in Europe about the ability of small armed groups to move from country to country and strike in the heart of capital cities almost at will. With French authorities unable to track down the perpetrators, media reports have painted a picture of lack of cooperation



Britain is calling for tighter border controls as part of the European Community's stepped-up campaign against terrorism.

between different security forces in the same country as well as faulty communications between states.

When the United States launched air attacks on Libya earlier this year to punish Colonel Ghaddafi for his alleged support of terrorist groups, most European countries, with the exception of Britain, were quick to disassociate themselves from the action. The attack prompted millions of American tourists to stay away from Europe this year, causing heavy loss of potential income to most E.C. countries. France has reacted to the latest wave of bombings by tightening internal security and introducing a new visa requirement for visitors from all non-Community countries except Switzerland, a move that has prompted dismay in other European countries outside the Community.

Britain has long urged tightening border controls around the Community. Officials yesterday pointed to the situation along Austria's borders with Italy and Germany, where no stringent checks are enforced, as one which needed attention. In his radio speech, Hurd also stressed the need to reform extradition laws across the Community to speed up the transfer of suspects. *Reuters*

MEPS CALL FOR TOUGHER APARTHEID SANCTIONS

Members of the European Parliament (MEPs) called in early October for E.C. ministers to back tougher sanctions against South Africa. The package of sanctions agreed by E.C. Foreign Ministers last month was also attacked by both left- and right-wing MEPS, who warned that the group's credibility was now at risk.

Dutch Christian Democratic Member Willem Vergeer called on E.C. ministers to extend the list of Community sanctions against South Africa to include coal. The E.C. backed a package of sanctions in September, including a halt on investment in the country and an embargo on trade in iron, steel and gold

coins (See *Europe*, October 1986). Germany and Portugal, however, blocked agreement on an embargo on imports of South African coal. The Netherlands has said it will continue to press for an inclusion of coal in E.C. sanctions.

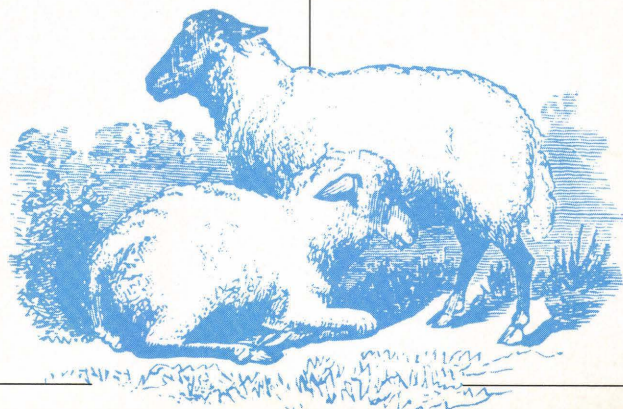
The Community has also come under increasing pressure to toughen its stand following a vote by the U.S. Congress to override a veto by President Reagan and impose a series of tough trade embargoes on South African exports to the United States, including coal, uranium and farm produce.

German Socialist MEP Rudi Arndt said it was "incredible" that a minority of E.C. states could block tougher sanctions while a majority of the European Parliament wanted action. A majority of MEPS are said to now back a tougher stand on South Africa. *Reuters*

SOCIETY

INTEGRATED MEDITERRANEAN PROGRAM LAUNCHED

The first Integrated Mediterranean Program (IMP) was launched in September, with



the beneficiary being the Greek island of Crete. Adopted by the European Commission last July and signed at the regional capital of Heraklion on September 2, the IMP will provide 470 million ECU (about \$470 million) in aid over a seven-year period, aimed at helping the European Community's southernmost region to develop faster.

The IMP represents a special form of regional aid. It was designed to give the Mediterranean regions of the older, tenation Community the means to meet increased competition resulting from the entry this year of Spain and Portugal. At the March 1985 European summit the Greek Prime Minister, Andreas Papandreou, secured an undertaking from his fellow Heads of State and Government that the E.C. would provide his country with some 2 billion ECU under the IMP.

Crete, which is among the Community's most disadvantaged regions, is an ideal beneficiary of the funds. Agriculture accounts for much of its income and employment, and consists primarily of olives, tomatoes, eggplant, grapes, figs, sheep and goats. Agriculture is to get 25 percent of the funds being made available under the IMP, and will be used largely to help farmers diversify their production. Tourism, next to agriculture in importance, will receive 10 percent to develop new sites.

The lion's share of the funds—some 33 percent—has been earmarked for industry, which hardly exists at present in Crete. The rest will be spent on developing the island's infrastructure, with communications, health and training receiving 23 percent of the total and rural areas and the center of the island the remaining 8 percent.

The Community budget will meet 51 percent of the expenditure. Community loans, channeled through the European Investment Bank, will cover another 30 percent, with the rest being provided by Greek agencies, both public and private.

SOCIAL SECURITY: WHO WILL PAY IN 2000?

In the year 2000 social security will not be what it is today, and the E.C. Commission has been warning that member state Governments should be preparing a common approach to solutions for the future. Among the approaches the Commission recently suggested are creating a "minimum social income," launching of information campaigns on population trends and their consequences, and a redistribution of the costs of social security between the various types of firms and individuals.

The present mixture of economic crisis and falling birth-rates could well prove explosive for the social security systems of most E.C. countries, as it adds to social needs while reducing the resources available to meet them. In several countries governments have reduced the level of social security contributions by businesses, thus giving them an edge over their competitors elsewhere in the Community. The Commission would like to prevent such situations from developing.

The most dramatic problem facing all European social security systems is that of the "new poor." In several Community countries there are categories of persons who either are not yet entitled to social security or are no longer entitled to it. They include both the young and the long-term unemployed. As the Commission has pointed out, an increasing number of people are finding themselves deprived of social security benefits under the combined pressure of employment and family problems. Hence the Commission's proposal to the Twelve to introduce a minimum social income.

As for falling birth rates, its consequences are positive at present. Health expenditure on young mothers and children is falling, as is expenditure on family allowances. But spending on the elderly will rise even as

the size of the workforce declines. Recourse to migrant labor will again become necessary. The Commission therefore sees a need for information campaigns and the coordination of family policy in the Community.

The most difficult problem to resolve at the Community level, in the Commission's view, is that of finance. In Denmark, some 82 percent of social security expenditure is financed from public funds, while in the Netherlands less than 20 percent is. This underlines the difficulties of harmonizing national policies. The Commission will be looking closely at these issues for the next two years.

itself to become part of what Brussels calls the West European economic space," Frydenlund said. "Toward this goal we are preparing a report this autumn to give Parliament the basis for the first comprehensive debate on our relationship to the E.C. since 1972," he added.

"The time is not right, however, for Norway to begin debating E.C. membership. Any suspicion that this report is the first step toward membership would be very counterproductive. The membership issue will not be raised until it is an issue that no longer divides the Norwegian people."

Norway rejected E.C. mem-



A poster in downtown Oslo urging Norwegians to vote "Yes To Europe" in the 1972 referendum.

FOREIGN AFFAIRS

NORWAY: A FUTURE E.C. MEMBER?

Norway has begun a long process of strengthening ties with the European Community, Foreign Minister Knut Frydenlund said in a recent interview with *Reuters'* James Jelter. But Norwegian membership in the E.C., despite repeated invitations to join the 12-nation bloc and growing pressure from business interests at home, remains far from the domestic political agenda.

"Norway's task is to adjust

bership in a divisive national referendum in 1972. Only in the last few years, as Norwegians too young to vote in 1972 join the electorate, has the issue once again come in for lively public scrutiny.

"There is, however, an awakening consciousness in Norway of the importance of Europe," Frydenlund said, adding that leftist intellectuals who opposed membership are now among those starting to think about strengthening ties to the Community. "But this is not a grassroots movement. Opinion polls show no more than 30 percent of the population would favor membership today and none of the political parties have membership on their

party programs," he said. "That's why we are taking a pragmatic approach, analyzing the problems we face and also the opportunities to try and make the best of the situation."

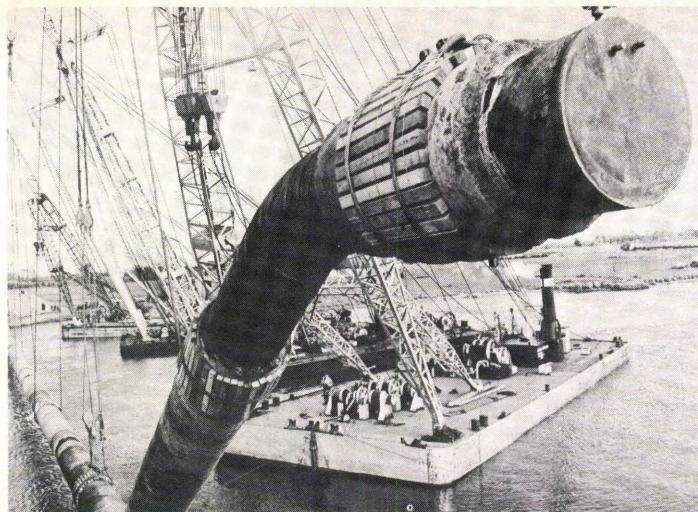
Frydenlund, a personal advocate of Norwegian membership in the E.C., said Norway and the Community had changed significantly since 1972. "In the last 14 years, and especially in the last few years, important decisions have been taken in the E.C. which will be of importance to Norway," he said, adding that it was a disadvantage that Norway was not included in the Community's European Political Cooperation (EPC), a forum for discussing political and security matters that has been instrumental in building European autonomy in key East-West issues.

Another area of concern was Norway's exclusion from the E.C.'s home market, a plan to reduce trade barriers between E.C. members from 1992 that Frydenlund feared could hurt Norwegian penetration of the E.C.'s 350-million strong consumer market. "If we do nothing to meet this challenge, we will be confronted by new trade barriers," he said.

Asked if Norwegian membership in the E.C. was inevitable, Frydenlund replied, "I would not predict anything. But the biggest block to membership is the bitter memories from 1972." *Reuters*

FRANCE PLEDGES SUPPORT TO ANDORRA FOR E.C. TALKS

French President François Mitterrand turned Medieval prince for a day, during a brief visit to his subjects of the Pyrenean principality of Andorra on September 26. Wearing around his neck the golden collar emblem of his power as co-Prince, he pledged the Andorrans his support for forthcoming talks with the European Community, and urged them to modernize ancient social structures.



Exploration for natural gas in Europe may increase over the next decade. Above: laying pipeline in the Netherlands.

Under a 700-year-old agreement, the French Head of State and the Spanish Bishop in the neighboring town of Seo de Urgel rule this 190 square mile community of 45,000 as co-princes.

"I feel at home here," Mitterrand told a small crowd on the central square, hailing Andorra as one of Europe's most ancient, peaceful and wealthy countries. Andorra's poor mountain farmers were turned into wealthy shopkeepers by a postwar boom based on the sale of virtually duty-free goods.

Mitterrand expressed support for the Andorrans' wish to bring their tax system into line with that of the Community while maintaining some of its duty-free appeal. "The co-Prince can support Andorra to allow it to maintain its present prosperity within the European Community," he said.

Tight security measures were taken following the recent series of bomb attacks in France. Police helicopters circled over the deep valley and 500 French *gendarmes* were brought in. Five hundred civilians were also mobilized under an ancient, rarely implemented local custom to help the 90-strong police force.

Mitterrand expressed support for the local Government's wish for a written constitution to enshrine the loosely-defined powers of its complex structure. But, apparently referring to a small independence move-

ment, he warned against hurried changes in a statute that ensured peace and brought wealth to the principality.

He told the 28 elders of the elected Council of the Valleys, clad in their traditional long grey coats, that social change was vital to open Andorra to the outside world. "Only solidarity can create authentic security," he said. Foreigners, who form three quarters of the Andorran population, are denied the right to vote, security of employment and unemployment benefits. *Reuters*

ENERGY

E.C. ADOPTS OBJECTIVES FOR 1995

E.C. Foreign Ministers meeting in September approved the energy objectives for 1995 proposed this year by the E.C. Commission. Energy objectives have been an essential component of the energy strategy pursued by the Community since the first oil shock of 1973, and provide a frame of reference that allows the Commission to verify at regular intervals how the member states are applying the mutually agreed guidelines.

These objectives have so far enabled the European economy to move away from oil to a considerable extent, to use energy more rationally and to diversify its energy supplies.

Whereas in 1973 crude oil accounted for 60.6 percent of the energy consumption of the Community of 10, in 1985 the Community of Twelve relied on oil for only 44.7 percent of its needs.

The main points of the objectives for 1995 are as follows:

- **Natural gas:** to maintain the share of natural gas in the energy balance (with a policy aimed at ensuring stable and diversified supplies), and continuing and possibly stepping up natural gas exploration and production within the Community.

- **Solid fuel:** to promote the consumption of solid fuel and improve the competitiveness of solid-fuel production capacities in the Community, taking into account new possibilities opening up on the market for uses of solid fuel with greater value-added. The share of solid fuel in energy consumption should be increased.

- **Electricity:** to continue with, and step up, the measures taken to reduce the share of oil and gas in the production of electricity as much as possible. The proportion of electricity generated from oil and gas should be reduced to less than 15 percent in 1995. Taking into account the substantial part played by nuclear energy, it has also been agreed that appropriate measures be taken to ensure that all aspects of design, construction and operation of nuclear installations fulfill optimum safety conditions.

- **New Energy Sources:** The contribution of new and renewable energy sources to the replacement of traditional fuels should increase substantially, so that these energy sources can play a significant role in the total energy balance.

TRADE

E.C. RESUMES EAST-WEST TRADE TALKS

Officials of the European Community and the Soviet-led trading bloc Comecon resumed talks on September 22-24 on

reestablishing formal relations. The meeting marked the resumption of a dialogue broken off in 1980 amid deteriorating East-West relations after the Soviet intervention in Afghanistan.

Comecon—the Council for Mutual Economic Assistance, whose members include the Soviet Union, Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Romania and Poland, as well as Mongolia, Vietnam and Cuba—also agreed earlier this year to a Community requirement that any accord would not affect Community ties with individual East Bloc countries.

The E.C. said in a statement the three-day talks were exploratory and aimed at “discussing ways and means of establishing official relations” between the two groups. The E.C. delegation was headed by John Maslen, head of E.C. relations with the Communist economies of Eastern Europe, and the Comecon delegation by Zdzislaw Kurowski of Poland, Deputy Secretary of the Soviet-led group.

The talks focused on a draft joint declaration proposed by Comecon, the statement said. E.C. officials asked their counterparts to clarify a number of points, but the discussion “did not touch upon specific areas of cooperation.”

Describing the talks as “good and businesslike,” the statement said “the holding of a further meeting at the expert level will be considered.” *Reuters*

COMMISSION, ARAB STATES HOLD TRADE TALKS

Representatives of the joint Euro-Arab Chambers of Commerce met in September with E.C. Commissioners Claude Cheysson and Nicolas Mosar and a delegation from the European Commission for talks on intensifying Euro-Arab trade and the perspectives for European investment in the Arab countries.

Among the problems discussed, according to a joint statement issued after the talks, were the consequences of this year's enlargement of the E.C. to include Spain and Portugal, and the perspectives for relations between the Community and the countries of the Gulf Cooperation Council (GCC).

The meeting also saw a broad exchange of views on the energy policies of the E.C. and GCC regions, as well as on recent developments in the international energy market. Both parties reviewed recent developments on refining capacity, consumption and trade in crude and petroleum products, and touched on developments and prospects for the future. The Commission also discussed the restructuring of the European energy economy towards a better balance between the various energy sources and presented the new Community energy objectives for 1995 recently adopted by the Council.

The GCC was set up in May of 1981 by Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman, with the intention of creating a customs union and fostering closer cooperation in monetary policy, energy, investments and economic development.

Both sides in the September talks agreed that the exchange of views had been useful and that they should be continued. A further meeting will take place in Saudi Arabia next year.

Reuters reported that foreign ministers of the Gulf states met with E.C. officials at the United Nations on September 24, where they obtained vital political support from the Community. The six GCC states fear getting increasingly caught up in the war between Iran and Iraq which has already disrupted their shipping and continues to threaten their economies, hard hit by the slump in oil prices.

“The Gulf states enjoy full U.S. support at the moment. But they do not feel that Washington can be completely relied upon. That's why E.C. support is so important for them at the moment,” one senior E.C. diplomat said. E.C. Commissioner Claude Cheysson, who is responsible for the Community's relations with the Mediterranean countries, described the talks as remarkable for their relaxed atmosphere and the mutual confidence shown by both sides.

Diplomats said the GCC ministers had also called for solid

E.C. backing for efforts at the United Nations and elsewhere to bring Iran back to the negotiating table, but recognized that neither the E.C. nor the U.N. had much influence on the Iran-Iraq war where GCC states, for fear of reprisals, were themselves reluctant to single out Iran for criticism and were therefore satisfied with verbal support and assurances of solid backing wherever possible.

E.C. SIGNS COCOA PACT

E.C. governments agreed on September 29 in Geneva to sign a new international accord designed to support flagging cocoa prices. The decision, reached after months of hard negotiation, averts fears of a collapse of the International Cocoa Agreement (ICA), but will not take effect until January 1, 1987 as it was not applied provisionally by sufficient consumer countries by the deadline of September 30.

Six producer countries have signed the pact, accounting for 89.17 percent of world exports—well over the 80 percent needed to endorse the agreement—but the pact also needs the support of consuming countries representing 65 percent of imports to become effective immediately. The E.C. accounts for only about 45 percent of imports.

The aim of the ICA is to regulate cocoa prices with a buffer stock which buys and sells on the world market, assisted by a stock withholding scheme. The previous ICA was implemented in 1980 and has been extended twice. Continuing surpluses and technical factors have pushed the price of cocoa down in the London market after it rose earlier in September on forecasts of a lower 1986-87 Ivory Coast crop.

The Community's acceptance of the pact was held up by Spain, which wanted assurances that the pledge would not entail financial commitments which could set a precedent for other commodity pacts. Madrid was reportedly concerned that

The E.C. held talks with the GCC in September on energy policy. Below: the Berre-l'Étang refinery in France.



such commitments could have led to the E.C. coming under renewed pressure to bail out the now-defunct International Tin Agreement, even though many E.C. member states had virtually no dealings with it. An E.C. spokesman said Spain accepted a declaration from the Commission that only states responsible for the setting-up of the tin pact were expected to contribute financially to any rescue program. *Reuters*

E.C. PROTESTS 'BUY AMERICA' BILLS

In a letter sent to the U.S. Department of State on September 29, the European Community expressed its concern that the U.S. Congress might adopt a number of 'Buy America' provisions as part of various authorizations and appropriations bills under consideration. The provisions would violate the Agreement on Government Procurement of the General Agreement on Tariffs and Trade (GATT), the E.C. Commission said, and the E.C. "would be obliged to consider the suspension in whole or in part" of the application of the Code to the United States.

One of the bills of concern to the Community is the Department of Defense Authorizations bill for FY 1987 (H.R. 4428), especially section 935 as introduced by Congressman James Traficant (D-Ohio). "Section 935 would give priority to all U.S. firms when the Secretary of Defense awards contracts if the difference between the bids submitted by the foreign and the U.S. firms is not more than 5 percent and if the product, when finally assembled, has at least a 50 percent domestic (U.S.) content," the Commission's letter read. "The European Communities wish to refer to the GATT Agreement on Government Procurement, as far as this Agreement is applicable to the Department of Defense, and in particular its Article II on national treatment and non-discrimination requiring that parties to the Agreement

shall provide, for procurements covered by it, treatment to the products and suppliers of other parties no less favorable than that accorded to domestic products and suppliers."

In 1984, global purchases under the Code by the United States amounted to some \$20 billion, of which \$17.6 billion went to American companies and \$1.3 billion to E.C. companies. Procurement by the Department of Defense accounted for the biggest share of those expenditures, with \$15.4 billion going to U.S. firms and \$1.25 billion for E.C. companies.

E.C. CHALLENGES U.S.-JAPAN SEMI- CONDUCTOR ACCORD

The European Community announced on October 8 that it has requested consultations under the General Agreement on Tariffs and Trade (GATT) on an agreement reached between Japan and the United States on semiconductors, saying that certain aspects of the accord "jeopardize international trading rules and threaten the legitimate interests of the European Community."

Under the five-year accord reached last July, the United States agreed to suspend antidumping complaints against Japanese semiconductor makers in return for improved access to Japanese markets and an agreement by the Japanese to monitor prices of semiconductor exports to both the United States and third markets.

The Community fears that the arrangement will arbitrarily raise prices of semiconductors in the E.C. and will give American companies privileged access to the Japanese market. "The European [computer] industry is highly dependent on semiconductor imports, the true raw material for new technologies," said E.C. Commissioners Willy De Clercq and Karl-Heinz Narjes. "It is not normal for the prices in the sector to be fixed arbitrarily by

the United States and Japan. Moreover, it would be unacceptable for this agreement to have the effect of improving access to the Japanese market only for American manufacturers, to the detriment of competing firms in the Community. This would constitute on the part of the two most important international trading partners a flagrant contradiction—with potentially serious consequences—of the determination, expressed again recently at Punta del Este, to liberalize trade to benefit the entire international community."



Above: Abel Matutes, the E.C. Commissioner responsible for policy on small- and medium-sized enterprises.

BUSINESS

E.C. COMPETITION POLICY AND SMALL COMPANIES

The E.C. Commission has long been aware of the importance for the Community of having a substantial network of small and medium-sized enterprises (SME), and believes that the success of these firms is in many cases dependent on their ability to form cooperation agreements in various areas of economic activity and to do so in the knowledge that these agreements do not infringe the E.C.'s competition rules. Accordingly, it published in September a new notice on agreements of minor importance between SMEs which do not fall under E.C. antitrust law.

The Commission believes in

general that an agreement between SMEs will not have an appreciable effect on market conditions when the market share of the firms involved does not exceed 200 million ECU (about \$200 million). In such cases, the agreements do not need to be notified as the Commission considers that the prohibition of Article 85 of the E.C. Treaty (which relates to competition policy) does not apply.

The new notice provides for a number of changes in the previous notice of 1977:

- Market share of participating firms is no longer calculated by reference to a "substantial part of the common market," but is now based on "the area within the Community in which the agreement has effect."
- The turnover threshold is increased from 50 million ECU to 200 million ECU, which will enable more firms to benefit from the notice.
- The notice now also applies to services, which reflects the increasing importance to the economy of the service industry, in which SMEs play a particularly significant part.

PROGRESS SEEN ON DRUG HARMONIZATION

E.C. trade ministers made some progress in October toward agreement on harmonizing marketing and testing procedures for advanced drugs within the Community, British Trade Minister Alan Clark said.

E.C. officials say agreement on harmonizing authorization procedures for so-called high-technology and biotechnology drugs would be an important step towards creating a genuine E.C. market in pharmaceuticals. Progress on the complex issue has been hampered by the difficulty of reconciling national concerns for public health standards, the concerns of drug producers and the interests of consumers, officials said.

The diplomats said one of the main stumbling blocks to agree-

ment had been discord over how long firms which invent new drugs should be protected from rivals that want to copy their products and market them themselves.

Clark, who chaired the meeting, told reporters there was broad accord that "innovators" of high-technology and biotechnology drugs should be protected for ten years and pioneers of conventional drugs for six years. Clark expressed hope that at least some of the measures would be formally adopted soon.

High-technology drugs include ultra-pure pharmaceuticals produced in space-based laboratories, while biotechnology drugs include substances such as blood serum. The issue of protection of innovators has pitted countries with strong pharmaceutical industries, such as Germany, which favor longer protection for innovators, against those with weaker drug sectors that want to market the new products as soon as possible. Diplomats said that Germany, concerned over public health standards, wanted safeguards that would prevent authorization for marketing of drugs any country felt had not been adequately tested or were unsafe. *Reuters*

E.C. FIGHTS COMPUTER CRIME

The European Community announced recently it intends to improve protection against white-collar criminals using computer programs and data bases for fraudulent purposes, and wants to see better safeguards against computer breakdowns.

In today's increasingly computerized society, breakdown and fraud in electronic mail systems, business, social and other services can have damaging economic consequences. In the United States, a computer breakdown repaired within 24 hours recently cost a large banking group some \$5 million, and breakdowns can paralyze other services such as news

publishing, airline reservations and traffic control. Breakdowns and fraudulent access to programs and data bases already cost millions of ECU annually in the Community.

A recent study entitled *The Vulnerability of the Information Society* carried out for the Commission examined 115 cases of computer accident or abuse in six Community countries. In the light of its results the Commission has just launched seven projects designed to improve the protection and quality of computer programs data.

These projects will receive 1 million ECU (about \$1 million) from the Community budget—about 50 percent of their total cost—and will examine a number of practical means for improving confidentiality and safety in the use of new information technology.

One of the selected projects is a data protection guide for European users, intended to provide a straightforward handbook in checklist form to clarify data protection legislation across the Community. Other projects financed will cover network security, software integrity (preventing accidental or deliberate misuse), security for small and medium-sized information technology systems, the vulnerability of the information society, and increasing the awareness of users to potential dangers and of the need for data protection legislation.

COMMISSION OUTLINES ACTION PROGRAM

A Community-wide network of offices to disseminate information of interest to small and medium-sized businesses, simplification or elimination of Value Added Tax (VAT) formalities, and easier access to credit are among the concrete measures the E.C. Commission recently proposed to the E.C.'s Council of Ministers as part of a plan to encourage the Community's smaller businesses.

The Commission's new ac-

tion program consists of a series of general and specific measures aimed at helping small businesses take better advantage of other European initiatives. Taken together, they should result in new jobs, according to Abel Matutes, the European Commissioner with special responsibility for the Community's small- and medium-sized businesses. These businesses account for the majority of existing jobs—and contribute more than other employers to Europe's economic recovery.

Through a Community-wide system of information offices the Commission would like to centralize all the information relative to the E.C. that is likely to be of interest to small firms, including Community loans, research programs, and regulations on intra-Community trade and the free movement of persons, products and capital.

This information network would have an office in each major region. As the Commission sees it, two or three pilot offices would be opened in each country during the first stage. They would receive a subsidy of 50,000 ECU (about \$50,000) during the first year and 60,000 ECU the second, after which they would be self-financing.

The Commission has also proposed that all business with an annual turnover below 10,000 ECU be exempt from VAT. The present ceiling is 5,000 ECU, but member states are under no obligation to exempt firms which do not reach this sum. Belgium, Italy and Spain, in fact, grant no exemptions at all. The Commission is also proposing a simpler, cheaper system of bookkeeping for the firms which do not qualify for a VAT exemption.

The Commission has asked the Twelve to devote to their small- and medium-sized businesses a part of the more than 1.5 million ECU to be raised on international markets under the New Community Instrument (NCI). This new NCI tranche, unlike the previous ones, could be used to promote research and would no longer require the guarantee of member states.

AGRICULTURE

E.C. APPROVES FISH CONSERVATION MEASURES

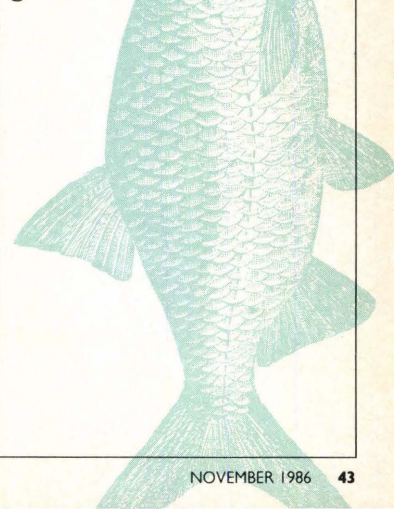
European Community ministers formally approved measures to conserve endangered North Sea fish on October 7, diplomats said. The measures, which include increasing the minimum size of fishing net meshes to allow more fish to escape, were tentatively agreed by E.C. fisheries ministers in September despite initial opposition from two member states.

The new regulations mean that from January the minimum permitted size of fishing net mesh in the E.C. will be increased to 85 mm (3.3 inches) from 80 mm (3.1 inches), with a further 5 mm (0.2 inch) increase in 1989.

Scientists working for the E.C. Commission, who say larger meshes are essential to allow species such as cod, haddock and sole to recover from overfishing, had urged the immediate introduction of 90 mm meshes.

The Dutch fishing fleet, which has expanded out of all proportion to its fishing quotas in recent years, will be particularly hard-hit by the package and fears its high-technology boats may have to be laid up.

The new measures also include an 8 meter (24 foot) limit on the length of beams used to drag nets along the sea bed, and tighter restrictions on the size and equipment of vessels operating near coastal breeding grounds. *Reuters.* €



NATO/BEREUTER

Continued from page 14.

legalistic response is unlikely to persuade many Americans.

The tensions that exist within the alliance today are, in some ways, not unlike those between the benefactor and recipient of foreign aid. Developed countries sometimes resent the failure of developing countries to express more gratitude for the aid given. In fact, the recipient countries probably do not often feel much gratitude. What they feel is resentment for having to come "hat-in-hand" to request aid.

There is an element of that in the American-West European relationship. The United States is seen as the guarantor and as expecting European fealty. When we do not get it, as in the Libyan case, we feel betrayed. Europeans, for their part, frequently question our leadership and openly wonder if our policies will not lead them into war. For the sake of the enduring relationship, the partners need to be more equal and that means a stronger European defense effort for Europe. As Senator Gary Hart (D-CO) observed recently, it is significant that "the one country which has experienced the least controversy in its defense policy is France... because France has taken a primary responsibility for its own defense."

For these reasons—differing roles and perceptions, the need to bring more equality into the relationship and Europe's evident ability to pay for more of its own defense—it is appropriate for the allies to begin to assume a greater share of the European defense burden. Although the debate usually is framed in terms of "burden-sharing," the concept could more accurately be described as "burden-relief." Implicit in this proposal is the clear recognition that the United States cannot do everything, that we run the risk of being unable to meet all of our global commitments unless we are relieved of some of them. In the circumstances of an economically prosperous Western Europe and given the United States' global responsibilities, continued deployment of U.S. forces at current levels in Western Europe is probably not the most efficient use of our resources. We will be better positioned to handle our global responsibilities if we deploy elsewhere—most likely in this country—a substantial portion of our troops now in Europe. This does not mean that we are about to embark on a new era of Third World interventionism. Public support for such a policy is clearly lacking. But few Americans would disagree with the con-

cept that our defense posture should be characterized by maximum flexibility. Bringing home troops that now can be used only in Europe will increase our flexibility.

The record of U.S. contributions to the defense of Europe is more than just adequate; it is outstanding. It gives us the right to be taken seriously when we appeal to our European allies for actions that will enhance our ability to discharge our duties elsewhere. The process of partial but substantial withdrawal of U.S. troops from Western Europe should begin in the fairly near future. Those who would argue to the contrary can legitimately be asked: "How long are they to remain?" In this regard it is useful to recall the words of Dwight Eisenhower, who in 1951 saw American aid for NATO as necessary, but added: "If in 10 years all American troops have not been returned to the United States, then this whole project will have failed."

Such changes cannot take place overnight. The current apportionment of responsibilities has been with us for the last 30-plus years. Trying to replace these arrangements totally or at one stroke would pose many dangers, including the possibility that we could end up throwing the baby out with the bath water—with the destruction of the alliance and the loss of basic freedoms for millions of persons. We therefore should be wary of those who call for major "reassessments" of the alliance without offering coherent propositions for the new roads to be taken.

It is, however, not a time when America or Western Europe can responsibly tolerate complacency with the status quo. The alliance cannot afford to sit quietly while Americans increasingly question the excessive share of the burden they bear and Europeans complain about an alliance security policy that is "made in the USA." We collectively cannot ignore strategic concerns elsewhere on the planet. Instead, both the United States and the European allies should work steadily toward shifting the relative burdens within the alliance framework. Current efforts at improving NATO's conventional defense forces will, if properly pursued, help reduce the risky over-reliance on the U.S. nuclear component of NATO's deterrent posture. As a consequence of this necessary shift, some re-allocation of defense responsibilities may consciously be caused to occur between the United States and Europe as this program of defense improvements is implemented.

Beyond this, however, the NATO countries should agree that every allied force

planning decision, every cooperative NATO program, every joint project, will in the future be shaped to the extent possible by the need to shift greater responsibility to the European members of the alliance. The alliance should make such a commitment clear and unequivocal—a political statement at the highest level that will be reflected in future national and alliance decisions and programs. Such actions would help. But it must be recognized that a substantial shift of burdens will require the Europeans to develop a more coherent European contribution to the alliance. In the defense area, statistics demonstrating Western Europe's substantial resources are misleading. It is much easier to add up the various national statistics on defense commitments than it is to merge armed forces, combine national security decision-making arrangements or rationalize weapons procurement and production capabilities.

Our allies must begin aggressively to work toward a more effective combination of their defense resources. To be successful, this process must have strong political foundation. To build such foundations, West European governments should intensify their joint consultations and cooperative efforts on security issues. Such consultations and cooperation are absolutely necessary to build up the process of a more complete collaboration among European governments in defense matters. They also are necessary to demonstrate to European publics that defense is not a responsibility to be left begrudgingly to the Americans; it is a shared task requiring greater European efforts and inputs, political as well as military. The European Defense Community was proposed in 1950 by Europeans to be an integral part of the NATO undertaking, but it was never implemented. Perhaps this would be an appropriate time for the allies to reconsider this concept.

Americans will need to recognize that it may not always be easy for the United States to deal with a more energetic European role in the alliance. We will not always agree on the details or on the approach to certain issues. But we in the United States cannot call for greater European defense efforts without expecting to hear a more dominant European voice on defense issues. We should be prepared to deal constructively with those changes, problems or differences when they come along. If a militarily stronger Europe occasionally deviates from our preferred course, that is a small price to pay for a Europe better able to meet its security challenges and an America better able to meet American and free world global responsibilities. €

NATO/SCHMIDT

Continued from page 15.

indeed growing today. To put it another way, there is a growing deficit within our public opinion. Whether in our parliaments—in the Senate of the United States, in the German Bundestag, in the British House of Commons—whether in our churches or within our universities, whether among those who consider themselves experts or in the public at large—in many, many places within our public opinion the evidence of this deficit is mounting steadily. It is what lies behind the several types of freeze proposals, including those for a unilateral freeze; behind proposals to adopt “no first use” or “no early first use” strategies; behind the struggle over additional MX missiles in the United States and the earlier struggle over the deployment of Pershing II ballistic missiles and ground-launched cruise missiles (the latter still continuing in the Netherlands); and, today, behind the controversy over President Ronald Reagan’s Strategic Defense Initiative. In short, our present military posture and strategy are not really convincing to our own publics, our own politicians or our own political elites.

It is crucial to realize that if we cannot convince our own publics, if we cannot convince our own parliaments, then we run the risk of very dangerous misunderstandings and miscalculations on the Soviet side—miscalculations about what we really might do in the event of blackmail or attack or violation of our borders. Our own controversies and doubts might even, under certain circumstances, seem to be an invitation to them to act.

So the issues of acceptability and proportionality are today at the heart of the European security problem. Our strategies will be and remain credible only if we accept them ourselves and only if there is no sensible or substantial opinion in our own countries that does not accept them. Now that the public opinion has been awakened to all of these problems, I prophesy that for the rest of the century, the West will never again be in a position to adopt a military strategy or military posture that is not acceptable to our own public because it seems inevitably to destroy what we wish to defend.

But if the first early use of nuclear weapons is an increasingly unacceptable military strategy to the European nations living in the battleground, the question invariably arises: How can they create a situation in which early first use of nuclear weapons becomes unnecessary? Or in which the choice of using nuclear weapons first is shifted to the Soviet side?

The answer in the first instance is that one needs equilibrium in conventional forces, either by adding Western forces (and not reducing Western forces, as Senator Mike Mansfield proposed some 20 years ago and Senator Sam Nunn proposes today) or by agreements between West and East on mutually balanced forces and then, hopefully, a reduction of forces to a lower level on each side. An effort has been made to achieve this under the name of Mutual Balanced Force Reduction (MBFR), at the negotiating table in Vienna for a dozen years without result. The prospect of getting an MBFR agreement does not seem great at this time.

It seems to be a general conviction of many in the United States that, in order to be able to defend oneself, one has to spend as much money on defense as one can. In my view, this is not the right perspective. If our main difficulty is Soviet superiority in ability to conduct conventional warfare, what we need is not to spend more money for nuclear or space warfare, but to get appropriate numbers of soldiers and conventional weapons on our side. What matters most is the necessity to defend ourselves by conventional means.

And here the first priority is soldiers, not money. The second priority is motivation for our soldiers, again not money. The third priority is education, training and skills for our soldiers, still not money. Only the fourth priority—boots, guns, vehicles, tanks and what-have-you to equip the soldiers—requires money.

Men matter most, not only in the pragmatic sense of actual experience in warfare, but also in a moral and philosophical sense. It is my conviction that, in defending itself against foreign violence, a democracy must not rely on volunteers or mercenaries, but every citizen ought to understand that he himself has to sacrifice some part of his life to maintain a secure defense. I understand the feeling of many Americans that conscription was misused during the war in Vietnam. But just to abandon the draft forever is too easy a way out of a domestic controversy. None of the continental nations of Western Europe has taken that road. They have maintained conscription, which in political terms involves a much greater individual sacrifice than spending taxpayers’ money.

It is largely because the continental European nations have struck this politically different course, while the United States has not, that I do not consider legitimate the many American criticisms of the defense expenditures of the European countries as too small. I see as even

less legitimate American threats to reduce the number of American soldiers in Europe in order to force European governments to spend more.

Obviously the United States is not going to change its military thinking and its order of priorities in the short run. Therefore, the Europeans themselves ought to look at their situation.

Here there is one central problem, in particular, that stands in the way of a truly effective European defense effort. If France would bring its conventional forces and reserves into the joint framework of Western defense, it would be easy to achieve a satisfactory equilibrium in conventional forces between Western Europe and the Soviet Union. After mobilization, we would then have some 18 German divisions, some 15 to 18 French divisions, plus several Benelux divisions—as well as perhaps one or two American divisions and some British forces as well. Such a force would, of course, have to be placed under a French supreme commander. . . .

The United States has a relatively short history, during which it has never seen foreign armies on its own soil. Unlike the Russians, the Poles, the Germans, the French and many others, it has never experienced disastrous defeat or had to make disastrous sacrifices. For these and other reasons, the United States has the greatest vitality of any nation in the world. And, I would like to add, the United States is by far the most generous nation, once its generosity has been called upon. On top of that, Americans are optimists by birth, or at least by education. Sometimes that optimism seems somewhat naive to Europeans, because we have become more or less skeptical as a result of historic experience, but America’s optimism is clearly rather helpful in most cases. For all these reasons, I have not only deep-seated sympathy for the American nation but also some understanding of its feeling of superiority from time to time. But if I may offer one little bit of advice: At this moment in history, do not show too openly the superiority you assume you have. Instead, take the advice of that wise philosopher who said: “The Athenians do not mind a man being clever as long as he keeps it to himself.”

In any event, Americans must not forget that in terms of American Grand Strategy—or, to use Henry Kissinger’s phrase, “geostrategy”—Western Europe and its highly educated, very industrious and ingenious people will remain an indispensable factor in Western strength. Europe will remain indispensable to an America that wants to maintain its own liberty and peace. €

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CARIBBEAN

Continued from page 27.

Port of Spain and is still working on a new block for the engineering facility at the St. Augustine campus of the University of the West Indies. Also in Trinidad and Tobago, a local firm, Ross and Sons, has signed an agreement with an Italian company, Sicplant, for a joint-venture plastic container factory costing TT\$32 million.

In Jamaica, the Italian companies Ente Nazionale per l'Energia Electrica (ENEL) and Aerimpianti-Ansaldo were involved in power plant refurbishing while the state oil firm, Agip, was part of a consortium that searched for offshore oil.

But direct investment has been limited and not recent. "The problem is a two-way street," said Tom Stimpson, the head of the foreign trade division in Jamaica's Ministry for Foreign Affairs and Trade. "For one, the ACP countries have not seemed to make any strong policy effort to penetrate the E.C. market except in traditional areas."

Within the ACP group, the reasons for this are myriad. In the Caribbean, Stimpson feels, part of the problem is just the sheer difficulty and cost of transforming to the sophisticated manufacturing required for export. And there is the issue of distance. "To the Caribbean, the United States is just across the road, while Europe and the E.C. are across the Atlantic. So the effort is comparatively greater," he commented.

Manufacturing for export, he explained, required adherence to rules of origin and often complex value-added criteria, developing markets, meeting standards and usually expensive retooling of factories. "There are many things to be done before you utilize the duty-free access," said Stimpson. "The difficulty of organizing export production—that is one problem at our end.

"But there are other difficulties. No investment is going to take place—at least not at the level hoped for—when the economic situation is not buoyant and stable and people are not hopeful. These are some of the problems. But increasingly, ACP and Caribbean nations within the group are recognizing the necessity of making a go of things, of attracting investment to the region to earn foreign exchange and to create jobs."

It was partly in response to these imperatives and to ACP criticism that after two pacts the old patterns of economic relations were not changing, that Lomé III contains a specific section on investment. It underlines the need for private investment and increased flows of capital to ACP nations. Previous agreements had only very broadly acknowledged the need to promote private investment.

The new convention, however, speaks of more specific issues, including the necessity of creating in ACP nations a climate conducive to private investment. Nothing definitive, in this regard, has yet emerged, but both sides agree to work for investment promotion or protection agreements between states or covering specific sectors. Probably more important is their pledge to study an ACP-E.C. political risk and guarantee insurance for investors.

The question of promotion in attracting investment from Europe, or anywhere, is the key, Caribbean officials say. But the region has not done nearly enough in Europe. Barbados has just established an investment and trade-promotion office in Brussels, but Jamaica—an aggressive suitor of foreign private investment whose Jamaican National Investment Promotions (JNIP) has offices in several U.S. cities, Puerto Rico and Hong Kong—has not yet set up in Europe. It is not exactly true that Europe has been

totally ignored, Jamaican officials say, noting that three years ago the British merchant bank Morgan Grenfel had identified and provided profiles on European companies that might benefit from investing on the island. None of the targeted companies have yet panned out, but the Jamaicans, like others in the Caribbean, are still looking, telling the Europeans of the prospect of entering the U.S. market duty-free, and from closer. The incentives offered to investors are generous, Caribbean officials stress.

"The major problem with attracting investment from Europe is a lack of information," says Polly Brown, the head of economic research and analysis at the JNIP. "Up to now, we in Jamaica and, I suspect, the rest of the Caribbean have not been able to set up the network so the Europeans are not fully aware of the advantages." As she recounts: "When we went to Britain recently, we talked of the CBI, meaning the Caribbean Basin Initiative. Everyone wondered why we were talking about the Confederation of British Industries."

The point about the lack of information in Europe of the Caribbean, or more correctly, the nuances of the region, was stressed by Michel Reuillard, France's Kingston-based Ambassador to Jamaica and the Bahamas. The knowledge might be there at an institutional level, but signally lacking at the people level.

But the Ambassador felt, from what he had seen after six months in the region, that an important element of the necessary strategic investment was already in place to support the transfer of finance and actual production. "There is a scope for investment," he said. "But the image of the Caribbean reality has to be promoted by the Caribbean countries themselves in Europe—separately or together." €

GUEST COLUMN

Continued from page 48.

It is also a logical aspect of growing European unity that political cooperation is gradually extending to security matters. Let it be clear that this does not in any way affect the North Atlantic Treaty Organization's (NATO) integrated defense, and that European security consultations are aimed at strengthening the Atlantic Alliance.

It is not uncommon to hear criticism of the size of the European contribution to NATO defense. The facts speak a different language, however. Of the allied forces stationed in Europe in peacetime, Europeans provide 90 percent of the man-

power, 95 percent of the divisions, 85 percent of the tanks, 95 percent of the artillery and 80 percent of the combat aircraft. The defense budgets of most European countries, including the Netherlands, show a meaningful increase in real terms from year to year.

Today, the alliance is just as indispensable as when it was founded. Over the years, public opinion polls in the Netherlands have shown firm support for NATO from more than 70 percent of the population. At the same time, we must also be aware that there are differences of opinion on both sides of the Atlantic on specific political and economic issues. We should certainly not dramatize these differences. After all, we have had them

before and, fortunately, pluralistic societies are used to coping with them. But these recent irritations seem to have more substance than in the past. We must, therefore, not be complacent about them; we have to ensure that they do not go too far and get out of control. We must listen to each other. To this end, consultations between Europe and America should be broadened and intensified. European unity, which is evolving gradually, must be regarded as a help rather than a hindrance in this process. I have every confidence that trans-Atlantic cooperation, which rests not only on common interests, but also on shared values and historical ties of friendship, will stand the test of time. €



THE NETHERLANDS AS A EUROPEAN AND ATLANTIC PARTNER

The Netherlands is both a convinced member of the European Community and a committed partner in the Atlantic Alliance. Equally, however, it retains its national identity with distinctive characteristics which are rooted in a rich historical past. Because of their country's small size, its lack of natural resources, its sea-faring tradition and its central geographic location at the crossroads of Western Europe, the Dutch were historically destined to engage international trade. This has given them an outward orientation, which has become a kind of second nature.

Today this orientation is expressed in numerous ways. Imports and exports, for instance, are each equivalent to approximately 55 percent of gross domestic product. Rotterdam, often referred to as the gateway to Europe, is the largest port in the world and the Netherlands is the home country of a number of multinational companies with many affiliates abroad. As far as direct foreign investments are concerned, companies from the Netherlands occupy the third place on the world list, directly behind the United States and the United Kingdom.

On the other hand, the Netherlands has also welcomed branches of many foreign companies, attracted by its geographical position, its longstanding trading tradition and its favorable economic and political climate, but, perhaps most of all, because it offers an excellent springboard to the extensive European market. The Common Market is one of the most remarkable developments of the post-war era and has substantially contributed to the stability and prosperity of the old world.

The formation of the European Community is an unprecedented historical experiment and it is not at all clear what form it will eventually take. It is neither federation nor confederation. It is something in between—*sui generis*, which makes it difficult to categorize. Moreover, it is always developing, both quantitatively and qualitatively: quantitatively, in that the Community has recently welcomed Spain and Portugal as new members, and qualitatively, because it has now embarked upon a major undertaking to

Hans van den Broek is Minister of Foreign Affairs of the Kingdom of the Netherlands.

strengthen its political and economic position.

As the 1970s progressed, European integration began to show an unmistakable loss of vigor. This was due to a mixture of internal socio-economic rigidities and external shocks, such as the oil crisis. It is, therefore, gratifying that today the economic climate has changed substantially for the better and that Europe is on the march again. The austerity policies which have been adopted by the member states of the Community are beginning to bear fruit. Inflation is under control and economic growth has been restored.

This is not to say, of course, that there are no problems left. The foremost concern is high unemployment. All European governments recognize this to be one of the greatest social problems of our time and are attaching high priority to its solution. In addition to unemployment, Europe is also facing new challenges, particularly in the field of technology, structural adjustment and the environment. But here again, it is encouraging to note that the member states have not retreated into a defensive position of protecting narrow national interests. On the contrary, the size and complexity of these new challenges have strengthened the conviction that no single country can face them alone and that there is no alternative to further European integration.

We in Europe fully realize the challenges posed by the high-technology revolution and Europe certainly does not intend to fall behind in this field. In our market system, R&D is first and foremost the task of private companies. However, all governments attach high priority to creating favorable conditions within which this work can take place. They have taken a number of specific measures to foster technological cooperation. In this context, mention should be made of projects such as ESPRIT (information technology), RACE (communication technology), BRITE (basic industrial technology) and EUREKA (research coordination).

Another noteworthy product of the new European resolve was the adoption last year of what is known as the Single European Act. One of its principal objectives was the urgent task of eliminating the remaining barriers to trade in the

Common Market, which make it impossible to take full advantage of its potential benefits. The abolition of import duties has contributed to a huge rise in trade within the Community. But the Common Market is not yet complete. A number of barriers remain, adopted by the various member states, and differences in fiscal regimes persist. The E.C. Commission recently presented a plan for the abolition of these barriers in accordance with a fixed time table. This plan is due to be completed by 1992.

But the Community fully realizes that the liberalization of trade should not stop at its borders and that its prosperity could not have been achieved in isolation. Europe is part of the world trading system, in which Western industrialized countries have the responsibility of withstanding pressure toward protectionism, both in their own interests and those of the Third World. We must take the grim lessons of the past to heart. It is clear that protectionism was one of the major causes of the Great Depression of the 1930s. It is, therefore, of the utmost importance that the trade negotiations in the framework of GATT reach a successful outcome.

Although the formation of the Community was initially focused on economic integration, an increasing need was felt for cooperation in the field of foreign policy, because of practical considerations and as an expression of the growing sense of European identity. European Political Cooperation (EPC) started in 1970. Of course, it still falls short of what many supporters of the idea of European unity hope for and look forward to. But every long journey begins with the first step. And the achievements of EPC at this stage are indeed far from negligible. Joint or harmonized policies have been developed regarding regional conflicts in the Middle East, Central America and Southern Africa, for example.

Even if the Twelve do not always succeed in reaching decisions unanimously, the continuous process of close consultations is helping to create a habit of thinking collectively. On the whole, EPC has strengthened the European voice on international issues which are of vital concern to the member countries.

Continued on page 47.

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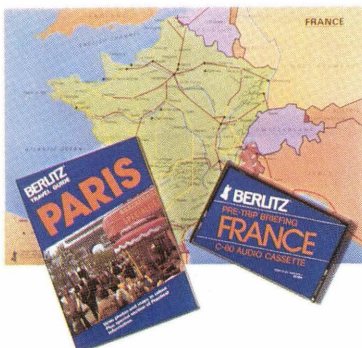
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