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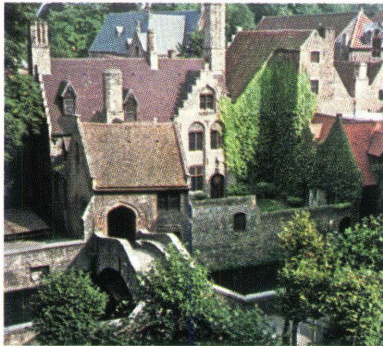


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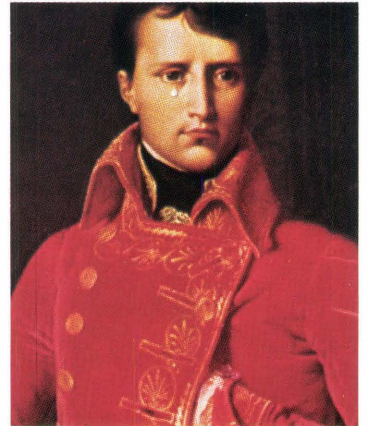
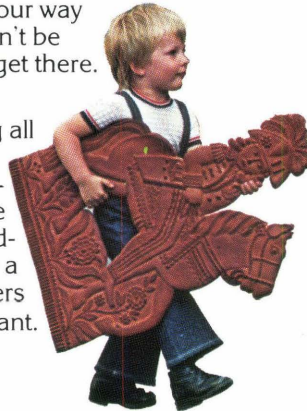


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SURPRISE! Belgium probably has more castles per square mile than any other country in Europe. The Castle of The Counts of Flanders (left) served a dual purpose in Ghent's stormy history. It protected the citizens from invaders. And it protected the Counts from the citizens.



EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



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Publisher Benoit Liger
Editor-in-Chief Webster Martin
General Manager Mark Laughlin
Assistant Editor Anke Middelmann
Contributing Editor Stephen Brookes
Editorial Assistant Wolfram Weimer
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PUBLISHER'S LETTER

In a famous address of 1950, Robert Schuman, then French Minister of Foreign Affairs and one of the founders of the European Community, declared that "a United Europe will not be achieved all at once, nor in a single framework; it will be formed by concrete measures that first of all create a solidarity in fact."

The year that has just ended provides a good illustration of Schuman's predicament. The accession of Spain and Portugal, after years of hard negotiations, took place without major difficulty. The ratification by the E.C. member states of the Single European Act—while not highly indicative of the Community's ability to find simple words to describe things—showed that there exists a will to proceed toward a more politically united Europe. And, the numerous decisions adopted by the E.C. Council of Ministers to create a single market and, more recently, to tackle the problem of agricultural surpluses, demonstrate the capacity of E.C. member Governments to agree on concrete solutions to common problems.

But if the Community has made substantial—if quiet—progress in 1986, it is still a long way from solving its most pressing problems, among which unemployment is probably the most painful. In 1987, with a more flexible decision-making process and an increased influence of the European Parliament in that process—even if this power is still far below the level that the Parliament deserves as the democratic representation of the citizens of Europe—the Community will have little excuse if it fails to improve its standing in the world economy.

Putting its house in order will be all the more necessary for the Community since it will face difficult times in its relations with the rest of the world. The new round of trade negotiations in the General Agreement on Tariffs and Trade (GATT) will be a test for the cohesion of the member states, and also of the capacity of the GATT contracting parties to work together and to build an efficient and fair world trading system.

As for the relations between the E.C. and the United States, they run the risk of becoming very sour if the two parties carry out their threats of retaliation and counter-retaliation on issues such as compensation for lost U.S. grain sales following the entry of Spain and Portugal into the Community.

The coincidence in 1987 of the 30th anniversary of the Treaty of Rome and the 200th anniversary of the U.S. Constitution is an opportune time to reflect on the evolution of our democracies, and also to remember how much the old and the new continents are interdependent. As Secretary of State George Shultz put it in his opening remarks at the annual talks between the E.C. Commission and the U.S. Administration, the E.C. and the United States are "the center of gravity of the free world." Let's hope that 1987 will see them live up to the expectations of that free world.



LETTERS TO THE EDITOR

STYLE

To the editors

I look forward to the readership survey proposed by publisher Benoit Liger. In anticipation of that, may I offer a few comments? First, the single best feature of the magazine, for me, is the contents page: In summarizing each article without cluttering the page, it provides me with space for my own annotations; a photocopy of that page, placed in a three-ring binder, then serves as an index of sorts, allowing me to reference articles easily.

The only constructive suggestion I might offer is that I find that the phrasings occasionally lag behind those in the current social-science literature. On page 4 of the October issue, for example, I would have stayed with "underground economy," for the equating of "black" with "illegal", while well-established (as in "black-market"), is now liable to result in the avoidable confusion between "black economy" (as in the article) and "Black economy," meaning Black entrepreneurs and the like. "Underground economy" is understood by all, and offends no one.

In the same article, Spanish housewives are distinguished from the "active" or "working" population. Yet the classic "Handbook of Non-Sexist Writing for Writers, Editors, and Speakers" by Casey Miller and Kate Swift devotes one section to affirming that every mother is a working mother, and that the term "woman employed outside the home" is perfectly accurate and acceptable. Although not all of your correspondents can be expected to follow these changes in usage, perhaps the editorial staff could keep a copy of the handbook within arm's reach.

I am still enjoying the October issue. The John Wyles overview of the Italian situation was so informative (blending history, economy and emotion) that I wished only that more of the four-page spread could have been devoted to text. Too much of my time is spent reading academic journals. The elegant, inviting format of *Europe* means always that it

stays on the top of the pile until I've read it cover-to-cover (and shared individual items with friends, the wisest of whom quickly enter their own subscriptions).

YOUTH

To the editors

Having read the article on "Youth and Europe" that appeared in the October issue of *EUROPE*, I felt compelled to reply to what I thought was an inaccurate and misleading presentation.

Based on the results of American surveys, Ambassador J. Robert Schaetzel lumps together the political attitudes of American and European youth. The fact that American youth is politically unmotivated does not mean that European youth is equally apathetic. He gives us the testimony of an 18-year-old Milanese high school senior. I am sure, however, that one can find many other Milanese high school seniors who have very strong feelings about Europe.

Ambassador Schaetzel seems to ignore

the existence of a pan-European student association that is called EGEE. Created in April of 1985 in Paris, this organization has an objective to promote the idea of a United Europe. Its members have been working hard to organize conferences and meetings. The first of these conferences received wide publicity in Europe and was under the auspices of the President of the French Republic. Since then, nine chapters have been established. One of these was established in the United States at Yale University. Being a founding member of the Yale chapter, I personally witnessed the enthusiastic response of every European student in that university. Ambassador Schaetzel's article flatly contradicts my experience as a member of EGEE.

For an article titled "Youth and Europe," the Ambassador spends an inordinate amount of space on the apathetic outlooks of American youths to exhibit enthusiasm about the unification of Europe. I believe that the article missed the point it set out to prove. A more appropriate title might have been "Youth and America".

Kyriacos G. Sabatakakis

REDEMPTION

To the editors

Your readers may be interested in the attached photograph, evidence that I stumbled across in the wilds of Maine that the European Community is apparently not beyond redemption after all.

In spite of long service with the Community, I was quite ignorant of this establishment, and you may want to enquire with Sir Roy Denman, Head of the E.C. Delegation in Washington, D.C. whether

it reports to him or to some agency of the U.S. Administration; or, perhaps, it is just a private charitable organization?

Should Sir Roy find it necessary to send out a mission of enquiry, I can inform you that the Common Market Redemption Center is to be found in the neighborhood of Wiscasset, Maine, between Brunswick and Booth Bay Harbor. Alternatively, some of your readers in Maine may be able to help.

Michael Emerson



This announcement appears as a matter of record only.

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AROUND THE CAPITALS



COURTESY BELGIAN NATIONAL TOURIST OFFICE

Major technical renovations and administrative changes are attracting the best opera companies to Brussels' Monnaie, which once again is one of the world's leading opera houses.

BRUSSELS

Modernizing An Opera

The applause after a recent production of Richard Strauss' opera, "Der Rosenkavalier," at the National Opera House in Brussels was unusually enthusiastic and prolonged. The acclaim was partly for the performers but also, and in large measure, for the director of the National Opera, Gérard Mortier, and for his work in restoring and enlarging the House—known popularly as the "Monnaie."

The Strauss opera reopened the Monnaie after a 16-month closing, during which major changes were effected in appearance, technical efficiency

and administration. The popular verdict is that the reforms are a triumph: "At last Brussels has an opera house worthy of its artistic role at the forefront of the world's leading companies," wrote an important critic.

Mortier, a 42-year-old Belgian Fleming, is credited with restoring the Monnaie to artistic glory five years ago after a long period in which the Belgian National Opera had sunk to the level of a "provincial theater," as he himself put it. Essentially, Mortier discarded the longstanding policy of producing popular operas at low cost—an approach that meant packed houses, but also implied low professional standards—in favor of greater artistic discrimination. He revised the repertoire and raised the qual-

ity of productions, often by bringing in internationally acclaimed artists. His aim, as he candidly admitted, was to "make Brussels the artistic capital of Europe."

One may, or may not, agree that he has succeeded. What he has certainly done is to raise the level of performances at the Monnaie to such an extent that it is now recognized as one of Europe's leading houses, commanding international performers and inaugurating important new works, while its own productions have been successfully staged in Vienna, Berlin and elsewhere.

One of the big drawbacks to success until now was the physical condition of the Monnaie building itself, which holds a unique place in Belgian history. It was here that the riots

broke out during a performance of "La Muette de Portici" in 1830, which led to a popular revolt against Dutch rule and the founding of the Belgian nation. Throughout the 19th century, the Monnaie vied with the Paris Opéra and La Scala in Milan as the world's most famous opera house and often led the way in new productions.

The Mortier revolution in 1981 was a deliberate attempt to regain that eminence and, judged by artistic standards, this has been successful. The company's growing reputation was accompanied by the realization that the theater itself was inadequate: Its 19th-century orchestra pit was too small for modern musical forces, and its scene-shifting machinery had become obsolete. The building tilted and was condemned as a fire hazard by local authorities.

Sixteen months' work and some \$20 million later, all this—except for the tilt—has been put right. Probably no other opera house in the world is now as accomplished as the Monnaie in the techniques of raising curtains and moving scenery.

More striking to the opera-goer, however, is the sumptuous display of modern art that greets him upon entry of the building. Mortier has drawn on the talents of leading artists from the United States, Italy and the Federal Republic of Germany to create a thrilling spectacle of floors, walls, lighting and statuary that has attracted as much attention in the Belgian press as the performances themselves.

Opinion is generally favorable about the interior display, but less so about the erection of an extra roof over the old theater, which was made necessary to accommodate the new stage machinery. There is a strong feeling in Brussels that the changes have destroyed the contours of a building that occupies such a special place in Belgian history and is immortalized in many paintings.

Mortier's answer to this is

that the original building was put up in conformity with surroundings that no longer exist, and that the new extensions conform to the spirit of the original builders. It may take some time for the Belgian public to accept this argument, but for the time being it has to be said that most are pleased with the renovations, and satisfied that the Monnaie is now both artistically and physically in the top league of world opera houses.—ALAN OSBORN

ATHENS

A Glimpse Of Albania

Over the past few years, Greece has developed a warm relationship with its northern neighbor, Albania. Tourism is flourishing in the form of visits to Albania by Greek passport holders and Premier Andreas Papandreu's Socialist Government has pledged to end the state of war—a leftover from World War II—that officially still exists between the two countries today.

One recent illustration of the rapprochement was an Albanian film festival staged in Athens as part of a bilateral cultural exchange program. Although Greeks are not strangers to Albanian culture—Albanian folkdance troupes, for example, frequently tour Greece—the four-day film festival provided Westerners with a rare opportunity to sample contemporary culture in Europe's most isolated state. The festival attracted crowds of Greek filmgoers, among them sophisticated film buffs and dozens of families with relatives in North Epirus, a region

of southern Albania that is still the home of an ethnic Greek minority.

According to officials from the state-run film company, Albania's film industry did not get off the ground until 1957, when the first feature film was made. Now the company turns out 14 features a year and also is responsible for importing movies from Italy and Britain, which are shown around the country. Since only one or two comedies are made in Albania each year, imported British comedy shows tend to be a great success among the Albanian moviegoers. Films from the United States and the Soviet Union, however, are banned as part of Albania's policy of rejecting anything that has to do with the superpowers.

Historical movies, often depicting the years of Italian domination in the 1930s, when imported Fascist administrators effectively ran the country nominally ruled by Albania's King Zog, are said to be very popular among Albanian filmgoers. Visitors to Albania report long lines outside cinemas, many of which were formerly churches or mosques, converted into movie theaters after the late Enver Hoxha's Stalinist regime officially abandoned religion.

Recent Albanian films tend to focus on the social issues involving young people. Two of the four films screened in Athens were historical in theme, and both were directed by Victor Ghika, the doyen of Albanian film makers. In "General Grammophone," a talented clarinet player quits an oilfield laboring job to make records of Albanian folk music under the supervision of King Zog's sinister Fascist bureaucrats. When he realizes, however, that his music is intended as part of an Italian propaganda effort, he walks out of the studio and joins an oilworkers' rebellion.

In "Autumn Rain," one of two modern social dramas, Ilir, a young engineer, fights to save his reputation and a crucial dam project threatened by a planning error. His cardiolo-



The Irish Army, though small in numbers, has been active over the years in the United Nations peacekeeping forces. Above, an Irish armored convoy on patrol in South Lebanon with UNIFIL.

gist girlfriend, Linda, abandons him in the end, but the party respects his integrity and the dam is eventually saved. The settings reveal fascinating glimpses of Albanian life and scenery, interior shots of lace-curtained apartments in downtown Tirana, the Albanian capital, and Chinese-made trucks loaded with gravel struggling up precipitous roads in the spectacular Albanian Alps.

Despite the heavy-handed political messages, Greek film critics said they were impressed by the elegant direction and naturalistic acting of all four films. But the strict puritanism of Albanian society came across all too clearly: Throughout the film, the only sign of affection that Ilir and Linda permitted themselves was a firm handshake.—KERIN HOPE

DUBLIN

Neutrality

Ireland's unique brand of neutrality inevitably got dragged into the national debate on the ratification of the Single European Act (SEA)—the agreement reached at the December 1985 European Council meeting of E.C. Heads of State and Government on

treaty reforms that would streamline decision-making in the Community. For the Government the part of the act that deals with European Political Cooperation (EPC), the gradual convergence of the foreign policies of the E.C. member states, merely formalized what has already been happening in practice in recent years. For the left-wing parties and various peace movements, who believe that E.C. membership began a steady erosion of Irish traditional neutrality, the SEA would only speed up this process.

The Government was satisfied that the Treaty of Rome establishing the E.C. laid down clearly the limits of EPC discussions on "the political and economic aspects of security" and excluded any strictly military or defense issues. These subjects could be discussed by E.C. states, but only in the separate fora of the North Atlantic Treaty Organization (NATO) and the Western European Union.

The watchdogs of Irish neutrality, however, were not so easily satisfied. How could it be possible for Ireland to be involved in discussions on "security" and the alignment of foreign policy with E.C. partners who were all members of the Atlantic alliance and still claim to be neutral? In their view, it would only be a matter of time

until Ireland got "sucked into NATO."

These suspicions were strengthened by an article in the authoritative *Jane's Defense Weekly*, published in the United Kingdom, which made a detailed examination of the Irish defense forces and concluded: "As the European Community becomes progressively a political as well as an economic grouping, the Republic may be faced with a difficult choice between its neutrality and demands to participate in Community defense, something not necessarily synonymous with NATO."

A week later, a large-circulation Sunday newspaper splashed a report across its front page with the banner headline: "Minister for Defense Attacks Neutrality." A rival newspaper quoted the same minister, Paddy O'Toole, as saying that he had "no ideological hang-ups" about Ireland joining an alliance such as NATO under certain "severe circumstances"—such as if the country were under grave threat.

A Government press spokesman yet again denied that Ireland has any intention of joining any military alliance. And O'Toole claims that he had been seriously misrepresented by the newspaper headline. Far from "attacking neutrality," he said, he was all in favor of the concept. What he was against was the lip service paid to neutrality by people who were not prepared to pay the price of an adequate defense policy like that of other neutral countries, such as Sweden and Switzerland.

The article in *Jane's* had estimated that "to provide a credible deterrent, the Republic needs to engage in an expansion and re-equipment program for its defense forces involving a capital expenditure of over \$650 million, or nearly twice its current annual defense spending." O'Toole commented: "We had a basic problem as a nation and as a people. We prided ourselves on being neutral, but neutrality implied an ability to be independent and able to defend ourselves

without outside assistance. This is not the case and the sooner we realize this, the better," he declared.

In fact, since World War II, or the "Emergency," as it was called in neutral Ireland, the defense forces steadily decreased until the outbreak of the Northern crisis in 1969 revealed how inadequate they had become even to transport field hospital teams to the border. With some justification, Ireland was accused by critics of its neutrality of getting a "free ride" under the NATO umbrella as regards security in case of an attack from the East.

Since then, the defense forces have doubled to about 14,000, but, as *Jane's* pointed out, their main role is that of a *gendarmerie*, one of assisting the police in patrolling the border and being on hand to deal with civil disturbances. The army has also performed creditably as part of the United Nations Peacekeeping Forces in Zaire, Cyprus and, now, in south Lebanon.

As confusion spread over the official stance on neutrality, the Government spokesman summed it up as follows: "We do not participate in any military alliance and that is considered to be neutrality." He was simply repeating what has been the official line of various Governments since Ireland joined the E.C. in 1973 and it

could hardly be more simple.

Irish neutrality, therefore, is not of the ideological kind that would permit identifying with the other neutral European states or the mainly Third World nonaligned group. For its critics this is a pseudo-neutrality. It can be pointed out, however, that in the 1972 referendum, over 80 percent voted in favor of a treaty whose first aim is described as "determined to lay the foundations of an ever closer union among the peoples of Europe."—JOE CARROLL

ROME

Fiat Buys Alfa Romeo

On January 1, 1987, the giant Fiat company, headed by Gianni Agnelli, replaced the Italian state as the owner of Alfa Romeo. Fiat is the country's largest private-sector company, its travails in the 1970s mirrored those of Italy itself and its subsequent recovery has had a direct benefit to the economy as well as an important psychological contribution to the country's sense of well-being.

By 1979, Fiat was on the rocks, losing money with an aging range of models for which demand was dwindling. With immense courage and

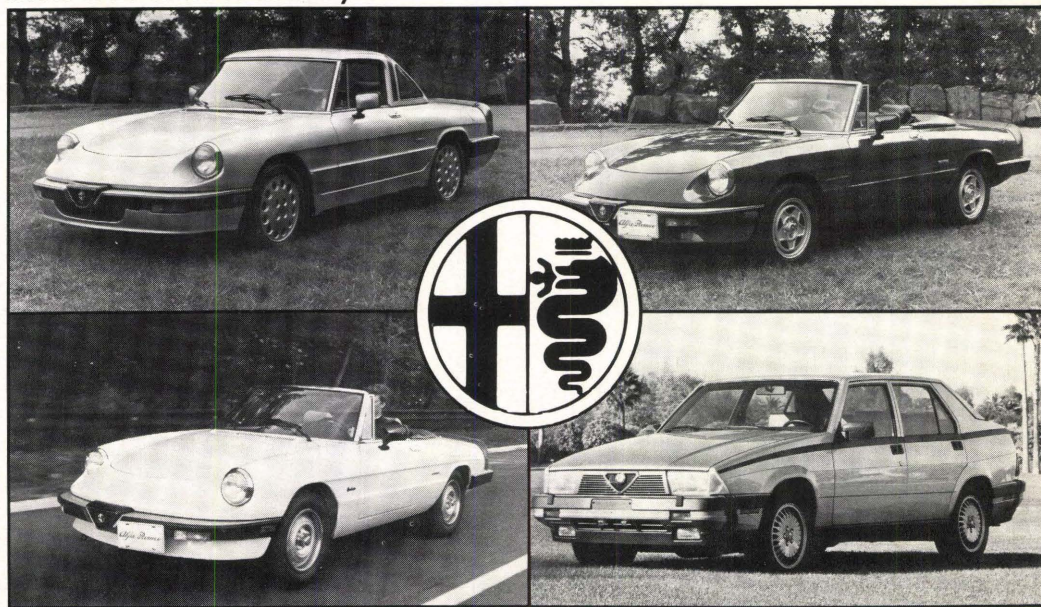
determination, Agnelli opted for radical change. He moved his brother Umberto out of the deputy chairmanship and brought in some tough, highly professional managers.

He cut the workforce by 23,500, faced down the unions and won a 35-day strike in 1980. He sacked 61 extreme militants and invested heavily in new car designs and new robotized production plants. Last year, Fiat made \$930 million net profit and this year it should make around \$1.6 billion.

The "*avvocato*"—or lawyer, as Agnelli is known—is far too subtle a man to adapt to Italy Charles Wilson's aphorism about what is good for General Motors being good for America. But there is a sense in which Italy is far more dependent on Fiat than America ever was, or will be, on General Motors.

Italian capitalism is dominated by two or three giant state holding companies and four or five private companies, of which Fiat is much the largest with 230,000 employees and a turnover of more than \$21 billion. None of the others has Fiat's spread of activities, which embrace not just automobiles, but airplane engines, computerized manufacturing equipment, heavy trucks, agricultural tractors, telecommunications, newspapers and tour-

Alfa Romeo has been bought by Fiat, Italy's largest automobile maker, and hopes to sell 60,000 of its new models in the United States next year.



PHOTOS COURTESY ALFA ROMEO

ism. Agnelli money is also invested strategically in most of the other major companies, as well as in commercial and merchant banking.

A long-time Americanophile who has been close to many U.S. Presidents, Agnelli has not had a big success in the U.S. marketplace. Fiat cars withdrew from the market at the end of the 1970s, and Agnelli says he has no plans to put his new models onto the American market.

But the United States has an important part to play in his plans for Alfa Romeo. He snatched the ailing company from under the nose of Ford of America because his takeover proposals were more comprehensive. To make them work, however, he will need to sell 60,000 Alfa models in the United States from 1990 onward. His strategy is to spend \$5.7 billion to build a new company around Alfa and Lancia, which Fiat has painfully restored to health by dint of heavy investment and good vehicle design.

He is now 65, and the five-year Alfa project could be one of the last major developments to be managed by the *avvocato* before his thoughts turn to retirement. His restless pursuit of excellence will not be exclusively focused on Alfa, however, for he is determined to build space propulsion so that the group becomes a major

presence in high-technology sectors.

A welcome confirmation that he is on the right road would be one or two hefty contracts for the Strategic Defense Initiative, for which Fiat's subsidiaries are eligible now that the Libyan Government's 14-percent shareholding in the company has been eliminated.—JOHN WYLES

PARIS A Traffic Solution

Paris traffic jams are legendary and they have worsened in recent years with the ever-growing numbers of automobiles crowding into the French capital. Now, however, Paris Mayor Jacques Chirac's advisor for traffic and roads, Jean-Pierre Bloch, has proposed draconian measures to redesign the traffic flow in this city. He has put forward a plan that would ban all parking in certain areas of Paris, while paid parking would be permitted in other zones for only limited periods.

Bloch has also advocated an entirely new system to keep track of the traffic flow and parking situation throughout the city. Instead of the coins

now used in parking meters, drivers would be issued computer smart cards to use. As the car is parked, the meter would automatically log another space filled and the information would be registered on a central computer. Once all the spaces in a neighborhood are filled, drivers looking for parking space would be barred from the area.

He also wants a new traffic police force and billboards across the city to advise drivers on the best routes to avoid traffic jams. His plan would set up a traffic-report radio station to broadcast the same information.

In more drastic proposals, there would be no delivery trucks allowed in downtown Paris after 8 A.M.; cars from outside the city would not be allowed to enter it if traffic is too heavy. There would be no tour buses in Paris, and tourists would instead be dropped off at a dock by the Seine River on the edge of town and would meander between the Eiffel Tower, Notre Dame Cathedral, the Louvre and the Latin Quarter by boat.

The so-called *bateau-bus* is one of the most popular of Pierre Bloch's innovations, drawing 83 percent support in a poll on the traffic blueprint. Traffic-weary Parisians, in fact, favor most of the proposals—with least support going to the new police force. Their

support is not surprising, since the same poll shows that 87 percent of Parisians find driving in the city difficult, and a whopping 94 percent find parking an inconvenience.

But that is not to say that Parisians don't have their own solutions. In a page-long debate in a daily newspaper, *Le Figaro*, one letter to the editor demanded that all government offices and embassies be exiled to the suburbs. The idea of banning non-Paris cars in heavy traffic conditions is "regional racism," wrote another correspondent. A certain Jean Lefèvre argued that the city was becoming asphyxiated: "The tax on the gas burned up in traffic jams should be plenty to finance the 100,000 parking places the city needs."

But it is the plan to outlaw deliveries during the day that draws the most moving argument against the plan, which is still just in the proposal stages and may never be adopted. "How could this be?" pleads a baker-caterer. "We could not possibly deliver food in the morning that is not to be eaten until several hours later. It should be fresh!"

Which just goes to show that the tribulations of traffic in Paris are not quite like the traffic problems anywhere else in the world. — BRIGID JANSSEN



Proposed measures to redesign heavy traffic flows in Paris would help control the increasingly permanent congestion in the city.

AMSTERDAM

A Year Of Culture

Having barely recovered from the news that Amsterdam had obtained the lowest number of votes from the Olympic Committee to qualify as host for the 1992 Olympic Games, the city is now preparing for its role as "cultural capital of Europe" in 1987. This was an idea put forward by the E.C. member states' Ministers for Culture, and Amsterdam will follow in the footsteps of Athens and Florence, which hosted this event in 1985 and 1986, respectively.

The chief organizers of the festival are the Holland Festival, an annual event, and the Netherlands Theater Institute, and their goals are aimed at informing, clarifying, debating and investigating the cultural identities of the various countries of Europe and how these cultures influence each other.

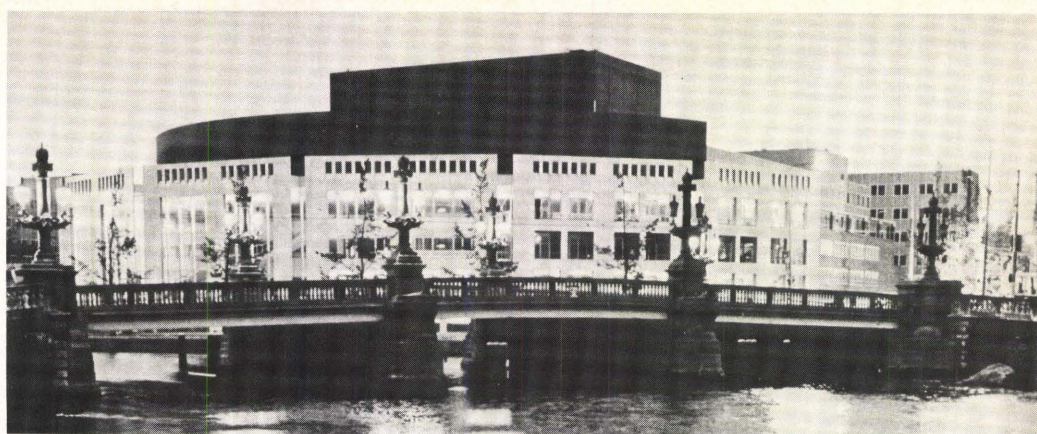
The 1987 program will cover various forms of artistic expression, representing the cultural identity of each of the participating countries, and it will provide commentaries on comparable forms of expression in the Netherlands. Cultural issues will be debated and new ideas for international cooperation on organizing future debates, congresses and symposia will be sought. "The success of the festival will depend to a large extent on support of the Ministers of Culture," the organizers have pointed out cautiously.

The Amsterdam organizers are claiming that "nowhere in the world are there as many theaters, museums and other cultural activities per head of population as in Amsterdam." Which may well be true. Amsterdam can now boast an ultra-modern "Muziektheater," where the Netherlands opera has finally found its home, as has the Nederlands Dans Theater and its ballet orchestra.

Plans for such a music theater have long been in the works. Ever since the 1920s, Amsterdam has been grappling with the problem of finding funds and space for a new opera house and city hall. In the end, a gigantic 30,000-square-meter terrain was opened up in the heart of the old city, along the Amstel River, for the construction of the two new buildings.

The Muziektheater and the new city hall are built next to each other, with the latter expected to be completed by the end of 1987. The opening of the theater took place last September among much pomp and splendor and with an appearance by Queen Beatrix and her husband Prince Claus.

For several reasons, many Amsterdamers resented the



The ultra-modern "Muziektheater" in Amsterdam was built in the heart of the old city center.

COURTESY NETHERLANDS BOARD OF TOURISM

construction, claiming that it would spoil the old city center. Built on the Waterloo Plain, which dates back to 1880, in the middle of the Jewish quarter, the square had become the tragic center of massive deportations during World War II. Now the stark white Muziektheater, with its curved frontage facing the Amstel River, offers the audience a beautiful panoramic view of the "Venice of the North" during intermissions, through the theater's large glass windows. There are three foyers, and a three-tier auditorium with about 1,600 cherry-red seats. The ceiling is starry with innumerable light bulbs.

Despite the initial protests from citizens and rivalry between architects, as well as physical destruction of construction equipment by activist groups, the building now stands. And Amsterdam citizens have already given it a name of their own: the "Stopera," a combination of *stadhuis*, which stands for town hall, and opera. It has had a full house ever since it opened—which promises to be a good sign for the organizers of the cultural year in Amsterdam.—NEL SLIS

MADRID Reorganizing the Police Force

A leading Spanish judge recently speculated in Ma-

drid how it would be if ETA, the Basque terrorist organization, were to give the Spanish Government a 10-year truce. Above all, he argued, it would enable the Government to come to grips with the problem of Spain's police and security forces. Without constantly being under the threat of new terrorist attacks, it would be given the opportunity to weed out all the still thriving methods used during the Franco regime of riding roughshod over human rights and civil liberties.

But this remains wishful thinking, for the Spanish Government has not as yet been able to enjoy such respite, and the country's two police forces, the paramilitary *Guardia Civil*, or Civil Guard, and the *Policia Nacional*, or National Police, remain the only available security forces. But now, after repeated election promises to reform these forces and to adapt them to the needs of democracy, Prime Minister Felipe González has taken major steps in that direction.

González drastically broke with tradition when he appointed two civilians to head both the Civil Guard and the National Police. Thus, for the first time in its 142-year-long history, the Civil Guard—those policemen best known for their characteristic black three-cornered hats, who serve predominantly in rural areas and also constitute one of the major elements in the fight against terrorism—is no longer headed by a senior Spanish army officer. Instead, González named a 43-year-old Socialist Party member and

professional engineer, Luis Roldan, to the post.

In a parallel move, González appointed José Rodríguez, a 38-year-old lawyer, who has until now served as Madrid's civil governor, to head the National Police. This move points to an important upheaval within the Spanish security system, and a determination on the part of the Government to keep the military and the civil security forces apart. The National Police traditionally has been closely linked with Spain's armed forces, and many of the army's officers have held high-ranking positions within the police. Along with the new appointment came the call for these officers to decide either to return to their services or to become civilian policemen.

The circumstances surrounding the appointment of the new Civil Guard chief show the extreme delicacy of the move. González gave Roldan an even higher rank in government service than any of the veteran generals serving in the Civil Guard. Nevertheless, at the Madrid ceremony at which Roldan took up his post, the most senior Civil Guard general could not refrain from declaring: "We are a force of old soldiers, with military virtues."

Roldan has been seeking to reassure the senior officers that the paramilitary nature of the force would be "respected." He would not tolerate, he has said, any rank-and-file attempts to form a trade union, and he also will maintain the military discipline of the 60,000-strong force. But he is

stressing the need for a better public image of the Civil Guard and its strict respect for Spain's 1978 constitution.

González, who in the past has been the Achilles heel of left-wing Governments, has sought to respect the armed forces' sensitivity derived from their privileged position during the Franco years—even though this often alienates popular support and brings press criticism. But this only makes the start he has made to reform Spain's police forces the more significant.—RICHARD WIGG

COPENHAGEN

Battling Pollution

Denmark is finding out that it has to adopt a green face. While the Danish environmentalist party, which also calls itself the "Greens" like its German sister party, may not have the latter's parliamentary base, its indirect influence is extremely strong. And it is growing, using the Radical Liberal Party, which holds the key to the Government majority in the Danish Parliament, as its spearhead.

The Chernobyl nuclear accident earlier this year sparked a new wave of public interest in the environment. And now the severe pollution of the Rhine River by the accident at the Sandoz plant in Switzerland in the fall has focused attention on water pollution. The seas around Denmark are becoming increasingly polluted, and in-shore fishing is a dying trade. Fresh lobsters used to be a specialty of the fishermen north of Copenhagen, but this year they have virtually disappeared.

Although experts agree that Denmark, as the gateway to the Baltic Sea, gets the full thrust of waste from that area, the public is clamoring for immediate Danish action. Major causes of Danish pollution seem to be the fertilizers used by Danish farmers, as well as

sewage, which transports the fertilizer remains into the sea. Urban waste, both in liquid and solid form, is, of course, also an important source of pollution, despite the fact that it is supposedly treated before being allowed to flow into the sea.

A parliamentary majority is now demanding—and getting—a rapid escalation of the fight against pollution. Agriculture, still of critical importance to the Danish economy, will be forced to use less fertilizers in the long term. In the short term, local authorities will have to invest more in sewage treatment plants and in training their personnel, which at present are not sufficiently competent to use existing plants at their most efficient levels.

Danish agriculture is usually one of the strongest political lobbying groups, but the publication of a report stating that farmers were polluting less—not, however, sustained by the facts—has created tension between the Government and agriculture. Faced with financial problems in the wake of the E.C. farm surpluses, this is not the best time for Danish farmers to face new demands. But, like Danish industry, they have no real choice: Anti-pollution standards are about to be raised.—LEIF BECK FALLESEN

BONN

Nuclear And Toxic Worries

Environmentally speaking, 1986 was a bad year for the Federal Republic of Germany. In the spring, there was the nuclear accident at the Chernobyl plant in the Soviet Union, which sent fallout over the whole of the country. And in November, an accident at the chemical plant of Sandoz in Switzerland spilled masses of toxic waste into the Rhine River that flows through most of Germany.

The country is now trying to cope with the aftermath of these accidents. Westerly winds that brought clouds of fallout from the nuclear disaster at Chernobyl affected the whole of the Federal Republic, with radioactivity levels reaching between 150 becquerels (the unit to measure radiation) per cubic meter and 200 becquerels. Excessive levels when compared to a normal rate of one to 10 becquerels per cubic meter!

The fallout, naturally, has Germans considerably concerned over the effects of the accident on their diets—and their health. Studies released immediately after the accident

suggest that over the next 50 years the rates of cancerous tumors will increase over current levels, and the same is said to be true of genetic disorders and diseases.

The worry about what to eat is equally great. Dangerous elements of the fallout have been absorbed by the soil, by plants and by animals, which cannot be broken down naturally, and thus are passed on from one "generation" to the next in the ecological cycle. Higher than normal levels of radioactive elements were found in deer, certain types of fish, vegetables and milk—which comes from cows that feed on grass and hay that absorbed the dangerous fallout.

Some experts in the field are pointing out, however, that the public *angst* is, to an extent, unfounded. They say that regular medical exams have shown the levels of radioactivity absorbed in human bodies to be lower than at first expected, and that certain foods do not pose the same danger as was initially assumed. But the environmentalist and anti-nuclear lobbying groups are not convinced, and have launched anti-nuclear campaigns, with slogans such as: "Do you know the best way to make nuclear power plants safe? By turning them off."

And now, less than six months after the Chernobyl accident, the Federal Republic is faced with yet another major shock to the natural environment—the spillage of toxic waste into the Rhine River from the Swiss Sandoz plant. Following a fire at the chemical warehouse in Basel, 30 tons of water, containing highly toxic herbicides, pesticides and mercury compounds spilled into the Rhine River, upsetting the entire biological balance of the river dramatically.

While this accident may not have been as directly harmful to the ordinary citizen as that of Chernobyl, the water supply in several towns and communities throughout Germany, normally supplied by the river, had to be switched off and water supplied from other sources

Toxic waste spills into the Rhine River are forcing European Governments to rethink their positions on environmental issues.



such as storage tanks.

In this case, it is the aquatic life that suffered. Millions of dead eels were fished out of the river, as well as carp and various kinds of trout, and it is presumed that large numbers of other organisms such as snails, mussels and crabs were also killed off.

It is an especially severe blow to conservationists who have spent decades cleaning up a river that was pronounced ecologically "dead" in the 1960s. Professor Ragnaz Kinzelbach, heading a team of scientists of Rhine River wildlife at the University of Darmstadt, has said that "much of the work of the past 15 years has been destroyed" and that reintroduction of new life into the river could take up to two years because of the extent of the damage.

The outrage at the accident has not been limited to Germany, however, but has been audible throughout the European Community. The Netherlands' Minister for Transport and Public Works, Neeli Smit-Kroes, remarked that a situation had been reached where the Rhine could not take any more pollution. "This accident may push us over the top," she added.

If nothing else, this recent accident has brought home to the Swiss the dire need to align their anti-pollution laws and regulations closer to those of the E.C. which were set up after the Seveso, Italy, accident. In that incident, another Swiss company, Hoffmann-LaRoche, was responsible for the explosion of a chemical reactor, spewing toxic dioxin into the atmosphere.

Nevertheless, it is that part of the Rhine that flows through the Federal Republic of Germany that has been worst hit and will take the longest to rehabilitate. According to specialists, the deadly effect of the toxins in the water will not be as great on the wildlife once it reaches the North Sea, as it now is in the Lower Rhine, which received the full and main thrust of the spillage.—
ANKE MIDDELMANN

LUXEMBOURG

The Court Of Justice

Recently, I shared a taxi from Luxembourg airport with a British diplomat who knew about an important source of news from the Grand Duchy. "Look at the European Court of Justice," he said. "You'll find more stories there than anywhere else." I did, and he was right.

In some ways, the European Court of Justice, housed in a modern building on Luxembourg's Kirchberg Plateau, is similar to the Supreme Court in the United States: It makes the final law and there is no further recourse against its decisions. British, Belgian or Danish citizens, for instance, can appeal to it directly in limited cases or through their national courts, but only if they feel that their rights, as laid down in the Treaty of Rome, have been infringed upon.

Lately, the Court has proved sympathetic to a series of individual cases, giving, for example, a verdict in favor of a woman seeking national assistance for looking after an invalid mother, and backing the appeal for compensation of a sacked E.C. employee.

Perhaps most important in terms of public opinion in recent cases, the Court of Justice has decided that women and men should have the same retirement age—and thus should be entitled to the same job guarantees and pension rights. The ruling did cause consternation in the United Kingdom where sexual discrimination on pensions and working rights still exists. But, since the Court of Justice makes the final and binding ruling—theoretically at least—the British Government has now had to accept that this will have to change.

Thus, in individual matters, the Court works well and is acknowledged as doing so. In other areas, however, it might work just as hard, but gets less result. An important case in

point might be the common transport policy—including such matters as free enterprise in aviation, which would permit competition among the airlines—which the Court has urged the E.C. Ministers involved to produce and put into effect. So far, however, this plea has been disregarded.

This naturally raises the question of what powers the Court actually has. Basically, they are all moral, for, although it can tell a member state that it is disobeying E.C.

law, it is not empowered to impose punishment. Which means that while member states usually accept the ruling and obey, some have been known to raise legal and technical obstructions. The E.C. Commission is the principal enthusiast where legal action is concerned, having raised more than 90 percent of the cases brought before the Court so far, and, as a Commission lawyer said, winning three cases out of every four.—ALAN OSBORN

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LONDON



The BBC Celebrates 50

“A mighty maze of mystic rays is all about us,” sang Adele Dixon, when she opened the world’s first television service 50 years ago. The song, specially written for the occasion, has deservedly been forgotten, but television has become one of the dominant forces in the world.

Those first flickering pictures from the Alexandra Palace studios of the British Broadcasting Corporation (BBC) in north London reached only a tiny audience within a 25-mile radius of the studio. There were a mere 400 television sets in England at that time and during the first years transmissions lasted only two hours a day, Mondays through Saturdays.

“Outside broadcasting” literally meant outside the palace in Alexandra Park, because that was as far as the 1,000-foot cable would stretch from the studio! And, since all broadcasts in those early days before telerecording were live, everything had to be “right on the night”—which frequently was not the case.

The first mobile television unit was set up in 1937 to cover the coronation of Britain’s King George VI. It was another major breakthrough in the industry, and the commentator was excitedly to exclaim that the first live close-up of the royal coach could be seen “as much as 60 miles away!” At its birth, television was still much more locally than glob-

ally oriented.

The outbreak of World War II, however, put an end to the exciting experiment that had laid the foundation of modern television. It was not until after the war, in 1946, that transmissions were resumed with the broadcast of the victory parade in London. Even in the early 1950s, radio was still very much at the center of the British family circle. But by the middle of the decade, with the advent of the first commercial channel, Independent Television (ITV), the establishment of the Eurovision link with Europe and the importation of popular American shows, the pictorial medium was soon to become the most popular form of home entertainment.

Apart from producing the first television station, the BBC is also unique in maintaining a high degree of independence, despite operating as a state-owned institution. Being free of commercial considerations has helped it to maintain a level of quality in certain fields—which is the envy of the world.

The BBC receives much of its \$2.2-billion annual budget from license fees paid by the British television consumers. It has been suggested that, in order to reduce the annual license costs to the consumer, which today are around \$80, the BBC accept advertising, like Britain’s two independent channels, ITV and the relatively young Channel 4, which have been commercial from the outset, depending on advertising

business for their revenue. But a recent study by the Peacock Committee in 1986, which looked at the future of British broadcasting and the role of the BBC, recommended that the station should remain free of advertising.

Throughout its history, “the Beeb”—as it is affectionately called—has inevitably come under political pressure from both right and left. Conservative and Labor Governments have taken turns in accusing its staff of being either left-wing radicals or right-wing reactionaries. But journalistic independence is one of the hallmarks of the BBC, and one of the reasons for which it is admired worldwide as a symbol of British political pluralism and tolerance. Preserving this status has been one of the key battles fought by “the Beeb” over the past five decades.

In the absence of statutes such as the U.S. Constitution’s First Amendment, it is this independence of mind that has helped the state broadcasting system to block negative or censorious intrusions by governments seeking to turn the BBC into a tool of government propaganda, as state television has become in so many countries. It has even been observed that those appointed as chairmen of the BBC by the government, known for their stern criticism of, or bias against, the station, have in the end become its staunchest defenders.

Apart from the battle for political independence, the BBC is

also deeply committed to maintaining the high standard of programming which, with the exception of a few fallow periods, has helped to elevate the station to its preeminent position on the world’s electronic stage. Nevertheless, facing competition from the commercial stations, the BBC has been under pressure to present audience-pulling programs, but, by and large, has successfully prevented bad television from driving out the good.

The BBC, which led the field 50 years ago with the introduction of the first regular high-definition broadcasts, is still leading the way in the battle to set a standard for other state-owned and commercial stations to follow. Today, television is indeed a “mighty maze” and Britain’s state-owned BBC is still in the forefront of those trying to ensure that the “rays all about us” serve the people, and not their rulers.—DAVID LENNON €

CORRESPONDENTS

DAVID LENNON is writer/editor on the foreign desk of the *Financial Times* in London.

RICHARD WIGG is the Madrid correspondent for *The Times* of London.

BRIGID JANSSEN is a freelance writer based in Paris.

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

JOHN WYLES is the Rome correspondent for the *Financial Times*.

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

NEL SLIS is a freelance writer based in The Hague.

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

ANKE MIDDELMANN is assistant editor at *Europe*.

JOE CARROLL is the diplomatic correspondent for the *Irish Times* in Dublin.

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DONALD L. FORD

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Just to mention a few specific examples:

- Berlin has scheduled a year's calendar of events to mark its founding 750 years ago, beginning May 1 with a gala concert by the Berlin Philharmonic, conducted by Herbert von Karajan.
- My own country, the United Kingdom

will stage dramatic re-enactments of the conflict between two of history's most remarkable women—England's Queen Elizabeth I and Mary, Queen of Scots—which led to Queen Mary's execution 400 years ago.

• Amsterdam will be the host of much that is excellent in art, music, ballet and theater, for the city of canals has been designated Europe's culture capital for 1987 by the European Community (see also the Letter from Amsterdam, page 8).

The capital cities await, and so do the seashores and the countryside. Europeans themselves are traveling among our countries in greater numbers than ever, with Swedes leaping into Riviera waters while Greeks try out Finnish saunas. It is a great time to join them.

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665 Fifth Avenue, New York, NY 10022. Tel.: (212) 759 8822.

If this is your first time to see Europe, you will be pleasantly surprised at how easy—and how affordable—it is. The best single piece of advice I can offer is to begin planning early by requesting information from the national tourist offices of the countries you are considering visiting. They will provide you with detailed brochures describing the highlights of each country, as well as basic facts visitors should know. When you have made the key preliminary decisions about where you want to go, how much time you can take, and how much money you want to spend, I urge you to see a travel agent.

Those who have never used the services of a travel agent may not be aware of how much they can do for travelers. They listen to you when you explain your plans, they ask the right questions, and then they research and explain all the options.

When you have made your choices, the travel agent will handle the details of bookings and reservations, generally at no cost to the client. The agent is reimbursed through commissions from the airlines, hotels and other suppliers.

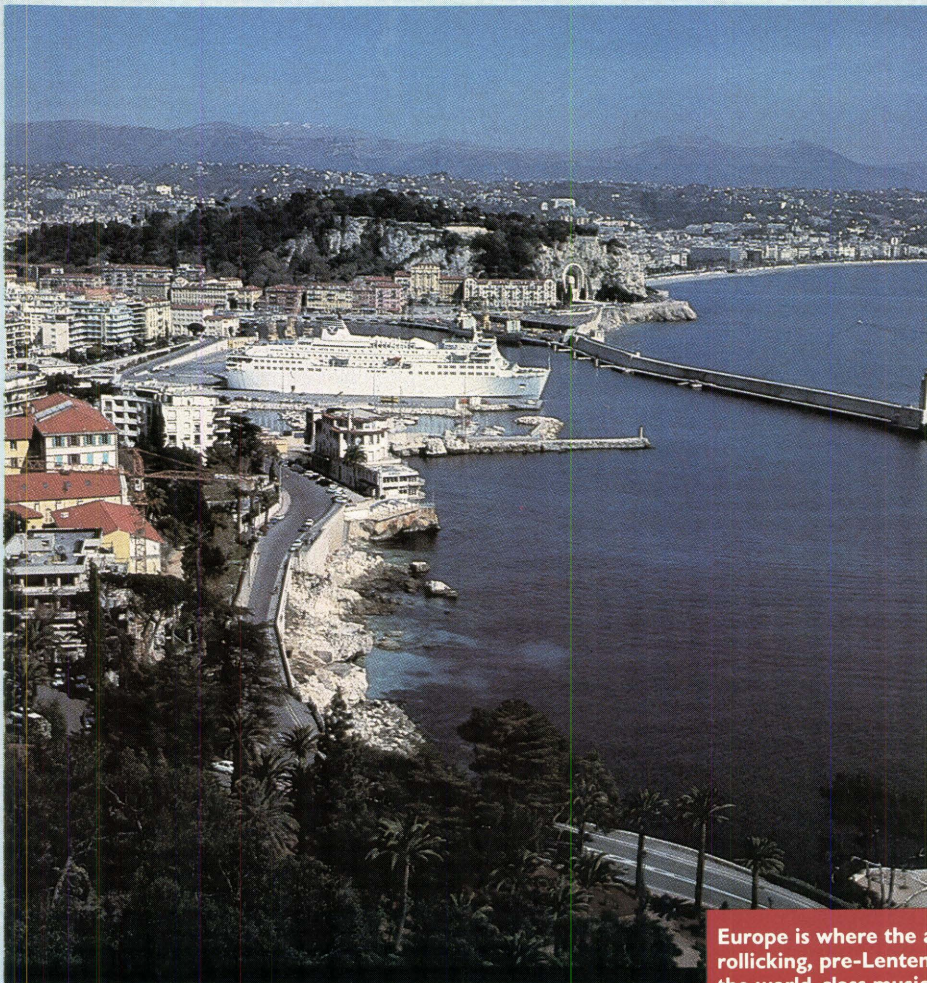
The European travel industry is striving mightily to stabilize transportation prices. For instance, the Eurail Saver Pass, good for 15 days of unlimited, first-class travel in 16 countries (for groups of three or more people) will cost only \$210, while the single 15-day Eurailpass for individuals costs \$280. The Britrail pass is \$160 for seven days of first-class travel. Other national rail passes are equally attractive.

Among the reasons why a vacation in Europe continues to provide excellent value are:

- The variety of good accommodation in all price categories is unmatched. In the cities, you do not have to stay in a deluxe hotel to receive a good room with bath and good service. Country inns provide delightful, inexpensive accommodation. Among them are Ireland's bed-and-breakfast establishments, Denmark's *kros* or Portugal's *pousadas*.
- The variety of dining experiences at different prices is also unmatched. If you stay with the specialties of the region for both food and drink, you can eat well no matter how tight your daily budget.

A word on travel packages: They are an excellent way to stretch the travel dollar. And when you plan trip to Europe,

Donald L. Ford is the North American chairman of the European Travel Commission and the general manager of the British Tourist Authority.



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Are you a student of ancient times? An array of packages will allow you to visit on-going archaeological digs in Greece and Cyprus. An excellent introduction to Europe is the escorted tour that includes air fare, top hotels, dining, shows and guides expert in the sights you will be seeing for the first time. Such tours are also recommended for groups of people who want to travel together.

If you prefer to take to the sea, look into the many cruises available, whether large, deluxe ships or on smaller vessels, such as those cruising Yugoslavia's Adriatic waters, the Aegean and the Swedish archipelagos. You can also float through

Europe is where the action will be in 1987—beginning with the rollicking, pre-Lenten carnival parties of February and March, through the world-class music festivals, the historic pageants and the opening of intriguing new museums. Above, a cruise ship calls at Nice on the Mediterranean. Below, a street market in Copenhagen.



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Europe via the Continent's rivers and its network of canals.

I have mentioned a few of the special events coming up in 1987. But that is only part of what can be experienced this year in Europe. As always, the choice is tremendous, the variety overwhelming—even for Europeans.

Early in the year, the carnival season sweeps across most of Europe with particularly famous celebrations in Munich and other major German cities, Basel (Switzerland), Nice, Cadiz, Binche (Belgium), Venice and Luxembourg. These traditions, dating back to medieval times, are celebrated with masked balls, mass parades and the irrepressible merriment with which we anticipate spring.

Later, Holy Week is marked by solemn observances everywhere. Pope John Paul II will lead the annual Good Friday procession to the Roman ruins on the Palatine Hill. In Greece and Cyprus, the Orthodox celebration of Easter is the year's most important single event.

If you are a gardener, as I am, you might make your way in April to the Netherlands' Keukenhof Gardens, where

Continued on page 50.

U.S., E.C. PREPARE TO TACKLE TALKS ON INTELLECTUAL PROPERTY RIGHTS

THIS PROBLEM WILL BE A WATERSHED TEST OF THE G.A.T.T.'S ABILITY TO EVOLVE.

JAMES DAVID SPELLMAN

Protecting computer software, movies, trademarks and other intellectual property from pirating is emerging as a pivotal challenge to liberalizing international trade in goods and services. What progress the current round of world trade talks eventually achieves in expanding trade will ultimately depend on the strategies adopted by the General Agreement on Tariffs and Trade (GATT) to crack down on counterfeiters.

The pace, sophistication and costs of intellectual property thefts have increased dramatically, undermining rapidly the ability of high-tech industries to generate new jobs and economic growth. "In today's climate of fierce competition in high-technology products and processes, requiring huge expenditures on research and development (R&D) and swift marketing of the results of that R&D, the United States has become increasingly vulnerable to piracy and counterfeiting of our products and processes," Richard C. Wittee, chief public counsel of

Procter & Gamble Co., testified last year before a congressional panel.

European executives have made the same point in other forums. Two years ago, a report by GATT experts concluded that piracy is a major threat to the world trading system, and urged negotiations among GATT members ("contracting parties" in GATT-ese) to curb the problem.

Copyright and patent infringements have cost companies and national economies a tremendous amount in income and jobs. Recouping research investments through sales of patented products has been curtailed, multiplying entrepreneurs' risks to develop new technologies that later easily may be marketed illegally. Consumers who unknowingly purchase and use counterfeit products lose confidence in the original manufacturer, resulting in future sales losses in foreign and domestic markets.

Copyright and patent infringements cost U.S. businesses from \$8 billion to \$20 billion yearly, with American job losses estimated from 130,000 to 750,000 annually, according to the U.S. Commerce Department. About 2 percent of America's jobs are linked to international trade in intellectual property. Pub-

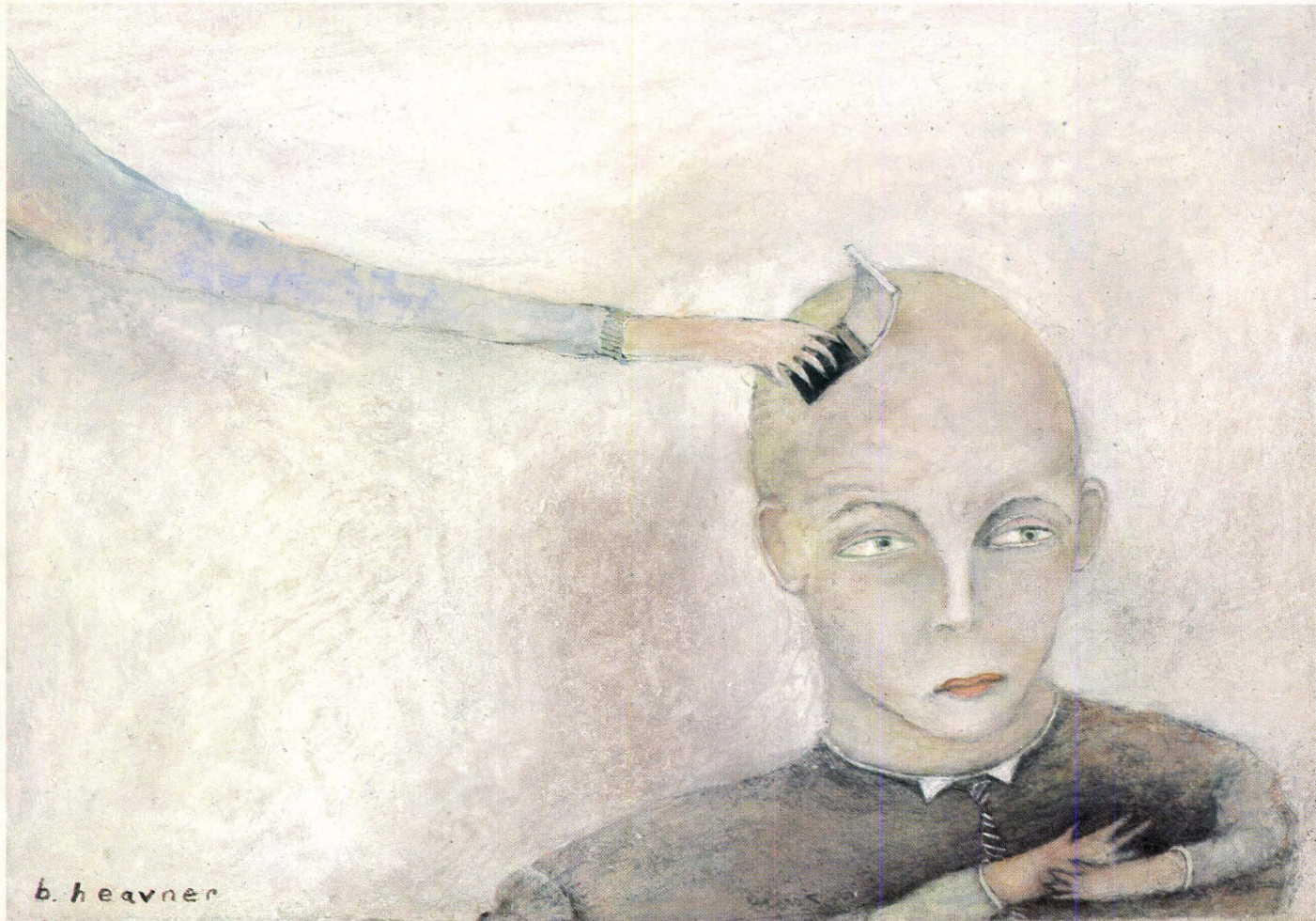


ILLUSTRATION BY BECKY HEAVNER

lishers lose \$1 billion each year to the piracy of English-language books worldwide, according to the Association of American Publishers. The National Agriculture Association estimates that potential losses from infringements on the U.S. agrichemicals business run as high as \$300 million a year.

Although the European Community has not produced similar studies, trade experts say that Europe's losses are comparable, costing the region, for example, almost 1 percent of its nonagricultural jobs each year. These infringements occur despite international and national laws that establish and regulate rights governing the use or copying of an idea, expression, design or a product and its trademark and packaging.

Several international agreements provide and enforce intellectual property rights. Combined, these conventions harmonize the disparate laws of nations governing such rights. They establish the principle of national treatment—this means that a foreign company holding rights is not treated differently than nationals within the country where the company seeks protection—and they establish minimum international rights, including the right of priority—this protects inventors from losing their patent rights abroad by guaranteeing a minimum period of patent eligibility in other countries.

The oldest copyright agreement is the Berne Convention for the Protection of Literary and Artistic Works. Administered since 1886 by the World Intellectual Property Organization (WIPO), this convention protects "the expression of literary and artistic works," which include "every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression." The Rome Convention (1961) extends these provisions to performers, record producers and broadcasters.

The Universal Copyright Convention of 1957 joined the United States and countries in Latin America, Europe, Asia and Africa together in a single international agreement governing the copyrighting of literary, scientific and artistic works. This agreement is administered by the United Nations Educational, Scientific and Cultural Organization. Unifying national patent laws was accomplished by the Paris Convention for the Protection of Industrial Property of 1883 and subsequent amendments. The Patent Cooperation Treaty followed in 1978, which helps inventors gain patents in foreign states by, among other things, centralizing filing

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

procedures and standardizing the application format. E.C. members signed all three conventions, while the United States has signed the UCC and Paris accords.

This framework "has been quite stable, displaying a higher level of cooperation than other international agreements," observed a recent study by the Office of Technology Assessment (OTA), a research arm of Congress. "Unlike other international agreements that are periodically readapted or completely revised, the interlocking conventions . . . have provided a permanent legal framework."

Infringements, however, increasingly circumnavigate these safeguards. In 1984, Singapore companies sold an estimated 85 million counterfeit and pirate sound records at home and abroad, according to the Recording Industry of America. A catalog distributed in Korea, titled *Il Won Books Information*, lists over 8,000 pirated books. Apple Computers estimates that it loses from 10 to 50 percent of its potential software program business through illegal uses. About 40 percent of Mexican sales in tape recordings are pirated tapes. In Taiwan, approximately 15,000 units of the 10 most popular U.S. software programs are sold each month, but only 1,000 are legitimate sales. Congressional testimony revealed that a Japanese company exports to the United States optical fibers made through a process patented in the United States.

Why are these thefts happening? Some countries' laws flagrantly disregard intellectual rights. Indonesia and 21 other countries do not have patent laws, according to the U.S. Trade Representative. Other nations' laws encourage their citizens to appropriate foreign-owned technologies without adequately compensating the inventor or creator. Some countries do not allow product-based patents for chemicals, pharmaceuticals and biotechnology. Korea and Brazil, among others, only safeguard the production process, not the resulting compound. By making only slight manufacturing changes that do not significantly alter the resulting compound, patent laws can be skirted.

Copyright protections for books, movies, records and tapes are nonexistent or weak in some states. Where the laws are strong, policing may be inadequate and enforcement poor. What penalties are imposed are sometimes negligible. International accords are also weakened by perfectly acceptable practices. The Paris convention, for example, does not require signatories to have a patent system. This and other accords permit a state to set unreasonable requirements for "work-

ing" an invention locally before protection is granted. Signatories can also impose compulsory licensing policies that fail to provide prompt, adequate compensation to the copyright or patent owner.

Protective rules have failed to keep pace with technological advancements. New products and services often do not match the current categories of protection, and international institutions lack the means to regularly advance new legal strategies to confront the technological challenges. Uses of technology have become more diffuse and frequent. More and more information is flowing among nations. For example, the number of computer terminals in Western Europe increased from 393,000 in 1979 to 832,000 in 1983 and is projected to reach 1.6 million this year. Current surveillance efforts are overwhelmed by this scale of activity.

Countries have independently taken steps to protect the intellectual property rights of their resident companies. Europe has issued a directive to member states calling for appropriate chip design protection. In the United States, several bills were introduced in Congress last year to ease obtaining relief against counterfeit imports and to strengthen federal remedies, including higher fines. Although none were passed, legislation may be reintroduced this year.

The Reagan Administration has threatened to withdraw benefits provided under the Generalized System of Preferences (a program permitting developing countries to export products duty-free into the United States—see page 22) to developing countries that violate U.S.-held rights. Austria, the Federal Republic of Germany, Italy, the Netherlands, Spain, Sweden and the United Kingdom are pursuing special copyright protection for software.

At a meeting last fall at Punta Del Este, Uruguay, the GATT's contracting parties agreed to launch negotiations into curbing intellectual property thefts affecting trade as part of the eighth round of world trade talks. These efforts would supplement, not supplant, the role of WIPO, a communiqué stressed.

The United States lobbied heavily to get this on the agenda. Last April, the Reagan Administration stated that it wanted "to conclude . . . an enforceable multilateral trade agreement against trade-distorting practices arising from inadequate national protection of intellectual property." American negotiators are seeking a GATT Anti-Counterfeiting Code modeled after the nontariff barrier codes

Continued on page 54.

GRAIN DISPUTE COULD TRIGGER MUTUAL RETALIATION

E.C. COUNCIL OF MINISTERS CALLS U.S. DEMANDS FOR COMPENSATION "UNJUSTIFIABLE."

YOUSSEF AZMEH

Senior West German diplomats said December 22 that the E.C. Commission had received clear signals that the United States would take no punitive action in a dispute over grain sales to Spain before February. A temporary six-month truce was due to expire at the end of December and efforts to date to negotiate an agreement have failed, stoking fears of a major trans-Atlantic trade war.

A special meeting of ambassadors from the E.C.'s 12 member countries was told by senior E.C. officials that no formal

response had been received to an E.C. proposal for a one-month extension of the deadline. The West German sources said, however, that while E.C. officials were told President Ronald Reagan would outline likely U.S. actions before the end of December, they were given clear signals that any measures would not take effect before February. The ambassadors said there was no change in the E.C.'s stand, but proposed new dates in early January for fresh negotiations.

The E.C. had warned the United States on December 15 that any curbs on its exports over the trade dispute on U.S. access to Spanish markets for animal feed

would trigger retaliation that could have damaging political and economic consequences. E.C. Foreign Ministers said in a statement that U.S. demands for compensation at talks that broke down in Brussels over the preceding weekend were "unjustifiable."

E.C. External Affairs Commissioner Willy De Clercq, who led the Community side at the talks, said the ministers had endorsed the tough stand of the Commission in defense of E.C. interests. They also backed a Commission request for a postponement of the December 31, 1986 deadline set by the United States for settling the dispute over the loss of market for U.S. exports of feed grains since Spain entered the Community.

De Clercq told a news conference the two sides were far apart when the talks ended December 14, but the Community wanted more talks to avoid confrontation. "Our reply to any unilateral action will be rapid and effective. We are well prepared for it," he said of the U.S. threat to impose restrictions on a range of E.C. imports.

The ministers' statement regretted the deadlock and reemphasized the desire to bring negotiations to an early and agreed conclusion. It invited the Commis-



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sion to seek a postponement of the deadline until January 31, 1987, "with a view to reaching a settlement. . . on a realistic and equitable basis." The statement added that "in the event that unilateral measures are introduced by the United States, the E.C. will take equivalent action to defend its interests."

De Clercq said there would be "no capitulation to threats." The Community's response would match U.S. measures and would be simultaneous with any U.S. action. De Clercq said that if the dispute degenerated into open conflict, it would not only damage trans-Atlantic political and economic ties, but also undermine preparations for a new round of trade liberalization talks in the General Agreement on Tariffs and Trade (GATT).

E.C. officials said the Community was keen to settle the dispute before the new Congress, which will be eager to push through protectionist legislation that failed in the last Congress, takes office in Washington this month. They said Reagan has tried to hold the line against protectionist pressures, but that he may not be able to do so much longer after the November elections gave control of both the House of Representatives and the Senate to the Democrats.

The E.C., however, was not in a mood to accept what it considers unreasonable

U.S. demands that appear aimed at undermining the E.C.'s Common Agricultural Policy. The ministers said the Community was prepared to accept a "pragmatic solution" that would compensate the United States for some market loss, but recognizes that the Community had a right to impose restrictions on outsiders once a country joins the group.

De Clercq said the United States estimated the Spanish market for maize and sorghum at 4 million tons a year and demanded this should remain open to all nations. The Community rejected the estimate as too high, setting the figure at 3.2 million tons and insisting that part of the market should be reserved for E.C. exporters.

De Clercq said this meant the 12-nation group was prepared to guarantee non-E.C. exporters—mainly the United States—a market for 1.6 million tons, but that this tonnage had to go down gradually as the United States expanded its exports to Spain of cereals substitutes used for animal feed, such as corn gluten and citrus pulp. These are some of the U.S. export commodities that the Community has targeted for retaliation if Washington goes ahead with anti-E.C. action at the end of the year.

The December 15 meeting of the Foreign Ministers followed the collapse of

negotiations on U.S. demands for compensation for the loss of grain sales since Spain joined the E.C. in January 1986. The negotiations were conducted with two U.S. cabinet officers, U.S. Trade Representative Clayton Yeutter and Agriculture Secretary Richard Lyng. Washington's year-end deadline would impose curbs on a range of E.C. exports, an action that would bring retaliatory action already agreed on by the Community.

Yeutter had said earlier—at a news conference in Brussels December 12 after annual U.S.-E.C. ministerial consultations—that Washington estimated its loss at some \$400 million to \$500 million a year. "We are not in a position to accept that kind of trade damage without compensation," he said. Secretary of State, George Shultz, who headed the U.S. team at the earlier, high-level talks, told the same news conference that it was important for the Community and the United States to see that their problems did not get out of hand.

The E.C. is prepared to compensate the United States for the Spanish losses, but it would also do this only if an agreement took into account benefits the Americans would obtain from the opening of Spanish markets to U.S. exports of manufactured goods. €

Youssef Azmeh reports from Brussels for Reuters.

For further information,
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- Martin Wolf, Director of Studies, World Trade Policy Center

SUNRISE EUROPE: A PROPOSAL FOR HIGH-TECH RENEWAL

UNLESS SOMETHING IS DONE, EUROPE WILL BE LEFT BEHIND IN THE NEW INFORMATION ERA.

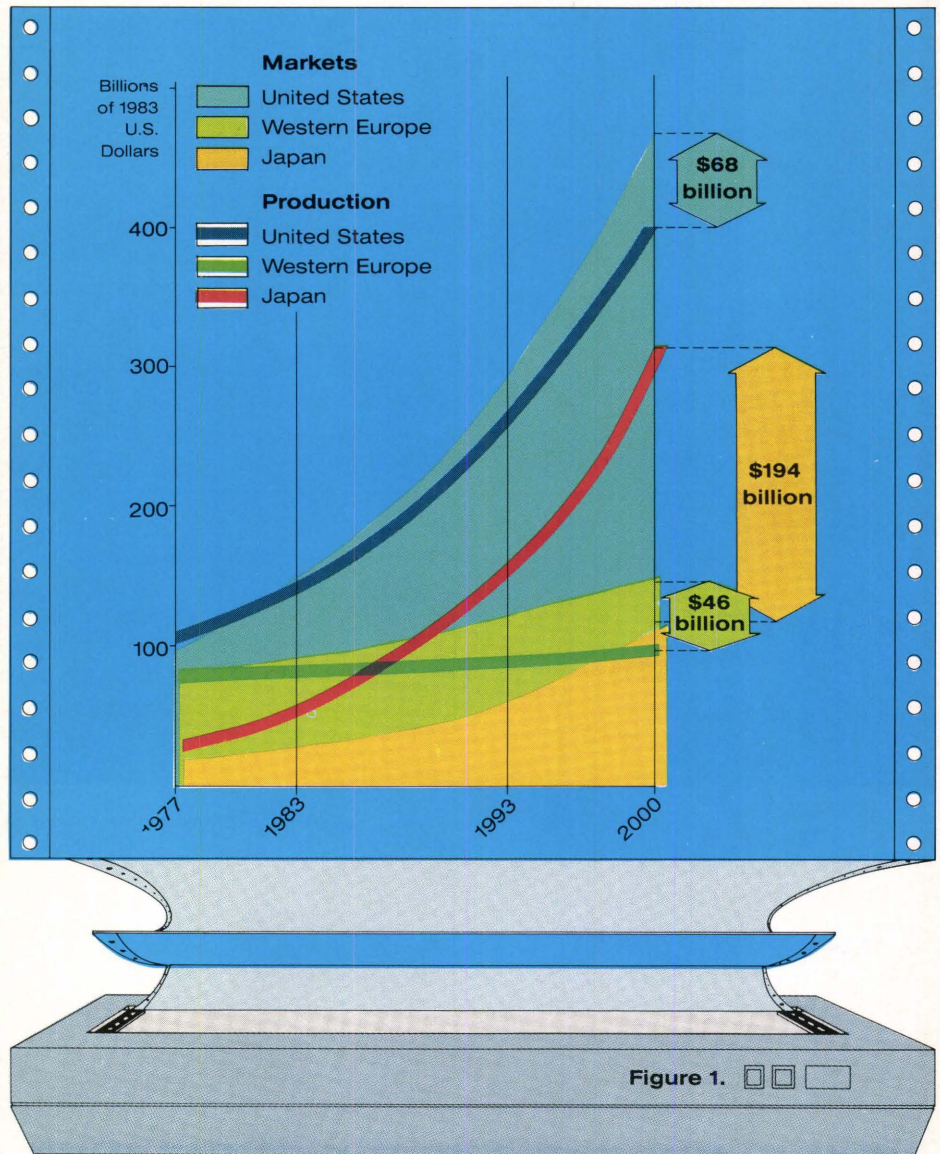
IAN MACKINTOSH

Most Americans do not know about it; many Europeans do not seem to care about it; very few individuals understand it. But Europe is now facing its most serious economic challenge of the century, and what its Governments decide to do about the high-tech sector in the next year or two will determine whether Europe enters the third millennium with its economy roughly on a par with those of the United States and Japan—or as a collection of Once-Industrialized Countries.

Is this another voice of doom crying out from an abyss of ignorance and prejudice? No, as we may discover by looking at the problem from a viewpoint securely founded on facts. Today, Western Europe as a whole is economically powerful, politically stable, militarily significant. Its population of about 350 million represents about 25 percent of free-world gross domestic product (GDP). But, as is widely acknowledged and well documented, it is failing to keep up with the sizzling pace of growth set by the electronics and information technology (IT) industries of the United States and Japan.

That this is a matter for grave concern can be confirmed by examining a few key statistics. In the United States, for example, total factory shipments of electronic goods in 1983 were valued at approximately \$144 billion—more than twice the value of U.S. factory shipments of automobiles and representing about 20 percent of the total manufacturing sector of the American economy. Total direct employment in the U.S. electronics industry was about 1.7 million.

From another angle, on the basis of present trends, total output of the free world electronics/IT sector will reach \$1 trillion around the mid-1990s, and aggregate direct employment in this sector will be about 12 million, globally, by the end of



the century.

However, in Europe, as we shall see, there is a persistent decline in performance in this sector. If, as the above figures suggest, IT is the economic main-spring of the post-industrial societies—what we might dub the Information Economies—then Europe's incipient failure also represents a threat to the United

States. For a gradual sapping of Europe's economic strength, with concomitant political volatility and social disorder, would deprive America of a major market for its goods and of a powerful ally—in both economic and military terms.

So concern about Europe's dispiriting performance in high-tech generally, and in IT specifically, should not be confined

to the Europeans. The United States will be adversely affected, as mentioned, and so will Japan and the burgeoning high-tech industries of Southeast Asia, as Europe's ability to buy their (electronic) products wanes.

Three key questions call out for answers. How bad is the situation? How did it happen? What can be done about it?

One view of Europe's plight can be gained by looking at the statistics for 1983—a typical base year and one for which reliable, comparable IT data are available for Japan, the United States and Europe (Table 1). This shows Japan (with a population about one-third that of Europe) already producing around 70 percent as many IT goods and services as Europe, and 37 percent that of the United States. It is also a simple matter to show that per-capita annual IT spending in Europe was only about \$245, compared with \$625 in the United States.

But that is merely a snapshot. By looking at the statistics covering the years 1977 through 1983 and correcting for inflation and exchange rate fluctuations so as to normalize the data in terms of 1983 U.S. dollar values, we get a movie of how things have been changing.

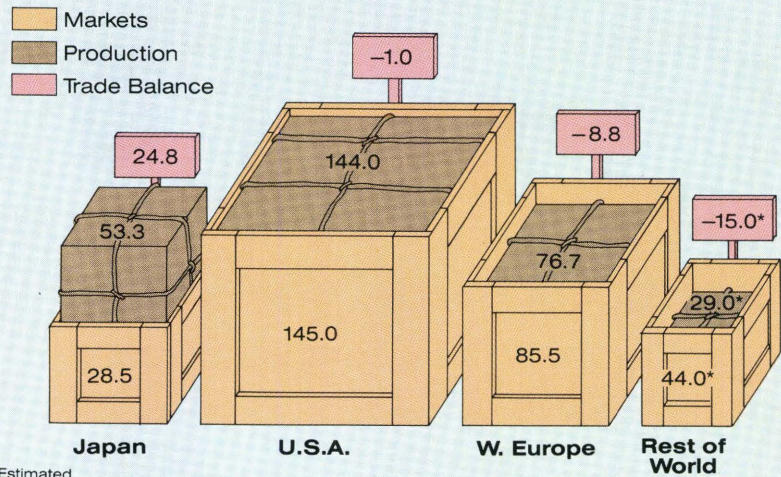
One way of viewing this is to look at international comparisons of growth rates in the IT sector (Table 2). This reveals that whereas the *apparent* growth rates (that is, in current value, local-currency terms) are broadly comparable, but with Japan seemingly lagging, the *real* growth rates are startlingly different. In particular, Japan's IT production is now seen to be growing at a rate nearly twice that of the United States and over eight times that of Europe. And the growth rate for Japan's IT sector, while not so dramatically faster, was also significantly higher than in the United States and nearly three times that in Europe.

Now, as any self-respecting analyst knows, projecting such trends is fraught with uncertainty. Nevertheless, it is difficult to discern any technical or industrial factor that would seriously influence these historical trends, and major economic or political forces of change are, by definition, unpredictable. So it is not unreasonable to look at what the free world IT business will look like in the future if these trends continue.

The picture at end-century is shown graphically in Figure 1. And what a graphic picture it is. By then, Japanese IT production will have reached 80 percent of that of the United States, and it will

Ian Mackintosh, a consultant in international high-technology issues, is the author of *Sunrise Europe: The Dynamics of Information Technology* (Basil Blackwell, Inc.; Oxford and New York; 1986).

Table 1.
World Electronics Trade in 1983
All Figures in Terms of 1983 U.S. Dollars (Billions)



enjoy a trade surplus of almost \$200 billion. The United States, while still enjoying a market about four times larger than Japan's will, through its relatively slower (real) growth of IT production, be suffering a negative IT trade balance of nearly \$70 billion.

Poor old Europe, meanwhile, will have been reduced to producing only about 10 percent of the free world's trade in IT goods and services (down from about 25 percent in 1983), and its per capita IT spending will be only about 20 percent and 40 percent of that of the United States and Japan, respectively. Its IT trade balance will have plunged \$45 billion in the red.

It is also a simple matter to use the same kind of analytical techniques to project trends in IT productivity and employment. Briefly, these show that while, over the next 20 years or so, Japan and

the United States will each *create* more than 2 million new direct IT jobs (in spite of huge increases in IT productivity), Europe—almost unbelievably—will *lose* 200,000.

If that is indeed how things actually turn out, then, by the end of the century Europe will have become a high-tech has-been. It will have fallen irredeemably behind its current, principal competitor nations in both the production and use of the powerful tools of the Information Era. In most areas of activity and commerce it will be uncompetitive, other than in the implanted factories of American and Japanese (and other) companies anxious to benefit from the low-cost, high-unemployment 'offshore' European economies.

This is a disaster scenario by any standard. But how has it all come about?

The reasons are too diverse to de-
Continued on page 51.

Table 2.
Intercontinental Growth Rate Comparisons
Growth Rates (% per Annum)

Country or Region	Apparent		Real	
	Markets	Production	Markets	Production
U.S.A.	16.3	15.3	7.1	6.1
Japan	10.7	13.1	8.6	10.9
W. Europe	17.7	15.8	3.0	1.3

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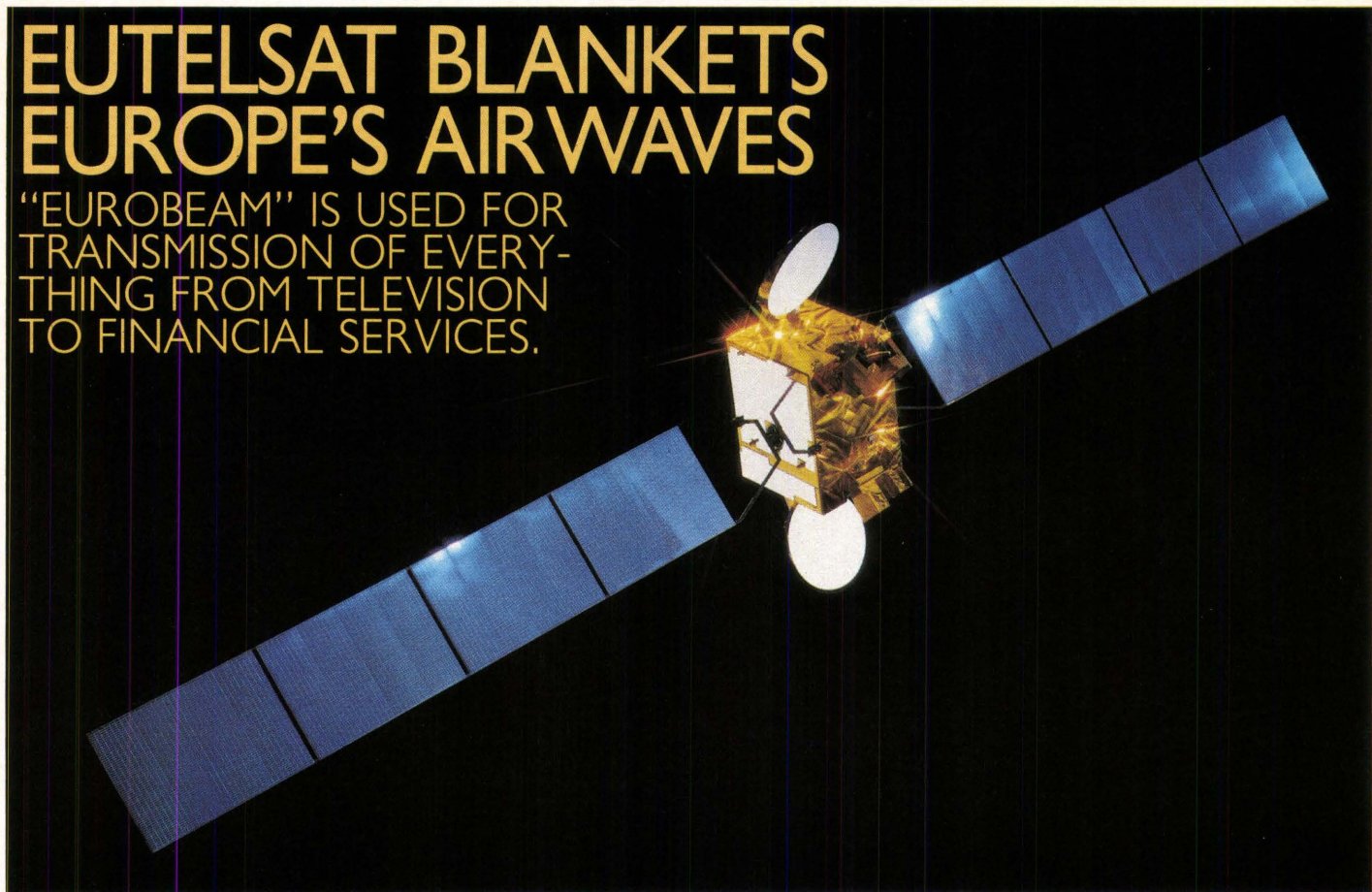
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June, 1986

EUTELSAT BLANKETS EUROPE'S AIR WAVES

"EUROBEAM" IS USED FOR TRANSMISSION OF EVERYTHING FROM TELEVISION TO FINANCIAL SERVICES.



DAVID DICKSON

When the European launcher Ariane makes its next flight, currently scheduled for the middle of April, no one will be keeping their fingers more tightly crossed for a successful launch than the directors of Eutelsat, the European Telecommunications Satellite Organization, which will be responsible for the operation of one of the two satellites making up the payload.

Eutelsat was provisionally set up in 1977 by 17 European countries to oversee the commercial applications of a communications satellite, ECS, developed by the European Space Agency (ESA). The organization, which came into full existence in 1986 and now has 24 members, operates two satellites fully. Eutelsat-1/F1 was launched by Ariane (also developed by ESA) as ECS-1 in June 1983, and its successor, F2 (ECS-2), was launched 14 months later.

Both these satellites are already being fully used, the first primarily for televi-

sion services, the second for the range of business and commercial services that Eutelsat now offers its member countries. However, a third that was to have joined them, F3, was lost when a launch failed in September 1985.

With demand for its satellite services continuing to grow, Eutelsat is keen to get into operation as quickly as possible its successor, F4, previously scheduled for launch in the middle 1986, but delayed after the failure of a subsequent Ariane launch. "Even then we had potential customers lining up to use it, and F4 is already fully booked," says Eutelsat's director-general, Andrea Caruso.

F4 will be joined later by F5, the last satellite of the Eutelsat-1 series. By the time these four are operating, Eutelsat will have fully achieved the goals set out in its founding convention of providing "the design, development, construction, establishment, operation and maintenance of the space segment of the European telecommunications satellite system of systems."

Indeed, such has been the explosion in demand from a previously unanticipated

direction—the relaying of television programs by satellite—that Caruso says that after three and a half years of full operation, the organization has already achieved the growth that it was originally planning to reach after seven.

Furthermore, it is sufficiently confident of future demand for its services to have placed orders at the beginning of last year for the first three of a new, enhanced series of satellites, Eutelsat-2, with a consortium headed by the French company Aérospatiale. With an option for a further five satellites at a later date, this has been the largest contract for operational communications satellites ever placed with European industry.

The first of the new series is due to be launched in the middle of 1989, tailored specifically to meeting the projected needs in the 1990s of business services, telephone networks and, above all, the distribution of television programs to cable networks and those networks that use small antennas.

The majority of Eutelsat's members are from Western Europe, ranging from the large countries of the United King-

David Dickson reports from Paris for several science magazines.

COURTESY ESA

dom, France, the Federal Republic of Germany and Italy, down to the smallest, such as Monaco, Luxembourg and Liechtenstein. There is one member—Yugoslavia—from Eastern Europe, although Hungary has also signed an agreement allowing it to receive satellite transmissions.

The main driving force behind the creation of Eutelsat was the government-backed post and telecommunications agencies of these countries, known collectively by their French acronym as PTTS. Initially, each member country invested a sum proportional to the estimated use that it was expected to make of the satellites. Thus France and Britain, for example, the two largest investors, each contributed more than 16 percent of the initial costs. At the other end of the scale, the city states of Monaco, San Marino and the Vatican City have contributed 0.05 percent.

Eventually, the pricing structure will be established in a way that makes it possible to pay back the initial sums, plus interest. "Our aim is to provide a 14-percent return on investment; we intend to make sure that everyone gets his money back, plus the return on it," says David Hardman, Eutelsat's director of administration.

The failure of the F3 launch and the subsequent delays in the Ariane launch schedule have set back the date on which this is likely to be achieved. Some of the business services being offered have also been relatively slow to pick up. But this has been more than compensated for by the rapid rise in demand for television services. Initially, it was thought that the Eutelsat system would be used merely to replace existing ground-based networks, but many new broadcasting companies have recently been established relying heavily on satellites. "We have all been surprised to see television becoming the most important revenue producer in the organization," says Caruso.

At present, most of the television services are provided by Eutelsat-1/F1, whose payload is made up of 12 identical transponders, each with an 80 MHz bandwidth and an output power of 20 watts. The satellite receives its messages through what is known as a Eurobeam; it can retransmit these either through the Eurobeam—which covers the whole of Europe—or through one of three highly-

focused beams, known as Spot Atlantic, Spot West and Spot East.

The remaining satellites in the Eutelsat-1 series each have a total of 14 transponders, the two supplementary ones being used in the 12 GHz band. These satellites will be the main support for Eutelsat's Satellite Multiservice System (SMS), which has been designed primarily to meet the needs of business users. This can be used for a variety of purposes, including high-speed data

beams, which will allow the reception of both television programs and business data with antenna as small as 70 centimeters to 80 centimeters in diameter.

Two major challenges are likely to confront Eutelsat in the future. The first, which has already been the cause of much discussion, is how to respond to growing pressures for the deregulation of all aspects of the telecommunications industry that are currently being promoted by some European Governments, reflecting similar moves that had already taken place in the United States.

As a body that responds primarily to the needs of national PTTS, each of which are closely supervised by their individual governments, Eutelsat tends to reflect the philosophy of these bodies that a nation's telecommunications services are of sufficient strategic concern to make close regulation appropriate.

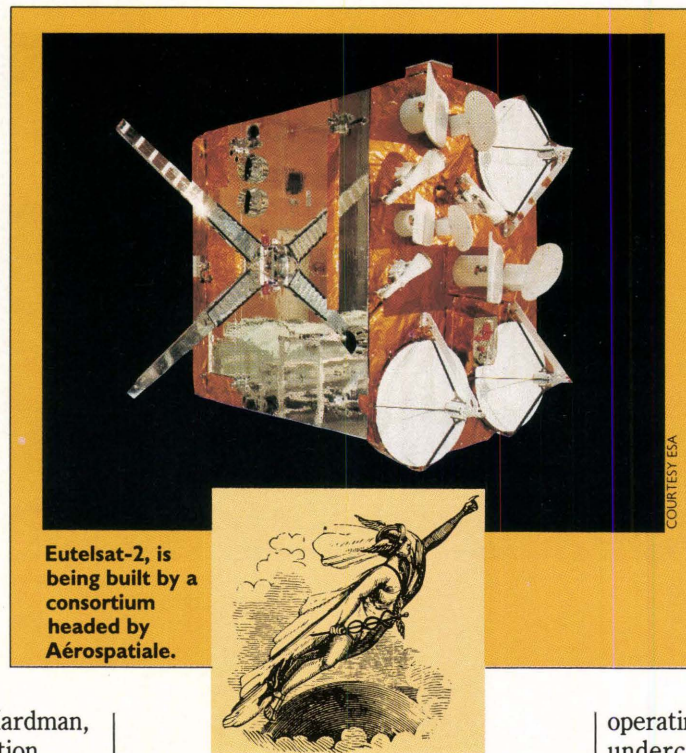
This philosophy has recently been encountering several challenges. In particular, the small country of Luxembourg has agreed to support the efforts of a private company to launch its own telecommunications satellite, Astra, which will not be directly bound by Eutelsat's

operating rules (and will thus be able to undercut the prices being asked by Eutelsat, particularly for television broadcasts).

Eutelsat is strongly resisting the Luxembourg initiative. It is claiming that, as a signatory of the Eutelsat convention (even though it has not yet ratified it) Luxembourg is breaking its commitment not to undertake a domestic activity that could have "significant economic harm" on other members of the organization.

Eutelsat also argues that permitting unregulated initiatives could have potential technological consequences on other satellite users, particularly since the limitations of slots available in geostationary orbit increase the dangers of interference. And it claims that, with only one satellite in operation, the Luxembourg-based system will be unable to offer the same reliable service as Eutelsat itself can.

Caruso says that he is strongly in favor of deregulation in the communications business—provided it is restricted to ground-based activities. "I have serious doubts about how one can deregulate a



Eutelsat-2, is being built by a consortium headed by Aérospatiale.

transmission, videoconferencing, remote printing and wordprocessing and the control of unmanned equipment in remote areas. In each case, commercial secrecy is protected by the use of exclusive frequencies, with the possibility of encryption.

The SMS is already being used by the Ford Motor Company to transmit technical data between automobile plants in Dagenham, England, and Cologne in Germany. Another user is the Reuter financial service, providing bankers and investment managers with up-to-the-minute information on the international money market. Eutelsat satellites are also used to retransmit on-request transmissions on the Worldnet system operated by the United States Information Agency, which permits videoconferences to take place between embassies in different countries.

The Eutelsat-2 series will be based on larger, more powerful satellites, designed to be launched either by Ariane or (in principle) by the U.S. space shuttle. Its main attraction is in the extra power of its

SERVICES IN EUROPE: A POLICY FOR THE '90s

TRADE SHOULD BE LIBERALIZED INTERNALLY AND INTERNATIONALLY TO REVIVE GROWTH, EMPLOYMENT AND COMPETITIVENESS.

JONATHAN D. ARONSON and
ALBERT BRESSAND

Services have been important in national economies and in the world economy for decades, but they have only recently climbed high onto the policy agenda. Why did services receive so little respect and attention in the past? Why are services getting so much attention today?

Past neglect of services is mainly related to the difficulty of defining and measuring them. The lack of conceptual and statistical clarity resulted in relative inattention by policymakers. Services are invisible; they are usually treated as a residual category, as items that are not agriculture, raw resources, manufacturing or construction. Although data are still inadequate, service sectors account for between one-half and two-thirds of total production in most industrial countries. And, trade in services makes up about one-quarter of all trade.

Recently, however, technological, regulatory and political developments pushed services into the spotlight. Technological advances in the telecommunications and financial

sectors stimulated economic growth and employment. Today, the telecommunications sector is growing faster than national economies; other services such as health care, transport, education, legal services and accounting are being boosted by innovation. Manufacturing production processes are being transformed by new service technologies, causing the service component in manufactured goods to increase rapidly.

Regulatory approaches to services also are changing. Traditionally, most countries regulated services more tightly than they regulated goods. Services also are more likely than goods to be provided by nationalized monopolies. However, as distinctions between goods and services break down (e.g., as computer and communication technologies merge), pressures on regulators to consider greater deregulation, privatization and competition in the provision of certain services increase.

Political lobbying by interested firms also pushed services higher up the global economic agenda. Until 1974, services were not mentioned in U.S. trade legisla-

tion. Ten years later they achieved semantic equality with goods under the Trade and Tariff Act of 1984. U.S.-based service firms also persuaded successive Administrations to adopt services as a U.S. priority in trade negotiations. Over time, other countries also began to pay more attention to services.

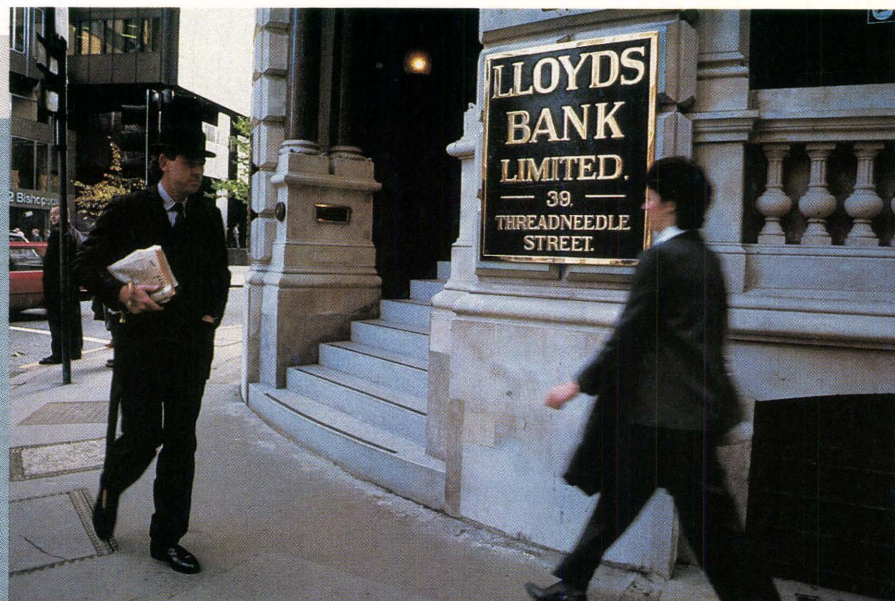
These technological, regulatory and political developments made services into a growth industry, forcing academics, executives and government officials to begin to rethink the role of services in their economies and internationally. They began to work to improve data on services, which in turn made services more accessible to policymakers. Services have finally received some respect.

Services in Europe

How important are services and trade in services to Europe? Has the United States goaded Europe and Japan into supporting its special interest? Or will new efforts to liberalize services regulation and to encourage trade in services benefit Europe?

According to the Study on International Trade in Services prepared by the European Community for the General Agreement on Tariffs and Trade (GATT) after the 1982 GATT Ministerial meeting, "By 1981, the share of the gross value added to the Community economy by manufacturing had shrunk to 25.5 percent, that of market services had risen to 42.8 percent. During the years between 1973 and 1981, the decrease in employment in the manufacturing sector of 4.1 million was largely compensated by an increase of 3.5 million employed in market services." Indeed, services continue to provide most of the new jobs and dynamism in Europe and other industrial

economies. For example, the report on U.K. employment



Banking is just one industry which is redesigned its production process around the use of information technology.

trends to 1990 by the Institute of Manpower Studies estimates a rise of 540,000 jobs in services, as compared with a fall of 665,000 in farming and production industries. Significantly, in Europe and in the United States, most of these service jobs are being created in small firms.

Trade in services remains difficult to measure, but it is at least plausible that trade in services, which appears to be increasing rapidly, could play an important role in stimulating sustained and lasting growth in the world economy in the years to come. Such considerations led the E.C. and the GATT contracting parties to endorse increased emphasis on services trade in the new round.

The importance of services in Europe can be painted more vividly through a string of examples provided by the European Service Industries Forum. The West European market for packaged software is about \$5 billion now and could reach \$24 billion by 1991. Belgium is home to about 800 software companies and Ireland has about 300 indigenous software firms. The largest public relations firm in the world is Saatchi and Saatchi (United Kingdom) and the largest software company in the world is Cap-Gemini-Sogeti (France). And the French PTT's Minitel is the most successful videotext service in the world.

The merger of KMG, Europe's largest accounting firm, and Peat Marwick International from the United States will soon make this combination the world's largest accounting firm. The leisure industry in the 12 E.C. member countries is estimated to provide 10 million jobs, mostly spread out among small employers. And, Europe boasts 8 of the 10 most popular conference centers in the world, including the top three (Paris, London and Brussels) at a time when conference services are grow-

ing at about 20 percent per year. Together these examples start to show the importance of services for Europe.

Services and Technology

Statistics show only one aspect of the role of services in contemporary European economic development. Beyond their quantitative importance, services are creating qualitative changes throughout Europe. The increased role and the increased visibility of services are most dramatic when viewed against the background of the broader process of change at work within the world economy.

In Europe, this process of change is often equated with "new technologies" that are the driving forces behind the transformation of traditional industries and the emergence of new sectors. Thus, information technology is rapidly becoming the key economic sector while simultaneously influencing the ways in which all sectors operate. Similarly, new materials are changing the nature of many of the products that we use and are stimulating growth and job creation. In the future, biotechnology holds the promise—some would say the threat—of promoting profound changes in areas as diverse as health and agriculture.

National governments and the E.C. Commission reacted to economic changes by focusing on the "new technologies." In particular, the ESPRIT program (designed to foster procompetitive cooperation among European firms working to develop new information technologies) and the Eureka program (an intergovernmental effort to support the joint development of high-technology products by European firms) have become the flagships of the European search for an economic "re-

naissance." Other programs—such as RACE in telecommunications—illustrate Europe's focus on the high-technology side of economic change.

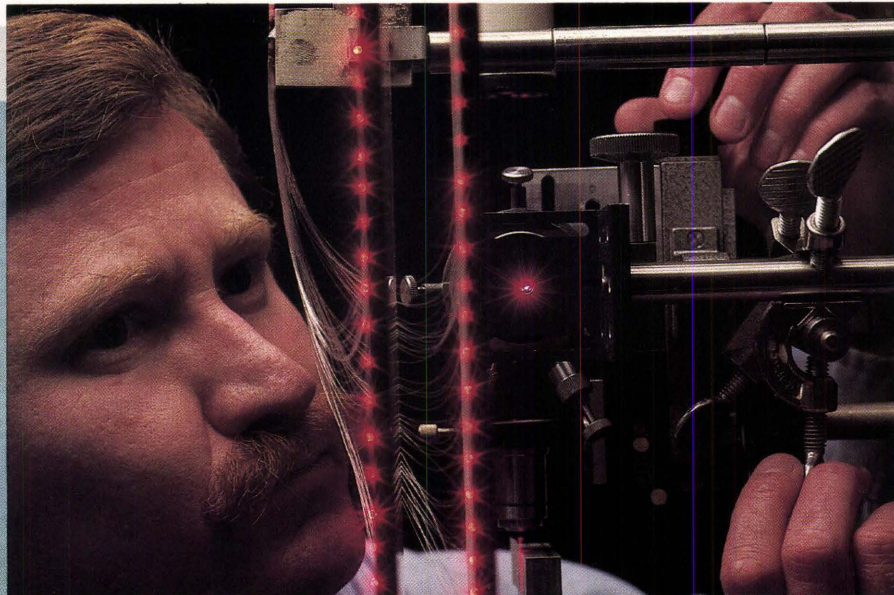
Yet this preoccupation with high technology can too easily obscure a major dimension of present economic change: the move to more intangible forms of economic activities.

To equate the process of work with the introduction of computers, microchips, lasers and other space-age technologies is too narrow and would lead to the shrinking of the workforce though the introduction of more productive equipment. Attention must also focus on the new activities that develop around new equipment, many of which are of a "service" nature. New growth opportunities may develop around the service and technology complex that is emerging as the border between services and goods continues to blur, as well as through the production of advanced goods (the "robot factory").

The diffusion of information technology illustrates the connection between services, technology and the new approaches for growth. The banking, retail shopping, automobile manufacturing and design and engineering services sectors are just a few of those that are redesigning their production processes around the use of information technology. Automated teller machines, electronic funds transfer, automated factories and inventory management are becoming the backbone of the new production processes. As a result, new types of connections develop. Once production facilities were separated; now there are integrated production networks.

This fundamental trend toward networking opens new vistas to service activities. The management and process-

ing of data are an ever more critical aspect of economic



The rapid development of data processing and information services industries has been helped by the laying of fiber-optic cables.

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activity regardless of whether we are dealing with a so-called "manufacturing" sector or with what was already a service activity. The phenomenon is evident at General Motors, IBM, Air France and in almost every other large firm.

The parallel move toward digital information (which allows all forms of information to be expressed in the same binary electronic form) is leading to an unprecedented homogeneity of data management processes. This helps explain the rapid development of data processing and information services industries and of other industries built on these technologies.

Because of their emphasis on technology, Europe has often confused these new economic networks with the infrastructure on which they are based. Building "supercomputers," laying fiber-optic cables, placing satellites into orbit and similar "infrastructural works" are high on Europe's policy agenda. Yet, in many cases, it is only through the development of new services that these technological achievements will be of economic value.

Services and Deregulation

Although services are usually downplayed in industrial-policy types of programs, services occupy an inescapable role in the effort to create a broader "internal market" in Europe. Europe can only develop a "common market" if services are given their due. Today's goods are increasingly "information intensive." In other words, services are a growing component of most goods, and most particularly of high-technology goods. It is estimated that about 80 percent of the cost of developing a new computer and about 70 percent of the cost of developing a new telecommunications switch are spent on services and software. But services also are critical to the most mundane goods (making

and selling a pair of shoes involve design, R&D, marketing and distribution). Having a common market for the hardware aspects and not for the "software side" of the industry would be like trying to run with only one leg.

Yet free trade in services, even within Europe, is far away. Although the Treaty of Rome establishing the E.C. includes a full chapter on the creation of a common market in services, little has been done until recently. Many services are heavily regulated, at the national level, either by the governments or by the professional associations (often the modern equivalents of the guilds of the Middle Ages).

The combined effect of the operations of public monopolies and private cartels, or oligopolies, is to fragment the European market. For many years this did not cause major problems. Indeed, the service sector was more or less equated with what the French economist Raymond Courbis called "the protected sector," as opposed to the "exposed sector," in which competition is a major force. Today, however, the dichotomy is no longer tenable.

European industry needs access to capital, R&D, telecommunications, advertising and to the whole gamut of services on competitive terms if it is to withstand the competition. Entrepreneurs developing new products for the European market must be able to sell them without being tied up in an overwhelming set of conflicting regulations. They need to be able to deliver packages of goods and services that they see as appropriate for the market without having to duplicate their efforts, with minor but costly variations, in every country. For example, a key weakness of European computer manufactur-

ers is that they cannot think in terms of an integrated market for telecommunications and computers while telecommunications services are handled in divergent and, in some countries, heavy-handed ways.

In this sense, deregulation in Europe today is what trade liberalization in goods was for the previous generation of policymakers. Of course, deregulation does not mean the absence of rules. On the contrary, new forms of regulation must be developed as a prerequisite to the healthy development of new sectors. But this probably cannot be accomplished in the national and sectoral framework of the past.

Competitiveness and Services

The United States, Europe and others are today intensely concerned with competitiveness and productivity. Interest groups and academics insist that "manufacturing matters." Many agree with *Business Week's* view, expressed in March of 1986, that a "hollow economy" dominated by services is somehow unacceptable and unproductive. Critics of services complain that service jobs pay less and are less productive. Unions worry that new service employees will not join the unions; their nightmare is that highly paid autoworkers will lose their jobs and if they are replaced at all it will be by lower paid computer programmers.

Friends of services, who never disputed that manufacturing matters, but simply insist that services matter as well, see the situation differently. They tend to distinguish between high-technology services and more labor-intensive "smokestack" services. It is debatable whether newer services are any less productive than manufacturing services. (It is also unclear that industrial countries possess a comparative advantage vis-à-vis developing countries



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Health care, another service industry, is constantly changing through technical innovation.

across the board on services. Smokestack services may be more competitive when located in developing countries. Moreover, industrializing countries such as Singapore, South Korea and Barbados have shown remarkable strength in competing to provide high-technology services internationally.)

In addition, the provision of high-quality services at competitive prices may turn out to be critical to the international competitiveness of goods and services industries. Can banks and airlines, which must pay more for data processing services at home, compete in third markets effectively? For example, if a German bank must pay more for its communications and data processing services in the Federal Republic of Germany than a British bank pays for comparable services in the United Kingdom, will this provide the British bank with a competitive advantage over the German bank when competing for customers in France? Similarly, to the extent that data processing and finance are an increasing proportion of the inputs of manufactured products, can countries afford not to think about promoting greater competition and efficiency in the provision of key services?

Trade Negotiations and Services

All of the factors so far reviewed helped persuade GATT Trade Ministers meeting in Uruguay in September to launch a new round of multilateral trade negotiations that would for the first time extend to trade in services in significant ways. Services will be a key agenda item in the new round and (along with intellectual property) will be the most significant new area that trade negotiators will tackle.

It took more than five years of consensus building and preparations to get these talks started. And that was the easy part. Now the GATT members must seek agreement among

92 diverse countries with wildly different objectives and priorities.

Most friends of services hope that the negotiators will first negotiate an umbrella agreement (modeled on work well advanced in the Organization for Economic Cooperation and Development) that will set forth rules, principles and procedures that would be applied to as wide a range of services as possible. Even before such an umbrella agreement is concluded, negotiations would begin to focus on key service sectors such as telecommunications and tourism.

It is too early to predict what might emerge, but the launching of a new trade round that will for the first time concentrate on services raises several fundamental issues. To begin, what does this mean for the management of the trading system and, more broadly, of the world economy? The line of analysis presented here implies that to succeed the coming trade round will need to broadly reinterpret the mandate of the GATT. The GATT will trespass into turf traditionally dominated by specialized agencies with expertise on specific service sectors (the International Telecommunication Union for telecommunications, International Civil Aviation Organization for aviation, etc.). GATT negotiators will need to develop cooperative arrangements with these agencies if they are to develop a broader framework within which services are ex-

Jonathan D. Aronson is the co-author of *Trade Talks: America Better Listen!* (Council on Foreign Relations; New York; 1985) and of a forthcoming volume on the prospects for free trade in telecommunications services. Albert Bressand is the author of *Europe in the Emerging Division of Labor*, a report to the E.C. Commission (FAST Program) by Prométhée; Paris.

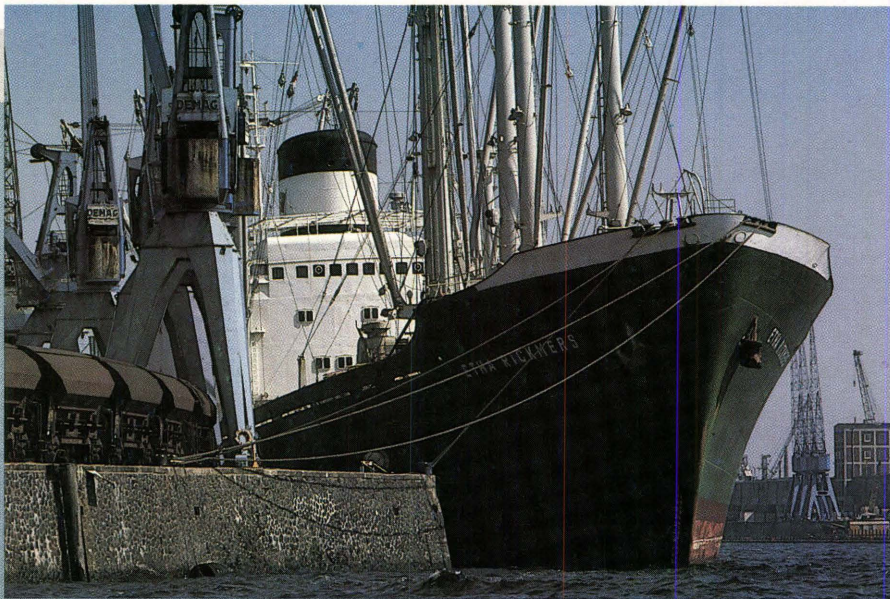
changed across national boundaries.

More broadly, just as the line between goods and services is eroding, the distinctions separating trade, monetary and investment issues are crumbling. Negotiators will try to sidestep the implications of this convergence and will argue that they are only dealing with trade issues. But if they are bold, leaders may admit (at least to themselves) that success in the Uruguay Round could constitute a first step at reforming and re-energizing the principles and rules that manage the world economy.

At the same time, national leaders will need to recognize that any successful effort to develop rules, principles and procedures to govern trade in services will inevitably put great pressure on national policymakers to adjust their domestic regulatory approaches. Liberalization of trade in services will constitute a frontal attack on government owned and controlled service monopolies and oligopolies.

Finally, the inclusion of services in the new round of trade negotiations is likely to push Europe to make certain critical choices about its future. Broadly speaking, Europe had three choices about how to revive its growth, employment and competitiveness. By supporting new trade negotiations, Europe has, for the moment, downplayed national solutions and accepted the need for a larger, more liberal and integrated market. Two paths remain. Europe can choose to work toward a more integrated, open internal market while trying to insulate itself from outside competition. Or, it can seek to liberalize trade internally and internationally at the same time. Our analysis strongly suggests that the emerging relationship between goods and services internationally makes it more likely that

Europe will benefit most by following the latter course. €



Transportation, a more traditional service industry, is still a substantial source of jobs around the world.

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October, 1986

TARIFF CONCESSIONS AND THIRD WORLD EXPORTS

E.C.'S GENERALIZED SYSTEM OF PREFERENCES ALLOWS DUTY-FREE ENTRY OF MANUFACTURED GOODS.



For many developing countries, textiles and clothing have served as a technologically simple entry into manufacturing, but this route has become increasingly difficult since the United States and the E.C., in seeking to safeguard their domestic industries, have increased restrictions on imports.

MICHAEL DAVENPORT

A new round of negotiations in the General Agreement on Tariffs and Trade (GATT) is about to open. The major issues will be agriculture and services and how trade in these sectors can be incorporated into some framework of principles and rules, such as those of the GATT that are designed to preserve free trade in industrial goods. But the negotiations will also cover further multilateral tariff reductions for industrial goods, as well as the dismantling of the plethora of non-tariff barriers, which impede trade throughout the world (including intra-E.C. trade).

Inevitably, the various "Generalized Systems of Preference" (or GSPs) will be drawn into the debate, and since they are generally thought to be of relatively minor significance to both the donor and recipient countries, there is real danger that these schemes may be dropped or substantially restricted as part of a wider deal between the industrial and the Third World countries. In many respects, that

would be a retrograde step as regards the development prospects of the poor countries.

Even now the various GSPs are the subject of reconsideration under pressure from producers in the industrialized countries. Under the various GSP schemes—the most important being those of the United States and the European Community—the manufactured exports of developing countries are allowed duty-free into the industrialized countries, at least up to a quota, generally prescribed on a country-by-country basis. The E.C. also allows in restricted quantities of certain agricultural goods under preferential

The original justification for the GSP was the apparently intractable balance-of-payments problems faced by the Third World countries in the 1960s. These countries found the prices of their primary commodity exports unstable and the long-term growth in demand sluggish. It was argued that by giving these countries an advantage in their export competitiveness in manufactures, they would be able to break out of the vicious circle of

primary product dependency.

The treatment of imports of clothing and textiles is somewhat different from that of other manufactured goods because the application of the GSP takes place within a framework of the MultiFibre Arrangement (MFA), which manages trade in these goods between the developed and the developing countries. The MFA was again extended for a third time on August 1, 1986.

The MFA limits exports of textiles and clothing on a product-by-product, country-by-country basis. For many developing countries, textiles and clothing have served as a technologically simple entry into manufacturing. This route has become increasingly difficult since the United States and the E.C., in seeking to safeguard their domestic industries, over the years have insisted on ever more restricted levels of imports of textiles and clothing. This inevitably has limited the gains available to exporters from duty-free entry of these goods under the GSP.

Recently, there has been a lot of discussion about how the GSP schemes need to be modified to reduce or eliminate preferences for countries that have reached a certain level of development. Singapore and Brunei are among the 13 countries and territories due to be "graduated" out of the New Zealand GSP. The conditions for graduation out of the much more important U.S. scheme were laid down in 1985. These take account not only of the level of the beneficiary's income per head, but also its relation to that in the United States itself.

Secondly, the "competitive need" rule has been tightened. Under this provision, goods from a particular country are excluded if that country is supplying over a certain percentage of U.S. imports of that product. Singapore, which after Brunei and Kuwait has the highest income per head of all beneficiary countries in any GSP scheme, has already had a number of products excluded from GSP treatment by the United States—radio receivers, electronic irons, parts of office machines, refrigerator compressors and certain signalling equipment. The list is likely to lengthen over time.

In E.C. circles, too, there are increasing mutterings about the "unfairness" of the GSP scheme that benefits countries such as Singapore, Korea and Hong Kong, whose per capita income is not significantly lower than Ireland, somewhat above that of Greece and considerably above that of Portugal. A number of suggestions are being bandied around, including that of withdrawing GSP privi-

leges entirely from countries that reach a certain level of development ("graduation"), or at least demanding of the higher-income beneficiaries some reciprocity, perhaps in the form of some cuts in their own tariff rates.

Other forms of "differentiation" under discussion include withdrawing GSP privileges from any country that supplies more than 20 percent of the total E.C. imports of any specific product (similar to the U.S. competitive need system), or overshoots the quota by a predetermined factor. Whatever modifications are made they are likely to reduce the access of developing countries to tariff-free entry into the E.C. market.

There has been some concern in political and business circles among the countries where the GSP concession is thought to be important, in particular among the members of the Association of South-East Asian Nations (ASEAN). But concern in the so called "donor" and "beneficiary" countries has been limited by the apparent insignificance of the GSP in the overall trade and development picture. The proportion of exports to the industrialized countries benefiting from tariff concessions under the GSP is strikingly low. Recent figures are not yet available, but in 1982 only 26 percent of ASEAN agricultural exports to the E.C., 20 percent of non-textile industrial exports and 18 percent of exports of textiles and clothing benefited from the GSP.

For all beneficiary countries under the E.C. scheme—that is, all developing countries except Taiwan—the figures were 12 percent, 8 percent and 10 percent, respectively. They are likely to have fallen somewhat in recent years as manufactured exports from the beneficiary countries have risen without corresponding increases in GSP quotas. Secondly, as the tariff cuts agreed in the Tokyo Round are gradually implemented, the preference margin for imports under the GSP will fall, from 9.6 percent on average in 1979 for industrial goods to 7.2 percent in 1987 and, in particular, from 13.3 percent to 8.5 percent for clothing and textiles.

In any event, figures on the share of trade benefiting from the scheme fail to adequately indicate the importance of the GSP. They do not show the extent that the benefiting exports would have taken place without the GSP. Nor, perhaps more importantly, do they give any idea of the extent to which the GSP may help get an industry established in a developing country through enabling its exports to compete with those of the industrialized exporters in the early stages. In the later stages, the economies of scale and im-

provements in labor and managerial skills may allow the industry to compete internationally without the benefit of the tariff concessions.

In a new study (Trade Policy, Protectionism and the Third World; Croom Helm; London; 1986), I have attempted to make a quantitative assessment of the costs and benefits of the E.C.'s GSP scheme, both to the exporting countries and to the E.C. itself, at the economy-wide level, and also through the examination of how the scheme has operated in a number of specific commodities of particular interest to southeast Asia. The trade gains to the countries included in the E.C. scheme, when measured against their overall exports to the E.C., are very limited. The boost to exports comes to just 0.7 percent of overall exports in 1975-76, falling to 0.6 percent in 1981-82. At present, it is likely to be marginally lower. Relative to exports of products covered by the scheme (that is, omitting most industrial raw materials, which are tariff-free in any case, and most agricultural output, which is excluded), the estimated impact on exports has fallen from over 5 percent in 1975-76 to only half as much in 1981-82.

Correspondingly, the effect of the tariff concessions on the output and employment in the domestic industries in the importing countries of the E.C. has been minor. In the one sector where the effect on the E.C. industries would have been significant, textiles and clothing—which is also the sector where the GSP could have been most valuable to the developing countries—its impact has been largely eliminated by increased restrictions under the MFA. In textiles and clothing, the actual impetus to exports was estimated at 5 percent of total exports of these products in 1975-76, but only just over 1 percent in 1981-82. Without the restrictions on the quantities of eligible imports (which are tied to MFA quotas), these figures would have been 24 percent and 19 percent, respectively.

From an economy-wide viewpoint, two factors wipe out most of the potential effects of the GSP: limited coverage as regards eligible products and quantitative limits on the amount of eligible goods that may receive GSP status. If, however, the impact of the GSP on trade in individual commodities is analyzed, a different picture emerges, at least as regards non-textile manufactures. For example, developing country exports to the E.C. of umbrellas are estimated to have been increased in 1974 by 10 percent by the GSP, though only 6 percent in 1982. For radios, the figures are 22 percent and 5 percent, respectively; for electrical ca-

pacitors, 22 percent and 6 percent; for integrated microcircuits, 17 percent in both years; for plywood, 6 percent and 2 percent.

The major suppliers among the developing countries of these products to the E.C. market are the countries of southeast Asia. All these countries are now exporting to the E.C. well in excess of, indeed sometimes several hundred times, their GSP quotas, which implies that tariff exemption is no longer necessary. The GSP scheme now simply means somewhat higher profits on that small proportion of exports that remains eligible for tariff-free status. But the GSP in the early 1970s served the valuable function of giving the exporting countries a competitive edge in certain products, upon which they have built up their industries, exploiting the economies of scale, so that edge is no longer required.

The GSP has been important in stimulating the exports of particular sectors. These exports may be minor in terms of their share of GDP, but they may be critical as leading sectors in the process of industrialization. The leading manufacturing sectors, stimulated by the GSP, may serve as a conduit for the implementation of more advanced, probably imported, technologies and management skills. They may foster training in technical skills, which, where done in a vacuum, often fails from a lack of appropriate job opportunities. They may bring in foreign capital. The countries benefiting from this process will largely be the poor countries that have not yet established a manufacturing base and diversified out of one or two primary commodities, and are suffering a long-term downward trend in the prices of their primary commodity exports.

At the same time, if the E.C. GSP is to fulfill its original role of spurring the manufacturing sector in the developing countries—at least until that happy day when all tariffs are abolished—a selective, but progressive, liberalization of those quotas and other quantitative restrictions, which limit the access to GSP status of Third World exports to the E.C., is required. This is particularly the case in clothing and textiles. Today's political and economic climate does not seem propitious to such a development. However, the case for maintaining and strengthening the E.C.'s GSP will likely be strengthened by the growing awareness of the gains to the E.C. consumers of access to tariff-free, and thus lower priced, goods from the Third World. €

Michael Davenport is the chief economist at London Forfeiting Co.

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E.C. AGREES ON MAJOR REFORM OF FARM POLICY

PLAN WOULD CUT BACK MILK AND BEEF SURPLUSES.

YOUSSEF AZMEH

The European Community agreed December 16 after seven days and several nights of tortuous negotiations to curbs on milk and beef surpluses in what officials describe as the first major overhaul in 25 years of its costly and controversial farm subsidy system. Officials said the beef reform was agreed after concessions were made to Ireland, which had earlier vetoed the deal affecting a sector of its economy that accounts for 3.5 percent of its gross national product.

The agreements were described by British Foreign Secretary, Sir Geoffrey Howe, at his last news conference as President of the E.C. Council of Ministers, as a remarkable achievement. The agreements, which officials said were expected to cut milk production by 9.5

percent by April 1989 and to reduce by half an estimated overproduction of beef of 600,000 tons next year, represent the biggest changes ever made in the E.C.'s Common Agricultural Policy (CAP). The Commission had originally proposed that part of these reductions should be achieved through forced, and uncompensated output quota cuts.

Less stringent measures will be applied to Spain, Italy and Greece. The Commission has also had to promise to take special account of the dependence of the Irish economy on dairy production in its day-to-day management of the milk market.

Despite these concessions, British Agriculture Minister Michael Jopling said the package as a whole was a good one that would save the E.C. over \$1 billion in 1987. This will be a big help in easing the E.C.'s budget problems. This year's

spending commitments were assessed before the accord at roughly \$4 billion beyond available resources. The reform also could help the E.C.'s position in the new round of trade liberalization talks and in its dispute with the United States over U.S. grain exports to Spain.

Irish Agriculture Minister Austin Deasy, who fought hardest against major elements of the package, said the changes finally agreed were "absolutely fundamental." But he added that the compensation was generous enough that Irish farmers should not suffer.

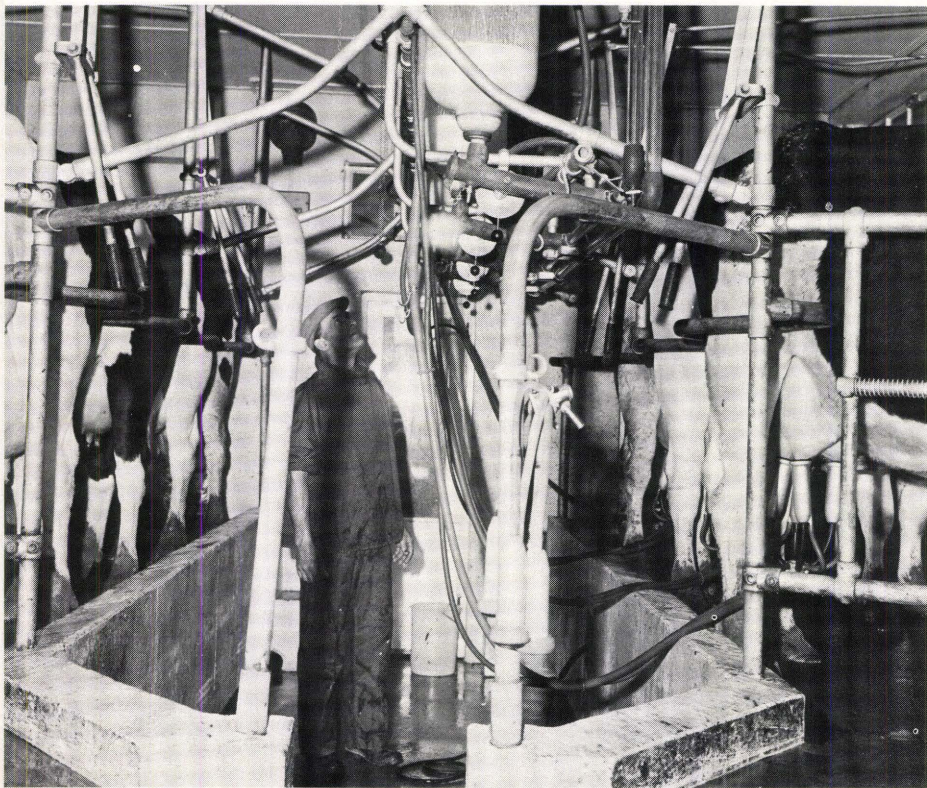
The CAP was created in January 1962 to bolster European farming after the ravages of World War II and to secure Europe's food supplies. It has developed, however, into an unwieldy system of farm price guarantees that have produced enormous surpluses of wine, cereals, beef and milk that are either stored at huge cost or exported at subsidized prices and amid cries of unfair competition from the E.C.'s trading partners.

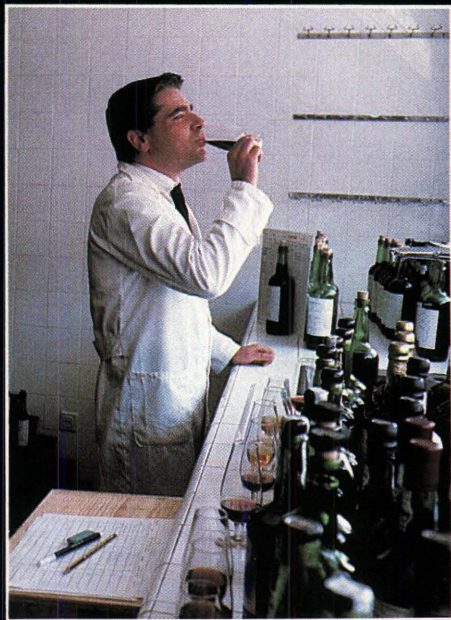
The United Kingdom had set the reform of the CAP, which swallows two-thirds of the Community's scarce resources, as a top priority during its six-month stint in the E.C.'s rotating presidency, which it relinquished to Belgium on January 1 of this year. Howe said that it would be appropriate if the British presidency was rewarded with this most important reform of the CAP ever achieved and paid particular tribute to Jopling, who pushed the production deals through.

The beef reform would cut guaranteed prices by at least 10 percent next year and reverse one of the main tenets of the CAP by making export subsidies the exception rather than the rule, officials said.

The dairy reform should result in enormous savings by reducing the levels of public stocks of skimmed milk powder, now standing at 900,000 tons, and of butter, now at 1.34 million tons. €

Youssef Azmeh reports from Brussels for *Reuters*.





DIANA SMITH

English cheeses and Danish smoked salmon, Italian mozzarella and German butter cookies, fragrant Spanish bath soaps and French cosmetics, not to mention Belgian chocolates. . . . The Common Market has made a more tangible impact on the shelves of local shops

and supermarkets since Portugal's accession last January.

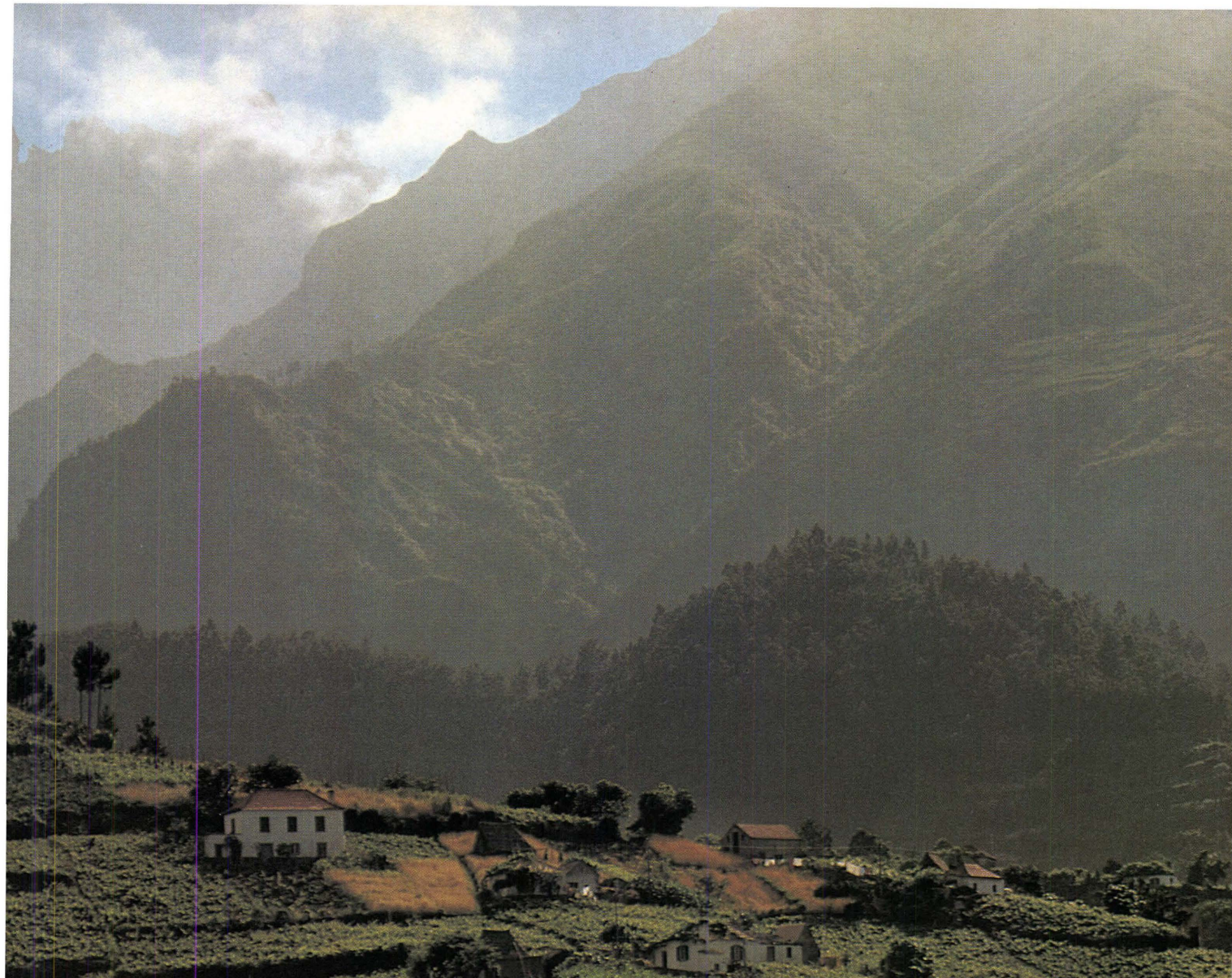
Whether many Portuguese shoppers can afford such delicacies is another story. Most of the labor force of 4.5 million people (with about 10 percent unemployed and an unknown percentage of persons doing undeclared jobs in the large black economy) scrapes by on a

PORT

JOINING THE E. C. WILL HAVE A HUGE EFFECT

Port (above) and sherry exports are an important sector of the Portuguese economy. Pictured in the background is the Madeira countryside.

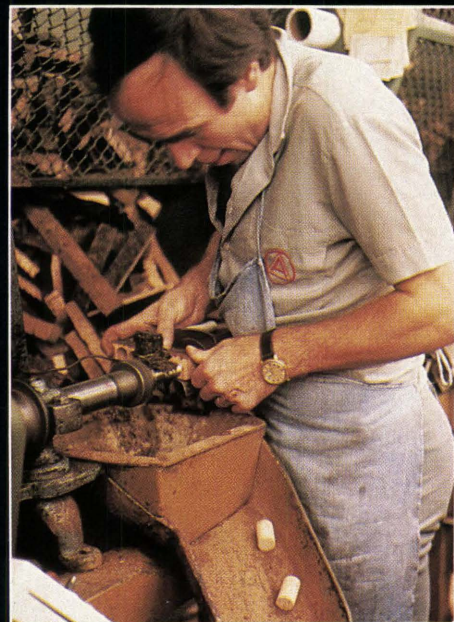
© J. PAVLOVSKY/STGMA



national minimum salary that would make a Dutchman or Englishman shudder—\$127 a month for industrial workers. The expense of basic necessities leaves scant room for luxuries in the diet or fancy fragrances in the bathroom.

Real incomes did shrink to the point where low-paid families were in dire straits during the 1983-85 enforced aus-

terity, but things are now improving. White-collar wages may be the lowest in Western Europe, but middle-class families benefit from rents that were frozen for 40 years. Thus, a tenant might pay \$35 for an eight-room apartment in a good area after the 300-percent increase decreed last summer by the Government on pre-1960 rents. Also, newlyweds often



Although real incomes shrank somewhat during a period of forced austerity in 1983-85, things are now improving dramatically for Portuguese workers.

UGAL

THE PORTUGUESE ECONOMY AND LIFESTYLE.

are given apartments by parents who see property ownership as a way to house large extended families. In any event, the middle class has begun to spend conspicuously again.

Restaurants that echoed for lack of customers in the harsh austerity period are full now. Movie theaters are packed, and not only on Mondays, when all the seats go for almost half price at \$1 each. Purchases of domestic appliances, including video, sound and radio equipment imported from Japanese-owned plants in Spain, are soaring. New passenger car and commercial vehicle sales have picked up to the relief of dealers who spent two years staring at unsold cars. Commercials on the state-run television network are pushing a wide range of upmarket consumer goods—a sure sign of confidence in economic recovery.

Despite stark differences between local and, say, Spanish incomes—a Portuguese vice president or even chairman of the board may earn less than half the annual pay of a Spanish sales representative—better-paid Portuguese manage to live comfortably, eat well, enjoy second homes in the Algarve, the mountains or the countryside, and drive around in expensive Mercedes automobiles. The new prosperity is most in evidence in the north, home of the most profitable private industry.

It dismays a Portuguese chairman somewhat to learn that an engineering employee has passed exams for, and has accepted, a job with the E.C. Commission in Brussels at a salary more than double the chairman and the deputy chairman's earnings put together—but he can dream of a day when Portuguese pay levels will approach those of his European partners. Meanwhile, he travels, promoting textiles and clothing, household linens, footwear, crystal, cutlery and furniture—items that in recent years have enjoyed buoyant growth of foreign sales.

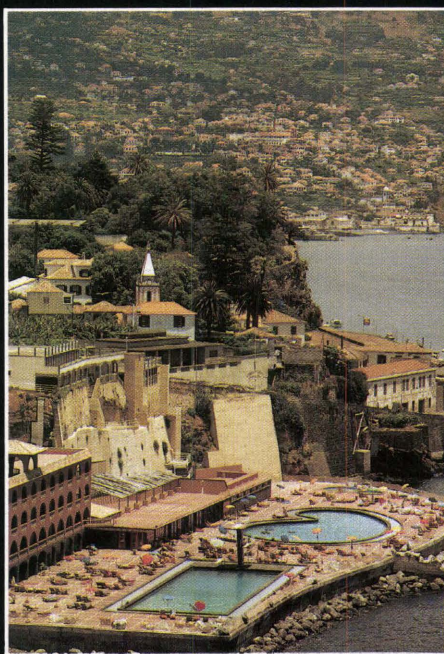
Good exports, a sharp drop in oil prices and more modest agricultural imports after a goodish farming year put coverage of imports by exports at 78 percent by September. If one aspect of the lopsided Portuguese economy is as serene as the balmy days that rolled by in November and December, it is the external account, far enough in the black to withstand heavier consumer or capital goods imports in the third quarter.

The Government of Anibal Cavaco Silva—whose Finance Minister, Miguel Cadilhe, has a penchant for calling statistics “unreliable,” but then fires a salvo of them at the media—took as its motto economic growth and disciplined budgeting to avoid the consumer explosion of

1980-82 that plunged the balance of payments so far into the red that international banks were often unavailable when Portuguese officials went in search of loans.

Cadilhe, an aficionado of macroeconomics, invented a theory known as “Cadilhe’s lumps,” or humps—abrupt but bearable growth in the balance-of-payments deficit to finance growth. In 1986, he predicted a hump of \$700 million; instead, fate dealt him a surplus that was \$1.6 billion in October and may reach \$2 billion—a sort of “inverted hump.”

Portugal’s competitive hotel prices have boosted tourism. Visitors now outnumber the 10.2-million population, and tourist revenue for 1986 is expected to top by some 30 percent the 1985 peak of \$1 billion. Spaniards lead the crowds.



Portugal's competitive hotel prices have boosted tourism. Visitors now outnumber the 10.2-million population, and tourist revenue for 1986 is expected to top by some 30 percent the 1985 peak of \$1 billion.

Today, whenever one turns, it is not hard to spot a Spaniard either sightseeing or combing Lisbon or Oporto for business now that tariff barriers are vanishing.

While the Spaniards investigate a neighbor they tended to ignore—and which tended to ignore them—for generations, the next largest contingent, the British, largely go in planeloads straight to the Algarve beaches, pools, golf courses and cheap wine. Unlike the Spaniards, they are rarely found inspecting the glories of Lisbon's Calouste Gulbenkian Museum exclaiming “*Que bonito, que bo-*

nito” over a Rembrandt or glowing Moorish tiles.

As well as tourism, heavier emigrant remittances have helped this year's balance of payments. In a way, Portugal joined the European Community 25 years ago, when the mass emigrations to France and the Federal Republic of Germany began in earnest. Their remittances are close to \$2 billion, their bank deposits receive preferential treatment and the official urge to remunerate them keeps interest rates high.

Say “interest rates” and Portuguese businessmen scowl. On medium-term loans they pay 21 percent interest, short-term loans may cost 18 percent. Inflation now stands at 11.5 percent. The Government says businessmen do not invest enough. Cadilhe estimated 10 percent investment growth, but will be lucky to get 8 percent. This represents a substantial turnaround from the slump of 1983-84, but it is not enough to expand industry sufficiently at a crucial moment. Businessmen complain because the Government keeps interest rates so high.

New instruments are livening up the money and capital market scenes. These include treasury bills with varied terms, mutual funds and venture capital companies, new bond or share issues on a market that was discredited by speculation in the early 1970s and has been cleaned up and set on the growth route.

Efforts to make business invest more and producers produce more are weakened by the dark side of the economy—the enormous public debt and chronically excessive state budget deficit that drain resources and prevent balanced growth. In 1987, the accumulated public debt will reach \$22.6 billion, or 68 percent of gross domestic product. At that ratio, it is a drain on economic strength.

A large civil service of 410,000 people and a public sector representing 53 percent of gross fixed capital formation created by Communist edict in 1975—whose enterprises have been in financial trouble ever since—are responsible for this burden. Until the 1976 constitution that upholds protection of “revolutionary conquests” is purged of “conquests” in 1987 or 1988, government can do little to prune the public sector or public debt.

That means that Portugal, joining the E.C. with considerable negative baggage, needs outside help—and now—to finance infrastructures and modernization it had to delay while nursing the sick public sector. More than just Gorgonzola and Brie cheeses have to flow from the European Community . . . €

Diana Smith is the Lisbon correspondent for the *Financial Times*.



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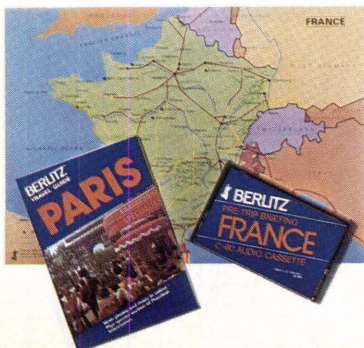
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European Community Heads of State and Government met in London on December 5 and 6 for last year's second round of summit talks. Jacques Delors, the President of the E.C. Commission, was reappointed to a second two-year term.

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NEWS OF THE E.C.

POLITICS

E.C. SUMMIT ADDRESSES ECONOMY, REAPPOINTS DELORS PRESIDENT

E.C. Heads of States and Government, meeting in London on December 5 for their second annual summit—known as the European Council—held in-depth discussions on the European economy and reappointed E.C. Commission President Jacques Delors to a second two-year term.

The leaders voted unanimously to reappoint Delors, 61,

who has headed the 17-man E.C. Commission since January 1985 after a successful term as France's Minister of Finance. Other members of the Commission, one or two from each state according to size, are appointed for four-year terms.

During Delors' first term, the Commission played a central role in tough negotiations for the entry of Spain and Portugal, which became the E.C.'s eleventh and twelfth members in January 1986. It was also deeply involved in reform of the Treaty of Rome, and made intensive efforts to remove remaining barriers to trade within the E.C. and to boost monetary cooperation.

Diplomats said the next two years were likely to be dominated by a search for ways to end the E.C.'s perennial cash crisis and a major overhaul of the farm subsidy system. Delors said in a statement that his Commission had contributed to the creation of a new European dynamism, but that the next two years were not likely

to be easy. "But with solidarity, courage and imagination, the present Commission could continue to play the driving role that it played in 1985 and 1986," he said.

British officials said there was broad agreement at the European Council on a strategy for job creation outlined by British Prime Minister Margaret Thatcher, the Council host and President. They said that to help reduce the E.C.'s 16 million jobless, Thatcher had proposed that industry should be discouraged from relying on subsidies, that it should be made easier to hire and fire workers, that businesses should be freed from red tape and that the E.C. should help the long-term unemployed.

Diplomats said that although no one quarreled with Thatcher over the broad aim of cutting unemployment, several delegations put the accent on state as well as private initiative. Italy's Prime Minister Bettino Craxi, whose country had originally co-sponsored London's job-cre-

ation plan, told the summit that state investment also had a role to play in creating new jobs, and a final statement from the Council noted that "The Community must be a major force for growth in the 1980s and 1990s as it was in the 1960s. The growth of business and enterprise and all the productive activities is essential to tackle the scourge of unemployment, particularly long-term and youth unemployment."

The Council also stressed the importance of growing economic policy convergence in all the member states over the last four years, which has reduced inflation to about 3.0 percent, the lowest level in 20 years. The Council also reaffirmed its commitment to the cooperative strategy for growth.

The European Council noted that the member states which had not already ratified the Single European Act—the package of reforms to the E.C.'s founding treaty designed to streamline decision-making in the Community—intended to

do so in time for it to enter into force on January 1, 1987.

The Council also agreed on principles to govern their fight against terrorism, including: no concessions under duress to terrorists; solidarity among member states to prevent terrorist crimes and bring the guilty to justice; and concerted action in response to terrorist attacks on the territory of a member state.

In its final communiqué, the Council also called for:

- Progress toward a Community policy for civil aviation;
- Measures to establish a common E.C. shipping policy;
- Faster progress on the creation of the Citizens' Europe;
- Effective steps by Japan to allow imports to compete freely in Japanese markets;
- More intense cooperation in fighting illegal immigration and drug trafficking.—Reuters

FOREIGN AFFAIRS

E.P. PRESIDENT MEETS WITH REAGAN

Pierre Pflimlin, the President of the European Parliament, met with President Ronald Reagan on November 20 in Washington for discussions on trade and security issues.

Pflimlin noted in a statement released after the meeting that he had thanked Reagan for the "firm stand he has taken up to now against protectionist tendencies in the United States," and stressed his conviction that the European Community and the United States "would do better to cooperate than to confront one another."

Pflimlin has been President of the European Parliament since 1984. The 518-member body is elected directly by citizens of the European Community, and serves as the Community's public forum, debating issues, scrutinizing legislation and questioning E.C. officials. Reagan addressed the European Parliament in 1985, the first U.S. President to do so.

ANKARA CALLS FOR FREE MOVEMENT OF TURKS IN EUROPE

E.C. Foreign Ministers rejected on November 24 a formal Turkish request for free movement of Turkish nationals throughout the European Community, prompting an angry response from the Turkish Government. "In any circumstances, free movement is an agreed right," the Turkish Foreign Ministry said in a statement. "It is not possible to separate certain conditions from one another."

Turkey's 1963 Association Agreement with the European Community set December 1 as a target date for allowing Turks to move freely through Europe. The decision was to have been implemented in stages, and it was decided early in 1980 to give Turkish workers priority over workers from other non-Community countries and to extend certain aspects of the Community's internal social security system to include them.

The process, however, was interrupted by the December 1980 coup, when the country's civilian government was overthrown. The Community continued to implement the trade provisions of the Association Agreement, but suspended its financial assistance to Turkey



Pierre Pflimlin, President of the European Parliament.

and called for the re-establishment of democratic institutions. Recent favorable developments in Turkey's political situation have allowed the Community to start restoring normal relations with Ankara.

In a statement, Ali Bozer, the Minister of State responsible for Turkish relations with the Community, welcomed the E.C.'s decision to hold a new meeting of the Turkey-E.C. Association Council. He said Turkey would use the talks, for which no date was set, to press its case on freedom of movement. "Our text foresees that free movement, which arises from agreements and which is applied in E.C. countries, should be applied to us also," the Turkish press reported.

The E.C. Foreign Ministers told British Foreign Secretary Sir Geoffrey Howe, the current President of the Council of Ministers, to inform Ankara of their rejection of the Turkish request, but did agree on limited free movement for Turks already in the Community and the right of close relatives to join their families.

Diplomats said the Ministers did not discuss possible membership for Turkey in the E.C.—Ankara's long-standing goal—which is seen in Brussels as out of the question in the foreseeable future. Ankara's statement repeated Turkish readiness to discuss the free movement question "within the framework of Turkey's integration in Europe." The 1963 Association Agreement opened up the possibility of full accession, but E.C. states have tried to dissuade an application because the Community is still adjusting to the membership of Spain and Portugal, and because of the risk of a veto—notably from Greece.

On state television news, Bozer said: "The European Community withdrawal from its obligation will make it harder for Turkey to realize its own obligations and will have a serious negative effect on the Association relationship. . . . In this situation Turkey is left with no other alternative than to apply for full membership."

Diplomats said they believed Turkey was planning a series of officially-inspired individual applications to the European Court of Justice, the E.C.'s highest legal body, on the issue. Turkey, as a non-E.C. member, cannot apply to the Court, but individuals may.—Reuters



TRADE

E.C. ACCUSES JAPAN OF UNFAIR TAX ON ALCOHOL

The European Community accused Japan of discriminatory taxes on alcohol imports on November 21, and a spokesman for the General Agreement on Tariffs and Trade (GATT) said Japan and the E.C. agreed five days later to the setting-up of a GATT dispute settlement panel if a Japanese fiscal policy review in December does not address the E.C. complaint.

A Japanese delegate in the GATT Council session told Reuters: "We believe our tax review in December would accommodate greatly the interest shown by the E.C. in this matter. But there has been no discriminatory treatment of foreign products of alcohol."

Paul Luyten, Deputy Direc-

tor General of External Relations for the E.C., told a news conference that the E.C. could double its \$170 million in annual exports of wine and liquor to Japan if discriminatory taxation by the Japanese was stopped. "We will continue to be firm on this issue and insist on a dispute panel," he said.

In a speech on November 26 to the 500 GATT delegates, Luyten criticized Japan for limiting the access of foreign goods to its markets, noting that Japan had a trade surplus with the E.C. of \$14.3 billion during the first six months of 1986, a 60-percent rise over the same period the year before. "Other countries seem to be similarly affected by such persistent trade imbalances. We see this as a symptom of a GATT system which is unable to provide an adequate degree of mutual advantage for all. Market access must therefore be a central issue in the Uruguay Round," he said, referring to the new round of multilateral trade talks begun this year.—*Reuters*

SOVIETS PLACE POLITICS BEFORE TRADE IN TIES WITH E.C.

The European Community and the Soviet-led Council for Mutual Economic Cooperation (Comecon) are moving cautiously toward establishing formal ties, but these may be delayed by an attempt by Moscow to put politics before trade, E.C. diplomats said in late November.

The Soviet Union told the E.C. in November that it was ready to start talks on a formal relationship, the last Comecon state to do so since contacts opened earlier this year with the Communist bloc that groups the Soviet Union, the German Democratic Republic, Poland, Czechoslovakia, Hungary, Bulgaria and Romania.

Diplomats said Moscow had asked for an E.C.-Comecon meeting by the end of the year to follow up the largely inconclusive first talks in Geneva last September, but the E.C. ap-

pears to be in no hurry. Moscow, which had earlier refused to recognize the E.C., initiated contacts with the Community soon after Soviet leader Mikhail Gorbachev came to power two years ago. The diplomats pointed out, however, that the Soviet Union continued to insist that trade accords with individual Comecon states should not be signed before official relations are established between the two blocs.

Moscow appeared to give top priority to issuing a declaration of mutual recognition, which would also commit the two blocs to signing a cooperation agreement, according to diplomats, who noted that Moscow seemed to see a cooperation accord as a virtual non-aggression pact.

The Community has not shown great enthusiasm for the Soviet initiative although it does not wish to rebuff Moscow and is keen to encourage greater economic cooperation with the smaller East European states, they said. The E.C. is going ahead with preparations for individual cooperation agreements with East European na-

tions, which Moscow conceded may be signed if an overall accord with Comecon is reached. The Soviet Union's former refusal to recognize the E.C. appeared based on the view that it is the economic arm of the North Atlantic Treaty Organization (NATO), and a capitalist device.

Diplomats said E.C. states, wary of Soviet attempts to drive a wedge between the United States and its European allies, were unlikely to do or sign anything that may be interpreted as a snub to the Americans. They would also want to ensure that any cooperation agreement would not, for example, fall foul of a Western ban on high-technology exports to the East Bloc. Comecon proposals have specifically mentioned nuclear energy, robots, microelectronics and biotechnology as fields of possible cooperation.

Apart from the Soviet Union and the German Democratic Republic, East European states have reacted enthusiastically to the prospect of greater trade with the 12-nation Community, diplomats said. Official talks are due to start soon with Czecho-

slovakia and Hungary on concluding bilateral trade agreements but these could be held up until an overall E.C.-Comecon declaration is issued. Preparations for talks with Romania are being held up by E.C. insistence on improved conditions for local staff employed by E.C. delegations.—*Reuters*

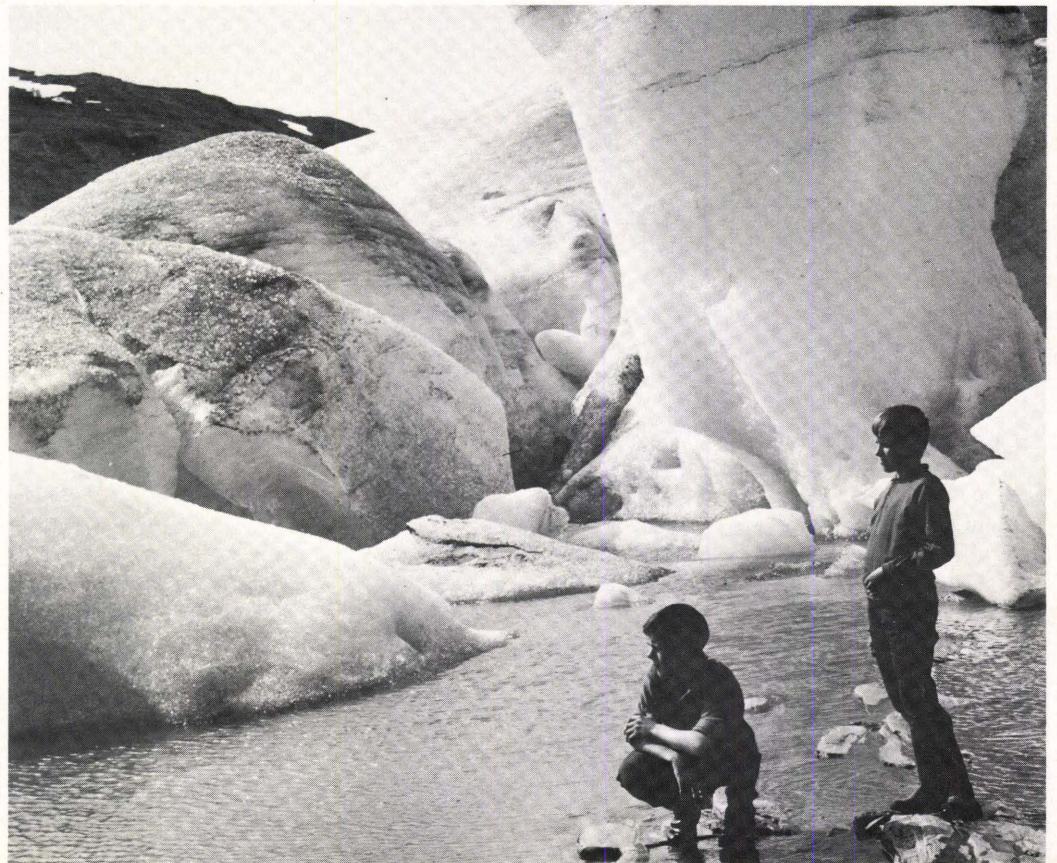
ENVIRONMENT

WORLD CLIMATE UNDER STRESS: E.C. STUDYING "GREENHOUSE EFFECT"

The Commission recently brought together about 60 European and American scientists in Brussels to focus new attention on the accumulation of carbon dioxide and other "greenhouse" gases in the atmosphere—a problem that threatens to significantly alter climatic conditions throughout the world in the next century.

The symposium, which met from November 3-5 under the

As global temperatures rise, glaciers—like this one in Northern Europe—may begin to melt.



auspices of the E.C. Commission, reviewed the wide range of climatic changes that are now widely expected as a direct result of atmospheric CO₂ buildup from the burning of fossil fuels. The climate is expected to suffer because CO₂, which is not transparent to the infrared radiation emitted by the earth (as a consequence of the radiation it receives from the sun), traps heat in the atmosphere. The gradual warming of the atmosphere that results (known as the "greenhouse effect") will bring about wide—and possibly catastrophic—shifts in the environment.

Among the anticipated effects discussed at the symposium:

- An increase in the global mean equilibrium temperature by 1.5 to 5.5 degrees centigrade;
- A rise of 20 cm to 165 cm in sea-level, due to the melting of glaciers and polar ice sheets, and the disintegration of the West Antarctica ice sheet;
- An increase in plant biomass, with related changes in forests and jungles;
- Extreme climatic events such as storm surges and droughts that will require, as the Commission put it, "readjustment of human activity to new risk levels."

Scientists at the symposium stressed that while strategic decisions about how to proceed required more precise information about regional climate change, research should aim now at identifying the most vulnerable ecological and societal areas and developing methodologies of integrated impact assessment on the regional scale.

Measures that could be taken immediately, they said, include:

- Stepping up measures aimed at saving energy and undertaking studies on renewable energy sources—in particular nuclear energy, which appears to be free from by-products which have a negative climatic effect.
- Reducing the emission of radiatively active gases, such as chlorofluorocarbons, whose replacement would pose smaller problems than CO₂ emission.
- Taking actions which will be beneficial in any case, such as

reforestation, improved water resources management, improved agricultural techniques and soil protection and rehabilitation.

COUNCIL CALLS FOR PLAN ON NUCLEAR FALLOUT

The E.C. Council of Environment Ministers ended an 18-hour debate on November 24 with agreements aimed at protecting the public from the harmful effects of nuclear radiation, limiting asbestos emissions, reducing motorcycle noise and disposing of waste oils.

The directive adopted on asbestos introduces standards for the first time in Community law to limit emissions into the air and into water from factories working with asbestos. It also lays down strict conditions to prevent asbestos fibers or dust from escaping into the atmosphere when being transported or dumped as landfill.

The new directive on motorcycle noise will lead to substantially lower noise levels for all sizes of the machines, and the directive on disposal of waste oils should reduce air pollution and avoid leakage into the environment of poisonous chemicals such as PCBs.

The Council also devoted a relatively large amount of time to nuclear safety, and said it would discuss Commission proposals on the matter as soon as possible.

The Environment Ministers failed, however, to act on other environmental threats. Due to opposition from several states, it was impossible to agree on measures to cut the level of emissions from big power plants, to reduce the sulphur content of gas-oil, or to reduce levels for diesel emissions from automobiles and commercial vehicles. Belgium, which takes over the Community's rotating presidency in January, is expected to propose new emissions measures at the next Environment Council meeting in March.



European financial markets, including the London Stock Exchange, above, are integrating under the effects of E.C. capital liberalization.

BUSINESS

COUNCIL AGREES ON CAPITAL LIBERALIZATION

E.C. Finance Ministers approved on November 17 a significant first step toward ending all curbs on the free movement of capital within the Community, adopting proposals that, among other things, will force European governments to lift restrictions on transactions on shares and bonds within the Community.

The move means that financial markets in Belgium, Denmark, Germany, France, Luxembourg, the Netherlands and Britain will potentially be integrated from February, when the measures are expected to enter into force in most countries.

E.C. Commission President Jacques Delors, the architect of the proposals, hailed the Ministers' decision at a news conference. "If we look to the future, I think we can say the 'Big Bang'

is in Brussels," he said, using the term coined to describe the deregulation of London's financial markets last October.

The proposals adopted in November are the first to liberalize capital flows in the Community since 1962. They form the first part of a two-stage program to eliminate all barriers to capital movements by 1992, the year in which the Community aims to have created a genuine common market in goods, services, capital and labor.

Noting that the Commission plans to submit proposals for the second phase of capital liberalization next spring, Delors said that a genuine internal market in finance would provide a basis for improved economic performance in the Community and would strengthen monetary cooperation and use of the European Currency Unit (ECU), the E.C.'s composite currency.

The new directive will most affect Italy, France, Greece and Ireland since other states, except new members Spain and Portugal, already allow most of the transactions involved. Madrid will be exempted from the new rules until the end of 1990,

and Lisbon until the end of 1992.

The directive obliges governments to permit all foreign exchange operations needed for investors to buy or sell shares and bonds at home or abroad. It also gives companies or institutions improved access to E.C. capital markets by enabling shares and bonds dealt in one stock market to be introduced on others, and allows credit institutions to grant loans for five or more years to finance trade in goods or services.

Replying to suggestions that the move was modest, Delors said it represented "unquestionable progress" for savers, financial institutions and small- and medium-sized enterprises in search of fresh funds.

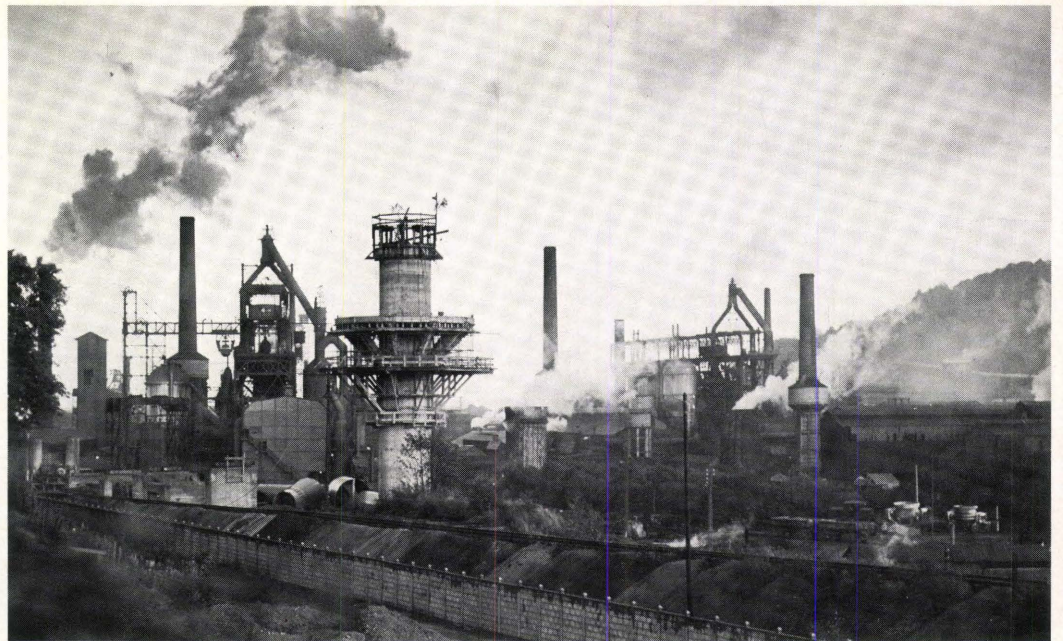
E.C. officials said the decision, which came less than seven months after Delors originally unveiled the plan, was made possible after Italy, Greece and Denmark lifted their reservations on the move. Delors said safeguard clauses would be allowed to take account of economic realities in countries that felt unable to introduce the liberalization measures immediately. —Reuters

COURT FINDS SERVICES TRADE LAW BROKEN

The European Court of Justice, in a decision that could widen competition in the multi-billion dollar E.C. insurance market, ruled on December 4 that four E.C. member states were breaking Community law by imposing restrictions which hampered free trade in insurance.

It said in a long-awaited judgement that Denmark, France, Ireland and Germany had contravened articles of the E.C.'s founding charter, the Treaty of Rome, by imposing certain conditions on insurers of big commercial risks. The Treaty articles provide for free trade in services within the Community.

The E.C. Commission, the Community's executive body which brought the suit with the support of Britain and the Neth-



Above: Steel works at Longwy, Luxembourg, one of three European Community steel-producing areas to benefit from a trans-national cooperation and restructuring plan.

erlands, argued that the requirements put foreign insurers at a major competitive disadvantage to domestic firms. The ruling could prove a landmark in moves to open up the E.C.'s protected insurance market—with estimated annual revenues of more than \$60 billion—to greater cross-border competition.

The Commission brought the cases in 1983 and 1984 to try to break a deadlock between member states in negotiations over proposed new Community rules for non-life services that have been on the table since 1975. Its action was set in motion by a complaint from German insurance broker Franz Schleicher, who was fined about \$9,000 in 1983 by a German court for breaking the law by placing insurance in London more cheaply than he could at home. London, where the huge Lloyd's insurance market is based, stands to gain considerably from the new ruling.

In the case of Germany, Europe's biggest single insurance market, the Court also gave partial backing to a further challenge by the Commission to rules that restrict insurance brokers from placing business abroad.

The Court's decision is likely to give fresh impetus to E.C. negotiations on creating a common market for insurance

within the 12-nation Community. The Commission, responsible for overseeing moves to create a barrier-free internal market for goods, services and finance by 1992, has said it will decide quickly on new moves in the insurance sector.

Legal experts said the ruling bolstered the Commission's position on opening up the E.C. insurance market. They said the binding verdict underlined the principle that governments could not require foreign companies wanting to insure risk of any kind in their country to have a base there.

The defending states, which were supported by Belgium and Italy, had argued that such a base was necessary so that authorities could properly supervise the domestic insurance sector and adequately protect consumers. All four currently require companies heading consortia that insure major commercial risks in those countries to be established or officially authorized there or both. The Court ruled that these stipulations were illegal.

The Court did not back the Commission, however, when it ruled that, to protect consumers, governments could under certain conditions require foreign companies to be officially authorized in their own country for most kinds of direct insurance business. —Reuters

COMMISSION APPROVES "EUROPEAN DEVELOPMENT POLE"

The Commission announced in late November that it was approving a bid by the Belgian, French and Luxembourg Governments to set up a "three-frontiers European development pole" that would give a boost to regional development and contribute to European integration. The plan is to set up a development pole in the adjoining steel-producing areas of Aubange, Longwy and Rodange. A 40-hectare "business park" would be established there, which would have special customs procedures, a free-zone warehouse and inward processing arrangements, and access to the site will be provided by building rail and road links.

The plan for the development pole was drawn up last year, and a coordinated set of three national programs drawn up under European Regional Development Fund (ERDF) guidelines was presented to the Commission in February. The Commission said it was pleased with the plan, which addresses problems facing the steel-producing areas concerned and makes good use of the pros-

pects offered by cross-frontier trade. It also noted that the project is in line with two of its own structural priorities: introducing stronger structural measures to assist steel restructuring areas, and greater trans-national coordination on infrastructure and investment projects.

1987 STEEL DEMAND EXPECTED TO FALL

Demand for steel products in the European Community, already at depressed levels, is likely to fall further earlier next year, according to quota details released in December by the Commission. The production quotas, for the first quarter of 1987, covered 60 percent of steel output subject to volume restraint.

The quotas for the six categories involved totalled 12.46 million tons, against quotas of 12.97 million in the current quarter and 13.23 million in the third quarter of 1985.

Commission sources said industrial users of steel products were generally optimistic about the economic situation early next year. But steel producers believed stocks would be run down in the next few months, meaning that industry could expect little relief from a reduction in demand that has prevailed for most of this year, the sources said.—*Reuters*

FIRMS FINED FOR EXCHANGING SALES DATA

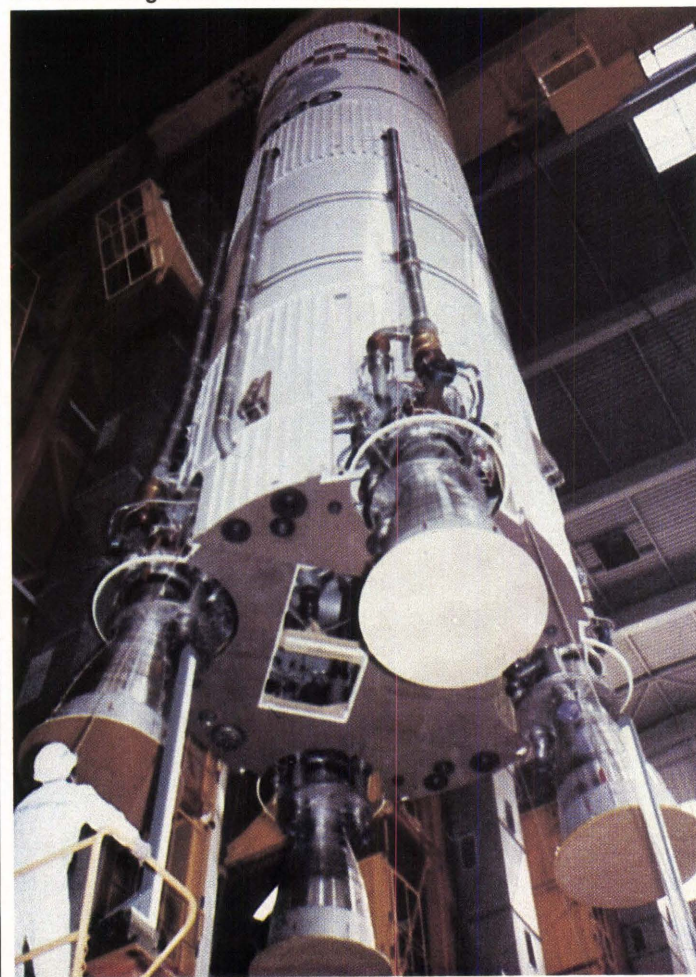
Three big chemical companies from Belgium, Britain and Germany became on December 4 the first firms fined by the E.C. Commission for exchanging details about sales in breach of European Community competition rules. The Commission, which has powers to impose penalties for such breaches, announced fines of \$50,000 against Oleofina of Belgium, Unilever of Britain and Henkel of Germany.

In the past, the Commission has fined companies for such practices as operating a cartel which fixed prices or controlled the output of products. But it said in a statement that the fines resulted from an agreement between the three firms to give each other details quarterly about their total sales of fatty acids in Europe.

The Commission said that at the time the cartel operated, between 1979 and 1982, the firms held about 60 percent of the European market for fatty acids, which are widely used in industry for purposes such as making soaps, detergents, paints and resins.

The Commission said the exchange of information enabled each of the firms "to monitor the activity of its major competitors and to adjust its own behavior accordingly." It added, "This kind of agreement or behavior normally has an inherent tendency to maintain the status quo and thus restrict competition."

The first stage of an Ariane rocket, located at Aérospatiale's Launcher Integration Site in France.



TECHNOLOGY

ARIANE SET FOR NEW LAUNCHES IN 1987

Prospects for the accident-hit world satellite industry brightened significantly in early December when the European Arianespace consortium announced that it would resume its launch program early in 1987.

The program has been suspended since May 1986, when an Ariane 2 rocket carrying a telecommunications satellite had to be destroyed after the third stage motor failed to ignite. That failure, coming just four months after the U.S. space shuttle disaster and in the wake of crashes involving U.S. Titan and Delta rockets, crippled the ability of the West to launch large satellites.

Arianespace president Frederic d'Allest told a news

conference in Bordeaux, France that a five-month program to redesign a defective starter, involving 23 test firings, had been successfully completed. D'Allest said that the initial target date of February 1987 which he had given to clients for the resumption of launches had been a little ambitious, but that Arianespace was on schedule for a restart early next year. "We will not meet the February target, but the delay should only be a few weeks," he said.

The next flight, the nineteenth in the Ariane series, will use an Ariane 3 rocket with side-boosters to put two telecommunications satellites into orbit, one the European ECS-4 satellite and the other the Australian Aussat K3 or the U.S. G-Star 3 satellite.

D'Allest said the launch failure last May had directly cost Arianespace around 500 million francs (about \$76 million), but that the consortium expected to finish this year showing a profit similar to last year's 170 million francs.

News of the imminent resumption of Ariane launches from French Guyana comes at a time when the world space industry is beginning to look to the future again after the worst string of accidents since the early days of space exploration.

Arianespace has tentatively scheduled seven launches for 1987, several of two satellites each, and a further eight launches in 1988. Its order books are full well into 1990, and it has signed 16 satellite launch contracts this year, five the direct result of the shuttle disaster.—*Reuters*

EUROPEAN SPACE SHUTTLE STUDY FUNDED

The European Space Agency (ESA) announced on December 4 that it had enough money to begin work on the study phase of its planned Hermes space shuttle. Work can now go ahead, pending a decision in 1987 on whether the spacecraft will actually be built.

An ESA official said member

states had provided enough money to fund the study phase, though it was not yet clear whether Britain would take part. France has already publicly pledged to fund 45 percent of the \$50 million study costs, and Germany has pledged a further 30 percent.

The ESA published a list of companies from France, Germany, Belgium, the Netherlands, Italy, Spain and Canada that have been allocated work on the project. British companies were absent from the list, but British Government officials said an announcement on participation was forthcoming.

British scientists are backing research into the *Hotol* space plane, a more technologically ambitious project than *Hermes*. *Hotol* is not due to be operational until after the year 2000. The ESA hopes *Hermes*, a shuttle vehicle to be used for manned flights but not for launching satellites, will be operational by 1995.

European research ministers are scheduled to meet next June to decide whether to authorize construction of two *Hermes* shuttle craft, which will ride into space on an Ariane rocket before gliding back to earth.—*Reuters*

E.C. EXPERIMENTS WITH 'INFORMATION SOCIETY'

The E.C. has begun a far-reaching experiment into the way information systems will shape Europe's future, with the development of the Inter-Institutional Information System (INSIS). INSIS, scheduled to become operational in 1990, will provide link-ups of electronic mail, videotex and videoconferencing between Brussels, Strasbourg and Luxembourg—the three centers of E.C. institutional activity.

The fact that E.C. institutions are not centralized means that Community officials and Members of the European Parliament (MEPs) are constantly in motion, and the task of shift-

ing documents between the centers is enormous: 200,000 pages are exchanged every day between the Council of Ministers and the offices of the member states' Permanent Representatives, 320,000 pages a day between the Commission and the Council and 11.5 million pages a month circulated during each plenary session of the European Parliament.

The Community's administrative structure makes it particularly appropriate for an experiment with information technology and the new services. Banking on cooperation at the Community level, INSIS will enable testing to be carried out on a sample system of compatible equipment, which will subsequently be reproduced on a European scale. The experimentation phase is currently mobilizing 25 officials and technicians in Luxembourg and Brussels.

The INSIS program consists of three parts: INSEM (electronic mail), OVIDE (videotex organization for MEPs) and VIDEOCONFERENCE. INSEM's objective is to reduce the "paper mountain" by introducing the electronic transmission of written documents. The international electronic mail system will come into service before the end of the year to handle Parliamentary questions, and the system should be fully operational at the end of 1988.

It will ultimately lead to a big saving in time (expedited procedure) and in money (reduction in printing, duplicating and distribution costs). The head of the INSIS program management team, Mario Bellardinelli, has noted that in the long run INSEM will enable the computerization levels of the European countries to be harmonized and above all a common policy on standards to be put into practice. The introduction of the new technologies is primarily a matter of consensus, and there is a marked desire for cooperation between administrative bodies and industries.

The videotex organization for Members of the European

Parliament, OVIDE, is designed to facilitate access to all the information stored in central databases, preferably in all of the nine working languages of the Community. The first step has been to install videotex terminals in Strasbourg and Luxembourg, where the Parliament meets, and in Brussels, where it has administrative offices. OVIDE can cope with the three national protocols used in the European countries—PRESTEL, TELETEL and BILDSCHIRMTEXT—thanks to three videotex interfaces. Once the standards problem has been resolved, OVIDE will be extended to MEP's constituencies and will become the first trans-Community public videotex service.

The VIDEOCONFERENCE system has been operating since the beginning of 1986 in two studios set up in Brussels and Luxembourg. The system allows meetings to be held without any travel being necessary. At the end of the year, the pilot videoconference service should be capable of linking up several points in the Community and of offering simultaneous interpreting services.

The INSIS program has cost about \$18 million.

SOCIETY

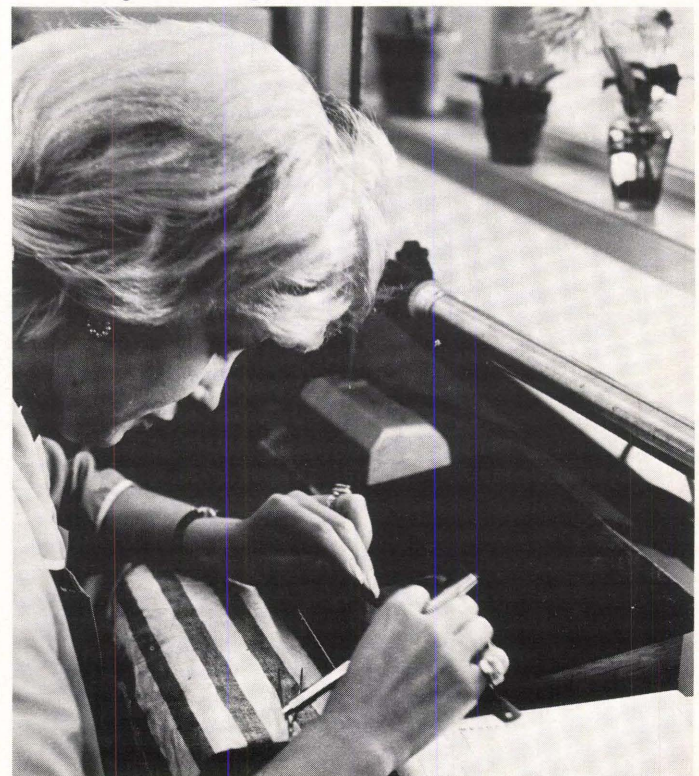
COURT RULES ON WOMEN'S RIGHTS

The European Court of Justice ruled on December 4 that Dutch laws barring married women from drawing unemployment benefits broke European Community legislation on equal treatment for women. In its judgment, the Court said: "Women have the right to be treated in the same manner . . . as men in the same circumstances."

Legal sources said the ruling could affect the outcome of other cases before the Court, including a similar one over Irish regulations curbing unemployment payments to married women. No date has been set for a hearing in the Irish case.

The Dutch Government told the Court earlier that it realized its regulations broke Community equal treatment regulations, but a reform of its social security laws that would have brought the country into line had been delayed in its passage through Parliament. The Court ruled, however, that Community law took precedence when

Women's rights are being promoted by the European Court.

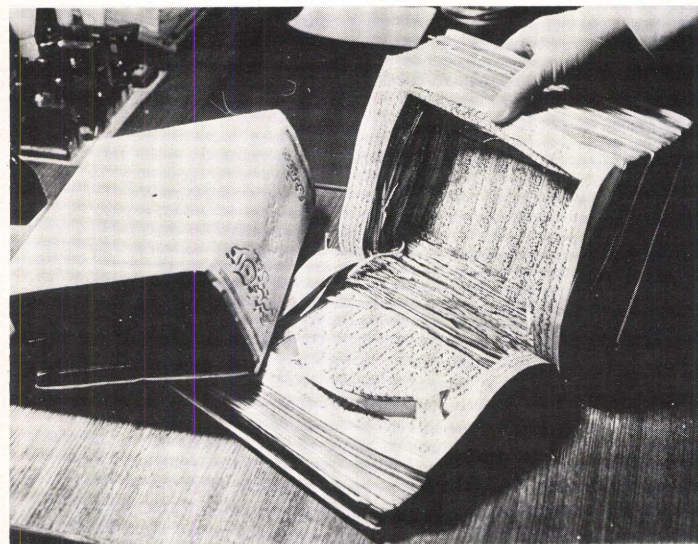


national laws were out of line with Community legislation.

The case had been referred to the Court of Justice for a ruling by the Dutch Supreme Court after the trade union movement in the Netherlands challenged national laws on unemployment benefits.—*Reuters*

E.C. DEBATES EUROPEAN SPEED LIMIT

Setting speed limits for motorists on Europe's highways has remained a matter for each of the 12 member states of the European Community, and judging from a recent—and in-



Smugglers have found numerous ways to transport drugs—like this hollowed out Koran seized by Danish authorities.

COMMISSION ANNOUNCES WAR ON DRUGS

The E.C. Commission announced in late November a new \$2.25 million drive to fight drug abuse in Europe. "There are now 1.5 million regular heroin users in E.C. states, most of whom are between 17 and 25, and very soon Europe risks being submerged by "new" drugs such as cocaine mixed with tobacco or marijuana," the Commission said in announcing the plan, which begins in 1988.

Drug addicts can be helped by better rehabilitation and education on the dangers of drug abuse, according to the Commission, which said a group of experts from E.C. countries would be brought together to decide on how best to implement the new plan.

In October, E.C. Ministers approved plans by the European Parliament for tougher measures against drug abuse, including seizure of traffickers' assets, education on drug dangers and cooperation among E.C. police forces.—*Reuters*

conclusive—debate in the European Parliament, any real change is some way off. But the E.C. Commission has decided to draft proposals for speed limits to be set by the Community.

A recent report prepared by Ben Visser, a Member of the European Parliament, shows how speed affects both road safety and environmental pollution. Noting that while both the risk of accidents and their seriousness increases with driving speed, the report says that the safety factor is virtually unchanged between 60 and 75 miles per hour.

In most Community countries the speed limit on highways is 75 to 80 mph, but it is just over 60 mph in the Netherlands, Denmark and Ireland. Germany, on the other hand, has set no speed limits. The Parliament report claims that a high proportion of drivers exceeded these limits—about 60 percent in the Netherlands, 30 percent in Denmark, 40 percent in the United Kingdom and 29 percent in Italy.

While the report notes that speed limits which are regularly

exceeded should be raised, environmental protection requires they be set relatively low. According to a Dutch study, emissions of the two most dangerous pollutants, carbon monoxide and nitrogen oxides, increase by 26 percent and 13 percent respectively when a car accelerates from 65 to 72 miles per hour. A reduction in speed of some six miles per hour reduces these emissions proportionately. A German study has found a 10 to 15 percent increase in these pollutants when the speedometer goes from 62 to 80 miles per hour.

AGRICULTURE

E.C. AGREES TO SUBSIDIZED WHEAT SALES

The European Community agreed in November to the export of 375,000 tons of subsidized wheat to Algeria and Egypt, according to E.C. officials. The E.C.'s market managers granted export licences for the region with a subsidy of 120.25 European Currency Units (about \$120) a ton.

The subsidy comes on top of an extra 25 ECU per ton subsidy which European traders already enjoy when exporting to Algeria and Egypt between January and May. The aid is given to compensate for a long period of storage between finding a market outlet and the summer harvest. E.C. officials said mainly French traders would export 100,000 tons of wheat to Egypt and 275,000 tons to Algeria.

The subsidies will enable E.C. traders to sell below current world market prices in traditional French markets in an area the United States has pinpointed for an export drive. Washington, maintaining E.C. subsidies have cost the United States an important share of the world market, has pledged to match Community sales with its own subsidies. As a result, it has already sold 1.5 million tons of wheat to both countries.—*Reuters*

AID AND DEVELOPMENT

COMMISSION HELPS REFUGEES RETURN

Uruguay's return to democracy in November 1984 has made it possible for thousands of refugees and people forced into exile to return home and be reunited with their families. Some 350,000 Uruguayans—an important proportion of a total population of less than three million—are estimated to have left the country between 1968 and 1983 for political and economic reasons.

Aware of the valuable human resources which the exiles constitute for the rebuilding of the Uruguayan economy, the Government set up in March 1985 the Comision Nacional de Repatriacion (CNR) to facilitate and promote the return home of any Uruguayan citizen wishing to do so.

Uruguay has been in a straitened economic situation for many years, however, and without international economic aid will not be able to bring home exiles in Europe or Latin America, or to reintegrate them once they are back. The E.C. Commission has therefore agreed to fund a \$660,000 program to reintegrate 200 professional and technical people who would return to public and private institutions, universities and cooperatives in order to increase their technical and administrative strength, and to work on projects aimed at speeding up the country's development. €

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Europe periodically lists books dealing with Community and Atlantic topics. Prices are also given when known. This presentation does not indicate approval or recommendations of these publications, which can be purchased or ordered from most booksellers.

Specialized Study Options U.S.A. 1986-1988. 2 Vols. Edrice Howard, ed. Institute of International Education, New York, 1986. 400 + 217 pp.

A comprehensive two-volume guide to U.S. educational programs designed for foreign nationals. Volume 1 focuses on technical education, while Volume 2 provides information on professional educational development. Program listings span the continental United States and detail course specialization, eligibility requirements, type of housing, tuition costs and other information useful to the student planning short-term study abroad.

The United States, the E.C. and Industrial Policies: Adjustment or Protectionism? Michael Smith, ed., King's College, London, 1986. 70 pp.

A collection of papers presented at a conference held at King's College on October 25, 1985, organized by the University Association for Contemporary European Studies. Entries include discussions on research and development programs, both civilian and defense related, labor problems in European industry, and the existing technology gap between the United States and the Community. On the European industrial strategy, Wolfgang Kist emphasizes the urgent need for the Community to create the necessary framework for greater industrial success and competitiveness by aiding the ailing sectors of the economy and catching up in the high tech race. It is noted across the board that working together and moving forward in areas outside DG III (Industry and Internal Market) will lead to the eventual creation of a dynamic and well-integrated E.C. industrial policy as well as a completed internal market. Essays are informative but inconclusive.

World Atlas of Elections: Voting Patterns in 39 Democracies. First Edition. By Dick Leonard and Richard Natkiel. The Economist Publications, Ltd., London, 1986. 159 pp. \$85.00.

This new publication details parliamentary and presidential electoral processes in 39 of the world's democratic nations. Brief summaries are given outlining political activities, past and present, in individual countries, and specific voting percentages are included. Accompanying explanations of electoral results are numerous charts and maps as statistical and visual aids for deciphering often complicated voting procedures and regional party affiliations.

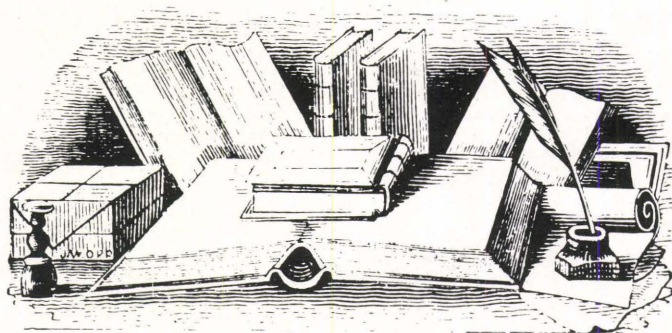
Defense Procurement in the Federal Republic of Germany: Politics and Organization. By Regina H.E. Cowen. Westview Press, Boulder, CO, 1986. 334 pp. \$29.50.

The issue of military procurement in the Federal Republic of Germany is examined both chronologically and topically in this recent report. The author traces West German defense and security policy from post-WWII until 1982, and presents comprehensive analyses of the issues in relation to the defense industry, the economy, and the reforms that have taken place within the procurement sector itself. The final chapter details prob-

lems with defense export and collaboration and includes a critique of the 1982 Bundeswehr Long-term Planning Report. Tables and figures accompany analyses.

American Trade Politics: System Under Stress. By I.M. Destler. Institute for International Economics, Washington, D.C., 1986. 366 pp. \$18.00.

American foreign trade policy in general and the current trade deficit in particular are the topics addressed in this recent study. The author approaches the problem of economic imbalance through speculative analyses of political differences that exist among trading nations. He also addresses the issues of growing trade competition, industrial/structural



decline in the United States, the erosion of the GATT rules, exchange rate fluctuations, all in relation to the current U.S. trade situation. The protectionist tendencies of the 1970s and 80s are outlined and are deemed a major reason for the existing U.S. deficit. Concluding remarks suggest that the Congress should be hesitant to initiate any new trade legislation until the U.S. trade deficit experiences a substantial decrease. Because the American trade crisis is viewed from a broad historical perspective, this report will be of interest to students of government and economics as well as to businessmen and national officials.

International Trade Law and Practice of the European Community: EEC Anti-Dumping and other Trade Protection Laws. By Ivo VanBael and Jean-Francois Bellis. CCH Editions, Ltd., Oxfordshire, 1985. 438 pp.

E.C. trade law is the subject of this collaborative effort which seeks to highlight and update Community trade legislation with regard to current anti-dumping, anti-subsidy and safeguard practices. The non-protectionist "new commercial policy instrument," adopted by the E.C. in 1984, is analyzed and contrasted with the more conventional trade protection measures. The authors carefully detail E.C. trade policy and systematically outline its procedural rules. Extensive tables are included listing European Court of Justice court cases and annexes comple-

ment the discussion on E.C. compliance with GATT regulations.

Partners for Development. Liaison Committee of Development NGOs to the E.C. in collaboration with DG VIII (Development), Brussels, 1986. 59 pp.

The special relationship that exists between the European Non-Governmental Organizations and the E.C. Commission's development directorate-general is examined in this summary report of their activities in the Third World. Cooperation on the institutional level is translated into practical actions, and special E.C. country reports are given to demonstrate member state participation (via national NGOs) in the crusade for development. Fields of activity of the E.C.-NGO partnership include the co-financing of development projects, development education, food aid and extensive volunteer work. Assessment of current activities are followed up by projections for future opportunities and challenges for development cooperation.

gether the authors successfully present a compact overview of West European (E.C. as well as non-E.C.) institutional structures, political bearings, economic and technological developments and trading practices in the context of Europe's global commitments in each of these areas. Where does Europe fit—economically, culturally, and historically—is the question posed in this study. Europe as a cultural source to the rest of the Western world, and her position as "political victim" of a polarized globe are but two of the many interesting topics addressed in this report. This volume will attract a wide and diverse audience.

The Dilemma of Reform in the Soviet Union. By Timothy J. Colton. Council on Foreign Relations, New York, 1986. 274 pp. \$19.50.

The author, a noted Sovietologist, examines the leadership of the Kremlin at various stages from the rule of Brezhnev to that of Gorbachev today, and provides commentary on changing policy options and efforts for reform over the past two decades. Colton traces the agenda of an unusually transient leadership, evaluating the economic and social factors of each period that contributed both to complacency as well as to change. There are interesting analyses of the swaying political pendulum, which sometimes brought the Soviet Union closer to revolution than reform, that tie together many of the author's thoughts on fluctuating Soviet attitudes and the policies that reflect the leadership's activities. A well-researched document that will be of interest to the political scientist and historian alike.

International Economic Policy Coordination, Chatham House Paper 30. By Michael Artis and Sylvia Ostry. Routledge & Kegan Paul, London, 1986. 89 pp. \$10.95.

This short monograph provides a general historical framework for a discussion of global economic policy, and analyzes the current state of international interdependence by way of an evaluation of concrete cooperative action. Assessment of the Bretton Woods system, GATT rounds, the functioning of the IMF and the World Bank, lead to suggestions for new guidelines for policy coordination and institutional reform. A brief but informative study.

PUBLISHED FOR THE COMMISSION

Risk Assessment for Hazardous Installations. EUR 10045. J.C. Consultancy Ltd. Pergamon Press, London, 1986. 279 pp. \$43.00.

This report examines several techniques used in the nuclear industry that can be helpful in determining the significance of risk or hazard potential in key industrial processes. While looking at three countries in particular (the Federal Republic of Germany, the United Kingdom and France), the study outlines three main problems relevant to making quantitative assessment of the industrial hazard possibilities: inaccurate data vis-a-vis the case being studied; simplification of the system necessary to maintain low assessment costs, and non-inclusion of relevant

Europe in the Contemporary World. Ervin Laszlo, ed. Gordon and Breach Science Publishers, New York, 1986. 297 pp. \$36.00.

A compilation of a series of studies conducted by a United Nations University Project on European perspectives. Entries are made by various European academics and government officials. To-

economic, technical and socio-political factors in the assessment technique. The various country practices are reviewed and critiqued, and suggestions for improving project assessment are included.

Leaching of Low and Medium Level Waste Packages Under Disposal Conditions. *EUR 10220*. M. Dozol, ed. Graham & Trotman, Ltd., London, 1985.

This report is a synthesis of an international workshop on long-term performance of low and medium active waste packages in an aqueous environment, organized by the Commission of the E.C. (DG XII.01) and the Commissariat à l'Energie Atomique (CEA-IRDI-DERDCA), held at the CEN-Cardache, France, November 13-15, 1984.

Molecular Biology and Crop improvement: A case study of wheat, oilseed rape and faba beans. *EUR 10336*. R.B. Austin. Cambridge University Press, 1986. 114 pp. \$29.95.

A summary of a study on opportunities for the application of molecular biology to crop improvement in the E.C., carried out by the Plant Breeding Institute of Cambridge, under contract to the E.C. Commission.

Ocean Disposal of Radioactive Waste by Penetrator Emplacement. *EUR 10170*. By Ove Arup & Partners. Graham & Trotman, Ltd., London, 1985. 251 pp. \$53.00.

A report prepared for the Euratom cost-sharing research program on "Radioactive Waste Management and Disposal."

Acute Virus Infections of Poultry.

EUR 10052. J.B. McFerran and M.S. McNulty, eds. Martinus Nijhoff, Publishers, Boston, 1986. 242 pp. \$70.00.

Results of a seminar in the CEC Agricultural Research Program, held in Brussels, June 13-14, 1985.

Life Support Systems: The Journal of the European Society for Artificial Organs. Vol. 4, Supp. 1. *EUR 10417*. A. Lautier and J.P. Gille, eds. W.B. Saunders Co., Ltd., London, 1986. 344 pp.

Proceedings of a workshop symposium held in Paris, June 20-21, 1985, and sponsored by the E.C. Commission's medical research program.

The Radiobiology of Radium and Thorotrast. *EUR 9069*. W. Gossner, ed. Urban & Schwarzenberg, Munich, 1986. 210 pp.

Proceedings of a Symposium held at Neuherberg, October 29-31, 1984.

Safety of Diving Operations. *EUR 10481*. P.A. Walker, ed. Graham & Trotman, Ltd., London, 1986. 343 pp.

Proceedings of the International Symposium on Safety and Health in Diving Operations, Luxembourg, May 7-8, 1985.

Radiation Risks to the Developing Nervous System. *EUR 10414*. H. Kriegel, ed. Gustav Fischer, Stuttgart, 1986. 435 pp. \$58.00.

Report of an international symposium jointly organized by the E.C. Commission's directorate-general for science, R&D, and the department of nuclear biology at Gesellschaft für Strahlen-und Umweltforschung mbtL., Munich,

at Neuherberg, June 18-20, 1985.

Legal Databases in Europe: User Attitudes and Supplier Strategies By Michael Lloyd. North-Holland, Amsterdam, 1986. 218 pp.

This book is based on the final report of a study of the access to legal databases in Europe, which was carried out for the E.C. Commission in the first half of 1985. Outlined here are the user's view of legal databases, the use of databases in a variety of work environments, analyses of user survey responses, and 6 detailed case-studies. Concluding remarks examine the major trends involving the European legal database industry.

Tokamak Start-up: Problems and Scenarios Related to the Transient Phases of a 7Thermonuclear Fusion Reactor. *EUR 10114*. Heinz Knoepfel, ed. Plenum Press, New York, 1986. 432 pp. \$75.00.

A compilation of papers presented at a course on thermonuclear fusion which was held in Erice, Sicily, July 14-20, 1985.

Soil Erosion in the European Community: Impact of Changing Agriculture. *EUR 10419*. G. Chisdi and R.P.D. Morgan, eds. A.A. Balkema, Rotterdam, 1986. 233 pp.

Proceedings of a seminar on land degradation due to hydrological phenomena in hilly areas: Impact of change of land use and management. Held in Cesena, Italy, October 9-11, 1985.

Sampling Problems for the Chemical Analysis of Sludge, Soils and Plants *EUR 10362*. A. Gomez and R.

Leschber, eds. Elsevier Applied Science Publishers, London, 1986. 94 pp. \$29.75.

Proceedings of a Round Table Seminar organized by the E.C. Commission's directorate-general for science, research and development, environmental research program, held in Bordeaux, France, November 6-7, 1985.

Epidemiological Studies of Risks Associated with the Agricultural Use of Sewage Sludge: Knowledge and Needs. *EUR 10363*. J.C. Block and A.H. Havelaar, eds. Elsevier Applied Science Publishers, London, 1986. 168 pp. \$36.25.

Proceedings of a round table seminar organized by the E.C. Commission's directorate-general for science, research and development, environmental science program, held in Metz, France, May 21-23, 1985.

Soil Structure Assessment. *EUR 9497*. W. Burke, ed. A.A. Balkema, Boston, 1986. 92 pp. \$55.00.

This book is the result of contributions by various members of a West European Committee on Soil Science who attended international workshops on soil structures.

European Textile Research: Competitiveness Through Innovation. *EUR 1065*. C. Blum and J.G. Wurm, eds. Elsevier Applied Science Publishers, London, 1986. 485 pp. \$74.25.

Proceedings of the European textile research symposium "Competitiveness Through Innovation," organized jointly by Comitextil and the E.C. Commission, held in Luxembourg, September 18-19, 1985.



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EUTELSAT

Continued from page 26.

space-based transmission system, which would only result in the duplication of technologies and the duplication of costs," he says. "And in the end, it will be the customer who pays for this."

The second challenge is technological, and comes from the potential widespread applications of optical fibers, which are already being increasingly used to replace copper cable for land-based telephone lines. Eutelsat officials acknowledge that optical fibers already promise to be more cost-effective than satellite links for direct telephone connections carrying a substantial amount of traffic, for example between major commercial centers. sparsely populated areas.

Caruso insists that the need for Eutelsat will continue to grow, at least in the medium term. "I do not know what the long-term future will bring in terms of alternative communications technologies," he says. "But up to the year 2000 we must plan to provide more and more facilities to meet the needs of the market. There is ample room both for the Eutelsat-2 series, and for a Eutelsat-3."

INTELLECTUAL PROPERTY

Continued from page 17.

adopted during the most recent multilateral session, the Tokyo Round. These codes, first, define parameters of acceptable trade practices, and, second, they establish panels that review complaints, resolve disputes and monitor members' compliance. The goals of the new code should be "adequate enforcement, transparency of governmental actions and regulations, and a commitment not to use intellectual property laws to distort international trade," the Administration stated. Augmenting these GATT initiatives will be the U.S. efforts to strengthen WIPO and the Paris convention. A multilateral or regional patent office will also be sought, and the United States will gain accession to the Berne convention.

In a statement last year, the Council of Ministers of the E.C. made the point that "the GATT alone cannot solve all the trade-related problems in which other institutions have a hand. Problems such as counterfeit will only be adequately dealt with if a balance is struck between the role which GATT can and should play, and the function of other international bodies such as WIPO."

GATT's efforts, in the E.C.'s view, should be "without prejudice" and "complementary" to those initiatives pursued at WIPO and elsewhere. "Such protection should guarantee an adequate return on

TOURISM

Continued from page 15.

millions upon millions of tulips burst forth in full color throughout the month.

With May, there is music everywhere, including the Vienna festival and the Bergen international festival in Norway. Tivoli Gardens open in Copenhagen and there are sporting events of all descriptions from the Grand Prix of Monaco automobile race to the oiled wrestling matches of Kirkpinar in Turkey.

Europe has so much to see no matter what the date. For the architecturally minded, here is the world's greatest treasure trove, be it the Acropolis and Epidaurus, the medieval fortifications of Edinburgh and Luxembourg City, the magnificence of the cathedral at Chartres or the public works of Alvar Aalto and other Finnish masters in Helsinki.

The natural beauty is grand: the fjords of Norway, the Danube, the Alps, the sunny Algarve the Icelandic geysers, the

investment devoted to developing new goods and services or commercial goodwill, while at the same time avoiding unreasonable barriers to trade. The new round could contribute to the definition of a better balance between these often conflicting objectives, having due regard to ongoing work in other organizations such as WIPO. As a final step, a review of those GATT provisions which already deal with intellectual property... should be undertaken." European trade ministers, after meeting in Brussels in December, are working on a statement of the E.C.'s policy goals for the GATT talks.

The GATT offers a number of advantages. This institution, as OTA suggested in its report, "could provide international enforcement mechanisms in the form of dispute settlement mechanisms and trade sanctions as final retaliatory mechanisms for dealing with infringements—mechanisms that are not currently provided in international intellectual property agreements." Further, the GATT has a broad representation of industrialized and developing nations.

If the past rounds are a guide, these talks will last at least five years, GATT experts say. Some suggest that negotiations will languish until after the election of a U.S. President in 1988. Tackling the trade problems associated with intellectual property thefts will be a watershed in the GATT's ability to evolve and adjust to new challenges. Domestic political pres-

Mediterranean beaches and islands, the Finnish lakes. There are the famous battlegrounds from Tours and Hastings, to Malta, Waterloo, Verdun and Normandy.

This is also a year for great museums, exhibits and shows. Just opened is Paris's new Musée d'Orsay, a beautiful setting for the richest collection of 19th-century art anywhere. In the Hague, the Mauritshuis is reopening in June after a lengthy restoration. Here are works of the best of the Dutch and Flemish masters—Rembrandt, Vermeer, Rubens, Franz Hals, Brueghel. The bi-annual Paris Air Show at Le Bourget airport will have special significance—it was 60 years ago that Charles Lindbergh landed there in the Spirit of St. Louis.

The European Travel Commission, with the support of the European Community, will be working tirelessly to provide wonderful vacation experiences at attractive prices in the coming season—and to provide a special welcome to all those who follow Col. Lindbergh's lead in the coming season. €

tures, the general health of the international economy, the agreements reached in agriculture and services trade and the successes achieved in developing new legal concepts to meet the demands of an age of electronics and information—all these factors will converge to shape GATT's successes and failures. €

DE TOCQUEVILLE ON PROTECTING GENIUS

In an 1831 visit to America, Alexis de Tocqueville described in his journal "Journey to America" the relationship between technology and democracy. His observation sheds light on the adverse impact that nations would experience if intellectual property thefts continue unabated.

"... (T)he extreme social mobility in America was fertile soil for progress in technology, because democratic peoples were ambitious, never satisfied with their status, and—above all—were always free to change it... . You may be sure that the more a nation is democratic, enlightened and free, the greater will be the number of these interested promoters of scientific genius, and the more will discoveries immediately applicable to productive industry confer gain, fame and even power on their authors."

SUNRISE EUROPE

Continued from page 21.

scribe in detail here but, put at its simplest, Europe has not yet broken its centuries-old tradition of being an Uncommon Market. Japan has been a single nation for about 1,200 years, welded firmly together by a common language, common laws and a common government. America has been a confederation of united states since 1865, held together by a common language, common (federal) laws and a common federal government. Both have large populations and large cohesive markets, and both have achieved enormous economic success through the commercial exploitation of electronics technology.

Western Europe had hardly begun to think seriously about possible forms of economic cooperation before 1945, since when the irresistible logic of political union has been opposed by the immovable objects of nationalism: diverse languages, uncommon laws and uncommonly disparate governments. The European Community is currently held together by the Common Agricultural Policy, which so dominates Europe's energies and finances that little of either is left over to grapple with other forms of cooperation. The net result is many different national markets, each with its own idiosyncrasies and none large enough to support a globally competitive IT industry.

There is more to it than that, of course, including industry's original sin in failing to recognize the awesome significance of the silicon chip, the lack of venture capital, too many scientists, too few entrepreneurs and the lack of an inspired conductor to orchestrate (as MITI, the Ministry of International Trade and Industry, has done so skillfully in Japan) the asynchronous players in Europe's high-tech cacophony. And we have already had a glimpse of the awful effects of all this benign neglect.

So we come to the question of what, if anything, can be done to restore Europe to a position of high-tech parity? What new strategy can be devised that will unite the fractious states, destroy the threat of the transoceanic Minotaur and discover an exit from Europe's high-tech labyrinth? The candidate I propose is Project Theseus—sketched out in detail in my book *Sunrise Europe*.

There is little wrong, it is clear, with Europe's purely technological capabilities, especially now that E.C. Commission-inspired research and development programs, such as ESPRIT and RACE, are stimulating transfrontier and inter-company cooperation. Nor is there anything

seriously amiss with Europe's present generation of industrial managers who, by and large, are as knowledgeable and skilled as their American and Japanese counterparts. Venture capital is becoming available, especially in the United Kingdom, and high-tech entrepreneurs are now at least visible.

It is not really any of these—although none is perfect, and there is a lot more wrong besides. What is really needed is a massive stimulation of IT demand which, if properly channelled to European IT producers, would give them comparable economies of scale (a dominating factor in most segments of the IT business) to their transoceanic competitors.

Of all the candidates for demand stimulation that have been examined, only one has the requisite size. The proposal is that Europe—or those parts of it, at least, that want to participate—should be totally “rewired,” so that each home, office, workplace, school, hospital, etc., is provided with its own broadband fiberoptic connection to a new communications network—“Eurogrid.” Because of the essentially infinite range of communication frequencies that would then become available, a huge variety of new information, education and entertainment services could be provided at very low costs. These would cover, inter alia, high-resolution cable television, videophones, high-speed data links, high-quality still images (facsimile), high-fidelity telephone services and audio broadcasts, remote meter reading, fire alarms and security-monitoring systems, and the list goes on.

A pan-European grid would require total investment over 20 years of about \$400 billion—which, although clearly substantial, when spread over all of the E.C. member states, represents only about 50 percent more than the current annual investment rate of an average European PTT (Post, Telegraph and Telephone) carrier. And, even on the basis of very low tariffs by today's standards, Eurogrid would provide the PTTs with a handsome return.

Moreover, the analyses show that the demand for the wide variety of IT terminals necessary to use Eurogrid would grow inexorably, giving a total E.C. IT market by 2005 of about \$500 billion per annum (in 1983 dollar values). If the bulk of this stimulated demand could be met by European producers, the analysis shows, they would then enjoy the massive economies of scale that will characterize the free world IT industry by that time.

There are, needless to say, some problems. Probably paramount is the cost of investing in the IT industry itself so that it could meet this vastly increased level of

demand. That is calculated to be about \$15 billion per annum over 20 years, the bulk of which—initially, at least—will have to come from the public purse. European Governments are only likely to swallow such a pill if and when they finally become convinced that this is the only viable route to long-term economic salvation.

Another difficulty will be the necessary erection of selective non-tariff trade barriers during the period of European IT renaissance, to avoid most of the government-funded IT demand being met by imports. This hurdle is by no means insurmountable since preferred procurement policies have long been endemic in the telecommunications industry (of which Eurogrid would be a part), and GATT regulations take full account of this.

Last, but most important, there is the problem of political will. European nations, as we know, are not used to cooperating in such matters, and many politicians have yet to realize that cooperation is as essential in IT as it is in defense (which they *do* understand).

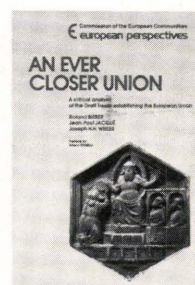
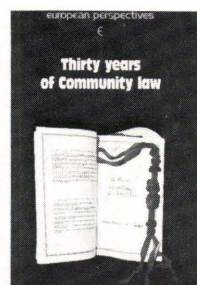
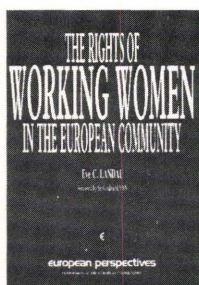
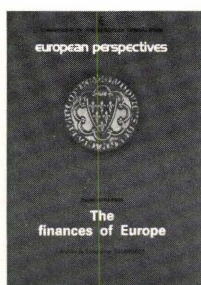
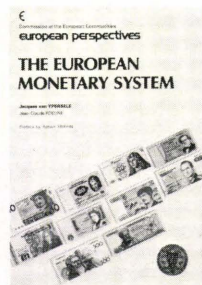
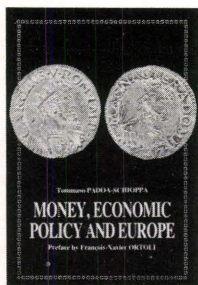
To give them heart, we can confidently portray the results of the combination of actions proposed in Project Theseus—which, in general terms, would see Europe, in 20 years' time, on a par with its intercontinental competitors, in both the production and use of IT products:

- The PTTs would have installed, and be operating profitably, the Eurogrid network—a major new investment in communications infrastructure which would put Europe at least on a par with the similar networks then in place in the United States and Japan.
- The IT industry in Europe would have combined sales of about \$500 billion, of which less than 20 percent would emanate from the inward-investing multinational enterprises.
- Europe's trade balance in IT goods and services would be around \$75 billion positive.
- The per capita use of IT products and communications services in Europe would have climbed to reach the levels projected by then for the United States and Japan.
- A total of 7 million to 8 million new jobs would have been created in Europe, about half of them directly in the IT sector.

If that upbeat message could at least stimulate European Governments to do something along the lines suggested, and acting together as a coherent community of nations, we may yet see a born-again Europe—technologically powerful, economically sound and militarily strong—able once again to play an influential and civilized role in world affairs. €

EUROPEAN PERSPECTIVES

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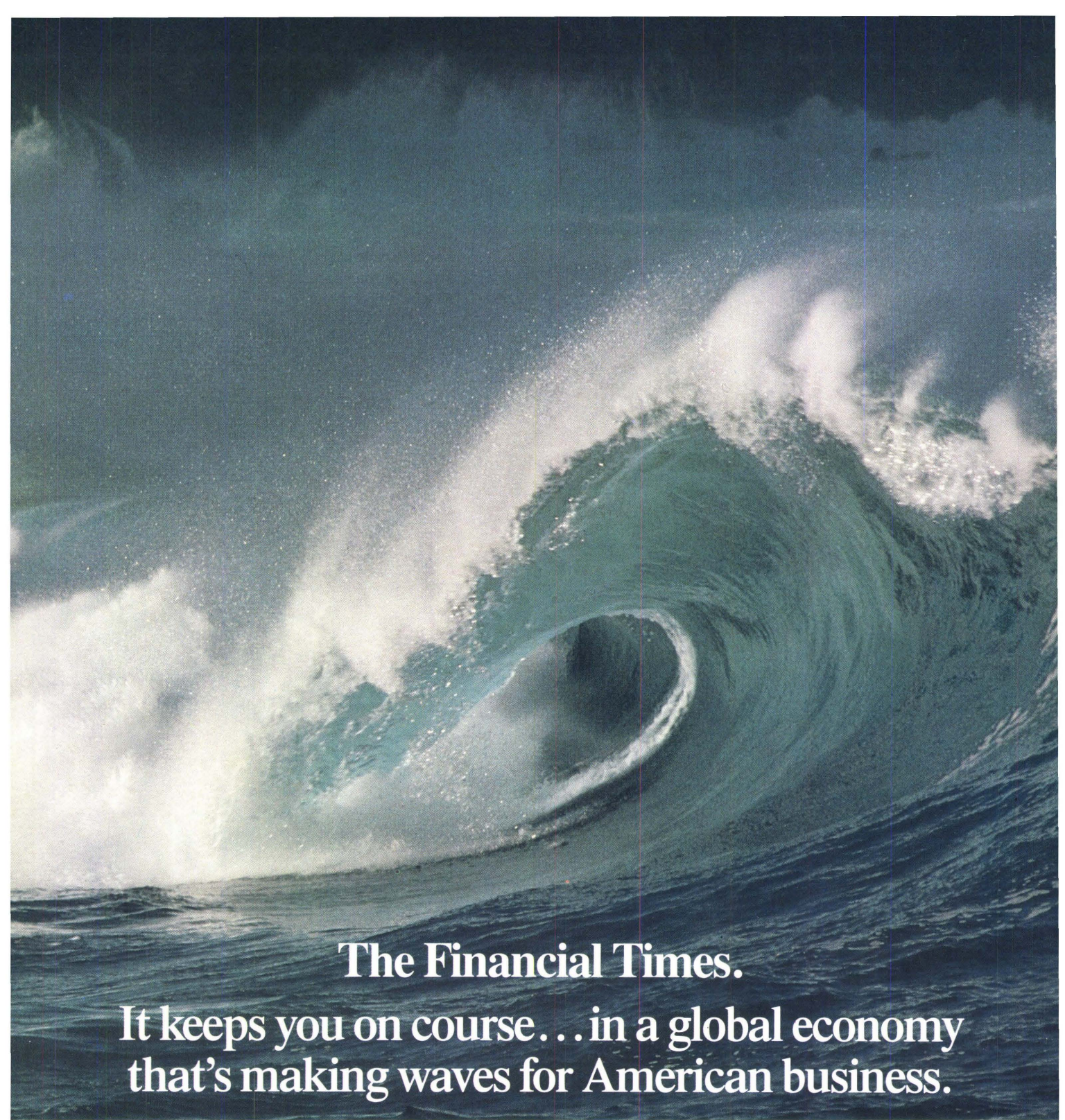


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